COMINAR

REAL ESTATE INVESTMENT TRUST

ANNUAL REPORT 1998

Contents

Real Estate Investment Trust

Objectives

Cominar Real Estate Investment Trust (the "REIT") has two principal objectives. The first is to ensure unitholders with stable and growing cash distributions payable monthly and tax deferred. The second is to increase and maximize unit value through proactive management, which consists, among other things, of the development and expansion of some of its properties and finally, the future acquisition of income producing properties.

Corporate Profile

Cominar Real Estate Investment Trust (the "REIT") is an unincorporated closed-end investment trust, created by the Contract of Trust under the laws of the province of Quebec. The REIT was constituted March 31, 1998 to acquire the balanced Portfolio and the Assets from Cominar and to continue the exploitation and development of the real estate activities carried on by Cominar which it has been engaged in developing and highlighting since 1965. The Cominar portfolio is comprised of 51 office, retail, industrial and mixed-use properties located in the Greater Quebec City Area, representing a total of 3.1 million square feet of leasable area.

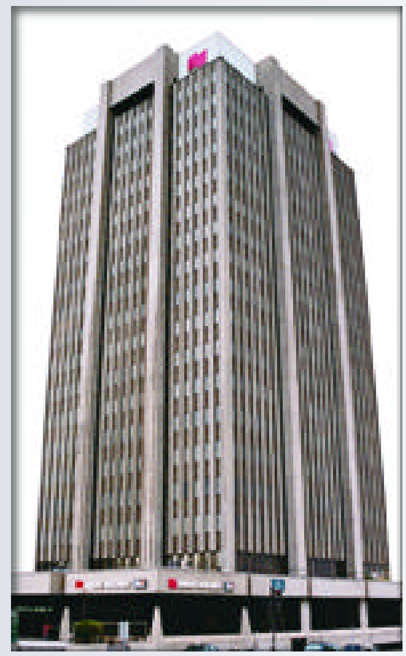
The REIT inherited Cominar's dominant position in the Greater Quebec City Area and intends to continue to profit from the experience and competence of Cominar's management and employees.

The REIT will apply itself to preserving a balanced portfolio by continuing to invest in the same type of properties which now compose its portfolio, taking into account the constant evolution of the market, with the support of the solid and experienced management team.

COMINAR REIT ADVANTAGES

The dominant position of the Cominar Real Estate Investment Trust (the "REIT") in the Greater Quebec City Area, thanks to the size of its portfolio, the concentration and diversity of its properties, the attractiveness of their locations, and a completely integrated management structure constitute its principal advantages. All of these elements combine with a global and proactive management strategy as well as a prudent borrowing policy which enable the REIT to look towards the future with confidence and optimism.

The REIT intends to continue to profit from its strengths and the competitive advantages of its portfolio and its management. Here are some examples:



Place de la Capitale, Québec

- Privileged relationships with its existing tenant base which allow management to identify and fulfil tenants' needs quickly;

- Ability to identify and close acquisition opportunities;

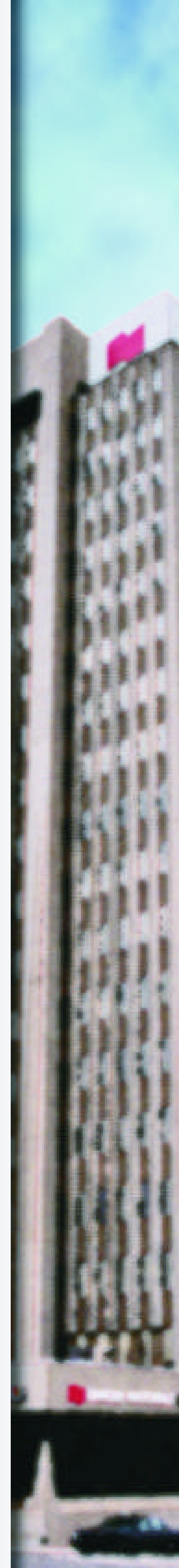
- Strategic alliances with suppliers, and innovative cost control measures, and economies of scale due to the proximity of the properties which reduce or limit the rate of increase in operating costs, such that gross rents continue to be competitive;

- Strong relationships with financial institutions, which facilitate access to financing on favourable terms and which may provide for acquisition and joint venture investment opportunities.

