2019 Annual Report

Cominar Real Estate Investment Trust

Fiscal Year Ended December 31, 2019

Cominar

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Cominar's annual report includes a section on corporate social responsibility, which is based in part on the guidelines of the Global Reporting Initiative (GRI), a recognized benchmark for reporting on sustainable development activities.

Cover page: Alexis Nihon

René Tremblay
Chairman of the Board of Trustees

Sylvain Cossette
President and Chief Executive Officer

Message to unitholders

A pivotal year for Cominar

After 2018, which marked the beginning of Cominar's transformation, 2019 was the year these efforts crystallized and started generating the outcomes we hoped to see in our financial and organizational performance. The improvement in our results arose from a structured, deliberate path forward and a collective effort involving all of our teams and employees.

It all began with the transformation of our management team and the new expertise and experience that came with it, coupled with an ongoing commitment to diversity. We are proud to lead the way in terms of female representation among senior executives of publicly traded companies in Quebec and nation-wide.

As part of the refreshment of the management team, we welcomed Bernard Poliquin as Executive Vice President, Office and Industrial, and Chief Real Estate Operations Officer. His arrival helped round out the team in charge of financial and operational activities, the leadership of which is also shared by Heather C. Kirk, Executive Vice President and Chief Financial Officer, and Marie-Andrée Boutin, Executive Vice President, Retail, and Chief Development Officer. We also enhanced our technological, portfolio management and asset management skill sets to put value creation front and centre of everything we do and to build a future where technology will be a major differentiator within the real estate industry.

Bernard Poliquin, Executive Vice President, Office and Industrial and Chief Real Estate Operations Officer / **Marie-Andrée Boutin**, Executive Vice President, Retail and Chief Development Officer / **Heather C. Kirk**, Executive Vice President and Chief Financial Officer / **Sylvain Cossette**, President and Chief Executive Officer

Strategic planning and organizational alignment

In 2019, we developed and rolled out a new strategic plan, which identified our most important value creation levers to maximize our financial performance and accelerate our transformation.

We also established a structured plan to improve our organic growth by utilizing several levers to boost our earnings and cut costs, and we were diligent in executing on this plan throughout the year. Our employees' dedication to putting these principles into practice every day was a key driver of our ability to achieve a significant improvement in our same property net operating income growth.

One of the pillars of our plan has been to strengthen our balance sheet. Accordingly, we re-established our access to the fixed-income market, secured $1.6 billion in financing (including $700 million in credit facilities) and repaid $997 million in debt, thus affording us greater financial flexibility. Thanks to these initiatives, combined with gains in value within our portfolio, we reduced our debt ratio from 55.3% to 51.4%.

In a bid to strengthen our ties with the investment community and shed light on the efforts we have undertaken to improve our performance, we held our first-ever Investor Day in Toronto on October 4. Almost every member of the management team was on hand to present their strategic plan to close to 100 investors providing an unprecedented level of transparency. This provided the investment community with a clear view of our strategic plan, our company and our ambitions, and opened the door to a constructive conversation with regards to the next steps on our path.

Improved operational performance

During the year, our key financial indicators edged upward, and our performance continued to gain momentum in all three asset classes. Our same property net operating income grew by 3.2% over 2018, up considerably over last year's 1% growth rate.

Our industrial portfolio delivered 7.2% growth in same property net operating income. This is due to the proactive stance we took in this booming market, which translated into 10.1% growth in average net rent and an increase in the committed occupancy rate from 95% in 2018 to 97.1% in 2019.

It was also a strong year for our office portfolio, with 4.0% growth in same property net operating income and a 4.1% increase in average net rent. We undertook the development of the Palladium complex (100,000 square feet), located in the heart of Ottawa's flourishing tech scene. It is now fully leased and will be occupied by the tenant as of September 2020.

Despite ongoing challenges in the retail sector, our shopping centre portfolio returned to positive growth in the second half of 2019. Our same property net operating income closed out the year with only a slight decline of 0.5% – a marked improvement over the decline 3.4% last year. The arrival of several high-profile retailers in our malls will undoubtedly help us keep working on this key asset class while expanding our offering to woo and wow our customers. We have identified several development and intensification opportunities in our retail portfolio to take advantage of the positioning of our assets, located close to public transit systems in our three main markets of Montreal, Québec City and Ottawa.

Employee wellbeing and our societal impact

Our employees are the cornerstone of our success. The outcome of our transformation is largely contingent on their day-to-day efforts and their willingness to follow our lead. Keenly aware of the fact that healthy teams make for a healthy organization, we have adopted an employer value proposition focused on employee wellbeing. As such, we have embraced a major shift in our talent management policies and programs to promote a culture of excellence and deliver an inspiring employee experience. Significant efforts have been made to align specific behaviours with the objectives in our strategic plan. Our first engagement survey, conducted in early 2019, sent a clear message about our pledge to improving our dialogue with staff members and to being more transparent in our communications. The positive repercussions of this decision are already being felt in the organizational environment and performance.

We have also reasserted our commitment to being a force for change in society. We realize that our actions can have an impact on everyone we work with. It is therefore our goal to make a tangible contribution to today's society and influence the welfare of future generations. To guide our actions in this regard, we have created a company-wide committee that will focus on environmental, social and governance (ESG) issues and set out a well-defined three-year plan to tackle each of these aspects.

Our outlook for the future is one of optimism and enthusiasm. We will continue to focus on enhancing our financial performance and our balance sheet, while striving to have a positive impact on society as a whole. To do so, we will draw on diverse perspectives, a clear, cohesive vision, and the collaboration of the management team, our workforce and our board of trustees working in a common direction.

All of these elements will empower us to keep creating value for you, our unitholders, and for society as a whole.

René Tremblay
Chairman of the Board of Trustees

Sylvain Cossette
President and Chief Executive Officer

Corporate profile

Creating long-term value

Cominar is one of the largest diversified real estate investment trusts in Canada and is the largest commercial property owner and manager in Quebec. Our portfolio consists of high-quality office, industrial and retail properties in three key markets, namely Montreal, Québec City and Ottawa.

In 2019, our management team rolled out a new strategic plan to create long-term value for unitholders, based on four main pillars:

- **Grow net operating income**, through strategies tailored to each property type and concerted efforts to reduce cost and increase revenue
- **Optimize the portfolio** by capitalizing on the strength of the Montreal real estate market and industrial properties, and by setting up a structured plan to shift from a property management mindset to one centred on asset management
- **Strengthen the balance sheet** by improving financial and credit metrics to increase financial flexibility and by creating a free cash flow focused culture
- **Transform how our teams work** by leveraging technology and fostering a culture of excellence through organizational alignment.

Thinking like investors

In an effort to develop strategies aimed at enhancing our performance, we formalized our portfolio and asset management function during the year in order to structure our approach to creating value. This translates to three main objectives: improving the quality of our portfolio, optimizing work methodologies and monitoring real estate markets to capitalize on promising business opportunities. The new asset management team provides direct support to the various business units in growing and stabilizing expected returns and in creating value.

The team's priorities going forward will be to capture opportunities in the industrial market, boost the performance of the existing portfolio, prepare it for upcoming economic shifts and ensure our strategic plan is being executed in line with our priorities.

Transforming the way we work

We firmly believe that every effort, big or small, made by each of our employees and service partners is what will enable us to create long-term value, both for our unitholders and for everyone else with a stake in our future. That is why transforming the way we work is one of the pillars of our strategic plan.

It is against this backdrop that we have striven to build a culture of excellence informed by the following principles: never compromise on talent, set clear standards to measure our performance, both collectively and individually, and fuel empowerment at all levels of the organization. Although it is the role of senior management to create an inspiring vision and map out a clear way forward for the organization, every employee can contribute to the success of our strategic plan, every single day, through their ideas and their actions.

It quickly became apparent to us that we could not move forward with our transformation without the proper organizational alignment. We therefore welcomed a number of new members to the leadership team in 2019, to draw on their diverse experience and insights, and to bolster our commitment to the strategic plan. Our senior executives reviewed the structure of their respective teams, focusing on more high-value-added tasks and the right fit between individual talents and organizational needs. As a team, they examined our services and priorities to ensure that a value creation mindset underlies everything we do.

Finally, this transformation is deeply reliant on technological optimization. Accordingly, we have transformed our IT Department to create a centralized function focused on data and technology. The purpose of this new approach is to align our business architecture and technology systems with our organizational needs, while maintaining data integrity and infrastructure security. The end goal for this function is to contribute significantly to driving revenues and long-term value.

Our culture of excellence, organizational alignment and optimized data and technology strategy has already had a tangible impact on the transformation of our company. By focusing on these elements, we have reinforced our disciplined data-based decision process with a view to creating value.

Values

While we were developing our strategic plan and accelerating our organizational transformation, we felt compelled to take a long hard look at our corporate values. We hoped to be able to strike a balance between those that are an inextricable part of our DNA and the rich legacy that Cominar has built over time, and new, inspiring values that clearly express what we are aiming to become.

We brought together a group of leaders to reflect on these questions during a work session. Cominar's new values are the result of their efforts. They guide us in our action every day and embody our pledge to embrace excellence in all our investment practices.

We act like owners

We think big and we hold ourselves accountable to deliver value and investment returns.

We communicate to connect

We build partnerships, not silos; one team comes first.

We are the change

We act with relentless curiosity and constantly evolve to learn and innovate.

We are proactively shaping the future

We are bold in our ambition to constantly wow our clients.

A very favourable market environment

In 2019, Quebec posted some of the strongest economic growth figures in the country. The province's real GDP grew at a healthy pace throughout the year. And year-end unemployment figures were among the lowest in the country, after dipping down to a record 4.7% in August.

During the year, substantial investments were made in our three main markets, which will stimulate economic vitality over the long term. Montreal leads the pack in this respect, with more than $25 billion invested in infrastructure improvement. These projects include the new Samuel De Champlain Bridge, which opened to traffic midway through the year; the Turcot interchange, which is expected to be completed by the end of 2020; the Réseau express métropolitain (REM), the first departures of which are slated for 2021; and new cruise and container terminals at the Port of Montreal.

Québec City will also see nearly $5 billion in infrastructure investments to help build the Réseau structurant de transport en commun (tramway/trambus network) between 2022 and 2026. And Ottawa's light rail transit system opened in the fall. The second stage of the project is already underway, with a third stage planned to extend the system as far west as Kanata.

Strong market prospects

Our three main markets are well poised to flourish in the future, both in Canada and internationally. Montreal is considered to be one of the world's top cities for deep learning and artificial intelligence research and is the Canadian capital of visual effects and animation. Not only that, but it is the fifth-largest video game centre in the world. Montreal also ranks second in North America with respect to the aerospace sector and sixth for life sciences and health technologies. This vitality has helped drive the average rent per square foot upward, which has grown 54% per year since 2016.

The British-based *fDi Magazine*, owned by the Financial Times Group, put Québec City in second place nation-wide in terms of business-friendliness and economic potential. Québec City also ranked second in Canada in the American Cities of the Future category. In addition to its thriving private sector, which plays a leading role in its economic development, the provincial capital can rely on a strong government presence as a source of long-term stability.

Similarly, Ottawa reaps the benefits of a strong government-driven economy but also boasts a vibrant and growing tech sector.

Strong market performance confirming the astuteness of our strategic choices

In recent years, Cominar has opted to focus on the three core markets of Montreal, Québec City and Ottawa. The economic context in all three cities is positive, buoyed in part by infrastructure projects designed to enhance roads and highways and build new mass transit systems. The strategic location of our properties near these systems means that we are particularly well positioned to harness this momentum in the office, retail and industrial sectors within these three markets.

Finally, Cominar's industrial portfolio represents a tremendous competitive advantage against the current backdrop, which is marked by an increasing scarcity of industrial space in Montreal and Québec City.

Focused on a well-balanced, market-leading portfolio

1201 Marie-Victorin Street, Saint-Bruno-de-Montarville

Office

With a portfolio refocused on the Montreal, Québec City and Ottawa markets, 2019 proved to be a banner year for Cominar's office segment.

All of our markets have fared, and continue to fare, exceptionally well, and this has trickled over to spur our own growth. The robust financial and demographic health in these cities is reflected not only in our occupancy rates but also in the increase in our net operating income throughout the year. And our portfolio in Ottawa surpassed our expectations, posting stellar growth rates in net rents.

Transactions that optimize and balance our portfolio

Our strategic advantage lies in the sheer size of our office portfolio, which allows us to manage risk in an optimal way. As a result, we are well poised to strike an effective balance in terms of the exposure of our three respective markets to the various segments, while proactively targeting future-facing businesses and trends.

This is the perspective that shaped several major transactions carried out in 2019 in order to optimize and balance our portfolio, which included the following:

› We pre-leased an entire office building currently under development in Kanata, most of which has been earmarked for Ford's self-driving vehicles division. The transaction, concluded before construction was complete, speaks to the vigorous demand for high-quality properties in the Ottawa area and is fully consistent with our strategy targeting future-facing industries.

› An agreement was finalized with the Commission scolaire de Montréal for 180,000 square feet at 5100 Sherbrooke Street East, in Montreal and we are in advanced discussions with Public Services and Procurement Canada to renew their leases for 320,000 square feet of office space at 550 de la Cité Boulevard in Gatineau. Both transactions will fulfill our objective to foster stability within our portfolio.

The Québec City market also posted enviable results during the year. With an occupancy rate just shy of full (98.5%) and average rents 7% above current market rates, our portfolio continues to deliver a strong performance.

Total number of properties

80

Total leasable area (sq. ft.)

11.1M

Committed occupancy rate

92.9%

Four strategic thrusts

Drawing on the strategic plan presented at our Investor Day in the fall, our strategy revolves around four major thrusts that inform our behaviours in a context where the competition for the best and brightest talent is fierce.

1. **Amenity offering**
   First, in an effort to optimize occupancy in our suburban properties, we aim to enhance our amenity offering in order to be both competitive and ahead of the curve, and thus completely in sync with tenants' expectations.

2. **Public transit**
   Our focus is also trained on enhancing value in properties in the vicinity of current and future public transit systems. A large majority of our properties (74%) are within a kilometre of transportation facilities that are already operational or will be in the next few years. The strategic alignment of lease expiries and the incorporation of redevelopment clauses will help us take full advantage of promising opportunities in this regard.

3. **Emerging industries**
   We are also proactively targeting tenants in emerging industries. We are deliberately positioning ourselves as a partner in the strategic growth of these companies, especially those in the tech sector, by offering innovative, flexible solutions to meet their short-, medium- and long-term needs for space.

4. **Government leases**
   The last pillar of our office strategy is based on the stability of government leases. Our objective is to maintain a stable weighting in this portfolio to ensure a steady cash flow. The Québec City market is the perfect example of this strategy in action. The fact that 98% of our government leases in the market are renewed allows us to maintain stability in this area at the desired level. In the Ottawa/Gatineau market, buildings occupied by federal government tenants represent 47% of our portfolio.

3055 Saint-Martin Boulevard West, Laval

Retail

In 2019, the retail market continued to undergo profound changes, especially from the perspective of consumer needs and online shopping. This transformation prompted us to step up our focus on experience and convenience in our malls and to seize the multitude of opportunities generated by these changes.

Backed by a portfolio of market-dominant assets, many of which boast a strategic location along the future REM (light rail) network in Montreal or the Québec City tramway/trambus network, we are well positioned to implement various strategies to tap into the evolution of the retail market. Examples of this include enhancing the food offering in our shopping centres, redeveloping former Sears stores and acting on intensification opportunities.


Alexis Nihon

Total number of properties
46

Total leasable area (sq. ft.)
9.5M

Committed occupancy rate
94.1%

Regional malls
60%

Mixed-use
24%

Community
7%

Strips/ freestanding
4%

Power centre
5%

Urban
38%

Secondary
22%

Breakdown based on 2019 NOI

New and exciting retail tenants

The arrival of Quebec's first Lee Valley at DUO Centre Laval and our portfolio's second Decathlon store at Îlot Mendel in Québec City speaks volumes about our commitment to partnering with strong, traffic-driving brands. Building on this momentum, several other major openings are slated to happen in 2020, among them an Éconofitness Extra (15,000+ square feet) at Alexis Nihon and a Mayrand grocery wholesaler (50,000+ square feet) at Mail Champlain.

Aware of consumers' growing interest in a broader array of dining options, we are looking to position our centres in a way that capitalizes on this forward-looking trend. The brand-new food hall concept at Rockland is an excellent example of what we are aiming for. In 2020, we will kick off a similar project at Alexis Nihon, where the food court will be completely reconfigured.

Creating memorable shopping experiences

In 2019, we continued our efforts to create memorable shopping experiences for consumers. This has translated to a series of pop-up tours, allowing us to revitalize vacant retail space, as well as several partnerships that have brought vibrancy and energy to our properties, such as classical music concerts with I Musici de Montréal and a host of dynamic marketing activities. Shoppers have greeted all of these initiatives with enthusiasm and come out in droves to enjoy them.

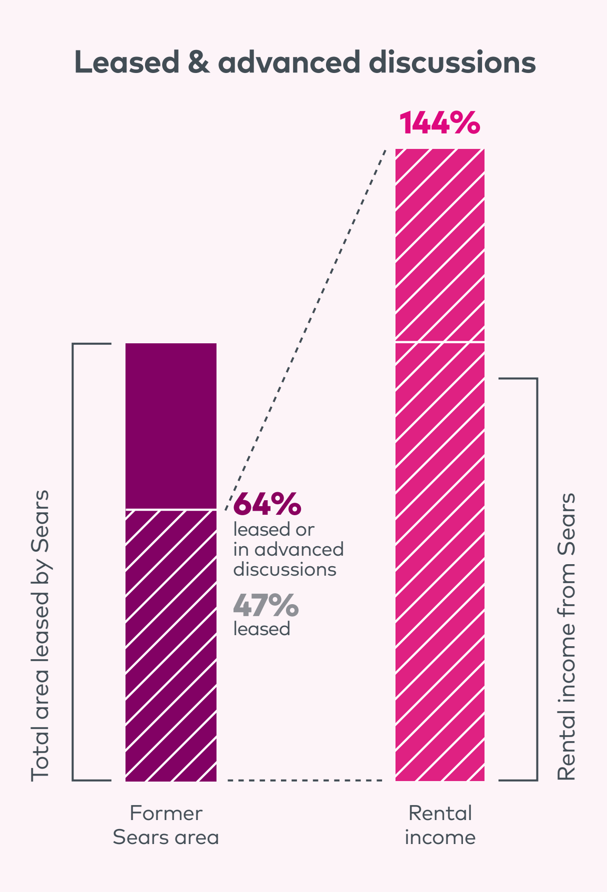
Rockland

A seven-pillared strategy

Our strategy for our retail portfolio is based on seven pillars, designed to consolidate our activities and ensure their growth.

1 **Leasing**
We wish to boost our food and entertainment offering, decrease our exposure to the fashion sector and attract retailers that generate recurring traffic to our centres.

2 **Sears redevelopment**
Our efforts have been geared toward maximizing the redevelopment potential of the premises formerly occupied by Sears. As illustrated in the following chart, 64% of these spaces have been leased out or are in advanced discussions and will generate 144% more in rental income.



3 **Operations**
Several initiatives were undertaken in 2019, including the renegotiation of service agreements designed to drive cost savings and a lease audit to optimize our work procedures and audit methodology. We have also empowered our property managers to be more proactive in their initiatives and to closely monitor retail operations to maximize customer satisfaction.

4 **Intensification**
We are actively analyzing the potential for intensifying our shopping malls. Given the link between densification and value creation, we have targeted 10 of our properties where there are opportunities in this regard, for a total of roughly 10,000 residential units.

5 **Selective dispositions**
We sold multiple retail properties during the course of the year. Our goal in this was to dispose of our non-core assets so we can concentrate on those with greater potential for creating value.

6 **Marketing and digital transformation**
Innovative marketing events and shopping experiences continue to be a priority within our strategy. We will also strive to implement new technologies and digital channels to generate a more personalized lineup of services for our customers.

7 **Social responsibility and environment**
The sustainable operation of our retail properties is at the heart of everything we do. This allows us to have a real and lasting impact on the environment and the communities where our centres are located. In 2019, we continued our efforts in this regard and worked on new social and environmental responsibility initiatives that will soon be rolled out.

Industrial and flex

The popularity of Canadian industrial properties was extremely strong during the year, and our markets in Montreal and Québec City were no exception.

Given tenants' growing demand for these types of properties, availability became increasingly limited and rents climbed upward as a result.

505 du Parc-Technologique Boulevard, Québec City

The Montreal market surged to historic highs in 2019, and vacancy rates tumbled to under the 3% mark. As we own the largest industrial portfolio in Montreal, we were determined to take advantage of this favourable context – bearing in mind that when vacancy rates fell this low in Vancouver and Toronto, rents inevitably ballooned within the following 24 months. In the next three years, close to 50% of the leases for our industrial properties – representing 7.3 million square feet – will be coming up for renewal, which puts us in an excellent position. We will therefore be consolidating our rents to leverage the value of our industrial portfolio and reassert our leadership within the industry.

The market in Québec City is also booming. There is a similar dearth of available space, which will enable us to maximise our rents as soon as leases come up for renewal. The area's largest industrial park belongs to us, representing close to 20% of the properties in this segment. Once again, this is an ideal opportunity for us to reinforce our position as a market leader.

In addition, to optimize the potential of our portfolio, we are scaling back incentives offered for new rentals and lease renewals. This will allow us to maximize our returns and strengthen our future position.

Total number of properties

191

Total leasable area (sq. ft.)

15.4M

Committed occupancy rate

97.1%

Three strategic thrusts to optimize growth

As part of our efforts to drive the value of our investments upward, we are looking at opportunities over the next five to ten years. Three strategic pillars are underpinning our industrial strategy.

1. **Insight into future market trends**
   The first pillar involves identifying future hubs for our markets so we can strategically position ourselves over the long term in these forward-looking sectors.

2. **Strategic investments**
   Second, considering the shortage of available land and space, we are analyzing properties and sites where the development or redevelopment potential is significant, in addition to opportunities to group properties together to maximize their value. We have already identified a number of promising development sites, including a 1.7 million sq. ft. piece of land in Laval, which is drumming up a great deal of interest among potential tenants.

3. **Selective development**
   Third, given this outlook and in a market where rents are on a sharp rise, we are currently analyzing the possibility of several speculative and custom-built construction projects.

3400 De Maisonneuve Boulevard West, Montreal

Development and intensification

Development and intensification are an integral part of our strategic plan. This stems from our commitment to maximizing the value of our assets, in particular by redeveloping select properties to incorporate a variety of uses aligned with market trends.

In this context, key resources were added to our Development and Intensification Department during the course of the year.

As part of our target projects, our teams work closely with partners who are elite players in their respective operating segments, in addition to engaging in discussions with municipal administrations to amend zoning requirements to add residential units, increase density or make other adjustments.

As it currently stands, nearly a dozen of our retail properties are prime candidates for intensification, with a total potential of close to 10,000 residential units, subject to securing the necessary permits and zoning changes from the corresponding municipal authorities. Among them are the Mail Champlain/Place du Commerce hub in Brossard, with a possibility of an additional 2,300 units, Centropolis in Laval, where a first phase would add 500 units, and the Central Station Complex in downtown Montreal, where 1,800 units could be created.

Our teams are also working to develop a vacant industrial site on Curé-Labelle Boulevard in Laval and to add a 125,000 square foot office building on an existing site in Kanata.

Employee experience and human capital management

In 2019, we identified three key ingredients to the success of our transformation: the development of a culture of excellence, better organizational alignment and the optimal use of technology. Our approach to human capital consists in adopting programs and tools to help attract, hire and develop talent that will contribute to Cominar's vision and strategic objectives. By leveraging our organizational leadership, performance and health, we hope to create a work environment conducive to a thriving workforce.

Organizational leadership

The past year saw a renewal of our leadership team, bringing together unprecedented real estate expertise and a wide diversity of experience and outlooks. Two new strategic functions were also created, namely Data and Technology, and Portfolio and Asset Management.

Maria Gabriela González / Design

In the midst of these changes, we upheld our commitment to gender diversity at the management level. We were even singled out by La Presse for our leadership in this regard in a 2019 report on publicly traded companies in Quebec, which identified Cominar as having the province's highest proportion of female senior executives.

We are also proud of our track record with respect to career mobility. More than 10% of our workforce changed roles or received a promotion during the course of the year. Organizational leadership is something that ripples through the entire company, and our goal is to provide fulfilling career opportunities to employees at all levels.

Organizational performance

At the beginning of 2019, we floated the idea that there was room to enhance our business practices and streamline our efficiency and productivity. And we were right in this assertion: not only did we manage to significantly improve our financial performance, but we did so with a workforce that was close to 15% leaner. To achieve this, we focused on being more effective in prioritizing and planning our activities and processes, aligning our organizational structure with our strategic objectives and client needs, and optimizing the fit between roles and talents. This was a challenging step to take, but it was necessary in order for us to move forward. It was greeted favourably by most of our personnel, as is reflected in our employee engagement and satisfaction rates, both of which went up during the year.

In addition, our efforts to define our new corporate values has helped us fine-tune our performance management system to make sure it is conducive to our desired behaviours.

Simon Légaré / Marketing

Organizational health

It would be impossible for us to attain a satisfactory level of organizational performance without focusing on the well-being of our company and the people who work here. That is why we have placed a high priority on fostering an open, flexible work environment during the transformation process. For example, we introduced a flex-time policy, based on the principles of mutual trust, to favour greater flexibility and personal accountability around time management. We also enhanced the employee experience through a wide range of health-related activities and challenges – something that was appreciated by everyone in the organization.

After conducting our first engagement survey in 2019, which 85% of our employees responded to, we followed up with a second survey in January 2020. The response rate rose to 90% and, as the figures below show, positive growth was observed for each of the surveyed topics.

We have also maintained our commitment to workplace health and wellness by holding a number of training sessions during the year. As a result, on-the-job accidents were down by over 50% compared with the previous three years. Lastly, we make it a point to impose strict standards in terms of employee health and safety, sanitation and hygiene, and environmental compliance in all our office and work spaces.

Health challenge

Employee engagement rate: **74% (+6 points)**

Engagement rate for our highest-performing employees: **79% (+5 points)**

Improvement in our key engagement levers

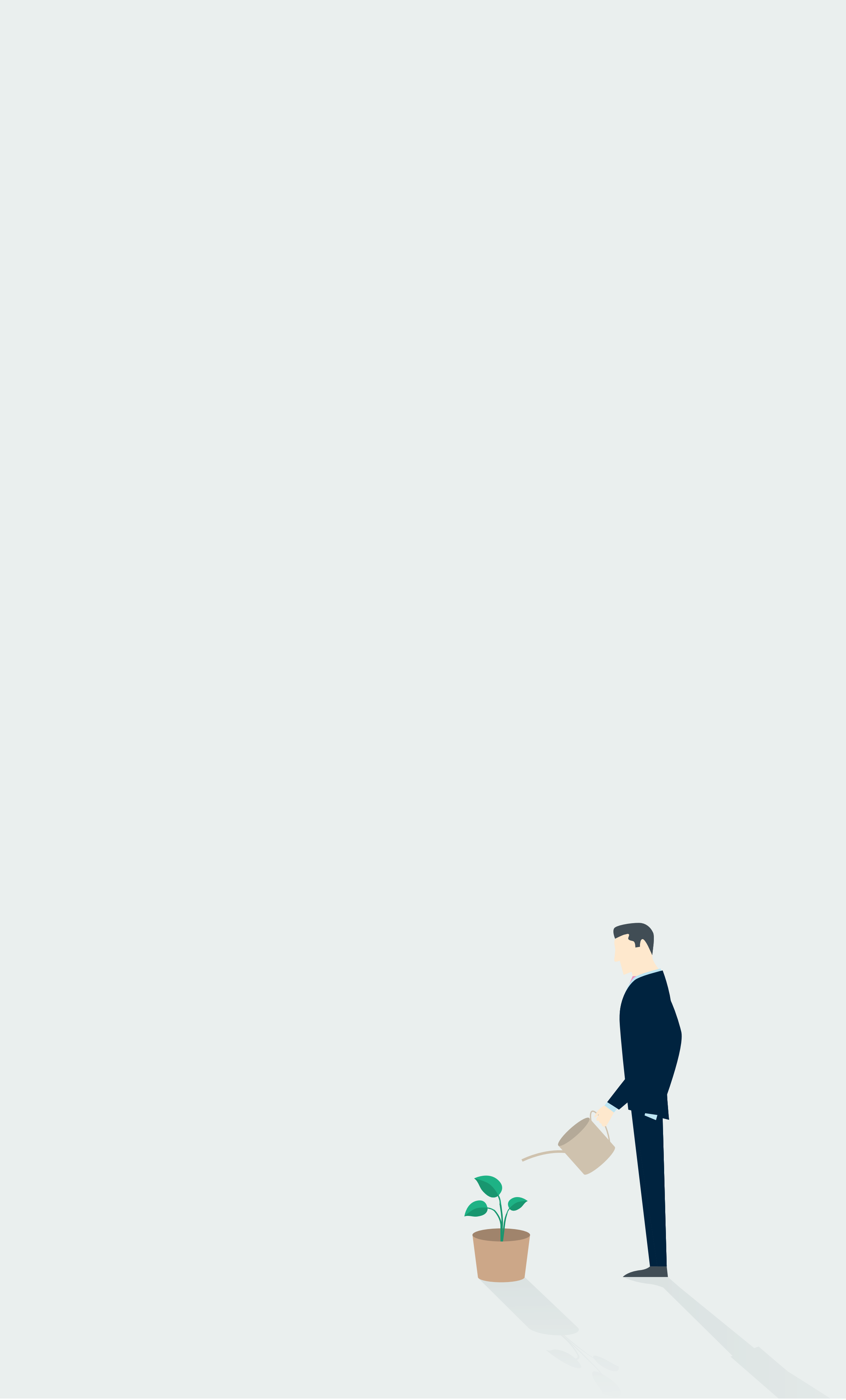
- Senior leaders have communicated a motivating and inspiring vision of the future: **+30 points**
- Communication from senior leaders is consistent and transparent: **+28 points**
- Senior leadership is open and responsive to ideas from employees: **+21 points**
- The leaders at Cominar are good role models for our company values: **+19 points**
- Cominar is on track to be successful in the future: **+15 points**
- I am confident I can achieve my career goals at Cominar: **+13 points**

Social responsibility and environment

In a constantly changing world, we believe that, in our role as property manager, we need to set an example in terms of sustainability, while making sure we continue to act in the best interests of our clients, our customers, our employees and society as a whole.

We care about the well-being of the communities where we operate and we are committed to building a better future for everyone. That is why we place a great deal of importance on sustainability, the environment, energy efficiency, water consumption, volunteer engagement, corporate donations and sponsorships, and health and safety. This environmentally and socially responsible approach is the common thread that runs through all the projects and activities here at Cominar.

Through concrete action, we can improve the status quo and do our part to create a better world. Building on this idea, we have put various strategies in place and launched a number of initiatives in the past few years. We have formed a committee to develop and implement an action plan targeting the short, medium and long term. The committee 's mission will be to define and achieve a set of objectives and incorporate sustainability-minded practices into every aspect of the business. These initiatives are directly related to the policy on social responsibility and the environment that the Board of Trustees adopted in 2018. The committee is specifically tasked with examining various environmental, social and governance (ESG) issues and coming up with lasting solutions that will help Cominar and our clients face the climate and social challenges of today and tomorrow. We have our sights set on becoming an industry leader in this field. As such, we keep a close eye on market trends that we can use to stay ahead of the curve. And we are committed to taking innovative action to strengthen our societal impact and ensure long-term stability and growth.



Governance

As part of our strategic review, and driven by our direct and active dialogue with our unitholders, we focused on best-in-class governance practices to ensure proper stewardship of the REIT.

We modernized our practices, established policies and procedures that both require and encourage our trustees and the REIT's management to thoughtfully work together to achieve success.

The Board is responsible for recruiting and retaining trustees who combine deep real estate experience with complementary skills and knowledge to ensure optimal results.

Role of the Board of Trustees

The Board of Trustees oversees the REIT's operations, strategy and performance. Its duties and responsibilities include establishing guidelines and principles related to governance, compliance and ethics, appointing the CEO, managing the Board's affairs, ensuring strategic planning, overseeing the succession plan, monitoring financial and corporate performance and overseeing risk management. The Board discharges these responsibilities directly and through delegation to its various committees.

Governance structure

Board of Trustees

- Approve strategic decisions and major transactions
- Implement a governance framework consistent with the organization's core values
- Supervise the conduct of business and ensure sustainable value for unitholders
- Oversee risk management

Audit committee

- Analyze the financial situation and results
- Review financial statements and report to the Board
- Oversee financial management including reporting, internal controls, internal and external audit procedures, financial and operational risk management, and compliance with the *Code of Ethics and Business Conduct* as well as legislative and regulatory requirements

Investment committee

- Oversee capital allocation
- Approve acquisition, disposition and financing transactions, within the scope of its authority
- Approve expansion, development and redevelopment projects, within the scope of its authority
- Assist the Board in overseeing investment operations and reviewing performance

Nominating and governance committee

- Review governance practices
- Implement assessment criteria for the Board, trustees and committees
- Review the *Code of Ethics and Business Conduct* and its application
- Oversee the ESG plan

Human resources committee

- Review human resources-related policies, programs and practices
- Review executive compensation and performance

Management team

Ethics and integrity

We strive to act with integrity in everything we do. This requires honesty and transparency in all interactions with colleagues, clients and business partners. Upon joining the organization, all employees are subject to the *Code of Ethics and Business Conduct* and, as such, must avoid any situations that would represent a conflict of interest with the REIT.

Our *Code of Ethics and Business Conduct* sets forth the ethical standards incumbent on employees in order to achieve and maintain the required level of trust as it relates to:

- Compliance with applicable laws and regulations
- Competence and diligence
- Integrity of accounting records
- Loyalty, honesty and integrity
- Confrontations with the law
- Obligations of loyalty and integrity including following cessation of employment
- Priority accorded to our duties and activities
- Use of resources
- Relationships with co-workers

Policy for the confidential or anonymous communication of complaints about accounting, financial and internal audit matters

Any individual, including employees of the REIT and its subsidiaries, may submit a complaint about accounting, financial or internal audit matters without threat of reprisal. We are committed to observing all laws and regulations to which the REIT is subject, as well as all accounting standards, internal controls and audit methods. The audit committee is responsible for handling any employee concerns in this regard.

For more information on our practices with respect to governance, ethics and integrity, please see our *Management Proxy Circular*, available on our website.

585 Charest Boulevard East, Québec City

Environmental management

Our environmental management program aims to safeguard our assets and tenants and to ensure our properties comply with applicable environmental standards.

Our teams regularly monitor the situation and perform the necessary due diligence prior to acquiring, financing or selling a property, or applying for a municipal permit. We work with external experts to conduct the required environmental assessments.

Accordingly, we carried out approximately 125 site and soil assessments in 2019, set up a regulatory groundwater monitoring process and performed environmental rehabilitation work on certain properties. We also started an environmental registry so we can quickly and easily identify environmental issues in our portfolio. This registry has allowed us to be proactive in detecting properties that may be at risk because of their permitted use or where tenants are involved in activities considered as high risk under the law, as well as those where mechanisms are required to monitor water and biogases, those where preventive action is needed and other environmental liabilities.

Adopting good environmental management practices in our properties and with our tenants lets us be proactive and step in before an incident occurs. As a result, we can be more thorough in monitoring our assets and come up with effective, innovative environmental solutions for all of our properties.

Benoit Dupont / Operations

Environmentally responsible property management

We are constantly introducing new environmentally responsible practices to reduce our carbon footprint, achieve energy savings, reduce operating expenses and improve the comfort of our tenants. The long-term benefits of these initiatives are manifold. The improved energy efficiency in our properties, for one, inevitably has a positive impact on our properties' sustainability and value. The modernization and optimization of electromechanical systems not only increase tenants' well-being, but they also make our properties more appealing and increase the useful life of our equipment, all while reducing greenhouse gas emissions.

Green practices

Several initiatives rolled out in recent years are helping to make our properties more environmentally responsible every day. For example, in an effort to shrink its carbon footprint, Rockland set up a comprehensive six-pronged program covering energy, water, waste reduction, emissions and effluents, indoor environment and the centre's environmental management system. Rockland has successfully diverted 91% of waste from landfill, including 200 tonnes of organic waste that is turned into compost every year and used to enrich the soil of local farms. Additionally, there are no conventional waste bins at Rockland – only a central sorting station, which attendants use to separate the various materials and maximize the compostability of uneaten food in the new dining hall (La Cuisine Rockland). Efforts at Rockland have been ongoing from year to year to ensure the management of this Montreal-based shopping centre continues to be respectful of the environment.

In Laval, Centropolis is also leading the way in sustainable development. Its strategy is built around several core commitments and a desire to be a local pioneer in incorporating sustainability into urban planning practices. Its carbon footprint reduction initiatives include an ornamental vegetable garden in the heart of its central plaza, which was set up in 2009. Not only does this garden need a minimal amount of water to operate, but the food it produces is put to good use by the Centre de bénévolat et moisson Laval. Vegetables are harvested two to three times a year, for an annual yield of approximately 100 kilograms. An open-air retention pond, comparable to a natural pond, has also been built to collect rainwater in large quantities. Its innovative design means that some of the water is absorbed and filtered by herbaceous perennials, while some is released into the air through evapotranspiration. Any leftover water is sent to a municipal wastewater facility where it is filtered and treated. This retention pond is a thriving green space that contributes to local biodiversity by providing a habitat for birds and other animals. In addition, the more than 1,500 trees around the site help to beautify pedestrian spaces and counter the heat island effect. In addition, 3055 Saint-Martin Boulevard West, one of the buildings in the complex, is certified LEED-CS Gold in recognition of its responsible use of energy, materials and water.

In Québec City, innovative landscape irrigation practices were introduced at Complexe Jules-Dallaire to curtail, and even eliminate, the need to water the grounds. The LEED Gold–certified complex has a reservoir to collect runoff water from the roof and non-irrigated surfaces. This is then used to meet 10% to 40% of the watering needs for the property's green spaces, as a complement to natural rainfall.

On Montreal's South Shore, two beehives were set up at Place Longueuil in 2018. The 50,000 to 80,000 bees that live in them help pollinate the trees and flowers within a 5 kilometre radius. In 2019, the honey harvested during the summer months produced no fewer than 200 jars of honey, 100 beeswax candles, 100 bars of soap and 100 tubes of lip balm. Proceeds from the sale of these items went to the Fondation du Centre jeunesse de la Montérégie.

Environmentally friendly systems and products

Of the many measures undertaken in our properties systems in 2019 to promote environmentally responsible management, a few stand out from the rest. For example, we installed a heat recovery chiller at Place de la Cité in Québec City and optimized the control sequences of the electromechanical systems. These two actions alone were responsible for cutting energy consumption by more than 20%. In Montreal, we replaced a chiller at 2001 McGill College with a higher-performance model. The result: lower energy consumption and maintenance bills and a smaller carbon footprint. In the Ottawa area, we upgraded the electromechanical and lighting system controls at 1 Antares Road, in Nepean, which yielded annual energy savings of 8%.

