

Focusing on Growth to Create Value

2018 Annual Report

Cominar Real Estate Investment Trust

Fiscal Year Ended December 31, 2018





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Message to Unitholders

Cominar's ongoing transformation

The past year saw numerous important developments aimed at driving Cominar's transformation forward.

During the first quarter of 2018, we continued to stabilize our balance sheet by finalizing the sale of a 95 property portfolio totalling 6.2 million square feet in our non-core markets, generating gross proceeds of \$1.14 billion. The net proceeds from this transaction went toward repaying a portion of our debt, thereby reducing our debt ratio from 57.4% as at December 31, 2017, to 51.3% as at March 31, 2018.

We also refocused our strategy on our core markets, namely Montreal, Québec City and Ottawa. Close to 65% of our portfolio is currently situated in the economically buoyant Montreal area, whereas the Québec City and Ottawa markets, high on government employment, continue to offer stability. These three markets are also advantageous in that there are key projects in the works to enhance urban mobility. Many of our assets are strategically positioned along these proposed transit lines, thus providing opportunities for densification and increases in portfolio value.



In addition, we refreshed the composition of our Board with three new trustees, Paul Campbell, René Tremblay and Zachary George, whose keen insight will be invaluable in navigating the ever-changing landscape of the commercial real estate industry and capital markets.

The expertise and depth of our management team was also rounded out with the addition of Heather Kirk, CFA, as Executive Vice President and Chief Financial Officer, Marie-Andrée Boutin, as Executive Vice President, Retail Strategy and Operations, and Sandra Lécuyer, as Vice President, Talent and Organization.

Lastly, in Montreal we finalized the internalization of certain construction activities in 2018 in order to be able to provide turnkey, vertically integrated service and move forward with enhancing client satisfaction.

Improved operational performance

Our focus and efforts in terms of improving our operational performance continued to pay off in 2018. Our same property NOI grew steadily over each of the four quarters, for a total of 1% during the year. We remain committed to accelerating organic growth through proactive leasing, improving our operating efficiencies and optimizing our cost structure.

Our team's hard work also helped us retain 75.8% of leases up for renewal during the year, an increase of 5.1 percentage points over last year. And our portfolio-wide committed occupancy rate grew from 92.6% to 93.6%.

Our office portfolio reported 3.5% growth in same-property NOI. This can be attributed to several major transactions during the year which drove physical occupancy up by 240 bps to 91.5%. Successes in 2018

include a leasing agreement signed for 180,000 square feet with the Commission scolaire de Montreal at 5100 Sherbrooke Street East in Montreal, 84,000 square feet at 800 Palladium Drive in the Ottawa suburb of Kanata and 20,000 square feet at 2180 Cyrille-Duquet Street in Québec City, home to a new Tesla service centre.

The same-property NOI for our retail property portfolio, on the other hand, was down 3.4%. This is largely a result of the Sears closure, which led to a number of vacancies in our shopping centres. However, our strategic plan for offsetting this impact is coming along nicely, with 42.6% of these spaces (275,837 square feet) now retented or on the verge of being so. These new deals alone represent 105.2% of what Sears used to generate. We are therefore confident that we will be even more successful in leasing out the former Sears stores than we were after the demise of Target, when we saw our revenues grow by 36%.

Mirroring retailers' attempts to adapt to omnichannel strategies, we are enhancing our shopping centres and investing in the experience we deliver to customers, specifically by adding new brands and devising innovative marketing initiatives designed to broaden the retail offering. Rockland, one of our flagship retail properties, is undergoing a wholesale renewal with the addition of new tenants, and pop-up spaces to showcase emerging concepts and the wares of online retailers and local designers. Moreover, our acclaimed new and improved food hall boasts a unique experience that has proven very popular with consumers and is outperforming expectations.

We would be remiss if we didn't mention the arrival of several high-profile retailers in our portfolio during the year, including four Winners/Marshalls stores (total 132,000 square feet), Canada's first Decathlon at Mail Champlain (66,000 square feet), an Avril Supermarché Santé at Centre Laval (34,000 square feet) and Quebec's first Lee Valley at Centre Laval (25,000 square feet).



In order to further grow our revenue streams and footfall to our properties, we are currently reviewing various densification and redevelopment scenarios and best uses, including the addition of office, residential and hotel uses, to make the most of the major urban shopping centres in our portfolio.

As for our industrial and flex portfolio, it experienced a 4.0% increase in same property NOI during the year. We expect strong fundamentals, stable occupancy and rising rents to provide for continued acceleration in organic growth in our industrial portfolio.

We have also embarked on a comprehensive strategic planning process to establish a three-year roadmap for continuous improvement and value creation. As such, we are examining every aspect of our business,

including our portfolio, capital, human resources, costs, technology and processes, to identify areas where we can boost our performance and returns for our unitholders.

Following the addition of new members to our senior management team we wish to thank Gilles Hamel, Guy Charron and Todd Bechard for their contributions and wish them well in their future endeavours.

In closing, we would like to take this opportunity to acknowledge the excellent work done by Cominar employees across the board, as well as the outstanding contributions of our trustees in 2018. We realize that much remains to be done and we are excited about the prospects for the future and the opportunities we have in front of us to drive stronger performance and returns for you, our unitholders.



Alban D'Amours, CM, GOQ, LH, Fellow Adm.A.
Chairman of the Board of Trustees



Sylvain Cossette
President and Chief Executive Officer



Creator of Living Environments

Cominar Real Estate Investment Trust owns and manages a high-quality portfolio of office, industrial, flex and retail properties in the Montreal, Québec City and Ottawa markets. Created in 1998, Cominar is built upon the core foundations of integrity, respect and entrepreneurial drive.

Since day one, we have made the satisfaction of our clients – who currently number 3,900 – our top priority. Our team is attentive to client needs and puts their talent, creativity and market insight to work to support them in developing their business. We leverage our industry knowledge and business acumen to foster growth: both that of our clients and our own.





Mission

Investors

Generate superior returns for our unitholders through proactive portfolio management and astute allocation of capital.

Clients

Office

Create work environments that inspire, stimulate productivity and empower our clients to attract top talent and achieve their growth objectives.

Retail

Create shopping centres that have a unique personality, are involved in their community and treat consumers to memorable experiences.

Industrial and flex

Create intelligent and versatile spaces that are suited to meet emerging needs in this segment.

Employees

Attract, develop and engage talent and high-performance teams who contribute to the success of our organization.

Communities

Contribute to the well-being of our communities through environmental, social and economic stewardship.



Market context

The real estate sector is currently in the midst of a major transformation shaped by a series of societal shifts, among them:

- › Urban spread and densification, and their influence on individual mobility
- › Increased environmental awareness and a greater emphasis on the circular* and sharing economy
- › Focus on wellness and evolving lifestyle habits
- › Growth of omnichannel and e-commerce
- › Growing demand for meaningful experiences and access to enhanced amenities and flexible spaces
- › Rapid advancement of technology

We view these changes as the grounds to be even more forward-thinking and strive to make a distinctive mark, based on our vision of where the real estate industry is heading in the next decade. It is a matter of seeing beyond bricks-and-mortar to reinvent working and shopping spaces using innovative lifestyle and experiential concepts – all for the benefit for our clients and unitholders.

* Circular economy: A system of production, exchange and consumption aimed at optimizing the use of resources at every stage of the lifecycle of a good or a service in a circular manner by reducing its environmental footprint and contributing to the well-being of individuals and communities.
Source: Institut de l'environnement, du développement durable et de l'économie circulaire (EDDEC)



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Overview

Office

As at December 31, 2018, we owned 96 office buildings in the Montreal, Québec City and Ottawa markets totalling of 11.7 million square feet.

2018 achievements

In 2018, our team signed leases for a total of 2,292,000 square feet, 662,000 of which was for new leases. In addition to the large-scale transactions concluded during the year was a 20-year agreement with the Commission scolaire de Montréal for 180,000 square feet at 5100 Sherbrooke Street East in Montreal. Move-in is scheduled to begin in 2019. Our teams pulled out all the stops to bring this deal to fruition, working hand in hand with several clients to assemble the space required by our new tenant. In the end, this one transaction resulted in five leasing agreements in four separate buildings.

Among the other deals concluded during the year:

- › 40,000 square feet at 2001 McGill College Avenue in Montreal, which will be occupied by McGill University
- › 45,000 square feet at 3055 Saint-Martin Boulevard West in Laval, bringing the occupancy rate for this new LEED building to 100%
- › 84,000 square feet in the Palladium Campus in the Ottawa suburb of Kanata, where Ford Motor Company will set up an R&D facility focusing on autonomous vehicles

This last transaction pushed our committed occupancy rate in Ottawa up from 89.3% to 91.5% and prompted us to start building 800 Palladium Drive in Kanata, a new five-storey property slated for delivery in the fall of 2020.

Vision 2035

During the year, we continued to reflect on what the office building of the future might look like. As part of the process, we canvassed tenants and partners to ask them about the issues and challenges they are facing now and what they expect to see in the years to come. Their contributions helped us flesh out our outlook known as “Vision 2035”, which is rooted in environments that are more than places to work – they are places that motivate and inspire. This approach will enable our clients to attract top talent and achieve their growth objectives by providing sustainable designs, flexible and adaptable layouts, and collaborative, connected and people-friendly spaces. This is how we will be able to support our tenants in an ever-changing world and create value for our unitholders.



Total number
of properties

96

Total leasable
area (sq. ft.)

11.7M

Committed
occupancy rate

91.5%



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Overview

Retail

We articulated our “Vision 2035” for our shopping centre properties in 2017. The new economy, online retail and environmental stewardship are all factors that have contributed to changing the experience in the retail industry. For Cominar, although this market is in deep transformation, this represents a tremendous opportunity in terms of spurring the innovation and creativity of our teams. Our objective is to develop shopping centres that have a unique personality, give back to their respective communities and are public gathering places where consumers can partake in memorable shopping experiences.

The customer experience is precisely what drove our efforts in 2018 and the results were very telling. A number of new leasing deals were signed, bringing the total leased area in our retail portfolio to 9,382,000 square feet, including 20,000 square feet at 2180 Cyrille-Duquet Street in Québec City, home to the only Tesla service centre in our Capitale-Nationale region. Our teams also ramped up their efforts to retenant the spaces left vacant after Sears went out of business. By year-end, more than 42.6% of the space formerly occupied by Sears had been or was on the verge of being re-leased. (See table on page 83 of the MD&A.)

In addition, we are evolving our thinking with regard to opportunities to densify our sites, increase sales per square foot and attract new customers to our shopping centres.



Exciting new concepts

We enthusiastically rolled out several new concepts during the year to help carve out our own unique niche in the marketplace. We tapped into our teams’ creativity to come up with roadshows and pop-up experiences that provided a physical connection between online retailers and consumers. As a result, Mandala Wear and Plantzy, specializing respectively in women’s fashions and plants and flowers, took part in an exclusive tour of seven of our Quebec shopping centres in 2018. Online women’s wear retailer Allcovered followed suit at the end of the year with a roadshow that will be ongoing until September 2019. And the Fashion & Design Festival Pop-up Tour showcased the creations of the five Festival winners at several Cominar shopping centres. The initiative was such a hit that plans are already in the works to bring it back again in 2019.



New retailers

During the year, a number of high-profile retailers set up shop at Cominar properties. Popular Japanese variety store chain Miniso opened at Centre Laval, Galeries Rive Nord, Alexis Nihon and Mail Champlain. Canadian woodworking and gardening retailer Lee Valley made their Quebec market debut at Centre Laval, which also welcomed Avril Supermarché Santé and Marshalls during the year. And Decathlon made its Canada market debut at Mail Champlain in the spring of 2018. The French sportswear banner also signed a deal to lease a space at Îlot Mendel in Québec City, in close proximity to the new IKEA store, as of late 2019.



Rockland: Now better than ever!

In addition to welcoming several new banners in 2018, certain shopping centres in our portfolio underwent major renovations – Rockland being one of them. A major facelift infused the centre with renewed energy, with a number of retailers opening for business and a fully revamped food hall we refer to as “La Cuisine Rockland” bringing a whole new experience. The spectacular décor boasts a large glass atrium and an outdoor terrace, along with some 15 restaurants offering a varied range of culinary styles, a central island where guests can eat or drink, and two units with a rotating lineup of food trucks that change every three months. Our shoppers are also able to attend cooking demonstrations and events in a specially designed space. While the renovations were underway, our teams thought out of the box and added food trucks, both inside and outside, to the centre’s dining options to offset the inconvenience of the temporary closure of the old food court.

La Cuisine Rockland was mentioned in an article published in *La Presse+* on new food court projects. See below for a translated excerpt:

“[...] the food court revolution has arrived in Montreal. [...] The new food courts that are taking shape [...] bring with them a cuisine that is more creative and more appealing. [...]”

[...] shopping centres [...] like Rockland, which have decided to transform the mundane meal break into a moment of sheer pleasure and relaxation. [...]

Once La Cuisine is officially launched at Rockland [...], there will also be a program of cooking demonstrations and workshops. The first ones will be led by Martin Juneau (Pastaga), Kimberly Lallouz (Birdbar) and Olivier Vigneault (Jatoba).”

Gagnon-Paradis, Iris and Dumas, Ève, “Les nouveaux temples de la gastronomie,” *La Presse+*, February 23, 2019, Inspiration section, screen 12.



Overview

Industrial and Flex

We own 196 high-quality industrial and flex properties that can easily be adapted to suit the operations and specifications of our tenants' businesses. They are located primarily in the greater Montreal and Québec City areas and comprise 15.7 million square feet in all.

Total number
of properties

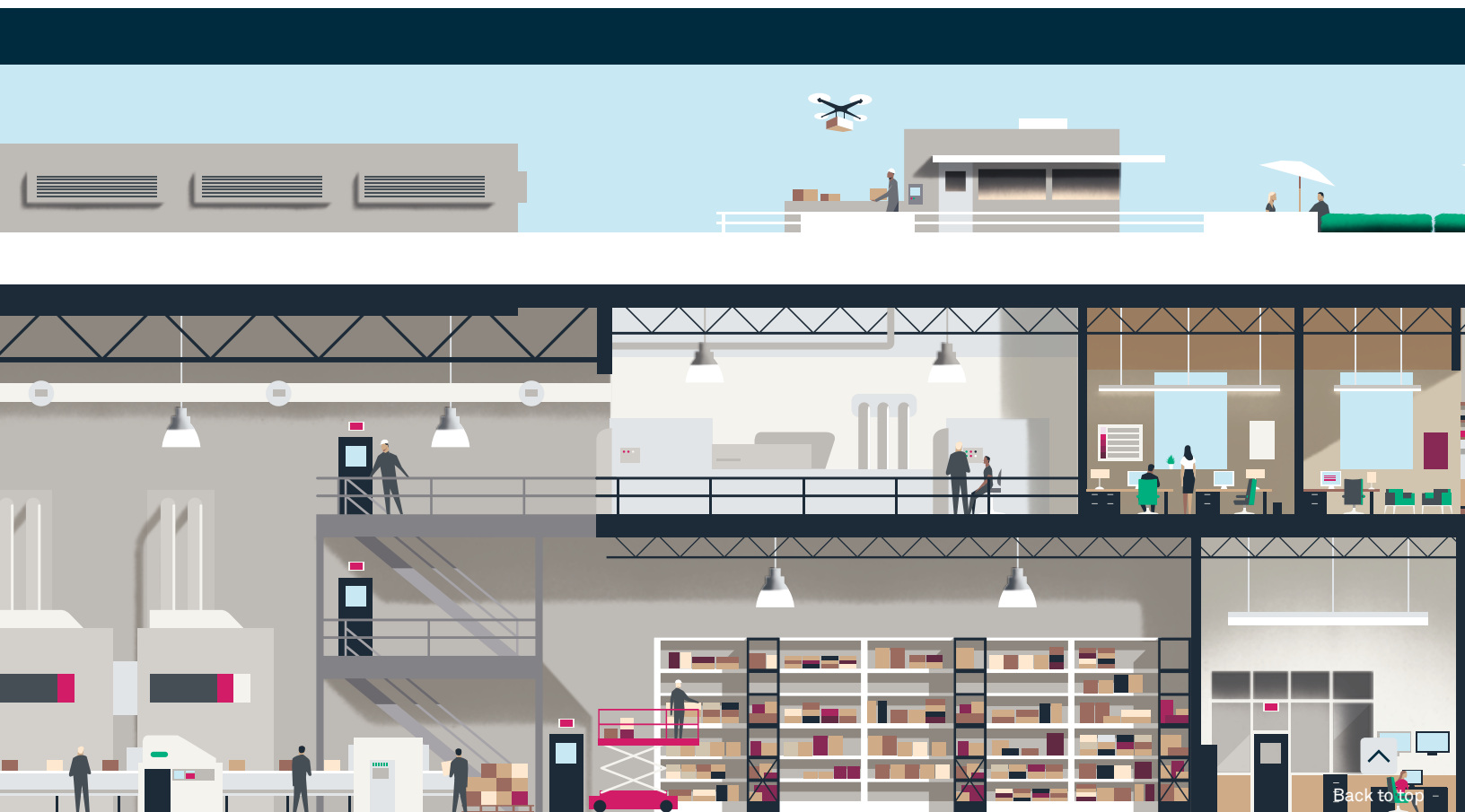
196

Total leasable
area (sq.ft.)

15.7M

Committed
occupancy rate

95.0%



2018 achievements

Our teams were very active in 2018. As a result, more than 1,460,000 square feet of new leases were signed, 1.1 million of which was in greater Montreal. Of the total 95 transactions carried out during the year, 59 were in this market. They included the following:

- › iVEX Protective Packaging moved into a 220,000-square-foot space at 3300 Trans-Canada Highway
- › Servcorp took possession of a 50,000-square-foot space at 6445 Côte-de-Liesse Road
- › ROOT Data Center expanded its facilities at 19701 Clark-Graham Avenue to 145,000 square feet
- › Arden Holdings (the parent company of the Ardene retail chain) leased the entire 110,000-square-foot property at 2400A Trans-Canada Highway.

In the booming Québec City market, our teams also signed several leasing agreements, including one for a total of 89,000 square feet with Ciena and EnGlobe, the newest tenants of 505 Parc-Technologique Boulevard.

The strength of our teams, combined with the favourable economic circumstances, helped increase the committed occupancy rate for our industrial and flex portfolio to 95.0% by the end of the year.



Vision 2035

We also looked to the future during the year, in conjunction with our clients and partners, to define our vision for the industrial and flex sector in 2035. With the arrival of smart factories, integrated technologies and artificial intelligence, industrial real estate is poised to undergo significant change in the coming decade. We have therefore chosen to focus on developing strategically located, intelligently designed properties with an accent on enhanced adaptability, along with business districts that actively promote inter-business synergy and collaboration. This approach will enable our clients to tackle automation- and transportation-related issues in an agile, productive way.



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 these practices, updated our contract of trust and amended the policies and procedures that both require and encourage our trustees and the REIT's management to thoughtfully work together to achieve success. As part thereof, we adopted anti-hedging and clawback policies. (See page 37 of the *Management Proxy Circular dated April 13, 2018*.)

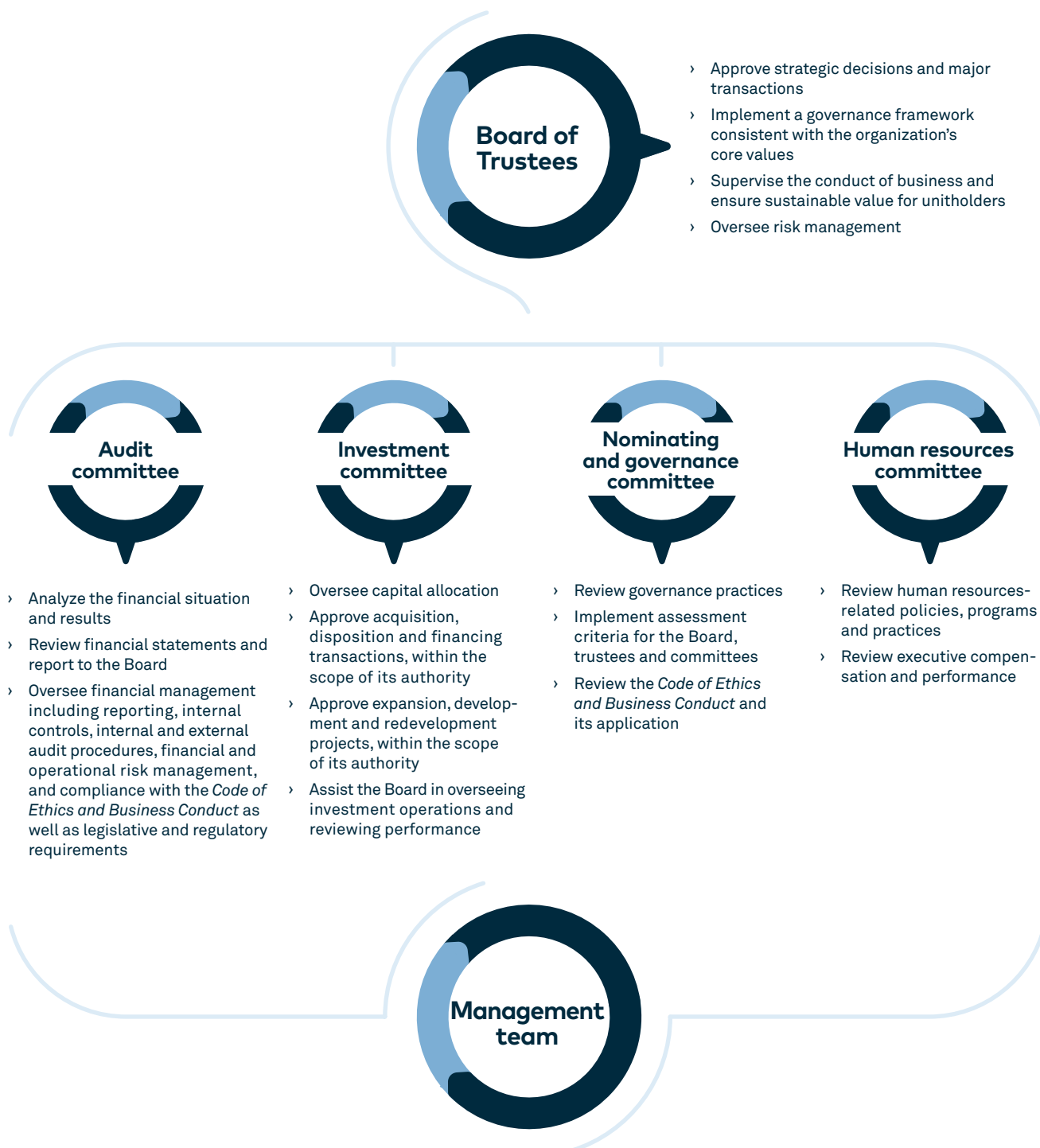
Another important element of our strategy to enhance governance has been identifying, recruiting and retaining trustees who combine deep real estate experience with complementary skills and knowledge to form a best-in-class Board. We also adopted an advance notice policy, a term limit policy, a diversity policy and a corporate social responsibility policy. (See pages 57 and 58 of the *Management Proxy Circular dated April 13, 2018*.)

Role of the Board of Trustees

The Board of Trustees oversees the REIT's 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 and succession planning, monitoring financial and corporate performance and overseeing risk management. The Board discharges these responsibilities directly and through delegation to its various committees.



Governance structure



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 putting themselves in any situation 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.



Corporate Social Responsibility and Human Resources

At Cominar, we recognize the fundamental importance of environmental stewardship and compliance, energy and water efficiency, community involvement at the local level, volunteering, corporate donations and sponsorships, and health and safety as part of a broader sustainable development agenda. This environmentally friendly mindset underpins our initiatives and undertakings. As a good corporate citizen, we care about the well-being of the communities where we operate and are committed to contributing to a better future for all.

In 2018, a CSR working committee was set up to develop and implement an action plan on social and environmental considerations that we aim to prioritize over the short, medium and long term. Our Board of Trustees has also adopted a policy on corporate social responsibility and environmental sustainability.



Environmental management

Our environmental management program aims to safeguard our assets and occupants 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.



We maintain a list of the clients in each property to which specific environmental measures apply, based on the North American Industry Classification System (NAICS), and we follow up to ensure compliance.

When it comes to managing hazardous materials, we team up with external suppliers to identify materials and products likely to contain asbestos. These reports, which have been developed to meet the requisite regulations, are compiled in an internal registry and made available for all work carried out in our properties. They are also provided to any tenant that requests them. With this approach, we can ensure that workers use the appropriate precautions to protect both their safety and the safety of our occupants. Asbestos-containing demolition waste is also managed in accordance with federal hazardous materials legislation. In addition, the members of our asset management team are all trained to identify flocking and heat-insulating materials.

Environmentally responsible property management

A number of initiatives have been undertaken in our properties to promote environmentally responsible management, some of which are particularly noteworthy.

To begin with, Rockland received a National Earth Award from BOMA Canada in 2016 in recognition of the comprehensive program put in place in recent years to reduce its carbon footprint. The six-pronged program covers energy, water, waste reduction, emissions and effluents, indoor environment and the centre's

environmental management system. As a result of these efforts, Rockland has successfully diverted 91.9% 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 fir tree farms.

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, replacing the previous flower garden. Not only does the new configuration need less water, but the food it yields is redistributed to the Centre de bénévolat et moisson Laval. An open-air retention pond, comparable to a natural pond, has also been set up to collect rainwater in large quantities. Some of the water is absorbed and filtered by herbaceous perennials, while some is released into the air through evapotranspiration. Centropolis holds BOMA BEST Platinum certification and was presented with the regional and national BOMA award for environmental performance in 2015. In addition, 3055 Saint-Martin Boulevard West, one of the buildings in the complex, is certified LEED-CS Gold.



Corporate Social Responsibility and Human Resources

In Québec City, innovative landscape irrigation practices have been introduced at Complexe Jules-Dallaire to curtail, and even eliminate, the need to water the grounds. The complex, which is LEED Gold–certified, 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.

In addition, on Montreal's South Shore, two beehives were built 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. Their hard work all summer long produced 200 jars of honey, 50 beeswax candles and 100 tubes of lip balm. Proceeds from the sale of these items went to Leucan and the Fondation du Centre jeunesse de la Montérégie.

Not to be outdone, Mail Champlain was recognized for marketing excellence for its Electrobac program in 2018. Together, the 13 properties participating in the program collected and recovered 32,329 electronic devices, which works out to the equivalent of 40,727 litres of petroleum saved and 91,860 plastic bottles recycled.

Finally, Cominar was recognized as an “Eco Partenaire” by Recyclage Vanier/Rolland for using document destruction and recycling services that contribute to the circular economy. All shredded paper is transformed into pulp and used to make recycled paper.



Energy efficiency

As part of the continuous improvement process for the energy efficiency of our properties, we closely monitor all electromechanical systems and regularly upgrade existing facilities. Monitoring makes it possible to detect anomalies in energy consumption. Any such variances are then analyzed by our engineering team, in collaboration with our operators, in order to undertake the necessary corrective action. In the event a building undergoes an overhaul of its mechanical systems, the monitoring equipment will record the data necessary to generate energy curves for heating/cooling needs and electrical demand. The stored information will then be used to analyze real-time trends and promptly correct any variances that are observed. The benefits in terms of improved energy performance are multiple, including a reduction in operating expenditures and greater sustainability and value for the properties in question.

Furthermore, given the rise in popularity of electric vehicles, we installed 59 EV charging stations to meet the growing needs of our clients. A total of 25,254 charging sessions were recorded in 2018.

Two compelling examples of energy efficiency retrofits

In 2018, a number of initiatives to improve energy efficiency were rolled out at 400 Cooper Street in Ottawa. Upgrades to the mechanical systems and a new lighting and energy management system brought about several benefits, such as increased occupant comfort, a 40% savings in annual energy consumption and a reduction in energy use equivalent to that generated by 100 households.

In Québec City, Place de la Cité's commitment to better energy efficiency translated to a 10% decrease in its annual electricity usage, or the equivalent of 225 households.