- Management information systems that include comprehensive and exclusive proprietary information for each property within the Portfolio and for competing office, industrial and mixed use properties within the Greater Quebec City Area real estate market;

- Cominar Management's development and redevelopment expertise and capability, providing the REIT with the ability to undertake expansion and redevelopment opportunities in compliance with the Investment Guidelines and Operating Policies of the REIT; and

- Management structure assures the REIT of full control of its activities.



REPORT TO UNITHOLDERS

The Cominar Real Estate Investment Trust (the "REIT") was established on March 31, 1998, and since then, it is still the first and only real estate investment Trust in the province of Quebec.

The commercial real estate market offers many investment opportunities, which can yield very interesting returns. To maximize these returns, it is important to favour quality, well-situated properties and to entrust the management to experienced people. The REIT has all these elements.

Proactive and global management strategies must also be adopted and respected to preserve stability and to achieve growth during the highs and lows of the economic cycle. Finally, it is generally recognized that an entirely integrated management structure in which operations are assured internally by management and employees, is preferable to a structure subject to third party management contracts.

The REIT applied these principles rigorously in 1998 and still believes this is the best way to maximize returns for unitholders.

MAXIMIZING RETURNS FOR INVESTORS

The objectives privileged by the REIT aim (i) to provide Unitholders with stable and growing cash distributions, payable monthly and tax deferred, from investments in a diversified portfolio of income producing properties located mainly in the Greater Quebec City Area and in the region of Montreal, and (ii) to improve and maximize Unit value through proactive management, which comprises, among other things the development and the expansion of some of its properties and through the future acquisition of additional income producing properties.

M. Jules Dallaire
Chairman, President
and Chief Executive Officer

A BALANCED PORTFOLIO

The REIT applies itself to maintaining a balanced portfolio based on asset type and property characteristics consistent with its existing portfolio, but also in line with evolving market conditions. Management believes this strategy will provide the REIT with a diversified tenant base, reduce cash flow volatility and increase potential capital appreciation. This diversity gives unitholders additional security since their investment is not dependent on one type of property or clientele.

ACQUISITIONS

During the period extending from May 21 to December 31, 1998, the REIT completed 5 acquisitions representing a leasable area of 642,000 square feet for a total cost of $22 million. These realizations greatly exceeded the objectives that the REIT had set for itself.

The most important property acquired by the REIT during this period is a 20-story office tower with 242,000 square feet of leasable space, located near Parliament Hill, the "Convention Centre" and the "Quebec Grand Theatre".

The other properties are industrial and mixed use buildings of which the leasable area varies from 12,000 to 196 ,000 square feet. Three of these are located in the Vanier industrial park, which is home to approximately 250 industries of all types. The fourth building is located alongside the "de la Capitale" highway, one of the main arteries in the Greater Quebec City Area.

These acquisitions bring the book value of the REIT`s assets up to $305 million.

EXPERIENCED MANAGEMENT

The REIT's activities are under the control of the trustees, the majority of which have more than 10 years of experience in the real estate sector. The solid and experienced management team, the majority of which also have more than 10 years of experience in the real estate sector, assures operations.

As well as having succeeded in putting together an extensive real estate portfolio, Cominar and its management team have also demonstrated their ability to create value in a large range of enterprises at different times.

During its 30 years of existence, Cominar and its management team have built and developed office, retail, industrial and mixed use properties representing a total of 5 million square feet of leasable area and residential properties representing approximately 2,500 residential units.

The REIT will continue to profit from the experience and competence of the management team and its employees as much as from that of its trustees. This is well illustrated by the financial results of the financial year ended December 31, 1998.

CUSTOMER SATISFACTION

The REIT places great importance customer satisfaction and adheres to a philosophy that there are no tenants, only customers.

The REIT's success is closely linked to that of its customers, and that is why it has always worked, and intends to continue to work, in collaboration with them, which allows it to develop and to grow with them.

The "customer" approach is already well established in the REIT's values since it was developed by Cominar at the end of the 1980s. This approach, applied to all levels of the organization, allows the rapid establishment of a relationship of trust between ourselves and the customer.