The 59 electric vehicle charging stations in our properties were used 34,609 times during the year. And the Electrobac bins installed in many of our properties helped collect metals, plastics and other recyclables and use them to make new products. Any electronic devices recovered through the Electrobac program that can still be used are refurbished after undergoing extensive testing and having their data wiped. As a result, 41,039 devices were kept out of landfill sites in 2019. All in all, this works out to the equivalent of 3,113 mature trees, 51,700 litres of petroleum and 116,607 plastic bottles saved.

Lastly, we make it a point to use 100% environmentally friendly and biodegradable cleaning products in most of our properties. Many of the food courts in our shopping centres now have composting programs and facilities in place for consumer and restaurateur use. We also recycle restaurant grease in several of our malls. We hire specialized contractors to recover and treat used oil and ensure it is recycled properly. Moreover, some of our retail properties are now equipped with low-flow toilets and urinals, as well as sensor-controlled sinks, to help reduce the amount of potable water used.

Energy management

We keep a close eye on the energy consumption in all our properties in order to reduce energy and maintenance costs without compromising on occupant comfort. Monitoring energy use patterns is also a great way to zero in on efficiency problems and introduce measures to address them. Our strategy in this regard is based on a series of low-cost energy savings initiatives. And our participation in energy providers' efficiency programs help us optimize the ROI of our projects.

This translated into the following in 2019:

- Modernization of LED lighting systems in certain properties, thereby reducing the energy bill by 11%
- Installation of variable frequency drives on fans at 2 Place Laval, generating more than 5% in yearly energy savings
- Preparation of a study on energy savings potential at 979 De Bourgogne Avenue in Québec City
- Participation in the Hydro-Québec demand response (DR) program which is designed to reduce spikes in demand after a DR notice is issued during the winter season.

Overall, 92% of the energy consumed in our portfolio comes from a renewable source. The remaining 8% is non-renewable energy (natural gas). We are equipped to monitor and analyze energy consumption in almost all of our properties. This allows us to quantify the efficiency of our initiatives and propose solutions aimed at optimizing our results. In 2019, the results of these energy-efficiency efforts translated to a reduction of more than 30% in energy use compared to the 2017 reference year.

Social engagement

Social engagement has always been inherent in Cominar's DNA. We encourage employees to give back to their community in a variety of ways and we are proud to contribute to the causes that are near and dear to their hearts.

Our volunteering program *Once a volunteer, always a volunteer!* lets staff members use some of their paid personal time off to lend a hand to a charitable organization. They can also request up to $500 in financial assistance on behalf of a cause they actively support. And of course, we match employee contributions made during our annual Centraide/United Way campaigns, which in turn are used to back a wide range of community organizations serving disadvantaged segments of the population.

We are especially partial to causes dedicated to health and children. As part of our ongoing partnership with Opération Enfant Soleil, we ask clients and shoppers in our retail properties to support the work they do. We are also actively involved in the Grand défi Pierre Lavoie: we have a team in place for their 1,000 KM event, one of the members of which is

CEO Sylvain Cossette, and several of our employees have signed up for an activity known as the Loop. A few are also on the organization's School Tour team, helping to encourage children and youth to take part in regular physical activity. This is a particularly rewarding way for our volunteers to appreciate the impact of their efforts.

Our rooftop gardens, launched by our maintenance teams in 2018, expanded in 2019, with the active participation of the management team. Some 60 kilograms of produce was donated to community organizations as a result.

Also in 2019, some 40 of our employees hiked a total of close to 65,000 metres on Mont-Sainte-Anne, near Québec City, during the Défibrose fundraiser for cystic fibrosis. Besides raising a substantial amount of money for a cause that is important to our people, the event allowed them to combine physical activity and teamwork – a perfect reflection of our social engagement philosophy.

Community gardens
Sandra Lécuyer / Talent and organization

Grand défi Pierre Lavoie / Marc Duval, Patrick Boisvert, Isabelle Dumas, Mario Beauregard, Sylvain Cossette

Défibrose

Management's discussion and analysis

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is provided to enable the reader to assess the results of operations of Cominar Real Estate Investment Trust ("Cominar," the "Trust" or the "REIT") for the fiscal year ended December 31, 2019, in comparison with the fiscal year ended December 31, 2018, as well as its financial position as at that date and its outlook. Dated March 3, 2020, this MD&A reflects all significant information available as of that date and should be read in conjunction with the consolidated financial statements and accompanying notes included in this report.

Unless otherwise indicated, all amounts are in thousands of Canadian dollars, except for per unit and per square-foot amounts, and are based on the consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

Basis of Presentation

Certain financial information in this MD&A present the consolidated balance sheets and consolidated statements of comprehensive income, including Cominar's proportionate share in the assets, liabilities, revenues and charges of its joint ventures, hereinafter referred to as "Cominar's proportionate share," which are non-IFRS measures. Management believes that presenting the operating and financial results of Cominar, including its proportionate share in the assets, liabilities, revenues and charges of its joint ventures, provides more useful information to current and prospective investors to assist them in understanding Cominar's financial performance. Readers are referred to the section Reconciliations to Cominar's Proportionate Share for a complete reconciliation of Cominar's consolidated financial statements prepared in accordance with IFRS to the financial information including its proportionate share in the assets, liabilities, revenues and charges of its joint ventures presented in this MD&A.

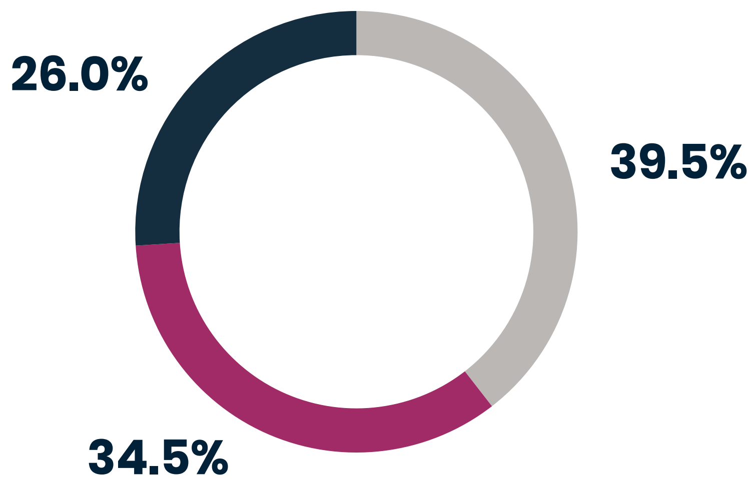
Additional information on Cominar, including its 2018 Annual Information Form, is available on Cominar's website at www.cominar.com and on the Canadian Securities Administrators' ("CSA") website at www.sedar.com.

The Board of Trustees, under the recommendation of the Audit Committee, has approved the contents of this MD&A.

Real Estate Portfolio

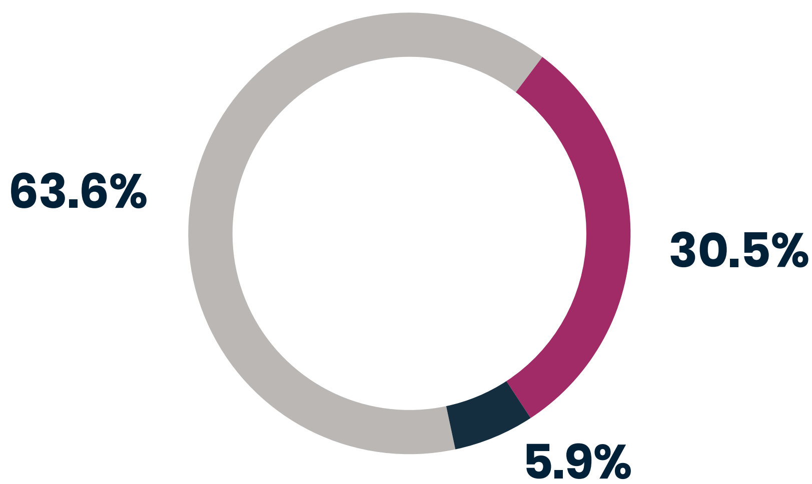
Properties	**317**
Leasable area (sq. ft.)	**35.9 M**
Assets	**$6.9 B**

Same Property Net Operating Income by Property Type



Office	Retail	Industrial and flex
80 properties	46 properties	191 properties
11.1M sq ft	9.5M sq ft	15.4M sq ft

Same Property Net Operating Income by Geographic Market



Montreal	Québec City	Ottawa
198 properties	100 properties	19 properties
23.7M sq ft	9.8M sq ft	2.4M sq ft

Highlights

Fiscal Year Ended December 31, 2019

Growth in same property net operating income[1]	**3.2%**
Growth in the average net rent of renewed leases	**2.8%**
Increase in the committed occupancy rate from 93.6% to	**95.1%**
Retention rate	**77.3%**
Reduction in leverage [1] from 55.3% to	**51.4%**
AFFO[1] **payout ratio**	**93.5%**

[1] Refer to section "Non-IFRS Financial Measures".

Office	**Growth in same property net operating income** [1]	**4.0%**
	Growth in average net rent of renewed leases	**4.1%**
	Decrease in retention rate from 76.2% to	**74.3%**
	Increase in the committed occupancy rate from 91.5% to	**92.9%**
Retail	**Decline in same property net operating income** [1]	**(0.5)%**
	Decline in average net rent of renewed leases	**(1.7)%**
	Decrease in retention rate from 83.3% to	**77.7%**
	Increase in the committed occupancy rate from 93.8% to	**94.1%**
Industrial and flex	**Growth in same property net operating income** [1]	**7.2%**
	Growth in average net rent of renewed leases	**10.1%**
	Increase in retention rate from 70.3% to	**79.1%**
	Increase in the committed occupancy rate from 95.0% to	**97.1%**

[1] Refer to section "Non-IFRS Financial Measures".

Subsequent Events

On January 6, 2020, Cominar repaid $2.2 million in mortgages payable before maturity using available cash.

On January 7, 2020, Cominar repaid $3.0 million in mortgages payable before maturity using available cash.

On January 8, 2020, Cominar repaid $80.2 million in mortgages payable before maturity using available cash.

On January 16 and February 19, 2020, Cominar declared a monthly distribution of $0.06 per unit for each of these months.

On January 21, 2020, Cominar completed the sale of two retail properties held for sale located in the Montreal area for a total selling price of $0.9 million.

On January 23, 2020, Cominar completed the sale of an investment property held for sale (retail land) located in the Québec City area for a total selling price of $1.9 million.

On March 3, 2020, Cominar contracted a new mortgage of $83.4 million with a 5.5 years term and bearing interest at 2.86%.

On March 3, 2020, Cominar refinanced a mortgage having a balance of $5.4 million, maturing in November 2024 and bearing interest at 3.90% with a new mortgage of $20,0 million maturing in March 2027 and bearing interest at 3.48%.

Caution Regarding Forward-Looking Statements

From time to time, we make written or oral forward-looking statements within the meaning of applicable Canadian securities legislation. We may make such statements in this document and in other reports filed with Canadian regulators, in reports to unitholders or in other communications. By their nature, forward-looking statements involve risks, uncertainties and assumptions. Such forward-looking statements reflect our intentions, plans, expectations and opinions regarding our future growth, operating results, performance and business prospects and opportunities. Forward-looking statements are often identified by words and expressions such as "plans," "expects," "is expected," "budgeted," "scheduled," "estimated," "seeks," "aims," "forecasts," "intends," "anticipates," "believes," or by statements that certain actions, events or results "may," "could," "would," "might" or "will" be taken, occur, or be achieved, and other variants and similar expressions, as well as the negative and conjugated forms, as they relate to Cominar.

Cominar is subject to risks and uncertainties which may cause actual results of the REIT to be materially different from results expressed or implied in these forward looking statements. Assumptions that could cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements, include, but are not limited to, access to capital and debt financing, the effects of general economic and business conditions, risks associated with the ownership of the immoveable properties, including climate change, industry competition, inflation, currency and interest rate fluctuations, risks associated with future property acquisitions, dispositions or developments, the recruitment and retention of employees and executives, legislative and/or regulatory developments, compliance with environmental laws and regulations, increases in maintenance and operating costs, limits on our activities, general uninsured losses, potential conflicts of interest, security threats and reliance on technology and related cybersecurity risk.

Forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause our actual results or performance to be materially different from the outlook or any future results or performance implied by such statements.

We caution readers that the foregoing list of factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to Cominar, investors and others should carefully consider the foregoing factors, as well as other factors and uncertainties. Unless otherwise stated, all forward-looking statements are valid only as at the date of this MD&A. We do not assume any obligation to update the aforementioned forward-looking statements, except as required by applicable laws.

Additional information about these factors can be found in the "Risks and Uncertainties" section of this MD&A, as well as in the "Risk Factors" section of Cominar's 2018 Annual Information Form.

Non-IFRS Financial Measures

Cominar's Consolidated financial statements are prepared in accordance with IFRS. However, in this MD&A, we provide guidance and report on certain non-IFRS measures and other performance indicators which management uses to evaluate Cominar's performance. Because non-IFRS measures do not have standardized meanings and may differ from similar measures presented by other entities, securities regulations require that non-IFRS measures be clearly defined and qualified, reconciled with their closest IFRS measure and given no more prominence than the latter. These measures, as well as the reasons why management believes these measures are useful to investors, are described below. Reconciliation can be found in the section dealing with each of these measures.

Cominar measures the success of its strategy using a number of performance indicators:

Non-IFRS Performance Indicators

- **Cominar's proportionate share**: Cominar accounts for investments in joint ventures and associates as equity accounted investments in accordance with IFRS. Cominar's proportionate share is a non-IFRS measure that adjusts Cominar's financial statements to reflect Cominar's equity accounted investments and its share of net income (loss) from equity accounted investments on a proportionately consolidated basis at Cominar's ownership interest of the applicable investment. Cominar believes this measure is important for investors as it is consistent with how Cominar reviews and assesses operating performance of its entire portfolio. Throughout this MD&A, the balances at Cominar's proportionate share have been reconciled back to relevant IFRS measures;
- **Net operating income ("NOI")**: NOI is a measure presented in the statement of comprehensive income in Cominar's consolidated financial statements, which is calculated as revenues less property operating expenses such as utilities, repairs and maintenance and realty taxes. NOI does not include charges for interest or other expenses not specific to the day-to-day operation of Cominar's properties. Cominar considers NOI to be a valuable measure for evaluating the operating performance of its properties;
- **Same property NOI**: Same property NOI is a non-IFRS measure used by Cominar to provide an indication of the period-over-period operating profitability of the same property portfolio, that is, Cominar's ability to increase revenues, manage costs, and generate organic growth. Same property NOI includes the results of properties owned by Cominar as at December 31 2017, with the exception of results for properties sold, acquired or under development in 2018 and 2019, as well as the rental income arising from the recognition of leases on a straight-line basis that is a non-cash item and which, by excluding it, will allow this measure to present the impact of actual rents collected by Cominar;
- **Funds from operations ("FFO")**:FFO is a non-IFRS measure which represents a standard real estate benchmark used to measure an entity's performance, and is calculated by Cominar as defined by REALpac as net income (calculated in accordance with IFRS) adjusted for, among other things, changes in the fair value of investment properties, deferred taxes and income taxes related to a disposition of properties, derecognition and impairment of goodwill, initial and re-leasing salary costs, adjustments relating to the accounting of joint ventures and transaction costs incurred upon a business combination or a disposition of properties. It is Cominar's view that net income does not necessarily provide a complete measure of Cominar's recurring operating performance since net income includes items such as changes in fair value of investment property which may not be representative of recurring performance. Cominar considers FFO as a key measure of operating performance as it adjusts net income for items that are not recurring including gain (loss) on sale of real estate assets as well as non-cash items such as the fair value adjustments on investment properties and Cominar ties employee incentives to this measure;
- **Adjusted funds from operations ("AFFO")**:AFFO is a non-IFRS measure which, by excluding from the calculation of FFO the rental income arising from the recognition of leases on a straight-line basis, the investments needed to maintain the property portfolio's capacity to generate rental income and a provision for leasing costs is calculated as defined by REALpac. Cominar considers AFFO to be a useful measure of recurring economic earnings and considers AFFO in determining the appropriate level of distributions;
- **Adjusted cash flow from operations ("ACFO")**:ACFO is a non-IFRS measure that is derived from the operating cash flows provided by operating activities (in accordance with IFRS) and is calculated by Cominar as defined by REALpac and provides a helpful real estate benchmark to measure Cominar's ability to generate stable cash flows;
- **Debt ratio**: Debt ratio is a non-IFRS measure used by Cominar to assess the financial balance essential to the prudent running of an organization. Debt ratio is calculated by adding mortgages payable, debentures, bank borrowings less cash and cash equivalents divided by the total assets minus cash and cash equivalent. Cominar's Declaration of Trust limits the indebtedness of Cominar to a maximum of 65% of its total assets;
- **Debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA") ratio**: Debt to EBITDA is a non-IFRS measure widely used in the real estate industry and is used by Cominar to assess Cominar's ability to pay down its debts. Cominar defines EBITDA as net operating income minus adjusted Trust administrative expenses and recognition of lease on a straight-line basis;
- **Interest coverage ratio**: Interest coverage ratio is a non-IFRS measure used by Cominar to assess Cominar's ability to pay interest on its debt from operating revenues and is calculated using net operating income minus adjusted Trust administrative expenses, divided by adjusted finance charges;

Other Performance Indicators

- **Committed occupancy rate**: Committed occupancy is a measure used by Cominar to give an indication of the future economic health of the geographical regions and sectors in which Cominar owns properties by taking the leasable area occupied by clients to which is added the leasable area of the leases signed but which have not already started, divided by the leasable area of our real estate portfolio excluding the areas currently under redevelopment;
- **In-place occupancy rate**: In-place occupancy is a measure used by Cominar to give an indication of the current economic health of the geographical regions and sectors in which Cominar owns properties by taking the leasable area occupied by clients, divided by the leasable area of our real estate portfolio;
- **Retention rate**: Retention rate is a measure used by Cominar to assess client satisfaction and loyalty;
- **Growth in the average net rent on renewed leases**: Growth in the average net rent on renewed leases is a measure used by Cominar to measure organic growth and gives an indication of Cominar's capacity to increase its rental income.

Reconciliation with closest IFRS measure and other relevant information regarding these performance indicators are provided in the appropriate sections of this MD&A.

Financial and Operational Highlights

Years ended December 31	2019 $	2018 [1] $	%Δ	Page
Financial performance				
Operating revenues — Financial statements	**704,041**	734,650	(4.2)	60
Operating revenues — Cominar's proportionate share [2]	**721,235**	751,095	(4.0)	60
NOI — Financial statements	**358,322**	372,464	(3.8)	63
NOI — Cominar's proportionate share [2]	**368,155**	381,957	(3.6)	63
Same property NOI [2]	**354,882**	344,032	3.2	65
Change in fair value of investment properties — Financial statements	**276,475**	(267,098)	(203.5)	60
Impairment of goodwill - Financial statements	**—**	(120,389)	100.0	74
Net income (net loss)	**462,504**	(212,282)	(317.9)	75
Adjusted net income	**202,273**	206,797	(2.2)	76
Funds from operations (FFO) [2, 3]	**195,127**	206,416	(5.5)	77
Adjusted funds from operations (AFFO) [2, 3]	**140,960**	160,151	(12.0)	77
Cash flows provided by operating activities — Financial statements	**191,868**	182,939	4.9	82
Adjusted cash flows from operations (ACFO) [2, 3]	**144,392**	154,481	(6.5)	82
Distributions	**131,068**	143,730	(8.8)	82
Total assets	**6,892,420**	6,543,711	5.3	57
Per unit financial performance				
Net income (net loss) (basic and diluted)	**2.54**	(1.17)	(317.1)	75
Adjusted net income (diluted) [2]	**1.11**	1.13	(1.8)	76
Funds from operations (FFO)(FD) [2, 3, 4]	**1.07**	1.13	(5.3)	77
Adjusted funds from operations (AFFO)(FD) [2, 3, 4]	**0.77**	0.88	(12.5)	77
Adjusted cash flows from operations (ACFO)(FD) [2, 3, 4]	**0.79**	0.87	(9.2)	82
Distributions	**0.72**	0.79	(8.9)	82
Payout ratio of adjusted cash flows from operations (ACFO) [2, 3, 4]	**91.1%**	92.9%	(1.9)	82
Payout ratio of adjusted funds from operations (AFFO) [2, 3, 4]	**93.5%**	89.8%	4.1	77
Book value per unit [5]	**17.30**	15.47	11.8	56
Financing				
Debt ratio [2, 6]	**51.4%**	55.3%		87
Debt/EBITDA ratio [2]	**10.6x**	10.3x		87
Interest coverage ratio [2, 7]	**2.36:1**	2.32:1		88
Weighted average interest rate on total debt	**4.06%**	4.14%		83
Residual weighted average term of total debt (years)	**3.7**	3.5		83
Unsecured debt-to-total-debt ratio [8]	**36.5%**	51.8%		88
Unencumbered income properties	**2,125,836**	2,864,637		88
Unencumbered assets to unsecured debt ratio [9]	**1.82:1**	1.53:1		88
Operational data				
Number of investment properties [10]	**317**	428		90
Leasable area (in thousands of sq. ft.)	**35,895**	38,127		90
Committed occupancy rate	**95.1%**	93.6%		95
In-place occupancy rate	**91.7%**	89.2%		95
Retention rate	**77.3%**	75.8%		96
Growth in the average net rent of renewed leases	**2.8%**	0.6%		96
Development activities				
Properties under development — Cominar's proportionate share [2]	**47,371**	41,685		57

1 *Year ended December 31, 2018 includes results of 95 non-core properties sold for total consideration of $1.14 billion during the first quarter of 2018.*
2 *Refer to section "Non-IFRS Financial Measures".*
3 *Year ended December 31, 2019 includes $1.0 million from the settlement approved by the court between Target Canada and its creditors, $5.2 million of penalties paid on mortgages repayments before maturity, $1.1 million of debenture redemption costs, $4.8 million of restructuring costs and a $1.0 million severance allowance paid in Q1-2019 following the departure of an executive officer.*
4 *Fully diluted.*
5 *Total equity divided by the total number of outstanding units as of the end of the period*
6 *Total of bank borrowings, mortgages payable and debentures, less cash and cash equivalents, divided by the total assets minus the total of cash and cash equivalents.*
7 *Net operating income less adjusted Trust administrative expenses divided by finance charges.*
8 *Unsecured debt divided by total debt.*
9 *Fair value of unencumbered income properties divided by the unsecured net debt.*
10 *During the first quarter of 2019, Cominar reassessed its number of properties by grouping individual addresses within the same plot of land or related plots of land as one property.*

Selected Quarterly Information

Quarters ended	Dec. 2019 $		Sept. 2019 $		Jun. 2019 $		Mar. 2019 $		Dec. 2018 $	Sept. 2018 $	Jun. 2018 $	Mar. 2018 [1] $
Financial performance												
Operating revenues — Financial statements	**173,931**		171,539		176,627		181,944		176,073	172,665	177,047	208,865
Operating revenues — Cominar's proportionate share [2]	**178,161**		175,884		180,946		186,244		180,116	176,820	181,280	212,879
NOI — Financial statements	**91,216**		91,438		88,983		86,685		91,128	90,977	89,813	100,546
NOI — Cominar's proportionate share [2]	**93,695**		93,914		91,468		89,078		93,526	93,548	92,256	102,627
Change in fair value of investment properties — Financial statements	**270,964**		(2,559)		8,291		(221)		(276,160)	13,393	—	(4,331)
Impairment of goodwill — Financial Statements	**—**		—		—		—		(120,389)	—	—	—
Net income (net loss)	**319,265**		47,456		51,474		44,309		(353,353)	64,649	46,445	29,977
Adjusted net income	**53,423**		51,688		50,250		46,912		50,684	51,850	51,401	52,862
FFO [2]	**49,165**	3	51,802	4	47,273	5	46,887	6	50,883	52,733	49,063	53,737
AFFO [2]	**35,622**	3	38,370	4	33,441	5	33,527	6	39,047	41,249	37,576	42,279
Cash flows provided by operating activities — Financial statements	**79,712**		74,579		14,126		23,451		74,118	88,049	1,437	19,335
ACFO [2]	**29,490**		36,599		40,497		37,806		38,372	41,453	34,327	40,329
Distributions	**32,773**		32,769		32,768		32,758		32,749	32,749	32,749	45,483
Per unit												
Net income (net loss) (basic)	**1.75**		0.26		0.28		0.24		(1.94)	0.36	0.26	0.16
Net income (net loss) (diluted)	**1.75**		0.26		0.28		0.24		(1.94)	0.35	0.25	0.16
Adjusted net income (diluted) [2]	**0.29**		0.28		0.28		0.26		0.28	0.28	0.28	0.29
FFO (FD) [2, 7]	**0.27**	3	0.28	4	0.26	5	0.26	6	0.28	0.29	0.27	0.29
AFFO (FD) [2, 7]	**0.20**	3	0.21	4	0.18	5	0.18	6	0.21	0.23	0.21	0.23
ACFO (FD) [2, 7]	**0.16**		0.20		0.22		0.21		0.21	0.23	0.19	0.22
Distributions	**0.1800**		0.1800		0.1800		0.1800		0.1800	0.1800	0.1800	0.2500

1 *Quarter ended March 31, 2018 includes results of 95 non-core properties sold for a total consideration of $1.14 billion.*
2 *Refer to "Non-IFRS Financial Measures."*
3 *Includes $5.2 million of penalties paid on mortgages repayments before maturity.*
4 *Includes $1.0 million from the settlement approved by the court between Target Canada and its creditors, $1.1 million of debenture redemption costs and $0.9 million of restructuring costs.*
5 *Includes $3.9 million of restructuring costs.*
6 *Includes a $1.0 million severance allowance paid in 2019 following the departure of an executive officer.*
7 *Fully diluted.*

Selected Annual Information

Years ended December 31	2019	2018 [1]	2017 [1]
	$	$	$
Financial performance			
Operating revenues — Financial statements	**704,041**	734,650	835,489
Operating revenues — Cominar's proportionate share [4]	**721,235**	751,095	848,840
NOI — Financial statements	**358,322**	372,464	436,037
NOI — Cominar's proportionate share [4]	**368,155**	381,957	443,586
Change in fair value of investment properties — Financial statements	**276,475**	(267,098)	(616,354)
Impairment of goodwill — Financial Statements	**—**	(120,389)	—
Net income (net loss) [3]	**462,504**	(212,282)	(391,725)
Adjusted net income	**202,273**	206,797	255,798
FFO [4]	**195,127**	206,416	249,689
AFFO [4]	**140,960**	160,151	210,427
Cash flows provided by operating activities — Financial Statements	**191,868**	182,939	233,225
ACFO [4]	**144,392**	154,481	211,296
Distributions	**131,068**	143,730	246,523
Total assets	**6,892,420**	6,543,711	7,824,993
Per unit			
Net income (net loss) (basic and diluted)	**2.54**	(1.17)	(2.13)
Adjusted net income (basic) [4]	**1.11**	1.13	1.39
FFO (FD) [2, 4]	**1.07**	1.13	1.35
AFFO (FD) [2, 4]	**0.77**	0.88	1.14
ACFO (FD) [2, 4]	**0.79**	0.85	1.15
Distributions	**0.72**	0.79	1.33

1 Results for fiscal years ended December 31, 2018 and December 31, 2017 include results of 95 non-core properties sold for total consideration of $1.14 billion during the first quarter of 2018.
2 Fully diluted.
3 Includes the change in fair value of investment properties and the depreciation of goodwill in 2018 and 2017.
4 Non-IFRS financial measure. See relevant section for definition and reconciliation to closest IFRS measure.

General Business Overview

Cominar Real Estate Investment Trust is one of the largest property owners and managers in the Province of Quebec. As at December 31, 2019, Cominar owned a diversified portfolio of 317[1] properties, composed of office, retail and industrial and flex buildings, of which 198 were located in the Montreal area, 100 in the Québec City area and 19 in the Ottawa area. Cominar's portfolio consisted of approximately 11.1 million square feet of office space, 9.5 million square feet of retail space and 15.4 million square feet of industrial and flex space, representing total leasable area of 35.9 million square feet.

Cominar's focus is on growing NOI and net asset value and exploiting, when economically viable, expansion or redevelopment opportunities that provide attractive risk adjusted returns. Growth in cash flows from existing properties in the portfolio is expected to be achieved by: (i) increases in rental rates on existing and new leases; (ii) improved occupancy and retention rates, as well as proactive leasing strategies; (iii) sound management of operating costs; and (iv) disciplined allocation of capital and rigorous control of capital expenditures.

Real Estate Portfolio Summary as at December 31, 2019

Our properties are primarily in urban areas, located along or in proximity of major traffic arteries, in proximity to existing and/or future transit infrastructure and generally benefit from high visibility while providing ease of access for Cominar's clients and their customers.

Property type	Number of properties [1]	Leasable area (sq. ft.)	Committed occupancy rate	In-place occupancy rate
Office	80	11,056,000	92.9%	89.2%
Retail	46	9,488,000	94.1%	87.3%
Industrial and flex	191	15,351,000	97.1%	96.2%
Total	**317**	**35,895,000**	**95.1%**	**91.7%**

Geographic market	Number of properties [1]	Leasable area (sq. ft.)	Committed occupancy rate	In-place occupancy rate
Montreal	198	23,690,000	94.8%	91.5%
Québec City	100	9,763,000	96.0%	93.3%
Ottawa	19	2,442,000	93.7%	87.5%
Total	**317**	**35,895,000**	**95.1%**	**91.7%**

1 *During the first quarter of 2019, Cominar reassessed its number of properties by grouping individual addresses within the same plot of land or related plots of land as one property.*

Our Objectives, Our Outlook, Our Strategy

Objectives

Cominar's primary objective is to maximize total return to unitholders through a combination of sustainable, tax-effective cash distributions and maximizing the Unit value through the proactive management of its portfolio of properties.

Our Strategy

In 2019, we completed a detailed strategic review of our operations and began the implementation of a clearly defined plan, presented to investors in October 2019, to solidify Cominar's financial position, create value for unitholders and position the REIT for growth.

Our strategic objectives are to deliver over a three year period **1)** annual same property NOI growth consistently above 2%, **2)** 15% Net Asset Value growth, **3)** 15% FFO per unit growth and **4)** a reduction in leverage to less than 50% of asset value and to 9.5x Debt to / EBITDA.

Our initiatives in 2019 have allowed us to make significant progress toward these goals, putting us on track to achieve our targets. We are confident that our transformation plan will deliver operating efficiencies, accelerate NOI growth and crystallize untapped portfolio value in order to generate short term and long-term value for our unitholders.

The plan includes:

- A series of concrete actions to add additional revenue streams, reduce operating costs and streamline G&A, which are to have a collective positive impact on FFO and materially accelerate our organic growth. Initiatives include new sources of revenue, workforce optimization, outsourcing arrangements, operating cost reductions, process automation, leveraging technology and lease auditing among others. These initiatives are targeted to increase FFO by approximately $15 million and in 2019 $10 million was realized on a run rate basis.
- Creation of a dedicated asset management platform to maximize portfolio returns and enhance the investment decision-making process. Our asset management team is in place and we have completed a thorough review of the majority of our portfolio.
- A focus on further strengthening and de-risking our balance sheet and a commitment to prudent management of our capital structure. We are targeting a disciplined reduction in leverage through growing EBITDA, higher retained cash flow, driving growth in our portfolio value and selective dispositions. As at December 31, 2019 our debt ratio was 51.4% (55.3% at December 31, 2018) and Debt to EBITDA was 10.6x (10.3x at December 31, 2018).
- Strategic refinancing and multi-year planning, including the repayment of low loan to value and high interest rate mortgages to improve credit metrics and drive FFO. Our unencumbered asset ratio was 1.82:1 at December 31, 2019 up from 1.53:1 at December 31, 2018. We expect our credit metrics to continue to improve through 2020 as a result of planned dispositions and a budgeted increase in same property net operating income.
- A responsible approach to CAPEX aimed at creating value with a targeted run rate of $125 million per year. Capital expenditures for 2019 totaled $134 million excluding development, down from $221 million in 2018 excluding development.
- Targeted dispositions, including the reduction of our exposure to lower-quality non-core assets, include the disposition of fully valued liquid assets at historically low cap rates to provide price discovery and unlock trapped equity value. In 2019 we disposed of 46 non-core properties for gross proceeds $260.6 million, 54% of which were retail properties. Our asset strategy also includes the exploration of joint venture opportunities to capitalize on interest in the strong Quebec market

The plan is being executed, we are building momentum through quick wins and our team of seasoned leaders is committed to our new strategic direction.

Overview of Fiscal 2019

Net Income: Net income (net loss) for the fiscal year ended December 31, 2019 amounted to $462.5 million compared to $(212.3) million in the previous year. This reflects positive increase of $543.6 million in change in fair value of investment properties, decreases of $120.4 million in goodwill impairment, of $16.4 million in transaction costs and $6.0 million in trust administrative expenses and increase of $4.8 million in restructuring costs .

Adjusted Net Income[1]: For the fiscal year ended December 31, 2019, Cominar generated adjusted net income of $202.3 million compared to $206.8 million for the fiscal year ended December 31, 2018.

FFO[1]: Fully diluted funds from operations ("FFO") for the fiscal year ended December 31, 2019 was $1.07 per unit compared to $1.13 for the previous year due mainly to the sale of $260.6 million of properties year over year and infrequent items, partially offset by growth in same property NOI. Excluding infrequent items, FFO per unit would have been $1.13.

AFFO[1]: Fully diluted adjusted funds from operations ("AFFO") for the fiscal year ended December 31, 2019 was $0.77 per unit compared to $0.88 for the previous year. AFFO decreased due to the decrease in FFO, to a $3.0 million increase in the provision for leasing costs and a $6.7 million increase in capital expenditures to maintain rental income generating capacity. Excluding infrequent items, AFFO would have been $0.83 per unit.

Same Property NOI[1]: Same property NOI ("SPNOI")increased to 3.2% for the fiscal year ended December 31, 2019. The increase reflected growth of 4.0% in the office portfolio, 7.2% in the industrial and flex portfolio and (0.5)% in the retail portfolio. The increase in SPNOI was mainly related to an increase in average in-place occupancy for all property types and for all geographic markets.

Occupancy: As at December 31, 2019, Cominar's in-place occupancy was 91.7% compared to 89.2% at year-end 2018. The year over year increase in occupancy was related to increase in all property types. As at December 31, 2019 the committed occupancy rate was 95.1%, up 150 basis points from 93.6% at year-end 2018.

Leasing activity: The retention rate for the year ended December 31, 2019 was 77.3%,up from 75.8% for the year ended December 31, 2018. Average net rent on 3.8 million sq.ft. of lease renewals increased 2.8% (4.1% for the office portfolio, (1.7)% for the retail portfolio and 10.1% for the industrial portfolio). New leasing totaled 2.0 million sq.ft. New and renewal leasing for the year ended December 31, 2019 represented 117.8% of 2019 lease maturities.

Disposition activity: For the fiscal year ended December 31, 2019, Cominar completed asset sales totaling $260.6 million at pricing in line with our IFRS values.

Book value per unit: As at December 31, 2019, Cominar's book value per unit increased 11.8% year over year to $17.30 per unit from $15.47 per unit at year-end 2018 due to fair value gains in the industrial and office portfolio, partially offset by a fair value loss in the retail portfolio as well as the repayment of debt with proceeds from dispositions.

Balance sheet: As at December 31, 2019, Cominar's debt ratio was 51.4%, down from 55.3% at year-end 2018. The year over year decrease in debt ratio reflects the use of proceeds from the sale of $260.6 million of properties to pay down debt and a $276.5 million increase in the fair value of investment properties. The debt to EBITDA ratio at the fiscal year ended December 31, 2019 increased to 10.6x, from 10.3x at fiscal year ended December 31, 2018. As at December 31, 2019 our unencumbered asset pool totaled $2.1 billion and our unencumbered asset ratio was 1.82x, up from 1.53x at year-end 2018.

Our available liquidity of $552.6 million consisted of $400.0 million of availability under our unsecured credit facility and $152.6 million of cash and cash equivalents at December 31, 2019.

1 Refer to section "Non-IFRS Financial Measures".

Reconciliations to Cominar's Proportionate Share

In accordance with IFRS 11, joint ventures are accounted for under the equity method in Cominar's consolidated financial statements. Cominar considers that presenting operating and financial results including Cominar's proportionate share of the assets, liabilities, revenues and charges of its joint ventures, provides more complete information on Cominar's financial performance.

The following tables present reconciliations of Cominar's consolidated financial statements prepared in accordance with IFRS with its consolidated financial statements including its proportionate share of the assets, liabilities, revenues and charges of its joint ventures.