Corporate Social Responsibility and Human Resources



Our workplace

We are committed to provide a work environment devoid of any form of discrimination, intimidation, vilification or harassment. Every individual is entitled to receive the same treatment and same opportunities, regardless of age, gender, sexual orientation, ethnic origin, beliefs, religion, nationality, marital status, disability or impairment. To support our commitment, we have a policy for a harassment-free workplace and a policy for a violence-free workplace.



Commitment to health and safety

We apply strict workplace standards with regard to health and safety, sanitation, hygiene and environmental protection in all of our offices and work areas. We have also enacted a corporate policy concerning occupational health and safety. In this same spirit, a policy on drug and alcohol use has been issued to ensure staff can carry out their duties safely and effectively and to protect their interests as well as the interests of their co-workers, clients and visitors.

Property security

Our security management team is tasked with developing and implementing a consistent set of procedures and protocols to ensure a high level of safety and security for our tenants, their visitors and staff of our properties. In keeping with this objective, the team has drafted a policies and procedures handbook and training program aimed at all employees. This led to the equivalent of 2,482 hours of training in 2018. Moreover, a team of 237 employees, including 229 security guards, is responsible for making sure that our properties are safe for use by occupants and guests alike. We have also put a dynamic new platform in place to manage and report any incidents that may arise. It allows managers to be more effective in identifying and addressing issues in a timely manner. It also controls the required fire prevention, extinguisher and first aid system checks.

The security team works with our insurers and fire prevention authorities to comply with all applicable codes and standards during renovations and fire alarm and sprinkler maintenance work to minimize the corresponding risks.



Social engagement

Our social engagement program has been crafted to support our employees' efforts to give back to their community and to encourage them to embrace sustainable development. In 2018, this translated to 3,154 volunteer hours through 219 initiatives.

In the spring, for example, our maintenance crews were involved in a community rooftop gardening project in several of our properties in Montreal and Ottawa. Their hard work meant that more than 75 kilograms of vegetables and some 50 watermelons could be donated

to the Ottawa Food Bank, Au Panier de Chomedey and L'Envol. Our security staff also invested 240 hours in Maison du Père, which embraces an alternative approach to homelessness and improves the reintegration of homeless individuals into society.

We also continued to support an important cause during the year, namely Centraide/United Way, by pledging to match employee contributions made in 2018. The result: a total of \$134,000 for Centraide/United Way.

3,154 volunteer hours

219 initiatives

For the second holiday season in a row, we hosted Cominar's Forest of Stars in 18 of our shopping centres, raising \$166,822 for Opération Enfant Soleil.



32

Health

31

Humanitarian
endeavours

92

donations and sponsorships

We support a wide range of charities and foundations in the fields of health, humanitarian endeavours, arts and culture, business outreach and development, education and athletic excellence and activities.

10

Arts and culture

5

Athletic excellence
and activities

6

Education

8

Business outreach
and development

Employee experience and strategic management of human capital

The transition toward **Cominar 2.0**, which accelerated in 2018, would not be possible without a corporate culture in line with our new vision. Our purpose, which focuses on the power of people, needs to be embedded in the employee experience and our human capital management practices. To achieve this, we are focusing on three strategic initiatives, namely organizational performance, organizational health and organizational leadership.

Organizational performance

The quality of our human capital is key to fulfilling our mission of being creators of inspiring living environments that are connected to the needs of our clients. We updated our performance and compensation management practices to emphasize competencies and behaviours conducive to achieving our business objectives. We initiated a comprehensive talent review to identify our best talent and personalize our development, retention and recognition strategies. In 2019, we will continue along this path and use strategic human capital management tools that foster employee engagement with regard to our business objectives, while permitting process and cost optimizations in the management of our workforce.

Organizational health

We firmly believe that organizational performance is rooted in a work environment that inspires excellence and fosters individual wellness. We undertook an

analysis of our various health programs and corporate policies to be able to meet the needs of our diverse workforce. This aspect will take off in 2019 as part of an integrated approach to health and well-being. We will roll out an employee experience management solution that will enable us to seek out feedback and engage in a dialogue throughout the employee journey. This will help us adapt our human capital management programs and practices to stimulate employee engagement.

Organizational leadership

The performance and health of our organization and our human capital are fulfilled by the quality of our leadership. The arrival of new members on the management team has contributed to a greater diversity of experiences, competencies and points of view, all of which contribute to our shift toward a performance-based culture. In 2019, we will further pursue these avenues by articulating our leadership models and expected behaviours and by stepping up our investment in the development of our people's potential.

These three components are perfectly aligned with Cominar's new employer brand. Our goal in this regard is to maximize our influence among prospective employees in and outside the real estate industry in order to enhance the diversity of the talent we recruit. We are convinced that this diversity will be an invaluable asset for our team and one that will allow us to take our innovation, creativity and performance to the next level.



14,000 hours of training provided to employees

8% proportion of employees who experienced horizontal or vertical mobility

41% proportion of women on the management team



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Sharing Knowledge Generates Ideas



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, 2018, in comparison with the fiscal year ended December 31, 2017, as well as its financial position as at that date and its outlook. Dated March 5, 2019, 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. The reader is invited to refer 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 2017 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

428

Leasable area (sq.ft.)

38.1M

Assets

\$6.5B



Same property net operating income by operating segment

Office

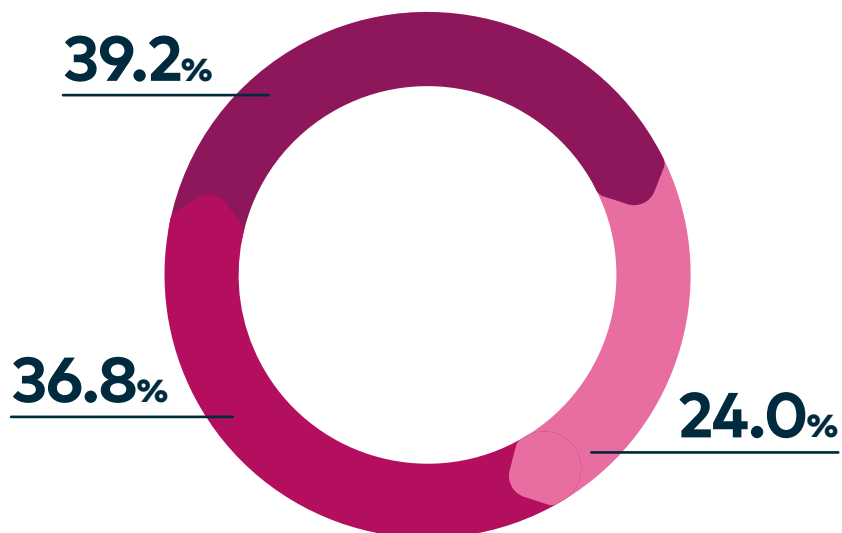
96 properties
11.7M sq.ft.

Retail

136 properties
10.7M sq.ft.

Industrial and flex

196 properties
15.7M sq.ft.



Same property net operating income by geographic market

Montreal

281 properties
25.3 M sq.ft.

Québec City

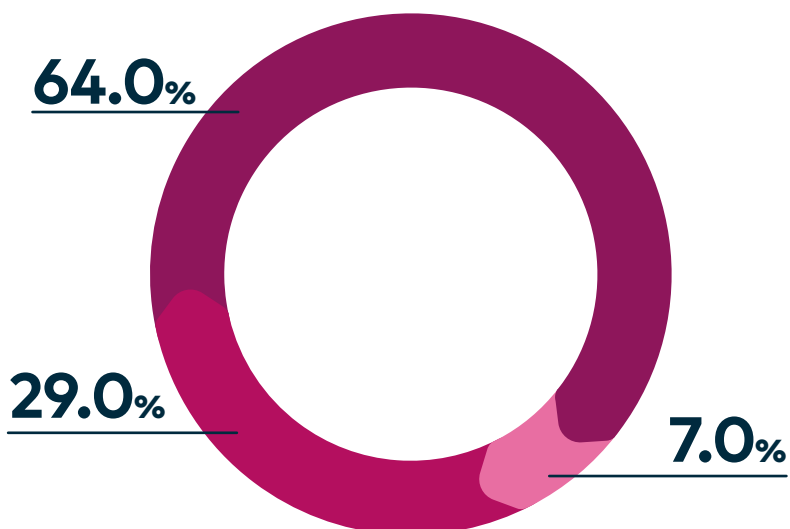
126 properties
10.3 M sq.ft.

Ottawa

20 properties
2.5 M sq.ft.

Atlantic Provinces

1 property
0.06 M sq.ft.



Highlights

Growth in same property net operating income

(Q1-2018: 0.2%, Q2-2018: 0.8%, Q3-2018: 1.7%, Q4-2018: 1.1%)

1.0%

Growth in the average net rent of renewed leases

0.6%

Increase in the committed occupancy rate from 92.6% to

(Q3-2018: 93.3%)

93.6%

Increase in retention rate from 70.7% to

75.8%

Reduction in leverage from 57.4% to

55.3%

Decrease in payout ratio from 113.9% to

87.8%



Office

Growth in same property net operating income

(Q1-2018: 1.8%, Q2-2018: 5.8%, Q3-2018: 2.1%, Q4-2018: 4.1%)

3.5%

Growth in the average net rent of renewed leases

0.3%

Increase in retention rate from 69.2% to

76.2%

Increase in the committed occupancy rate from 89.1% to

91.5%

Retail

Growth in same property net operating income

(Q1-2018: -4.3%, Q2-2018: -6.9%, Q3-2018: -0.4%, Q4-2018: -2.2%)

-3.4%

Growth in the average net rent of renewed leases

-1.8%

Increase in retention rate from 74.8% to

83.3%

Increase in the committed occupancy rate from 93.2% to

93.8%

Industrial and flex

Growth in same property net operating income

(Q1-2018: 5.2%, Q2-2018: 5.4%, Q3-2018: 4.4%, Q4-2018: 1.2%)

4.0%

Growth in the average net rent of renewed leases

5.6%

Increase in retention rate from 69.2% to

70.3%

Stable committed occupancy rate: 95.2% compared to

95.0%



Subsequent Events

On January 15 and February 15, 2019, Cominar declared a monthly distribution of \$0.06 per unit for each of these months.

During the first quarter of 2019, Cominar completed the sale of seven office properties, five retail properties and one industrial property held for sale located in the Québec City and Montreal areas, in Quebec, for a total amount of \$48.3 million.

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. These forward-looking statements include, among other things, statements with respect to our medium-term and 2019 objectives, and strategies to achieve our objectives, as well as statements with respect to our beliefs, outlooks, plans, objectives, expectations, anticipations, estimates and intentions. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," and "intend," and the use of the conditional and future tenses, and words and expressions of similar import are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve numerous factors and assumptions, and are subject to inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These factors include financial conditions in Canada and elsewhere in the world; the effects of competition in the markets where we operate; the impact of changes in laws and regulations, including tax laws; successful execution of our strategy; our ability to complete and integrate acquisitions successfully; our ability to attract and retain key employees and executives; the financial position of clients; our ability to refinance our debts upon maturity and to lease vacant space; our ability to complete developments according to plans and schedules and to raise capital to finance growth as well as the interest rate variations.

We caution readers that the foregoing list of important 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 2017 Annual Information Form.



Non-IFRS Financial Measures

In this MD&A, we provide guidance and report on certain non-IFRS measures, including “net operating income,” “adjusted net income,” “funds from operations,” “adjusted funds from operations,” “adjusted cash flows from operations” and “proportionate share in joint ventures adjustments,” 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. You may find such information in the sections dealing with each of these measures.

Performance Indicators

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

- **Same property net operating income**, which provides an indication of the operating profitability of the same property portfolio, that is, Cominar’s ability to increase revenues, manage costs, and generate organic growth;
- **Funds from operations (“FFO”) per unit**, which represents a standard real estate benchmark used to measure an entity’s performance, and defined by REALpac as adjusted net income (calculated in accordance with IFRS) 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;
- **Adjusted funds from operations (“AFFO”) per unit**, 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, provides a meaningful measure of Cominar’s capacity to generate steady profits;
- **Adjusted cash flow from operations (“ACFO”) per unit**, which provides a helpful real estate benchmark to measure Cominar’s ability to generate stable cash flows;
- **Debt ratio**, which is used to assess the financial balance essential to the smooth running of an organization;
- **Debt to earnings before interest, income taxes, depreciation and amortization (“EBITDA”) ratio**, which is widely used in the real estate industry, measures Cominar’s ability to pay down its debts.
- **Interest coverage ratio**, which is used to assess Cominar’s ability to pay interest on its debt from operating revenues;
- **Committed occupancy rate**, which gives 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**, which gives 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**, which helps assess client satisfaction and loyalty;
- **Growth in the average net rent of renewed leases**, which is a measure of organic growth and gives an indication of Cominar’s capacity to increase its rental income;
- **Segment and geographic diversification**, which contributes to revenue stability by spreading real estate risk.

The above-mentioned performance indicators are not IFRS financial measures. Definitions and other relevant information regarding these performance indicators are provided in the appropriate sections of this MD&A.



Financial and Operational Highlights

For the years ended December 31	2018 ⁽¹⁾ \$	2017 \$	%Δ	Page
Financial performance				
Operating revenues – Financial statements	734,650	835,489	(12.1)	49
Operating revenues – Cominar's proportionate share ⁽²⁾	751,095	848,840	(11.5)	50
Net operating income ⁽²⁾ – Financial statements	372,464	436,037	(14.6)	51
Net operating income ⁽²⁾ – Cominar's proportionate share	381,957	443,586	(13.9)	51
Same property net operating income ⁽²⁾	366,567	363,103	1.0	51
Changes in fair value of investment properties – Financial statements	(267,098)	(616,354)	(56.7)	47
Goodwill – Financial statements	(120,389)	–	(100.0)	59
Net loss	(212,282)	(391,725)	(45.8)	58
Adjusted net income ⁽²⁾	206,797	255,798	(19.2)	60
Recurring funds from operations (FFO) ⁽²⁾	210,990	255,089	(17.3)	61
Recurring adjusted funds from operations (AFFO) ⁽²⁾	164,725	215,827	(23.7)	61
Cash flows provided by operating activities – Financial Statements	182,939	233,225	(21.6)	65
Recurring adjusted cash flows from operations (ACFO) ⁽²⁾	159,055	216,696	(26.6)	65
Distributions	143,730	246,523	(41.7)	66
Total assets	6,543,711	7,824,993	(16.4)	46
Per unit financial performance				
Net loss (basic and diluted)	(1.17)	(2.13)	(45.1)	59
Adjusted net income (diluted) ⁽²⁾	1.13	1.39	(18.7)	60
Recurring funds from operations (FFO)(FD) ⁽²⁾⁽³⁾	1.16	1.38	(15.9)	61
Recurring adjusted funds from operations (AFFO)(FD) ⁽²⁾⁽³⁾	0.90	1.17	(23.1)	61
Recurring adjusted cash flows from operations (ACFO)(FD) ⁽²⁾⁽³⁾	0.87	1.18	(26.3)	65
Distributions	0.7900	1.3325	(40.7)	66
Payout ratio of recurring adjusted cash flows from operations (ACFO) ⁽²⁾⁽³⁾	90.8%	112.9%	(19.6)	65
Payout ratio of recurring adjusted funds from operations (AFFO) ⁽²⁾⁽³⁾	87.8%	113.9%	(22.9)	61
Financing				
Debt ratio ⁽⁴⁾	55.3%	57.4%		69
Debt/EBITDA ratio	10.3x	10.9x		70
Interest coverage ratio ⁽⁵⁾	2.32:1	2.46:1		70
Weighted average interest rate on total debt	4.14%	4.10%		57
Residual weighted average term of total debt (years)	3.5	3.7		68
Unsecured debt-to-total-debt ratio ⁽⁶⁾	51.8%	52.1%		71
Unencumbered income properties	2,864,637	3,347,839		71
Unencumbered assets to unsecured debt ratio ⁽⁷⁾	1.53:1	1.43:1		71
Operational data				
Number of investment properties	428	525		73
Leasable area (in thousands of sq. ft.)	38,127	44,370		73
Committed occupancy rate	93.6%	92.6%		80
In-place occupancy rate	89.2%	87.9%		80
Retention rate	75.8%	70.7%		82
Growth in the average net rent of renewed leases	0.6%	0.6%		82
Development activities				
Properties under development – Cominar's proportionate share ⁽²⁾	41,685	43,547		46

(1) Results for the year ended December 31, 2018 have been affected by the sale of 95 non-core properties to Slate (as stated in section "Acquisitions, Investments and Dispositions") during the first quarter of 2018 for a total consideration of \$1.14 billion.

(2) Non-IFRS financial measure. See relevant section for definition and reconciliation to closest IFRS measure.

(3) Fully diluted.

(4) 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.

(5) Net operating income less adjusted Trust administrative expenses divided by finance charges.

(6) Unsecured debt divided by net debt.

(7) Fair value of unencumbered income properties divided by the unsecured net debt.



Selected Quarterly Information

The following table presents, in summary form, Cominar's financial information for the last eight quarters:

For the quarters ended	Dec. 31, 2018 ⁽¹⁾	Sept. 30, 2018 ⁽¹⁾	June 30, 2018 ⁽¹⁾	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017
	\$	\$	\$	\$	\$	\$	\$	\$
Operating revenues – Financial statements	176,073	172,665	177,047	208,865	207,418	204,160	209,955	213,956
Operating revenues – Cominar's proportionate share ⁽²⁾	180,116	176,820	181,280	212,879	211,197	207,753	213,032	216,858
Net operating income ⁽²⁾ – Financial statements	91,128	90,977	89,813	100,546	110,487	110,180	109,487	105,883
Net operating income ⁽²⁾ – Cominar's proportionate share	93,526	93,548	92,256	102,627	112,654	112,247	111,268	107,417
Changes in fair value of investment properties – Financial statements	(276,160)	13,393	—	(4,331)	(616,354)	—	—	—
Goodwill – Financial statements	(120,389)	—	—	—	—	—	—	—
Net income (net loss)	(353,353)⁽⁴⁾	64,649	46,445 ⁽⁴⁾	29,977 ⁽⁴⁾	(581,256)	63,981	65,837	59,713
Adjusted net income ⁽²⁾	50,684	51,850	51,401	52,862	68,551	63,981	63,553	59,713
Recurring FFO ⁽²⁾	51,928	52,733	52,592	53,737	63,892	65,287	64,902	61,008
Recurring AFFO ⁽²⁾	40,092	41,249	41,105	42,279	51,628	55,414	56,312	52,473
Cash flows provided by operating activities – Financial statements	74,118	88,049	1,437	19,335	81,471	100,702	15,299	35,753
Recurring ACFO ⁽²⁾	39,417	41,453	37,856	40,329	52,117	54,924	59,275	50,380
Distributions	32,749	32,749	32,749	45,483	52,792	58,006	68,079	67,646
Per unit								
Net income (net loss) (basic)	(1.94)⁽⁴⁾	0.36	0.26 ⁽⁴⁾	0.16 ⁽⁴⁾	(3.14)	0.35	0.36	0.33
Net income (net loss) (diluted)	(1.94)⁽⁴⁾	0.35	0.25 ⁽⁴⁾	0.16 ⁽⁴⁾	(3.14)	0.35	0.36	0.33
Adjusted net income (diluted) ⁽²⁾	0.28	0.28	0.28	0.29	0.37	0.35	0.35	0.33
Recurring FFO (FD) ⁽²⁾⁽³⁾	0.28	0.29	0.29	0.29	0.34	0.35	0.35	0.33
Recurring AFFO (FD) ⁽²⁾⁽³⁾	0.22	0.23	0.23	0.23	0.28	0.30	0.31	0.29
Recurring ACFO (FD) ⁽²⁾⁽³⁾	0.22	0.23	0.21	0.22	0.28	0.30	0.32	0.28
Distributions	0.1800	0.1800	0.1800	0.2500	0.2850	0.3125	0.3675	0.3675

(1) Results for quarters ended December 31, 2018, September 30, 2018 and June 30, 2018 have been affected by the sale of 95 non-core properties to Slate during the first quarter of 2018 for a total consideration of \$1.14 billion.

(2) Non-IFRS financial measure. See relevant section for definition and reconciliation to closest IFRS measure.

(3) Fully diluted.

(4) Includes \$2.9 million in transaction costs related to sales of properties for the quarter ended December 31, 2018, \$1.4 million for the quarter ended June 30, 2018 and \$18.6 million for the quarter ended March 31, 2018.



Selected Annual Information

The following table presents a summary of Cominar's financial information for the last 3 fiscal years:

For the years ended December 31	2018 ⁽¹⁾ \$	2017 \$	2016 \$
Operating revenues – Financial statements	734,650	835,489	866,982
Operating revenues – Cominar's proportionate share ⁽⁴⁾	751,095	848,840	877,095
Net operating income ⁽⁴⁾ – Financial statements	372,464	436,037	468,609
Net operating income ⁽⁴⁾ – Cominar's proportionate share	381,957	443,586	474,354
Changes in fair value of investment properties – Financial statements	(267,098)	(616,354)	(46,675)
Goodwill – Financial statements	(120,389)	–	–
Net income (net loss) ⁽³⁾	(212,282)	(391,725)	241,738
Adjusted net income ⁽⁴⁾	206,797	255,798	272,669
Recurring FFO ⁽⁴⁾	210,990	255,089	278,570
Recurring AFFO ⁽⁴⁾	164,725	215,827	241,938
Cash flows provided by operating activities – Financial statements	182,939	233,225	284,090
Recurring ACFO ⁽⁴⁾	159,055	216,696	245,988
Distributions	143,730	246,523	254,456
Total assets	6,543,711	7,824,993	8,287,785
Per unit			
Net income (net loss) (basic and diluted)	(1.17)	(2.13)	1.40
Adjusted net income (diluted) ⁽⁴⁾	1.13	1.39	1.58
Recurring FFO (FD) ⁽²⁾⁽⁴⁾	1.16	1.38	1.61
Recurring AFFO (FD) ⁽²⁾⁽⁴⁾	0.90	1.17	1.40
Recurring ACFO (FD) ⁽²⁾⁽⁴⁾	0.87	1.18	1.43
Distributions	0.79	1.33	1.47

(1) Results for the year ended December 31, 2018 have been affected by the sale of 95 non-core properties to Slate during the first quarter of 2018 for a total consideration of \$1.14 billion.

(2) Fully diluted

(3) Includes the change in fair value of investment properties, the derecognition and the depreciation of goodwill.

(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, where we have established a leading presence which allows us significant economies of scale.

As at December 31, 2018, Cominar owned a diversified portfolio of 428 properties, composed of office, retail and industrial and flex buildings, of which 281 were located in the Montreal market, 126 in the Québec City market, 20 in the Ottawa market, and 1 in the Atlantic Provinces. Cominar's portfolio consisted of approximately 11.7 million square feet of office space, 10.7 million square feet of retail space and 15.7 million square feet of industrial and flex space, representing total leasable area of 38.1 million square feet.

Cominar manages its assets with a focus on growing net operating income and exploiting, when economically viable, expansion or redevelopment opportunities that provide the REIT with an attractive adjusted return to risk. The growth in cash flows from existing properties in the portfolio is expected to be achieved by: (i) increases in rental rates on existing leases; (ii) improved occupancy and retention rates, as well as proactive leasing measures; and (iii) sound management of operating costs. Cominar maintains a cautious approach to its mortgage lending policies and seeks to spread the maturity of its debt to match the overall debt level of its portfolio, taking into account the availability of financing, credit market conditions, and the financial terms of the leases that generate cash.

In 2018, Cominar has refocused its activities towards its main markets, stabilized its balance sheet and improved its governance practices.

Real Estate Portfolio Summary As At December 31, 2018

The properties in the portfolio generally occupy prime locations along major traffic arteries and benefit from their high visibility and easy access for both Cominar's customers and clients.

Operating segment	Number of properties	Leasable area (sq. ft.)	Committed occupancy rate	In-place occupancy rate
Office	96	11,707,000	91.5%	86.5%
Retail	136	10,714,000	93.8%	85.5%
Industrial and flex	196	15,706,000	95.0%	93.7%
Total	428	38,127,000	93.6%	89.2%

Geographic market	Number of properties	Leasable area (sq. ft.)	Committed occupancy rate	In-place occupancy rate
Montreal	281	25,327,000	93.1%	89.5%
Québec City	126	10,264,000	95.1%	90.5%
Ottawa	20	2,476,000	91.5%	79.5%
Atlantic Provinces	1	60,000	100.0%	—
Total	428	38,127,000	93.6%	89.2%



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 our portfolio of properties.

Cominar management is focused on the following objectives in 2019:

Driving Organic Growth

Improving our organic growth is a top priority at Cominar. Initiatives to drive the revenue line include increasing the speed with which new space is delivered to tenants, lease-up of vacant space in the retail and office portfolios, focusing on rent growth in our industrial and flex portfolio and identifying ancillary revenue opportunities. We are also actively analysing our cost structure to identify areas where we can reduce expenses including through lease audits, outsourcing agreements, process automation and right-sizing staffing levels.

Strengthening our Balance Sheet

Cominar continues to focus on further strengthening and de-risking our balance sheet and we are committed to prudent management of our capital structure. As at December 31, 2018 our debt ratio was 55.3%, down from 57.4% primarily as a result of the disposition of \$1.1 billion of properties in March 2018. Our debt to EBITDA ratio improved to 10.3x as at December 31, 2018 from 10.9x as at December 31, 2017. We expect our credit metrics to continue to improve through 2019 as a result of planned dispositions and an increase in same property net operating income. Our objective is to achieve investment grade credit metrics in order to limit financial risk and decrease our incremental borrowing costs. Our risk mitigation strategies include lowering leverage, staggering debt maturities and, building and maintaining broad lending relationships. Over the next four years, Cominar will be transitioning its debt stack from a mix of secured and unsecured debt to a fully secured debt strategy which will be funded primarily through a combination of new mortgages and asset sales.

Unlocking Intensification Value in Our Portfolio

As part of Cominar's strategic planning we are conducting a thorough review of the intensification and development potential within the portfolio. At present, our fair value estimates recorded on our balance sheet provide no value for potential density. Cominar has numerous assets located along the proposed Réseau Électronique de Montréal (REM) light rail line, adjacent to the proposed extension of the Montreal metro line to Anjou and along the proposed Tramway line in Québec City which we believe represent meaningful intensification opportunities. We believe there is value within these sites which can be unlocked through zoning and eventual disposition or development.

Strategic Dispositions of Non-Core Properties

Cominar continues to target non-core dispositions in order to improve portfolio quality, streamline the portfolio and focus on properties with the highest growth potential. Dispositions are expected to be focused on properties which have limited NOI growth or value growth potential, smaller properties which are costly to manage and retail properties to which we would like to reduce our exposure. In 2018 we sold a total of \$1.2 billion of properties and currently have \$188 million of properties available for sale. We are targeting \$300 million of dispositions in 2019 and have completed \$48 million post quarter. (\$14.4 million of retail properties, \$1.2 million of industrial and flex and \$32.7 million of office properties).

Our Outlook

In 2017 and 2018, the Quebec economy delivered its strongest back to back GDP growth in nearly a generation and the lowest unemployment rate in over forty years. Montreal's January 2019 unemployment rate of 6.0% was down 20 bps from the month before and is now below Toronto's 6.4%. The Quebec economy is expected to register robust GDP growth of 2.3% in 2018 and is forecast to continue to deliver steady growth over the next two years fueled by strength in the labour market, housing and the majority of industrial sectors. On the federal front, the Bank of Canada increased its overnight rate three times in 2018 to 1.75%. In March, the Bank of Canada held rates firm and diluted its conviction that rates need to move higher, citing greater uncertainty about Canada's economic outlook.

Our Strategy

With a number of new members added to the senior executive team in the fourth quarter, we have embarked on a comprehensive strategic planning process to chart the course for continued performance improvement and value creation over the next three years. We are reviewing all aspects of our business including assets, capital, people, technology, processes and cost structures to put in place a strategy to improve our performance and returns for our unitholders.