The REIT continues to apply initiatives for customers put in place by Cominar. For example, the REIT has information systems which allow it, according to the needs expressed by the customers, to reconfigure existing spaces, design new layouts and estimate rental improvement costs, more quickly, exactly, efficiently and economically.

The REIT has developed innovative energy management practices to its portfolio's properties. Thanks to the dominant position of the REIT in the Greater Quebec City Area and to the proximity of its properties, the REIT achieves considerable savings each year, which contributes to the reduction of customers' operating costs.

The REIT designed and established one of the most innovative programs allowing the tenants' employees to benefit from savings on the purchases they make from the REIT`s customers.

GROWTH STRATEGY

The revenues of the REIT for the financial year ended December 31, 1998, amounted to $26.35 million, that is, an increase of 4.4% as compared to the forecasts contained in the prospectus. The net operating income reached $14.93 million an increase of 3.5% over a forecast of $14.43 million.

The net income amounted to $8.12 million as compared to a forecast of $7.64 million, that is, an increase of 6.4%. The net income per unit is 56.0 cents as compared to a forecast of 52.7 cents per unit.

The REIT intends to continue to strive towards growth by emphasizing the increase in rental rates and the improvement of the occupancy rate through proactive rental measures and through the reduction of operating costs. The REIT will seek the acquisition of income producing properties which will produce greater returns for unitholders.

The continuing growth of the REIT will allow it to realize economies of scale.

Management believes that the realization of these objectives will ensure the stable and increasing flow of income while reducing the volatility of returns for unitholders.

DISTRIBUTIONS' RESULTS TO UNITHOLDERS

Distributions to unitholders for the period of May 21 to December 31, 1998 were 55.1 cents per unit, for an annualised return of 15% for units represented by instalment receipts. That is a 12% increase compared to financial forecasts.

These results, as well as meeting the REIT's primary objective of ensuring unitholders of stable and growing cash distributions, reflect the performance of the real estate portfolio acquired from Cominar at the closing of the Public Offering of May 21, 1998, and the positive effect of the acquisitions completed during that period.

PERSPECTIVES FOR 1999

Management foresees 1999 with confidence and optimism. We are presently witnessing a course of events and tendencies, which are very favourable for the REIT.

According to analysts on the economic scene, forecasts on interest and inflation rates are encouraging. The unemployment rate in the Greater Quebec City Area has reached its lowest level in many years to attain 8.2% in January, 1999.

In 1999 we will continue to profit from the REIT's dominant position and our competitive advantages. We will pursue our efforts to identify other acquisition opportunities in the Greater Quebec City Area and in Montreal in order to realise a long-term plus-value.

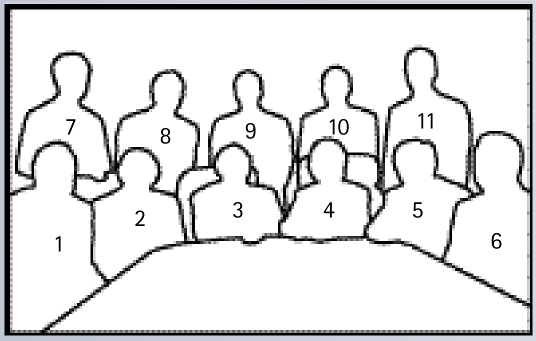
We believe that this strategy suits our unitholders and will contribute to the increase of both the distributions and the value offered to our unitholders.

The 1998 results are the tangible reflection of the sustained work accomplished by the REIT's professional and conscientious team. On your behalf, I thank all of them, as I do the Trustees whose devotion, availability, and expertise contributed to the orderly functioning and development of the REIT. My last thanks go to our unitholders for their confidence in us, which allowed us to attain our objectives for 1998, and whose support is indispensable to the realisation of our objectives for this financial year.