As at December 31	2019			2018		
	Consolidated financial statements	Joint ventures	Cominar's proportionate share[1]	Consolidated financial statements	Joint ventures	Cominar's proportionate share[1]
	$	$	$	$	$	$
Assets						
Investment properties						
Income properties	**6,412,739**	**171,573**	**6,584,312**	6,058,191	166,765	6,224,956
Properties under development	**41,471**	**5,900**	**47,371**	34,293	7,392	41,685
Land held for future development	**100,507**	**7,631**	**108,138**	93,750	8,400	102,150
	6,554,717	**185,104**	**6,739,821**	6,186,234	182,557	6,368,791
Investment properties held for sale	**11,730**	**—**	**11,730**	188,727	—	188,727
Investments in joint ventures	**97,456**	**(97,456)**	**—**	92,468	(92,468)	—
Goodwill	**15,721**	**—**	**15,721**	15,721	—	15,721
Accounts receivable	**37,930**	**431**	**38,361**	41,162	424	41,586
Prepaid expenses and other assets	**22,232**	**94**	**22,326**	17,901	97	17,998
Cash and cash equivalents	**152,634**	**639**	**153,273**	1,498	461	1,959
Total assets	**6,892,420**	**88,812**	**6,981,232**	6,543,711	91,071	6,634,782
Liabilities						
Mortgages payable	**2,114,021**	**82,981**	**2,197,002**	1,742,104	85,534	1,827,638
Mortgages payable related to the investment properties held for sale	**—**	**—**	**—**	123	—	123
Debentures	**1,320,962**	**—**	**1,320,962**	1,722,586	—	1,722,586
Bank borrowings	**180,000**	**4,100**	**184,100**	152,950	4,000	156,950
Accounts payable and accrued liabilities	**126,543**	**1,731**	**128,274**	103,347	1,538	104,885
Deferred tax liabilities	**93**	**—**	**93**	142	—	142
Current tax liabilities	**—**	**—**	**—**	6,763	—	6,763
Total liabilities	**3,741,619**	**88,812**	**3,830,431**	3,728,015	91,072	3,819,087
Unitholders' equity						
Unitholders' equity	**3,150,801**	**—**	**3,150,801**	2,815,696	—	2,815,696
Total liabilities and unitholders' equity	**6,892,420**	**88,812**	**6,981,232**	6,543,711	91,072	6,634,783

1 *Refer to section "Non-IFRS Financial Measures".*

Quarters ended December 31	2019			2018		
	Consolidated financial statements	Joint ventures	Cominar's proportionate share[1]	Consolidated financial statements	Joint ventures	Cominar's proportionate share[1]
	$	$	$	$	$	$
Operating revenues	**173,931**	**4,230**	**178,161**	176,073	4,043	180,116
Operating expenses	**(82,715)**	**(1,751)**	**(84,466)**	(84,945)	(1,645)	(86,590)
NOI	**91,216**	**2,479**	**93,695**	91,128	2,398	93,526
Finance charges	**(40,416)**	**(979)**	**(41,395)**	(36,393)	(1,003)	(37,396)
Trust administrative expenses	**(4,145)**	**(17)**	**(4,162)**	(6,106)	(13)	(6,119)
Change in fair value of investment properties	**270,964**	**1,339**	**272,303**	(276,160)	(299)	(276,459)
Share of joint ventures' net income	**2,822**	**(2,822)**	**—**	1,083	(1,083)	—
Transaction costs	**(1,225)**	**—**	**(1,225)**	(2,866)	—	(2,866)
Impairment of goodwill	**—**	**—**	**—**	(120,389)	—	(120,389)
Derecognition of goodwill	**—**	**—**	**—**	(3,278)	—	(3,278)
Net income (loss) before income taxes	**319,216**	**—**	**319,216**	(352,981)	—	(352,981)
Income taxes						
Current	**—**	**—**	**—**	(372)	—	(372)
Deferred	**49**	**—**	**49**	—	—	—
	49	**—**	**49**	(372)	—	(372)
Net income (loss) and comprehensive income	**319,265**	**—**	**319,265**	(353,353)	—	(353,353)

1 Refer to section "Non-IFRS Financial Measures".

Years ended December 31	2019			2018 [1]		
	Consolidated financial statements	Joint ventures	Cominar's proportionate share [2]	Consolidated financial statements	Joint ventures	Cominar's proportionate share [2]
	$	$	$	$	$	$
Operating revenues	**704,041**	**17,194**	**721,235**	734,650	16,445	751,095
Operating expenses	**(345,719)**	**(7,361)**	**(353,080)**	(362,186)	(6,952)	(369,138)
NOI	**358,322**	**9,833**	**368,155**	372,464	9,493	381,957
Finance charges	**(151,051)**	**(3,953)**	**(155,004)**	(152,237)	(3,968)	(156,205)
Trust administrative expenses	**(17,254)**	**(19)**	**(17,273)**	(23,255)	(50)	(23,305)
Change in fair value of investment properties	**276,475**	**1,339**	**277,814**	(267,098)	(299)	(267,397)
Share of joint ventures' net income	**7,200**	**(7,200)**	**—**	5,176	(5,176)	—
Transaction costs	**(6,463)**	**—**	**(6,463)**	(22,847)	—	(22,847)
Restructuring costs	**(4,774)**	**—**	**(4,774)**	—	—	—
Impairment of goodwill	**—**	**—**	**—**	(120,389)	—	(120,389)
Derecognition of goodwill	**—**	**—**	**—**	(3,872)	—	(3,872)
Net income (loss) before income taxes	**462,455**	**—**	**462,455**	(212,058)	—	(212,058)
Income taxes						
Current	**—**	**—**	**—**	(6,763)	—	(6,763)
Deferred	**49**	**—**	**49**	6,539	—	6,539
	49	**—**	**49**	(224)	—	(224)
Net income (loss) and comprehensive income	**462,504**	**—**	**462,504**	(212,282)	—	(212,282)

1 The year ended December 31, 2018 includes results of 95 non-core properties sold for total consideration of $1.14 billion during the first quarter of 2018.
2 Refer to section "Non-IFRS Financial Measures".

Performance Analysis

Financial Position

The following table indicates the changes in assets and liabilities as well as in unitholders' equity as at December 31, 2019, and December 31, 2018, as shown in our consolidated financial statements:

As at December 31	2019	2018		
	$	$	$△	%△
Assets				
Investment properties				
Income properties	**6,412,739**	6,058,191	354,548	5.9
Properties under development	**41,471**	34,293	7,178	20.9
Land held for future development	**100,507**	93,750	6,757	7.2
	6,554,717	6,186,234	368,483	6.0
Investment properties held for sale	**11,730**	188,727	(176,997)	(93.8)
Investments in joint ventures	**97,456**	92,468	4,988	5.4
Goodwill	**15,721**	15,721	—	—
Accounts receivable	**37,930**	41,162	(3,232)	(7.9)
Prepaid expenses and other assets	**22,232**	17,901	4,331	24.2
Cash and cash equivalents	**152,634**	1,498	151,136	10,089.2
Total assets	**6,892,420**	6,543,711	348,709	5.3
Liabilities				
Mortgages payable	**2,114,021**	1,742,104	371,917	21.3
Mortgages payable related to the investment properties held for sale	**—**	123	(123)	(100.0)
Debentures	**1,320,962**	1,722,586	(401,624)	(23.3)
Bank borrowings	**180,000**	152,950	27,050	17.7
Accounts payable and accrued liabilities	**126,543**	103,347	23,196	22.4
Deferred tax liabilities	**93**	142	(49)	(34.5)
Current tax liabilities	**—**	6,763	(6,763)	(100.0)
Total liabilities	**3,741,619**	3,728,015	13,604	0.4
Unitholders' equity				
Unitholders' equity	**3,150,801**	2,815,696	335,105	11.9
Total liabilities and unitholders' equity	**6,892,420**	6,543,711	348,709	5.3

Results of Operations

The following table highlights our results of operations for the fiscal years ended December 31, 2019 and 2018, as shown in our consolidated financial statements:

Periods ended December 31	Quarter 2019	Quarter 2018		Year 2019	Year 2018 [1]	
	$	$	%Δ	$	$	%Δ
Operating revenues	**173,931**	176,073	(1.2)	**704,041**	734,650	(4.2)
Operating expenses	**(82,715)**	(84,945)	(2.6)	**(345,719)**	(362,186)	(4.5)
NOI	**91,216**	91,128	0.1	**358,322**	372,464	(3.8)
Finance charges	**(40,416)**	(36,393)	11.1	**(151,051)**	(152,237)	(0.8)
Trust administrative expenses	**(4,145)**	(6,106)	(32.1)	**(17,254)**	(23,255)	(25.8)
Change in fair value of investment properties	**270,964**	(276,160)	(198.1)	**276,475**	(267,098)	(203.5)
Share of joint ventures' net income	**2,822**	1,083	160.6	**7,200**	5,176	39.1
Transaction costs	**(1,225)**	(2,866)	(57.3)	**(6,463)**	(22,847)	(71.7)
Restructuring costs	**—**	—	—	**(4,774)**	—	(100.0)
Impairment of goodwill	**—**	(120,389)	100.0	**—**	(120,389)	100.0
Derecognition of goodwill	**—**	(3,278)	100.0	**—**	(3,872)	100.0
Net income (loss) before income taxes	**319,216**	(352,981)	(190.4)	**462,455**	(212,058)	(318.1)
Income taxes						
Current	**—**	(372)	100.0	**—**	(6,763)	100.0
Deferred	**49**	—	100.0	**49**	6,539	(99.3)
	49	(372)	(113.2)	**49**	(224)	(121.9)
Net income (loss) and comprehensive income	**319,265**	(353,353)	(190.4)	**462,504**	(212,282)	(317.9)

1 *The year ended December 31, 2018 includes results of 95 non-core properties sold to Slate for total consideration of $1.14 billion during the first quarter of 2018.*

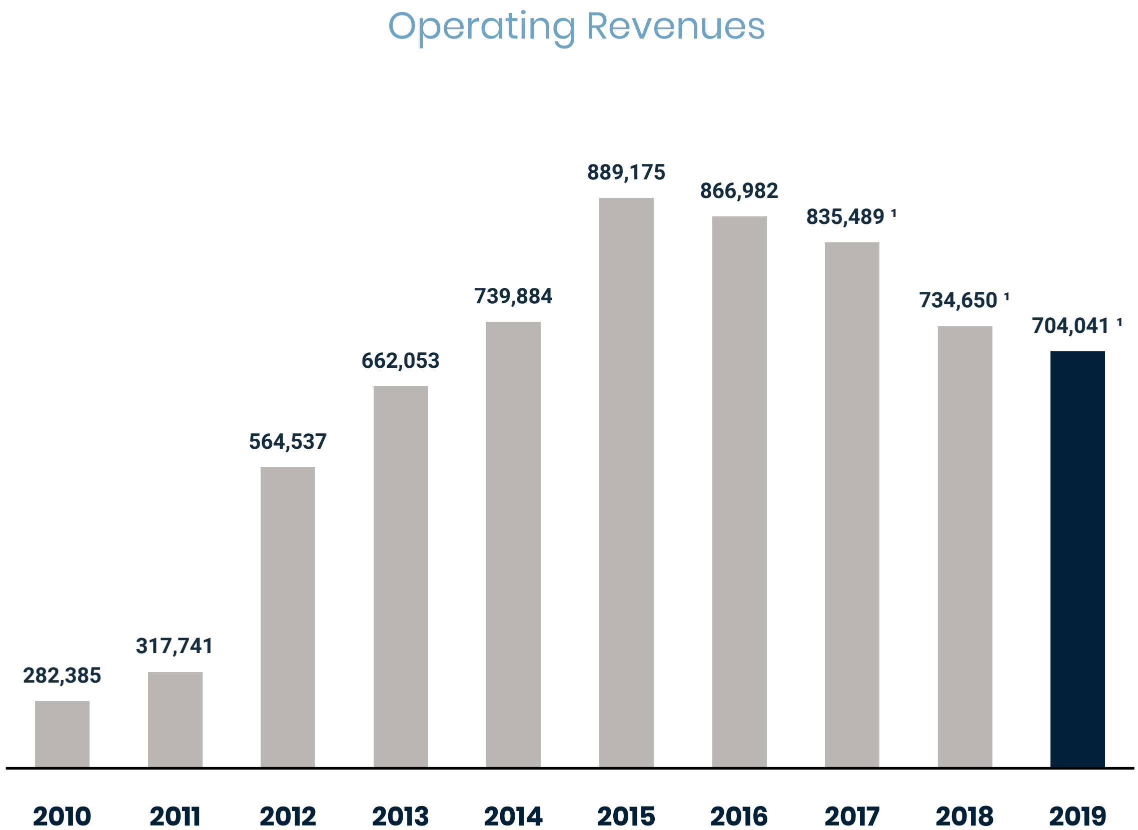
Operating Revenues

Periods ended December 31	Quarter 2019	Quarter 2018		Year 2019	Year 2018 [1]	
	$	$	%Δ	$	$	%Δ
Operating revenues — Financial statements	**173,931**	176,073	(1.2)	**704,041**	734,650	(4.2)
Operating revenues — Joint ventures	**4,230**	4,043	4.6	**17,194**	16,445	4.6
Operating revenues — Cominar's proportionate share [2]	**178,161**	180,116	(1.1)	**721,235**	751,095	(4.0)

1 *Operating revenues for the year ended December 31, 2018 include operating revenues of 95 non-core properties sold for total consideration of $1.14 billion during the first quarter of 2018.*
2 *Refer to section "Non-IFRS Financial Measures".*

The decrease in operating revenues according to the consolidated financial statements in fiscal 2019 compared with fiscal 2018 resulted mainly from a $46.9 million decrease attributable to properties sold in 2018 and 2019 and $18.3 million of growth in same property operating revenues.

The chart below presents Cominar's operating revenues based on the consolidated financial statements over the past 10 years.[1]



1 Decreases in operating revenues due mainly to dispositions of income properties of $260.6 million in 2019 [$1.151 billion in 2018 and $104.4 million in 2017].

Operating Revenues by Property Type

	Quarter			Year		
Periods ended December 31	2019	2018		2019	2018 [1]	
	$	$	%Δ	$	$	%Δ
Property type						
Office	**75,636**	76,331	(0.9)	**301,414**	319,010	(5.5)
Retail	**64,361**	65,757	(2.1)	**260,424**	274,232	(5.0)
Industrial and flex	**38,164**	38,028	0.4	**159,397**	157,853	1.0
Operating revenues — Cominar's proportionate share[2]	**178,161**	180,116	(1.1)	**721,235**	751,095	(4.0)

1 Operating revenues for the year ended December 31, 2018 include operating revenues of 95 non-core properties sold for total consideration of $1.14 billion during the first quarter of 2018.
2 Refer to section "Non-IFRS Financial Measures".

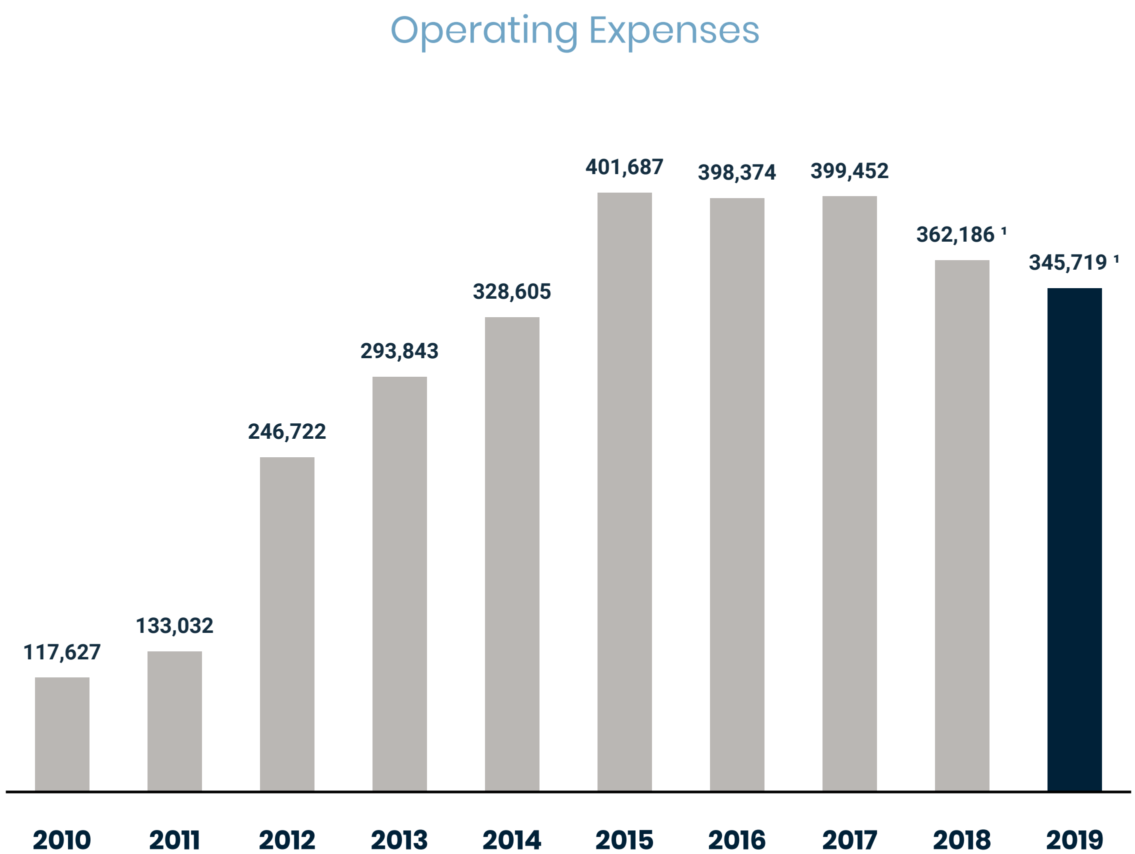
Operating Expenses

Periods ended December 31	Quarter			Year		
	2019	2018		2019	2018 [1]	
	$	$	%△	$	$	%△
Operating expenses — Financial statements	**82,717**	84,945	(2.6)	**345,721**	362,186	(4.5)
Operating expenses — Joint ventures	**1,751**	1,645	6.4	**7,361**	6,952	5.9
Operating expenses — Cominar's proportionate share [2]	**84,468**	86,590	(2.5)	**353,082**	369,138	(4.3)

1 *Operating expenses for the year ended December 31, 2018 include operating expenses of 95 non-core properties sold for total consideration of $1.14 billion during the first quarter of 2018.*
2 *Refer to section "Non-IFRS Financial Measures".*

The decrease in operating expenses according to the consolidated financial statements in fiscal 2019 compared with fiscal 2018 resulted mainly from a $23.7 million decrease attributable to properties sold in 2018 and 2019 and a $7.5 million increase in same property operating expenses.

The chart below presents Cominar's operating expenses based on the consolidated financial statements over the past 10 years.



1 *Decreases in operating expenses due mainly to dispositions of income properties of $260.6 million in 2019 [$1.151 billion in 2018].*

Operating Expenses by Property Type

Periods ended December 31	Quarter 2019	Quarter 2018		Year 2019	Year 2018 [1]	
	$	$	%Δ	$	$	%Δ
Property type						
Office	**38,620**	39,604	(2.5)	**155,807**	166,993	(6.7)
Retail	**31,785**	32,033	(0.8)	**131,417**	135,761	(3.2)
Industrial and flex	**14,063**	14,953	(6.0)	**65,858**	66,384	(0.8)
Operating Expenses — Cominar's proportionate share[2]	**84,468**	86,590	(2.5)	**353,082**	369,138	(4.3)

1 Operating expenses for the year ended December 31, 2018 include operating expenses of 95 non-core properties sold for total consideration of $1.14 billion during the first quarter of 2018.
2 Refer to section "Non-IFRS Financial Measures".

Net Operating Income

NOI is a measure presented in the statement of comprehensive income in Cominar's consolidated financial statements, which is calculated as operating revenues less property operating expenses such as utilities, repairs and maintenance and realty taxes. NOI does not include charges for interest or other expenses not specific to the day-to-day operation of Cominar's properties. Cominar considers NOI to be a valuable measure for evaluating the operating performance of its properties

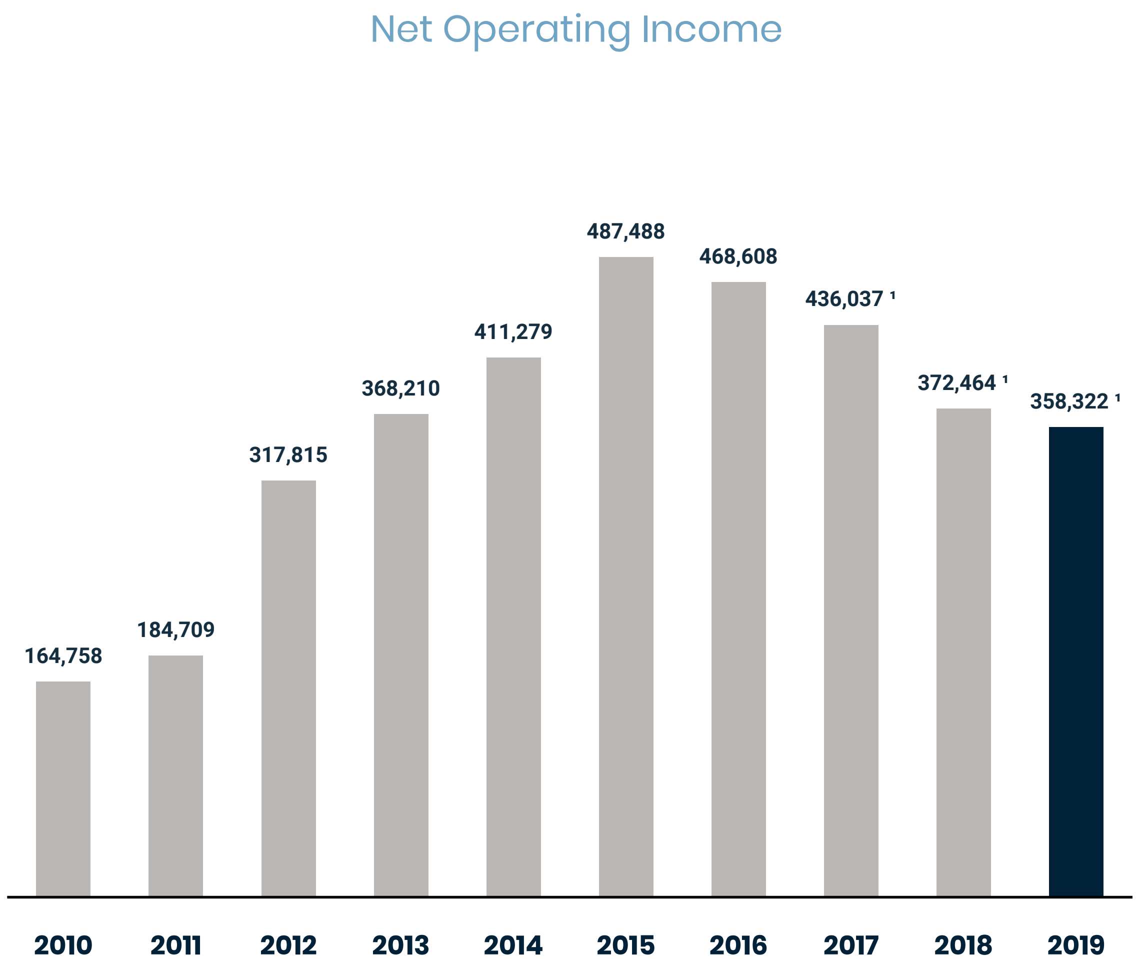
Cominar analyzes its segmented results of operations taking into account the proportionate share of its joint ventures to assess the operating performance of its investment properties.

Periods ended December 31	Quarter 2019	Quarter 2018		Year 2019	Year 2018 [1]	
	$	$	%Δ	$	$	%Δ
NOI — Financial statements	**91,216**	91,128	0.1	**358,322**	372,464	(3.8)
NOI — Joint ventures	**2,479**	2,398	3.4	**9,833**	9,493	3.6
NOI — Cominar's proportionate share [2]	**93,695**	93,526	0.2	**368,155**	381,957	(3.6)

1 Net operating income for the year ended December 31, 2018 includes net operating income of 95 non-core properties sold for total consideration of $1.14 billion during the first quarter of 2018.
2 Refer to section "Non-IFRS Financial Measures".

The increase in NOI on a proportionate basis in fiscal 2019 compared with fiscal 2018 resulted mainly from a $23.2 million decrease attributable to properties sold in 2018 and 2019 and $10.9 million of growth in same property net operating income.

The chart below presents Cominar's net operating income based on the consolidated financial statements, over the past 10 years.



1 Decreases in net operating income due mainly to dispositions of income properties of $260.6 million in 2019 [$1.151 billion in 2018 and $104.4 million in 2017].

NOI by Property Type

Periods ended December 31	Quarter 2019	2018		Year 2019	2018 [1]	
	$	$	%△	$	$	%△
Property type						
Office	**37,018**	36,727	0.8	**145,609**	152,017	(4.2)
Retail	**32,576**	33,724	(3.4)	**129,007**	138,471	(6.8)
Industrial and flex	**24,101**	23,075	4.4	**93,539**	91,469	2.3
NOI — Cominar's proportionate share [2]	**93,695**	93,526	0.2	**368,155**	381,957	(3.6)

1 *Net operating income for the year ended December 31, 2018 includes net operating income of 95 non-core properties sold for total consideration of $1.14 billion during the first quarter of 2018.*
2 *Refer to section "Non-IFRS Financial Measures".*

Results of Operations - Same Property Portfolio

Cominar analyzes its segmented results of operations taking into account the proportionate share of its joint ventures to assess the operating performance of its investment properties and pays particular attention to the performance of its same property portfolio. Same property portfolio includes the results of properties owned by Cominar as at December 31 2017, with the exception of results from the properties sold, acquired or under development in 2018 and 2019, as well as the rental income arising from the recognition of leases on a straight-line basis.

Periods ended December 31	Quarter 2019	2018		Year 2019	2018	
	$	$	%△	$	$	%△
Same property operating revenues[1] - Cominar's proportionate share [2]	**174,439**	168,924	3.3	**696,609**	678,270	2.7
Same property operating expenses[1] - Cominar's proportionate share [2]	**(82,952)**	(80,977)	2.4	**(341,727)**	(334,238)	2.2
Same property NOI[1] - Cominar's proportionate share[2]	**91,487**	87,947	4.0	**354,882**	344,032	3.2

1 *Same property portfolio includes the results of properties owned by Cominar as at December 31 2017, with the exception of results from properties sold, acquired or under development in 2018 and 2019, as well as the rental income arising from the recognition of leases on a straight-line basis.*
2 *Refer to section "Non-IFRS Financial Measures".*

Operating Revenues - Same Property Portfolio

Periods ended December 31	Quarter 2019	2018		Year 2019	2018 [1]	
	$	$	%△	$	$	%△
Operating revenues — Financial statements	**173,931**	176,073	(1.2)	**704,041**	734,650	(4.2)
Operating revenues — Joint ventures	**4,230**	4,043	4.6	**17,194**	16,445	4.6
Operating revenues — Cominar's proportionate share [2]	**178,161**	180,116	(1.1)	**721,235**	751,095	(4.0)
Acquisitions, developments and dispositions — Cominar's proportionate share [2]	**(3,722)**	(11,192)	(66.7)	**(24,626)**	(72,825)	(66.2)
Same property Operating Revenues — Cominar's proportionate share [2]	**174,439**	168,924	3.3	**696,609**	678,270	2.7

1 *Operating revenues for the year ended December 31, 2018 include operating revenues of 95 non-core properties sold for total consideration of $1.14 billion during the first quarter of 2018.*
2 *Refer to section "Non-IFRS Financial Measures".*

Periods ended December 31	Quarter			Year		
	2019	2018		2019	2018	
	$	$	%Δ	$	$	%Δ
Same property portfolio — Financial statements	**170,249**	164,984	3.2	**679,719**	661,994	2.7
Same property portfolio — Joint ventures	**4,190**	3,940	6.3	**16,890**	16,276	3.8
Same property Operating Revenues [1] — Cominar's proportionate share [2]	**174,439**	168,924	3.3	**696,609**	678,270	2.7

1 *Same property operating revenues include the operating revenues of properties owned by Cominar as at December 31 2017, with the exception of results from properties sold, acquired or under development in 2018 and 2019, as well as the rental income arising from the recognition of leases on a straight-line basis.*
2 *Refer to section "Non-IFRS Financial Measures".*

The increase in same property operating revenues according to the consolidated financial statements in fiscal 2019 compared with fiscal 2018 is mainly due to the increase in average in-place occupancy for all property types and for all geographic markets and to the increase of the average net rent on lease renewals from fiscal 2019 and fiscal 2018.

Operating Revenues by Property Type and Geographic Market - Same Property Portfolio

Same property operating revenues by property type

Periods ended December 31	Quarter			Year		
	2019	2018		2019	2018	
	$	$	%Δ	$	$	%Δ
Property type						
Office	**73,470**	70,715	3.9	**290,361**	282,724	2.7
Retail	**63,168**	61,898	2.1	**249,294**	246,644	1.1
Industrial and flex	**37,801**	36,311	4.1	**156,954**	148,902	5.4
Same property Operating Revenues [1] — Cominar's proportionate share [2]	**174,439**	168,924	3.3	**696,609**	678,270	2.7

1 *Same property operating revenues include the operating revenues of properties owned by Cominar as at December 31 2017, with the exception of results from properties sold, acquired or under development in 2018 and 2019, as well as the rental income arising from the recognition of leases on a straight-line basis.*
2 *Refer to section "Non-IFRS Financial Measures".*

Same property operating revenues by geographic market

Periods ended December 31	Quarter			Year		
	2019	2018	%Δ	2019	2018	%Δ
	$	$	%Δ	$	$	%Δ
Geographic market						
Montreal	**110,165**	107,827	2.2	**441,945**	433,025	2.1
Québec City	**52,064**	49,513	5.2	**205,777**	197,279	4.3
Ottawa [1]	**12,210**	11,584	5.4	**48,887**	47,966	1.9
Same property Operating Revenues [2] — Cominar's proportionate share [3]	**174,439**	168,924	3.3	**696,609**	678,270	2.7

1 *For presentation purposes, the Gatineau area is included in the Ottawa geographic market.*
2 *Same property operating revenues include the operating revenues of properties owned by Cominar as at December 31 2017, with the exception of results from properties sold, acquired or under development in 2018 and 2019, as well as the rental income arising from the recognition of leases on a straight-line basis.*
3 *Refer to section "Non-IFRS Financial Measures".*

Operating Expenses - Same Property Portfolio

Periods ended December 31	Quarter 2019	Quarter 2018		Year 2019	Year 2018 [1]	
	$	$	%△	$	$	%△
Operating expenses — Financial statements	**82,715**	84,945	(2.6)	**345,719**	362,186	(4.5)
Operating expenses — Joint ventures	**1,759**	1,645	6.9	**7,369**	6,952	6.0
Operating expenses — Cominar's proportionate share [2]	**84,474**	86,590	(2.4)	**353,088**	369,138	(4.3)
Acquisitions, developments and dispositions — Cominar's proportionate share [2]	**(1,522)**	(5,613)	(72.9)	**(11,361)**	(34,900)	(67.4)
Same property Operating Expenses — Cominar's proportionate share [2]	**82,952**	80,977	2.4	**341,727**	334,238	2.2

1 *Operating expenses for the year ended December 31, 2018 include operating expenses of 95 non-core properties sold for total consideration of $1.14 billion during the first quarter of 2018.*
2 *Refer to section "Non-IFRS Financial Measures".*

Periods ended December 31	Quarter 2019	Quarter 2018		Year 2019	Year 2018	
	$	$	%△	$	$	%△
Same property portfolio — Financial statements	**81,225**	79,369	2.3	**334,487**	327,354	2.2
Same property portfolio — Joint ventures	**1,727**	1,608	7.4	**7,240**	6,884	5.2
Same property Operating Expenses [1] — Cominar's proportionate share [2]	**82,952**	80,977	2.4	**341,727**	334,238	2.2

1 *Same property operating expenses include the operating expenses of properties owned by Cominar as at December 31 2017, with the exception of results from properties sold, acquired or under development in 2018 and 2019, as well as the rental income arising from the recognition of leases on a straight-line basis.*
2 *Refer to section "Non-IFRS Financial Measures".*

The increase in same property operating expenses according to the consolidated financial statements in fiscal 2019 compared with fiscal 2018 is mainly due to space under redevelopment (790 ,000 square feet as at December 31,2018) that became income producing in 2019.

Operating Expenses by Property Type and Geographic Market - Same Property Portfolio

Same property operating expenses by property type

Periods ended December 31	Quarter 2019	Quarter 2018		Year 2019	Year 2018	
	$	$	%△	$	$	%△
Property type						
Office	**37,587**	36,708	2.4	**150,401**	148,117	1.5
Retail	**31,378**	30,236	3.8	**126,686**	123,371	2.7
Industrial and flex	**13,987**	14,033	(0.3)	**64,640**	62,750	3.0
Same property Operating Expenses [1] — Cominar's proportionate share [2]	**82,952**	80,977	2.4	**341,727**	334,238	2.2

1 *The same property operating expenses include the operating expenses of properties owned by Cominar as at December 31 2017, with the exception of results from the properties sold, acquired or under development in 2018 and 2019, as well as the rental income arising from the recognition of leases on a straight-line basis.*
2 *Refer to section "Non-IFRS Financial Measures".*

Same property operating expenses by geographic market

Periods ended December 31	Quarter			Year		
	2019	2018	%∆	2019	2018	%∆
	$	$	%∆	$	$	%∆
Geographic market						
Montreal	**51,587**	51,594	0.0	**216,149**	212,157	1.9
Québec City	**24,150**	23,007	5.0	**97,658**	95,384	2.4
Ottawa [1]	**7,215**	6,376	13.2	**27,920**	26,697	4.6
Same property Operating Expenses [2] — Cominar's proportionate share [3]	**82,952**	80,977	2.4	**341,727**	334,238	2.2

1 *For presentation purposes, the Gatineau area is included in the Ottawa geographic market.*
2 *The same property operating expenses include the operating expenses of properties owned by Cominar as at December 31 2017, with the exception of results from the properties sold, acquired or under development in 2018 and 2019, as well as the rental income arising from the recognition of leases on a straight-line basis.*
3 *Refer to section "Non-IFRS Financial Measures".*

Net Operating Income - Same Property Portfolio

Periods ended December 31	Quarter			Year		
	2019	2018		2019	2018 [1]	
	$	$	%∆	$	$	%∆
NOI — Financial statements	**91,216**	91,128	0.1	**358,322**	372,464	(3.8)
NOI — Joint ventures	**2,479**	2,398	3.4	**9,833**	9,493	3.6
NOI — Cominar's proportionate share [2]	**93,695**	93,526	0.2	**368,155**	381,957	(3.6)
Acquisitions, developments and dispositions — Cominar's proportionate share	**(2,208)**	(5,579)	(60.4)	**(13,273)**	(37,925)	(65.0)
Same property NOI — Cominar's proportionate share [2]	**91,487**	87,947	4.0	**354,882**	344,032	3.2

1 *Net operating income for the year ended December 31, 2018 includes net operating income of 95 non-core properties sold for total consideration of $1.14 billion during the first quarter of 2018.*
2 *Refer to section "Non-IFRS Financial Measures".*

Periods ended December 31	Quarter			Year		
	2019	2018		2019	2018	
	$	$	%∆	$	$	%∆
Same property portfolio — Financial statements	**89,024**	85,615	4.0	**345,232**	334,640	3.2
Same property portfolio — Joint ventures	**2,463**	2,332	5.6	**9,650**	9,392	2.7
Same property portfolio [1] — Cominar's proportionate share [2]	**91,487**	87,947	4.0	**354,882**	344,032	3.2

1 *The same property NOI includes the NOI of properties owned by Cominar as at December 31 2017, with the exception of results from the properties sold, acquired or under development in 2018 and 2019, as well as the rental income arising from the recognition of leases on a straight-line basis.*
2 *Refer to section "Non-IFRS Financial Measures".*

Fourth quarter increase of 4.0% in same property NOI according to Cominar's proportionate share is attributable to the increase, in all property types and all geographic markets, of the average in-place occupancy rate for the quarter ended December 31, 2019.

NOI by Property Type and Geographic Market - Same Property Portfolio

Same property NOI by property type

Periods ended December 31	Quarter			Year		
	2019	2018		2019	2018	
	$	$	%∆	$	$	%∆
Property type						
Office	**35,883**	34,007	5.5	**139,960**	134,607	4.0
Retail	**31,790**	31,662	0.4	**122,608**	123,273	(0.5)
Industrial and flex	**23,814**	22,278	6.9	**92,314**	86,152	7.2
Same property NOI — Cominar's proportionate share [1]	**91,487**	87,947	4.0	**354,882**	344,032	3.2

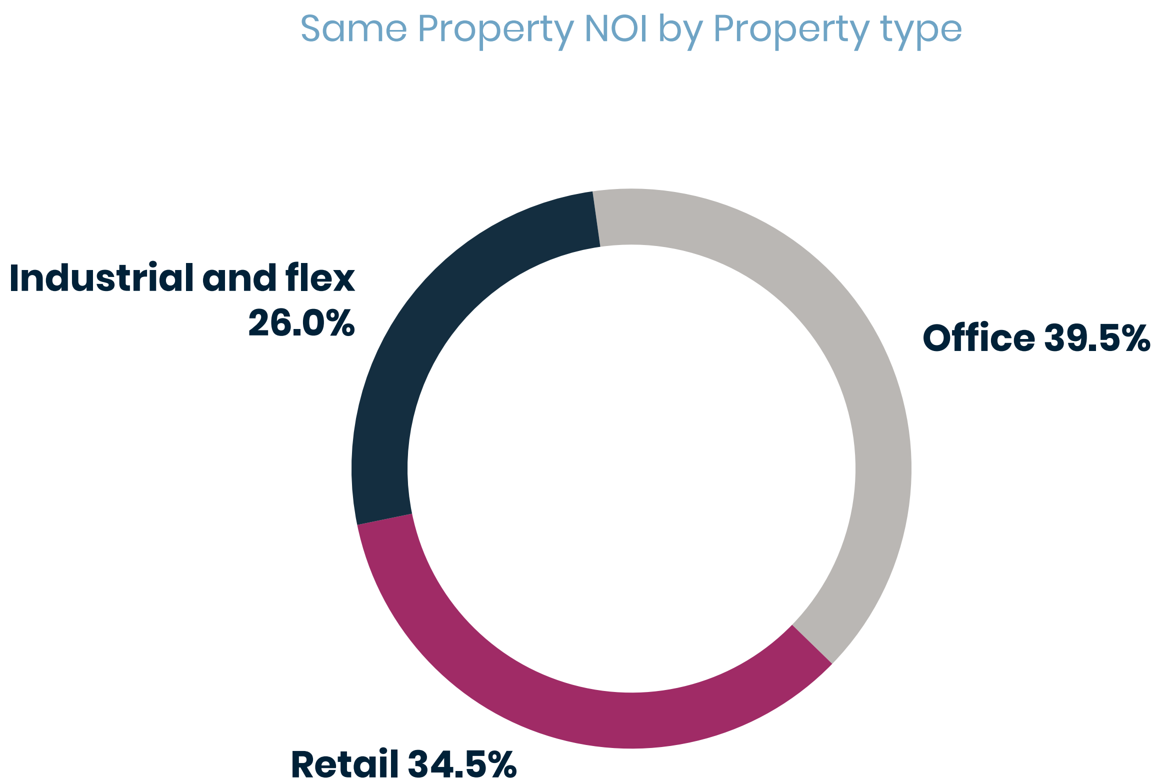
1 *Refer to section "Non-IFRS Financial Measures".*

Same property NOI weighting by property type

Periods ended December 31	Quarter 2019	Quarter 2018	Year 2019	Year 2018
Property type				
Office	**39.3%**	38.7%	**39.5%**	39.2%
Retail	**34.7%**	36.0%	**34.5%**	35.8%
Industrial and flex	**26.0%**	25.3%	**26.0%**	25.0%
Same property NOI — Cominar's proportionate share [1]	**100.0%**	100.0%	**100.0%**	100.0%

1 Refer to section "Non-IFRS Financial Measures".

Year over year, Cominar's weighting to retail same property NOI decreased 130 basis points to 34.5% while industrial increased 100 basis points to 26.0% and office increased 30 basis points to 39.5%.



Same property NOI by geographic market

Periods ended December 31	Quarter 2019 $	Quarter 2018 $	Quarter %Δ	Year 2019 $	Year 2018 $	Year %Δ
Geographic market						
Montreal	**58,578**	56,233	4.2	**225,796**	220,868	2.2
Québec City	**27,914**	26,506	5.3	**108,119**	101,895	6.1
Ottawa [1]	**4,995**	5,208	(4.1)	**20,967**	21,269	(1.4)
Same property NOI — Cominar's proportionate share [2]	**91,487**	87,947	4.0	**354,882**	344,032	3.2

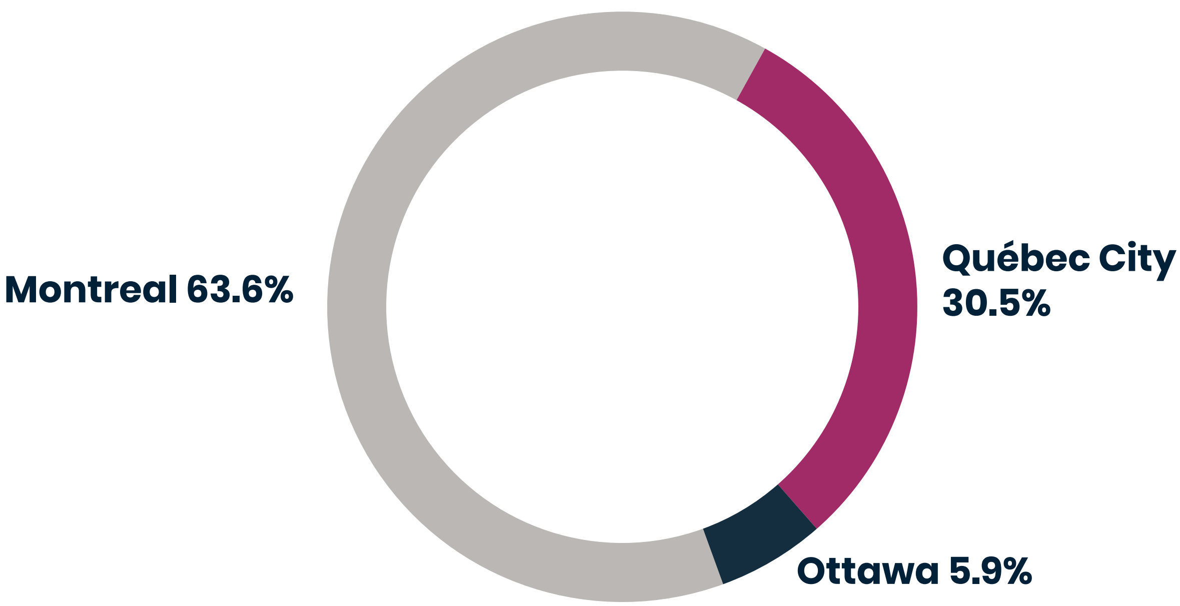
1 For presentation purposes, the Gatineau area is included in the Ottawa geographic market.
2 Refer to section "Non-IFRS Financial Measures".