Overview of Fiscal 2018

During the fiscal year ended December 31, 2018, Cominar continued to make progress on its goals of improving NOI growth, reducing debt, focusing on our core markets, improving governance and putting an end to construction activities with Groupe Dallaire in an orderly manner.

In line with these goals, there have been a number of changes within the Cominar's Board of Trustees. On March 8, 2018, two new members, Paul D. Campbell and René Tremblay, joined the Board of Trustees. On May 16, 2018, Heather C. Kirk was elected as a Trustee at the annual meeting of Unitholders. Subsequently, on December 4, 2018, Cominar announced that Zachary Ryan George will be joining the Board of trustees. Additionally, Mitchell Cohen will be included on the list of nominees for the election of Trustees at the annual meeting of Unitholders to fill the vacancy that will be created by the departure of Alban D'Amours.

On November 5, 2018, Cominar announced the appointment of Heather C. Kirk as Executive Vice President and Chief Financial Officer effective December 3, 2018. During the third quarter, Cominar also announced the appointment of Marie-Andrée Boutin as Executive Vice President, Strategy and Operations, Retail, and Sandra Lécuyer as Vice President, Talent and Organization.

In accordance with our asset disposal strategy to focus on our core markets, Cominar completed, on March 27, 2018, the sale of 95 non-core properties to Slate for \$1.14 billion, of which 24 were located in the Toronto area, 57 in the Atlantic Provinces and 14 in Western Canada. Cominar's non-core portfolio represented 6.2 million square feet. The proceeds of this transaction were used to pay down the debt and for Cominar's general needs, which led to a decrease in the debt ratio from 57.4% as at December 31, 2017 to 55.3% as at December 31, 2018. At the end of fiscal 2018, Cominar had \$188.7 million of properties for which it had received definitive agreements or offers to buy these properties.

In its efforts to strengthen its balance sheet, Cominar also announced, on March 7, 2018, the decrease of the monthly distribution from \$0.095 per unit to \$0.06 per unit, beginning with the distribution of March 2018 payable in April 2018. This measure, combined with the NCIB under which Cominar repurchased 2,709,500 units in 2018 [3,440,400 units since the commencement of the NCIB], made it possible for Cominar to reduce the payout ratio of our recurring adjusted cash flows from operations for the fiscal year from 113.9% in 2017 to 87.8% in 2018. The NCIB expiring on November 14, 2018 has been renewed by Cominar's Board of Trustees and approved by the Toronto Stock Exchange, thus allowing Cominar to repurchase a maximum of 18,112,182 additional units.

Cominar reported positive growth in same property NOI for a fourth consecutive quarter with a 1.1% increase, representing increases of 4.1% and 1.2% in the office and the industrial and flex segments respectively, offset by a decrease of 2.2% in the retail segment. Excluding the impact of the closing of Sears stores, the retail segment recorded a 1.8% decrease in same property net operating income during the fourth quarter. Growth in same property NOI for fiscal 2018 stood at 1.0%.

As at December 31, 2018, the committed occupancy rate was 93.6%, up 100 bps from 92.6% as at December 31, 2017.

In addition, Cominar improved its retention rate of leases expiring in 2018 to 75.8% as at December 31, 2018, up from 70.7% for fiscal 2017. This increase in retention rate comes with 0.6% of growth in the average net rent of renewed leases.

During fiscal 2018, Cominar acquired, for \$36.0 million, the land and superficies rights (the equivalent of air rights in Québec) related to a property located in Québec City, in Quebec, 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 is the result of a purchase option Cominar acquired as part of a transaction with Ivanhoé Cambridge in 2014. The acquisition of this land and superficies rights contributed to increasing the value of our property for an amount greater than the acquisition cost of the land. This acquisition also allowed us to increase our NOI in two ways; firstly, by the receipt of the rent payable by the hotel operator for the lease of the superficies rights related to the hotel, and secondly, by the cancellation of the rent previously payable by Cominar for the lease of the superficies rights related to the office building.

During fiscal 2018, Cominar transitioned to the internalization of certain construction activities in Montreal, and the diversification of the independent suppliers that are used. In this respect, on October 14, 2018, Cominar completed the integration of nearly all of the resources of Groupe Dallaire's platform in Montreal, to ensure continuity of certain construction activities to better meet the needs of Cominar and of our clients.



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. Management 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	2018			2017		
	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	6,058,191	166,765	6,224,956	6,239,383	163,475	6,402,858
Properties under development	34,293	7,392	41,685	37,692	5,855	43,547
Land held for future development	93,750	8,400	102,150	91,580	10,126	101,706
	6,186,234	182,557	6,368,791	6,368,655	179,456	6,548,111
Investment properties held for sale	188,727	—	188,727	1,143,500	—	1,143,500
Investments in joint ventures	92,468	(92,468)	—	86,299	(86,299)	—
Goodwill	15,721	—	15,721	139,982	—	139,982
Accounts receivable	41,162	424	41,586	62,956	481	63,437
Prepaid expenses and other assets	17,901	97	17,998	16,673	100	16,773
Cash and cash equivalents	1,498	461	1,959	6,928	77	7,005
Total assets	6,543,711	91,071	6,634,782	7,824,993	93,815	7,918,808
Liabilities						
Mortgages payable	1,742,104	85,534	1,827,638	1,873,776	79,286	1,953,062
Mortgages payable related to the investment properties held for sale	123	—	123	276,350	—	276,350
Debentures	1,722,586	—	1,722,586	1,721,577	—	1,721,577
Bank borrowings	152,950	4,000	156,950	620,366	11,950	632,316
Accounts payable and accrued liabilities	103,347	1,537	104,884	117,482	2,579	120,061
Deferred tax liabilities	142	—	142	6,681	—	6,681
Current tax liabilities	6,763	—	6,763	—	—	—
Total liabilities	3,728,015	91,071	3,819,086	4,616,232	93,815	4,710,047
Unitholders' equity						
Unitholders' equity	2,815,696	—	2,815,696	3,208,761	—	3,208,761
Total liabilities and unitholders' equity	6,543,711	91,071	6,634,782	7,824,993	93,815	7,918,808

(1) Non-IFRS financial measure.



For the quarters ended
December 31

	2018 ⁽¹⁾			2017		
	Consolidated financial statements \$	Joint ventures \$	Cominar's proportionate share ⁽²⁾ \$	Consolidated financial statements \$	Joint ventures \$	Cominar's proportionate share ⁽²⁾ \$
Operating revenues	176,073	4,043	180,116	207,418	3,779	211,197
Operating expenses	(84,945)	(1,645)	(86,590)	(96,931)	(1,612)	(98,543)
Net operating income⁽²⁾	91,128	2,398	93,526	110,487	2,167	112,654
Finance charges	(36,393)	(1,003)	(37,396)	(42,839)	(989)	(43,828)
Trust administrative expenses	(6,106)	(13)	(6,119)	(11,408)	(6)	(11,414)
Change in fair value of investment properties	(276,160)	(299)	(276,459)	(616,354)	(1,064)	(617,418)
Share of joint ventures' net income	1,083	(1,083)	—	108	(108)	—
Transaction costs	(2,866)	—	(2,866)	—	—	—
Impairment of goodwill	(120,389)	—	(120,389)	—	—	—
Derecognition of goodwill	(3,278)	—	(3,278)	(26,989)	—	(26,989)
Loss before income taxes	(352,981)	—	(352,981)	(586,995)	—	(586,995)
Income taxes						
Current	(372)	—	(372)	—	—	—
Deferred	—	—	—	5,739	—	5,739
	(372)	—	(372)	5,739	—	5,739
Net loss and comprehensive income	(353,353)	—	(353,353)	(581,256)	—	(581,256)

(1) Results for the year ended December 31, 2018 have been affected by the sale of 95 non-core properties to Slate during the first quarter of 2018 for a total consideration of \$1.14 billion.

(2) Non-IFRS financial measure.

For the years ended
December 31

	2018 ⁽¹⁾			2017		
	Consolidated financial statements \$	Joint ventures \$	Cominar's proportionate share ⁽²⁾ \$	Consolidated financial statements \$	Joint ventures \$	Cominar's proportionate share ⁽²⁾ \$
Operating revenues	734,650	16,445	751,095	835,489	13,351	848,840
Operating expenses	(362,186)	(6,952)	(369,138)	(399,452)	(5,802)	(405,254)
Net operating income⁽²⁾	372,464	9,493	381,957	436,037	7,549	443,586
Finance charges	(152,237)	(3,968)	(156,205)	(168,752)	(3,449)	(172,201)
Trust administrative expenses	(23,255)	(50)	(23,305)	(25,977)	(44)	(26,021)
Change in fair value of investment properties	(267,098)	(299)	(267,397)	(616,354)	1,220	(615,134)
Share of joint ventures' net income	5,176	(5,176)	—	5,276	(5,276)	—
Transaction costs	(22,847)	—	(22,847)	—	—	—
Impairment of goodwill	(120,389)	—	(120,389)	—	—	—
Derecognition of goodwill	(3,872)	—	(3,872)	(26,989)	—	(26,989)
Loss before income taxes	(212,058)	—	(212,058)	(396,759)	—	(396,759)
Income taxes						
Current	(6,763)	—	(6,763)	—	—	—
Deferred	6,539	—	6,539	5,034	—	5,034
	(224)	—	(224)	5,034	—	5,034
Net loss and comprehensive income	(212,282)	—	(212,282)	(391,725)	—	(391,725)

(1) Results for the year ended December 31, 2018 have been affected by the sale of 95 non-core properties to Slate during the first quarter of 2018 for a total consideration of \$1.14 billion.

(2) Non-IFRS financial measure.



Performance Analysis

Financial Position

The following table indicates the changes in assets and liabilities as well as in unitholders' equity as at December 31, 2018, and December 31, 2017, as shown in our consolidated financial statements:

As at December 31	2018 \$	2017 \$	\$Δ	%Δ
Assets				
Investment properties				
Income properties	6,058,191	6,239,383	(181,192)	(2.9)
Properties under development	34,293	37,692	(3,399)	(9.0)
Land held for future development	93,750	91,580	2,170	2.4
	6,186,234	6,368,655	(182,421)	(2.9)
Investment properties held for sale	188,727	1,143,500	(954,773)	(83.5)
Investments in joint ventures	92,468	86,299	6,169	7.1
Goodwill	15,721	139,982	(124,261)	(88.8)
Accounts receivable	41,162	62,956	(21,794)	(34.6)
Prepaid expenses and other assets	17,901	16,673	1,228	7.4
Cash and cash equivalents	1,498	6,928	(5,430)	(78.4)
Total assets	6,543,711	7,824,993	(1,281,282)	(16.4)
Liabilities				
Mortgages payable	1,742,104	1,873,776	(131,672)	(7.0)
Mortgages payable related to the investment properties held for sale	123	276,350	(276,227)	(100.0)
Debentures	1,722,586	1,721,577	1,009	0.1
Bank borrowings	152,950	620,366	(467,416)	(75.3)
Accounts payable and accrued liabilities	103,347	117,482	(14,135)	(12.0)
Deferred tax liabilities	142	6,681	(6,539)	(97.9)
Current tax liabilities	6,763	—	6,763	100.0
Total liabilities	3,728,015	4,616,232	(888,217)	(19.2)
Unitholders' equity				
Unitholders' equity	2,815,696	3,208,761	(393,065)	(12.2)
Total liabilities and unitholders' equity	6,543,711	7,824,993	(1,281,282)	(16.4)



Results of Operations

The following table highlights our results of operations for the fiscal years ended December 31, 2018 and 2017, as shown in our consolidated financial statements:

For the periods ended December 31	Quarter			Year		
	2018 ⁽¹⁾	2017	%Δ	2018 ⁽¹⁾	2017	%Δ
	\$	\$		\$	\$	
Operating revenues	176,073	207,418	(15.1)	734,650	835,489	(12.1)
Operating expenses	(84,945)	(96,931)	(12.4)	(362,186)	(399,452)	(9.3)
Net operating income ⁽²⁾	91,128	110,487	(17.5)	372,464	436,037	(14.6)
Finance charges	(36,393)	(42,839)	(15.0)	(152,237)	(168,752)	(9.8)
Trust administrative expenses	(6,106)	(11,408)	(46.5)	(23,255)	(25,977)	(10.5)
Change in fair value of investment properties	(276,160)	(616,354)	(55.2)	(267,098)	(616,354)	(56.7)
Share of joint ventures' net income	1,083	108	902.8	5,176	5,276	(1.9)
Transaction costs	(2,866)	—	(100.0)	(22,847)	—	(100.0)
Impairment of goodwill	(120,389)	—	(100.0)	(120,389)	—	(100.0)
Derecognition of goodwill	(3,278)	(26,989)	(87.9)	(3,872)	(26,989)	(85.7)
Loss before income taxes	(352,981)	(586,995)	(39.9)	(212,058)	(396,759)	(46.6)
Income taxes						
Current	(372)	—	(100.0)	(6,763)	—	(100.0)
Deferred	—	5,739	(100.0)	6,539	5,034	29.9
	(372)	5,739	(106.5)	(224)	5,034	(104.4)
Net loss and comprehensive income	(353,353)	(581,256)	(39.2)	(212,282)	(391,725)	(45.8)

(1) Results for periods ended December 31, 2018 have been affected by the sale of 95 non-core properties to Slate during the first quarter of 2018 for a total consideration of \$1.14 billion.

(2) Non-IFRS financial measure.

Operating Revenues

For the periods ended December 31	Quarter			Year		
	2018 ⁽¹⁾	2017	%Δ	2018 ⁽¹⁾	2017	%Δ
	\$	\$		\$	\$	
Operating revenues – Financial statements	176,073	207,418	(15.1)	734,650	835,489	(12.1)
Operating revenues – Joint ventures	4,043	3,779	7.0	16,445	13,351	23.2
Operating revenues – Cominar's proportionate share⁽²⁾	180,116	211,197	(14.7)	751,095	848,840	(11.5)

(1) Operating revenues for periods ended December 31, 2018 have been affected by the sale of 95 non-core properties to Slate during the first quarter of 2018 for a total consideration of \$1.14 billion.

(2) Non-IFRS financial measure.

During fiscal 2018, operating revenues according to the consolidated financial statements decreased by 12.1% [11.5% according to Cominar's proportionate share] compared with fiscal 2017. This \$100.8 million decrease resulted mainly from \$7.7 million of growth in same property operating revenues combined with a \$108.5 million decrease attributable to properties sold in 2017 and 2018.



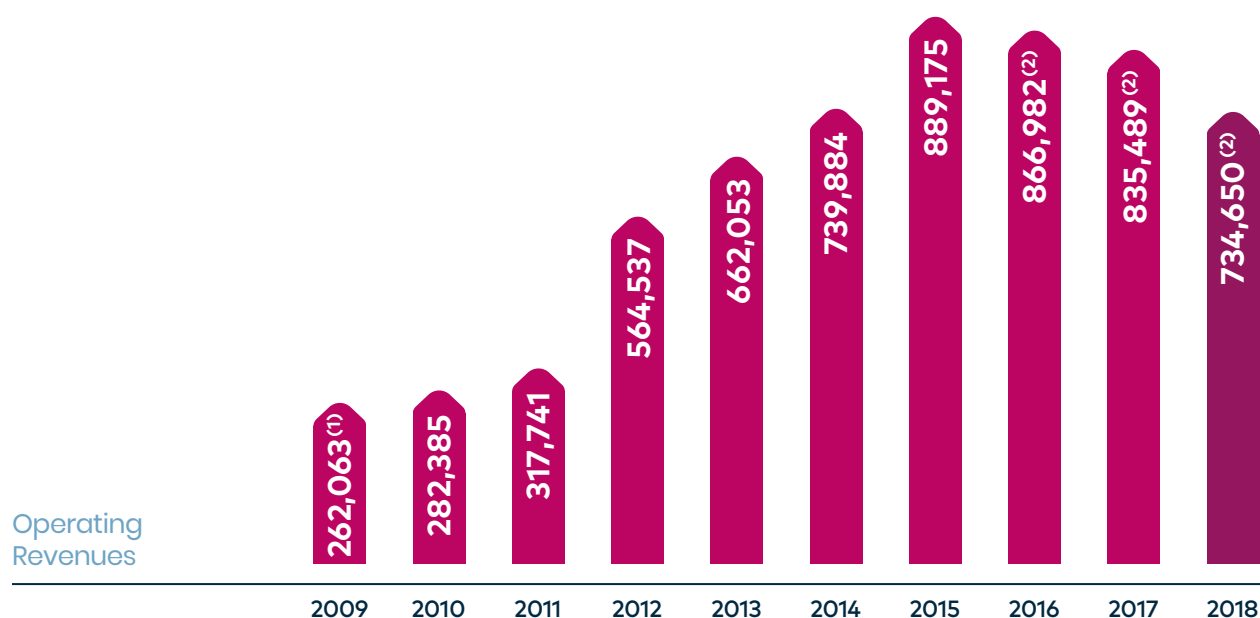
For the periods ended December 31	Quarter			Year		
	2018 \$	2017 \$	%Δ	2018 \$	2017 \$	%Δ
Same property portfolio – Financial statements	175,005	172,284	1.6	701,968	694,267	1.1
Same property portfolio – Joint ventures	3,944	3,779	4.4	16,261	13,351	21.8
Same property portfolio ⁽¹⁾ – Cominar's proportionate share ⁽²⁾	178,949	176,063	1.6	718,229	707,618	1.5
Acquisitions, developments and dispositions – Financial statements	1,068	35,134	(97.0)	32,682	141,222	(76.9)
Acquisitions, developments and dispositions – Joint ventures	99	–	100.0	184	–	100.0
Operating revenues – Cominar's proportionate share⁽²⁾	180,116	211,197	(14.7)	751,095	848,840	(11.5)

(1) The same property portfolio includes the properties owned by Cominar as at December 31, 2016, except for the properties sold in 2017 and 2018, but does not include the results of properties acquired and those under development in 2017 and 2018.

(2) Non-IFRS financial measure.

During fiscal 2018, operating revenues of the same property portfolio according to the financial statements increased by 1.1% [1.5% increase according to Cominar's proportionate share] compared with fiscal 2017. These increases mainly come from a \$9.9 million increase in the office segment due to the 0.6% increase in the average in-place occupancy rate, and from a \$6.1 million increase in the industrial and flex segment, mainly attributable to the average growth of 5.6% in the average net rent of renewed leases. These increases were partially offset by decreased operating revenues for the retail segment, due to the 4.2% decline in the average in-place occupancy rate for the period. This decrease is largely attributable to the closing of Sears stores.

The chart below presents Cominar's operating revenues, according to the consolidated financial statements, over the past 10 years.



(1) Amount not restated under IFRS, determined in accordance with Canadian GAAP before changeover.

(2) Decrease in operating revenues due mainly to the dispositions of income properties of \$1.151 billion in 2018 (\$104.4 million in 2017 and \$117.0 million in 2016.)



Net Operating Income

Although net operating income ("NOI") is not an IFRS financial measure, it is widely used in the real estate industry to assess operating performance. We define it as operating income before changes in the fair value of investment properties, share of joint ventures' net income, finance charges, transaction costs, trust administrative expenses, impairment of goodwill, derecognition of goodwill and income taxes. This definition may differ from that of other entities and, therefore, Cominar's NOI may not be comparable to similar measures presented by such other entities.

For the periods ended December 31	Quarter			Year		
	2018 ⁽¹⁾	2017	%Δ	2018 ⁽¹⁾	2017	%Δ
	\$	\$		\$	\$	
Net operating income ⁽²⁾ – Financial statements	91,128	110,487	(17.5)	372,464	436,037	(14.6)
Net operating income ⁽²⁾ – Joint ventures	2,398	2,167	10.7	9,493	7,549	25.8
Net operating income – Cominar's proportionate share⁽²⁾	93,526	112,654	(17.0)	381,957	443,586	(13.9)

(1) Net operating income for periods ended December 31, 2018 has been affected by the sale of 95 non-core properties to Slate during the first quarter of 2018 for a total consideration of \$1.14 billion.

(2) Non-IFRS financial measure.

During fiscal 2018, NOI according to Cominar's proportionate share decreased by 13.9% from fiscal 2017. This \$61.6 million decrease resulted mainly from \$3.5 million growth in same property portfolio combined with a \$65.2 million decrease attributable to the properties sold in 2017 and 2018.

For the periods ended December 31	Quarter			Year		
	2018	2017	%Δ	2018	2017	%Δ
	\$	\$		\$	\$	
Same property portfolio – Financial statements	90,775	89,973	0.9	357,190	355,551	0.5
Same property portfolio – Joint ventures	2,336	2,168	7.7	9,377	7,552	24.2
Same property portfolio ⁽¹⁾ – Cominar's proportionate share ⁽²⁾	93,111	92,141	1.1	366,567	363,103	1.0
Acquisitions, developments and dispositions – Financial statements	353	20,514	(98.3)	15,274	80,486	(81.0)
Acquisitions, developments and dispositions – Joint ventures	62	(1)	(6,300.0)	116	(3)	(3,966.7)
Net operating income – Cominar's proportionate share⁽²⁾	93,526	112,654	(17.0)	381,957	443,586	(13.9)

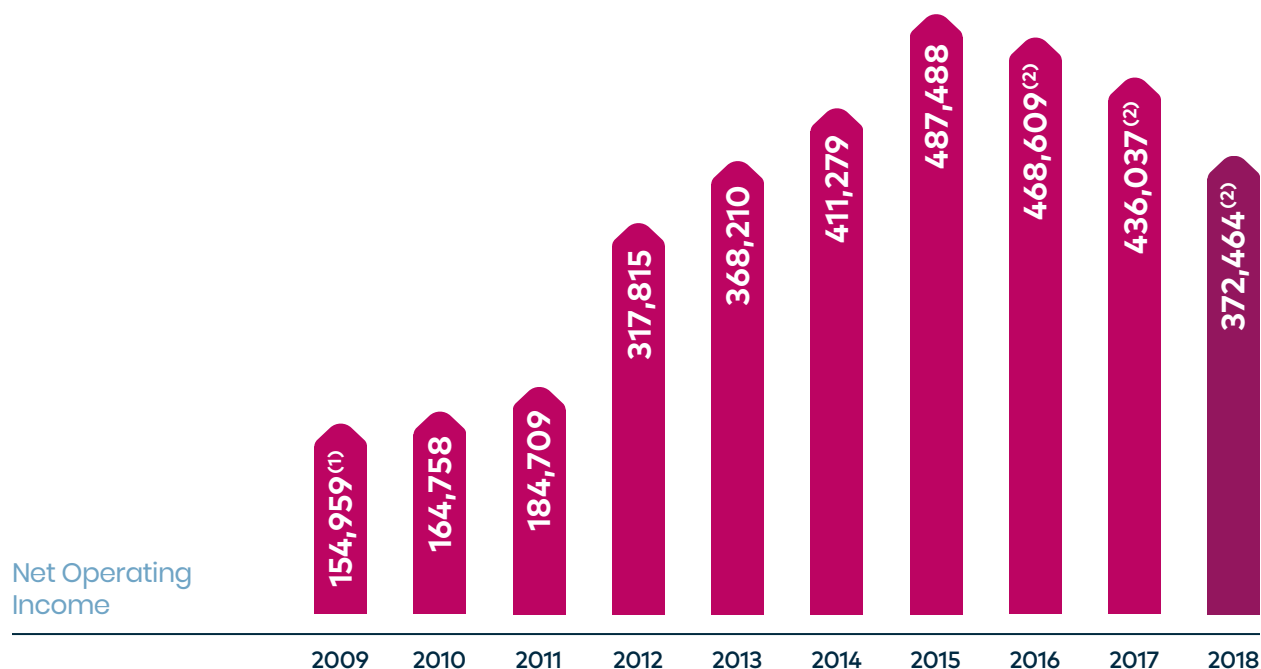
(1) The same property portfolio includes the properties owned by Cominar as at December 31, 2016, except for the properties sold in 2017 and 2018, but does not include the results of properties acquired and those under development in 2017 and 2018.

(2) Non-IFRS financial measure.

Same property net operating income according to Cominar's proportionate share increased by 1.0% during fiscal 2018 from fiscal 2017. Part of this increase comes from the office segment, which performed well with a 3.5% increase, including 2.2%, 8.4% and 1.4% in the Montreal, Québec City, and Ottawa markets, respectively, and the industrial and flex segment, with a 4.0% increase, including 2.3% and 8.7% in the Montreal and Québec City markets, respectively. The increase in the office segment is due mainly to the 0.6% increase in its average in-place occupancy rate for the year ended December 31, 2018 when compared to the same period of 2017. The industrial and flex segment showed an increase in same property net operating income due mainly to an average increase of 5.6% in the average net rent of renewed leases in 2018. Conversely, the retail segment decreased by 3.4% due to a 4.2% decline in the average in-place occupancy rate for the fiscal year when compared to fiscal 2017. This decrease in the in-place occupancy rate is largely attributable to the closing of Sears stores.



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



(1) Amount not restated under IFRS, determined in accordance with Canadian GAAP before changeover.

(2) Decrease in net operating income due mainly to the dispositions of income properties of \$1.151 billion in 2018 (\$104.4 million in 2017 and \$117.0 million in 2016.)

Segment Net Operating Income

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. The latter includes properties held by Cominar as at December 31, 2016, with the exception of properties sold in 2017 and 2018, and does not include the results of properties acquired and those under development during 2017 and 2018.

By Operating Segment

For the periods ended December 31	Quarter			Year		
	2018 ⁽¹⁾	2017	%Δ	2018 ⁽¹⁾	2017	%Δ
	\$	\$		\$	\$	
Operating segment						
Office	36,727	46,137	(20.4)	152,017	183,272	(17.1)
Retail	33,724	41,600	(18.9)	138,471	162,818	(15.0)
Industrial and flex	23,075	24,917	(7.4)	91,469	97,496	(6.2)
Net operating income – Cominar's proportionate share⁽²⁾	93,526	112,654	(17.0)	381,957	443,586	(13.9)
Distribution:						
Same property portfolio	93,111	92,141	1.1	366,567	363,103	1.0
Other portfolio	415	20,513	(98.0)	15,390	80,483	(80.9)
Total	93,526	112,654	(17.0)	381,957	443,586	(13.9)

(1) Net operating income for periods ended December 31, 2018 has been affected by the sale of 95 non-core properties to Slate during the first quarter of 2018 for a total consideration of \$1.14 billion.

(2) Non-IFRS financial measure.



Same property net operating income increased by 1.0% during the fiscal year and is distributed as follows by operating segment:

For the periods ended December 31	Quarter			Year		
	2018	2017	%Δ	2018	2017	%Δ
	\$	\$		\$	\$	
Operating segment						
Office	36,767	35,331	4.1	143,868	138,990	3.5
Retail	33,728	34,471	(2.2)	134,773	139,587	(3.4)
Industrial and flex	22,616	22,339	1.2	87,926	84,526	4.0
Same property net operating income – Cominar's proportionate share⁽¹⁾	93,111	92,141	1.1	366,567	363,103	1.0

(1) Non-IFRS financial measure.

Same property net operating income according to Cominar's proportionate share increased by 1.0% during fiscal 2018 relative to fiscal 2017. Part of this increase comes from the office segment, which performed well with a \$4.9 million increase, including \$1.8 million, \$2.8 million and \$0.3 million in the Montreal, Québec City and Ottawa markets, respectively, and the industrial and flex segment, with a \$3.4 million increase, including \$1.4 million and \$2.0 million in the Montreal and Québec City markets, respectively. The increase in the office segment is due mainly to the 0.6% increase in the average in-place occupancy rate for the year ended December 31, 2018 when compared to fiscal 2017. The industrial and flex segment showed an increase in same property net operating income due mainly to an average increase of 5.6% in the average net rent of renewed leases in 2018. Conversely, the retail segment decreased by \$4.8 million due to a 4.2% decline in the average in-place occupancy rate for the fiscal year when compared to 2017. This decline in the average in-place occupancy rate is largely attributable to the closing of Sears stores.