Jules Dallaire

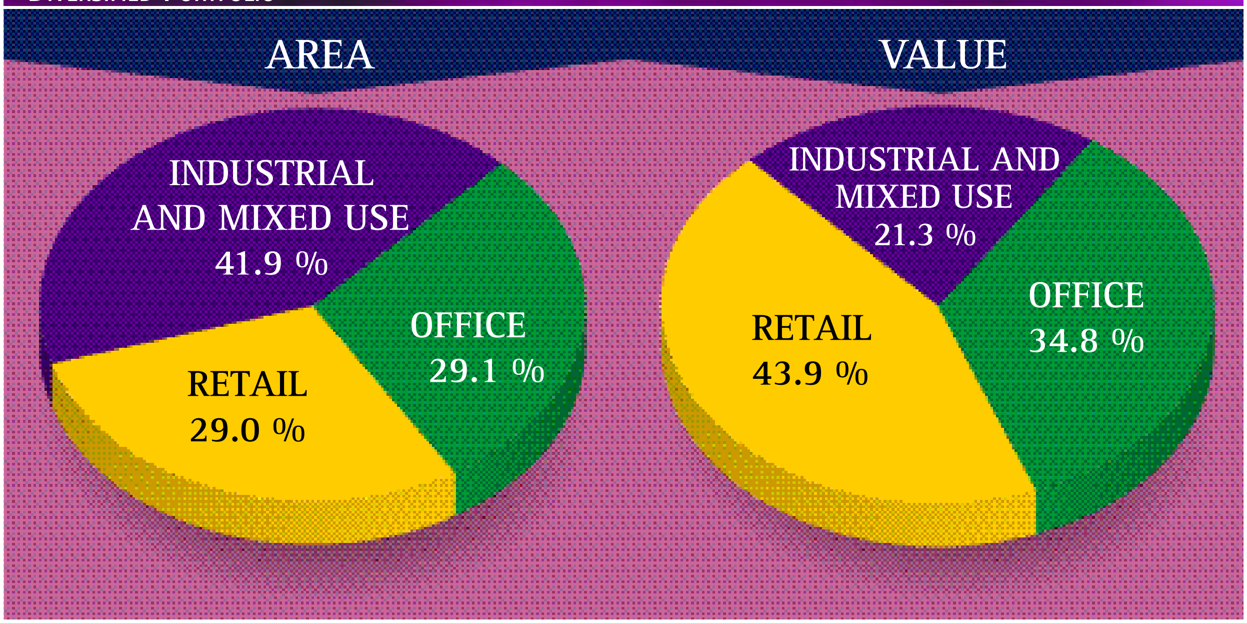
Chairman, President
and Chief Executive Officer

TRUSTEES AND OFFICERS



1. **Pierre Gingras**
   Trustee
2. **Robert Després**
   Trustee
3. **Jules Dallaire**
   Trustee, Chairman, President and Chief Executive Officer
4. **Ghislaine Laberge**
   Trustee
5. **Yvan Caron**
   Trustee
6. **Richard Marion**
   Trustee
7. **Michel Dallaire**
   Trustee, Executive Vice-President, Operations
8. **Michel Ouellette**
   Executive Vice-President, Acquisitions and development
9. **Michel Paquet**
   Trustee, Executive Vice-President, Legal Affairs and Secretary
10. **Noël Ferland**
    Vice-President, Retail Operations
11. **Michel Berthelot**
    Trustee, Executive Vice-President and Chief Financial Officer

DIVERSIFIED PORTFOLIO



SUMMARY OF THE PROPERTIES

Property	Ownership Interest (%)	Leasable Area (in square feet)	Vacancy %
Office Properties			
Place de la Cité, 2600, boul. Laurier, Sainte-Foy	100	428 354	95,80
3175, chemin des Quatre-Bourgeois, Sainte-Foy	100	99 755	95,72
979, avenue de Bourgogne, Sainte-Foy	100	67 154	84,48
2014, Jean-Talon Nord, Sainte-Foy	100	61 556	76,61
455, rue Marais, Vanier	100	61 207	95,26
4605-25-35, 1ère Avenue, Charlesbourg	100	40 336	83,83
2200, boul. Jean-Talon Nord, Sainte-Foy	100	29 816	84,85
5075, boul. Wilfrid-Hamel Ouest, Québec	100	28 055	88,94
5055, boul. Wilfrid-Hamel Ouest, Québec	100	26 497	100,00
150, boul. René-Lévesque Est, Québec	100	242 049	97,61
Sub-Total (Office)		1 084 779	93,55
Retail Properties			
Place de la Cité, 2600, boul. Laurier, Sainte-Foy	100	388 263	96,03
Carrefour Charlesbourg, 8500, boul. Henri-Bourassa, Charlesbourg	100	265 036	94,57
Halles Fleur-de-Lys, 245, rue Soumande, Vanier	100	89 808	95,68
325, rue Marais, Vanier	100	77 517	92,92
1400, rue Saint-Jean-Baptiste, Québec	100	102 700	97,10
2160, boul. de la Rive-Sud, Saint-Romuald	100	74 966	87,20