Same property NOI weighting by geographic market

	Quarter		Year	
Periods ended December 31	2019	2018	2019	2018
Geographic market				
Montreal	**64.0%**	64.0%	**63.6%**	64.2%
Québec City	**30.5%**	30.1%	**30.5%**	29.6%
Ottawa [1]	**5.5%**	5.9%	**5.9%**	6.2%
Same property NOI — Cominar's proportionate share [2]	**100.0%**	100.0%	**100.0%**	100.0%

1 *For presentation purposes, the Gatineau area is included in the Ottawa geographic market.*
2 *Refer to section "Non-IFRS Financial Measures".*

Same Property NOI by Geographic Market



Same property average in-place occupancy by property type

	Quarter			Year		
Periods ended December 31	2019	2018		2019	2018	
	$	$	Δ	$	$	Δ
Property type						
Office	**89.2%**	86.8%	2.4	**88.5%**	86.7%	1.8
Retail	**86.7%**	85.6%	1.1	**85.7%**	84.0%	1.7
Industrial and flex	**95.5%**	92.6%	2.9	**94.5%**	92.0%	2.5
Total	**91.2%**	89.0%	2.2	**90.3%**	88.3%	2.0

Same property average in-place occupancy by geographic market

Periods ended December 31	Quarter			Year		
	2019	2018		2019	2018	
	$	$	Δ	$	$	Δ
Geographic market						
Montreal	**91.2%**	89.4%	1.8	**90.4%**	88.3%	2.1
Québec City	**93.0%**	91.1%	1.9	**92.3%**	91.1%	1.2
Ottawa [1]	**84.3%**	75.7%	8.6	**80.5%**	75.6%	4.9
Total	**91.2%**	89.0%	2.2	**90.3%**	88.3%	2.0

1 For presentation purposes, the Gatineau area is included in the Ottawa geographic market.

Change in Fair Value of Investment Properties

Cominar opted to present its investment properties in the consolidated financial statements according to the fair value model. Fair value is determined based on valuations performed during the year using management's internal estimates and by independent real estate appraisers, plus capital expenditures made after the valuation and deemed to increase the rental income generating capacity of the property, or according to definitive agreements to sell investment properties. External valuations were carried out by independent national firms holding a recognized and relevant professional qualification and having recent experience in the location and category of the investment properties being valued.

As per Cominar's methodology of valuing investment properties, during fiscal 2019, management revalued the entire real estate portfolio and determined that a net increase of $277.8 million (taking into account an upward adjustment of $1.3 million in the joint ventures) was necessary to adjust the carrying amount of investment properties to their fair value [decrease of $267.4 million in 2018]. The change in fair value related to investment properties still being held as at December 31, 2019 amounted to $271.5 million. In 2019, the fair value of investment properties derived from external valuations or sources represented to 56% [19% in 2018] of the total fair value of all investment properties.

The following table presents, in summary form, the changes in fair value for the entire Cominar portfolio according to the items in the financial statements for 2019:

	Income properties			Investment properties available for sale	Properties under development and land held for future development	Total according to financial statements	Share in joint ventures	Total - Cominar's proportionate share [1]
	Québec City	Montreal	Ottawa					
	$	$	$	$	$	$	$	$
Property type								
Office	(8,906)	39,130	13,842	(1,033)	2,553	45,586	3,931	49,517
Retail	(47,723)	(66,739)	(12,165)	274	(3,344)	(129,697)	(2,592)	(132,289)
Industrial and flex	9,540	351,600	—	(45)	(509)	360,586	—	360,586
Total	**(47,089)**	**323,991**	**1,677**	**(804)**	**(1,300)**	**276,475**	**1,339**	**277,814**

1 Non-IFRS financial measure.

The $49.5 million increase in fair value in 2019 of the office portfolio is mainly due to the compression of capitalization rates as well as the expected increase in future net operating income.

For the retail portfolio, the decrease of $132.3 million in fair value results from an increase in capitalization rates.

Finally, the $360.6 million increase in the fair value of the industrial and mixed-use portfolio is mainly due to the compression of capitalization rates as well as the expected increase in future net operating income based on market forecasts.

The following table presents, in summary form, the changes in fair value as a percentage for the entire Cominar portfolio according to the items in the financial statements for 2019:

	Income properties			Investment properties available for sale	Properties under development and land held for future development	Total according to financial statements	Share in joint ventures	Total - Cominar's proportionate share [1]
	Québec City $	Montreal $	Ottawa $	$	$	$	$	$
Property type								
Office	(0.1%)	0.6%	0.2%	—%	—%	0.7%	0.1%	0.8%
Retail	(0.7%)	(1.0%)	(0.2%)	—%	(0.1%)	(2.0%)	—%	(2.0%)
Industrial and flex	0.1%	5.4%	—%	—%	—%	5.5%	—%	5.5%
Total	**(0.7%)**	**5.0%**	**—%**	**—%**	**—%**	**4.3%**	**—%**	**4.3%**

1 *Non-IFRS financial measure.*

Internally appraised investment properties have been valued mainly using the capitalized net operating income method. Externally valued investment properties have been valued either with the capitalized net operating income method and/or the discounted cash flow method. Here is a description of these methods and the key assumptions used:

Capitalized net operating income method — Under this method, overall capitalization rates are applied to stabilized net operating income in order to comply with current valuation standards. The stabilized net operating income represents adjusted net operating income for items such as management expenses, occupancy rates, the recognition of leases on a straight-line basis and other non-recurring items. The key factor is the overall capitalization rate for each property or property type. Cominar regularly receives publications from national firms dealing with real estate activity and trends. Such market data reports include different capitalization rates by property type and geographical area for recent transactions.

Discounted cash flow method — Under this method, the expected future cash flows are discounted using an appropriate rate based on the risk of the property. Expected future cash flows for each investment property are based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. Discount and terminal capitalization rates are estimated using available appraisals market comparables and market surveys.

To the extent that the capitalization rate ranges change from one reporting period to the next, or if another rate is more appropriate than the rate previously used, the fair value of investment properties increases or decreases accordingly. The change in the fair value of investment properties is reported in the results.

As required under IFRS, Cominar has determined that an increase or decrease in 2019 of 0.1% in the applied capitalization rates for the entire real estate portfolio, except for the investment properties held for sale, would result in a decrease or increase of approximately $111.5 million [$101.1 million in 2018] in the fair value of its investment properties.

Capitalization and discount rates used in both the internal and external valuations are consistent.

Weighted Average Overall Capitalization Rates, Discount Rates and Terminal Capitalization Rates

As at December 31	2019				2018
	Québec City	Montreal	Ottawa	Weighted average rate	Weighted average rate
Office properties					
Direct capitalized net operating income method					
Overall capitalization rate	**6.8%**	**5.3%**	**6.2%**	**5.7%**	6.0%
Discounted cash flow method					
Discount rate	**6.4%**	**6.6%**	**7.1%**	**6.6%**	5.9%
Terminal capitalization rate	**5.9%**	**5.9%**	**6.5%**	**6.0%**	5.2%
Retail properties					
Direct capitalized net operating income method					
Overall capitalization rate	**7.3%**	**5.8%**	**N/A**	**6.3%**	6.3%
Discounted cash flow method					
Discount rate	**7.3%**	**6.9%**	**7.5%**	**7.0%**	6.6%
Terminal capitalization rate	**6.8%**	**6.1%**	**6.8%**	**6.4%**	5.8%
Industrial and flex properties					
Direct capitalized net operating income method					
Overall capitalization rate	**6.6%**	**5.6%**	**N/A**	**6.4%**	6.5%
Discounted cash flow method					
Discount rate	**7.6%**	**6.7%**	**N/A**	**6.8%**	6.2%
Terminal capitalization rate	**7.0%**	**5.9%**	**N/A**	**6.1%**	5.7%
Total					
Direct capitalized net operating income method					
Overall capitalization rate	**7.0%**	**5.5%**	**6.2%**	**6.0%**	6.2%
Discounted cash flow method					
Discount rate	**6.9%**	**6.7%**	**7.2%**	**6.8%**	6.2%
Terminal capitalization rate	**6.4%**	**6.0%**	**6.6%**	**6.2%**	5.5%

In 2019, 63% of investment properties were valued using the discounted cash flow method and 37% were valued using the direct capitalized net operating income method compared to 15% valued using the discounted cash flow method and 85% using the direct capitalized net operating income method in 2018. Consequently, the weighted average overall capitalization rates, discount rates and terminal capitalization rates may not be comparable year over year.

Finance Charges

Periods ended December 31	Quarter			Year		
	2019	2018		2019	2018	
	$	$	%Δ	$	$	%Δ
Interest on mortgage payable	**25,646**	17,801	44.1	**80,840**	77,404	4.4
Interest on debentures	**14,616**	18,275	(20.0)	**70,669**	73,084	(3.3)
Interest on bank borrowings	**1,368**	1,550	(11.7)	**3,995**	7,929	(49.6)
Amortization of deferred financing costs and other costs	**950**	757	25.5	**3,595**	3,000	19.8
Amortization of fair value adjustments on assumed indebtedness	**(66)**	(68)	(2.9)	**(264)**	(1,440)	(81.7)
Less: Capitalized interest [1]	**(2,098)**	(1,922)	9.2	**(7,784)**	(7,740)	0.6
Total finance charges — Financial statements	**40,416**	36,393	11.1	**151,051**	152,237	(0.8)
Adjusted finance charges [2]	**35,180**	36,393	(3.3)	**144,720**	152,237	(4.9)
Percentage of operating revenues	**23.2%**	20.7%		**21.5%**	20.7%	
Weighted average interest rate on total debt				**4.06%**	4.14%	

1 Includes capitalized interest on properties under development and on major revitalization projects for income properties that take place over a substantial period of time.
2 Excludes finance charges related to mortgages repayments before maturity and yield maintenance fees and costs paid in relation to the Series 2 senior unsecured debenture redemption.

The decrease in finance charges during fiscal 2019, compared with fiscal 2018, is mainly due to the use of proceeds from the sale of $260.6 million of properties during 2019 to pay down debt, partially offset by $1.1 million associated to the yield maintenance fees and other costs paid in connection with the Series 2 senior unsecured debenture redemption and $5.2 million of penalties paid on mortgages repayments before maturity.

Trust Administrative Expenses

Periods ended December 31	Quarter			Year		
	2019	2018		2019	2018	
	$	$	%Δ	$	$	%Δ
Salaries and other benefits	**2,483**	3,276	(24.2)	**11,259**	11,840	(4.9)
Compensation expense related to long-term incentive plan	**831**	684	21.5	**2,972**	2,372	25.3
Professional fees	**400**	230	73.9	**879**	809	8.7
Costs associated with public companies	**218**	220	(0.9)	**801**	711	12.7
Governance and strategic alternatives consulting fees	**—**	310	(100.0)	**—**	3,839	(100.0)
Other fees	**213**	1,386	(84.6)	**1,343**	3,684	(63.5)
Total Trust administrative expenses — Financial statements	**4,145**	6,106	(32.1)	**17,254**	23,255	(25.8)
Adjusted Trust administrative expenses [1]	**4,145**	5,061	(18.1)	**16,211**	18,681	(13.2)

1 Excludes severance allowances and governance and strategic alternatives consulting fees.

During fiscal 2019, Trust administrative expenses decreased compared with fiscal 2018 mainly due to the decrease of $3.8 million in governance and strategic alternatives consulting fees. Salaries and other benefits for the year ended December 31, 2019 include $1.0 million associated with the departure of an executive ($0.7 million in 2018).

Impairment and Derecognition of Goodwill

At year-end, Cominar tested its industrial and flex portfolio for impairment of goodwill by determining the recoverable value of the net assets of that CGUs and comparing it to the carrying amount, including goodwill. As at December 31, 2019, the recoverable value of this CGU was determined based on the value in use and calculated by discounting future net operating income expected to be generated from continuing use. For fiscal years 2020 to 2030, net operating income projections are based on management's budget projections supported by past experience, assuming stable increase in net operating income. The discount and terminal capitalization rates are estimated based on the segment weighted average overall capitalization rate. As at December 31, 2019, goodwill was not impaired and was impaired by $120,389 as at December 31, 2018.

	Office properties $	Retail properties $	Industrial and flex properties $	Total $
Balance as at January 1, 2018	79,496	44,648	15,838	139,982
Transfer to investment properties held for sale	(1,725)	(2,030)	(117)	(3,872)
Impairment of goodwill	(77,771)	(42,618)	—	(120,389)
Balance as at December 31, 2018	—	—	15,721	15,721
Impairment of goodwill	—	—	—	—
Balance as at December 31, 2019	**—**	**—**	**15,721**	**15,721**

Transaction Costs

	Quarter			Year		
Periods ended December 31	2019 $	2018 $	%△	2019 $	2018 $	%△
Brokerage fees	**585**	90	550.0	**2,192**	5,790	(62.1)
Professional fees	**281**	538	(47.8)	**544**	2,912	(81.3)
Assumed head leases	**—**	—	—	**217**	4,201	(94.8)
Penalties on debt repayment	**41**	—	100.0	**41**	945	(95.7)
Closing adjustments	**286**	2,083	(86.3)	**3,400**	8,244	(58.8)
Others	**32**	155	(79.4)	**69**	755	(90.9)
Total	**1,225**	2,866	(57.3)	**6,463**	22,847	(71.7)

The above transaction costs relate to the sales of properties. Refer to the section "Acquisitions, Investments and Dispositions" for more information on property sales.

Restructuring Costs

During the quarter ended June 30, 2019, Cominar announced an organizational restructuring to streamline and enhance the effectiveness of operations which the outcome, among others, has been the reduction of its workforce. During the quarter ended June 30, 2019, Cominar recorded a provision of $3.9 million related to this organizational restructuring, primarily related to severance benefits. An additional provision of $0.9 million has been recorded during the quarter ended September 30, 2019 to include the second phase of the organizational restructuring. Up to December 31, 2019, $2.6 million had been paid since the beginning of the restructuring.

Net Income

	Quarter			Year		
Periods ended December 31	2019 $	2018 $	%△	2019 $	2018 [1] $	%△
Net income (net loss)	**319,265**	(353,353)	(190.4)	**462,504**	(212,282)	(317.9)
Net income (loss) per unit (basic and diluted)	**1.75**	(1.94)	(190.2)	**2.54**	(1.17)	(317.1)
Weighted average number of units outstanding (basic)	**182,242,786**	182,067,023		**182,183,995**	182,156,628	
Weighted average number of units outstanding (diluted)	**182,566,952**	182,067,023		**182,370,671**	182,156,628	

1 Net loss for the year ended December 31, 2018 includes results of 95 non-core properties sold to Slate for total consideration of $1.14 billion during the first quarter of 2018.

The increase in net income during fiscal 2019, compared with fiscal 2018 net loss, is mainly due to an increase of $547.1 million in the fair value of investment properties, an increase of $4.0 million in finance charges and a decrease of $120.4 million in goodwill impairment.

Adjusted Net Income

Adjusted net income is a non-IFRS financial measure. The calculation method used by Cominar may differ from those used by other entities. Cominar calculates adjusted net income to eliminate the change in fair value of investment properties, impairment and derecognition of goodwill, which are non-monetary as well as for severance allowances, transaction costs, penalties on mortgage repayments before maturity, debenture redemption costs, the Target settlement, restructuring costs and governance and strategic alternatives consulting fees which are not related to the trend in occupancy levels, rental rates and property operating costs.

	Quarter			Year		
Periods ended December 31	2019	2018		2019	2018 [1]	
	$	$	%Δ	$	$	%Δ
Net income (net loss)	**319,265**	(353,353)	(190.4)	**462,504**	(212,282)	(317.9)
Change in fair value of investment properties [2]	**(272,303)**	276,459	(198.5)	**(277,814)**	267,397	(203.9)
Transaction costs	**1,225**	2,866	(57.3)	**6,463**	22,847	(71.7)
Severance allowance	**—**	735	(100.0)	**1,043**	735	41.9
Restructuring costs	**—**	—	—	**4,774**	—	100.0
Target settlement	**—**	—	—	**(1,028)**	—	(100.0)
Penalties on mortgages repayments before maturity	**5,236**	—	100.0	**5,236**	—	100.0
Debentures redemption costs	**—**	—	—	**1,095**	—	100.0
Governance and strategic alternatives consulting fees	**—**	310	(100.0)	**—**	3,839	(100.0)
Impairment of goodwill	**—**	120,389	(100.0)	**—**	120,389	(100.0)
Derecognition of goodwill	**—**	3,278	(100.0)	**—**	3,872	(100.0)
Adjusted net income [3]	**53,423**	50,684	5.4	**202,273**	206,797	(2.2)
Adjusted net income per unit (diluted) [3]	**0.29**	0.28	3.6	**1.11**	1.13	(1.8)
Weighted average number of units outstanding (diluted)	**182,566,952**	182,253,193		**182,370,671**	182,322,596	

1 Adjusted net income for the year ended December 31, 2018 includes results of 95 non-core properties sold to Slate for total consideration of $1.14 billion during the first quarter of 2018.
2 Includes Cominar's proportionate share in joint ventures
3 Refer to section "Non-IFRS Financial Measures".

The decrease in adjusted net income for fiscal 2019, compared with fiscal 2018, is mainly due to properties sold in 2018 and 2019, partially offset by growth in same property net operating income.

Funds from Operations and Adjusted Funds from Operations

Although the concepts of funds from operations ("FFO") and adjusted funds from operations ("AFFO") are not IFRS financial measures, they are widely used in the real estate investment trust industry as they adjust net income for items that are not related to the trend in occupancy levels, rental rates and property operating costs.

REALpac defines FFO as net income (calculated in accordance with IFRS), adjusted for, among other things, change in the fair value of investment properties, deferred taxes and income taxes related to a disposition of properties, initial and re-leasing salary costs, adjustments relating to the accounting of joint ventures under the equity method and transaction costs incurred upon a business combination or a disposition of properties.

REALpac defines AFFO as FFO net of rental revenue derived from the recognition of leases on a straight-line basis, capital expenditures for maintaining the ability to generate income and leasing costs.

FFO and AFFO are not a substitute for net income established in accordance with IFRS when measuring Cominar's performance. While our methods of calculating FFO and AFFO comply with REALpac recommendations, they may differ from and not be comparable to those used by other entities.

The fully diluted weighted average number of units outstanding used for the calculation of FFO and AFFO takes into account the potential issuance of units under the long-term incentive plan, when dilutive.

The following table presents a reconciliation of net income, as determined in accordance with IFRS, and FFO and AFFO:

Funds from Operations and Adjusted Funds from Operations

	Quarter			Year		
Periods ended December 31	2019	2018		2019	2018 [1]	
	$	$	%Δ	$	$	%Δ
Net income (net loss)	**319,265**	(353,353)	(190.4)	**462,504**	(212,282)	(317.9)
Taxes on dispositions of properties	**—**	372	(100.0)	**—**	6,763	(100.0)
Deferred income taxes	**(49)**	—	(100.0)	**(49)**	(6,539)	(99.3)
Initial and re-leasing salary costs	**866**	713	21.5	**3,347**	3,348	—
Change in fair value of investment properties [2]	**(272,303)**	276,459	(198.5)	**(277,814)**	267,397	(203.9)
Capitalizable interest on properties under development — joint ventures	**161**	159	1.3	**676**	621	8.9
Transaction costs	**1,225**	2,866	(57.3)	**6,463**	22,847	(71.7)
Impairment of goodwill	**—**	120,389	(100.0)	**—**	120,389	(100.0)
Derecognition of goodwill	**—**	3,278	(100.0)	**—**	3,872	(100.0)
FFO [2, 3]	**49,165**	50,883	(3.4)	**195,127**	206,416	(5.5)
Provision for leasing costs	**(7,658)**	(7,613)	0.6	**(32,182)**	(29,225)	10.1
Recognition of leases on a straight-line basis [2]	**(390)**	(1,020)	(61.8)	**(262)**	(2,036)	(87.1)
Capital expenditures — maintenance of rental income generating capacity	**(5,495)**	(3,203)	71.6	**(21,723)**	(15,004)	44.8
AFFO [2, 3]	**35,622**	39,047	(8.8)	**140,960**	160,151	(12.0)
Per unit information:						
FFO (FD) [3, 4]	**0.27**	0.28	(3.6)	**1.07**	1.13	(5.3)
AFFO (FD) [3, 4]	**0.20**	0.21	(4.8)	**0.77**	0.88	(12.5)
Weighted average number of units outstanding (FD) [4]	**182,566,952**	182,253,193		**182,370,671**	182,322,596	
Payout ratio of AFFO [3, 4]	**90.0%**	85.7%		**93.5%**	89.8%	

1 FFO and AFFO for the year ended December 31, 2018 include results of 95 non-core properties sold for total consideration of $1.14 billion during the first quarter of 2018.
2 Including Cominar's proportionate share in joint ventures.
3 Refer to section "Non-IFRS Financial Measures".
4 Fully diluted.

FFO and AFFO for the year ended December 31, 2019 include, among others, a severance allowance paid following the departure of an executive officer, debenture redemption costs, restructuring costs, penalties on mortgage repayments before maturity and a settlement from Target Canada. Excluding these adjustments, FFO and AFFO would have been as follows:

	Quarter			Year		
Periods ended December 31	2019	2018		2019	2018 [1]	
	$	$	%Δ	$	$	%Δ
FFO [2, 3]	**49,165**	50,883	(3.4)	**195,127**	206,416	(5.5)
Severance allowance	**—**	735	(100.0)	**1,043**	735	41.9
Restructuring costs	**—**	—	0.0	**4,774**	—	100.0
Target settlement	**—**	—	—	**(1,028)**	—	(100.0)
Penalties on mortgage repayments before maturity	**5,236**	—	100.0	**5,236**	—	100.0
Debenture redemption costs	**—**	—	—	**1,095**	—	100.0
Governance and strategic alternatives consulting fees	**—**	310	(100.0)	**—**	3,839	(100.0)
FFO adjusted [2, 3]	**54,401**	51,928	4.8	**206,247**	210,990	(2.2)
AFFO [2, 3]	**35,622**	39,047	(8.8)	**140,960**	160,151	(12.0)
Severance allowance	**—**	735	(100.0)	**1,043**	735	41.9
Restructuring costs	**—**	—	0.0	**4,774**	—	100.0
Target settlement	**—**	—	—	**(1,028)**	—	(100.0)
Mortgage repayment before maturity	**5,236**	—	100.0	**5,236**	—	100.0
Debenture redemption costs	**—**	—	—	**1,095**	—	100.0
Governance and strategic alternatives consulting fees	**—**	310	(100.0)	**—**	3,839	(100.0)
AFFO adjusted [2, 3]	**40,858**	40,092	1.9	**152,080**	164,725	(7.7)

1 FFO and AFFO for the year ended December 31, 2018 include results of 95 non-core properties sold for total consideration of $1.14 billion during the first quarter of 2018.
2 Including Cominar's proportionate share in joint ventures.
3 Refer to section "Non-IFRS Financial Measures".

FFO for fiscal 2019 decreased from fiscal 2018 due mainly to the sale of $260.6 million of properties during 2019, several infrequent items, partially offset by growth in same property NOI. Excluding these infrequent items, FFO per unit would have been $1.13 in 2019 compared to $1.16 in 2018.

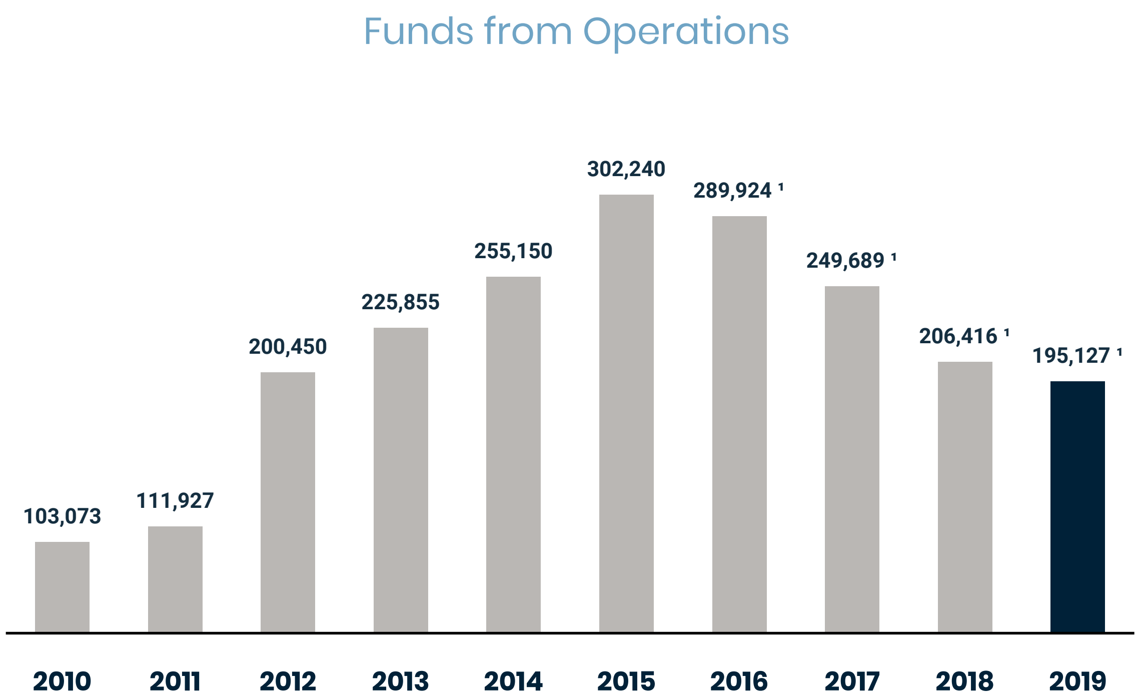
AFFO for fiscal 2019 decreased from fiscal 2018 due to the decrease in FFO, to a $3.0 million increase in the provision for leasing costs and a $6.7 million increase in capital expenditures to maintain rental income generating capacity. Excluding several infrequent items, AFFO per unit would have been $0.83, $0.07 short of fiscal 2018, mainly due to increases in the provisions for leasing costs and capital expenditures to maintain rental income generating capacity.

Track record of funds from operations per unit

Years ended December 31	2019	2018	2017	2016	2015
	$	$	$	$	$
Funds from operations (FD) [1, 2]	**1.07**	1.13	1.35	1.68	1.79

1 Fully diluted.
2 Non-IFRS financial measure.

The chart below presents Cominar's funds from operations over the past 10 years.



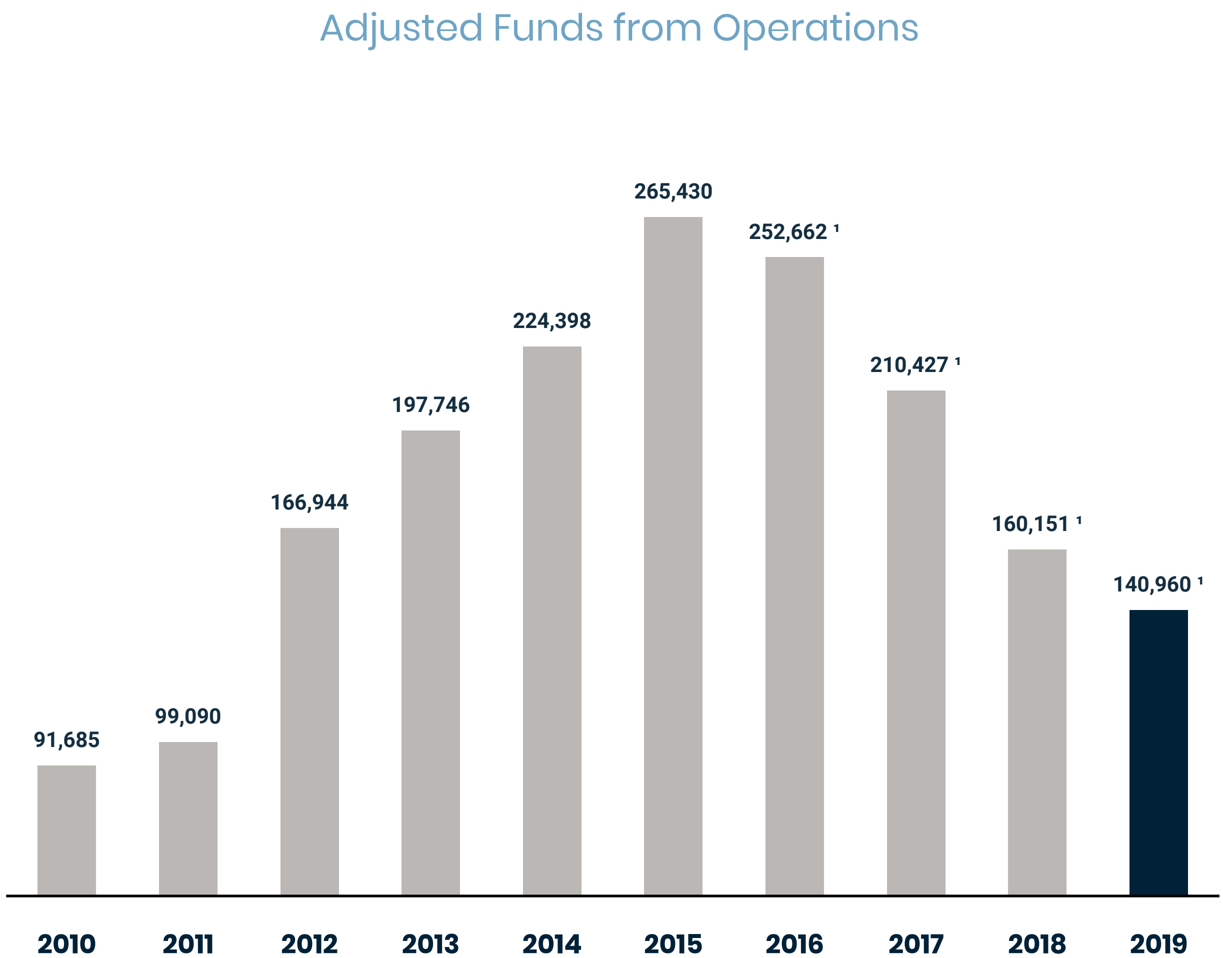
1 Decreases in funds from operations due mainly to dispositions of income properties of $260.6 million in 2019 [$1.151 billion in 2018 and $104.4 million in 2017].

Track record of adjusted funds from operations per unit

Years ended December 31	2019	2018	2017	2016	2015
	$	$	$	$	$
Adjusted funds from operations (FD) [1, 2]	**0.77**	0.88	1.14	1.47	1.57

1 Fully diluted.
2 Non-IFRS financial measure.

The chart below presents Cominar's adjusted funds from operations over the past 10 years.



1 Decreases in adjusted funds from operations due mainly to dispositions of income properties of $260.6 million in 2019 [$1.151 billion in 2018 and $104.4 million in 2017].

Provision for Leasing Costs

The provision for leasing costs which Cominar deducts in computing the AFFO represents the amortization, over the terms of the leases, of leasehold improvements and initial direct costs, which include brokerage fees incurred when negotiating and preparing leases. This allows for better reconciliation of the investments made with the operating revenues generated over the terms of the leases. During fiscal 2019, the actual costs incurred by Cominar were $34.6 million in leasehold improvements and $9.0 million in initial direct costs, while the provision for leasing costs amounted to $32.2 million.

Periods ended December 31	Quarter 2019	Quarter 2018	Year 2019	Year 2018
	$	$	$	$
Leasehold improvements	**10,498**	9,717	**34,596**	50,308
Initial direct costs	**2,456**	2,851	**8,974**	10,878
Actual leasing costs — Cominar's proportionate share [1, 2]	**12,954**	12,568	**43,570**	61,186
Provision for leasing costs in the calculation of AFFO [3]	**7,658**	7,613	**32,182**	29,225

1 *See the reconciliation of capital expenditures as per the financial statements in section "Acquisitions, Investments and Dispositions".*
2 *Refer to section "Non-IFRS Financial Measures".*
3 *Including Cominar's proportionate share in joint ventures.*

Capital Expenditures - Maintenance of Rental Income Generating Capacity

The $21.7 million of capital expenditures related to maintenance of rental income generating capacity for the fiscal year ended December 31, 2019 ($15.0 million in 2018) corresponds to management's estimate of the non-income generating portion of actual expenditures incurred primarily for major repair and maintenance expenditures, for example, some common areas, roofing, parking, as well as the replacement of equipment. In order to establish the allocation of capital expenditures between maintenance of rental income generating capacity and increase of rental income generating capacity, Cominar analyzes the work carried out according to its nature (common areas, roofing, parking, equipment, etc.), the age and location of the properties, the property type, market conditions as well as historical data. Capital expenditures related to maintenance of rental income generating capacity do not include current repair and maintenance costs, as they are already included in determining NOI.

Capital expenditures incurred that are designed to create, improve or increase net operating income of our income properties are considered as a way of increasing rental income generating capacity and constitute investment activities for Cominar (see the "Investment in income properties" section). The calculations of AFFO and ACFO do not take into account these capital expenditures aiming to increase rental income generating capacity.

Adjusted Cash Flow from Operations

Adjusted cash flow from operations ("ACFO") is intended to be used as a measure of a company's ability to generate stable cash flows. ACFO does not replace cash flow provided by operating activities as per the consolidated financial statements prepared in accordance with IFRS. Our method of determining the ACFO complies with REALpac recommendations but may differ from and not be comparable to that used by other entities.

The fully diluted weighted average number of units outstanding for the calculation of ACFO takes into account the potential issuance of units under the long-term incentive plan, when dilutive.

The following table presents a reconciliation of the cash flows provided by operating activities as per the consolidated financial statements with ACFO:

	Quarter		Year	
Periods ended December 31	2019	2018	2019	2018 [1]
	$	$	$	$
Cash flows provided by operating activities as per the consolidated financial statements	**79,712**	74,118	**191,868**	182,939
Adjustments — investments in joint ventures	**1,566**	439	**4,838**	4,534
Provision for leasing costs	**(7,658)**	(7,613)	**(32,182)**	(29,225)
Initial and re-leasing salary costs	**866**	713	**3,347**	3,348
Changes in adjusted non-cash working capital items [2]	**(40,003)**	(28,417)	**(5,564)**	(14,017)
Capital expenditures — maintenance of rental income generating capacity	**(5,495)**	(3,203)	**(21,723)**	(15,004)
Amortization of deferred financing costs and other costs	**(950)**	(758)	**(3,595)**	(3,002)
Amortization of fair value adjustments on assumed mortgages payable	**66**	68	**264**	1,440
Transaction costs	**1,225**	2,866	**6,463**	22,847
Capitalizable interest on properties under development — joint ventures	**161**	159	**676**	621
ACFO [3, 4]	**29,490**	38,372	**144,392**	154,481
Per unit information:				
ACFO (FD) [4, 5]	**0.16**	0.21	**0.79**	0.85
Weighted average number of units outstanding (FD) [5]	**182,566,952**	182,253,193	**182,370,671**	182,322,596
Payout ratio [4, 5]	**112.5%**	81.8%	**91.1%**	90.8%

1 Adjusted cash flow from operations for the year ended December 31, 2018 includes results of 95 non-core properties sold for total consideration of $1.14 billion during the first quarter of 2018.
2 Includes working capital changes that, in management's view and based on the REALpac February 2017 whitepaper, are not indicative of sustainable cash flow available for distribution. Examples include, but are not limited to, working capital changes relating to prepaid realty taxes and insurance, interest payable, sales taxes and other indirect taxes payable to or receivable from applicable governments, income taxes and transaction cost accruals relating to acquisitions and dispositions of investment properties.
3 Including Cominar's proportionate share in joint ventures.
4 Refer to section "Non-IFRS Financial Measures".
5 Fully diluted.

Distributions

Cominar is governed by a Contract of Trust whereby the Trustees, under the discretionary power attributed to them, intend to distribute a portion of Cominar's distributable income to unitholders. Distributable income generally means net income determined in accordance with IFRS, before adjustments to fair value, transaction costs, rental revenue derived from the recognition of leases on a straight-line basis, the provision for leasing costs, gains on the disposition of investment properties, changes to goodwill and certain other items not affecting cash, if applicable.

Distributions to Unitholders

	Quarter			Year		
Periods ended December 31	2019	2018		2019	2018	
	$	$	%Δ	$	$	%Δ
Distributions to unitholders	**32,773**	32,749	0.1	**131,068**	143,730	(8.8)
Per unit distribution	**0.18**	0.18		**0.72**	0.79	

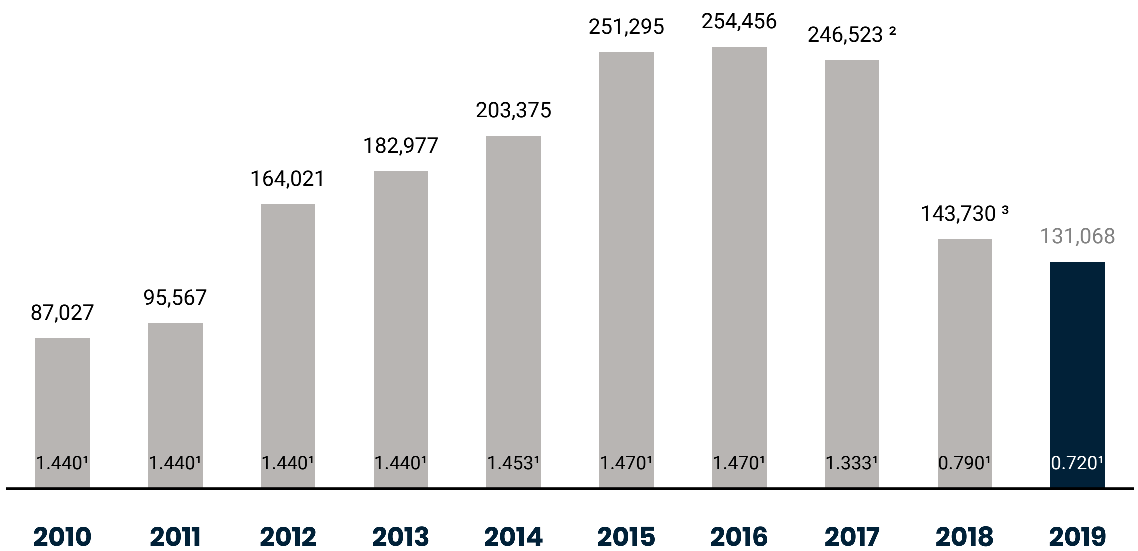
In accordance with CSA guidelines, Cominar also provides the following table to allow readers to assess sources of cash distributions and how they reconcile to net income:

Periods ended December 31	2019	2019	2018	2017
	(three months)	(twelve months)	(twelve months)	(twelve months)
	$	$	$	$
Net income (loss)	**319,265**	**462,504**	(212,282)	(391,725)
Cash flows provided by operating activities - Financial statements	**79,712**	**191,868**	182,939	233,225
Distributions to unitholders	**32,773**	**131,068**	143,730	246,523
Surplus (deficit) of cash flows provided by operating activities compared with distribution to unitholders	**46,939**	**60,800**	39,209	(13,298)

For the three-month and twelve-month periods ended December 31, 2019, cash flows provided by operating activities presented a $46.9 million surplus, and a $60.8 million surplus, respectively, over distributions to unitholders.