Average In-Place Occupancy Rate of Same Property Portfolio

For the periods ended December 31	Quarter			Year		
	2018	2017	Δ	2018	2017	Δ
Operating segment						
Office	85.8%	85.5%	0.3	85.7%	85.1%	0.6
Retail	86.3%	87.7%	(1.4)	84.8%	89.0%	(4.2)
Industrial and flex	92.4%	92.9%	(0.5)	91.2%	91.5%	(0.3)
Total	88.6%	89.1%	(0.5)	87.7%	88.8%	(1.1)

For the periods ended December 31	Quarter			Year		
	2018	2017	Δ	2018	2017	Δ
Geographic market						
Montreal	88.8%	89.3%	(0.5)	87.4%	88.7%	(1.3)
Québec City	90.8%	91.0%	(0.2)	90.6%	90.1%	0.5
Ottawa ⁽¹⁾	78.0%	80.4%	(2.4)	78.0%	83.6%	(5.6)
Total	88.6%	89.1%	(0.5)	87.7%	88.8%	(1.1)

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

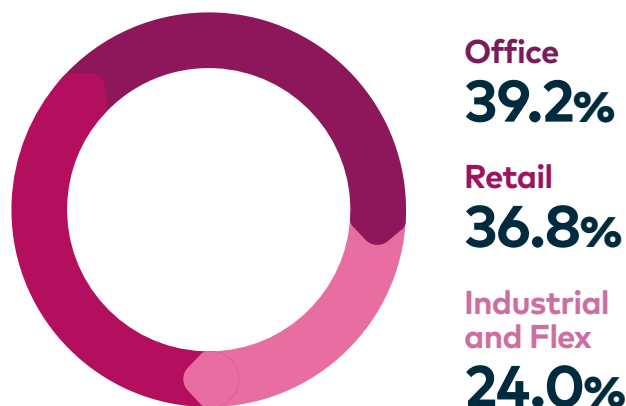


Same Property Net Operating Income – Cominar's Proportionate Share

For the periods ended December 31	Quarter		Year	
	2018	2017	2018	2017
Operating segment				
Office	39.5%	38.4%	39.2%	38.3%
Retail	36.2%	37.4%	36.8%	38.4%
Industrial and flex	24.3%	24.2%	24.0%	23.3%
Same property net operating income – Cominar's proportionate share⁽¹⁾	100.0%	100.0%	100.0%	100.0%

(1) Non-IFRS financial measure.

Same Property
Net Operating Income
by Operating Segment



By Geographic Market

For the periods ended December 31	Quarter			Year		
	2018	2017	%Δ	2018	2017	%Δ
	\$	\$		\$	\$	
Geographic market						
Montreal	59,555	58,156	2.4	234,734	232,494	1.0
Québec City	26,798	26,981	(0.7)	106,209	103,171	2.9
Ottawa ⁽¹⁾	6,758	7,004	(3.5)	25,624	27,438	(6.6)
Same property net operating income – Cominar's proportionate share⁽²⁾	93,111	92,141	1.1	366,567	363,103	1.0

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

(2) Non-IFRS financial measure.

During fiscal 2018, the Québec City market experienced the strongest growth in net operating income, mainly due to the 4.2% increase in the average net rent of renewed leases combined with a 0.5% increase in average in-place occupancy rate for the year ended December 31, 2018 when compared to fiscal 2017, followed by the Montreal market with a 1.7% increase in average net rent of renewed leases combined with a decrease of 1.3% in the average in-place occupancy rate in 2018 when compared to 2017. The Ottawa market had a more difficult time due to a 5.6% decline in the average in-place occupancy rate for the fiscal year when compared to 2017. The closing of three Sears stores was responsible for the decreases in the average in-place occupancy rate of 1.3% in the Montreal market, and 5.2% at Galeries de Hull in the Ottawa region.

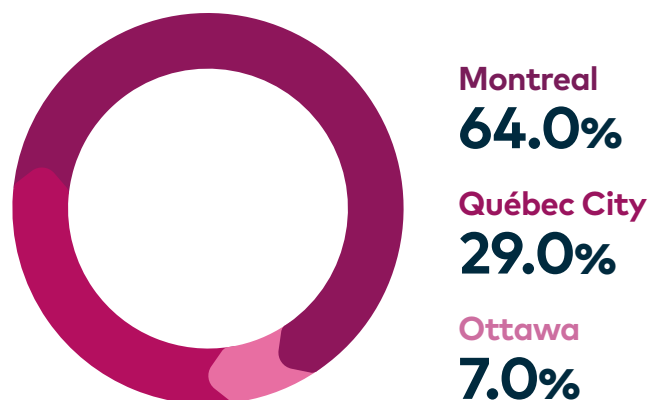


Same Property Net Operating Income – Cominar's Proportionate Share

For the periods ended December 31	Quarter		Year	
	2018	2017	2018	2017
Market				
Montreal	64.0%	63.1%	64.0%	64.0%
Québec City	28.8%	29.3%	29.0%	28.4%
Ottawa ⁽¹⁾	7.2%	7.6%	7.0%	7.6%
	100.0%	100.0%	100.0%	100.0%

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

Same Property
Net Operating Income
by Geographic Market



Change in Fair Value of Investment Properties

Cominar presents its investment properties in the consolidated financial statements according to the fair value model. Fair value is determined based on evaluations performed using management's internal estimates (based on current market data) and by independent real estate appraisers, plus capital expenditures made during the period, if applicable, 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 policy on valuing investment properties, during fiscal 2018, management revalued the entire real estate portfolio and determined that a net decrease of \$267.4 million (taking into account a downward adjustment of \$0.3 million in the joint ventures) was necessary to adjust the carrying amount of investment properties to their fair value [decrease of \$615.1 million in 2017]. The change in fair value related to investment properties still being held as at December 31, 2018 amounted to \$260.9 million. In 2018, the fair value of investment properties derived from external valuations or sources amounted to 19.1% [28% in 2017] 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 2018:

	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					
	\$	\$	\$	\$	\$	\$	\$	\$
Operating segment								
Office	3,604	(57,576)	(26,201)	(3,523)	–	(83,696)	913	(82,783)
Retail	(59,451)	(171,657)	(12,169)	(653)	(19,857)	(263,787)	(1,212)	(264,999)
Industrial and flex	(3,211)	84,354	–	(758)	–	80,385	–	80,385
Total	(59,058)	(144,879)	(38,370)	(4,934)	(19,857)	(267,098)	(299)	(267,397)

(1) Non-IFRS financial measure.

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 as at December 31, 2018:

	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					
Operating segment								
Office	0.1%	(0.8%)	(0.4%)	(0.1%)	–	(1.2%)	–	(1.2%)
Retail	(0.9%)	(2.5%)	(0.2%)	–	(0.3%)	(3.9%)	–	(3.9%)
Industrial and flex	–	1.2%	–	–	–	1.2%	–	1.2%
Total	(0.9%)	(2.1%)	(0.6%)	(0.1%)	(0.3%)	(3.9%)	–	(3.9%)

(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, 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 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.

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 capitalization rates are estimated using market surveys, available appraisals and market comparables.

To the extent that the capitalization rate ranges change from one reporting period to the next, or if another rate within the provided ranges 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 2018 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 \$101.1 million [\$103.4 million in 2017] in the fair value of its investment properties.

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



Weighted Average Capitalization and Discount Rates

As at December 31

2018

2017

	Québec City	Montreal	Ottawa	Weighted average rate	Weighted average rate
Office properties					
Capitalized net operating income method					
Capitalization rate	5.8%	5.9%	6.2%	5.9%	6.2%
Discounted cash flow method					
Capitalization rate	5.8%	5.0%	S.O.	5.2%	5.8%
Discount rate	6.3%	5.8%	S.O.	5.9%	6.3%
Retail properties					
Capitalized net operating income method					
Capitalization rate	6.7%	5.9%	6.4%	6.2%	6.1%
Discounted cash flow method					
Capitalization rate	7.5%	5.7%	N/A	5.8%	5.8%
Discount rate	8.0%	6.5%	N/A	6.6%	6.2%
Industrial and flex properties					
Capitalized net operating income method					
Capitalization rate	6.9%	6.1%	N/A	6.3%	6.8%
Discounted cash flow method					
Capitalization rate	7.3%	5.4%	N/A	5.7%	6.5%
Discount rate	7.8%	5.9%	N/A	6.2%	7.2%
Total					
Capitalized net operating income method					
Capitalization rate	6.4%	6.0%	6.3%	6.1%	6.3%
Discounted cash flow method					
Capitalization rate	6.3%	5.4%	N/A	5.5%	5.9%
Discount rate	6.8%	6.1%	N/A	6.2%	6.3%

Finance Charges

For the periods ended December 31	Quarter			Year		
	2018 \$	2017 \$	%Δ	2018 \$	2017 \$	%Δ
Interest on mortgages payable	17,801	22,329	(20.3)	77,404	89,007	(13.0)
Interest on debentures	18,275	18,298	(0.1)	73,084	77,952	(6.2)
Interest on bank borrowings	1,550	5,696	(72.8)	7,929	14,867	(46.7)
Amortization of deferred financing costs and other costs	757	636	19.0	3,000	2,763	8.6
Amortization of fair value adjustments on assumed indebtedness	(68)	(1,385)	(95.1)	(1,440)	(5,577)	(74.2)
Less: Capitalized interest ⁽¹⁾	(1,922)	(2,735)	(29.7)	(7,740)	(10,260)	(24.6)
Total finance charges – Financial statements	36,393	42,839	(15.0)	152,237	168,752	(9.8)
Percentage of operating revenues	20.7%	20.7%		20.7%	20.2%	
Weighted average interest rate on total debt				4.14%	4.10%	

(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 decrease in finance charges during fiscal 2018, compared with fiscal 2017, is mainly due to the decrease in mortgages payable and bank borrowings following the \$1.14 billion sale of a 95 non-core property portfolio on March 27, 2018.



Trust Administrative Expenses

For the periods ended December 31	Quarter			Year		
	2018 \$	2017 \$	%Δ	2018 \$	2017 \$	%Δ
Salaries and other benefits	3,276	9,078	(63.9)	11,840	18,366	(35.5)
Compensation expense related to long-term incentive plan	684	718	(4.7)	2,372	2,103	12.8
Professional fees	230	335	(31.3)	809	1,440	(43.8)
Costs associated with public companies	220	226	(2.7)	711	771	(7.8)
Governance and strategic alternatives consulting fees	310	—	100.0	3,839	—	100.0
Other fees	1,386	1,051	31.9	3,684	3,297	11.7
Total	6,106	11,408	(46.5)	23,255	25,977	(10.5)
Adjusted Trust administrative expenses ⁽¹⁾⁽²⁾	5,061	6,008	(15.8)	18,681	20,577	(9.2)

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

(2) Non-IFRS financial measure.

During fiscal 2018, Trust administrative expenses amounted to \$23.3 million, compared to \$26.0 million for fiscal 2017. This decrease is due mainly to the \$6.5 million decrease in salaries and other benefits, related mainly to a \$5.4 million severance allowance paid in 2017 following the end of employment of the Chief Executive Officer, offset by non-recurring charges of \$3.8 million for governance and strategic alternatives consulting fees and \$0.7 million of severance to an executive.

Impairment and Derecognition of Goodwill

During fiscal 2018, Cominar transferred 40 investment properties to investment properties held for sale. A portion of goodwill, in the amount of \$3.9 million, associated with these properties has been allocated to the assets held for sale and then has been subject to derecognition. The derecognized goodwill was distributed as follows: \$1.7 million for the office segment, \$2.0 million for the retail segment and \$0.1 million for the industrial and flex segment. As at December 31, 2017, a portion of goodwill in the amount of \$27.0 million, associated with the property portfolio of 95 non-core investment properties, was allocated to the assets held for sale and then was subject to derecognition.

At year-end, Cominar tested its assets for impairment of goodwill by determining the recoverable value of the net assets of each group of CGUs and comparing it to the carrying amount, including goodwill. As at December 31, 2018, the recoverable value of CGUs 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 2019 to 2029, net operating income projections are based on management's budget projections supported by past experience, assuming a stable increase in net operating income. The discount and capitalization rates are estimated based on each segment's weighted average capitalization rate. Following testing, Cominar recorded a \$120.4 million impairment of goodwill for the office and retail segments as at December 31, 2018. As at that date, goodwill for the industrial and flex segment was not impaired.

	Office properties \$	Retail properties \$	Industrial and flex properties \$	Total \$
Balance as at January 1, 2017	98,073	51,212	17,686	166,971
Transfer to investment properties held for sale	(18,577)	(6,564)	(1,848)	(26,989)
Balance as at December 31, 2017	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



Transaction Costs

As part of the \$1.14 billion sale of a portfolio of 95 non-core properties on March 27, 2018, as well as the other property sales in the fiscal year, Cominar incurred a total of \$22.8 million in transaction costs. The following table summarizes these costs:

For the periods ended December 31	Quarter			Year		
	2018	2017	%Δ	2018	2017	%Δ
	\$	\$		\$	\$	
Brokerage fees	90	—	100.0	5,790	—	100.0
Professional fees	538	—	100.0	2,912	—	100.0
Assumed head leases	—	—	—	4,201	—	100.0
Penalties on debt repayment	—	—	—	945	—	100.0
Closing adjustments	2,083	—	100.0	8,244	—	100.0
Other	155	—	—	755	—	100.0
Total	2,866	—	100.0	22,847	—	100.0

Net Income

For the periods ended December 31	Quarter			Year		
	2018	2017	%Δ	2018	2017	%Δ
	\$	\$		\$	\$	
Net loss	(353,353)	(581,256)	(39.2)	(212,282)	(391,725)	(45.8)
Net loss per unit (basic and diluted)	(1.94)	(3.14)	(38.2)	(1.17)	(2.13)	(45.1)
Weighted average number of units outstanding (basic and diluted) ⁽¹⁾	182,067,023	185,289,552		182,156,628	184,213,583	

(1) The calculation of the diluted weighted average number of units outstanding used in the calculation of net loss per unit for the periods ended December 31, 2017 and 2018 does not take into account the effect of the conversion of options, performance unit, deferred units and restricted units, due to the fact that they are antidilutive.

Net loss for fiscal 2018 amounted to \$212.3 million, compared to a net loss of \$391.7 million for fiscal 2017. This result reflects a \$63.5 million decrease in net operating income, a \$16.5 million decrease in finance charges (these changes are attributed mainly to the sale of a portfolio of 95 non-core properties on March 27, 2018), a \$2.7 million decrease in trust administrative expenses, a \$349.3 million decrease in the fair value of investment properties, transaction costs of \$22.8 million, a \$120.4 million impairment of goodwill and a \$23.1 million decrease in the derecognition of goodwill.

Adjusted Net Income

Adjusted net income is not an IFRS financial measure. The calculation method used by Cominar may differ from those used by other entities. Cominar calculates an adjusted net income to eliminate the change in fair value of investment properties, the impairment and derecognition of goodwill, which are non-monetary and have no impact on cash flows, as well as trust administrative expenses and transaction costs which are non-recurring.



For the periods ended December 31	Quarter			Year		
	2018 ⁽¹⁾	2017	%Δ	2018	2017	%Δ
	\$	\$		\$	\$	
Net loss	(353,353)	(581,256)	(39.2)	(212,282)	(391,725)	(45.8)
Change in fair value of investment properties ⁽²⁾	276,459	617,418	(55.2)	267,397	615,134	(56.5)
Impairment of goodwill	120,389	—	100.0	120,389	—	100.0
Derecognition of goodwill	3,278	26,989	(87.9)	3,872	26,989	(85.7)
Transaction costs	2,866	—	100.0	22,847	—	100.0
Severance allowance	735	5,400	(86.4)	735	5,400	(86.4)
Governance and strategic alternatives consulting fees	310	—	—	3,839	—	100.0
Adjusted net income ⁽³⁾	50,684	68,551	(26.1)	206,797	255,798	(19.2)
Adjusted net income per unit (diluted) ⁽³⁾	0.28	0.37	(24.3)	1.13	1.39	(18.7)
Weighted average number of units outstanding (diluted)	182,253,193	185,493,800		182,322,596	184,356,722	

(1) Adjusted net income for periods ended December 31, 2018 has been affected by the sale of 95 non-core properties to Slate during the first quarter of 2018 for a total consideration of \$1.14 billion.

(2) Includes Cominar's proportionate share in joint ventures

(3) Non-IFRS financial measure.

Adjusted net income for fiscal 2018 decreased by \$49.0 million from fiscal 2017, due mainly to a \$63.5 million decrease in net operating income resulting mainly from the sale of a portfolio of 95 non-core properties on March 27, 2018, partially offset by a \$16.5 million decrease in finance charges.

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.

REALpac defines FFO 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, the derecognition and impairment of goodwill, 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 loss, as determined in accordance with IFRS, and FFO and AFFO:

Funds from Operations and Adjusted Funds from Operations

For the periods ended December 31	Quarter			Year		
	2018 ⁽¹⁾	2017	%Δ	2018 ⁽¹⁾	2017	%Δ
	\$	\$		\$	\$	
Net loss	(353,353)	(581,256)	(39.2)	(212,282)	(391,725)	(45.8)
Taxes on dispositions of properties	372	—	100.0	6,763	—	100.0
Deferred income taxes	—	(5,739)	(100.0)	(6,539)	(5,034)	29.9
Initial and re-leasing salary costs	713	882	(19.2)	3,348	3,532	(5.2)
Change in fair value of investment properties ⁽²⁾	276,459	617,418	(55.2)	267,397	615,134	(56.5)
Capitalizable interest on properties under development – joint ventures	159	198	(19.7)	621	793	(21.7)
Transaction costs	2,866	—	100.0	22,847	—	100.0
Impairment of goodwill	120,389	—	100.0	120,389	—	100.0
Derecognition of goodwill	3,278	26,989	(87.9)	3,872	26,989	(85.7)
Funds from operations⁽²⁾⁽³⁾	50,883	58,492	(13.0)	206,416	249,689	(17.3)
Governance and strategic alternatives consulting fees	310	—	—	3,839	—	100.0
Severance allowances	735	5,400	(86.4)	735	5,400	(86.4)
Recurring funds from operations⁽²⁾⁽³⁾	51,928	63,892	(18.7)	210,990	255,089	(17.3)
Provision for leasing costs	(7,613)	(6,583)	15.6	(29,225)	(25,820)	13.2
Recognition of leases on a straight-line basis ⁽²⁾	(1,020)	(1,554)	(34.4)	(2,036)	(4,027)	(49.4)
Capital expenditures – maintenance of rental income generating capacity	(3,203)	(4,127)	(22.4)	(15,004)	(9,415)	59.4
Recurring adjusted funds from operations⁽²⁾⁽³⁾	40,092	51,628	(22.3)	164,725	215,827	(23.7)
Per unit information:						
Recurring funds from operations (FD) ⁽³⁾⁽⁴⁾	0.28	0.34	(17.6)	1.16	1.38	(15.9)
Recurring adjusted funds from operations (FD) ⁽³⁾⁽⁴⁾	0.22	0.28	(21.4)	0.90	1.17	(23.1)
Weighted average number of units outstanding (FD) ⁽⁴⁾	182,253,193	185,493,800		182,322,596	184,356,722	
Payout ratio of recurring adjusted funds from operations ⁽³⁾⁽⁴⁾	81.8%	101.8%		87.8%	113.9%	

(1) FFO and AFFO for the periods ended December 31, 2018 have been affected by the sale of 95 non-core properties to Slate during the first quarter of 2018 for a total consideration of \$1.14 billion.

(2) Including Cominar's proportionate share in joint ventures.

(3) Non-IFRS financial measure.

(4) Fully diluted.

Recurring FFO for fiscal 2018 decreased by \$44.1 million from fiscal 2017, due mainly to the \$49.0 million decrease in adjusted net income explained above, that is due mainly to the sale of a portfolio of 95 non-core properties on March 27, 2018, offset by \$6.7 million in taxes on dispositions of properties.

Recurring AFFO for fiscal 2018 decreased by \$51.1 million compared with fiscal 2017, due mainly to the \$44.1 million decrease in recurring AFFO explained above, and due to the \$3.4 million increase in the provision for leasing costs and the \$5.6 million increase in the capital expenditures to maintain rental income generating capacity.



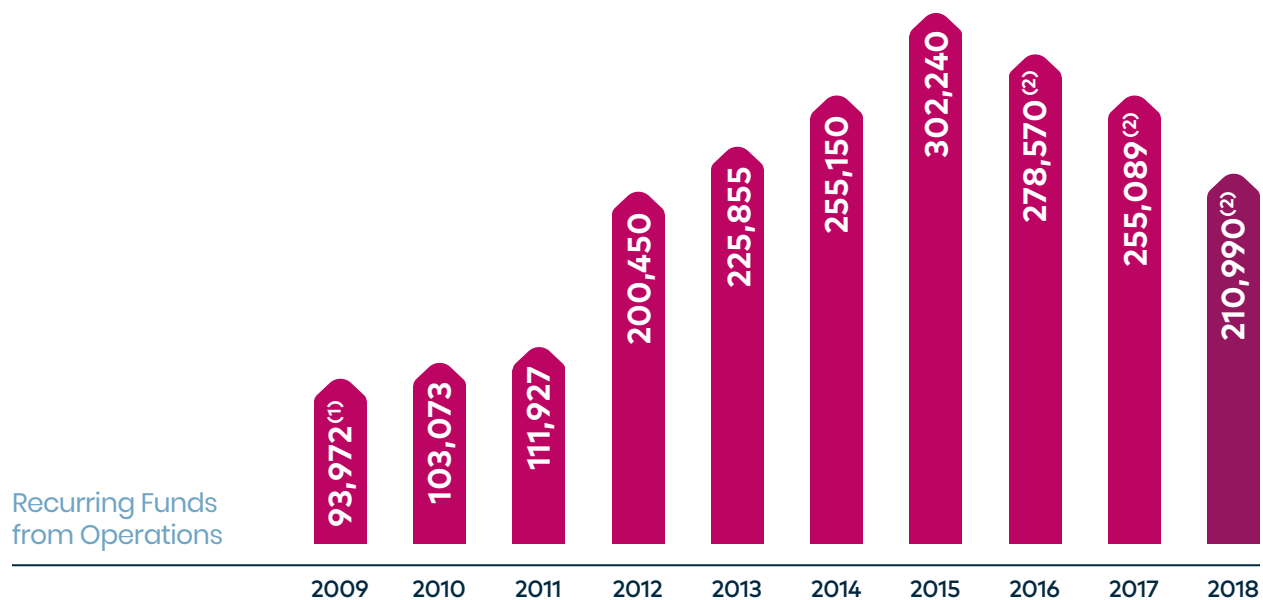
Track Record of Recurring Funds from Operations per Unit

For the years ended December 31	2018 \$	2017 \$	2016 \$	2015 \$	2014 \$
Recurring funds from operations (FD) ⁽¹⁾⁽²⁾	1.16	1.38	1.61	1.79	1.88

(1) Fully diluted.

(2) Non-IFRS financial measure.

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



(1) Amount not restated under IFRS, determined in accordance with Canadian GAAP before changeover.

(2) Decrease in recurring funds from operations due mainly to the dispositions of income properties [\$1.151 billion in 2018, \$104.4 million in 2017 and \$117.0 million in 2016.]

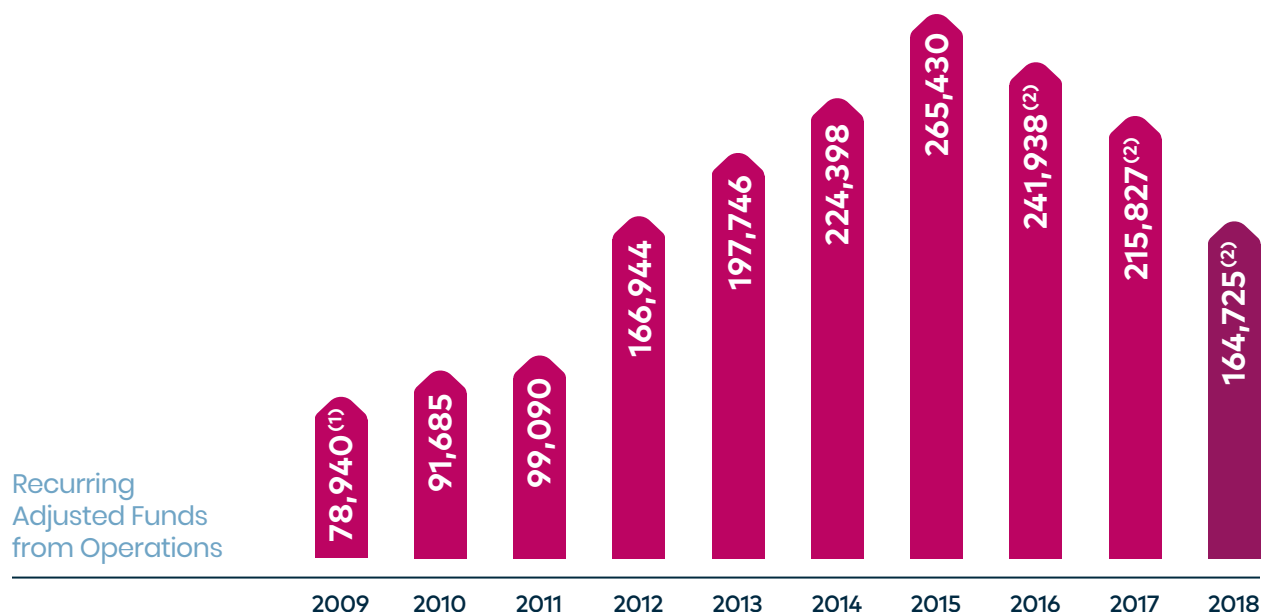


Track Record of Recurring Adjusted Funds from Operations per Unit

For the years ended December 31	2018 \$	2017 \$	2016 \$	2015 \$	2014 \$
Recurring adjusted funds from operations (FD) ⁽¹⁾⁽²⁾	0.90	1.17	1.40	1.57	1.65

(1) Fully diluted.

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



(1) Amount not restated under IFRS, determined in accordance with Canadian GAAP before changeover.

(2) Decrease in recurring adjusted funds from operations due mainly to the dispositions of income properties [\$1.151 billion in 2018, \$104.4 million in 2017 and \$117.0 million in 2016.]

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 the fiscal year ended December 31, 2018, the actual costs incurred by Cominar were \$49.8 million in leasehold improvements and \$10.7 million in initial direct costs that are amortized over the terms of the related leases, while the amortization of leasing costs for the year ended December 31, 2018 amounted to \$29.2 million.

For the periods ended December 31	Quarter		Year	
	2018 \$	2017 \$	2018 \$	2017 \$
Leasehold improvements	9,632	6,283	49,801	39,248
Initial direct costs	2,851	5,323	10,662	13,095
Proportionate share of joint ventures	85	550	723	742
Actual leasing costs – Cominar's proportionate share ⁽¹⁾	12,568	12,156	61,186	53,085
Amortization of leasing costs in the calculation of AFFO ⁽²⁾	7,613	6,583	29,225	25,820

(1) See the reconciliation of capital expenditures as per the financial statements in section "Acquisitions, Investments and Dispositions".

(2) Including Cominar's proportionate share in joint ventures.



Capital Expenditures – Maintenance of Rental Income Generating Capacity

The \$15.0 million of capital expenditures related to maintenance of rental income generating capacity for the fiscal year ended December 31, 2018 (\$9.4 million in 2017) corresponds to management's estimate of the non-income generating portion of actual expenditures incurred primarily for major maintenance and repair expenditures, for example, some common areas, roofing, parking, façades, base building preparation, as well as the replacement of equipment. In order to establish the allocation of capital expenditures to maintenance of rental income generating capacity and the allocation increasing rental income generating capacity, Cominar analyses the work carried out according to its nature (common areas, roofing, parking, façades, equipment, etc.), the age and location of the properties, the operating segment, 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 net operating income.

Capital expenditures incurred for our income properties, including investment properties held for sale, designed to create, improve or increase net operating income 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.