Property	Ownership Interest (%)	Leasable Area (in square feet)	Vacancy %
355, rue Marais, Vanier	100	37 178	95,09
550, rue Marais, Vanier	100	16 627	100,00
5, Place Orléans, Beauport	100	5 792	100,00
329, rue Seigneuriale, Beauport	100	3 792	100,00
1365-1369, chemin Sainte-Foy, Québec	100	5 491	100,00
2195, boul. de la Rive-Sud, Saint-Romuald	100	6 225	100,00
1970, avenue Chauveau, Québec	100	2 400	100,00
Sub-Total (Retail)		1 075 795	95,03
Industrial and Mixed Use Properties			
1990, boul. Jean-Talon Nord, Sainte-Foy	100	88 843	91,01
320, chemin de la Canardière, Québec	100	12 777	80,03
1515, rue Saint-Jean-Baptiste, Québec	100	61 771	100,00
2022, rue Lavoisier, Sainte-Foy	100	59 249	96,60
100, rue Chabot, Vanier	100	107 000	100,00
2160, boul. Jean-Talon Nord, Sainte-Foy	100	45 151	84,76
4975, rue Rideau, Québec	100	32 861	69,06
2020, boul. Jean-Talon Nord, Sainte-Foy	100	41 133	100,00
280, rue Racine, Loretteville	100	18 801	100,00
2025, rue Lavoisier, Sainte-Foy	100	37 078	100,00
2100, boul. Jean-Talon Nord, Sainte-Foy	100	31 316	100,00
2150, boul. Jean-Talon Nord, Sainte-Foy	100	22 560	100,00
2955, rue Kepler, Sainte-Foy	100	14 960	100,00
4175, boul. Sainte-Anne, Beauport	100	39 245	98,50
2180, boul. Jean-Talon Nord, Sainte-Foy	100	17 444	100,00
5125, rue Rideau, Québec	100	11 575	100,00
454-456, rue Marconi, Sainte-Foy	100	15 853	100,00
5000, rue Rideau, Québec	100	2 475	100,00
1750-90, avenue Newton, Québec	100	63 135	100,00
1165, rue Gouin, Québec	100	70 913	97,78
2010, rue Lavoisier, Sainte-Foy	100	68 235	100,00
830, avenue Godin, Vanier	100	48 990	100,00
2345, rue Dalton, Sainte-Foy	100	54 258	100,00
2385, rue Watt, Sainte-Foy	100	65 828	100,00
625, rue des Canetons, Québec	100	19 981	100,00
955, rue Saint-Jean-Baptiste, Québec	100	32 904	100,00
5130, rue Rideau, Québec	100	24 408	100,00
2755, rue Dalton, Sainte-Foy	100	23 880	100,00
905, avenue Ducharme, Vanier	100	20 504	100,00
2015, rue Lavoisier, Sainte-Foy	100	2 006	100,00
650, avenue Godin, Vanier	100	196 335	91,04
625, avenue Godin, Vanier	100	60 078	87,82
579, avenue Godin, Vanier	100	12 337	100,00
2700, rue Jean-Perrin, Québec	100	131 066	79,07
Sub-Total (Industrial and Mixed Use Properties)		1 554 950	94,60
Total Portfolio		**3 715 524**	**94,42**

Retail

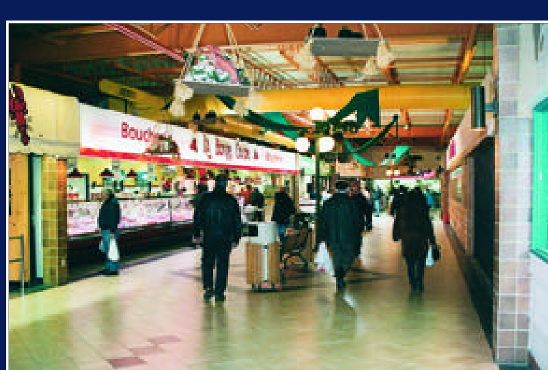
Cominar's Mission

Work with its Customers
Build with its Customers
Grow with its Customers

Place de la Cité
Sainte-Foy

The multicomplex Place de la Cité is one of Cominar's major realizations. Its rich architecture and its many exclusive boutiques make Place de la Cité one of the most enjoyable places to shop.