The chart below presents Cominar's distributions over the past 10 years.

Distributions Paid



1 *Amount of the distribution in dollars per unit.*
2 *On August 3, 2017, Cominar decreased the monthly distribution to $0.095 per unit, or $1.14 per unit on an annualized basis.*
3 *On March 7, 2018, Cominar decreased the monthly distribution to $0.06 per unit, or $0.72 per unit on an annualized basis.*

Liquidity and Capital Resources

During fiscal 2019, Cominar generated $191.9 million in cash flows provided by operating activities (financial statements). Cominar foresees no difficulty in meeting its short-term obligations and its commitments, including the monthly payment of distributions and the repayment of debentures at maturity, using funds from operations, asset sales, proceeds from new mortgages payable, proceeds from debenture issuance and amounts available on its unsecured credit facility which stood at $552.6 million as at December 31, 2019.

Debt Management

Cominar spreads the maturities of its debt instruments over a number of years to manage interest rate and refinancing risk, and to provide flexibility in maintaining the overall debt level of the portfolio, taking into account availability of financing, market conditions, as well as the financial terms of the leases that produce its cash flows. Cominar finances itself primarily with long-term, fixed-rate debt and seeks to maintain a conservative debt to gross book value ratio.

As at December 31, 2019, Cominar's debt ratio stood at 51.4% consisting of mortgages, senior unsecured debentures and bank loans less cash and cash equivalents. Mortgages represented approximately 58.5% of total debt, senior unsecured debentures represented approximately 36.5%, while bank borrowings represented approximately 5.0%. As at December 31, 2019, the weighted average annual contractual rate was 4.06% and the residual weighted average remaining term was 3.7 years.

As at December 31, 2019, 93.8% of Cominar's total debt was fixed rate and 6.2% was variable rate.

During 2019, Cominar redeemed $300.0 million of Series 2 senior unsecured debentures before maturity using available cash and the credit facility. During the year, Cominar also repaid $238.2 million of mortgages before maturity at an average loan to value ratio of 37% and an average interest rate of 4.82% using proceeds from the refinancing of one property for $285.0 million (net increase of $68.0 million on that mortgage).

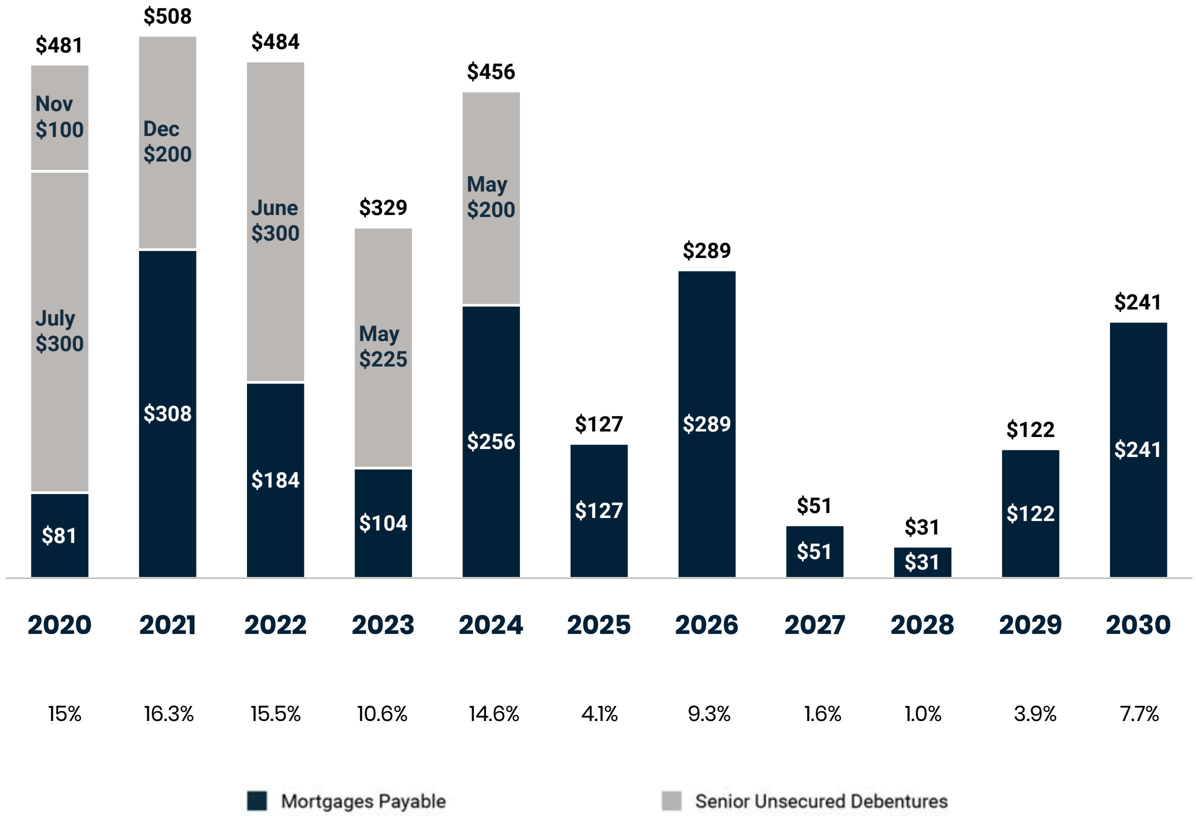
Including the $90.0 million of mortgages repayments before maturity subsequent to year end, Cominar will have repaid a total of $328.2 million at an average loan to value ratio of 34% and an average interest rate of 4.91%. These transactions allowed Cominar to refinance two mortgages for $388.0 million ($285.0 million in 2019 and $103.4 million in 2020) with maturities ranging from 5 to 10 years, at an average loan to value ratio of 60% and an average interest rate of 3.78%. These new mortgages are collateralized by only 18 out of the 52 initial properties, unencumbering 34 properties, of which 10 were unencumbered as at December 31, 2019 and 24 subsequent to year end. Costs associated with this series of transactions amounted to $5.2 million in 2019 and $4.5 million in Q1-2020 and will be offset by annual interest savings of approximately $4.0 million.

Debt Summary

As at December 31	2019			2018		
		Weighted average contractual rate	Residual weighted average term		Weighted average contractual rate	Residual weighted average term
	$	$	$	$	$	$
Mortgages payable	**2,114,021**	**3.84%**	**4.8 years**	1,742,227	4.03%	5.0 years
Debentures	**1,320,962**	**4.41%**	**2.3 years**	1,722,586	4.23%	2.2 years
Bank borrowings secured	**180,000**	**4.05%**	**2.3 years**	—	—%	—
Bank borrowings unsecured	**—**	**4.05%**	**1.6 years**	152,950	4.40%	0.7 years
Total debt	**3,614,983**	**4.06%**	**3.7 years**	3,464,813	4.14%	3.5 years
Cash and cash equivalents	**(152,634)**	**2.20%**		(1,498)	1.70%	
Net debt	**3,462,349**			3,463,315		

Long Term Debt Maturities

As at December 31, 2019
$ million



Mortgages Payable

As at December 31, 2019, the balance of mortgages payable was $2,114.0 million, up $371.8 million from $1,742.2 million as at December 31, 2018. This increase is explained by new mortgages payable contracted of $666.2 million at a weighted average contractual rate of 3.72%, offset by repayments of $238.2 million at a weighted average contractual rate of 4.82% and by monthly repayments of capital totalling $54.2 million. As at December 31, 2019, the weighted average contractual rate was 3.84%, down 19 basis points from 4.03% as at December 31, 2018. As at December 31, 2019, the effective weighted average interest rate was 3.95%, down 16 basis points since December 31, 2018.

Contractual maturities of mortgages payable

Years ending December 31	Repayment of principal $	Balances at maturity $	Total $	Weighted average contractual rate
2020	51,680	80,974	**132,654**	4.34%
2021	46,186	307,862	**354,048**	4.16%
2022	44,607	184,248	**228,855**	3.35%
2023	42,611	104,292	**146,903**	3.91%
2024	41,111	255,750	**296,861**	3.47%
2025	31,466	127,490	**158,956**	3.47%
2026	18,716	288,510	**307,226**	3.52%
2027	17,319	50,968	**68,287**	3.85%
2028	14,470	30,836	**45,306**	4.48%
2029	11,857	122,134	**133,991**	3.56%
2030 and thereafter	7,928	240,762	**248,690**	4.01%
Total	**327,951**	**1,793,826**	**2,121,777**	**3.84%**

Cominar's mortgages payable contractual maturities are staggered over a number of years to reduce risks related to renewal. As at December 31, 2019, the residual weighted average term of mortgages payable was 4.8 years, compared to 5.0 years as at December 31, 2018.

Senior Unsecured Debentures

	Date of issuance	Contractual interest rate	Effective interest rate	Dates of interest payments	Maturity date	Nominal value as at December 31, 2019 $
Series 3	May 2013	4.00%	4.24%	May 2 and November 2	November 2020	100,000
Series 4	July 2013 [1]	4.94%	4.81%	July 27 and January 27	July 2020	300,000
Series 8	December 2014	4.25%	4.34%	June 8 and December 8	December 2021	200,000
Series 9	June 2015	4.16%	4.25%	June 1 and December 1	June 2022	300,000
Series 10	May 2016	4.25%	4.34%	May 23 and November 23	May 2023	225,000
Series 11	May 2019	4.50%	4.82%	May 15 and November 15	May 2024	200,000
Weighted average interest rate		**4.41%**	**4.49%**			
Total						**1,325,000**

1 Re-opened in January 2014 ($100.0 million) and March 2014 ($100.0 million).

As at December 31, 2019, the residual weighted average term of senior unsecured debentures was 2.3 years.

On May 15, 2019, Cominar issued $200.0 million in Series 11 senior unsecured debentures bearing interest at a rate of 4.50% and maturing in May 2024.

On June 21, 2019, Cominar reimbursed at maturity its Series 7 senior unsecured debentures totaling $300.0 million and bearing interest at 3.62% using available cash and its unsecured renewable operating and acquisition credit facility.

On September 26, 2019, Cominar early redeemed $300.0 million in aggregate principal of 4.23% Series 2 senior unsecured debentures using available cash and its unsecured renewable operating and acquisition credit facility. Cominar paid $1.1 million in yield maintenance fees and other costs in connection with the redemption.

Bank Borrowings

As at December 31, 2019, Cominar had an unsecured renewable credit facility of up to $400.0 million maturing in July 2021. This credit facility bears interest at the prime rate plus 110 basis points or at the bankers' acceptance rate plus 210 basis points. This credit facility contains certain restrictive covenants, with which Cominar was in compliance as at December 31, 2019. As at December 31, 2019, the credit facility was undrawn and availability was $400.0 million.

On September 20, 2019, Cominar entered into a 4-year agreement for a new secured credit facility maturing in September 2023. This new credit facility bears interest at the prime rate plus 70 basis points or at the bankers' acceptance rate plus 170 basis points. As at December 31, 2019, $180.0 million was drawn on the credit facility. This credit facility is secured by immovable hypothecs on investment properties with a book value of $298.8 million.

Debt Ratio

Debt ratio is a non-IFRS measure used by Cominar to manage debt levels. Debt ratio is calculated by adding mortgages payable, debentures, bank borrowings less cash and cash equivalents divided by the total assets minus cash and cash equivalents. Cominar's Declaration of Trust limits the indebtedness of Cominar to a maximum of 65% of its total assets.

As at December 31	2019	2018
	$	$
Cash and cash equivalents	**(152,634)**	(1,498)
Mortgages payable	**2,114,021**	1,742,227
Debentures	**1,320,962**	1,722,586
Bank borrowings	**180,000**	152,950
Total net debt	**3,462,349**	3,616,265
Total assets less cash and cash equivalents	**6,739,786**	6,542,213
Debt ratio [1, 2]	**51.4%**	55.3%

1 *The debt ratio is equal to the total of bank borrowings, mortgages payable and debentures less cash and cash equivalents, divided by total assets less cash and cash equivalents.*
2 *Refer to section "Non-IFRS Financial Measures".*

The decrease in the debt ratio is due mainly to the use of the $260.6 million proceeds from the sale of properties during fiscal 2019.

Debt/EBITDA Ratio

The debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA") ratio is a non-IFRS measure widely used in the real estate industry and measures Cominar's ability to pay down its debts. Cominar defines EBITDA as net operating income minus adjusted Trust administrative expenses and recognition of leases on a straight-line basis.

As at December 31	2019	2018
	$	$
Mortgages payable	**2,114,021**	1,742,227
Debentures	**1,320,962**	1,722,586
Bank borrowings	**180,000**	152,950
Total debt	**3,614,983**	3,617,763
NOI	**358,322**	372,464
Adjusted Trust administrative expenses [1]	**(16,211)**	(18,681)
Recognition of leases on a straight-line basis	**(288)**	(2,030)
EBITDA [2]	**341,823**	351,753
Debt/EBITDA ratio [2]	**10.6x**	10.3x

1 *Excludes severance allowances paid to executive officers and governance and strategic alternatives consulting fees.*
2 *Refer to section "Non-IFRS Financial Measures".*

Interest Coverage Ratio

The interest coverage ratio is a non-IFRS measure used by Cominar to assess Cominar's ability to pay interest on its debt from operating revenues and is calculated using net operating income minus adjusted Trust administrative expenses, divided by adjusted finance charges.

As at December 31	2019	2018
	$	$
NOI	**358,322**	372,464
Adjusted Trust administrative expenses [1]	**(16,211)**	(18,681)
	342,111	353,783
Adjusted finance charges [2]	**144,720**	152,237
Interest coverage ratio [3]	**2.36:1**	2.32:1

1 Excludes severance allowances paid to executive officers and governance and strategic alternatives consulting fees.
2 Excludes finance charges related to mortgages repayments before maturity and yield maintenance fees and costs paid in relation to the Series 2 senior unsecured debenture redemption.
3 Refer to section "Non-IFRS Financial Measures".

Unencumbered Assets and Unsecured Debt

As at December 31	2019		2018	
	Number of properties	Fair value of properties ($)	Number of properties	Fair value of properties ($)
Unencumbered income properties [1, 5]	**140**	**2,125,836**	291	2,864,637
Unencumbered assets to unsecured net debt ratio [2, 3]		**1.82:1**		1.53:1
Unsecured debt-to-total-debt ratio [3, 4]		**36.5%**		51.8%

1 Includes investment properties held for sale.
2 Fair value of unencumbered income properties divided by unsecured net debt.
3 Refer to section "Non-IFRS Financial Measures".
4 Unsecured debt divided by total debt.
5 During the first quarter of 2019, Cominar reassessed its number of properties by grouping individual addresses within the same plot of land or related plots of land as one property.

As at December 31, 2019, the unencumbered assets to unsecured net debt ratio stood at 1.82:1, well above the required ratios of 1.30:1 and 1.35:1 contained in the restrictive covenant of the outstanding debentures and the credit facility, respectively.

Off-Balance Sheet Arrangements and Contractual Commitments

Cominar has no off-balance sheet arrangements that have or are likely to have a material impact on its results of operations or its financial position, including its cash position and sources of financing.

Cominar has no significant contractual commitments other than those arising from its long-term debt and payments due under construction contracts and emphyteutic leases on land held for income properties.

Financial Instruments

Classification and Fair Value

Cominar uses a three-level hierarchy to classify its financial instruments. The hierarchy reflects the relative weight of inputs used in the valuation of financial assets and liabilities at fair value. The levels in the hierarchy are:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3 — Inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs)

Cominar's policy is to recognize transfers between hierarchy levels on the date of changes in circumstances that caused the transfer. There was no transfer between hierarchy levels in fiscal years 2019 and 2018.

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank borrowings approximates the carrying amount since they are short-term in nature or bear interest at current market rates.
The fair value of mortgages payable and debentures has been estimated based on current market rates for financial instruments with similar terms and maturities.

Financial liabilities and their carrying amounts and fair values, when the fair values do not approximate the carrying amounts, are classified as follows:

As at December 31		2019		2018	
	Level	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Financial liabilities					
Mortgages payable	2	**2,114,021**	**2,164,680**	1,742,227	1,764,084
Debentures	2	**1,320,962**	**1,368,398**	1,722,586	1,703,866

Risk Management

The main risks arising from Cominar's financial instruments are credit risk, interest rate risk and liquidity risk. The strategy for managing these risks is summarized below.

Credit risk
Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments.

Cominar mitigates credit risk via segment and geographic portfolio diversification, staggered lease maturities, and diversification of revenue sources through a varied tenant mix as well as by avoiding dependence on any single tenant by ensuring that no individual tenant contributes a significant portion of the operating revenues and by conducting credit assessments on all new tenants.

Cominar has a broad, highly diversified client base consisting of about 3,700 clients occupying an average of approximately 9,200 square feet each. The top three clients, Société québécoise des infrastructures, Public Works Canada and Canadian National Railway Company, account respectively for approximately 5.8%, 4.1% and 3.4% of operating revenues from several leases with staggered maturities. The stability and quality of cash flows from operating activities are enhanced by the fact that approximately 14.1% of operating revenues come from government agencies, representing approximately 100 leases.

Cominar regularly assesses its accounts receivable and records an expected credit loss for accounts when there is a risk of non-collection.

The maximum credit risk to which Cominar is exposed corresponds to the carrying amount of its accounts receivable and cash and cash equivalents position.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Cominar's objective in managing this risk is to minimize the net impact on future cash flows. Cominar reduces its exposure to interest rate risk by staggering the maturities of its borrowings over several years and by generally using long-term debt bearing interest at fixed rates.

Accounts receivable, except for the receivables bearing interest, and accounts payable and accrued liabilities do not bear interest.

Almost all mortgages payable and all debentures bear interest at fixed rates.

Cominar is exposed to interest rate fluctuations mainly due to bank borrowings, which bear interest at variable rates.

As required under IFRS, a 25-basis-point increase or decrease in the average interest rate on variable interest debts during the period, assuming that all other variables are held constant, would have resulted in a $0.3 million increase or decrease in Cominar's net loss for the fiscal year ended December 31, 2019 [$0.5 million in 2018].

Liquidity risk
Liquidity risk is the risk that Cominar will be unable to meet its financial obligations as they come due.

Cominar manages this risk by the management of its capital structure, the continuous monitoring of current and projected cash flows and adherence to its capital management policy.

Undiscounted contractual cash flows (interest and principal) related to financial liabilities as at December 31, 2019 were as follows:

	Cash flows		
	Under one year $	One to five years $	Over five years $
Mortgages payable	**222,452**	**1,292,149**	**1,080,025**
Debentures	**458,371**	**1,007,627**	**—**
Bank borrowings	**7**	**200**	**—**
Accounts payable and accrued liabilities [1]	**107,786**	**—**	**—**
Lease liability	**578**	**2,440**	**17,288**

1 *Excludes sales taxes and other non-financial liabilities*

Property Portfolio

As at December 31	2019 $	2018 $	%△
Income properties — Cominar's proportionate share [1]	**6,584,312**	6,224,956	5.8
Properties under development and land held for future development — Cominar's proportionate share [1]	**155,509**	143,835	8.1
Investment properties held for sale	**11,730**	188,727	(93.8)
Number of income properties [2, 3]	**317**	428	
Leasable area (sq. ft.) [2]	**35,895,000**	38,127,000	

1 *Refer to section "Non-IFRS Financial Measures".*
2 *Includes investment properties held for sale.*
3 *During the first quarter of 2019, Cominar reassessed its number of properties by grouping individual addresses within the same plot of land or related plots of land as one property.*

Summary by property type

As at December 31	2019		2018	
	Number of properties [1]	Leasable area (sq. ft.)	Number of properties	Leasable area (sq. ft.)
Office	**80**	**11,056,000**	96	11,707,000
Retail	**46**	**9,488,000**	136	10,714,000
Industrial and flex	**191**	**15,351,000**	196	15,706,000
Total	**317**	**35,895,000**	428	38,127,000

1 *During the first quarter of 2019, Cominar reassessed its number of properties by grouping individual addresses within the same plot of land or related plots of land as one property.*

Summary by geographic market

As at December 31	2019		2018	
	Number of properties [2]	Leasable area (sq. ft.)	Number of properties	Leasable area (sq. ft.)
Montreal	**198**	**23,690,000**	281	25,327,000
Québec City	**100**	**9,763,000**	126	10,264,000
Ontario - Ottawa [1]	**19**	**2,442,000**	20	2,476,000
New Brunswick	**—**	**—**	1	60,000
Total	**317**	**35,895,000**	428	38,127,000

1 *For presentation purposes, the Gatineau area is included in the Ottawa geographic market.*
2 *During the first quarter of 2019, Cominar reassessed its number of properties by grouping individual addresses within the same plot of land or related plots of land as one property.*

Acquisitions, Investments and Dispositions

Investments in Income Properties and Investment Properties Held for Sale

Cominar continues to invest in its investment properties in the normal course of business. Investments made include expansions, modernizations, modifications and upgrades to existing properties with a view to increasing or maintaining their rental income generating capacity.

During fiscal 2019, Cominar incurred $68.7 million [$145.2 million in fiscal 2018] in capital expenditures specifically to increase the rental income generating capacity of its properties. These capital expenditures include, among others, investments of $25.7 million in revitalization and redevelopment, $1.3 million in property expansion, $40.5 million in structural work and $1.2 million in facade renovation. Cominar also incurred $21.7 million [$15.0 million in fiscal 2018] in capital expenditures to maintain rental income generating capacity, consisting mainly of major repair and maintenance expenses, as well as property equipment replacements. Capital expenditures related to maintenance of rental income generating capacity do not include current repair and maintenance costs, as these are already deducted from revenues in determining NOI.

Finally, Cominar invested in leasehold improvements that aim to increase the value of its buildings through higher lease rates and higher occupancy, as well as in other leasing costs, mostly brokerage fees and tenant inducements. The level of investment required may vary from quarter to quarter since it depends closely on lease renewals and the signing of new leases. The level of investment also depends on increases in rental space through expanded, upgraded or acquired properties, or rental space transferred from properties under development. During fiscal 2019, Cominar made investments of $34.6 million in leasehold improvements and $9.0 million in leasing costs [$49.8 million in leasehold improvements and $10.7 million in leasing costs in fiscal 2018].

The following table shows the details of the capital expenditures and leasing costs reported in the consolidated financial statements with respect to our income properties, including investment properties held for sale and Cominar's proportionate share in joint ventures:

	Quarter			Year		
Periods ended December 31	2019	2018		2019	2018	
	$	$	%Δ	$	$	%Δ
Capital expenditures — increase of rental income generating capacity						
Revitalization and redevelopment	**9,267**	19,638	(52.8)	**25,732**	57,776	(55.5)
Property expansion	**342**	354	(3.4)	**1,297**	1,613	(19.6)
Structural work for common areas, parking, preparation of base building etc.	**10,138**	9,985	1.5	**40,464**	63,391	(36.2)
Facade renovation	**267**	3,921	(93.2)	**1,166**	10,398	(88.8)
Others	**—**	3,081	(100.0)	**—**	12,055	(100.0)
Capital expenditures — maintenance of rental income generating capacity	**5,803**	3,203	81.2	**21,723**	15,004	44.8
Total capital expenditures [1]	**25,817**	40,182	(35.7)	**90,382**	160,237	(43.6)
Leasehold improvements	**10,498**	9,632	9.0	**34,596**	49,801	(30.5)
Leasing costs	**2,456**	2,851	(13.9)	**8,974**	10,662	(15.8)
Total — Financial statement [1]	**38,771**	52,665	(26.4)	**133,952**	220,700	(39.3)
Capital costs — Properties under development — Financial statements	**3,595**	—	100.0	**24,776**	15,382	61.1
Total capital expenditures	**42,366**	52,665	(19.6)	**158,728**	236,082	(32.8)

1 *Includes income properties, investment properties held for sale and Cominar's proportionate share in joint ventures.*

Disposition of Income Properties in 2019

On June 14, 2019, Cominar completed the sale of an industrial and flex property located in Quebec City, for a total selling price of $1.8 million.

On December 12, 2019, Cominar completed the sale of a retail property located in Montreal, for a total selling price of $0.7 million.

Transfer to Income Properties in 2019

At the end of the third quarter of 2019, Cominar transferred a property from properties under development to income properties. The retail building was valued at $16.2 million at the time of the transfer has a leasable area of 56,000 square feet and is located in Québec City.

Investment Properties Held for Sale in 2019

Cominar has engaged in a process to sell certain income properties and expects to close these transactions within the next few months.

During the quarter ended March 31, 2019, Cominar transferred 3 income properties having a value of $18.5 million to investment properties held for sale.

During the quarter ended June 30, 2019, Cominar transferred 4 income properties and 2 land held for future development having a value of $24.2 million to investment properties held for sale

During the quarter ended September 30, 2019, Cominar transferred 12 income properties having a value of $40.1 million to investment properties held for sale

During the quarter ended December 31, 2019, Cominar transferred 1 land held for future development having a value of $1.9 million to investment properties held for sale and transferred 2 investment properties held for sale having a value of $6.8 million to land held for future development.

During the period of twelve months ended December 31, 2019, Cominar sold 44 investment properties held for sale for a total selling price of $258.1 million.

Years ended December 31	2019				2018
	Office properties	Retail properties	Industrial and flex properties	Total	Total
	$	$	$	$	$
Investment properties					
Balance, beginning of year	**50,486**	**111,041**	**27,200**	**188,727**	1,143,500
Transfers from income properties	**21,280**	**37,068**	**17,586**	**75,934**	191,241
Transfers from properties under development and land held for future development	**—**	**1,855**	**—**	**1,855**	—
Capitalized costs	**3,708**	**321**	**45**	**4,074**	7,070
Change in fair value	**(1,033)**	**274**	**(45)**	**(804)**	(4,934)
Dispositions	**(74,441)**	**(138,829)**	**(44,786)**	**(258,056)**	(1,148,150)
Transfer of goodwill	**—**	**—**	**—**	**—**	3,872
Derecognition of goodwill	**—**	**—**	**—**	**—**	(3,872)
Balance, end of year	**—**	**11,730**	**—**	**11,730**	188,727

Dispositions of Investment Properties Held for Sale in 2019

Address	Area	Property type	Leasable area sq. ft.	Transaction date	Selling price $
768-790, boulevard Décarie, Montréal (Qc)	Montreal	Office	35,000	January 11, 2019	4,100
4600, boulevard Sainte-Anne, Québec (Qc)	Quebec	Industrial and flex	39,000	January 14, 2019	1,200
170, boulevard Curé-Labelle, Rosemère (Qc)	Montreal	Retail	3,000	January 16, 2019	1,841
3773, boulevard de la Côte-Vertu, Montréal (Qc)	Montreal	Office	53,000	February 15, 2019	4,600
7405, autoroute Transcanadienne, Montréal (Qc)	Montreal	Office	82,000	February 15, 2019	8,350
3900, boulevard de la Côte-Vertu, Montréal (Qc)	Montreal	Office	29,000	February 15, 2019	2,000
3950, boulevard de la Côte-Vertu, Montréal (Qc)	Montreal	Office	24,000	February 15, 2019	2,000
7355, autoroute Transcanadienne, Montréal (Qc)	Montreal	Office	23,000	February 15, 2019	1,500
5101, rue Buchan, Montréal (Qc)	Montreal	Office	117,000	February 15, 2019	10,200
1059-1095, boulevard Jean-Baptiste-Rolland Ouest, Saint-Jérôme (Qc)	Montreal	Retail	78,000	February 15, 2019	3,150
1035-1049, boulevard Jean-Baptiste-Rolland Ouest, Saint-Jérôme (Qc)	Montreal	Retail	24,000	February 15, 2019	3,150
1105-1135, boulevard Jean-Baptiste-Rolland Ouest, Saint-Jérôme (Qc)	Montreal	Retail	77,000	February 15, 2019	3,150
1051-1055, boulevard Jean-Baptiste-Rolland Ouest, Saint-Jérôme (Qc)	Montreal	Retail	17,000	February 15, 2019	3,150
2400, autoroute Transcanadienne, Pointe-Claire (Qc)	Montreal	Industrial and flex	121,000	March 26, 2019	26,000
1199 St-George Boulevard, Moncton (Nouveau-Brunswick)	Nouveau-Brunswick	Office	60,000	April 18, 2019	8,020
1950, rue Léonard-De Vinci, Sainte-Julie (Qc)	Montreal	Retail	4,000	April 29, 2019	750
933, boulevard Armand Frappier, Sainte-Julie (Qc)	Montreal	Retail	14,000	May 30, 2019	4,135
484, 25e Avenue, Saint-Eustache (Qc)	Montreal	Retail	4,000	May 30, 2019	1,725
101, boulevard Arthur-Sauvé, Saint-Eustache (Qc)	Montreal	Retail	3,000	May 30, 2019	925
1200, Place Nobel, Boucherville, Québec (Qc)	Montreal	Retail	64,000	May 30, 2019	10,435
324, boulevard Curé-Labelle, Sainte-Thérèse (Qc)	Montreal	Retail	4,000	May 30, 2019	1,870
255, boulevard Crémazie Ouest, Montréal (Qc)	Montreal	Retail	4,000	May 30, 2019	1,255
2986, boulevard Saint-Charles, Montréal (Qc)	Montreal	Retail	2,000	May 30, 2019	1,175
7, Place du Commerce, Montréal (Qc)	Montreal	Retail	17,000	May 30, 2019	5,505
4211-4219, rue Wellington, Montréal (Qc)	Montreal	Retail	7,000	May 30, 2019	975
3005, rue King Ouest, Sherbrooke (Qc)	Montreal	Retail	6,000	June 6, 2019	850
1479-1481-1483-1485, boulevard Saint-Bruno, Saint-Bruno (Qc)	Montreal	Retail	516,000	June 20, 2019	67,358
375, boulevard Sir-Wilfrid-Laurier, Mont-Saint-Hilaire	Montreal	Office	50,000	June 20, 2019	8,966
19701, avenue Clark-Graham, Baie-d'Urfé (Qc)	Montreal	Industrial and flex	145,000	July 19, 2019	14,000
920, rue Douglas, St-Jean-sur-Richelieu (Qc)	Montreal	Retail	4,000	September 13, 2019	1,450
1837, chemin Gascon, Terrebonne (Qc)	Montreal	Retail	4,000	September 13, 2019	1,450
325, boulevard Honorius-Charbonneau, Mont-Saint-Hilaire (QC)	Montreal	Office	19,000	September 26, 2019	3,425
1156, boulevard de la Rive-Sud, Lévis (QC)	Quebec	Office	33,000	December 4, 2019	5,100
1400, boulevard de la Rive-Sud, Lévis (QC)	Quebec	Office	77,000	December 4, 2019	12,600
4635, 1re Avenue, Québec (QC)	Quebec	Office	41,000	December 19, 2019	3,580
320, chemin de la Canardière, Québec (QC)	Quebec	Retail	13,000	December 19, 2019	1,545
280, rue Racine, Québec (QC)	Quebec	Retail	16,000	December 19, 2019	1,830
5, rue d'Orléans, Québec (QC)	Quebec	Retail	6,000	December 19, 2019	930
100, rue Chabot, Québec (QC)	Quebec	Industrial and flex	60,000	December 19, 2019	3,586
2195, boulevard Guillaume-Couture, Lévis (QC)	Quebec	Retail	6,000	December 19, 2019	825
2160, boulevard Guillaume-Couture, Lévis (QC)	Quebec	Retail	73,000	December 19, 2019	5,370
329, rue Seigneuriale, Québec (QC)	Quebec	Retail	4,000	December 19, 2019	1,065
5150-5200, boulevard de l'Ormière, Québec (QC)	Quebec	Retail	159,000	December 19, 2019	8,955
50, boulevard Lionel-Groulx, Sherbrooke (QC)	Montreal	Retail	5,000	December 19, 2019	1,108
1333-1363, rue Belvédère Sud, Sherbrooke (QC)	Montreal	Retail	16,000	December 19, 2019	2,902
			2,158,000		**258,056**

Property type	Number of properties	Leasable area sq. ft	Fair value $
Office	12	643,000	74,441
Retail	28	1,150,000	138,829
Industrial and flex	4	365,000	44,786
Total	**44**	**2,158,000**	**258,056**

Properties Under Construction and Development Projects

Palladium (Ford)
During the third quarter of 2019, Cominar commenced the development of 800 Palladium Drive which is part of the Palladium Campus in Kanata. This 100,000 square foot office building project is now 100% leased, of which 96% will be occupied by Ford Canada to house an expansion of its connected city and innovation center. The completion of the building is scheduled for Fall 2020.

Société en commandite Chaudière-Duplessis - Ilot Mendel
Cominar continues to review its alternatives for the development of Ilot Mendel, a 2.0 million square foot retail development site located at the intersection of Highways 40 and 540, two of the main arteries of Québec City. Ilot Mendel is located next to Québec city's IKEA store, which occupies just over 1 million square feet, including the parking areas. In September 2019, a 57,000 square feet Decathlon sporting goods store opened to the public. The Decathlon store construction cost was $12.6 million.

As announced by the competent authorities, the site will eventually be served by the new public transit network (Tramway) with a station directly on site. A densification study is ongoing to evaluate the possibility of adding other uses at the site, including residential. Further development of this site will depend on market conditions, tenant demand and zoning changes, if necessary. Discussions are on-going with the City of Quebec in that regard.

In addition, Cominar owns land located south of the retail project that is intended, among other things, for industrial purposes, with a potential developable area of 250,000 square feet, for which a zoning change is necessary.

Société en commandite Bouvier-Bertrand (Québec City) and Société en commandite Marais (Québec City)
Cominar and Groupe Dallaire are limited partners in Société en commandite Bouvier-Bertrand and Société en commandite Marais. The limited partnerships were created to carry out the development of land in Québec City.

Real Estate Operations

Occupancy Rate

Occupancy rate track record

	Committed		In-place			
	Dec. 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Property type						
Office	**92.9%**	91.5%	**89.2%**	86.5%	84.4%	85.4%
Retail	**94.1%**	93.8%	**87.3%**	85.5%	87.3%	88.4%
Industrial and flex	**97.1%**	95.0%	**96.2%**	93.7%	91.4%	89.5%
Portfolio total	**95.1%**	93.6%	**91.7%**	89.2%	87.9%	87.9%
Committed occupancy rate			**95.1%**	93.6%	92.6%	92.4%

As at	Montreal		Québec City		Ottawa		Total	
December 31, 2019	Committed	In-Place	Committed	In-Place	Committed	In-Place	Committed	In-Place
Property type								
Office	**90.5%**	**85.4%**	**98.5%**	**97.4%**	**94.2%**	**91.9%**	**92.9%**	**89.2%**
Retail	**95.3%**	**88.5%**	**92.6%**	**87.7%**	**90.9%**	**63.3%**	**94.1%**	**87.3%**
Industrial and flex	**96.9%**	**96.0%**	**97.9%**	**96.5%**	**N/A**	**N/A**	**97.1%**	**96.2%**
Portfolio total	**94.8%**	**91.5%**	**96.0%**	**93.3%**	**93.7%**	**87.5%**	**95.1%**	**91.7%**

As at December 31, 2019	Numerator sq.ft A	Denominator sq.ft B	Occupancy A/B
In-place occupancy	**32,680,000**	**35,637,000**	**91.7%**
Space under redevelopment	**—**	**(439,000)**	
Signed leases that will begin in the next few quarters	**797,000**	**—**	
Committed occupancy	**33,477,000**	**35,198,000**	**95.1%**

Committed occupancy rate refers to the leasable area occupied by clients to which we add the leasable area of signed leases which have not started yet divided by the leasable area of the portfolio, excluding space under redevelopment. This metric highlights the area considered to be leased over the area that is actually available for lease.

The in-place occupancy rate refers to the leasable area occupied by clients, divided by the portfolio's leasable area. This metric highlights the leasable area that currently generates rental income.

The spread between the committed occupancy rate and the in-place occupancy rate for the portfolio was 3.4% as at December 31, 2019. For the retail portfolio, this spread was 6.8% and consisted of several signed leases with a total area of approximately 257,000 square feet, of which 100% will come into force in 2020 and 425,000 square feet of space under redevelopment. For the office portfolio, this spread was 3.7% and represents signed leases of which approximately 100% will come into force in 2020. As for the industrial and flex portfolio, the variance was 0.9%, representing 150,000 square feet of signed leases, which will come into force in 2020.

The following table shows changes in the leasable space of the signed leases that began during the fiscal year or that will begin in the next few quarters:

Signed leases that will begin in the next few quarters

	Year ended December 31, 2019 sq. ft.
Balance, beginning of year	**950,000**
New signed leases	**1,816,000**
Leases that began in the year	**(1,969,000)**
Balance, end of year	**797,000**

The 0.8 million square feet of signed leases will commence during the next 4 quarters and will, in the end, contribute approximately $14.3 million to net operating income on an annualized basis. Of this amount, $7.5 million comes from the office segment, $4.9 million from the retail segment and $2.0 million from the industrial and flex segment. This contribution to net operating income will be partially offset over the coming quarters by expiring leases that will not be renewed as well as by unanticipated departures and rent reductions.

Leasing Activity

	Office	Retail	Industrial and flex	Total
Leases that matured in 2019				
Number of clients	193	525	195	913
Leasable area (sq. ft.)	1,368,000	1,571,000	1,915,000	4,854,000
Renewed leases				
Number of clients	130	303	133	566
Leasable area (sq. ft.)	1,016,000	1,221,000	1,514,000	3,751,000
Retention rate	**74.3%**	**77.7%**	**79.1%**	**77.3%**
New leases				
Number of clients	71	70	78	219
Leasable area (sq. ft.)	606,307	471,011	891,884	1,969,202
Unexpected departures				
Number of clients	18	39	27	84
Leasable area (sq. ft.)	113,377	88,749	232,352	434,478

During the year ended December 31, 2019, 77.3% [75.8% in 2018] of the leasable area maturing in 2019 was renewed. During the year, new leases were also signed, representing 2.0 million square feet of leasable area, while tenants whose leases were not expiring that left before the end of their lease, totaled leasable area of 0.4 million square feet.

Growth in the average net rent of renewed leases

Years ended December 31	2019	2018
Property type		
Office	**4.1%**	0.3%
Retail	**(1.7%)**	(1.8%)
Industrial and flex	**10.1%**	5.6%
Growth in the average net rent of renewed leases	**2.8%**	0.6%

Growth in the average net rent on renewed leases is measured by comparing the rent at the end of the lease to the rent at the beginning of the lease's renewal.