For the periods ended December 31	Quarter		Year	
	2018	2017	2018	2017
	\$	\$	\$	\$
Work for common areas, roofing, parking, base building preparation, etc.	9,985	12,281	63,391	70,658
Facade renovation	3,921	3,410	10,398	11,254
Other	2,489	2,399	11,459	13,071
Proportionate share of joint ventures' capital expenditures	278	126	978	761
Capital expenditures – increase of rental income generating capacity	16,673	18,216	86,226	95,744
Capital expenditures – maintenance of rental income generating capacity ⁽¹⁾	3,203	4,127	15,004	9,415

(1) Including Cominar's proportionate share in joint ventures.



Adjusted Cash Flow from Operations

During the first quarter of 2017, REALpac published a White Paper on the determination of adjusted cash flow from operations ("ACFO"). The ACFO are intended to be used as a measure of a company's ability to generate stable cash flows. The ACFO do not replace the cash flows provided by operating activities as per the consolidated financial statements prepared in accordance with IFRS. Our method to determine 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 recurring ACFO:

For the periods ended December 31	Quarter		Year	
	2018 ⁽¹⁾	2017	2018 ⁽¹⁾	2017
	\$	\$	\$	\$
Cash flows provided by operating activities as per the condensed interim consolidated financial statements	74,118	81,471	182,939	233,225
Adjustments – investments in joint ventures	439	1,138	4,534	3,720
Provision for leasing costs	(7,613)	(6,583)	(29,225)	(25,820)
Initial and re-leasing salary costs	713	882	3,348	3,532
Changes in adjusted non-cash working capital items ⁽³⁾	(28,417)	(27,011)	(14,017)	2,447
Capital expenditures – maintenance of rental income generating capacity	(3,203)	(4,127)	(15,004)	(9,415)
Amortization of deferred financing costs and other costs	(758)	(636)	(3,002)	(2,763)
Amortization of fair value adjustments on assumed mortgages payable	68	1,385	1,440	5,577
Transaction costs	2,866	–	22,847	–
Capitalizable interest on properties under development – joint ventures	159	198	621	793
Adjusted cash flow from operations⁽²⁾⁽⁴⁾	38,372	46,717	154,481	211,296
Governance and strategic alternative consulting fees	310	–	3,839	–
Severance allowance	735	5,400	735	5,400
Recurring adjusted cash flow from operations⁽²⁾⁽⁴⁾	39,417	52,117	159,055	216,696
Per unit information:				
Recurring adjusted cash flow from operations (FD) ⁽⁴⁾⁽⁵⁾	0.22	0.28	0.87	1.18
Weighted average number of units outstanding (FD) ⁽⁵⁾	182,253,193	185,493,800	182,322,596	184,356,722
Payout ratio ⁽⁴⁾⁽⁵⁾	81.8%	101.8%	90.8%	112.9%

(1) Adjusted cash flow from operations for the periods ended December 31, 2018 has been affected by the sale of 95 non-core properties to Slate during the first quarter of 2018 for a total consideration of \$1.14 billion.

(2) Including Cominar's proportionate share in joint ventures.

(3) 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.

(4) Non-IFRS financial measure.

(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

For the periods ended December 31	Quarter			Year		
	2018 \$	2017 \$	%Δ	2018 \$	2017 \$	%Δ
Cash distributions	32,749	52,792	(38.0)	143,730	206,753	(30.5)
Distributions reinvested under the distribution reinvestment plan ⁽¹⁾	—	—	—	—	39,770	(100.0)
Distributions to unitholders	32,749	52,792	(38.0)	143,730	246,523	(41.7)
Percentage of distributions reinvested	—	—	—	—	16.1%	—
Per unit distributions	0.1800	0.2850	—	0.7900	1.3325	—

(1) This amount includes units to be issued under the plan upon payment of distributions.

Distributions to unitholders for fiscal 2018 totalled \$143.7 million, down 41.7% from fiscal 2017, due to the decrease in monthly distribution from \$0.1225 per unit to \$0.095 per unit announced on August 3, 2017 and the decrease in distribution from \$0.095 per unit to \$0.06 per unit announced on March 7, 2018, beginning with the distribution of March 2018 paid in April 2018. These decreases in distributions enabled Cominar to reduce its recurring AFFO distribution ratio from 113.9% for the fiscal year ended December 31, 2017, to 87.8% for the fiscal year ended December 31, 2018.

The distribution reinvestment plan has been suspended since August 3, 2017.

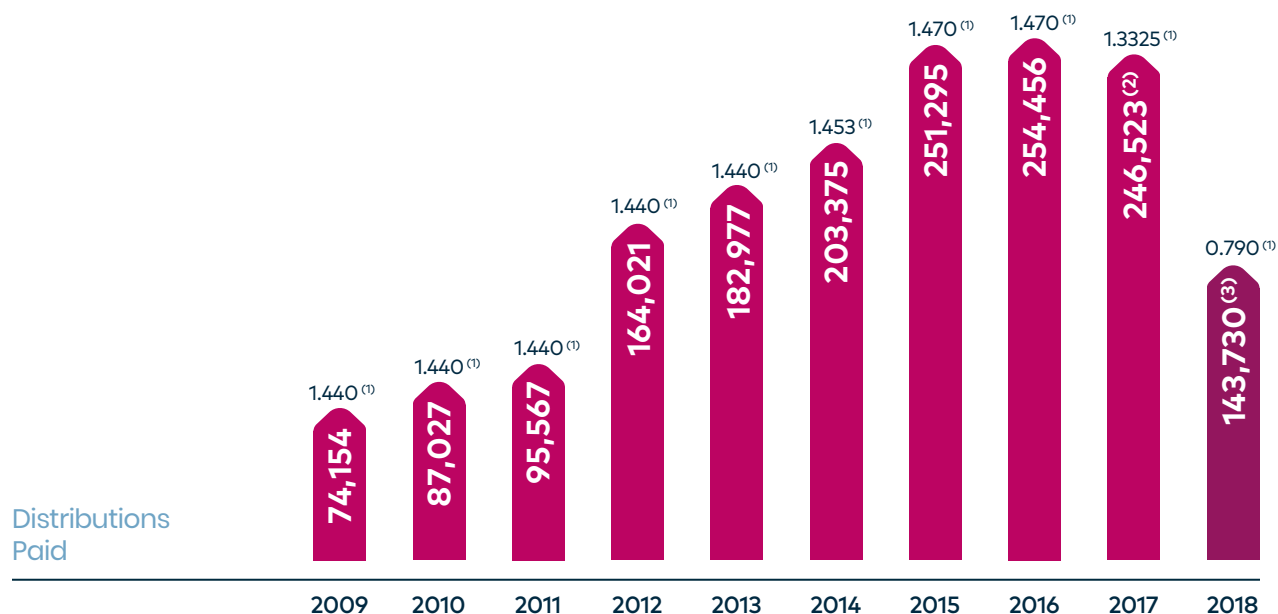
In accordance with CSA guidelines, Cominar also provides the following table to allow readers to assess sources of cash distributions and how they reconcile to net income:

For the periods ended December 31	2018 (three months) \$	2018 (twelve months) \$	2017 (twelve months) \$	2016 (twelve months) \$
Net income (net loss)	(353,353)	(212,282)	(391,725)	241,738
Cash flows provided by operating activities – Financial statements	74,118	182,939	233,225	284,090
Distributions to unitholders	32,749	143,730	246,523	254,456
Surplus (deficit) of cash flows provided by operating activities compared with distributions to unitholders	41,369	39,209	(13,298)	29,634

For the three-month and twelve-month periods ended December 31, 2018, cash flows provided by operating activities presented surpluses of \$41.4 million and \$39.2 million, respectively, over distributions to unitholders.



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



(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 2018, Cominar generated \$182.9 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, using the funds from operations, refinancing of mortgages payable and amounts available on its credit facility which stood at \$547.1 million as at December 31, 2018.

Debt Management

Cominar spreads the maturities of its debt instruments over a number of years to manage the interest rate and refinance 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 of its assets.

As at December 31, 2018, Cominar had a 55.3% debt ratio consisting of mortgages, senior unsecured debentures and bank loans less cash and cash equivalents. Mortgages represented approximately 48.2% of total debt, senior unsecured debentures represented approximately 47.6%, while bank borrowings represented approximately 4.2%. As at December 31, 2018, the weighted average annual contractual rate for mortgages was 4.03% and the residual weighted average remaining term of the mortgages was 5.0 years. The weighted average contractual rate on senior unsecured debentures was 4.23%.

During fiscal 2018, the Bank of Canada raised its key interest rate by 0.25% on three occasions. As at December 31, 2018, 94.5% of Cominar's total debt was fixed rate and 5.5% was variable rate, therefore the interest rate increases had little impact on Cominar's finance charges.



Debt Summary

As at December 31

	2018			2017		
	\$	Weighted average contractual rate	Residual weighted average term	\$	Weighted average contractual rate	Residual weighted average term
Mortgages payable	1,742,227	4.03%	5.0 years	2,150,126	4.22%	4.8 years
Debentures	1,722,586	4.23%	2.2 years	1,721,577	4.23%	3.2 years
Bank borrowings	152,950	4.40%	0.7 year	620,366	3.30%	1.7 year
Total debt	3,617,763	4.14%	3.5 years	4,492,069	4.10%	3.7 years
Cash and cash equivalents	(1,498)	1.70%		(6,928)	1.70%	
Net debt	3,616,265			4,485,141		

Mortgages Payable

As at December 31, 2018, the balance of mortgages payable was \$1,742.2 million, down \$407.9 million from \$2,150.1 million as at December 31, 2017. This decrease is explained by new mortgages payable of \$347.5 million at a weighted average contractual rate of 4.02%, by repayments of \$596.6 million at a weighted average contractual rate of 4.66%, by monthly repayments of capital totalling \$50.8 million, and by the transfer of mortgages payable totalling \$106.0 million at a weighted average contractual rate of 3.72% as part of the sale of a portfolio of 95 non-core properties to Slate during the first quarter of 2018. As at December 31, 2018, the weighted average contractual rate was 4.03%, down 19 basis points from 4.22% as at December 31, 2017. As at December 31, 2018, the effective weighted average interest rate was 4.11%, compared to 3.95% as at December 31, 2017.

Cominar's mortgages payable contractual maturities are staggered over a number of years to reduce risks related to renewal. As at December 31, 2018, the residual weighted average term of mortgages payable was 5.0 years, compared to 4.8 years as at December 31, 2017.

The following table shows mortgage contractual maturities for the specified years:

Contractual Maturities of Mortgages Payable

For the years ending December 31	Repayment of principal \$	Balances at maturity \$	Total \$	Weighted average contractual rate
2019	48,273	2,257	50,530	6.63%
2020	50,129	80,974	131,103	4.34%
2021	44,365	326,177	370,542	4.25%
2022	37,173	184,248	221,421	3.35%
2023	33,251	292,489	325,740	4.61%
2024	24,842	181,733	206,575	4.08%
2025	17,864	23,234	41,098	3.58%
2026	6,914	288,510	295,424	3.52%
2027	5,063	50,968	56,031	3.85%
2028	1,743	30,836	32,579	4.48%
2029 and thereafter	5,299	11,649	16,948	4.19%
Total	274,916	1,473,075	1,747,991	4.03%



Senior Unsecured Debentures

The following table presents the features of Cominar's senior unsecured debentures:

	Date of issuance	Contractual interest rate	Effective interest rate	Dates of interest payments	Maturity date	Nominal value as at December 31, 2018 \$
Series 2	December 2012 ⁽¹⁾	4.23%	4.37%	June 4 and December 4	December 2019	300,000
Series 3	May 2013	4.00%	4.24%	May 2 and November 2	November 2020	100,000
Series 4	July 2013 ⁽²⁾	4.941%	4.81%	July 27 and January 27	July 2020	300,000
Series 7	September 2014	3.62%	3.70%	December 21 and June 21	June 2019	300,000
Series 8	December 2014	4.25%	4.34%	June 8 and December 8	December 2021	200,000
Series 9	June 2015	4.164%	4.25%	June 1 and December 1	June 2022	300,000
Series 10	May 2016	4.247%	4.34%	May 23 and November 23	May 2023	225,000
Weighted average interest rate		4.23%	4.29%			
Total						1,725,000

(1) Re-opened in February 2013 (\$100.0 million).

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

As at December 31, 2018, the residual weighted average term of senior unsecured debentures was 2.2 years.

Bank Borrowings

As at December 31, 2018, Cominar had an unsecured renewable operating and acquisition credit facility of up to \$700.0 million maturing in August 2019. 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, 2018 and December 31, 2017. As at December 31, 2018, bank borrowings totalled \$153.0 million and availability on the credit facility was \$547.0 million. Subsequent to the year ended December 31, 2018, Cominar requested a reduction of the maximum amount of the unsecured revolving operating and acquisition credit facility from \$700.0 million to \$500.0 million.

Debt Ratio

The following table presents the changes in the debt ratio:

As at December 31	2018 \$	2017 \$
Cash and cash equivalents	(1,498)	(6,928)
Mortgages payable	1,742,227	2,150,126
Debentures	1,722,586	1,721,577
Bank borrowings	152,950	620,366
Total net debt	3,616,265	4,485,141
Total assets less cash and cash equivalents	6,542,213	7,818,065
Debt ratio⁽¹⁾⁽²⁾	55.3%	57.4%

(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) This ratio is not defined by IFRS and may differ from similar measures presented by other entities.

As at December 31, 2018, Cominar's debt ratio stood at 55.3%, down 2.1% from December 31, 2017. This decrease is due mainly to the use of the net proceeds from the sale of 95 non-core properties on March 27, 2018 for \$1.140 billion, which was partially used to reduce mortgage loans by \$321.6 million, while \$106.0 million were assumed by the purchaser, and to repay \$549.7 million in bank loans.



Debt/EBITDA Ratio

The debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA") ratio is 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.

The following table presents the changes in debt/EBITDA ratio:

As at December 31	2018 \$	2017 \$
Mortgages payable	1,742,227	2,150,126
Debentures	1,722,586	1,721,577
Bank borrowings	152,950	620,366
Total debt	3,617,763	4,492,069
Net operating income	372,464	436,037
Adjusted Trust administrative expenses ⁽¹⁾	(18,681)	(20,577)
Recognition of leases on a straight-line basis	(2,030)	(3,941)
EBITDA	351,753	411,519
Debt/EBITDA ratio ⁽²⁾	10.3x	10.9x

(1) Excludes governance and strategic alternatives consulting fees as well as the severance allowance paid to an executive officer.

(2) This ratio is not defined by IFRS and may differ from similar measures presented by other entities.

As at December 31, 2018, the debt/EBITDA ratio was 10.3x (10.9x as at December 31, 2017).

Interest Coverage Ratio

The following table presents the interest coverage ratio:

As at December 31	2018 \$	2017 \$
Net operating income	372,464	436,037
Adjusted Trust administrative expenses ⁽¹⁾	(18,681)	(20,577)
	353,783	415,460
Finance charges	152,237	168,752
Interest coverage ratio ⁽²⁾	2.32:1	2.46:1

(1) Excludes governance and strategic alternatives consulting fees as well as the severance allowance paid to an executive officer.

(2) This ratio is not defined by IFRS and may differ from similar measures presented by other entities.

The interest coverage ratio is used to assess Cominar's ability to pay interest on its total debt from operating revenues. As at December 31, 2018, the annualized interest coverage ratio stood at 2.32:1, evidence of its capacity to meet its interest payment obligations.



Unencumbered Assets and Unsecured Debts

The following table presents information on Cominar's unencumbered income properties and unsecured debts:

As at December 31	2018		2017	
	Number of properties	Fair value of properties (\$)	Number of properties	Fair value of properties (\$)
Unencumbered income properties ⁽¹⁾	291	2,864,637	334	3,347,839
Unencumbered assets to unsecured net debt ratio ⁽²⁾⁽³⁾		1.53:1		1.43:1
Unsecured debts-to-net-debt ratio ⁽³⁾⁽⁴⁾		51.8%		52.1%

(1) Includes investment properties held for sale.

(2) Fair value of unencumbered income properties divided by the unsecured net debt.

(3) These ratios are not defined by IFRS and may differ from similar measures presented by other entities.

(4) Unsecured debts divided by net debt.

As at December 31, 2018, Cominar owned unencumbered income properties whose fair value was approximately \$2.9 billion. The unencumbered assets to unsecured net debt ratio stood at 1.53:1, well above the required ratio of 1.30:1 contained in the restrictive covenant of the outstanding debentures.

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. Readers are referred to note 31 of the consolidated financial statements for the fiscal year ended December 31, 2018.

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 2018 and 2017.

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		2018		2017	
	Level	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Financial liabilities					
Mortgages payable	2	1,742,227	1,764,084	2,150,126	2,153,043
Debentures	2	1,722,586	1,703,866	1,721,577	1,739,278

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 3,900 clients occupying an average of approximately 9,000 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%, 4.4% and 3.2% 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 14.4% 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 \$0.5 million increase or decrease in Cominar's net loss for the fiscal year ended December 31, 2018 [\$1.2 million in 2017].

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, 2018 were as follows:

	Cash flows		
	Under one year \$	One to five years \$	Over five years \$
Mortgages payable	131,411	1,292,539	726,609
Debentures	667,491	1,225,498	—
Bank borrowings	156,867	—	—
Accounts payable and accrued liabilities ⁽¹⁾	92,644	—	—

(1) Excludes sales taxes and other non-financial liabilities

Property Portfolio

The following table presents information on the property portfolio, including Cominar's proportionate share:

As at December 31	2018 \$	2017 \$	%Δ
Income properties – Cominar's proportionate share ⁽¹⁾	6,224,956	6,402,858	(2.8)
Properties under development and land held for future development – Cominar's proportionate share ⁽¹⁾	143,835	145,253	(1.0)
Investment properties held for sale	188,727	1,143,500	(83.5)
Number of income properties ⁽²⁾	428	525	
Leasable area (sq. ft.) ⁽²⁾	38,127,000	44,370,000	

(1) Non-IFRS financial measure.

(2) Includes investment properties held for sale.

Summary by Operating Segment

As at December 31	2018		2017	
	Number of properties	Leasable area (sq. ft.)	Number of properties	Leasable area (sq. ft.)
Office	96	11,707,000	136	14,830,000
Retail	136	10,714,000	154	12,075,000
Industrial and flex	196	15,706,000	235	17,465,000
Total	428	38,127,000	525	44,370,000

Summary by Geographic Market

As at December 31	2018		2017	
	Number of properties	Leasable area (sq. ft.)	Number of properties	Leasable area (sq. ft.)
Montreal	281	25,327,000	282	25,420,000
Québec City	126	10,264,000	127	10,253,000
Ontario - Ottawa ⁽¹⁾	20	2,476,000	20	2,476,000
Total core markets	427	38,067,000	429	38,149,000
Ontario - Toronto	—	—	24	2,466,000
Atlantic Provinces	1	60,000	58	2,647,000
Western Canada	—	—	14	1,108,000
Total	428	38,127,000	525	44,370,000

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



Acquisitions, Investments and Dispositions

In accordance with our financial management policies on maintaining a sound and strong financial position over the long-term, Cominar developed a strategy of asset dispositions in order to focus on our core markets, while maintaining an appropriate allocation among our three business segments, namely, office properties, retail properties and industrial and flex properties, and geographic diversification of our property portfolio.

Acquisition of Income Properties

On June 20, 2018, Cominar acquired the former Sears building of approximately 144,000 square feet, which was a shadow tenant connected to Les Rivières shopping centre, in Trois-Rivières, Quebec, for total consideration of \$3.5 million (\$24 per square foot).

On September 24, 2018, Cominar acquired, for \$36.0 million, the land and superficies rights (the equivalent of air rights under Quebec law) related to a property 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 is the result of a purchase option Cominar acquired as part of a transaction with Ivanhoé Cambridge in 2014. The acquisition of this land contributed to increasing the value of our property for an amount greater than the acquisition cost of the land. This acquisition also allowed us to increase our NOI in two ways; firstly, by the receipt of the rent payable by the hotel operator for the lease of the superficies rights related to the hotel, and secondly, by the cancellation of the rent previously payable by Cominar for the lease of the superficies rights related to the office building.

Investments in Income Properties and Income Properties Held for Sale

Cominar continues to invest in our 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 2018, Cominar incurred \$160.2 million [\$150.9 million in 2017] in capital expenditures specifically to increase the rental income generating capacity of its properties. These capital expenditures include, among others, investments of \$57.8 million in revitalization and redevelopment, \$1.6 million in property expansion, \$63.4 million in work on common areas, roofing, parking, base building preparation, etc. and \$10.4 million in facade renovation. Cominar also incurred \$15.0 million [\$9.4 million in 2017] in capital expenditures to maintain rental income generating capacity, consisting mainly of major maintenance and repair expenses, as well as property equipment replacements, which will garner benefits for Cominar for the coming years. These expenditures do not include current repair and maintenance costs, as these were charged to the results of operations.

Finally, Cominar invested in leasehold improvements that aim to increase the value of its buildings through higher lease rates, 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 closely depends on lease renewals and the signing of new leases. It also depends on increases in rental space through acquired, expanded or upgraded properties, or rental space transferred from properties under development. In this respect, during fiscal 2018, Cominar made investments of \$49.8 million in leasehold improvements and \$10.7 million in leasing costs [\$39.2 million in leasehold improvements and \$13.1 million in leasing costs in 2017].



The following table shows the details of the capital expenditures reported in the financial statements with respect to our income properties (including investment properties held for sale):

For the periods ended December 31	Quarter			Year		
	2018 \$	2017 \$	%Δ	2018 \$	2017 \$	%Δ
Capital expenditures – increase of rental income generating capacity						
Revitalization and redevelopment	19,638	16,116	21.9	57,776	31,648	82.6
Property expansion	354	8,877	(96.0)	1,613	14,854	(89.1)
Work for common areas, roofing, parking, preparation of base building, etc.	9,985	12,281	(18.7)	63,391	70,658	(10.3)
Facade renovation	3,921	3,410	15.0	10,398	11,254	(7.6)
Other	3,081	2,398	28.5	12,055	13,074	(7.8)
Capital expenditures – maintenance of rental income generating capacity	3,203	4,125	(22.4)	15,004	9,415	59.4
Total capital expenditures	40,183	47,207	(14.9)	160,237	150,903	6.2
Leasehold improvements	9,632	6,283	53.3	49,801	39,248	26.9
Leasing costs	2,851	5,323	(46.4)	10,662	13,095	(18.6)
Total – Financial statements⁽¹⁾	52,666	58,813	(10.5)	220,700	203,246	8.6
Capital expenditures – Financial statements⁽¹⁾	49,815	53,490	(6.9)	210,038	190,151	10.5
Change in initial direct costs – Financial statements⁽¹⁾	2,851	5,323	(46.4)	10,662	13,095	(18.6)

(1) Includes income properties and investment properties held for sale.

Disposition of an Income Property

On August 31, 2018, Cominar completed the sale of an industrial and flex property located in Saguenay, Quebec, for an amount of \$2.9 million. The net proceeds from the sale of this property were used to repay a portion of the amounts outstanding under the credit facility.

Disposition of Investment Properties Held for Sale

In accordance with our asset disposal strategy to focus on our core markets, Cominar completed, on March 27, 2018, the sale of 95 non-core properties to Slate for \$1.14 billion, of which 24 were located in the Toronto area, 57 in the Atlantic Provinces and 14 in Western Canada. Cominar's non-core portfolio represented 6.2 million square feet. The net proceeds from the sale of this property portfolio for \$1.03 billion were used to repay \$321.6 million in mortgages payable and a \$75 million bridge loan, to reduce bank borrowings by \$549.7 million and the balance was allocated to the Trust's general needs.

Summary of Sold Properties

Operating segment	Number of properties	Leasable area sq. ft	Fair value \$
Office	35	2,815,000	597,052
Retail	23	1,630,000	381,707
Industrial and flex	37	1,716,000	161,241
Total	95	6,161,000	1,140,000



The following table presents detailed information on the properties sold as part of this transaction:

Address	Leasable area sq. ft.	Operating segment	Area
5500 North Service Road, Burlington, Ontario	222,000	Office	Greater Toronto
95 Moatfield Drive, Toronto, Ontario	156,000	Office	Greater Toronto
105 Moatfield Drive, Toronto, Ontario	249,000	Office	Greater Toronto
225 Duncan Mill Road, Toronto, Ontario	152,000	Office	Greater Toronto
6285 Northam Drive, Mississauga, Ontario	54,000	Office	Greater Toronto
55 University Avenue, Toronto, Ontario	264,000	Office	Greater Toronto
1113 Regent Street, Fredericton, New Brunswick	11,000	Office	Atlantic Provinces
1115 Regent Street, Fredericton, New Brunswick	16,000	Office	Atlantic Provinces
570 Queen Street, Fredericton, New Brunswick	70,000	Office	Atlantic Provinces
371 Queen Street, Fredericton, New Brunswick	32,000	Office	Atlantic Provinces
565 Priestman Street, Fredericton, New Brunswick	35,000	Office	Atlantic Provinces
1133 Regent Street, Fredericton, New Brunswick	86,000	Office	Atlantic Provinces
65 Regent Street, Fredericton, New Brunswick	41,000	Office	Atlantic Provinces
1149 Smythe Street, Fredericton, New Brunswick	13,000	Office	Atlantic Provinces
81 Albert Street, Moncton, New Brunswick	65,000	Office	Atlantic Provinces
84 Chain Lake Drive, Halifax, Nova Scotia	76,000	Office	Atlantic Provinces
330 Elmwood Drive, Moncton, New Brunswick	13,000	Office	Atlantic Provinces
1 Agar Place, Saint John, New Brunswick	41,000	Office	Atlantic Provinces
85 et 123 Halifax Street, Moncton, New Brunswick	79,000	Office	Atlantic Provinces
1313 Barrington Street, Halifax, Nova Scotia	29,000	Office	Atlantic Provinces
11 Akerley Boulevard, Dartmouth, Nova Scotia	127,000	Office	Atlantic Provinces
1741 Brunswick Street, Halifax, Nova Scotia	102,000	Office	Atlantic Provinces
32 Akerley Boulevard, Dartmouth, Nova Scotia	14,000	Office	Atlantic Provinces
432 Queen Street, Fredericton, New Brunswick	45,000	Office	Atlantic Provinces
720 28 th Street N.E., Calgary, Alberta	37,000	Office	Western Canada
221 62 nd Avenue S.E., Calgary, Alberta	8,000	Office	Western Canada
253 62 nd Avenue S.E., Calgary, Alberta	8,000	Office	Western Canada
6223 2 nd Street S.E., Calgary, Alberta	30,000	Office	Western Canada
6227 2 nd Street S.E., Calgary, Alberta	14,000	Office	Western Canada
4124 9 th Street S.E., Calgary, Alberta	47,000	Office	Western Canada
4411 6 th Street S.E., Calgary, Alberta	41,000	Office	Western Canada
700 2 nd Street S.W., (Bldg 1110b) Calgary, Alberta	609,000	Office	Western Canada
4000 4 th Street S.E. (Bldg 200), Calgary, Alberta	39,000	Office	Western Canada
4000 4 th Street S.E. (Bldg 300), Calgary, Alberta	69,000	Office	Western Canada
3600 4 th Street S.E. (Bldg 100), Calgary, Alberta	13,000	Office	Western Canada
129 Queensway East, Simcoe, Ontario	74,000	Retail	Greater Toronto
414 Old Highway #2, Trenton, Ontario	4,000	Retail	Greater Toronto
1571 Sandhurst Circle, Toronto, Ontario	283,000	Retail	Greater Toronto
1250 South Service Road, Mississauga, Ontario	416,000	Retail	Greater Toronto
1490 Dixie Road, Mississauga, Ontario	3,000	Retail	Greater Toronto
360 Pleasant Street, Miramichi, New Brunswick	25,000	Retail	Atlantic Provinces
900 Hanwell Road, Fredericton, New Brunswick	66,000	Retail	Atlantic Provinces
146-154 Main Street, Fredericton, New Brunswick	18,000	Retail	Atlantic Provinces
409 Elmwood Drive, Moncton, New Brunswick	26,000	Retail	Atlantic Provinces
86 Chain Lake Drive, Halifax, Nova Scotia	2,000	Retail	Atlantic Provinces
612 Windmill Road, Dartmouth, Nova Scotia	39,000	Retail	Atlantic Provinces
1300 St-Peter Avenue, Bathurst, New Brunswick	213,000	Retail	Atlantic Provinces
11 Wright Street, Sackville, New Brunswick	20,000	Retail	Atlantic Provinces
118 Wyse Road, Dartmouth, Nova Scotia	90,000	Retail	Atlantic Provinces
950 Bedford Highway, Halifax, Nova Scotia	24,000	Retail	Atlantic Provinces
619 Sackville Drive, Sackville, Nova Scotia	10,000	Retail	Atlantic Provinces
24 Stavanger Drive, St. John's, Terre-Neuve	127,000	Retail	Atlantic Provinces
229 J.D. Gauthier Blvd., Shippagan, New Brunswick	68,000	Retail	Atlantic Provinces
231 J.D. Gauthier Blvd, Shippagan, New Brunswick	3,000	Retail	Atlantic Provinces