Carrefour Charlesbourg, Charlesbourg



Halles Fleur de Lys, Vanier

Industrial and Mixed Used

Godin Avenue, Vanier.

Charest Boulevard, Sainte-Foy

De la Capitale Boulevard, Vanier

Office

Le Saint-Mathieu
Sainte-Foy

Place de la Capitale
René-Lévesque Blvd.
Québec

A 20 story building acquired in 1998, located at the entrance of Old Quebec, next to Parliament Hill.

The strenght of Cominar lies in its ability to respond to the needs of everyone.

Belle Cour Tower

Charest Boulevard

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

Cominar Real Estate Investment Trust (the "REIT") is an unincorporated, closed-end investment trust established by the Contract of Trust and governed by the laws of the Province of Quebec.

The REIT was established on March 31, 1998 and acquired the Portfolio of real estate properties and Assets from Cominar. The Portfolio comprised 51 properties, all located in the Greater Quebec City Area, including 8 office properties with a space of 842,730 square feet, 13 retail properties with 1,075,795 square feet of space, and 30 commercial and mixed use properties with 1,155,134 square feet of space. The leasable area of this portfolio totals approximately 3.1 million square feet.

On May 21, 1998, the REIT closed its first Public Offering which consisted of 14,500,000 Units, consisting of 8,300,000 Receipt Units represented by Instalment Receipts and 6,200,00 Cominar Units issued on a fully paid basis. The price was $10.00 per Unit of which, in the case of Receipt Units, $6.00 per unit (the "Initial Instalment") was payable on the closing of the Offering and $4.00 per unit (the "Final Instalment") is payable on or before the first anniversary of the closing. In addition to the $49.8 million received by the REIT upon issue of Receipt Units represented by Instalment Receipts, the REIT contracted a $33.2 million loan guaranteed by the rights and entitlements of the REIT by virtue of the pledge of the Receipt Units.

The objectives of the REIT are to provide Unitholders with stable and growing cash distributions, payable monthly and tax deferred, and to increase and maximise Unit value. To attain these objectives, the REIT intends to take advantage of its dominant position in the Greater Quebec City Area, its proactive management, which comprises, among other things, the development and the expansion of some of the properties in its portfolio and finally, the acquisition of other income producing properties while continuing to respect the guidelines relative to future investments. Respecting and applying such objectives are some of the elements which allow the REIT to envisage future growth with confidence.

It is in this way, according to this management strategy, that the REIT made the acquisition of 5 properties [office (1), industrial and mixed use (4)] located in the Greater Quebec City Area, representing 642,000 square feet and a total of 3.7 million square feet of leasable area for the entire portfolio as of December 31, 1998.

OPERATING RESULTS

The Management's Discussion and Analysis of the REIT's financial results should be read in tandem with the audited consolidated financial statements for the financial year ended December 31, 1998.

Since the REIT began its operations on May 21, 1998, the financial results for 1998 correspond to a period of 224 days. The financial forecast contained in the prospectus foresaw the operations beginning on April 1st, 1998. For the purposes of management's present discussion and analysis, we have adjusted the financial forecast contained in the prospectus to reflect an operation period beginning on May 21st, 1998.