For the office portfolio, the average net rent on renewed leases in the Montreal, Québec City and Ottawa markets increased by 3.3%, 2.1% and 10.7%, respectively.

For the industrial and flex portfolio, the average net rent on renewed leases in the Montreal and Québec City markets increased by 11.5% and 6.9%, respectively.

For the retail portfolio, the average net rent of renewed leases in Ottawa market increased by 3.8%, while the Montreal and Québec City markets decreased by (2.8)% and (0.6)%, respectively.

Sears Update

	Area (square feet)					
Location	Leasable area	Signed leases	Area in advanced discussions	Area in preliminary discussions	Available area	Common area [1]
Quartier Laval, Laval	43,147	43,147	—	—	—	—
Carrefour Saint-Georges, Saint-Georges	54,221	43,859	—	—	6,034	4,328
Galeries de Hull, Gatineau	128,040	61,940	18,729	9,083	9,267	29,021
Mail Champlain, Brossard	153,600	48,054	22,354	31,867	18,680	32,645
Galeries Rive Nord, Repentigny	125,471	40,517	34,659	33,107	3,042	14,146
Les Rivières shopping centre, Trois-Rivières [2]	144,398	51,818	37,467	12,156	10,826	32,131
Pierre-Bertrand Boulevard, Québec City (industrial segment)	23,947	23,947	—	—	—	—
Total	**672,824**	**313,282**	**113,209**	**86,213**	**47,849**	**112,271**
	100.0%	46.6%	16.8%	12.8%	7.1%	16.7%

1 Common areas have been removed from leasable area as at December 31,2019.
2 Shadow tenant for which Cominar acquired the building during the third quarter of 2018.

As at December 31, 2019, the area previously occupied by Sears for which leases were signed or in advanced discussions was 63.4%.

Lease Maturities

Years ending December 31	2020	2021	2022	2023	2024
Office					
Leasable area (sq. ft.)	1,420,000	1,414,000	891,000	1,108,000	1,259,000
Average minimum rent ($/sq. ft.)	17.37	18.55	17.25	19.90	18.40
% of portfolio — Office	12.8%	12.8%	8.1%	10.0%	11.4%
Retail					
Leasable area (sq. ft.)	1,536,000	1,044,000	812,000	866,000	913,000
Average minimum rent ($/sq. ft.)	20.80	21.37	23.36	16.94	19.79
% of portfolio — Retail	16.2%	11.0%	8.6%	9.1%	9.6%
Industrial and flex					
Leasable area (sq. ft.)	3,184,000	1,887,000	2,263,000	1,906,000	1,507,000
Average minimum rent ($/sq. ft.)	6.66	6.77	6.52	7.73	8.08
% of portfolio — Industrial and flex	20.7%	12.3%	14.7%	12.4%	9.8%
Portfolio total					
Leasable area (sq. ft.)	6,140,000	4,345,000	3,966,000	3,880,000	3,679,000
Average minimum rent ($/sq. ft.)	12.67	14.11	12.38	13.26	14.52
% of portfolio	17.1%	12.1%	11.0%	10.8%	10.2%

The following table summarizes information on leases as at December 31, 2019:

	Residual weighted average term (years)	Weighted average term of leases (years)	Average leased area per client (sq. ft.)	Average minimum rent ($/sq. ft.)
Property type				
Office	5.3	8.5	11,600	17.74
Retail	5.3	8.2	4,600	20.43
Industrial and flex	7.0	7.6	1,620	6.96
Weighted average of total portfolio	**6.0**	**8.0**	**9,200**	**13.52**

Cominar has a broad, highly diversified client base consisting of approximately 3,700 tenants occupying an average of 9,200 square feet each. The top three clients, Société québécoise des infrastructures, Public Works Canada and Canadian National Railway Company, account respectively for approximately 5.8%, 4.1% and 3.4% of operating revenues from several leases with staggered maturities. The stability and quality of cash flows provided by operating activities are enhanced by the fact that approximately 14.1% of operating revenues come from government agencies, representing over 100 leases.

Top 10 clients

The following table presents our top ten clients by percentage of operating revenues:

Client	% of operating revenues
Société québécoise des infrastructures	5.8%
Public Works Canada	4.1%
Canadian National Railway Company	3.4%
Infra MTL Inc. [1]	2.2%
Desjardins Property Management	0.8%
Winners	0.7%
Marie-Claire Boutiques Inc. [2]	0.7%
Dollarama	0.7%
Société des alcools du Québec	0.7%
Shoppers Drug Mart	0.7%
Total	**19.8%**

1 Infra MTL inc. is a wholly owned subsidiary of the Caisse de dépòt et placement du Québec.
2 Approximately 40 leases.

Issued and Outstanding Units

Ownership interests in Cominar are represented by a single class of units, unlimited in number. Units represent a unitholder's undivided and proportionate ownership interest in Cominar. Each unit confers the right to one vote at any unitholders' meeting and to participate equally and rateably in all Cominar distributions. All issued units are fully paid.

	Year ended December 31, 2019	Year ended December 31, 2018
	Units	Units
Units issued and outstanding, beginning of year	**181,956,349**	184,629,497
Repurchase of units under NCIB	**—**	(2,709,500)
Exercise of options, conversion of restricted units and deferred units	**155,016**	36,352
Units issued and outstanding, end of year	**182,111,365**	181,956,349

Additional information	March 3, 2020
Issued and outstanding units	182,442,197
Outstanding unit options	4,727,250
Deferred units, restricted units and performance units	832,975

Long Term Incentive Plan

The long-term incentive plan is a compensation tool used to attract, motivate and retain key executives who contribute to Cominar's continued success and to increased value for unitholders. It consists of performance units, deferred units, restricted units and unit options.

Year ended December 31, 2019	Performance units	Deferred units	Restricted units	Unit options Quantity	Unit options Weighted average exercise price $
Outstanding, beginning of year	164,425	315,435	2,946	8,689,400	14.86
Granted	174,972	107,555	—	—	—
Converted	—	(100,809)	(507)	(53,700)	13.63
Forfeited or cancelled	(9,246)	(6,102)	(225)	(2,186,300)	14.82
Expired	—	—	—	(1,213,500)	18.07
Accrued distributions	19,615	18,036	97	—	—
Outstanding, end of year	**349,766**	**334,115**	**2,311**	**5,235,900**	**14.15**
Vested units/options, end of year	**—**	**197,781**	**1,039**	**4,712,800**	**14.22**

As at December 31, 2019, the maximum number of units that may be issued under the long-term incentive plan is 16,395,538 units.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

The President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer of Cominar are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in Canadian Securities Administrators' Multilateral Instrument 52-109.

Evaluations are performed regularly to assess the effectiveness of DC&P, including this MD&A and the consolidated financial statements. Based on these evaluations, the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer concluded that the DC&P were effective as at the end of the fiscal year ended December 31, 2019, and that the current controls and procedures provide reasonable assurance that material information about Cominar, including its consolidated subsidiaries, is made known to them during the period in which these reports are being prepared.

Evaluations are also performed to assess the effectiveness of ICFR. Based on those evaluations, the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer of Cominar concluded that ICFR was effective as at the end of the fiscal year ended December 31, 2019, and, more specifically, that the financial reporting is reliable and that the consolidated financial statements have been prepared for financial reporting purposes in accordance with IFRS.

No changes were made to the Trust's internal controls over financial reporting during fiscal 2019 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

Significant Accounting Policies and Estimates

a) Basis of presentation

Cominar's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The accounting policies and application methods thereof have been consistently applied throughout each of the fiscal years presented in these consolidated financial statements, with the exception of IFRS 16 – "Leases," which came into effect on January 1, 2019 and for which Cominar has recorded a right-of-use asset in income properties and a corresponding lease liability in accounts payable and accrued liabilities as of that date.

b) Basis of preparation

Consolidation
These consolidated financial statements include the accounts of Cominar and its wholly owned subsidiaries.

Use of estimates, assumptions and judgments
The preparation of financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Those estimates, assumptions and judgments also affect the disclosure of contingencies as at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results that could differ materially from those estimates, assumptions and judgments, are described below:

- ***Investment properties***
  Investment properties are recorded at fair value at the balance sheet date. Fair value is determined using management's internal measurements and valuations from independent real estate appraisers, performed in accordance with recognized

valuation techniques, as well as definitive agreements to sell investment properties. Techniques used include the direct capitalized net operating income method that involves stabilized net operating income and overall capitalization rates, and the discounted cash flow method that involves estimating expected future cash flows, as well as discount and terminal capitalization rates.

Management's fair value internal measurements rely on internal financial information and are corroborated by capitalization rates obtained from independent experts. However, internal measurements and values obtained from independent appraisers are both subject to significant judgments, estimates and assumptions about market conditions at the balance sheet date.

- ***Business combinations***
  Business combinations are accounted for using the acquisition method. The cost of a business combination is the value, at the acquisition date, of the assets transferred, liabilities incurred and Unitholders' equity instruments issued in exchange for control of the acquired business. When the cost of a business combination exceeds the fair value of the assets acquired and liabilities assumed, such excess is recorded as goodwill. Transaction-related costs, as well as costs related to the acquisition of real estate assets, are expensed as incurred.

  Cominar accounts for investment property acquisitions in accordance with IFRS 3 - "Business Combinations" ("IFRS 3"), only when it considers that a business has been acquired. Under IFRS 3, a business is defined as an integrated set of activities and assets that could be conducted and managed for the purpose of providing a direct return to investors in the form of lower costs or other economic benefits. If the investment properties acquisition does not correspond to the definition of a business, a group of assets is deemed to have been acquired. If goodwill is present, the acquisition is presumed to be a business. Judgment is therefore used by management in determining if the acquisition qualifies as a business combination in accordance with IFRS 3 or as an acquisition of a group of assets.

  Generally, based on its judgment, when Cominar acquires a property or property portfolio without taking on the management of personnel or acquiring an operational platform, it categorizes the acquisition as an acquisition of a group of assets.

- ***Joint arrangements***
  Upon the creation of a joint arrangement, Cominar's management reviews its classification criteria to determine if it is a joint venture to be accounted for using the equity method or if it is a joint operation for which we must recognize the proportionate share of assets, liabilities, revenues and expenses. Cominar holds 50% and 75% interests in its joint arrangements. It has joint control over them since, under the contractual agreements, unanimous consent is required from all parties to the agreements in decisions concerning all relevant activities. The joint arrangements in which Cominar is involved are structured so that they provide Cominar rights to these entities' net assets. Therefore, these arrangements are presented as joint ventures and are accounted for using the equity method.

- ***Impairment of goodwill***
  Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net identifiable assets acquired. Its useful life is indefinite. It is not amortized but is tested for impairment on an annual basis or more frequently if events or circumstances indicate that it is more likely than not that goodwill may be impaired. Goodwill resulting from business combinations is allocated to each group of cash-generating units ("CGU") expected to benefit from the combination. To test impairment, Cominar must determine the recoverable value of net assets of each group of CGU, making assumptions about expected future net operating income as well as discount and terminal capitalization rates. These assumptions are based on Cominar's past experience as well as on external sources of information. The recoverable value is the higher of the fair value less costs to sell and the value in use. Should the carrying amount of a group of cash-generating units, including goodwill, exceed its recoverable value, impairment is recorded and recognized in profit or loss in the period during which the impairment occurs.

- ***Financial instruments***
  Financial instruments must be initially measured at fair value. Cominar must also estimate and disclose the fair value of certain financial instruments for information purposes in the financial statements presented for subsequent periods. When fair value cannot be derived from active markets, it is determined using valuation techniques, namely the discounted cash flow method. If possible, data used in these models are derived from observable markets, and if not, judgment is required to determine fair value. Judgments take into account liquidity risk, credit risk and volatility. Any changes in assumptions related to these factors could modify the fair value of financial instruments.

- ***Unit-based compensation***
  The determination of the unit-based compensation expense resulting from Cominar's granting of deferred units and performance units awards depends on valuation models, which by their nature are subject to measurement uncertainty. Using different valuation methods, Cominar determined that the best estimate of the fair value for both deferred unit and performance unit was equivalent to the market value of Cominar units on the date of the grant.

- ***Income taxes***
  Deferred taxes of Cominar's subsidiaries are measured at the tax rates expected to apply in the future as temporary differences between the reported carrying amounts and the tax bases of the assets and liabilities reverse. Changes to deferred taxes related to changes in tax rates are recognized in income in the period during which the rate change is substantively enacted. Any changes in future tax rates or in the timing of the reversal of temporary differences could affect the income tax expense.

Investment properties
An investment property is an immovable property held by Cominar to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods and services or for administrative purposes, or for sale in the ordinary course of business. Investment properties include income properties, properties under development and land held for future development.

Cominar presents its investment properties based on the fair value model. Fair value is the amount for which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. Any change in the fair value is recognized in profit or loss in the period in which it arises. The fair value of investment properties should reflect market conditions at the end of the reporting period. Fair value is time-specific as at a given date. As market conditions could change, the amount presented as fair value could be incorrect or inadequate at another date. The fair value of investment properties is based on measurements derived from management's estimates and valuations from independent appraisers, plus capital expenditures made after the valuation date and deemed to increase the rental income generating capacity of the property, or according to definitive agreements to sell investment properties. Management regularly reviews appraisals of its investment properties between the appraisal dates in order to determine whether the related assumptions, such as stabilized net operating income and capitalization rates, still apply. These assumptions are compared to market data issued by independent experts. When increases or decreases are required, Cominar adjusts the carrying amount of its investment properties.

The fair value of Cominar's investment properties recorded on the balance sheet in accordance with IFRS is the sum of the fair values of each investment property considered individually and does not necessarily reflect the contribution of the following elements that characterize Cominar: (i) the composition of the property portfolio diversified through its client base, geographic markets and business segments; (ii) synergies among different investment properties; and (iii) a fully integrated management approach. Therefore, the fair value of Cominar's investment properties taken as a whole could differ from that appearing on the consolidated balance sheet.

Properties under development in the construction phase are measured at cost until their fair value can be reliably determined, usually when development has been completed. The fair value of land held for future development is based on recent prices derived from comparable market transactions.

Capitalization of costs
Cominar capitalizes into investment properties the costs incurred to increase their capacity, replace certain components and make improvements after the acquisition date. Cominar also capitalizes major maintenance and repair expenses providing benefits that will last far beyond the end of the reporting period. For construction, expansion or major revitalization projects of income properties that take place over a substantial period of time, Cominar capitalizes the borrowing costs that are directly attributable to the investments in question.

Leasehold improvements, incurred directly by Cominar or through an allowance to tenants, which represent capital investments that increase the service capacity and value of properties and for which the economic advantage will extend beyond the term of the lease and will mainly benefit Cominar, as well as initial direct costs, mostly brokerage fees incurred to negotiate or prepare leases, are added to the carrying amount of investment properties when incurred, and are not amortized subsequently.

Concerning properties under development and land held for future development, Cominar capitalizes all direct costs incurred for their acquisition, development and construction. Such capitalized costs also include borrowing costs that are directly attributable to the property concerned. Cominar begins capitalizing borrowing costs when it incurs expenditures for the properties in question and when it undertakes activities that are necessary to prepare these properties for their intended use. Cominar ceases capitalizing borrowing costs when the asset is ready for management's intended use.

When Cominar determines that the acquisition of an investment property is an asset acquisition, it capitalizes all costs that are directly related to the acquisition of the property, as well as all expenses incurred to carry out the transaction.

Tenant inducements
Tenant inducements, mostly the payment of a monetary allowance to tenants and the granting of free occupancy periods, are added to the carrying amount of investment properties as they are incurred and are subsequently amortized against rental revenue from investment properties on a straight-line basis over the related lease term.

Investment properties held for sale
Investment properties held for sale are classified as being held for sale if their carrying amount will be recovered mainly through a sale transaction rather than through continuing use. Investment properties held for sale continue to be measured using the fair value model.

Financial instruments
Cominar groups its financial instruments into classes according to the purpose for which they were acquired and to their characteristics. Management determines such classification upon initial measurement, which is usually at the date of acquisition. Cominar uses the following classifications for its financial instruments:

- Cash and cash equivalents and accounts receivable are classified as "Financial assets at amortized cost." They are initially measured at fair value. Subsequently, they are measured at amortized cost using the effective interest method. For Cominar, this value generally represents cost.

- Mortgages payable, debentures, bank borrowings, and accounts payable and accrued liabilities are classified as "Financial liabilities at amortized cost." They are initially measured at fair value. Subsequently, they are measured at amortized cost using the effective interest method.

Cash and cash equivalents
Cash and cash equivalents consist of cash and investments that are readily convertible into a known amount of cash, that are not subject to a significant risk of change in value and that have original maturities of three months or less. Bank borrowings are considered to be financing activities.

Deferred financing costs
Issue costs incurred to obtain term loan financing, typically through mortgages payable or debentures, are applied against the borrowings and are amortized using the effective interest rate method over the term of the related debt.

Financing costs related to the operating and acquisition credit facility are recorded as assets under prepaid expenses and other assets and are amortized on a straight-line basis over the term of the credit facility.

Revenue recognition
Management has determined that all leases concluded between Cominar and its tenants are operating leases. Minimum lease payments are recognized using the straight-line method over the term of the related leases, and the excess of payments recognized over amounts payable is recorded on Cominar's consolidated balance sheet under investment properties. Leases generally provide for the tenants' payment of maintenance expenses for common elements, realty taxes and other operating costs, such payment being recognized as operating revenues in the period when the right to payment vests. Percentage leases are recognized when the minimum sales level has been reached pursuant to the related leases. Lease cancellation fees are recognized when they are due. Lastly, incidental income is recognized when services are rendered.

Long-term incentive plan
Cominar has a long-term incentive plan in order to attract, retain and motivate its employees to attain Cominar's objectives. This plan does not provide for any cash settlements.

Performance units
Cominar recognizes a compensation expense on performance units, based on their fair value, which corresponds to the market value of Cominar units on the date of the grant. The compensation expense is amortized on a straight-line basis over the duration of the vesting period.

Deferred units
Cominar recognizes a compensation expense on deferred units granted, based on their fair value, which corresponds to the market value of Cominar units on the date of the grant. The compensation expense is amortized using the graded vesting method.

Restricted units
Cominar recognizes a compensation expense on restricted unit options granted, based on their fair value, which corresponds to the market value of Cominar units on the date of the grant. The compensation expense is amortized on a straight-line basis over the duration of the vesting period.

Unit options
Cominar recognizes a compensation expense on unit options granted, based on their fair value on the date of the grant, which is calculated using an option valuation model. The compensation expense is amortized using the graded vesting method.

Income taxes
Cominar is considered a mutual fund trust for income tax purposes. Pursuant to the Contract of Trust, the trustees intend to distribute or designate all taxable income directly earned by Cominar to unitholders and to deduct such distributions and allocations from its income for tax purposes. Therefore, no provision for income taxes is required.

Cominar's subsidiaries that are incorporated as business corporations are subject to tax on their taxable income under the Income Tax Act (Canada) and the taxation acts of the provinces concerned. These subsidiaries account for their taxes payable or recoverable at the current enacted tax rates and use the asset and liability method to account for deferred taxes. The net deferred tax liability represents the cumulative amount of taxes applicable to temporary differences between the reported carrying amounts and tax bases of the assets and liabilities.

Per unit calculations
Basic net income (net loss) per unit is calculated based on the weighted average number of units outstanding for the period. The calculation of net income (net loss) per unit on a diluted basis considers the potential issuance of units under the long-term incentive plan, if dilutive.

Segment information
Segment information is presented in accordance with IFRS 8, "Operating segments," which recommends presenting and disclosing segment information in accordance with information that is regularly assessed by the chief operating decision makers in order to determine the performance of each segment.

c) New accounting policy

On January 1, 2019, Cominar adopted the following standard:

IFRS 16, "Leases"
Following the adoption of this new accounting standard, Cominar has recorded a right-of-use asset of $9,757 in income properties and a corresponding lease liability in accounts payable and accrued liabilities for emphyteutic leases on lands held for income-producing properties using modified retrospective approach. The accounting standard IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). IFRS 16 cancels and replaces the previous standard, IAS 17 - "Leases," and related interpretations.

Risks and Uncertainties

Like all real estate entities, Cominar is exposed, in the normal course of business, to various risk factors that may have an impact on its ability to attain strategic objectives, despite all the measures implemented to counter them. Accordingly, unitholders should consider the following risks and uncertainties when assessing Cominar's outlook in terms of investment potential:

Risk Factors Related to the Business of Cominar

Access to Capital and Debt Financing, and Current Global Financial Conditions
The real estate industry is capital intensive. Cominar requires access to capital to maintain its properties, as well as to fund its growth strategy and its significant capital expenditures from time to time. There can be no assurances that Cominar will have access to sufficient capital (including debt financing) on terms favourable to Cominar for future property acquisitions and developments, for the financing or refinancing of properties, for funding operating expenses or for other purposes. In addition, Cominar may not be able to borrow funds under its unsecured revolving credit facility or other sources due to limitations on Cominar's ability to incur debt set forth in the Contract of Trust or conditions in its debt instruments. Cominar's access to the unsecured debenture market and the cost of Cominar's borrowings under the unsecured revolving credit facility are also dependent on its credit rating. A negative change in its credit rating could further materially adversely impact Cominar. See "Risks and Uncertainties - Risk Factors Related to the Ownership of Securities - Credit rating".

Market events and conditions, including disruptions that sometimes affect international and regional credit markets and other financial systems and global economic conditions, could impede Cominar's access to capital (including debt financing) or increase the cost of such capital. Failure to raise or access capital in a timely manner or under favourable terms could have a material adverse effect on Cominar's financial position and results of operations, including on its development program.

Debt Financing
Cominar has to have substantial outstanding consolidated borrowings comprised primarily of hypothecs, mortgages, debentures, and borrowings under its unsecured revolving credit facility. Cominar intends to finance its growth strategy, including developments and acquisitions, through a combination of asset sales, its working capital and liquidity resources, including cash flows from operations, additional borrowings and public or private sales of equity or debt securities. Cominar's activities are therefore partially dependent upon the interest rates applied to its existing debt. Cominar may not be able to refinance its existing debt or renegotiate the terms of repayment at favourable rates. In addition, the terms of Cominar's indebtedness provide that, upon an event of default, such indebtedness becomes immediately due and payable and distributions that may be made by Cominar may be restricted. Therefore, upon an event of default under such borrowings, or inability to renew same at maturity, Cominar's ability to make distributions will be adversely affected.

A portion of Cominar's cash flows is dedicated to servicing its debt, and there can be no assurance that Cominar will continue to generate sufficient cash flows from operations to meet required interest or principal payments, such that it could be required to seek renegotiation of such payments or obtain additional financing, including equity or debt financing.

The unsecured revolving credit facility in the current stated amount of $400 million is repayable in July 2021. As at December 31, 2019, it was undrawn. In 2019, Cominar entered into a 4-year agreement for a new secured credit facility maturing in September 2023. As at December 31, 2019, $180.0 million was drawn on the secured credit facility.

Between July 2020 and May 2024, $1.325 billion of Senior Debentures will come to maturity, with $300.0 million aggregate principal amount of Series 4 Senior Debentures due first in July 2020 and $100.0 million aggregate principal amount of Series 3 Senior Debentures due in November 2020. Cominar is exposed to debt financing risks, including the risk that the existing hypothecary borrowings secured by its properties, the unsecured revolving credit facility or the Senior Debentures cannot be refinanced or that the terms of such refinancing will not be as favourable as the terms of the existing loans.

A downgrade of the credit rating assigned by DBRS to Cominar and to the unsecured debentures could materially adversely impact Cominar. See "Risks and Uncertainties - Risk Factors Related to the Business of Cominar - Credit Rating."

Ownership of Immovable Property
All Immovable Property investments are subject to risk exposures. Such investments are affected by general economic conditions, local real estate markets, demand for leased premises, competition from other vacant premises, municipal valuations and assessments, and various other factors.

The value of Immovable Property and improvements thereto may also depend on the solvency and financial stability of tenants, the economic environment in which they operate and the increase in interest rates. Due to difficult conditions in the Canadian retail environment, certain retailers have announced the closure of their stores, including Sears Canada Inc. and other retailers, who were or are, as the case may be, tenants of Cominar. Other retailers may follow. Cominar has also been impacted by vacancies and by the downward review of rents in the Montréal Area's suburban office market (including Laval) and the Ottawa Area office market. Cominar's income and Distributable Income would be adversely affected if one or more major tenants or a significant number of tenants were unable to meet their lease obligations or if a significant portion of vacant space in Cominar's properties cannot be leased on economically favourable lease terms, or simply re-leased. In the event of default by a tenant, delays or limitations may be experienced in enforcing Cominar's rights as a lessor and substantial costs may be incurred to protect Cominar's investment. The ability to rent unleased space in Cominar's properties will be affected by many factors, including the level of general economic activity and competition for tenants by other similar properties. The failure to rent unleased space on a timely basis or at all or at rents that are equivalent to or higher than current rents would likely have an adverse effect on Cominar's financial position and the value of its properties.

Certain significant expenditures, including property taxes, operating and maintenance costs, capital repairs and enhancements, hypothecary payments, insurance costs and related charges must be made throughout the period of ownership of Immovable Property regardless of whether the property is producing any income. In order to retain desirable rentable space and to generate adequate revenue over the long term, Cominar must maintain or, in some cases, improve each property's condition to meet market demand. Maintaining a rental property in accordance with market standards can entail significant costs, which Cominar may not be able to recover from its tenants. In addition, property tax reassessments based on updated appraised values may occur, which Cominar may not be able to recover from its tenants. As a result, Cominar could have to bear the economic cost of such operating costs and/or taxes which may adversely impact Cominar's financial condition and results from operations and decrease the amount of cash available for distribution to Unitholders. Numerous factors, including the age of the relevant building, the materials used at the time of construction or currently unknown building code violations could result in substantial unbudgeted costs for refurbishment or modernization. The timing and amount of capital expenditures may indirectly affect the amount of cash available for distributions to Unitholders. In addition, if Cominar is unable to meet mortgage payments on a property, a loss could be sustained as a result of the mortgage creditor's exercise of its hypothecary remedies.

Immovable Property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relationship with the demand for and the perceived desirability of such investments. Such illiquidity may tend to limit Cominar's ability to make changes to its portfolio promptly in response to changing economic or investment conditions. If Cominar were to be required to liquidate its Immovable Property investments, the proceeds to Cominar might be significantly less than the aggregate carrying value of its properties.

Leases for Cominar's properties, including those of significant tenants, will mature from time to time over the short and long term. There can be no assurance that Cominar will be able to renew any or all of the leases upon maturity or that rental rate increases will occur or be achieved upon any such renewals. The failure to renew leases or achieve rental rate increases may adversely impact Cominar's financial position and results of operations.

Environmental Matters

Environmental and ecological legislation and policies have become increasingly important in recent years. As an owner or operator of real property, Cominar could, under various federal, provincial and municipal laws, 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, or address such matters through alternative measures prescribed by the governing authority, may adversely affect Cominar's ability to sell such real estate or to borrow using such real estate as collateral, and could potentially also result in claims against Cominar by private plaintiffs or governmental agencies. Cominar is not currently aware of any material non-compliance, liability or other claim in connection with any of its properties, nor is Cominar aware of any environmental condition with respect to any of its properties that it believes would involve material expenditures by Cominar, other than in respect of remediation expenditures taken into consideration as part of the acquisition of properties.

Pursuant to Cominar's operating policies, Cominar shall obtain or review a Phase I environmental audit of each Immovable Property to be acquired by it. See "Description of the Business - Investment Guidelines and Operating Policies - Operating Policies" on pages 8 to 9 of the 2018 AIF.

Climate Change

Climate change has continued to attract the focus of governments, the scientific community and the general public as an important threat, given the emission of greenhouse gases and other activities continue to negatively impact the planet. As a real estate property owner and manager, Cominar faces the risk that its properties will be subject to government initiatives aimed at countering climate change, such as reduction of greenhouse gas emissions, which could impose constraints on its operational flexibility. To the extent any such initiative would require Cominar to ensure its tenants compliance and/or constrain their activities in any way, this could have an undesirable effect on Cominar's ability to successfully pursue its leasing strategy. Furthermore, Cominar's properties may be exposed to the impact of events caused by climate change, such as natural disasters and increasingly frequent and serious weather conditions. Such events could interrupt Cominar's operations and activities, damage its properties, diminish traffic and require Cominar to incur important additional expenses. Cominar's financial position and results from operations, as well as its ability to secure and maintain lucrative leases, would be adversely affected by the materialization of any of the risks identified herein related to climate change.

Legal Risks

Cominar's operations are subject to various laws and regulations across all of its operating jurisdictions and Cominar faces risks associated with legal and regulatory changes and litigation.

Competition

Cominar competes for suitable Immovable Property investments with individuals, corporations, pension funds and other institutions (both Canadian and foreign) which are presently seeking, or which may seek in the future, Immovable Property investments similar to those desired by Cominar. Many of those investors have greater financial resources than Cominar, or operate without the investment or operating restrictions applicable to Cominar or under more flexible conditions. An increase in the availability of investment funds and heightened interest in Immovable Property investments could increase competition for Immovable Property investments, thereby increasing the purchase prices of such investments and reducing their yield.

In addition, numerous property developers, managers and owners compete with Cominar in seeking tenants. The existence of competing developers, managers and owners and competition for Cominar's tenants could have an adverse effect on Cominar's ability to lease space in its properties and on the rents charged, and could adversely affect Cominar's revenues and, consequently, its ability to meet its debt obligations.

Property Development Program

Information regarding Cominar's development projects, development costs, capitalization rates and expected returns are subject to change, which may be material, as assumptions regarding items such as, but not limited to, tenant rents, building sizes, leasable areas, project completion timelines and project costs, are updated periodically based on revised site plans, Cominar's cost tendering process, continuing tenant negotiations, demand for leasable space in Cominar's markets, the obtaining of required building permits, ongoing discussions with municipalities and successful property re-zonings. There can be no assurance that any assumptions in this regard will materialize as expected and any changes in these assumptions could have a material adverse effect on Cominar's development program, asset values and financial performance.

The feasibility, timing and profitability of certain of Cominar's intensification and densification opportunities may be affected by the completion of certain mass transit initiatives such as the REM, the extension of the Metro, tramways and trambuses, and light rail trains. There can be no assurance that any such initiatives will be completed or as to the timing thereof. Such intensification and development initiatives may also be impacted by escalating construction costs and required zoning changes. There can be no assurance that any such zoning changes can be obtained. Special taxes, levies and assessments may be incurred by Cominar in respect of such developments.

Recruitment and Retention of Employees and Executives

Management depends on the services of certain key personnel. Competition for qualified employees and executives is intense. If Cominar is unable to attract and retain qualified and capable employees and executives, the conduct of its activities may be adversely affected.

Government Regulation

Cominar and its properties are subject to various government statutes and regulations. Any change in such statutes or regulations that is adverse to Cominar and its properties could affect Cominar's operating results and financial performance. See "Risks and Uncertainties - Risk Factors Related to the Business of Cominar - Environmental matters".

Limit on Activities

In order to maintain its status as a "mutual fund trust" under the Tax Act, Cominar cannot carry on most active business activities and is limited in the types of investments it may make. The Contract of Trust contains restrictions to this effect.

General Uninsured Losses

Cominar carries a blanket comprehensive general liability and a property policy including insurance against fire, flood, extended coverage and rental loss insurance, with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks (generally of a catastrophic nature such as wars or environmental contamination) which are either uninsurable or not insurable on an economically viable basis. Cominar also carries insurance for earthquake risks, subject to certain policy limits and deductibles, and will continue to carry such insurance if it is economical to do so. Should an uninsured or underinsured loss occur, Cominar could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, but Cominar would continue to be obligated to repay any hypothecary recourse or mortgage indebtedness on such properties.

Many insurance companies have eliminated coverage for acts of terrorism from their policies, and Cominar may not be able to obtain coverage for terrorist acts at commercially reasonable rates or at any price. Damage to a property sustained as a result of an uninsured terrorist or similar act would likely adversely impact Cominar's financial condition and results of operations and decrease the amount of cash available for distribution.

Cybersecurity Events

Cominar faces various security threats, including cybersecurity threats to gain unauthorized access to sensitive information, to render data or systems unusable, or otherwise affect Cominar's ability to operate. Cominar's operations require it to use and store personally identifiable and other sensitive information of its tenants and employees. The collection and use of personally identifiable information is governed by Canadian federal and provincial laws and regulations. Privacy and information security laws continue to evolve and may be inconsistent from one jurisdiction to another. The security measures put in place by Cominar in that regard cannot provide absolute security, and Cominar's information technology infrastructure may be vulnerable to cyberattacks, including without limitation, malicious software, attempts to gain unauthorized access to data hereinabove mentioned, and other electronic security breaches that could lead to disruptions in critical systems, corruptions of data and unauthorized release of confidential or otherwise protected information. The occurrence of one of these events could cause a substantial decrease in revenues, increased costs to respond or other financial loss, damage to reputation, increased regulation or litigation or inaccurate information reported by Cominar's operations. These developments may subject Cominar's operations to increased risks, as well as increased costs, and, depending on their ultimate magnitude, could have a material adverse effect on Cominar's financial position and results of operations.

Cominar has developed an IT security risk management program based on the NIST framework and focuses across a broad spectrum of preventative and protective measures. These measures include, but are not limited to, security awareness and training programs for all employees, patch and technological debt management, identity and access control, regular security posture assessment performed by specialized third parties and various monitoring activities. The overall strategic security plan focuses on identifying Cominar's risk profile and prioritizing the appropriate security measures and its threat management initiatives.

Risk Factors Related to the Ownership of Securities

Market Price

A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. Accordingly, the Units may trade at a premium or a discount to values implied by the initial appraisal of the value of its properties or the value of such properties from time to time.

Although Cominar intends to make distributions of its available cash to Unitholders, these cash distributions are not assured. The actual amount distributed will depend on numerous factors including, but not limited to, Cominar's financial performance, debt covenants and obligations, working capital requirements and future capital requirements. The market price of the Units may deteriorate if Cominar is unable to meet its cash distribution targets in the future.

The after-tax return from an investment in Units to Unitholders subject to Canadian income tax will depend, in part, on the composition for tax purposes of distributions paid by Cominar (portions of which may be fully or partially taxable or may constitute non-taxable returns of capital). The composition for tax purposes of those distributions may change over time, thus affecting the after-tax return to Unitholders.

Factors that may influence the market price of the Units include the annual yield on the Units, the number of Units issued and outstanding and Cominar's payout ratio. An increase in market interest rates may lead purchasers of Units to demand a higher annual yield which could adversely affect the market price of the Units. Unlike fixed-income securities, there is no obligation for Cominar to distribute to Unitholders any fixed amount and reductions in, or suspensions of, distributions may occur that would reduce yield based on the market price of the Units. In addition, the market price for the Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities, changes in the economic environment and numerous other factors beyond the control of Cominar.

Structural Subordination of Securities

In the event of a bankruptcy, liquidation or reorganization of Cominar or any of its subsidiaries, holders of certain of their indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets of Cominar and those subsidiaries before any assets are made available for distribution to the holders of securities. The securities will be effectively subordinated to most of the other indebtedness and liabilities of Cominar and its subsidiaries. Neither Cominar nor any of its subsidiaries will be limited in their ability to incur additional secured or unsecured debts.

Availability of Cash Flow

Distributable Income may exceed actual cash available to Cominar from time to time because of items such as principal repayments, tenant allowances, leasing commissions and capital expenditures. Cominar may be required to use part of its debt capacity or to reduce distributions in order to accommodate such items. A $400 million Credit Facility was established in 2019 which matures in July 2021. See "Risks and Uncertainties - Risk Factors Related to the Business of Cominar - Debt financing".

Cominar may need to refinance its debt obligations from time to time, including upon expiration of its debt. There could be a negative impact on Distributable Income if debt obligations of Cominar are replaced with debt that has less favourable terms or if Cominar is unable to refinance its debt. In addition, loan and credit agreements with respect to debt obligations of Cominar, include, and may include in the future, certain covenants with respect to the operations and financial condition of Cominar and Distributable Income may be restricted if Cominar is unable to maintain any such covenants.

Unitholder Liability

The Contract of Trust provides that no Unitholder or annuitant under a plan of which a Unitholder acts as Trustee or carrier (an "annuitant") will be held to have any personal liability as such, and that no resort shall be had to the private property of any Unitholder or annuitant for satisfaction of any obligation or claim arising out of or in connection with any contract or obligation of Cominar or of the Trustees. Only assets of Cominar are intended to be subject to levy or execution.

The Contract of Trust further provides that certain written instruments signed by Cominar (including all Immovable Hypothecs and, to the extent the Trustees determine to be practicable and consistent with their obligation as Trustees to act in the best interests of the Unitholders, other written instruments creating a material obligation of Cominar) shall contain a provision or be subject to an acknowledgment to the effect that such obligation will not be binding upon Unitholders or annuitants personally. Except in case of bad faith or gross negligence on their part, no personal liability will attach under the laws of the Province of Québec to Unitholders or annuitants for contract claims under any written instrument disclaiming personal liability as aforesaid.

However, in conducting its affairs, Cominar will be acquiring Immovable Property investments, subject to existing contractual obligations, including obligations under hypothecs or mortgages and leases. The Trustees will use all reasonable efforts to have any such obligations, other than leases, modified so as not to have such obligations binding upon any of the Unitholders or annuitants personally. However, Cominar may not be able to obtain such modification in all cases. If a claim is not satisfied by Cominar, there is a risk that a Unitholder or annuitant will be held personally liable for the performance of the obligations of Cominar where the liability is not disavowed as described above. The possibility of any personal liability attaching to Unitholders or annuitants under the laws of the Province of Québec for contract claims where the liability is not so disavowed is remote.

Cominar uses all reasonable efforts to obtain acknowledgments from the hypothecary creditors under assumed hypothecs that assumed hypothec obligations will not be binding personally upon the Trustees or the Unitholders.

Claims against Cominar may arise other than under contracts, including claims in delict, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of Unitholders for such claims is considered remote under the laws of the Province of Québec and, as well, the nature of Cominar's activities are such that most of its obligations arise by contract, with non-contractual risks being largely insurable. In the event that payment of Cominar's obligation were to be made by a Unitholder, such Unitholder would be entitled to reimbursement from the available assets of Cominar.

Article 1322 of the Civil Code of Québec effectively states that the beneficiary of a trust is liable towards third persons for the damage caused by the fault of the Trustees of such trust in carrying out their duties only up to the amount of the benefit such beneficiary has derived from the act of such Trustees and that such obligations are to be satisfied from the trust patrimony. Accordingly, although this provision remains to be interpreted by the courts, it should provide additional protection to Unitholders with respect to such obligations.

The Trustees will cause the activities of Cominar to be conducted, with the advice of counsel, in such a way and in such jurisdictions as to avoid, to the extent they determine to be practicable and consistent with their duty to act in the best interests of the Unitholders, any material risk of liability on the Unitholders for claims against Cominar.

Dilution

The number of Units Cominar is authorized to issue is unlimited. The Trustees have the discretion to issue additional Units in other circumstances. Additional Units may also be issued pursuant to the DRIP (which is currently suspended), the Equity Incentive Plan and any other incentive plan of Cominar. Any issuance of Units may have a dilutive effect on Unitholders.