Address	Leasable area sq. ft.	Operating segment	Area
71 Cow Bay Road, Halifax, Nova Scotia	5,000	Retail	Atlantic Provinces
69 Cow Bay Road, Halifax, Nova Scotia	5,000	Retail	Atlantic Provinces
81 Cow Bay Road, Halifax, Nova Scotia	5,000	Retail	Atlantic Provinces
600 Manning Crossing, Edmonton, Alberta	12,000	Retail	Western Canada
1201 California Avenue, Brockville, Ontario	94,000	Industrial and flex	Greater Toronto
6300 Northwest Drive, Mississauga, Ontario	26,000	Industrial and flex	Greater Toronto
6280 Northwest Drive, Mississauga, Ontario	21,000	Industrial and flex	Greater Toronto
3415 American Drive, Mississauga, Ontario	31,000	Industrial and flex	Greater Toronto
3405 American Drive, Mississauga, Ontario	20,000	Industrial and flex	Greater Toronto
3403 American Drive, Mississauga, Ontario	19,000	Industrial and flex	Greater Toronto
3397 American Drive, Mississauga, Ontario	46,000	Industrial and flex	Greater Toronto
3395 American Drive, Mississauga, Ontario	16,000	Industrial and flex	Greater Toronto
3355 American Drive, Mississauga, Ontario	113,000	Industrial and flex	Greater Toronto
6295 Northam Drive, Mississauga, Ontario	42,000	Industrial and flex	Greater Toronto
6325 Northam Drive, Mississauga, Ontario	77,000	Industrial and flex	Greater Toronto
6305 Northam Drive, Mississauga, Ontario	34,000	Industrial and flex	Greater Toronto
6275 Northam Drive, Mississauga, Ontario	50,000	Industrial and flex	Greater Toronto
291 Industrial Drive, Saint John, New Brunswick	33,000	Industrial and flex	Atlantic Provinces
385 Wilsey Road, Fredericton, New Brunswick	32,000	Industrial and flex	Atlantic Provinces
50-110 Crown Street, Saint-John, New Brunswick	33,000	Industrial and flex	Atlantic Provinces
1080 Champlain Street, Dieppe, New Brunswick	37,000	Industrial and flex	Atlantic Provinces
115 Whiting Road, Fredericton, New Brunswick	17,000	Industrial and flex	Atlantic Provinces
140 MacNaughton Avenue, Moncton, New Brunswick	38,000	Industrial and flex	Atlantic Provinces
125 Whiting Road, Fredericton, New Brunswick	44,000	Industrial and flex	Atlantic Provinces
140 Alison Boulevard, Fredericton, New Brunswick	47,000	Industrial and flex	Atlantic Provinces
420 Wilsey Road, Fredericton, New Brunswick	19,000	Industrial and flex	Atlantic Provinces
440 Wilsey Road, Fredericton, New Brunswick	45,000	Industrial and flex	Atlantic Provinces
50 MacNaughton Avenue, Moncton, New Brunswick	20,000	Industrial and flex	Atlantic Provinces
245 Hilton Road, Fredericton, New Brunswick	18,000	Industrial and flex	Atlantic Provinces
727 Wilsey Road, Fredericton, New Brunswick	14,000	Industrial and flex	Atlantic Provinces
749 Wilsey Road, Fredericton, New Brunswick	16,000	Industrial and flex	Atlantic Provinces
520 Edinburgh Drive, Moncton, New Brunswick	38,000	Industrial and flex	Atlantic Provinces
699 Champlain Street, Dieppe, New Brunswick	10,000	Industrial and flex	Atlantic Provinces
120-140 Commerce Street, Moncton, New Brunswick	66,000	Industrial and flex	Atlantic Provinces
114 Price Street, Moncton, New Brunswick	183,000	Industrial and flex	Atlantic Provinces
33 Henri Dunant Street, Moncton, New Brunswick	118,000	Industrial and flex	Atlantic Provinces
24 Carr Crescent, Gander, Terre-Neuve	60,000	Industrial and flex	Atlantic Provinces
190 Alison Boulevard, Fredericton, New Brunswick	29,000	Industrial and flex	Atlantic Provinces
667 Barnes Drive, Halifax, Nova Scotia	29,000	Industrial and flex	Atlantic Provinces
640-820 28 th Street N.E., Calgary, Alberta	138,000	Industrial and flex	Western Canada
560 Camiel Sys Street, Winnipeg, Manitoba	43,000	Industrial and flex	Western Canada
6,161,000			

On December 13, 2018, Cominar completed the sale of an office property located in the Montreal area, in Quebec, for a total selling price of \$8.2 million. The net proceeds from the sale of this property were used to pay down part of Cominar's debt.



Investment Properties Held for Sale

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

During the quarter ended September 30, 2018, Cominar transferred 6 income properties having a value of \$40.7 million to investment properties held for sale.

During the quarter ended December 31, 2018, Cominar transferred 34 additional income properties having a value of \$150.5 million to investment properties held for sale.

A portion of goodwill, in the amount of \$3.9 million, associated with these properties has been allocated to the assets held for sale and then has been subject to derecognition.

For the years ended December 31	2018				2017
	Office properties \$	Retail properties \$	Industrial and flex properties \$	Total \$	Total \$
Investment properties and goodwill					
Balance, beginning of year	600,552	381,707	161,241	1,143,500	143,130
Net transfers from income properties	53,000	111,041	27,200	191,241	1,086,687
Transfers from properties under development and land held for future development	—	—	—	—	10,000
Capitalized costs	5,667	645	758	7,070	—
Change in fair value	(3,531)	(645)	(758)	(4,934)	—
Dispositions	(605,202)	(381,707)	(161,241)	(1,148,150)	(96,317)
Transfer of goodwill	1,725	2,030	117	3,872	26,989
Derecognition of goodwill	(1,725)	(2,030)	(117)	(3,872)	(26,989)
Balance, end of year	50,486	111,041	27,200	188,727	1,143,500

For the years ended December 31	2018				2017
	Office properties \$	Retail properties \$	Industrial and flex properties \$	Total \$	Total \$
Mortgages payable related to the investment properties held for sale					
Balance, beginning of the year	238,312	3,614	34,424	276,350	—
Monthly repayments of principal	(2,112)	(32)	(256)	(2,400)	—
Repayments of balances	(130,208)	(3,582)	(34,168)	(167,958)	—
Mortgages payable assumed by the purchaser	(105,992)	—	—	(105,992)	—
Transfer of mortgages payable related to investment properties held for sale	123	—	—	123	276,350
Balance, end of year	123	—	—	123	276,350



The following table presents detailed information on the investment properties held for sale as at December 31, 2018:

Address	Leasable area sq. ft.	Operating segment	Area
3773 Côte-Vertu Boulevard, Montreal, Quebec	53,000	Office	Montreal
7405 Trans-Canada Highway, Montreal, Quebec	82,000	Office	Montreal
3900 Côte-Vertu Boulevard, Montreal, Quebec	29,000	Office	Montreal
3950 Côte-Vertu Boulevard, Montreal, Quebec	24,000	Office	Montreal
7355 Trans-Canada Highway, Montreal, Quebec	23,000	Office	Montreal
5101 Buchan, Montreal, Quebec	117,000	Office	Montreal
375 Sir-Wilfrid-Laurier Boulevard, Mont-Saint-Hilaire, Quebec	50,000	Office	Montreal
325 Honorius-Charbonneau Boulevard, Mont-Saint-Hilaire, Quebec	19,000	Office	Montreal
768-790 Décarie Boulevard, Montreal, Quebec	35,000	Office	Montreal
1199 St. George Boulevard, Moncton, New Brunswick	60,000	Office	Atlantic Provinces
1059-1095 Jean-Baptiste-Rolland Boulevard West, Saint-Jérôme, Quebec	78,000	Retail	Montreal
1035-1049 Jean-Baptiste-Rolland Boulevard West, Saint-Jérôme, Quebec	24,000	Retail	Montreal
1105-1135 Jean-Baptiste-Rolland Boulevard West, Saint-Jérôme, Quebec	77,000	Retail	Montreal
1051-1055 Jean-Baptiste-Rolland Boulevard West, Saint-Jérôme, Quebec	17,000	Retail	Montreal
1479-1481-1483-1485 Saint-Bruno Boulevard, Saint-Bruno, Quebec	13,000	Retail	Montreal
1465 Saint-Bruno Boulevard, Saint-Bruno, Quebec	26,000	Retail	Montreal
1475 Saint-Bruno Boulevard, Saint-Bruno, Quebec	153,000	Retail	Montreal
1495 Saint-Bruno Boulevard, Saint-Bruno, Quebec	35,000	Retail	Montreal
800 Claude-Jutras Boulevard, Saint-Bruno, Quebec	30,000	Retail	Montreal
1011-1091 Saint-Bruno Boulevard, Saint-Bruno, Quebec	79,000	Retail	Montreal
1101-1191 Saint-Bruno Boulevard, Saint-Bruno, Quebec	30,000	Retail	Montreal
340-360 Sir-Wilfrid-Laurier Boulevard, Mont-Saint-Hilaire, Quebec	24,000	Retail	Montreal
370-380 Sir-Wilfrid-Laurier Boulevard, Mont-Saint-Hilaire, Quebec	45,000	Retail	Montreal
353-361 Sir-Wilfrid-Laurier Boulevard, 345 Honorius-Charbonneau Boulevard and 365 Sir-Wilfrid-Laurier Boulevard, Mont-Saint-Hilaire, Quebec	72,000	Retail	Montreal
377-383 Sir-Wilfrid-Laurier Boulevard, Mont-Saint-Hilaire, Quebec	9,000	Retail	Montreal
736 King Street East, Sherbrooke, Quebec	4,000	Retail	Montreal
3005 King Street West, Sherbrooke, Quebec	6,000	Retail	Montreal
170 Curé-Labelle Boulevard, Rosemère, Quebec	3,000	Retail	Montreal
933 Armand Frappier, Sainte-Julie, Quebec	14,000	Retail	Montreal
484 25th Avenue, Saint-Eustache, Quebec	4,000	Retail	Montreal
101 Arthur-Sauvé Boulevard, Saint-Eustache, Quebec	3,000	Retail	Montreal
1200 Place Nobel, Boucherville, Québec City, Quebec	64,000	Retail	Montreal
324 Curé-Labelle Boulevard, Sainte-Thérèse, Quebec	4,000	Retail	Montreal
255 Crémazie Boulevard West, Montreal, Quebec	4,000	Retail	Montreal
2986 Saint-Charles Boulevard, Montreal, Quebec	2,000	Retail	Montreal
7 Place du Commerce, Montreal, Quebec	17,000	Retail	Montreal
4211-4219 Wellington Street, Montreal, Quebec	7,000	Retail	Montreal
950 Jutras Boulevard East, Victoriaville, Quebec	4,000	Retail	Québec City
4600 Sainte-Anne Boulevard, Québec City, Quebec	39,000	Industrial and flex	Québec City
2400 Trans-Canada Highway, Pointe-Claire, Quebec	121,000	Industrial and flex	Montreal
1,500,000			

Properties Under Construction and Development Projects

Société en commandite Bouvier-Bertrand (Québec City)

Cominar and Groupe Dallaire, each having 50% ownership interest, are in joint venture for the purpose of developing retail land located on Highway 40, one of the main arteries of Québec City. It is expected that upon completion, this project, Espace Bouvier, will consist of an office building of 80,000 square feet and five retail buildings totalling approximately 191,500 square feet with more than 900 parking spaces. The office building was transferred to income properties at the end of the previous fiscal year. Its committed occupancy rate is currently 99%. The first retail building, a property of 65,000 square feet 100% leased by a single tenant, was delivered in December 2015. The second retail building, a property of 25,000 square feet 100% leased by a single tenant, was delivered in May 2016. The third retail building, a property of 9,000 square feet 100% leased by a single tenant, was completed and delivered to the tenant at the end of 2016. The fourth retail building, whose construction was completed during the first quarter of 2018 is 56% leased.



Its total leasable area is 34,500 square feet and its construction cost is \$4.9 million. It is expected that the fifth retail building to be constructed will have a total leasable area of approximately 58,000 square feet. The expected weighted average yield on cost for all of these properties is estimated at 6.5%.

Address	Operating segment	Leasable area sq. ft.	Committed Occupancy rate
1020 Bouvier Street	Office	80,000	99%
1000 des Basses-Terres Street	Retail	65,000	100%
1033 des Rocailles Street	Retail	25,000	100%
1016 Bouvier Street	Retail	9,000	100%
4825 Pierre-Bertrand Boulevard	Retail	34,500	56%
To come	Retail/Office	58,000	N/A
		271,500	

Société en commandite Chaudière-Duplessis – Ilot Mendel

During the first quarter of 2017, Cominar commenced the development of Ilot Mendel, a new retail centre located at the intersection of Highways 40 and 540, two of the main arteries of Québec City, around the Swedish banner IKEA, which itself occupies just over 1 million square feet, including the parking areas. IKEA is already a major attraction at the new site. As announced by the competent authorities, the site should be served by the new public transit network (Tramway) according to the current route selected by the City of Québec.

The retail portion of the project will cover an area of over 2.0 million square feet, surrounding the IKEA store. Cominar currently plans to develop approximately 14 buildings of various sizes to welcome approximately 25 clients, which, with time, will occupy an estimated area of approximately 500,000 square feet, the first phases of which will be delivered in the spring of 2020. Decathlon, a company specialized in the sale of sporting goods, is the first client to announce its arrival at the retail complex, with an expected opening (57,000 square feet) in the fall of 2019. A densification study is ongoing to evaluate the possibility of adding office and multi-residential uses to the project, in order to increase the total area. Investments in the retail portion of this project amounted to \$53.6 million as at December 31, 2018.

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.

Société en commandite Marais (Québec City)

Cominar, at 75%, and Groupe Dallaire, at 25%, are in joint venture for the purpose of developing 1,542,000 square feet of retail land located in Québec City, at the junction of Robert-Bourassa and Félix-Leclerc Highways, two easily accessible major arteries, giving it great visibility. The development of this site will depend on market conditions and on whether we obtain a change of zoning, if necessary.

Real Estate Operations

Occupancy Rate

As at December 31, 2018, the average committed occupancy rate of our properties was 93.6%, compared to 92.6% as at December 31, 2017. The following table presents the occupancy rates by operating segment.

Occupancy Rate Track Record

	Committed	In-place			
	December 31, 2018	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Operating segment					
Office	91.5%	86.5%	84.4%	85.4%	87.0%
Retail	93.8%	85.5%	87.3%	88.4%	87.7%
Industrial and flex	95.0%	93.7%	91.4%	89.5%	90.2%
Portfolio total	93.6%	89.2%	87.9%	87.9%	88.5%
Committed occupancy rate at year end		93.6%	92.6%	92.4%	91.9%



During the fiscal year ended December 31, 2018, the in-place occupancy rate of the retail segment decreased from 87.3% as at December 31, 2017 to 85.5% as at December 31, 2018. This decrease is mainly attributable to the closing, during the first quarter, of two Sears stores located in Mail Champlain and Galeries Rive-Nord. The in-place occupancy rate of the office segment increased from 84.4% to 86.5%, while the in-place occupancy rate of the industrial and flex segment increased from 91.4% to 93.7%.

The following table presents the committed and in-place occupancy rates as at December 31, 2018 by operating segment:

	Montreal		Québec City		Ottawa		Total	
	Committed	In-place	Committed	In-place	Committed	In-place	Committed	In-place
Operating segment								
Office	89.0%	84.6%	97.1%	93.2%	92.4%	83.9%	91.5%	86.5%
Retail	95.0%	87.1%	92.7%	86.0%	84.0%	55.4%	93.8%	85.5%
Industrial and flex	94.7%	93.6%	96.1%	93.8%	N/A	N/A	95.0%	93.7%
Portfolio total	93.1%	89.5%	95.1%	90.5%	91.5%	79.5%	93.6%	89.2%

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 area of the portfolio excluding the spaces under redevelopment. This data highlights the area considered to be leased over the area that is actually available for lease.

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

The variance between the committed occupancy rate and the in-place occupancy rate for the portfolio was 4.4% as at December 31, 2018. For the retail segment, this variance was 8.3% and consisted of several signed leases with a total area of approximately 173,000 square feet, of which 84% will come into force in the next two quarters. This variance also includes 763,000 square feet of space under redevelopment mostly comprised of spaces formerly occupied by Sears. For the Ottawa office segment, in Ontario, this variance was 8.5% and represents signed leases of which approximately 65% will come into force in the next two quarters. As for the industrial and flex segment, the variance was 1.3%, representing 198,000 square feet of signed leases, which will come into force in the next two quarters.

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

	For the year ended December 31, 2018 sq. ft.
Signed leases that will begin in the next few quarters	
Balance, beginning of year	1,230,000
New signed leases	2,513,000
Leases that began in the year	(2,793,000)
Balance, end of year	950,000

This 1.0 million square foot area comes from signed leases that will commence during the next six quarters and which will, in the end, contribute approximately \$18.5 million to net operating income on an annualized basis. Of this amount, \$13.6 million comes from the office segment, \$3.1 million from the retail segment and \$1.8 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.



Leasing Activity

	Office	Retail	Industrial and flex	Total
Leases that matured in 2018				
Number of clients	254	510	241	1,005
Leasable area (sq. ft.)	2,138,000	2,018,000	2,947,000	7,103,000
Average minimum rent (\$/sq. ft.)	18.50	16.25	6.83	13.02
Renewed leases				
Number of clients	166	340	171	677
Leasable area (sq. ft.)	1,630,000	1,680,000	2,072,000	5,382,000
Average minimum rent (\$/sq. ft.)	17.88	15.23	7.67	13.15
Retention rate	76.2%	83.3%	70.3%	75.8%
New leases				
Number of clients	93	98	95	286
Leasable area (sq. ft.)	662,000	671,000	1,460,000	2,793,000
Average minimum rent (\$/sq. ft.)	13.34	16.82	5.85	10.26
Unexpected departures				
Number of clients	17	50	22	89
Leasable area (sq. ft.)	57,000	195,000	187,000	439,000
Average minimum rent (\$/sq. ft.)	15.13	11.24	5.74	9.40

During the fiscal year ended December 31, 2018, 75.8% [70.7% in 2017] of the leasable area maturing in 2018 was renewed. During the fiscal year, new leases were also signed, representing 2.8 million square feet of leasable area, while tenants whose leases were not expiring left before the end of their lease, accounting for a leasable area of 0.4 million square feet. Overall, as at December 31, 2018, the occupied leasable area was 0.6 million square feet higher than as at December 31, 2017, representing an increase in the in-place occupancy rate of approximately 1.3%.

Growth in the Average Net Rent of Renewed Leases

For the years ended December 31	2018	2017
Operating segment		
Office	0.3%	(0.2%)
Retail	(1.8%)	(0.7%)
Industrial and flex	5.6%	4.7%
Growth in the average net rent of renewed leases	0.6%	0.6%

The growth in the average net rent of 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 segment, the average net rent of renewed leases in the Québec City and Montreal markets increased by 9.3% and 3.8% respectively, and in the Ottawa market, rent decreased by 6.0%, due to the renewal with the federal government of more than 636,000 square feet at lower rates than in-place leases, in order to maintain the occupancy rate.

For the industrial and flex segment, the average net rent of renewed leases in the Québec City and Montreal markets increased by 10.5% and 3.5% respectively.

For the retail segment, the average net rent of renewed leases in the Québec City, Montreal and Ottawa markets also decreased by 1.6%, 0.3% and 25.6%, respectively. The Ottawa market reported a significant decrease given the particular situation of certain tenants representing approximately 28,000 square feet.



Sears Update

Location	Area (square feet)					Common area planned
	Leasable area	Signed leases	Area in advanced discussions	Area in preliminary discussions	Available area	
Quartier Laval, Laval	43,147	43,147	—	—	—	—
Carrefour Saint-Georges, Saint-Georges	54,221	21,077	22,574	—	6,029	4,541
Galeries de Hull, Gatineau	128,040	14,000	—	42,501	47,706	23,833
Mail Champlain, Brossard	153,600	—	82,035	52,056	6,536	12,973
Galeries Rive Nord, Repentigny	125,471	—	53,684	28,445	29,850	13,492
Les Rivières shopping centre, Trois-Rivières ⁽¹⁾	144,398 ⁽¹⁾	—	39,320	34,337	48,511	22,230
Pierre-Bertrand Boulevard, Québec City (industrial segment)	23,947	23,947	—	—	—	—
Total	672,824	102,171	197,613	157,339	138,632	77,069
	100.0%	15.2%	29.4%	23.4%	20.6%	11.4%

(1) Shadow tenant for which Cominar acquired the building during the second quarter of 2018.

Lease Maturities

For the years ending December 31	2019	2020	2021	2022	2023
Office					
Leasable area (sq. ft.)	1,465,000	1,405,000	1,387,000	971,000	1,087,000
Average minimum rent (\$/sq. ft.)	19.26	17.61	18.31	17.69	18.87
% of portfolio – Office	12.5%	12.0%	11.8%	8.3%	9.3%
Retail					
Leasable area (sq. ft.)	1,633,000	1,318,000	1,077,000	989,000	1,091,000
Average minimum rent (\$/sq. ft.)	18.29	21.44	20.80	20.06	15.13
% of portfolio – Retail	15.2%	12.3%	10.1%	9.2%	10.2%
Industrial and flex					
Leasable area (sq. ft.)	1,856,000	3,060,000	1,760,000	2,115,000	1,873,000
Average minimum rent (\$/sq. ft.)	7.24	6.99	6.83	6.18	7.49
% of portfolio – Industrial and flex	11.8%	19.5%	11.2%	13.5%	11.9%
Portfolio total					
Leasable area (sq. ft.)	4,954,000	5,783,000	4,224,000	4,075,000	4,051,000
Average minimum rent (\$/sq. ft.)	14.44	12.87	14.16	12.29	12.60
% of portfolio	13.0%	15.2%	11.1%	10.7%	10.6%

The following table summarizes information on leases as at December 31, 2018:

	Residual weighted average term (years)	Weighted average term of leases (years)	Average leased area per client (sq. ft.)	Minimum rent (\$/sq. ft.)
Operating segment				
Office	5.0	8.2	11,200	18.20
Retail	5.0	8.0	4,600	19.44
Industrial and flex	5.2	8.4	16,000	6.89
Weighted average of total portfolio	5.1	8.2	9,000	13.63

Cominar has a broad, highly diversified retail client base consisting of approximately 3,900 clients occupying an average of 9,000 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%, 4.4% and 3.2% 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 14.4% of operating revenues come from government agencies, representing over 100 leases.



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	4.4%
Canadian National Railway Company	3.2%
Infra MTL Inc. ⁽¹⁾	2.0%
Desjardins Property Management	0.7%
Winners	0.7%
Marie-Claire Boutiques Inc. ⁽²⁾	0.7%
Dollarama	0.7%
Société des alcools du Québec	0.7%
Shoppers Drug Mart	0.6%
Total	19.5%

(1) Infra MTL inc. is a wholly owned subsidiary of the Caisse de dépôt 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 ratably in all Cominar distributions. All issued units are fully paid.

During the fiscal year ended December 31, 2018, Cominar repurchased 2,709,500 units (730,900 in 2017) 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 (\$14.19 in 2017), for a total consideration of \$39.5 million (\$10.4 million in 2017), including transaction costs. Under this NCIB, Cominar repurchased 3,440,400 units at an average weighted price of \$14.50 for a total consideration of \$49.9 million, including the transaction costs.

On November 9, 2018, Cominar announced the renewal of the NCIB for an additional year. Under this NCIB, Cominar will be entitled to repurchase up to a maximum of 18,112,182 Cominar units. As at December 31, 2018, no units had been repurchased under this NCIB.

For the years ended December 31	2018	2017
Units issued and outstanding, beginning of year	184,629,497	182,334,562
Repurchase of units under NCIB	(2,709,500)	(730,900)
Exercise of options, conversion of restricted units and deferred units	36,352	138,465
Distribution reinvestment plan	—	2,887,370
Units issued and outstanding, end of year	181,956,349	184,629,497

Additional information	March 5, 2019
Issued and outstanding units	181,989,964
Outstanding unit options	8,596,400
Deferred units, restricted units and performance units	718,517



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 increasing value for unitholders. It consists of performance units, deferred units, restricted units and unit options.

The following table presents changes in the plan during the fiscal year ended December 31, 2018:

	Performance units	Deferred units	Restricted units	Unit options	
				Quantity	\$
Outstanding, beginning of year	—	175,748	5,026	12,928,000	15.28
Exercised	—	—	—	(9,700)	14.15
Granted	158,614	145,432	1,135	—	—
Converted	—	(23,225)	(3,427)	—	—
Forfeited or cancelled	(2,148)	(1,107)	—	(2,430,400)	14.93
Expired	—	—	—	(1,798,500)	17.76
Accrued distributions	7,959	18,587	212	—	—
Balance, end of year	164,425	315,435	2,946	8,689,400	14.86
Vested units/options, end of year	—	123,504	225	6,461,100	15.19

As at December 31, 2018, the maximum number of units that may be issued under the long-term incentive plan is 16,550,554 units.

Transactions with Groupe Dallaire and Dalcon

During fiscal 2017, Groupe Dallaire and Dalcon were related companies as Michel Dallaire and Alain Dallaire were trustees and members of Cominar's management team, and they exercised indirect control over the activities of Groupe Dallaire and Dalcon (the "related companies"). On January 1, 2018, Sylvain Cossette was appointed as President and Chief Executive Officer to replace Michel Dallaire. On the same day, January 1, 2018, Sylvain Cossette was appointed as a trustee of Cominar to fill the vacancy created by the departure of Alain Dallaire as trustee. On February 12, 2018, Alban D'Amours was appointed as Chairman of the Board of Cominar following the departure of Michel Dallaire. While Alain Dallaire has a passive indirect economic interest in Groupe Dallaire, Alain Dallaire is neither an employee nor a director of Groupe Dallaire. Therefore, as from that date, Groupe Dallaire and Dalcon are no longer considered related parties according to IFRS.

As part of its new business plan, Cominar diversifies its sources of construction suppliers and creates new partnerships with leaders in the field, with the goal of promoting better development and increasing the value of all of its assets in the major areas in which it is active. In parallel with the implementation of this new strategy, the business relationships with Groupe Dallaire and Dalcon for construction services have been terminated in an orderly manner. Accordingly, since November 13, 2018, all of Dalcon's resources in Montreal as well as part of their resources in Québec City have been integrated into Cominar. The work previously carried out by Dalcon in Montreal connected to the leasing of space or the maintenance of our buildings in Montreal is now carried out internally at Cominar or with external contractors.



For the periods specified below, Cominar entered into transactions with Groupe Dallaire and Dalcon, the details of which are as follows:

For the years ended December 31	2018 \$	2017 \$
Investment properties – Capital costs	131,320	138,129
Acquisition of additional ownership interest in the joint venture Société en commandite Chaudière-Duplessis	–	10,016
Acquisition d'une participation supplémentaire dans la coentreprise Société en commandite Complexe Jules-Dallaire	–	21,190
Investment properties held by joint ventures – Capital costs	2,590	3,263
Recovery of mortgage receivable	–	(8,250)
Share of joint ventures' net income	5,176	5,276
Net rental revenue from investment properties	288	313
Interest income	–	140

During the fiscal year ended December 31, 2018, Cominar incurred with Groupe Dallaire and Dalcon approximately \$131.3 million in capital costs for its investment properties, including \$79.1 million invested in the Montreal area, \$47.5 million in the Québec City area, \$3.8 million in the Ottawa area and, \$0.9 million in Western Canada, the Toronto area, and Atlantic Provinces (for work undertaken before the sale of a portfolio of 95 properties to Slate on March 27, 2018). Of this amount, \$100.2 million were invested for work which was started in 2017 but which continued until 2018. Of that \$100.2 million, \$15.4 million were invested to complete infrastructure work at Ilot Mendel (IKEA) and \$84.8 million represents improvement work connected to various leasing transactions signed before 2018. The following table details the work carried out in 2018:

Marshall's / Winners (Longueuil, Monténach, Laval)	\$9.6 million
505, Parc Technologique (Cienna and Englobe)	\$8.9 million
Galeries Rive-Nord (Walmart)	\$4.4 million
Decathlon (Mail Champlain)	\$3.5 million
9100 du Parcours (Nortek)	\$2.7 million
4 Place Laval (Public Works Canada)	\$2.4 million
3300 Trans-Canada Highway (Emballage Sec)	\$2.5 million
Halles Fleur-de-Lys (Rossy)	\$1.6 million
Avril (Laval)	\$1.5 million
Other leasehold improvements	\$47.7 million
Total	\$84.8 million

During the fiscal year ended December 31, 2018, Dalcon completed approximately 1,084 jobs costing from \$0 to \$50,000, and approximately 382 jobs where the costs exceeded \$50,000. These investments were allocated as follows: approximately 44% for tenant improvements, 17% for roofs, pavement and other structural work, 19% for the renovation of properties, 11% for prepping the Ilot Mendel site, 5% for work related to common areas and interiors, and approximately 4% for miscellaneous maintenance and repairs.

The leasehold improvement and, repair and maintenance work on properties carried out by Dalcon was invoiced to Cominar at cost plus a 5.0% markup. For construction projects, the work was invoiced at cost plus a 2.5% markup.

During the fiscal year ended December 31, 2018, the total amount of investments in investment properties (capital costs) amounted to \$226.8 million, including \$131.3 million with Groupe Dallaire and Dalcon, which represents approximately 58% of the investments.

Cominar takes a proactive approach in terms of energy management and savings. This energy management was done in collaboration with our Cominar teams and various Dalcon engineers who are specialized in energy management, who have developed several energy management principles, techniques and methods that make Cominar a leader in this field. We have completed the integration of a self-directed energy management team within Cominar, and this team is now fully in place.

As at December 31, 2018, Groupe Dallaire and its affiliated companies occupied 65,425 square feet of office space in Complexe Jules-Dallaire in Québec City.



Integration of Dalcon's construction activities in Montreal

The transfer of Dalcon's construction activities in Montreal to Cominar was completed on November 13, 2018.

The construction activities that were transferred to Cominar are those related to Cominar's main activities, namely those connected to leasing or building maintenance. The type of work that was integrated include leasehold improvements, refurbishment of our common areas, general repairs, plumbing and roofing. Building facade construction or renovation activities, and parking garage construction or repair activities were not transferred to Cominar. It is understood that, from now on, such work will be carried out by external contractors.

Transition in Québec City

In the Québec City area, the transition of services provided by Groupe Dallaire and Dalcon to other external suppliers is now completed. Cominar's Asset Management department has taken up all construction contracts that used to be carried out by Dalcon and is awarding them to other external contractors.

A team of designers and draftsmen who used to be part of Dalcon's Québec City team were transferred to Cominar last December. These resources were needed to provide efficient service for preliminary plan drawings and estimates to quickly prepare offers to lease to potential clients.

Contractual rights and obligations

The business objective of investments in joint ventures with Groupe Dallaire is the ownership, management and development of real estate projects.

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. Recourse or purchase option mechanisms benefit each limited partner with respect of the other limited partner if it is in default under the agreements or if it becomes insolvent.

In addition, if a Triggering Event (as defined below) occurs in respect of one of the limited partners, the other limited partner shall be entitled, within a thirty (30) day period following the beginning of the Triggering Event, to provide to the limited partner subject to a Triggering Event a notice that contains a purchase offer for the entire ownership interest at fair market value of such interest upon transmission of the notice, and the limited partner in respect of which the Triggering Event occurred will be required to sell its ownership interest. "Triggering Event" means, in respect of Groupe Dallaire, the loss of control of Groupe Dallaire by the Dallaire family, and, in respect of Cominar, situations where there is a change of control resulting from a takeover bid or a business combination transaction, an acquisition of a significant equity position or an important change outside the normal course of business in the composition of the Board of Trustees during a period of eighteen (18) consecutive months.

If the parties cannot mutually agree upon the fair market value, an appraisal mechanism is provided for in the agreements.

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, 2018, 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, 2018, 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 2018 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"). The accounting policies and application methods thereof have been consistently applied throughout each of the fiscal years presented in these consolidated financial statements.

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 a definitive agreement to sell investment properties. Techniques used include the capitalized net operating income method that involves estimating standardized net operating income and capitalization rates, and the discounted cash flow method that involves estimating expected future cash flows, as well as discount and 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 standardized net operating income and capitalization rates. These assumptions are based on Cominar's past experience as well as on external sources of information. The recoverable value is the fair value less the cost of disposal. 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 options**

The compensation expense related to unit options is measured at fair value and is amortized based on the graded vesting method using the Black-Scholes model. This model requires management to make many estimates on various data, such as expected life, volatility, the weighted average dividend yield of distributions, the weighted average risk-free interest rate and the expected forfeiture rate. Any changes to certain assumptions could have an impact on the compensation expense related to unit options recognized in the financial statements.

- **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 during the period, where applicable, or on a definitive agreement 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 standardized 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 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 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.

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 purchase options

Cominar recognizes a compensation expense on units 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 policies

On January 1, 2018, Cominar adopted the following new accounting standards:

IFRS 9, "Financial Instruments"

Cominar has applied the new classification and valuation requirements retrospectively without restating the comparative periods. The adoption of this new accounting standard had no significant impact on Cominar's consolidated financial statements. Only the terms used have changed.

IFRS 15, "Revenue from Contracts with Customers"

Following the adoption of this new accounting standard, Cominar added a note in its financial statements detailing the main components of the operating revenues according to their nature. Cominar has applied this standard retrospectively. The adoption of this new accounting standard had no other impact on Cominar's consolidated financial statements.

Future Change in an Accounting Standard

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, "Leases." 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 will cancel and replace the previous leases standard, IAS 17, "Leases," and related interpretations. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 is also applied. The adoption of this new standard will have no significant impact on Cominar's consolidated financial statements since no important changes were made to the accounting model by the lessor.

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 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 credit facilities 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 new 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 in international and regional credit markets and in other financial systems and global economic conditions, could impede Cominar's access to capital (including debt financing) or increase the cost of such capital. The Canadian economy is being adversely affected by volatile oil prices.

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 acquisition and development program.

Debt Financing

Cominar has substantial outstanding consolidated borrowings comprised primarily of hypothecs, property mortgages, debentures, bridge loan, and borrowings under its acquisition and operating credit facilities. Cominar intends to finance its growth strategy, including developments and acquisitions, through a combination of its working capital and liquidity resources, including cash flows from operations, additional borrowings and public or private sales of properties, equities 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 stated amount of \$700.0 million is repayable in one tranche in August 2019.

Cominar is exposed to debt financing risks, including the risk that the existing hypothecary borrowings secured by its properties and the Unsecured Revolving Credit Facility cannot be refinanced or that the terms of such refinancing will not be as favourable as the terms of the existing loans.

On August 4, 2017, DBRS announced that it had downgraded the rating of the senior unsecured debentures from BBB (low) with a negative trend to BB (high) with a stable trend. This downgrade materially adversely affected Cominar.

Any further 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 Co. and other retailers, who were or are, as the case may be, tenants of Cominar. Other retailers may follow. The existing difficult retail environment is also materially impacting Cominar, notably with the increase in e-commerce. Cominar has also been affected by vacancies and by the downward review of rents in the Montréal area's suburban office market and the Ottawa 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 properties. Significant costs may need to be incurred to make improvements or repairs to property as required by a new tenant. 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, maintenance and operating costs, 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. To keep its properties in good conditions and generate attractive long-term revenue, Cominar has to maintain or, in some cases, improve the building condition. The maintenance of a rental property in accordance with market standards may involve substantial costs that Cominar may not recover from its tenants. In addition, an increase in property taxes may result from the update of the assessment values, an increase that Cominar may not recover from its tenants. In a situation like that, Cominar will assume the financial burden of such operating costs and such taxes, which may adversely impact Cominar's financial situation and operating results and reduce cash to be distributed to unitholders. A number of factors, including the age of the building, the material used during construction or currently unknown violations of the Building Code, could result in high costs not included in the refurbishment or modernization budget. In addition, the timing and amount of capital expenditures could indirectly affect cash to be distributed to unitholders. Moreover, 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 amount 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 11 to 12 of the 2017 AIF.

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.

Acquisitions

Cominar's business plan is focused in part on growth by identifying suitable acquisition opportunities, pursuing such opportunities, completing acquisitions and effectively operating and leasing such properties. If Cominar is unable to manage its growth effectively, this could adversely impact Cominar's financial position and results of operations, and decrease the Distributable Income. There can be no assurance as to the pace of growth through property acquisitions or that Cominar will be able to acquire assets on an accretive basis, and as such there can be no assurance that distributions to Unitholders will increase in the future.

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 Income 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 policy, including insurance against fire, flood and rental loss, as well as extended coverage 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.



Potential Conflicts of Interest

Given the carried interest of Alain Dallaire, an officer of Cominar, in Groupe Dallaire, there may be the appearance of a conflict of interest between Cominar and Groupe Dallaire due to the fact that Groupe Dallaire and related entities are engaged in a wide range of real estate and other business activities. Dalcon is a wholly owned subsidiary of Groupe Dallaire. Cominar rents premises to Groupe Dallaire and to Dalcon. Dalcon also performed leasehold improvements and carried out construction and development projects, all on behalf of Cominar, during the fiscal year ended December 31, 2018. Finally, Cominar owns a 50% interest and two 75% interests in joint ventures with Groupe Dallaire. The business objective of these three joint ventures is the ownership, management and development of real estate projects. The Dallaire Family and related entities may become involved in transactions or leasing opportunities which conflict with the interests of Cominar. Nevertheless, Cominar has started an important transition towards a new business plan aiming to diversify its sources of construction suppliers and to develop partnerships with new partners who are leaders in the field, with the goal of promoting better development and increasing the value of all of its assets in the major areas in which it is active. In parallel with the implementation of this new strategy, the business relationship with Groupe Dallaire and Dalcon for construction services was terminated in an orderly manner.

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. The activities of Cominar require it to use and store identifiable personal information and other sensitive information on its tenants and employees. The collection and use of identifiable personal information are governed by Canadian federal and provincial laws and regulations. Privacy and information security laws are constantly evolving and may differ from one jurisdiction to another. The appropriate security measures put in place by Cominar as part of its business operations cannot provide absolute security. In fact, cybersecurity attacks in particular are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information and corruption of data. 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 from 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.

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 of 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.



Credit Rating

The credit rating assigned by DBRS to Cominar and to the unsecured 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.

On August 4, 2017, DBRS announced that it had downgraded the rating of the senior unsecured debentures from BBB (low) with a negative trend to BB (high) with a stable trend. This downgrade materially adversely affected Cominar.

Any further downgrade of the credit rating assigned by DBRS to Cominar and to the unsecured debentures could have a material adverse effect on Cominar.

Real or anticipated changes in the credit rating in respect of the Unsecured Debentures may affect the market value of the Unsecured Debentures. In addition, real or anticipated changes in such credit rating can affect the ability of Cominar to access debt capital markets and increase the cost at which Cominar can do so. Any failure or inability on Cominar's part to access debt capital markets on satisfactory terms, or at all, could have a material adverse effect on Cominar's financial position and results of operations, including on its acquisition and development program. See "Risks and Uncertainties – Risk Factors Related to the Business of Cominar – Access to capital and debt financing, and current global financial conditions" and "Risks and Uncertainties – Risk Factors Related to the Business of Cominar – Debt financing".

Absence of Market for Debt Securities

There is currently no trading market for any debt securities that may be offered. 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.

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 receivables 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 receivables 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. The \$700.0 million unsecured revolving credit facility is repayable in one tranche in August 2019, and it is expected that it cannot be refinanced in the same amount or under such favourable terms and conditions in light of the downgrade in the rating of the senior unsecured debentures.

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 position 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 the 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 a REIT 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 non-residents of Canada to withholding tax of 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.

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 corporations 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 Holders 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 SIFTs 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 Income 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 fiscal 2019 or any other subsequent year.



Consolidated financial statements

Cominar Real Estate Investment Trust
December 31, 2018



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, 2018, 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.

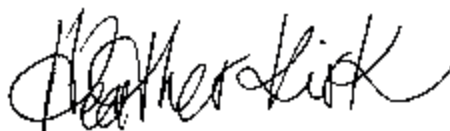
The Board of Trustees oversees management's responsibility for financial reporting through its Audit Committee, which is composed entirely of trustees who are not members of Cominar's management or personnel. This Committee reviews our consolidated financial statements and recommends them to the Board 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, 2018 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 5, 2019



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, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Trust's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of unitholders' equity for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the 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.

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.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.

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"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.



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 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 LLP¹

Québec, Quebec
March 5, 2019

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

Consolidated Balance Sheets

[in thousands of Canadian dollars]


	Note	December 31, 2018 \$	December 31, 2017 \$
Assets			
Investment properties			
Income properties	5	6,058,191	6,239,383
Properties under development	6	34,293	37,692
Land held for future development	6	93,750	91,580
		6,186,234	6,368,655
Investment properties held for sale	7	188,727	1,143,500
Investments in joint ventures	8	92,468	86,299
Goodwill	9	15,721	139,982
Accounts receivable	10	41,162	62,956
Prepaid expenses and other assets		17,901	16,673
Cash and cash equivalents		1,498	6,928
Total assets		6,543,711	7,824,993
Liabilities			
Mortgages payable	11	1,742,104	1,873,776
Mortgages payable related to investment properties held for sale	7, 11	123	276,350
Debentures	12	1,722,586	1,721,577
Bank borrowings	13	152,950	620,366
Accounts payable and accrued liabilities	14	103,347	117,482
Deferred tax liabilities	22	142	6,681
Current tax liabilities	22	6,763	—
Total liabilities		3,728,015	4,616,232
Unitholders' equity			
Unitholders' equity		2,815,696	3,208,761
Total liabilities and unitholders' equity		6,543,711	7,824,993

See accompanying notes to the consolidated financial statements.

Approved by the Board of Trustees.



Alban D'Amours, CM, GOQ, LH, Fellow Adm.A.
Chairman of the Board of Trustees



Michel Thérour, 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, 2018		3,265,995	1,861,029	(1,922,212)	3,949	3,208,761
Net loss and comprehensive income		—	(212,282)	—	—	(212,282)
Distributions to unitholders	15	—	—	(143,730)	—	(143,730)
Unit issuances	15	464	—	—	(359)	105
Repurchase of units under NCIB	15	(39,530)	—	—	—	(39,530)
Long-term incentive plan	15	—	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

	Note	Unitholders' contributions \$	Cumulative net income \$	Cumulative distributions \$	Contributed surplus \$	Total \$
Balance as at January 1, 2017		3,234,693	2,250,944	(1,675,689)	5,565	3,815,513
Net loss and comprehensive income		—	(391,725)	—	—	(391,725)
Distributions to unitholders	15	—	—	(246,523)	—	(246,523)
Unit issuances	15	41,682	—	—	(1,908)	39,774
Repurchase of units under NCIB	15	(10,380)	—	—	—	(10,380)
Long-term incentive plan	15	—	1,810	—	292	2,102
Balance as at December 31, 2017		3,265,995	1,861,029	(1,922,212)	3,949	3,208,761

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	2018 \$	2017 \$
Operating revenues			
Rental revenue from investment properties	16	734,650	835,489
Operating expenses			
Operating costs	18	(169,630)	(187,895)
Realty taxes and services		(176,958)	(194,929)
Property management expenses	18	(15,598)	(16,628)
		(362,186)	(399,452)
Net operating income		372,464	436,037
Finance charges	19	(152,237)	(168,752)
Trust administrative expenses	20	(23,255)	(25,977)
Change in fair value of investment properties	5, 6, 7	(267,098)	(616,354)
Share in joint ventures' net income	8	5,176	5,276
Transaction costs	21	(22,847)	—
Impairment of goodwill	9	(120,389)	—
Derecognition of goodwill	7	(3,872)	(26,989)
Loss before income taxes		(212,058)	(396,759)
Income taxes			
Current	22	(6,763)	—
Deferred	22	6,539	5,034
		(224)	5,034
Net loss and comprehensive income		(212,282)	(391,725)
Basic and diluted net loss per unit	23	(1.17)	(2.13)

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	2018 \$	2017 \$
Operating activities			
Net loss		(212,282)	(391,725)
Adjustments for:			
Excess of share of net income over distributions received from the joint ventures	8	(4,238)	(5,026)
Change in fair value of investment properties	5, 6, 7	267,098	616,354
Depreciation and amortization		3,066	(1,504)
Compensation expense related to long-term incentive plan	15	2,372	2,102
Deferred income taxes	22	(6,539)	(5,034)
Derecognition of goodwill	7	3,872	26,989
Impairment of goodwill	9	120,389	—
Recognition of leases on a straight-line basis	5, 7	(2,030)	(3,941)
Changes in non-cash working capital items	24	11,231	(4,990)
Cash flows provided by operating activities		182,939	233,225
Investing activities			
Acquisitions of and investments in income properties	5, 24	(254,516)	(203,823)
Acquisitions of and investments in properties under development and land held for future development	6, 24	(21,129)	(50,009)
Refund of costs related to properties under development and land held for future development		7,800	—
Mortgage receivable		—	8,250
Cash consideration paid in a business combination	8	—	(10,016)
Cash consideration paid on the acquisition of an additional interest in a joint venture	8	—	(21,190)
Net proceeds from the sale of investment properties	4, 5, 7	1,037,594	116,372
Contributions to the capital of the joint ventures	8	(1,931)	—
Change in other assets		(3,774)	(3,518)
Cash flows provided by (used in) investing activities		764,044	(163,934)
Financing activities			
Cash distributions to unitholders	15	(143,730)	(206,753)
Bank borrowings		(467,416)	288,245
Mortgages payable	11	134,947	320,530
Unit issuance net proceeds	15	105	3
Repurchase of units under NCIB	15	(39,530)	(10,380)
Repayments of debentures at maturity	12	—	(250,000)
Repayments of mortgages payable	11	(385,984)	(150,134)
Monthly repayments of mortgages payable	11	(50,805)	(63,727)
Cash flows used in financing activities		(952,413)	(72,216)
Net change in cash and cash equivalents		(5,430)	(2,925)
Cash and cash equivalents, beginning of year		6,928	9,853
Cash and cash equivalents, end of year		1,498	6,928
Other information			
Interest paid		157,850	183,217
Cash distributed by a joint venture	8	938	250

See accompanying notes to the consolidated financial statements.



Notes to Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

[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, 2018, Cominar owned and managed a real estate portfolio of 428 high-quality properties that covered a total area of 38.1 million square feet in the Province of Quebec and in Ontario.

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 5, 2019.

2) Significant Accounting Policies

a) Basis of presentation

Cominar's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The accounting policies and application methods thereof have been consistently applied throughout each of the fiscal years presented in these consolidated financial statements.

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 capitalized net operating income method that involves estimating standardized net operating income and capitalization rates, and the discounted cash flow method that involves estimating expected future cash flows, as well as discount and 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 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 options**

The compensation expense related to unit options is measured at fair value and is amortized based on the graded vesting method using the Black-Scholes model. This model requires management to make many estimates on various data, such as expected life, volatility, the weighted average dividend yield of distributions, the weighted average risk-free interest rate and the expected forfeiture rate. Any changes to certain assumptions could have an impact on the compensation expense related to unit options recognized in the financial statements.

- **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 during the period, where applicable, 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 standardized 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 purchase 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 policies

On January 1, 2018, Cominar adopted the following new accounting standards:

IFRS 9, "Financial Instruments"

Cominar has applied the new classification and valuation requirements retrospectively without restating the comparative periods. The adoption of this new accounting standard had no significant impact on Cominar's consolidated financial statements. Only the terms used have changed.

IFRS 15, "Revenue from Contracts with Customers"

Following the adoption of this new accounting standard, Cominar added a note in its financial statements detailing the main components of the operating revenues according to their nature. Cominar has applied this standard retrospectively. The adoption of this new accounting standard had no other impact on Cominar's consolidated financial statements.



3) Future Change in an Accounting Standard

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, "Leases". 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 will cancel and replace the previous standard, IAS 17, "Leases", and related interpretations. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 is also applied. The adoption of this new standard will have no significant impact on Cominar's consolidated financial statements since no important changes were made to the accounting model by the lessor.

4) Acquisitions and Dispositions

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, in Quebec, 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 Quebec, 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 is 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, in Ontario, 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, in Quebec, for a total selling price of \$8,150.

These properties sold during fiscal 2018 have been subject to an overall decrease in their carrying amount to their fair value of \$5,490 in 2018. These properties had been subject to an overall decrease in their carrying amount to their fair value of \$282,370 in 2017.

Disposition of an Income Property in 2018

On August 31, 2018, Cominar completed the sale of one industrial and flex property located in Saguenay, Quebec, for an amount of \$2,850. This property has been subject to a decrease in its carrying amount to its fair value of \$1,032 in 2018. This property had been subject to a decrease in its carrying amount to its fair value of \$2 in 2017.



Business Combination in 2017

On January 13, 2017, Cominar acquired an additional 25% ownership interest in Société en commandite Chaudière-Duplessis for an amount of \$10,016, increasing its interest from 75% to 100%. From that date, Société en commandite Chaudière-Duplessis became a wholly owned subsidiary of Cominar. Cominar accounted for this transaction using the acquisition method, in accordance with IFRS 3 "Business Combinations." IFRS 3 requires the recognition of 100% of the net assets acquired in the consolidated financial statements as well as the derecognition of the investment in a joint venture.

The following table summarizes the acquisition-date fair value of net assets acquired and the purchase price:

	Final purchase price allocation
As at January 13, 2017	\$
Properties under development	40,334
Working capital	(207)
Net assets of Société en commandite Chaudière-Duplessis	40,127
Previously held interest in the joint venture	(30,111)
Cash consideration	10,016

The cash consideration paid for the acquisition has been financed by the credit facility. The results of this subsidiary are included in the consolidated financial statements from the date of acquisition.

Dispositions of Income Properties in 2017

On July 19, 2017, Cominar completed the sale of a retail property located in Ontario, for a total selling price of \$850.

On July 27, 2017, Cominar completed the sale of a retail property located in the Granby area, Quebec, for a total selling price of \$1,000.

On August 17, 2017, Cominar completed the sale of a retail property located in Chicoutimi, Quebec, for a total selling price of \$2,250.

On December 8, 2017, Cominar completed the sale of an industrial and flex property located in the Montréal area, Quebec, for a total selling price of \$4,000.

These properties sold during fiscal 2017 had been subject to an overall increase in their carrying amount to their fair value of \$276.

Dispositions of Investment Properties Held for Sale in 2017

On January 31, 2017, Cominar completed the sale of one industrial and flex property and one retail property located in the Toronto area, for a total selling price of \$58,400.

On March 3, 2017, Cominar completed the sale of a portfolio of 8 retail properties located in the Montréal area and in Ontario for a total selling price of \$35,250.

On April 19, 2017, Cominar completed the sale of a retail property located in the Québec area for a total selling price of \$850.

On June 26, 2017, Cominar completed the sale of a retail property located in Nova Scotia for a total selling price of \$400.

On July 13, 2017, Cominar completed the sale of an industrial and flex property located in the Québec area, for a total selling price of \$2,250.

The properties sold by Cominar during fiscal 2017 had been subject to an overall decrease in their carrying amount to their fair value of \$819.



Transfers to Income Properties in 2017

At the end of 2017, Cominar transferred two properties from properties under development to income properties. The first property, an office building valued at \$31,285 at the time of the transfer with a leasable area of 119,000 square feet, is located in Laval. The second property, an industrial and flex building valued at \$11,315 at the time of the transfer with a leasable area of 75,000 square feet, is located in Lévis.

5) Income Properties

For the years ended December 31

	Note	2018 \$	2017 \$
Balance, beginning of year		6,239,383	7,676,134
Acquisitions and related costs	4	39,710	478
Change in fair value		(242,307)	(592,229)
Capital costs		204,325	190,151
Dispositions	4	(3,014)	(8,100)
Transfers from properties under development	6	—	42,600
Net transfers to investment properties held for sale	7	(191,241)	(1,086,687)
Change in initial direct costs		9,819	13,095
Recognition of leases on a straight-line basis		1,516	3,941
Balance, end of year		6,058,191	6,239,383

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 evaluations performed using management's internal estimates and by independent real estate appraisers, plus capital expenditures made during the period, where applicable, 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 policy on valuing investment properties, during fiscal 2018, management revalued the entire real estate portfolio and determined that a net decrease of \$267,098 was necessary to change the carrying amount in fair value of investment properties [decrease of \$616,354 in 2017]. The change in fair value related to investment properties held as at the year-end date amounts to \$260,563 [\$615,811 in 2017]. In 2018, the fair value of investment properties from external valuations amounted to 19% [28% in 2017] of the total fair value of all investment properties.

Internally valued 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 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, capitalization rates are applied to standardized net operating income in order to comply with current valuation standards. The standardized 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 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.

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 capitalization rates are estimated using market surveys, available appraisals and market comparables.

To the extent that the capitalization rate ranges change from one reporting period to the next, or if another rate within the provided ranges 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 2018 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 \$101,100 [\$103,400 in 2017] 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.

	2018		2017	
	Range	Weighted average	Range	Weighted average
Office properties				
Capitalized net operating income method				
Capitalization rate	4,8 % - 8,5 %	5.9%	5.3% - 9.3%	6.2%
Discounted cash flow method				
Capitalization rate	5,0 % - 5,8 %	5.2%	5.5% - 6.5%	5.8%
Discount rate	5,5 % - 7,3 %	5.9%	6.0% - 7.3%	6.3%
Retail properties				
Capitalized net operating income method				
Capitalization rate	4,8 % - 8,5 %	6.2%	5.0% - 8.3%	6.1%
Discounted cash flow method				
Capitalization rate	5,0 % - 7,5 %	5.8%	5.3% - 8.8%	5.8%
Discount rate	5,5 % - 8,0 %	6.6%	5.3% - 8.0%	6.2%
Industrial and flex properties				
Capitalized net operating income method				
Capitalization rate	4,8 % - 8,0 %	6.3%	5.5% - 11.0%	6.8%
Discounted cash flow method				
Capitalization rate	5,0 % - 7,8 %	5.7%	6.3% - 7.0%	6.5%
Discount rate	5,5 % - 8,3 %	6.2%	7.0% - 7.8%	7.2%
Total				
Capitalized net operating income method				
Capitalization rate		6.1%		6.3%
Discounted cash flow method				
Capitalization rate		5.5%		5.9%
Discount rate		6.2%		6.3%

6) Properties Under Development and Land Held for Future Development

For the years ended December 31

	Note	2018 \$	2017 \$
Balance, beginning of year		129,272	136,596
Acquisitions and related costs		—	22,600
Change in fair value		(19,857)	(24,125)
Capital costs		15,382	16,051
Disposition of a portion of land		(2,400)	(16,244)
Capitalized interest		5,546	6,636
Transfers to income properties	4, 5	—	(42,600)
Transfer to investment properties held for sale	7	—	(10,000)
Business combination	4	—	40,334
Change in initial direct costs		100	24
Balance, end of year		128,043	129,272
Breakdown:			
Properties under development		34,293	37,692
Land held for future development		93,750	91,580



7) Investment Properties Held for Sale

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

During the quarter ended September 30, 2018, Cominar transferred 6 income properties having a value of \$40,700 to investment properties held for sale.