Restrictions on Certain Unitholders and Liquidity of Units

The Contract of Trust imposes restrictions on non-resident Unitholders, who are prohibited from beneficially owning more than 49% of the Units. These restrictions may limit the rights of certain Unitholders, including non-residents of Canada, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and thereby adversely affect the liquidity and market value of the Units held by the public. Unitholders who are non-residents of Canada are required to pay all withholding taxes payable in respect of distributions by Cominar. Cominar withholds such taxes as required by the Income Tax Act and remits such payment to the tax authorities on behalf of the Unitholder. The Income Tax Act contains measures to subject to Canadian non-resident withholding tax on certain otherwise non-taxable distributions of Canadian mutual funds to non-resident Unitholders. This may limit the demand for Units and thereby affect their liquidity and market value.

Cash Distributions are not Guaranteed

There can be no assurance regarding the amount of income to be generated by Cominar's properties. The ability of Cominar to make cash distributions, and the actual amounts distributed, will be entirely dependent on the operations and assets of Cominar and its subsidiaries, and will be subject to various factors including financial performance and results of operations, obligations under applicable credit facilities, fluctuations in working capital, the sustainability of income derived from anchor tenants and capital expenditure requirements. The market value of the Units will deteriorate if Cominar is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors. For details concerning the reduction in the monthly distribution occurred in fiscal 2017 and concerning the reduction in the monthly distribution occurred in the first quarter of fiscal 2018 see, "PART 3 - General Development of the Business - 3.3 Three Year History - Financing, Rating and Equity Activities".

Nature of Investment

A Unitholder does not hold a share of a body corporate. As holders of Units, the Unitholders will not have statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The rights of Unitholders are based primarily on the Contract of Trust. There is no statute governing the affairs of Cominar equivalent to the CBCA, which sets out the rights, and entitlements of shareholders of a corporation in various circumstances.

Status for Tax Purposes

Cominar is considered a mutual fund trust for income tax purposes. Pursuant to the Contract of Trust, the Trustees intend to distribute or designate all taxable income directly earned by Cominar to Unitholders and to deduct such distributions and designations for income tax purposes. In the context of the sale of a significant part of its Investment Properties, Cominar could end up with a substantial taxable profit that would require it to make a sizeable additional special distribution to avoid having to pay taxes itself.

Certain of Cominar's subsidiaries are subject to tax on their taxable income under the Income Tax Act and the Taxation Act (Québec).

A special tax regime applies to trusts that are considered SIFT entities as well as those individuals who invest in SIFTs. Under the SIFT Rules, a SIFT is subject to tax in a manner similar to corporations on income from business carried on in Canada and on 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.

The SIFT Rules apply unless (among other exceptions not applicable here) the trust qualifies as a “real estate investment trust” for the year (the “Real Estate Investment Trust Exception”). If Cominar fails to qualify for the Real Estate Investment Trust Exception, Cominar will be subject to the tax regime introduced by the SIFT Rules.

Management believes that Cominar currently meets all the criteria required to qualify for the Real Estate Investment Trust Exception, as per the Real Estate Investment Trust Exception currently in effect. As a result, Management believes that the SIFT Rules do not apply to Cominar. Management intends to take all the necessary steps to meet these conditions on an on-going basis in the future. Nonetheless, there is no guarantee that Cominar will continue to meet all the required conditions to be eligible for the Real Estate Investment Trust Exception for the remainder of fiscal 2018 and any other subsequent year.

Risk Factors Related to the Ownership of Senior Debentures

Credit Ratings
The credit rating assigned by DBRS to Cominar and to the Senior Debentures is not a recommendation to buy, hold or sell securities of Cominar. A rating is not a comment on the market price of a security nor is it an assessment of ownership given various investment objectives. Prospective investors should consult with DBRS with respect to the interpretation and implications of the rating. There is no assurance that any rating will remain in effect for any given period of time and ratings may be upgraded, downgraded, placed under review, confirmed or withdrawn. Non-credit risks that can meaningfully impact the value of the securities issued include market risk, trading liquidity risk and covenant risk. DBRS uses rating symbols as a simple and concise method of expressing its opinion to the market, although DBRS usually provides broader contextual information regarding securities in rating reports, which generally set out the full rationale for the chosen rating symbol, and in other releases.

Cominar’s rating has remained BB (high) with a stable trend since August 2017, as provided for in DBRS’ rating report dated October 24, 2018. Any further downgrade of the credit rating assigned by DBRS to Cominar and to the Senior Debentures could have a material adverse effect on Cominar.

Trading Market for Senior Debentures
There is currently no trading market for Senior Debentures. No assurance can be given that an active or liquid trading market for these securities will develop or be sustained. If an active or liquid market for these securities fails to develop or be sustained, the prices at which these securities trade may be adversely affected. Whether or not these securities will trade at lower prices depends on many factors, including the liquidity of these securities, prevailing interest rates and the markets for similar securities, the market price of the Units, general economic conditions and Cominar’s financial position, historic financial performance and future prospects.

Market Price or Value Fluctuation
If the Senior Debentures are traded after their initial issuance, they may trade at a discount from their initial public offering price. The market price or value of the Senior Debentures depends on many factors, including liquidity of the Senior Debentures, prevailing interest rates and the markets for similar securities, general economic conditions and Cominar’s financial condition, historic financial performance and prospects. Assuming all other factors remain unchanged, the market price or value of the Senior Debentures, which carry a fixed interest rate, will likely decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline.

Challenging market conditions, the health of the economy as a whole and numerous other factors beyond the control of Cominar may have a material effect on the business, financial condition, liquidity and results of operations of Cominar. In recent years, financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of securities of issuers and that have often been unrelated to the operating performance, underlying asset values or prospects of such issuers. There can be no assurance that such fluctuations in price and volume will not occur. Accordingly, the market price of the Senior Debentures may decline even if Cominar’s operating results, underlying asset values or prospects have not changed. In periods of increased levels of volatility and market turmoil, Cominar’s operations could be adversely impacted and the market price of the Senior Debentures may be adversely affected.

Senior Debentures Redemption Right Risk
Cominar may choose to redeem the Senior Debentures prior to maturity, in whole or in part, at any time or from time to time, especially when prevailing interest rates are lower than the rate borne by the Senior Debentures. If prevailing rates are lower at the time of redemption, a purchaser may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the Senior Debentures being redeemed.

Inability of Cominar to Purchase Senior Debentures on a Change of Control
Cominar may be required to purchase all outstanding Senior Debentures upon the occurrence of a change of control. However, it is possible that following a change of control, Cominar will not have sufficient funds at that time to make any required purchase of outstanding Senior Debentures or that restrictions contained in other indebtedness will restrict those purchases.

Consolidated financial statements

Cominar Real Estate Investment Trust

December 31, 2019

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Cominar Real Estate Investment Trust ("Cominar") were prepared by management, which is responsible for the integrity and fairness of the information presented, including those amounts that must be based on estimates and judgments. These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial information in our MD&A is consistent with these consolidated financial statements.

In discharging our responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, we maintain the necessary system of internal controls designed to ensure that transactions are duly authorized, assets are safeguarded and proper records are maintained.

As at December 31, 2019, the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer of Cominar had an evaluation carried out, under their direct supervision, of the effectiveness of the controls and procedures used for the preparation of reports as well as internal control over financial reporting, as defined in Multilateral Instrument 52 109 of the Canadian Securities Administrators. Based on that evaluation, they concluded that the disclosure controls were effective.

The Board of Trustees oversees management's responsibility for financial reporting through its Audit Committee, which is composed entirely of trustees who are not members of Cominar's management or personnel. This Committee reviews our consolidated financial statements and recommends them to the Board for approval. Other key responsibilities of the Audit Committee include reviewing our internal control procedures and their updates, the identification and management of risks, and advising the trustees on auditing matters and financial reporting issues.

PricewaterhouseCoopers LLP, a partnership of independent professional chartered accountants appointed by the unitholders of Cominar upon the recommendation of the Audit Committee and the Board of Trustees, have performed an independent audit of the Consolidated Financial Statements as at December 31, 2019 and their report follows. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

SYLVAIN COSSETTE
President and Chief Executive Officer

HEATHER C. KIRK, B.Com., CFA
Executive Vice President
and Chief Financial Officer

Québec, March 3, 2020

Independent auditor's report

To the Unitholders of Cominar Real Estate Investment Trust

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Cominar Real Estate Investment Trust and its subsidiaries (together, the Trust) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Trust's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of unitholders' equity for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated cash flow statements for the years then ended; and
- the notes to consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

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

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

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

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

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

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

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
Place de la Cité, Tour Cominar, 2640 Laurier Boulevard, Suite 1700, Québec, Quebec, Canada G1V 5C2
T: +1 418 522 7001, F: +1 418 522 5663

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Trust to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is François Berthiaume.

PricewaterhouseCoopers LLP[1]

Québec, Quebec
March 3, 2020

[1] CPA auditor, CA, public accountancy permit No. A125971

Consolidated Balance Sheets

[in thousands of Canadian dollars]

As at	Note	December 31, 2019 $	December 31, 2018 $
Assets			
Investment properties			
Income properties	4	**6,412,739**	6,058,191
Properties under development	5	**41,471**	34,293
Land held for future development	5	**100,507**	93,750
		6,554,717	6,186,234
Investment properties held for sale	6	**11,730**	188,727
Investments in joint ventures	7	**97,456**	92,468
Goodwill	8	**15,721**	15,721
Accounts receivable	9	**37,930**	41,162
Prepaid expenses and other assets		**22,232**	17,901
Cash and cash equivalents		**152,634**	1,498
Total assets		**6,892,420**	6,543,711
Liabilities			
Mortgages payable	10	**2,114,021**	1,742,104
Mortgages payable related to investment properties held for sale	6, 10	**—**	123
Debentures	11	**1,320,962**	1,722,586
Bank borrowings	12	**180,000**	152,950
Accounts payable and accrued liabilities	13	**126,543**	103,347
Deferred tax liabilities	22	**93**	142
Current tax liabilities	22	**—**	6,763
Total liabilities		**3,741,619**	3,728,015
Unitholders' equity			
Unitholders' equity		**3,150,801**	2,815,696
Total liabilities and unitholders' equity		**6,892,420**	6,543,711

See accompanying notes to the consolidated financial statements.

Approved by the Board of Trustees.

René Tremblay
Chairman of the Board of Trustees

Michel Théroux, FCPA, FCA
President of the Audit Committee

Consolidated Statements of Unitholders' Equity

For the years ended December 31
[in thousands of Canadian dollars]

	Note	Unitholders' contributions $	Cumulative net income $	Cumulative distributions $	Contributed surplus $	Total $
Balance as at January 1, 2019		3,226,929	1,649,516	(2,065,942)	5,193	2,815,696
Net income and comprehensive income		—	462,504	—	—	462,504
Distributions to unitholders	14	—	—	(131,068)	—	(131,068)
Unit issuances	14	1,974	—	—	(1,277)	697
Long-term incentive plan	14	—	563	—	2,409	2,972
Balance as at December 31, 2019		**3,228,903**	**2,112,583**	**(2,197,010)**	**6,325**	**3,150,801**

	Note	Unitholders' contributions $	Cumulative net income $	Cumulative distributions $	Contributed surplus $	Total $
Balance as at January 1, 2018		3,265,995	1,861,029	(1,922,212)	3,949	3,208,761
Net income and comprehensive income		—	(212,282)	—	—	(212,282)
Distributions to unitholders	14	—	—	(143,730)	—	(143,730)
Unit issuances	14	464	—	—	(359)	105
Repurchase of units under NCIB	14	(39,530)	—	—	—	(39,530)
Long-term incentive plan	14	—	769	—	1,603	2,372
Balance as at December 31, 2018		3,226,929	1,649,516	(2,065,942)	5,193	2,815,696

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31
[in thousands of Canadian dollars, except per unit amounts]

	Note	2019 $	2018 $
Operating revenues			
Rental revenue from investment properties	15	**704,041**	734,650
Operating expenses			
Operating costs	17	**(160,611)**	(169,630)
Realty taxes and services		**(169,652)**	(176,958)
Property management expenses	17	**(15,456)**	(15,598)
		(345,719)	(362,186)
Net operating income		**358,322**	372,464
Finance charges	18	**(151,051)**	(152,237)
Trust administrative expenses	19	**(17,254)**	(23,255)
Change in fair value of investment properties	4, 5, 6	**276,475**	(267,098)
Share in joint ventures' net income	7	**7,200**	5,176
Transaction costs	20	**(6,463)**	(22,847)
Restructuring costs	21	**(4,774)**	—
Impairment of goodwill	8	**—**	(120,389)
Derecognition of goodwill	6	**—**	(3,872)
Net income (loss) before income taxes		**462,455**	(212,058)
Income taxes			
Current	22	**—**	(6,763)
Deferred	22	**49**	6,539
		49	(224)
Net income (loss) and comprehensive income		**462,504**	(212,282)
Net income (loss) per unit (basic and diluted)	23	**2.54**	(1.17)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31
[in thousands of Canadian dollars]

	Note	2019 $	2018 $
Operating activities			
Net income (loss)		**462,504**	(212,282)
Adjustments for:			
Excess of share of net income over distributions received from the joint ventures	7	**(4,838)**	(4,238)
Change in fair value of investment properties	4, 5, 6	**(276,475)**	267,098
Depreciation and amortization		**4,830**	3,066
Compensation expense related to long-term incentive plan	14	**2,972**	2,372
Deferred income taxes	22	**(49)**	(6,539)
Derecognition of goodwill	6	**—**	3,872
Impairment of goodwill	8	**—**	120,389
Recognition of leases on a straight-line basis	4, 6	**(288)**	(2,030)
Changes in non-cash working capital items	24	**3,212**	11,231
Cash flows provided by operating activities		**191,868**	182,939
Investing activities			
Acquisitions and investments in income properties	4, 24	**(132,978)**	(254,516)
Acquisitions and investments in properties under development and land held for future development	5, 24	**(31,344)**	(21,129)
Refund of costs related to properties under development and land held for future development		**—**	7,800
Net proceeds from the sale of investment properties	3, 4, 6	**260,606**	1,037,594
Contributions to the capital of a joint venture	7	**(150)**	(1,931)
Change in other assets		**(1,047)**	(3,774)
Cash flows provided by investing activities		**95,087**	764,044
Financing activities			
Cash distributions to unitholders	14	**(131,068)**	(143,730)
Bank borrowings		**27,050**	(467,416)
Mortgages payable	10	**662,773**	134,947
Net proceeds from issuance of debentures	11	**197,143**	—
Unit issuance net proceeds	14	**697**	105
Repurchase of units under NCIB	14	**—**	(39,530)
Repayment of debentures	11	**(600,000)**	—
Repayments of mortgages payable	10	**(238,183)**	(385,984)
Monthly repayments of mortgages payable	10	**(54,231)**	(50,805)
Cash flows used in financing activities		**(135,819)**	(952,413)
Net change in cash and cash equivalents		**151,136**	(5,430)
Cash and cash equivalents, beginning of year		**1,498**	6,928
Cash and cash equivalents, end of year		**152,634**	1,498
Other information			
Interest paid		**148,823**	157,850
Cash distributed by a joint venture	7	**2,362**	938

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018
[in thousands of Canadian dollars, except per unit amounts]

1) Description of the Trust

Cominar Real Estate Investment Trust ("Cominar" or the "Trust") is an unincorporated closed-end real estate investment Trust created by a Contract of Trust on March 31, 1998, under the laws of the Province of Quebec. As at December 31, 2019, Cominar owned and managed a real estate portfolio of 317 high-quality properties that covered a total area of 35.9 million square feet in the Province of Quebec and in Ottawa.

Cominar is listed on the Toronto Stock Exchange, and its units trade under the symbol "CUF.UN." The head office is located at Complexe Jules-Dallaire – T3, 2820 Laurier Boulevard, Suite 850, Québec City, Quebec, Canada, G1V 0C1. Additional information about the Trust is available on Cominar's website at www.cominar.com.

The Board of Trustees approved Cominar's consolidated financial statements on March 3, 2020.

2) Significant Accounting Policies

a) Basis of presentation

Cominar's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The accounting policies and application methods thereof have been consistently applied throughout each of the fiscal years presented in these consolidated financial statements, with the exception of IFRS 16 – "Leases," which came into effect on January 1, 2019 and for which Cominar has recorded a right-of-use asset in income properties and a corresponding lease liability in accounts payable and accrued liabilities as of that date.

b) Basis of preparation

Consolidation
These consolidated financial statements include the accounts of Cominar and its wholly owned subsidiaries.

Use of estimates, assumptions and judgments
The preparation of financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Those estimates, assumptions and judgments also affect the disclosure of contingencies as at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results that could differ materially from those estimates, assumptions and judgments, are described below:

- ***Investment properties***
  Investment properties are recorded at fair value at the balance sheet date. Fair value is determined using management's internal measurements and valuations from independent real estate appraisers, performed in accordance with recognized valuation techniques, as well as definitive agreements to sell investment properties. Techniques used include the direct capitalized net operating income method that involves stabilized net operating income and overall capitalization rates, and the discounted cash flow method that involves estimating expected future cash flows, as well as discount and terminal capitalization rates.

  Management's fair value internal measurements rely on internal financial information and are corroborated by capitalization rates obtained from independent experts. However, internal measurements and values obtained from independent appraisers are both subject to significant judgments, estimates and assumptions about market conditions at the balance sheet date.

- ***Business combinations***
  Business combinations are accounted for using the acquisition method. The cost of a business combination is the value, at the acquisition date, of the assets transferred, liabilities incurred and Unitholders' equity instruments issued in exchange for control of the acquired business. When the cost of a business combination exceeds the fair value of the assets acquired and liabilities assumed, such excess is recorded as goodwill. Transaction-related costs, as well as costs related to the acquisition of real estate assets, are expensed as incurred.

  Cominar accounts for investment property acquisitions in accordance with IFRS 3 - "Business Combinations" ("IFRS 3"), only when it considers that a business has been acquired. Under IFRS 3, a business is defined as an integrated set of activities and assets that could be conducted and managed for the purpose of providing a direct return to investors in the form of lower costs or other economic benefits. If the investment properties acquisition does not correspond to the definition of a business, a group of assets is deemed to have been acquired. If goodwill is present, the acquisition is presumed to be a business. Judgment is therefore used by management in determining if the acquisition qualifies as a business combination in accordance with IFRS 3 or as an acquisition of a group of assets.

Generally, based on its judgment, when Cominar acquires a property or property portfolio without taking on the management of personnel or acquiring an operational platform, it categorizes the acquisition as an acquisition of a group of assets.

- ***Joint arrangements***
  Upon the creation of a joint arrangement, Cominar's management reviews its classification criteria to determine if it is a joint venture to be accounted for using the equity method or if it is a joint operation for which we must recognize the proportionate share of assets, liabilities, revenues and expenses. Cominar holds 50% and 75% interests in its joint arrangements. It has joint control over them since, under the contractual agreements, unanimous consent is required from all parties to the agreements in decisions concerning all relevant activities. The joint arrangements in which Cominar is involved are structured so that they provide Cominar rights to these entities' net assets. Therefore, these arrangements are presented as joint ventures and are accounted for using the equity method.

- ***Impairment of goodwill***
  Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net identifiable assets acquired. Its useful life is indefinite. It is not amortized but is tested for impairment on an annual basis or more frequently if events or circumstances indicate that it is more likely than not that goodwill may be impaired. Goodwill resulting from business combinations is allocated to each group of cash-generating units ("CGU") expected to benefit from the combination. To test impairment, Cominar must determine the recoverable value of net assets of each group of CGU, making assumptions about expected future net operating income as well as discount and terminal capitalization rates. These assumptions are based on Cominar's past experience as well as on external sources of information. The recoverable value is the higher of the fair value less costs to sell and the value in use. Should the carrying amount of a group of cash-generating units, including goodwill, exceed its recoverable value, impairment is recorded and recognized in profit or loss in the period during which the impairment occurs.

- ***Financial instruments***
  Financial instruments must be initially measured at fair value. Cominar must also estimate and disclose the fair value of certain financial instruments for information purposes in the financial statements presented for subsequent periods. When fair value cannot be derived from active markets, it is determined using valuation techniques, namely the discounted cash flow method. If possible, data used in these models are derived from observable markets, and if not, judgment is required to determine fair value. Judgments take into account liquidity risk, credit risk and volatility. Any changes in assumptions related to these factors could modify the fair value of financial instruments.

- ***Unit-based compensation***
  The determination of the unit-based compensation expense resulting from Cominar's granting of deferred units and performance units awards depends on valuation models, which by their nature are subject to measurement uncertainty. Using different valuation methods, Cominar determined that the best estimate of the fair value for both deferred unit and performance unit was equivalent to the market value of Cominar units on the date of the grant.

- ***Income taxes***
  Deferred taxes of Cominar's subsidiaries are measured at the tax rates expected to apply in the future as temporary differences between the reported carrying amounts and the tax bases of the assets and liabilities reverse. Changes to deferred taxes related to changes in tax rates are recognized in income in the period during which the rate change is substantively enacted. Any changes in future tax rates or in the timing of the reversal of temporary differences could affect the income tax expense.

Investment properties
An investment property is an immovable property held by Cominar to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods and services or for administrative purposes, or for sale in the ordinary course of business. Investment properties include income properties, properties under development and land held for future development.

Cominar presents its investment properties based on the fair value model. Fair value is the amount for which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. Any change in the fair value is recognized in profit or loss in the period in which it arises. The fair value of investment properties should reflect market conditions at the end of the reporting period. Fair value is time-specific as at a given date. As market conditions could change, the amount presented as fair value could be incorrect or inadequate at another date. The fair value of investment properties is based on measurements derived from management's estimates and valuations from independent appraisers, plus capital expenditures made after the valuation date and deemed to increase the rental income generating capacity of the property, or according to definitive agreements to sell investment properties. Management regularly reviews appraisals of its investment properties between the appraisal dates in order to determine whether the related assumptions, such as stabilized net operating income and capitalization rates, still apply. These assumptions are compared to market data issued by independent experts. When increases or decreases are required, Cominar adjusts the carrying amount of its investment properties.

The fair value of Cominar's investment properties recorded on the balance sheet in accordance with IFRS is the sum of the fair values of each investment property considered individually and does not necessarily reflect the contribution of the following elements that characterize Cominar: (i) the composition of the property portfolio diversified through its client base, geographic markets and business segments; (ii) synergies among different investment properties; and (iii) a fully integrated management approach. Therefore, the fair value of Cominar's investment properties taken as a whole could differ from that appearing on the consolidated balance sheet.

Properties under development in the construction phase are measured at cost until their fair value can be reliably determined, usually when development has been completed. The fair value of land held for future development is based on recent prices derived from comparable market transactions.

Capitalization of costs

Cominar capitalizes into investment properties the costs incurred to increase their capacity, replace certain components and make improvements after the acquisition date. Cominar also capitalizes major maintenance and repair expenses providing benefits that will last far beyond the end of the reporting period. For construction, expansion or major revitalization projects of income properties that take place over a substantial period of time, Cominar capitalizes the borrowing costs that are directly attributable to the investments in question.

Leasehold improvements, incurred directly by Cominar or through an allowance to tenants, which represent capital investments that increase the service capacity and value of properties and for which the economic advantage will extend beyond the term of the lease and will mainly benefit Cominar, as well as initial direct costs, mostly brokerage fees incurred to negotiate or prepare leases, are added to the carrying amount of investment properties when incurred, and are not amortized subsequently.

Concerning properties under development and land held for future development, Cominar capitalizes all direct costs incurred for their acquisition, development and construction. Such capitalized costs also include borrowing costs that are directly attributable to the property concerned. Cominar begins capitalizing borrowing costs when it incurs expenditures for the properties in question and when it undertakes activities that are necessary to prepare these properties for their intended use. Cominar ceases capitalizing borrowing costs when the asset is ready for management's intended use.

When Cominar determines that the acquisition of an investment property is an asset acquisition, it capitalizes all costs that are directly related to the acquisition of the property, as well as all expenses incurred to carry out the transaction.

Tenant inducements

Tenant inducements, mostly the payment of a monetary allowance to tenants and the granting of free occupancy periods, are added to the carrying amount of investment properties as they are incurred and are subsequently amortized against rental revenue from investment properties on a straight-line basis over the related lease term.

Investment properties held for sale

Investment properties held for sale are classified as being held for sale if their carrying amount will be recovered mainly through a sale transaction rather than through continuing use. Investment properties held for sale continue to be measured using the fair value model.

Financial instruments

Cominar groups its financial instruments into classes according to the purpose for which they were acquired and to their characteristics. Management determines such classification upon initial measurement, which is usually at the date of acquisition.

Cominar uses the following classifications for its financial instruments:

- Cash and cash equivalents and accounts receivable are classified as "Financial assets at amortized cost." They are initially measured at fair value. Subsequently, they are measured at amortized cost using the effective interest method. For Cominar, this value generally represents cost.

- Mortgages payable, debentures, bank borrowings, and accounts payable and accrued liabilities are classified as "Financial liabilities at amortized cost." They are initially measured at fair value. Subsequently, they are measured at amortized cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents consist of cash and investments that are readily convertible into a known amount of cash, that are not subject to a significant risk of change in value and that have original maturities of three months or less. Bank borrowings are considered to be financing activities.

Deferred financing costs

Issue costs incurred to obtain term loan financing, typically through mortgages payable or debentures, are applied against the borrowings and are amortized using the effective interest rate method over the term of the related debt.

Financing costs related to the operating and acquisition credit facility are recorded as assets under prepaid expenses and other assets and are amortized on a straight-line basis over the term of the credit facility.

Revenue recognition

Management has determined that all leases concluded between Cominar and its tenants are operating leases. Minimum lease payments are recognized using the straight-line method over the term of the related leases, and the excess of payments recognized over amounts payable is recorded on Cominar's consolidated balance sheet under investment properties. Leases generally provide for the tenants' payment of maintenance expenses for common elements, realty taxes and other operating costs, such payment being recognized as operating revenues in the period when the right to payment vests. Percentage leases are recognized when the minimum sales level has been reached pursuant to the related leases. Lease cancellation fees are recognized when they are due. Lastly, incidental income is recognized when services are rendered.

Long-term incentive plan
Cominar has a long-term incentive plan in order to attract, retain and motivate its employees to attain Cominar's objectives. This plan does not provide for any cash settlements.

Performance units
Cominar recognizes a compensation expense on performance units, based on their fair value, which corresponds to the market value of Cominar units on the date of the grant. The compensation expense is amortized on a straight-line basis over the duration of the vesting period.

Deferred units
Cominar recognizes a compensation expense on deferred units granted, based on their fair value, which corresponds to the market value of Cominar units on the date of the grant. The compensation expense is amortized using the graded vesting method.

Restricted units
Cominar recognizes a compensation expense on restricted unit options granted, based on their fair value, which corresponds to the market value of Cominar units on the date of the grant. The compensation expense is amortized on a straight-line basis over the duration of the vesting period.

Unit options
Cominar recognizes a compensation expense on unit options granted, based on their fair value on the date of the grant, which is calculated using an option valuation model. The compensation expense is amortized using the graded vesting method.

Income taxes
Cominar is considered a mutual fund trust for income tax purposes. Pursuant to the Contract of Trust, the trustees intend to distribute or designate all taxable income directly earned by Cominar to unitholders and to deduct such distributions and allocations from its income for tax purposes. Therefore, no provision for income taxes is required.

Cominar's subsidiaries that are incorporated as business corporations are subject to tax on their taxable income under the Income Tax Act (Canada) and the taxation acts of the provinces concerned. These subsidiaries account for their taxes payable or recoverable at the current enacted tax rates and use the asset and liability method to account for deferred taxes. The net deferred tax liability represents the cumulative amount of taxes applicable to temporary differences between the reported carrying amounts and tax bases of the assets and liabilities.

Per unit calculations
Basic net income (net loss) per unit is calculated based on the weighted average number of units outstanding for the period. The calculation of net income (net loss) per unit on a diluted basis considers the potential issuance of units under the long-term incentive plan, if dilutive.

Segment information
Segment information is presented in accordance with IFRS 8, "Operating segments," which recommends presenting and disclosing segment information in accordance with information that is regularly assessed by the chief operating decision makers in order to determine the performance of each segment.

c) New accounting policy

On January 1, 2019, Cominar adopted the following standard:

IFRS 16, "Leases"
Following the adoption of this new accounting standard, Cominar has recorded a right-of-use asset of $9,757 in income properties and a corresponding lease liability in accounts payable and accrued liabilities for emphyteutic leases on lands held for income-producing properties using modified retrospective approach. The accounting standard IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). IFRS 16 cancels and replaces the previous standard, IAS 17 - "Leases," and related interpretations.

3) Acquisitions and Dispositions

Dispositions of Income Properties Held for Sale in 2019

Date	Property type	Number of properties	Geographic market	Total selling price ($)
January 11, 2019	Office	1	Montreal	4,100
January 14, 2019	Industrial and flex	1	Québec City	1,200
January 16, 2019	Retail	1	Montreal	1,841
February 15, 2019	Office and Retail	10	Montreal	41,250
March 26, 2019	Industrial and flex	1	Montreal	26,000
April 18, 2019	Office	1	Moncton, Nouveau-Brunswick	8,020
April 29, 2019	Retail	1	Montreal	750
May 30, 2019	Retail	9	Montreal	28,000
June 6, 2019	Retail	1	Montreal	850
June 20, 2019	Office and Retail	1	Montreal	76,324
July 19, 2019	Industrial and flex	1	Montreal	14,000
September 13, 2019	Retail	2	Montreal	2,900
September 26, 2019	Office	1	Montreal	3,425
December 2, 2019	Office	2	Québec City	17,700
December 18, 2019	Office, retail and industrial and flex	11	Montreal and Québec City	31,696
		44		**258,056**

These properties sold during fiscal 2019 have been subject to an overall increase in their carrying amount to their fair value of $5,004 in 2019. These properties had been subject to an overall decrease in their carrying amount to their fair value of $14,888 in 2018.

Dispositions of Income Properties in 2019

On June 14, 2019, Cominar completed the sale of an industrial and flex property located in Quebec City, for a total selling price of $1,825.

On December 12, 2019, Cominar completed the sale of a retail property located in Montreal, for a total selling price of $725.

These properties sold during fiscal 2019 have been subject to an overall increase in their carrying amount to their fair value of $20 in 2019. These properties had been subject to an overall decrease in their carrying amount to their fair value of $9 in 2018.

Transfer to Income Properties in 2019

At the end of the third quarter of 2019, Cominar transferred a property from properties under development to income properties. The retail building was valued at $16,249 at the time of the transfer has a leasable area of 56,000 square feet and is located in Québec City.

Acquisitions in 2018

On June 20, 2018, Cominar completed the acquisition of the property of a shadow tenant located on the land of Les Rivières shopping centre, in Trois-Rivières, for an amount of $3,500.

On September 24, 2018, Cominar acquired, for $36,000, the land and superficies rights (the equivalent of air rights in Quebec) related to a property located in the Québec City area, in which Cominar had been leasing the superficies rights associated with its office building. The other superficies rights are leased by the operator of a hotel that shares the site. This acquisition was the result of a purchase option Cominar acquired as part of an earlier transaction.

Dispositions of Investment Properties Held for Sale in 2018

On March 27, 2018, Cominar completed the sale of 95 properties, comprised of 35 office properties, 23 retail properties and 37 industrial and flex properties, located in the Greater Toronto Area, Western Canada and the Atlantic Provinces, for an amount of $1,140,000 before the closing adjustments of $7,578 and $105,992 in mortgages payable that were assumed by the purchaser.

The following table summarizes this transaction:

	$
Selling price	1,140,000
Closing adjustments	(7,578)
Mortgages payable assumed by the purchaser	(105,992)
Net proceeds	1,026,430

Following the transaction, the net proceeds of $1,026,430 were used to repay a $75,000 bridge loan, $321,623 in mortgages payable, to reduce the bank borrowings by $549,700 and the balance was allocated to the Trust's general needs.

On December 13, 2018, Cominar completed the sale of one office property located in the Montreal area, for a total selling price of $8,150.

These properties sold during fiscal 2018 had been subject to an overall decrease in their carrying amount to their fair value of $5,490 in 2018.

Disposition of an Income Property in 2018

On August 31, 2018, Cominar completed the sale of one industrial and flex property located in Saguenay, for an amount of $2,850. This property had been subject to a decrease in its carrying amount to its fair value of $1,032 in 2018.

4) Income Properties

Years ended December 31		2019	2018
	Note	$	$
Balance, beginning of year		**6,058,191**	6,239,383
Acquisitions and related costs	3	**538**	39,710
Change in fair value		**278,580**	(242,307)
Right-of-use assets		**9,409**	—
Capital costs		**120,284**	204,325
Dispositions	3	**(2,550)**	(3,014)
Transfers to investment properties held for sale	6	**(75,934)**	(191,241)
Transfers from properties under development and land held for future development	5	**14,932**	—
Change in initial direct costs		**8,974**	9,819
Recognition of leases on a straight-line basis		**315**	1,516
Balance, end of year		**6,412,739**	6,058,191

Change in Fair Value of Investment Properties

Cominar opted to present its investment properties in the consolidated financial statements according to the fair value model. Fair value is determined based on valuations performed during the year using management's internal estimates and by independent real estate appraisers, plus capital expenditures made after the valuation and deemed to increase the rental income generating capacity of the property, or according to definitive agreements to sell investment properties. External valuations were carried out by independent national firms holding a recognized and relevant professional qualification and having recent experience in the location and category of the investment properties being valued.

As per Cominar's methodology on valuing investment properties, during fiscal 2019, management revalued the entire real estate portfolio and determined that a net increase of $276,475 was necessary to change the carrying amount in fair value of investment properties [decrease of $267,098 in 2018]. The change in fair value related to investment properties held as at the year-end date amounts to $271,450 [$260,563 in 2018]. In 2019, the fair value of investment properties from external valuations or source represented 56% [19% in 2018] of the total fair value of all investment properties.

Internally valued investment properties have been valued mainly using the direct capitalized net operating income method. Externally valued investment properties have been valued either with the direct capitalized net operating income method or the discounted cash flow method. Here is a description of these methods and the key assumptions used:

Direct capitalized net operating income method - Under this method, overall capitalization rates are applied to stabilized net operating income in order to comply with current valuation standards. The stabilized net operating income represents adjusted net operating income for items such as management expenses, occupancy rates, the recognition of leases on a straight-line basis and other non-recurring items. The key factor is the overall capitalization rate for each property or property type. Cominar regularly receives publications from national firms dealing with real estate activity and trends. Such market data reports include different capitalization rates by property type and geographical area for recent transactions.

Discounted cash flow method - Under this method, the expected future cash flows are discounted using an appropriate rate based on the risk of the property. Expected future cash flows for each investment property are based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. Discount and terminal capitalization rates are estimated using available appraisals market comparables and market surveys.

To the extent that the capitalization rate ranges change from one reporting period to the next, or if another rate is more appropriate than the rate previously used, the fair value of investment properties increases or decreases accordingly. The change in the fair value of investment properties is reported in the results.

Cominar has determined that an increase or decrease in 2019 of 0.1% in the applied capitalization rates for the entire real estate portfolio, excluding for the investment properties held for sale, would result in a decrease or increase of approximately $111,462 [$101,100 in 2018] in the fair value of its investment properties.

Capitalization and discount rates used in both the internal and external valuations are consistent with each other.

	2019		2018	
	Range	Weighted average	Range	Weighted average
Office properties				
Direct capitalized net operating income method				
Overall capitalization rate	**4.7% - 7.5%**	**5.7%**	4.8% - 8.5%	6.0%
Discounted cash flow method				
Discount rate	**5.5% - 8.5%**	**6.6%**	5.0% - 5.8%	5.9%
Terminal capitalization rate	**5.0% - 7.8%**	**6.0%**	5.5% - 7.3%	5.2%
Retail properties				
Direct capitalized net operating income method				
Overall capitalization rate	**4.7% - 8.5%**	**6.3%**	4.8% - 8.5%	6.3%
Discounted cash flow method				
Discount rate	**5.5% - 8.8%**	**7.0%**	5.0% - 7.5%	6.6%
Terminal capitalization rate	**5.0% - 8.3%**	**6.4%**	5.5% - 8.0%	5.8%
Industrial and flex properties				
Direct capitalized net operating income method				
Overall capitalization rate	**4.8% - 8.0%**	**6.4%**	4.8% - 8.0%	6.5%
Discounted cash flow method				
Discount rate	**5.5% - 8.3%**	**6.8%**	5.0% - 7.8%	6.2%
Terminal capitalization rate	**5.0% - 7.5%**	**6.1%**	5.5% - 8.3%	5.7%
Total				
Direct capitalized net operating income method				
Overall capitalization rate		**6.0%**		6.2%
Discounted cash flow method				
Discount rate		**6.8%**		6.2%
Terminal capitalization rate		**6.2%**		5.5%

In 2019, 63% of investment properties were valued using the discounted cash flow method and 37% were valued using the direct capitalized net operating income method compared to 15% valued using the discounted cash flow method and 85% using the direct capitalized net operating income method in 2018. Consequently, the weighted average overall capitalization rates, discount rates and terminal capitalization rates may not be comparable year over year.

5) Properties Under Development and Land Held for Future Development

Years ended December 31	Note	2019 $	2018 $
Balance, beginning of year		**128,043**	129,272
Change in fair value		**(1,301)**	(19,857)
Capital costs		**24,776**	15,382
Disposition of a portion of land		**—**	(2,400)
Net transfers to Income Properties	3, 4	**(14,932)**	—
Transfer to investment properties held for sale	6	**(1,855)**	—
Capitalized interests		**6,634**	5,546
Change in initial direct costs		**613**	100
Balance, end of year		**141,978**	128,043
Breakdown:			
Properties under development		**41,471**	34,293
Land held for future development		**100,507**	93,750

6) Investment Properties Held for Sale

Cominar has engaged in a process to sell certain income properties and expects to close these transactions within the next few months.

During the quarter ended March 31, 2019, Cominar transferred 3 income properties having a value of $18,450 to investment properties held for sale.

During the quarter ended June 30, 2019, Cominar transferred 4 income properties and 2 land held for future development having a value of $24,203 to investment properties held for sale.

During the quarter ended September 30, 2019, Cominar transferred 12 income properties having a value of $40,121 to investment properties held for sale.

During the quarter ended December 31, 2019, Cominar transferred 1 land held for future development having a value of $1,855 to investment properties held for sale and transferred 2 investment properties held for sale having a value of $6,840 to land held for future development.

During the period of twelve months ended December 31, 2019, Cominar sold 44 investment properties held for sale for a total selling price of $258,056.

Years ended December 31		2019				2018
	Note	Office properties $	Retail properties $	Industrial and flex properties $	Total $	Total $
Investment properties held for sale and goodwill						
Balance, beginning of year		**50,486**	**111,041**	**27,200**	**188,727**	1,143,500
Transfers from income properties	4	**21,280**	**37,068**	**17,586**	**75,934**	191,241
Transfers from properties under development and land held for future development	5	**—**	**1,855**	**—**	**1,855**	—
Capitalized costs [1]		**3,708**	**321**	**45**	**4,074**	7,070
Change in fair value		**(1,033)**	**274**	**(45)**	**(804)**	(4,934)
Dispositions	3	**(74,441)**	**(138,829)**	**(44,786)**	**(258,056)**	(1,148,150)
Transfer of goodwill	8	**—**	**—**	**—**	**—**	3,872
Derecognition of goodwill		**—**	**—**	**—**	**—**	(3,872)
Balance, end of year		**—**	**11,730**	**—**	**11,730**	188,727

1 Includes $(27) ($514 in 2018) of recognition of leases on a straight-line basis.

Years ended December 31		2019				2018
		Office properties	Retail properties	Industrial and flex properties	Total	Total
	Note	$	$	$	$	$
Mortgages payable related to investment properties held for sale						
Balance, beginning of year		**123**	—	—	**123**	276,350
Monthly repayments of principal		**(123)**	—	—	**(123)**	(2,400)
Repayments of balances		—	—	—	—	(167,958)
Mortgages payable assumed by the purchaser	10	—	—	—	—	(105,992)
Transfer of mortgages payable related to investment properties held for sale		—	—	—	—	123
Balance, end of year		—	—	—	—	123

7) Joint Ventures

As at December 31			2019	2018
Joint ventures	Address	City/province	Ownership interest	Ownership interest
Société en commandite Complexe Jules-Dallaire	2820 Laurier Boulevard	Québec, Quebec	**75%**	75%
Société en commandite Bouvier-Bertrand	Espace Bouvier	Québec, Quebec	**50%**	50%
Société en commandite Marais	Du Marais Street	Québec, Quebec	**75%**	75%

The business objective of these joint ventures is the ownership, management and development of real estate projects.The following table summarizes the financial information on the investments in these joint ventures accounted for under the equity method:

Years ended December 31	2019	2018
	$	$
Investments in joint ventures, beginning of year	**92,468**	86,299
Contributions to the capital of the joint ventures	**150**	1,931
Share of joint ventures' net income and comprehensive income	**7,200**	5,176
Cash distributions by a joint venture	**(2,362)**	(938)
Investments in joint ventures, end of year	**97,456**	92,468

Contractual rights and obligations
The formation of each joint venture is recognized by limited partnership agreements and unanimous shareholder agreements of the general partner, in which the rights and obligations of each limited partner or shareholder are provided for. Among these terms and conditions, the important decisions with regard to joint ventures are taken unanimously by the limited partners for the limited partnerships, and by the shareholders for the general partners. Capital contributions are made on a pro rata basis between the limited partners. In addition, each limited partner has the right of first refusal, should the other limited partner transfer its participation in the joint venture. In the event that one of the limited partners is subject to a change of control, or if its assets are sold, the other limited partner has a purchase option for the participation at the fair market value. Recourse or purchase option mechanisms benefits each limited partner in respect of the other limited partner if it is in default under the agreements or if it becomes insolvent.

The following tables summarize the joint ventures' net assets and net income as well as Cominar's proportionate share:

	Joint ventures		Cominar's proportionate share	
As at December 31	2019	2018	2019	2018
	$	$	$	$
Income properties	**243,680**	237,400	**171,573**	166,765
Properties under development	**11,800**	14,782	**5,900**	7,392
Land held for future development	**10,181**	11,200	**7,631**	8,400
Other assets	**1,716**	1,481	**1,164**	983
Mortgages payable	**(120,071)**	(123,762)	**(82,981)**	(85,534)
Bank borrowings [1]	**(8,200)**	(8,000)	**(4,100)**	(4,000)
Other liabilities	**(2,782)**	(2,412)	**(1,731)**	(1,538)
Net assets of joint ventures	**136,324**	130,689	**97,456**	92,468

1 Société en commandite Bouvier-Bertrand has a $12,500 credit facility, which is secured by the joint venturers.

Years ended December 31	Joint Ventures 2019	2018	Cominar's proportionate share 2019	2018
	$	$	$	$
Operating revenues	**24,735**	23,478	**17,194**	16,445
Operating expenses	**(10,499)**	(9,811)	**(7,361)**	(6,952)
Net operating income	**14,236**	13,667	**9,833**	9,493
Finance charges	**(5,669)**	(5,633)	**(3,953)**	(3,968)
Administrative expenses	**(39)**	(97)	**(19)**	(50)
Change in fair value	**58**	664	**1,339**	(299)
Net income	**8,586**	8,601	**7,200**	5,176

8) Goodwill

At year-end, Cominar tested its industrial and flex portfolio for impairment of goodwill by determining the recoverable value of the net assets of that CGUs and comparing it to the carrying amount, including goodwill. As at December 31, 2019, the recoverable value of this CGU was determined based on the value in use and calculated by discounting future net operating income expected to be generated from continuing use. For fiscal years 2020 to 2030, net operating income projections are based on management's budget projections supported by past experience, assuming stable increase in net operating income. The discount and terminal capitalization rates are estimated based on the segment weighted average overall capitalization rate. As at December 31, 2019, goodwill was not impaired and was impaired by $120,389 as at December 31, 2018.

Goodwill is measured using Level 3 inputs of the fair value hierarchy, which means that the inputs used are not based on observable market data.

	Note	Office properties	Retail properties	Industrial and flex properties	Total
		$	$	$	$
Balance as at January 1, 2018		79,496	44,648	15,838	139,982
Transfer to investment properties held for sale	7	(1,725)	(2,030)	(117)	(3,872)
Impairment of goodwill		(77,771)	(42,618)	—	(120,389)
Balance as at December 31, 2018		—	—	15,721	15,721
Impairment of goodwill		—	—	—	—
Balance as at December 31, 2019		**—**	**—**	**15,721**	**15,721**

The discount and terminal capitalization rates used to value the recoverable amount as at December 31, 2019 and December 31, 2018 of each group of CGUs are as follows:

As at December 31, 2019	Office properties	Retail properties	Industrial and flex properties
Terminal capitalization rate	**—%**	**—%**	**6.0%**
Discount rate	**—%**	**—%**	**6.6%**

As at December 31, 2018	Office properties	Retail properties	Industrial and flex properties
Terminal capitalization rate	6.2%	6.2%	6.5%
Discount rate	6.9%	7.2%	7.1%

9) Accounts Receivable

As at December 31	2019	2018
	$	$
Trade receivables	**26,518**	25,408
Expected credit losses	**(6,482)**	(6,326)
	20,036	19,082
Interest-bearing accounts receivable [1]	**543**	872
Security deposits	**482**	486
Other receivables and accrued income	**16,869**	20,722
Total	**37,930**	41,162
[1] Average effective interest rate	**7.12%**	5.79%

10) Mortgages Payable

Years ended December 31		2019		2018	
	Note	$	Weighted average contractual rate	$	Weighted average contractual rate
Balance, beginning of year		**1,747,991**	**4.03%**	2,153,896	4.22%
Mortgages payable contracted		**666,200**	**3.72%**	347,500	4.02%
Monthly repayments of principal		**(54,231)**	**—%**	(50,805)	—%
Repayments of balances		**(238,183)**	**4.82%**	(596,608)	4.66%
Mortgages payable assigned	6	**—**	**—%**	(105,992)	3.72%
		2,121,777	**3.84%**	1,747,991	4.03%
Plus: Fair value adjustments on assumed mortgages payable		**463**		727	
Less: Deferred financing costs		**(8,219)**		(6,491)	
Balance, end of year [1]		**2,114,021**		1,742,227	

1 As at December 31, 2018, includes $123 in mortgages payable related to the properties held for sale at that date.

Contractual maturities of mortgages payable are as follows as at December 31, 2019:

For the years ending December 31	Repayment of principal	Balances at maturity	Total
	$	$	$
2020	51,680	80,974	**132,654**
2021	46,186	307,862	**354,048**
2022	44,607	184,248	**228,855**
2023	42,611	104,292	**146,903**
2024	41,111	255,750	**296,861**
2025 and thereafter	101,756	860,700	**962,456**
Total	**327,951**	**1,793,826**	**2,121,777**

Mortgages payable are secured by immovable hypothecs on investment properties with a book value of $4,009,348 [$3,505,827 as at December 31, 2018]. They bear annual contractual interest rates ranging from 3.00% to 6.61% as at December 31, 2019 [2.52% to 6.94% as at December 31, 2018], representing a weighted average contractual rate of 3.84% as at December 31, 2019 [4.03% as at December 31, 2018], and mature at various dates from July 2020 to April 2034. As at December 31, 2019, the weighted average effective interest rate was 3.95% [4.11% as at December 31, 2018].

As at December 31, 2019, nearly all mortgages payable were bearing interest at fixed rates. Some of the mortgages payable include restrictive covenants, with which Cominar was in compliance as at both December 31, 2019 and December 31, 2018.

11) Debentures

Years ended December 31	2019		2018	
	$	Weighted average contractual rate	$	Weighted average contractual rate
Balance, beginning of year	**1,725,000**	**4.23%**	1,725,000	4.23%
Issuance	**200,000**	**4.50%**	—	—%
Repayment	**(600,000)**	**3.93%**	—	—%
	1,325,000	**4.41%**	1,725,000	4.23%
Less: Deferred financing costs	**(4,423)**		(3,350)	
Plus: Net premium and discount on issuance	**385**		936	
Balance, end of year	**1,320,962**		1,722,586	

On May 15, 2019, Cominar issued $200,000 in Series 11 senior unsecured debentures bearing interest at a rate of 4.5% and maturing in May 2024.

On June 21, 2019, Cominar reimbursed at maturity its Series 7 senior unsecured debentures totaling $300,000 and bearing interest at 3.62% using available cash and its unsecured renewable operating and acquisition credit facility.

On September 26, 2019, Cominar early redeemed $300,000 in aggregate principal of 4.23% Series 2 senior unsecured debentures using available cash and its unsecured renewable operating and acquisition credit facility. In addition to paying accrued interest of $3,964, Cominar paid a yield maintenance fee of $1,008.

The following table presents characteristics of outstanding debentures as at December 31, 2019:

	Date of issuance	Contractual interest rate	Effective interest rate	Maturity date	Par value as at December 31, 2019 ($)
Series 3	May 2013	4.00%	4.24%	November 2020	**100,000**
Series 4	July 2013 [1]	4.941%	4.81%	July 2020	**300,000**
Series 8	December 2014	4.25%	4.34%	December 2021	**200,000**
Series 9	June 2015	4.164%	4.25%	June 2022	**300,000**
Series 10	May 2016	4.247%	4.34%	May 2023	**225,000**
Series 11	May 2019	4.50%	4.82%	May 2024	**200,000**
		4.41%	**4.49%**		**1,325,000**

1 Re-opened in January 2014 ($100,000) and March 2014 ($100,000).

The debentures, under the trust indenture, contain restrictive covenants, with which Cominar was in compliance as at December 31, 2019 and 2018.

12) Bank Borrowings

As at December 31, 2019, Cominar had an unsecured renewable credit facility of up to $400,000 maturing in July 2021. This credit facility bears interest at the prime rate plus 110 basis points or at the bankers' acceptance rate plus 210 basis points. This credit facility contains certain restrictive covenants, with which Cominar was in compliance as at December 31, 2019. As at December 31, 2019, the credit facility was undrawn and availability was $400,000.

On September 20, 2019, Cominar entered into a 4-year agreement for a new secured credit facility maturing in September 2023. This new credit facility bears interest at the prime rate plus 70 basis points or at the bankers' acceptance rate plus 170 basis points. As at December 31, 2019, $180,000 was drawn on the credit facility. This credit facility is secured by immovable hypothecs on investment properties with a book value of $298,755.

As at December 31, 2018, Cominar had an unsecured renewable operating and acquisition credit facility of up to $700,000 that matured in August 2019. This credit facility bore interest at the prime rate plus 110 basis points or at the bankers' acceptance rate plus 210 basis points. This credit facility contained certain restrictive covenants, with which Cominar was in compliance as at December 31, 2018. As at December 31, 2018, bank borrowings totalled $152,950 and availability was $547,050.

13) Accounts Payable and Accrued Liabilities

As at December 31	2019	2018
	$	$
Trade accounts payable	**3,610**	3,064
Accrued interest payable	**18,110**	18,061
Prepaid rent and tenants' deposits	**25,620**	25,494
Other accounts payable and accrued expenses	**70,159**	47,753
Commodity taxes and other non-financial liabilities	**9,044**	8,975
Total	**126,543**	103,347

14) Issued and Outstanding Units

Ownership interests in Cominar are represented by a single class of units, unlimited in number. Units represent a unitholder's undivided and proportionate ownership interest in Cominar. Each unit confers the right to one vote at any unitholders' meeting and to participate equally and rateably in all Cominar distributions. All issued units are fully paid.

Years ended December 31	2019		2018	
	Units	$	Units	$
Units issued and outstanding, beginning of year	**181,956,349**	**3,226,929**	184,629,497	3,265,995
Repurchase of units under NCIB	**—**	**—**	(2,709,500)	(39,530)
Exercise of options, conversion of restricted units and deferred units	**155,016**	**1,974**	36,352	464
Units issued and outstanding, end of year	**182,111,365**	**3,228,903**	181,956,349	3,226,929

During the fiscal year ended December 31, 2018, Cominar repurchased 2,709,500 units under its normal course issuer bid of a maximum of 17,596,591 units expired on November 14, 2018, at an average price of $14.58, for total consideration of $39,530, including transaction costs.

Long Term Incentive Plan

Performance units
Performance units consist of allocations whose values, for the participant, rise or fall according to the value of Cominar units on the stock market. When the vesting period is over, each unit granted based on performance is multiplied by an adjustment factor according to the total return for Cominar's unitholders with respect to the total return of a reference group made up of entities comparable to Cominar. Vesting periods are determined by the Board of Trustees on the date of the grant. These rights are usually vested after three years from the grant date. For each cash distribution on Cominar units, an additional number of performance units is granted to each participant. The fair value of performance units is represented by the market value of Cominar units on the date of the grant.

Years ended December 31	2019	2018
	Units	Units
Outstanding, beginning of year	**164,425**	—
Granted	**174,972**	158,614
Forfeited	**(9,246)**	(2,148)
Accrued distributions	**19,615**	7,959
Outstanding, end of year	**349,766**	164,425
Vested units, end of year	**—**	—

Deferred units
Deferred units consist of allocations whose values, for the participant, rise or fall according to the value of Cominar units on the stock market. Each vested deferred unit provides the right to receive one Cominar unit when the holder ceases to be a Cominar trustee, member of management or employee. Vesting periods are determined by the Board of Trustees on the date of the grant. These rights are usually vested at a rate of 33 1/3% per anniversary year of the grant date. Once a year, the deferred unit holder can convert his or her vested deferred units into Cominar units. For each cash distribution on Cominar units, an additional number of deferred units is granted to each participant. The fair value of deferred units is represented by the market value of Cominar units on the date of the grant.

Years ended December 31	2019 Units	2018 Units
Outstanding, beginning of year	**315,435**	175,748
Granted	**107,555**	145,432
Converted	**(100,809)**	(23,225)
Forfeited	**(6,102)**	(1,107)
Accrued distributions	**18,036**	18,587
Outstanding, end of year	**334,115**	315,435
Vested units, end of year	**197,781**	123,504

Restricted units
Restricted units consist of allocations whose values, for the participant, rise or fall according to the value of Cominar units on the stock market. When the vesting period is over, each restricted unit provides the right to receive one Cominar unit on the settlement date. Vesting periods are determined by the Board of Trustees on the date of the grant. These rights are usually vested three years after the date of the grant. For each cash distribution on Cominar units, an additional number of restricted units is granted to each participant. The fair value of restricted units is represented by the market value of Cominar units on the date of the grant.

Years ended December 31	2019 Units	2018 Units
Outstanding, beginning of year	**2,946**	5,026
Granted	**—**	1,135
Converted	**(507)**	(3,427)
Forfeited	**(225)**	—
Accrued distributions	**97**	212
Outstanding, end of year	**2,311**	2,946
Vested units, end of year	**1,039**	225

Unit options
Cominar has granted unit options to management and employees under the long-term incentive plan. As at December 31, 2019, options to purchase 5,235,900 units were outstanding.

The following table shows characteristics of outstanding options at year-end:

As at December 31, 2019					
Date of grant	Graded vesting method	Expiration date	Exercise price $	Outstanding options	Exercisable options
December 15, 2015	33 1/3 %	December 15, 2022	14.15	1,505,300	1,505,300
December 13, 2016	33 1/3 %	December 13, 2023	14.90	1,769,400	1,769,400
August 24, 2017	33 1/3 %	August 24, 2024	13.46	1,961,200	1,438,100
				5,235,900	**4,712,800**

As at December 31, 2019, the average weighted contractual life of outstanding options was 3.9 years.

The following table presents changes in the number of options for the years indicated:

Years ended December 31	2019		2018	
	Options	Weighted average exercise price $	Options	Weighted average exercise price $
Outstanding, beginning of year	**8,689,400**	**14.86**	12,928,000	15.28
Exercised	**(53,700)**	**13.63**	(9,700)	14.15
Granted	**—**	**—**	—	—
Forfeited or cancelled	**(2,186,300)**	**14.82**	(2,430,400)	14.93
Expired	**(1,213,500)**	**18.07**	(1,798,500)	17.76
Outstanding, end of year	**5,235,900**	**14.15**	8,689,400	14.86
Exercisable options, end of year	**4,712,800**	**14.22**	6,461,100	15.19

As at December 31, 2019, the maximum number of units that may be issued under the long-term incentive plan is 16,395,538 units.

Unit-based compensation

The compensation expense related to performance units and deferred units granted in January 2019 was calculated based on the market price of Cominar units on the grant date, which was $11.20.

The compensation expense related to deferred units granted in November 2019 was calculated based on the market price of Cominar units on the grant date, which was $13.39.

The compensation expense related to restricted units and deferred units granted in March 2018 was calculated based on the market price of Cominar units on the grant date, which was $13.84.

The compensation expense related to performance units and deferred units granted in April 2018 was calculated based on the market price of Cominar units on the grant date, which was $12.78.

The overall compensation expense for the fiscal year ended 2019 was $2,972 [$2,372 in 2018].

Distributions to Unitholders

Cominar is governed by a Contract of Trust whereby the Trustees, under the discretionary power attributed to them, intend to distribute a portion of its distributable income to unitholders. Distributable income generally means net income determined in accordance with IFRS, before fair value adjustments, transaction costs, rental revenue derived from the recognition of leases on a straight-line basis, provision for leasing costs, gains on disposal of investment properties and certain other items not affecting cash, if applicable.

Years ended December 31	2019 $	2018 $
Distributions to unitholders	**131,068**	143,730
Distributions per unit	**0.72**	0.79

On March 7, 2018, Cominar decreased the monthly distribution from $0.095 per unit to $0.06 per unit, beginning with the distribution of March 2018 paid in April 2018.

15) Operating Revenues

Revenues from other services are estimated based on operating costs billable to tenants.

Year ended December 31, 2019	Office properties $	Retail properties $	Industrial and flex properties $	Total of operating revenues $
Lease revenues	242,515	237,180	152,306	632,001
Parking revenues	21,411	470	31	21,912
Revenues from other services	21,794	21,274	7,060	50,128
Total	**285,720**	**258,924**	**159,397**	**704,041**

Year ended December 31, 2018	Office properties $	Retail properties $	Industrial and flex properties $	Total of operating revenues $
Lease revenues	258,741	250,511	149,772	659,024
Parking revenues	20,070	441	17	20,528
Revenues from other services	25,187	21,848	8,063	55,098
Total	303,998	272,800	157,852	734,650

16) Operating Lease Income

a) The future minimum lease payments from tenants are as follows:

As at December 31, 2019	$
- Less than one year	**393,088**
- More than one year to five years	**1,116,488**
- More than five years	**916,949**

b) Contingent rents included in revenues for the year are as follows:

Years ended December 31	2019 $	2018 $
Contingent rents	**6,090**	6,726

17) Operating Costs and Property Management Expenses

The following table presents the main components of operating costs and property management expenses based on their nature:

Years ended December 31	2019 $	2018 $
Repairs and maintenance	**63,739**	64,742
Energy	**55,399**	60,332
Salaries and other benefits	**33,285**	36,391
Other expenses	**23,644**	23,763
Total	**176,067**	185,228

18) Finance Charges

Years ended December 31	2019 $	2018 $
Interest on mortgages payable	**80,840**	77,404
Interest on debentures	**70,669**	73,084
Interest on bank borrowings	**3,995**	7,929
Net amortization of premium and discount on debenture issues	**(555)**	(520)
Amortization of deferred financing costs and other costs	**4,150**	3,520
Amortization of fair value adjustments on assumed borrowings	**(264)**	(1,440)
Less: Capitalized interest [1]	**(7,784)**	(7,740)
Total	**151,051**	152,237

1 *Includes capitalized interest on properties under development and on major revitalization projects for income properties that take place over a substantial period of time. The weighted average interest rate used in 2019 was 4.31% [4.05% in 2018].*

Interest on debentures for the periods ended December 31, 2019 includes $1,008 associated to the yield maintenance fee paid for the Series 2 senior unsecured debentures redemption. Finance charges also include $87 of costs related to that transaction.

19) Trust Administrative Expenses

Years ended December 31	2019 $	2018 $
Salaries and other benefits	**11,259**	11,840
Compensation related to the long-term incentive plan	**2,972**	2,372
Professional fees	**879**	809
Public company costs	**801**	711
Governance and strategic alternatives consulting fees	**—**	3,839
Other expenses	**1,343**	3,684
Total	**17,254**	23,255

Salaries and other benefits for the years ended December 31, 2019 and December 31, 2018 include $1,043 and $735, respectively, associated with the departure of executives.

20) Transaction Costs

Years ended December 31	2019	2018
	$	$
Brokerage fees	**2,192**	5,790
Professional fees	**544**	2,912
Assumed head leases	**217**	4,201
Penalties on debt repayment	**41**	945
Closing adjustments	**3,400**	8,244
Other	**69**	755
Total	**6,463**	22,847

21) Restructuring Costs

During the quarter ended June 30, 2019, Cominar announced an organizational restructuring to streamline and enhance the effectiveness of operations which the outcome, among others, has been the reduction of its workforce. During the quarter ended June 30, 2019, Cominar recorded a provision of $3,916 related to this organizational restructuring, primarily related to severance benefits. An additional provision of $858 has been recorded during the quarter ended September 30, 2019 to include the second phase of the organizational restructuring. Up to December 31, 2019, $2,559 had been paid since the beginning of the restructuring.

22) Income Taxes

Cominar is considered a mutual fund trust for income tax purposes. Pursuant to the Contract of Trust, the trustees intend to distribute or designate all taxable income directly earned by Cominar to unitholders and to deduct such distributions and allocations from its income for tax purposes. Therefore, no provision for income taxes is required.

Taxation of distributions of specified investment flow-through ("SIFT") trusts and exception for real estate investment trusts ("REITs")
Since 2007, SIFT trusts are subject to income taxes on the distributions they make. In short, a SIFT trust is a trust that resides in Canada, whose investments are listed on a stock exchange or other public market and that holds one or more non-portfolio properties.

The SIFT trust rules do not apply to SIFT trusts that qualify as REITs for a given taxation year. Cominar has reviewed the conditions to qualify as a REIT. For the fiscal years ended December 31, 2019 and 2018, Cominar believes that it met all of these conditions and qualified as a REIT. As a result, the SIFT trust tax rules for 2019 and 2018 did not apply to Cominar and no deferred tax provision, be it an asset or liability, was recorded in relation to the Trust's activities. Cominar's management intends on taking the necessary steps to meet these conditions on an ongoing basis in the future.

Some of Cominar's subsidiaries are subject to tax on their taxable income under the Income Tax Act (Canada) and the taxation acts of the provinces concerned.

The tax expense (income) differs from the amount calculated by applying the combined federal and provincial tax rate to income before income taxes. The following table presents the reasons for this difference:

Years ended December 31	2019	2018
	$	$
Net income (loss) before income taxes	**462,455**	(212,058)
Canadian combined statutory tax rate	**27.08%**	29.38%
Tax income at the statutory tax rate	**125,233**	(62,303)
Loss (income) not subject to income tax	**(125,254)**	59,417
Other	**(28)**	3,110
Income taxes	**(49)**	224

Following the disposition of 95 non-core properties, income taxes of an incorporated subsidiary became due during the fiscal year ended December 31, 2018.

Changes in the current income tax account are shown in the following table:

Years ended December 31	2019 $	2018 $
Balance, beginning of year	**(6,763)**	–
Deferred taxes that became payable	**–**	(6,539)
Taxes paid	**6,763**	–
Changes in current income taxes	**–**	(224)
Balance, end of year	**–**	(6,763)

Deferred taxes relating to incorporated subsidiaries are shown in the following table:

As at December 31, 2019	2019 $	2018 $
Deferred tax assets to be recovered after more than 12 months		
Mortgages payable	**–**	–
Tax losses	**–**	21
	–	21
Deferred tax liabilities to be settled after more than 12 months		
Investment properties	**(93)**	(163)
Deferred taxes (net)	**(93)**	(142)

Changes in the deferred income tax account were as follows:

Years ended December 31	2019 $	2018 $
Balance, beginning of year	**142**	6,681
Deferred tax income recorded in the consolidated statements of comprehensive income	**(49)**	(6,539)
Balance, end of year	**93**	142

Changes in deferred income tax assets and liabilities during the year, excluding the offsetting of balances within the same tax jurisdiction, were as follows:

	Mortgages payable $	Tax losses $	Total $
Deferred tax assets			
Balance as at January 1, 2018	7	353	360
Origination and reversal of timing differences included in profit or loss	(7)	(332)	(339)
Balance as at December 31, 2018	–	21	21
Reversal of timing differences included in profit or loss	–	(21)	(21)
Balance as at December 31, 2019	**–**	**–**	**–**

	Income properties $
Deferred tax liabilities	
Balance as at January 1, 2018	(7,042)
Reversal of timing differences included in profit or loss	6,879
Balance as at December 31, 2018	(163)
Reversal of timing differences included in profit or loss	70
Balance as at December 31, 2019	**(93)**

23) Per Unit Calculation Basis

Years ended December 31	2019 Units	2018 Units
Weighted average number of units outstanding – basic	**182,183,995**	182,156,628
Dilutive effect related to the long-term incentive plan	**186,676**	—
Weighted average number of units outstanding – diluted	**182,370,671**	182,156,628

The calculation of the diluted weighted average number of units outstanding does not take into account the effect of the conversion into units of 2,256,773 options and unvested performance units, deferred units and restricted units outstanding at the end of the year ended December 31, 2019 [9,038,590 in 2018], due to the fact that their conversion or exercise price, including the unrecognized portion of the related compensation expense, is higher than the average price of the units or due to the fact they are antidilutive.

24) Supplemental Cash Flow Information

Years ended December 31	2019 $	2018 $
Accounts receivable	**3,232**	10,829
Prepaid expenses	**(4,747)**	(453)
Accounts payable and accrued liabilities	**11,490**	(5,908)
Current tax liabilities	**(6,763)**	6,763
Changes in non-cash working capital items	**3,212**	11,231
Other information		
Accounts payable and accrued liabilities relating to investing activities	**14,895**	13,602
Accounts receivable relating to investing activities	**4,014**	4,014

25) Key Management Personnel Compensation

Compensation of key management personnel is set out in the following table:

Years ended December 31	2019 $	2018 $
Short-term benefits	**4,795**	5,256
Contribution to the retirement savings plans	**165**	170
Long-term incentive plan	**1,079**	1,558
Severance allowances	**2,779**	735
Total	**8,818**	7,719

Unit options granted to senior executives and other officers may not be exercised, even if they have vested, until the following three conditions have been met. The first condition requires that the market price of the security must be at least ten percent (10%) higher than the exercise price of the option, and this condition will be considered as met if the unit price has remained at such level for a period of twenty (20) consecutive trading days during the option's term. The second condition requires that the senior executive or other officer must undertake to hold a number of units corresponding to the multiple determined for his base salary. The third condition is that when the options are exercised, if the senior executive or other officer does not hold the required minimum number of units, he must retain at least five percent (5%) of the units purchased until he has the multiple corresponding to his base salary.

26) Capital Management

Cominar manages its capital to ensure that capital resources are sufficient for its operations and development, while maximizing returns for unitholders by adequately maintaining the debt ratio. Cominar's capital consists of cash and cash equivalents, long-term debt, bank borrowings and unitholders' equity.

Cominar's capitalization is based on expected business growth and changes in the economic environment. It is not subject to any capital requirements imposed by regulatory authorities.

Cominar's capitalization is as follows:

As at December 31	2019	2018
	$	$
Cash and cash equivalents	**(152,634)**	(1,498)
Mortgages payable	**2,114,021**	1,742,227
Debentures	**1,320,962**	1,722,586
Bank borrowings	**180,000**	152,950
Unitholders' equity	**3,150,801**	2,815,696
Total	**6,613,150**	6,431,961
Debt ratio [1]	**51.4%**	55.3%
Interest coverage ratio [2]	**2.36:1**	2.32:1

1 *The debt ratio is equal to the total of cash and cash equivalents, bank borrowings, mortgages payable and debentures, divided by total assets less cash and cash equivalents.*
2 *The interest coverage ratio is equal to net operating income (operating revenues less operating expenses) less Trust administrative expenses (excluding governance and strategic alternatives consulting fees as well as the severance allowance paid to an executive officer) divided by finance charges (excluding finance charges related to mortgages repayments before maturity and yield maintenance fees and costs paid in relation to the Series 2 senior unsecured debenture redemption).*

Cominar's Contract of Trust provides that it may not incur debt if, taking into consideration the debt thus incurred or assumed, its total debt exceeds 60% of the carrying amount of its assets (65% if convertible debentures are outstanding). As at December 31, 2019, Cominar had maintained a debt ratio of 51.4% and was complying with the Contract of Trust.

The interest coverage ratio is used to assess Cominar's ability to pay interest on its debt from operating revenues. As such, for the year ended December 31, 2019, the interest coverage ratio was 2.36:1, reflecting Cominar's capacity to meet its debt-related obligations.

Capital management objectives remain unchanged from the previous period.

27) Fair Value

Cominar uses a three-level hierarchy to classify its financial instruments measured at fair value. The hierarchy reflects the relative weight of inputs used in the valuation. The levels in the hierarchy are:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3 – Inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs)

Cominar's policy is to recognize transfers between hierarchy levels on the date of changes in circumstances that caused the transfer. There were no transfers made between hierarchy levels during the fiscal years 2019 and 2018.

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable to unitholders and bank borrowings approximates the carrying amount since they are short-term in nature or bear interest at current market rates.

The fair value of mortgages payable and debentures has been estimated based on current market rates for financial instruments with similar terms and maturities.

Classification

Non-financial assets and their carrying amount and fair value as well as financial liabilities and their carrying amount and fair value, when that fair value does not approximate the carrying amount, are classified as follows:

		As at December 31, 2019		As at December 31, 2018	
		Carrying amount	Fair value	Carrying amount	Fair value
	Level	$	$	$	$
Recurring valuations of non-financial assets					
Income properties	3	**6,412,739**	**6,412,739**	6,058,191	6,058,191
Investment properties held for sale	3	**11,730**	**11,730**	188,727	188,727
Land held for future development	3	**100,507**	**100,507**	93,750	93,750
Financial liabilities					
Mortgages payable	2	**2,114,021**	**2,164,680**	1,742,227	1,764,084
Debentures	2	**1,320,962**	**1,368,398**	1,722,586	1,703,866

28) Financial Instruments

Risk Management

The main risks arising from Cominar's financial instruments are credit risk, interest rate risk and liquidity risk. The strategy for managing these risks is summarized below.

Credit risk
Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments.

Cominar mitigates credit risk via property type and geographic portfolio diversification, staggered lease maturities, and diversification of revenue sources through a varied tenant mix as well as by avoiding dependence on any single tenant by ensuring that no individual tenant contributes a significant portion of operating revenues and by conducting credit assessments on all new tenants.

Cominar has a broad, highly diversified client base consisting of about 3,700 clients occupying an average of approximately 9,200 square feet each. The top three clients, Société québécoise des infrastructures, Public Works Canada and Canadian National Railway Company, account respectively for approximately 5.8%, 4.1% and 3.4% of operating revenues from several leases with staggered maturities. The stability and quality of cash flows from operating activities are enhanced by the fact that approximately 14.1% of operating revenues come from government agencies, representing approximately 100 leases.

Cominar regularly assesses its accounts receivable and records an expected credit loss for accounts when there is a risk of non-collection.

The maximum credit risk to which Cominar is exposed corresponds to the carrying amount of accounts receivable and the cash and cash equivalents position.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Cominar's objective in managing this risk is to minimize the net impact on future cash flows. Cominar reduces its exposure to interest rate risk by staggering the maturities of its borrowings over several years and by generally using long-term debt bearing interest at fixed rates.

Accounts receivable, except for the receivables bearing interest, and accounts payable and accrued liabilities do not bear interest.

Almost all mortgages payable and all debentures bear interest at fixed rates.

Cominar is exposed to interest rate fluctuations mainly due to bank borrowings, which bear interest at variable rates.

A 25-basis-point increase or decrease in the average interest rate on variable interest debts during the period, assuming that all other variables are held constant, would have affected Cominar's net income by more or less $320 for the year ended December 31, 2019 [$547 in 2018].

Liquidity risk
Liquidity risk is the risk that Cominar will be unable to meet its financial obligations as they come due.

Cominar manages this risk by managing its capitalization, continuously monitoring current and projected cash flows and adhering to its capital management policy.

Undiscounted contractual cash flows (interest and principal) related to financial liabilities as at December 31, 2019 are as follows:

		Cash flows		
		Under one year	One to five years	Over five years
	Note	$	$	$
Mortgages payable	10	**222,452**	**1,292,149**	**1,080,025**
Debentures	11	**458,371**	**1,007,627**	**—**
Bank borrowings	12	**7**	**200**	**—**
Accounts payable and accrued liabilities [1]	13	**107,786**	**—**	**—**
Lease liability		**578**	**2,440**	**17,288**

1 *Excludes consumption taxes and other non-financial liabilities*

29) Segmented Information

Cominar's activities include a diversified portfolio of three property types located in the Province of Quebec and in Ottawa, Ontario. The accounting policies followed for each property type are the same as those disclosed in the significant accounting policies set out in note 2. Cominar uses net operating income as its main criterion to measure operating performance, that is, the operating revenues less the operating expenses of its investment properties. Management of expenses, such as interest and administrative expenses, is centralized and, consequently, these expenses have not been allocated to Cominar's segments.

The segments include Cominar's proportionate share in joint ventures. The Joint ventures column reconciles the segment information including the proportionate share in assets, liabilities, revenues and charges, to the information presented in these consolidated financial statements, where the investments in joint ventures are accounted for using the equity method.

Years ended	Office Properties	Retail Properties	Industrial and flex properties	Cominar's proportionate share	Joint ventures	Consolidated financial statements
December 31, 2019	$	$	$	$	$	$
Rental revenue from investment properties	**301,414**	**260,424**	**159,397**	**721,235**	**(17,194)**	**704,041**
Change in fair value of investment properties	**47,797**	**(130,598)**	**360,615**	**277,814**	**(1,339)**	**276,475**
Net operating income	**145,609**	**129,007**	**93,539**	**368,155**	**(9,833)**	**358,322**
Share of joint ventures' net income	**—**	**—**	**—**	**—**	**7,200**	**7,200**
December 31, 2018	$	$	$	$	$	$
Rental revenue from investment properties	319,010	274,232	157,853	751,095	(16,445)	734,650
Change in fair value of investment properties	(82,791)	(264,991)	80,385	(267,397)	299	(267,098)
Net operating income	152,017	138,471	91,469	381,957	(9,493)	372,464
Share of joint ventures' net income	—	—	—	—	5,176	5,176

	Office Properties	Retail Properties	Industrial and flex properties	Cominar's proportionate share	Joint ventures	Consolidated financial statements
As at December 31, 2019	$	$	$	$	$	$
Income properties	**2,547,654**	**2,237,849**	**1,798,809**	**6,584,312**	**(171,573)**	**6,412,739**
Investment properties held for sale	**—**	**11,730**	**—**	**11,730**	**—**	**11,730**
Investments in joint ventures	**—**	**—**	**—**	**—**	**97,456**	**97,456**
As at December 31, 2018	$	$	$	$	$	$
Income properties	2,452,567	2,340,041	1,432,348	6,224,956	(166,765)	6,058,191
Investment properties held for sale	50,486	111,041	27,200	188,727	—	188,727
Investments in joint ventures	—	—	—	—	92,468	92,468

30) Subsequent Events

On January 6, 2020, Cominar repaid $2,204 in mortgages payable before maturity using available cash.

On January 7, 2020, Cominar repaid $3,004 in mortgages payable before maturity using available cash.

On January 8, 2020, Cominar repaid $80,205 in mortgages payable before maturity using available cash.

On January 16 and February 19, 2020, Cominar declared a monthly distribution of $0.06 per unit for each of these months.

On January 21, 2020, Cominar completed the sale of two retail properties held for sale located in the Montreal area for a total amount of $850.

On January 23, 2020, Cominar completed the sale of an investment property held for sale (retail land) located in the Québec city area for a total amount of $1,855.

On March 3, 2020, Cominar contracted a new mortgage of $83,360 with a 5.5 years term and bearing interest at 2.86%.

On March 3, 2020, Cominar refinanced a mortgage having a balance of $5,352, maturing in November 2024 and bearing interest at 3.90% with a new mortgage of $20,000 maturing in March 2027 and bearing interest at 3.48%.

Corporate Information

Board of Trustees

1 Member of the Audit Committee
2 Member of the Human Ressources Committee
3 Member of the Nomination and Governance Committee
4 Member of the Investment Committee
5 Systematically attends all committee meeting

Key Officers

Sylvain Cossette
President and Chief Executive Officer

Heather C. Kirk, B. Com., CFA
Executive Vice President and
Chief Financial Officer

Marie-Andrée Boutin, MBA
Executive Vice President,
Retail and Development

Bernard Poliquin
Executive Vice President, Office and Industrial
and Chief Real Estate Operations Officer

Wally Commisso
Executive Vice President,
Operations and Property Management

Jean Laramée, Eng.
Executive Vice President, Development

Michael Racine
Executive Vice President,
Leasing - Office and Industrial

Unitholders Information

Cominar Real Estate Investment Trust

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Listing

The units of Cominar Real Estate Investment Trust are listed on the Toronto Stock Exchange under the trading symbol CUF.UN.

Transfer Agent

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Email: service@computershare.com

Taxability of Distributions

In 2019, 10.65% of the distributions made by Cominar to unitholders were returns of capital, reducing the adjusted cost base of the units.

Legal Counsel

Davies Ward Phillips & Vineberg LLP

Auditors

PricewaterhouseCoopers LLP

Annual Meeting of Unitholders

May 13, 2020
Hotel Plaza Québec
3031 Laurier boulevard
Québec City (Quebec)

Unitholders Distribution Reinvestment Plan

Cominar Real Estate Investment Trust offers unitholders the opportunity to participate in its Unitholders Distribution Reinvestment Plan (the "DRIP"). The DRIP allows participants to receive their monthly distributions as additional units of Cominar. In addition, participants will be entitled to receive an additional distribution equal to 3% of each cash distribution reinvested pursuant to the DRIP, which will be reinvested in additional units.

On August 3, 2017, Cominar suspended the distribution reinvestment plan, starting with the distribution of August 2017, which was payable in September 2017. If Cominar decides to resume the plan in the future, the unitholders who were registered in the plan at the time of its suspension and who are still registered at the time of its resumption shall automatically resume their participation in the plan.

For further information about the DRIP, please refer to the DRIP section of our website at www.cominar.com or contact us by email at info@cominar.com or contact the Transfer Agent.