During the quarter ended December 31, 2018, Cominar transferred 34 additional income properties having a value of \$150,541 to investment properties held for sale.

A portion of goodwill, in the amount of \$3,872, associated with these properties has been allocated to the assets held for sale and then has been subject to derecognition.

For the years ended December 31		2018				2017
	Note	Office properties \$	Retail properties \$	Industrial and flex properties \$	Total \$	Total \$
Investment properties held for sale and goodwill						
Balance, beginning of year		600,552	381,707	161,241	1,143,500	143,130
Net transfers from income properties	5	53,000	111,041	27,200	191,241	1,086,687
Transfers from properties under development and land held for future development	6	—	—	—	—	10,000
Capitalized costs ⁽¹⁾		5,667	645	758	7,070	—
Change in fair value		(3,531)	(645)	(758)	(4,934)	—
Dispositions	4	(605,202)	(381,707)	(161,241)	(1,148,150)	(96,317)
Transfer of goodwill	9	1,725	2,030	117	3,872	26,989
Derecognition of goodwill		(1,725)	(2,030)	(117)	(3,872)	(26,989)
Balance, end of year		50,486	111,041	27,200	188,727	1,143,500

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

For the years ended December 31		2018				2017
	Note	Office properties \$	Retail properties \$	Industrial and flex properties \$	Total \$	Total \$
Mortgages payable related to the investment properties held for sale						
Balance, beginning of year		238,312	3,614	34,424	276,350	—
Monthly repayments of principal		(2,112)	(32)	(256)	(2,400)	—
Repayments of balances		(130,208)	(3,582)	(34,168)	(167,958)	—
Mortgages payable assumed by the purchaser	11	(105,992)	—	—	(105,992)	—
Transfer of mortgages payable related to investment properties held for sale		123	—	—	123	276,350
Balance, end of year		123	—	—	123	276,350

8) Joint Ventures

As at December 31				
Joint ventures	Address	City/province	2018 Ownership interest	2017 Ownership interest
Société en commandite Complexe Jules-Dallaire	2820 Laurier Boulevard	Québec City, Quebec	75%	75%
Société en commandite Bouvier-Bertrand	Espace Bouvier	Québec City, Quebec	50%	50%
Société en commandite Marais	Du Marais Street	Québec City, Quebec	75%	75%



The business objective of these joint ventures is the ownership, management and development of real estate projects.

On January 13, 2017, Cominar acquired an additional 25% ownership interest in Société en commandite Chaudière-Duplessis for an amount of \$10,016, increasing its interest from 75% to 100%. From that date, Société en commandite Chaudière-Duplessis became a wholly owned subsidiary of Cominar.

On May 31, 2017, Cominar acquired an additional 25% ownership interest in Société en commandite Complexe Jules-Dallaire for an amount of \$21,190.

The following table summarizes the financial information on the investments in these joint ventures accounted for under the equity method:

For the years ended December 31	Note	2018 \$	2017 \$
Investments in joint ventures, beginning of year		86,299	90,194
Contributions to the capital of the joint ventures		1,931	—
Share of joint ventures' net income and comprehensive income		5,176	5,276
Cash distributions by a joint venture		(938)	(250)
Acquisition of an additional interest in a joint venture		—	21,190
Business combination	4, 6	—	(30,111)
Investments in joint ventures, end of year		92,468	86,299

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:

As at December 31	Joint ventures		Cominar's proportionate share	
	2018 \$	2017 \$	2018 \$	2017 \$
Income properties	237,400	231,650	166,765	163,475
Properties under development	14,782	11,711	7,392	5,855
Land held for future development	11,200	13,501	8,400	10,126
Other assets	1,481	1,020	983	658
Mortgages payable	(123,762)	(109,918)	(85,534)	(79,286)
Bank borrowings ⁽¹⁾	(8,000)	(23,900)	(4,000)	(11,950)
Other liabilities	(2,412)	(4,502)	(1,538)	(2,579)
Net assets of joint ventures	130,689	119,562	92,468	86,299

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



For the years ended December 31	Joint ventures		Cominar's proportionate share	
	2018 \$	2017 \$	2018 \$	2017 \$
Operating revenues	23,478	21,503	16,445	13,351
Operating expenses	(9,811)	(9,287)	(6,952)	(5,802)
Net operating income	13,667	12,216	9,493	7,549
Finance charges	(5,633)	(5,525)	(3,968)	(3,449)
Administrative expenses	(97)	(81)	(50)	(44)
Change in fair value	664	704	(299)	1,220
Net income	8,601	7,314	5,176	5,276

9) Goodwill

At year-end, Cominar tested its assets for impairment of goodwill by determining the recoverable value of the net assets of each group of CGUs and comparing it to the carrying amount, including goodwill. As at December 31, 2018, the recoverable value of CGUs 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 2019 to 2029, 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 capitalization rates are estimated based on each segment's weighted average capitalization rate. Following testing, Cominar recorded an impairment of goodwill of \$120,389 for the office and retail segments as at December 31, 2018. As at that date, goodwill for the industrial and flex segment was not impaired.

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.

Goodwill

	Note	Office properties \$	Retail properties \$	Industrial and flex properties \$	Total \$
Balance as at January 1, 2017		98,073	51,212	17,686	166,971
Transfer to investment properties held for sale		(18,577)	(6,564)	(1,848)	(26,989)
Balance as at December 31, 2017		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

The discount and capitalization rates and the growth in net operating income used to value the recoverable amount as at December 31, 2018 of net assets for each group of CGUs are as follows:

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



10) Accounts Receivable

As at December 31	2018 \$	2017 \$
Trade receivables	25,408	27,403
Expected credit losses	(6,326)	(7,581)
	19,082	19,822
Accounts receivable – related parties	–	1,969
Interest-bearing accounts receivable ⁽¹⁾	872	3,554
Security deposits	486	8,434
Other receivables and accrued income	20,722	29,177
Total	41,162	62,956
(1) Average effective interest rate	5.79%	5.91%

11) Mortgages Payable

For the years ended December 31		2018	2017		
	Note	\$	Weighted average contractual rate	\$	Weighted average contractual rate
Balance, beginning of year		2,153,896	4.22%	2,045,957	4.37%
Mortgages payable contracted		347,500	4.02%	321,800	3.27%
Monthly repayments of principal		(50,805)	—	(63,727)	—
Repayments of balances		(596,608)	4.66%	(150,134)	4.94%
Mortgages payable assigned	7	(105,992)	3.72%	—	—
		1,747,991	4.03%	2,153,896	4.22%
Plus: Fair value adjustments on assumed mortgages payable		727		2,167	
Less: Deferred financing costs		(6,491)		(5,937)	
Balance, end of year ⁽¹⁾⁽²⁾		1,742,227		2,150,126	

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

2) As at December 31, 2017, includes \$276,350 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, 2018:

For the years ending December 31	Repayment of principal \$	Balances at maturity \$	Total \$
2019	48,273	2,257	50,530
2020	50,129	80,974	131,103
2021	44,365	326,177	370,542
2022	37,173	184,248	221,421
2023	33,251	292,489	325,740
2024 and thereafter	61,725	586,930	648,655
Total	274,916	1,473,075	1,747,991

Mortgages payable are secured by immovable hypothecs on investment properties with a book value of \$3,505,827 [\$4,025,062 as at December 31, 2017]. They bear annual contractual interest rates ranging from 2.52% to 6.94% [2.52% to 7.75% as at December 31, 2017], representing a weighted average contractual rate of 4.03% as at December 31, 2018 [4.22% as at December 31, 2017], and mature at various dates from January 2019 to April 2034. As at December 31, 2018, the weighted average effective interest rate was 4.11% [3.95% as at December 31, 2017].

As at December 31, 2018, 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, 2018 and December 31, 2017.



12) Debentures

For the years ended December 31

	2018		2017	
	\$	Weighted average contractual rate	\$	Weighted average contractual rate
Balance, beginning of year	1,725,000	4.23%	1,975,000	4.23%
Repayment at maturity	—	—	(250,000)	4.274%
	1,725,000	4.23%	1,725,000	4.23%
Less: Deferred financing costs	(3,350)		(4,878)	
Plus: Net premium and discount on issuance	936		1,455	
Balance, end of year	1,722,586		1,721,577	

On June 15, 2017, Cominar reimbursed at maturity its Series 1 senior unsecured debentures totalling \$250,000 and bearing interest at 4.274% using its unsecured revolving operating and acquisition credit facility.

The following table presents characteristics of outstanding debentures as at December 31, 2018:

	Date of issuance	Contractual interest rate	Effective interest rate	Maturity date	Par value as at December 31, 2018 \$
Series 2	December 2012 ⁽¹⁾	4.23%	4.37%	December 2019	300,000
Series 3	May 2013	4.00%	4.24%	November 2020	100,000
Series 4	July 2013 ⁽²⁾	4.941%	4.81%	July 2020	300,000
Series 7	September 2014	3.62%	3.70%	June 2019	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
		4.23%	4.29%		1,725,000

(1) Re-opened in February 2013 (\$100,000).

(2) 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, 2018 and 2017.

13) Bank Borrowings

As at December 31, 2018, Cominar had an unsecured renewable operating and acquisition credit facility of up to \$700,000 maturing in August 2019. 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, 2018 and December 31, 2017. As at December 31, 2018, bank borrowings totalled \$152,950 and availability was \$547,050. Subsequent to the year ended December 31, 2018, Cominar reduced the maximum amount of the unsecured revolving operating and acquisition credit facility from \$700,000 to \$500,000.

14) Accounts Payable and Accrued Liabilities

As at December 31

	2018 \$	2017 \$
Trade accounts payable	3,064	2,617
Accounts payable – related parties	—	15,696
Accrued interest payable	18,061	17,473
Prepaid rent and tenants' deposits	25,494	29,188
Other accounts payable and accrued expenses	47,753	41,889
Commodity taxes and other non-financial liabilities	8,975	10,619
Total	103,347	117,482



15) 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 ratably in all Cominar distributions. All issued units are fully paid.

For the years ended December 31	2018		2017	
	Units	\$	Units	\$
Units issued and outstanding, beginning of year	184,629,497	3,265,995	182,334,562	3,234,693
Repurchase of units under NCIB	(2,709,500)	(39,530)	(730,900)	(10,380)
Exercise of options, conversion of restricted units and deferred units	36,352	464	138,465	1,965
Distribution reinvestment plan	—	—	2,887,370	39,717
Units issued and outstanding, end of year	181,956,349	3,226,929	184,629,497	3,265,995

During the fiscal year ended December 31, 2018, Cominar repurchased 2,709,500 units (730,900 in 2017) 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 (\$14.19 in 2017), for total consideration of \$39,530 (\$10,380 in 2017), including transaction costs. Under this NCIB, Cominar repurchased 3,440,400 units at an average weighted price of \$14.50 for total consideration of \$49,910, including the transaction costs.

On November 9, 2018, Cominar announced the renewal of the NCIB for an additional year. Under this NCIB, Cominar will be entitled to repurchase up to a maximum of 18,112,182 Cominar units. As at December 31, 2018, no units had been repurchased under this NCIB.

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.

Performance units

For the years ended December 31	2018	2017
	Units	Units
Outstanding, beginning of year	—	—
Granted	158,614	—
Forfeited	(2,148)	—
Accrued distributions	7,959	—
Outstanding, end of year	164,425	—
Vested performance 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.



Deferred units

For the years ended December 31	2018 Units	2017 Units
Outstanding, beginning of year	175,748	161,676
Exercised	(23,225)	(133,868)
Forfeited	(1,107)	—
Granted	145,432	122,045
Accrued distributions	18,587	25,895
Outstanding, end of year	315,435	175,748
Vested deferred units, end of year	123,504	56,858

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.

Restricted units

For the years ended December 31	2018 Units	2017 Units
Outstanding, beginning of year	5,026	5,250
Exercised	(3,427)	(697)
Granted	1,135	—
Accrued distributions	212	473
Outstanding, end of year	2,946	5,026
Vested restricted units, end of year	225	—

Unit options

Cominar has granted unit options to management and employees under the long-term incentive plan. As at December 31, 2018, options to purchase 8,689,400 units were outstanding.

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

As at December 31, 2018					
Date of grant	Graded vesting method	Expiration date	Exercise price \$	Outstanding options	Exercisable options
December 16, 2014	33 1/3 %	December 16, 2019	18,07	1,593,600	1,593,600
December 15, 2015	33 1/3 %	December 15, 2022	14,15	2,004,000	2,004,000
December 13, 2016	33 1/3 %	December 13, 2023	14,90	2,380,700	1,706,200
August 24, 2017	33 1/3 %	August 24, 2024	13,46	2,711,100	1,157,300
				8,689,400	6,461,100

As at December 31, 2018, the average weighted contractual life of outstanding options was 4.2 years.



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

For the years ended December 31	2018		2017	
	Options	Weighted average exercise price \$	Options	Weighted average exercise price \$
Outstanding, beginning of year	12,928,000	15.28	12,455,450	17.02
Exercised	(9,700)	14.15	(3,900)	14.15
Granted	—	—	3,689,400	13.46
Forfeited or cancelled	(2,430,400)	14.93	(1,377,100)	15.83
Expired	(1,798,500)	17.76	(1,835,850)	23.05
Outstanding, end of year	8,689,400	14.86	12,928,000	15.28
Exercisable options, end of year	6,461,100	15.19	7,468,400	16.20

As at December 31, 2018, the maximum number of units that may be issued under the long-term incentive plan is 16,550,554 units.

Unit-based compensation

The compensation expense related to the options granted in 2017 was calculated using the Black-Scholes option pricing model based on the following assumptions:

Date of grant	Volatility ⁽¹⁾	Exercise price ⁽²⁾ \$	Weighted average return	Weighted average risk-free interest rate	Weighted average expected life (years)	Weighted average fair value per unit \$
August 24, 2017	14.25%	13.46	8.47%	1.61%	6.0	0.20

(1) The volatility is estimated by considering the historical volatility of Cominar's units' price.

(2) The exercise price of the options corresponds to the closing price of Cominar units the day before the grant.

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 compensation expense related to restricted units and deferred units granted in March 2017 was calculated based on the market price of Cominar units on the grant date, which was \$14.52.

The overall compensation expense for the fiscal year was \$2,372 [\$2,102 in 2017].

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.

For the years ended December 31	2018 \$	2017 \$
Distributions to unitholders	143,730	246,523
Distributions per unit	0.7900	1.3325

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.



Unitholder distribution reinvestment plan

Cominar has adopted a distribution reinvestment plan under which unitholders may elect to receive all cash distributions from Cominar automatically as additional units. The plan provides plan participants with a number of units equal to 103% of the cash distributions.

On August 3, 2017, Cominar temporarily suspended the distribution reinvestment plan, beginning with the distribution of August 2017, which was payable in September 2017.

For the year ended December 31, 2017, 2,887,370 units were issued for a total net consideration of \$39,717 under this plan.

16) Operating Revenues

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

	Office properties \$	Retail properties \$	Industrial and flex properties \$	Total operating revenues \$
For the year ended December 31, 2018				
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
For the year ended December 31, 2017	\$	\$	\$	\$
Lease revenues	310,401	286,175	157,771	754,347
Parking revenues	19,946	428	48	20,422
Revenues from other services	28,599	25,104	7,017	60,720
Total	358,946	311,707	164,836	835,489

17) Operating Lease Income

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

	As at December 31, 2018 \$
- Less than one year	407,831
- More than one year to five years	1,159,014
- More than five years	718,968

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

For the years ended December 31	2018 \$	2017 \$
Contingent rents	6,726	7,219

18) Operating Costs and Property Management Expenses

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

For the years ended December 31	2018 \$	2017 \$
Repairs and maintenance	64,742	69,759
Energy	60,332	65,851
Salaries and other benefits	36,391	40,264
Other expenses	23,763	28,649
Total	185,228	204,523



19) Finance Charges

For the years ended December 31	2018 \$	2017 \$
Interest on mortgages payable	77,404	89,007
Interest on debentures	73,084	77,952
Interest on bank borrowings	7,929	14,867
Net amortization of premium and discount on debenture issues	(520)	(691)
Amortization of deferred financing costs and other costs	3,520	3,454
Amortization of fair value adjustments on assumed borrowings	(1,440)	(5,577)
Less: Capitalized interest ⁽¹⁾	(7,740)	(10,260)
Total finance charges	152,237	168,752

(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 2018 was 4.05% [4.13% in 2017].

20) Trust Administrative Expenses

For the years ended December 31	2018 \$	2017 \$
Salaries and other benefits	11,840	18,366
Compensation related to the long-term incentive plan	2,372	2,103
Professional fees	809	1,440
Public company costs	711	771
Governance and strategic alternatives consulting fees	3,839	—
Other	3,684	3,297
Total	23,255	25,977

Trust administrative expenses for the year ended December 31, 2018 include governance and strategic alternatives consulting fees. These fees are non-recurring and result from the work carried out for the implementation of various governance improvement initiatives, as well as strategic alternatives. Salaries and other benefits include \$735 related to the departure of an executive.

21) Transaction Costs

The following table presents the transaction costs related to property sales:

For the years ended December 31	2018 \$	2017 \$
Brokerage fees	5,790	—
Professional fees	2,912	—
Assumed head leases	4,201	—
Penalties on debt repayment	945	—
Closing adjustments	8,244	—
Other	755	—
Total	22,847	—

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, 2018 and 2017, Cominar believes that it met all of these conditions and qualified as a REIT. As a result, the SIFT trust tax rules for 2018 and 2017 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:

For the years ended December 31	2018 \$	2017 \$
Loss before income taxes	(212,058)	(396,759)
Canadian combined statutory tax rate	29.38%	29.38%
Tax income at the statutory tax rate	(62,303)	(116,568)
Loss not subject to income tax	59,417	112,438
Other	3,110	(904)
Income taxes	224	(5,034)

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

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

For the years ended December 31	2018 \$	2017 \$
Balance, beginning of year	—	—
Deferred taxes that became payable	(6,539)	—
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	2018 \$	2017 \$
Deferred tax assets to be recovered after more than 12 months		
Mortgages payable	—	7
Tax losses	21	353
	21	360
Deferred tax liabilities to be settled after more than 12 months		
Investment properties	(163)	(7,041)
Deferred taxes (net)	(142)	(6,681)

Changes in the deferred income tax account were as follows:

For the years ended December 31	2018 \$	2017 \$
Balance, beginning of year	6,681	11,715
Deferred tax income recorded in the consolidated statements of comprehensive income	(6,539)	(5,034)
Balance, end of year	142	6,681



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, 2017	30	250	280
Origination and reversal of timing differences included in profit or loss	(23)	103	80
Balance as at December 31, 2017	7	353	360
Reversal of timing differences included in profit or loss	(7)	(332)	(339)
Balance as at December 31, 2018	–	21	21

	Income properties \$
Deferred tax liabilities	
Balance as at January 1, 2017	(11,995)
Reversal of timing differences included in profit or loss	4,953
Balance as at December 31, 2017	(7,042)
Reversal of timing differences included in profit or loss	6,879
Balance as at December 31, 2018	(163)

23) Per Unit Calculation Basis

For the years ended December 31	2018 Units	2017 Units
Weighted average number of units outstanding – basic and diluted	182,156,628	184,213,583

The calculation of the diluted weighted average number of units outstanding does not take into account the effect of the conversion into units of 9,038,590 options and unvested performance units, deferred units and restricted units outstanding at the end of the fiscal year ended December 31, 2018 [13,051,916 in 2017], due to the fact that they are antidilutive.

24) Supplemental Cash Flow Information

For the years ended December 31	2018 \$	2017 \$
Accounts receivable	10,829	(8,623)
Prepaid expenses	(453)	(1,052)
Accounts payable and accrued liabilities	(5,908)	4,685
Current tax liabilities	6,763	–
Changes in non-cash working capital items	11,231	(4,990)
Other information		
Accounts payable and accrued liabilities relating to investing activities	13,602	14,834
Accounts receivable relating to investing activities	4,014	11,814

25) Related Party Transactions

During fiscal 2017, Michel Dallaire and Alain Dallaire were members of Cominar's management team and trustees, and exercised indirect control over the activities of Groupe Dallaire and Dalcon (the "related companies"). On January 1, 2018, Sylvain Cossette was



appointed as President and Chief Executive Officer of Cominar to replace Michel Dallaire. On the same day, Sylvain Cossette was appointed as trustee of Cominar to fill the vacancy created by the resignation of Alain Dallaire. On February 12, 2018, Alban D'Amours was appointed as Chairman of Cominar's Board of Trustees following the departure of Michel Dallaire. While Alain Dallaire has a passive indirect economic interest in Groupe Dallaire, he is neither an employee nor a director of Groupe Dallaire. Therefore, as from that date, Groupe Dallaire and Dalcon are no longer considered related parties according to IFRS.

In 2017 and until February 11, 2018, Cominar entered into transactions with those companies, then related companies, in the normal course of business, the details of which are as follows:

	Note	For the period from January 1 to February 11, 2018	For the year ended December 31, 2018
Investment properties – Capital costs		28,098	138,129
Acquisition of an additional ownership interest in the joint venture Société en commandite Chaudière-Duplessis	8	–	10,016
Investment properties held by joint ventures – Capital costs		558	3,263
Recovery of mortgage receivable		–	(8,250)
Acquisition of an additional ownership interest in the joint venture Société en commandite Complexe Jules-Dallaire	8	–	21,190
Share of joint ventures' net income	8	506	5,276
Net rental revenue from investment properties		40	313
Interest income		–	140

26) Key Management Personnel Compensation

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

Key Management Personnel Compensation

For the years ended December 31	2018 \$	2017 \$
Short-term benefits	5,256	5,717
Contribution to the retirement savings plans	170	179
Long-term incentive plan	1,558	1,351
Severance allowances	735	5,400
Total	7,719	12,647

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.

27) 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	2018 \$	2017 \$
Cash and cash equivalents	(1,498)	(6,928)
Mortgages payable	1,742,227	2,150,126
Debentures	1,722,586	1,721,577
Bank borrowings	152,950	620,366
Unitholders' equity	2,815,696	3,208,761
Total capitalization	6,431,961	7,693,902
Debt ratio ⁽¹⁾	55.3%	57.4%
Interest coverage ratio ⁽²⁾	2.32:1	2.46:1

(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.

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, 2018, Cominar had maintained a debt ratio of 55.3% 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, 2018, the interest coverage ratio was 2.32:1, reflecting Cominar's capacity to meet its debt-related obligations.

Capital management objectives remain unchanged from the previous period.

28) 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 2018 and 2017.

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.



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, 2018		As at December 31, 2017	
		Carrying amount	Fair value	Carrying amount	Fair value
	Level	\$	\$	\$	\$
Recurring valuations of non-financial assets					
Income properties	3	6,058,191	6,058,191	6,239,383	6,239,383
Investment properties held for sale	3	188,727	188,727	1,143,500	1,143,500
Land held for future development	3	93,750	93,750	91,580	91,580
Financial liabilities					
Mortgages payable	2	1,742,227	1,764,084	2,150,126	2,153,043
Debentures	2	1,722,586	1,703,866	1,721,577	1,739,278

29) 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 3,900 clients occupying an average of approximately 9,000 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%, 4.4% and 3.2% 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 14.4% 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 \$547 for the year ended December 31, 2018 [\$1,195 in 2017].

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, 2018 are as follows:

	Note	Cash flows		
		Under one year \$	One to five years \$	Over five years \$
Mortgages payable	11	131,411	1,292,539	726,609
Debentures	12	667,491	1,225,498	—
Bank borrowings	13	156,867	—	—
Accounts payable and accrued liabilities ⁽¹⁾	14	92,644	—	—

(1) Excludes consumption taxes and other non-financial liabilities

30) 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.

The following tables provide financial information on Cominar's three property types:

For the year ended December 31, 2018	Office properties \$	Retail properties \$	Industrial and flex properties \$	Cominar's proportionate share \$	Joint ventures \$	Consolidated financial statements \$
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
For the year ended December 31, 2017	\$	\$	\$	\$	\$	\$
Rental revenue from investment properties	371,075	312,929	164,836	848,840	(13,351)	835,489
Change in fair value of investment properties	(365,745)	(232,569)	(16,820)	(615,134)	(1,220)	(616,354)
Net operating income	183,273	162,818	97,495	443,586	(7,549)	436,037
Share of joint ventures' net income	—	—	—	—	5,276	5,276



	Office properties \$	Retail properties \$	Industrial and flex properties \$	Cominar's proportionate share \$	Joint ventures \$	Consolidated financial statements \$
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
As at December 31, 2017	\$	\$	\$	\$	\$	\$
Income properties	2,515,974	2,540,651	1,346,233	6,402,858	(163,475)	6,239,383
Investment properties held for sale	600,552	381,707	161,241	1,143,500	—	1,143,500
Investments in joint ventures	—	—	—	—	86,299	86,299

31) Commitments

The annual future payments required under construction contracts and emphyteutic leases expiring between 2046 and 2047, on land for two income properties having a total fair value of \$56,682, are as follows:

For the years ending December 31	Construction contracts \$	Emphyteutic Leases \$
2019	6,791	564
2020	—	578
2021	—	584
2022	—	619
2023	—	619
2024 and thereafter	—	17,907

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

32) Subsequent Events

On January 15 and February 15, 2019, Cominar declared a monthly distribution of \$0.06 per unit for each of these months.

During the first quarter of 2019, Cominar completed the sale of seven office properties, five retail properties and one industrial property held for sale located in the Québec City and Montreal areas for a total amount of \$48,341.



Corporate Information

Board of Trustees

Alban D'Amours, CM, GOQ, LH, Fellow Adm.A. ⁽⁵⁾

Corporate Director

Chairman of the Board of Trustees

Luc Bachand ⁽¹⁾⁽⁴⁾

Corporate Director

Sylvain Cossette

President and Chief Executive Officer

Cominar Real Estate Investment Trust

Johanne M. Lépine ⁽²⁾⁽³⁾

President and Chief Executive Officer

Aon Parizeau Inc.

Michel Thérout, FCPA, FCA ⁽¹⁾⁽³⁾

Corporate Director

Claude Dussault, B. Sc. ⁽¹⁾⁽²⁾

President

Placements ACVA Inc.

Paul Campbell ⁽³⁾⁽⁴⁾

Corporate Director

René Tremblay ⁽²⁾⁽⁴⁾

Corporate Director

Zachary R. George ⁽³⁾⁽⁴⁾

Co-Founder, Portfolio Manager

FrontFour Capital Group

⁽¹⁾ Member of the Audit Committee

⁽²⁾ Member of the Compensation 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

Alain Dallaire

Executive Vice President and

Chief Operating Officer

Heather C. Kirk, B. Com., CFA

Executive Vice President and

Chief Financial Officer

Marie-Andrée Boutin, MBA

Executive Vice President, Strategy and Operations

Retail

Wally Comisso

Executive Vice President,

Operations and Property Management

Jean Laramée, Eng.

Executive Vice President, Development

Michael Racine

Executive Vice President, Leasing

Office and Industrial

Manon Deslauriers

Vice President, Legal Affairs and

Corporate Secretary



Unitholders Information

Cominar Real Estate Investment Trust

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Email: info@cominar.com
Website: www.cominar.com

Listing

The units of Cominar Real Estate Investment Trust are listed on the Toronto Stock Exchange under the trading symbol CUF.UN.

Transfer Agent

Computershare Trust Company of Canada
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Tel.: 514 982-7555
Fax: 514 982-7580
Toll-free: 1-800 564-6253
Email: service@computershare.com

Taxability of Distributions

In 2018, 51.23% 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 15, 2019
Centre Rockland
2305 Rockland Road
Mount Royal (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 temporarily 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.