For the period from May 21, 1998 to December 31, 1998 (in thousand of dollars, except amounts per unit)	Actual ($)	Financial forecast ($)	Variance (%)
Operating revenues			
Rentals from income properties	26,348	25,239	4.4
Operating expenses			
Property operating costs	6,409	6,168	3.9
Realty tax and services	4,608	4,256	8.3
Property management expenses	398	384	3.6
	11,415	10,808	5.6
Net operating income	**14,933**	**14,431**	**3.5**
Interest on hypothecs	5,283	5,143	2.7
Depreciation - income properties	1,144	1,115	2.6
Depreciation-tenant improvements	89	184	-51.6
Amortization of deferred expenses	27	69	-60.9
Operating income from real estate assets	**8,390**	**7,920**	5.9
Trust expenses	290	346	-16.2
Other (income) expenses			
Loan interest	1,072	1,261	-15.0
Instalment receipt interest income	(895)	(895)	0.0
Other income	(200)	(429)	-53.4
	(23)	(63)	-63.5
Net income	**8,123**	**7,637**	6.4
Net income per unit	**0.560**	**0.527**	

The REIT's net income for the financial year ended December 31, 1998 was $8.12 million, or 56 cents per unit, and it compares favourably with the forecast profit contained in the prospectus of $7.64 million or 52.7 cents per unit.

Net operating income

The rental revenues earned from income producing properties include all rental income from the properties and operating cost recoveries. Revenues were $26.35 million and are greater than the financial forecast contained in the prospectus which were $25.24 million. This increase of approximately 4.4% is attributed to the performance of the real estate portfolio acquired at the closing of the Public Offering and to the acquisition of 5 new properties during the financial year ended December 31, 1998.

The properties' $11.42 million operating costs increased slightly compared to the financial forecast of $10.81 million mainly because of the acquisition of the new buildings.

The occupancy rate of the REIT portfolio's properties has decreased slightly going from 95.3% on May 21, 1998 to 94.4% on December 31, 1998. This decrease reflects the lower rate of occupancy in the properties acquired in the financial year ended December 31, 1998. The REIT, having obtained these buildings at very good price, expects that the rental of the vacant spaces will improve, as of this financial year, the occupancy rate and the returns.

In 1999 and the year 2000, approximately 10.8% and 13.9%, respectively, of the portfolio's leasable area will be subject to lease renewal.

The following chart shows the lease expiries of the properties in the REIT's portfolio for the five year period ending December 31, 2003:

Year	Leasable area (%)
1999	10.8
2000	13.9
2001	19.3
2002	9.7
2003	14.2

Interest on Hypothecs

For the period which ended December 31, 1998, the REIT incurred $5.28 million in interest expense, compared to the forecast of $5.14 million. This difference stems mainly from an assumed hypothec to which one of the properties acquired in the course of the last trimester of 1998 was subjected.

Trust Expenses

Trust Expenses amounted to $0.29 million and compare favourably to the forecast of $0.35 million. Since the REIT is operated as a completely integrated real estate Trust, it is not subject to management contracts with a third party, and therefore does not have to pay annual real estate management fees to external entities.

Other income and expenses

For the period ended December 31, 1998, the interest incurred on the loan, guaranteed by the rights and entitlements of the REIT on the second instalment and the pledge of Receipt Units, was $1.07 million as compared to that shown in the financial forecast of $1.26 million. This difference stems from the fact that this loan bears interest at a weighted average annual rate of 5.57% compared to the annual rate of 6.20% used for the financial forecast.

Other income was $0.20 million, compared to the forecast of $0.43 million. The difference is attributable to the fact that the cash available at the closing of the investment which was to serve for new acquisitions, was used more quickly than anticipated, thus contributing to the reduction of the anticipated interest income on term deposits.

Distribution to Unitholders

The distributable income and distributions to unitholders for the period ended December 31, 1998 compares favourably to the financial forecast as follows:

For the period from May 21, 1998 to December 31, 1998 (in thousand of dollars)	Actual ($)	Financial forecast ($)	Variance (%)
Net income	8,123	7,637	6.4
Add (deduct)			
Depreciation –			
Income properties	1,144	1,115	2.6
Instalment receipt interest income	(895)	(895)	0.0
Distributable income	8,372	7,857	6.6
Distributions to unitholders	7,989	7,464	7.0

Distributable income of $8.37 million is calculated by adding the depreciation expense of the properties to the net income, and by subtracting the instalment receipt interest income.

The depreciation of the income properties for the period is $1.14 million, compared to the forecast of $1.12 million. This difference is mainly attributable to the new acquisitions of properties in the course of 1998.

During this financial period, the REIT distributed $7.99 million or 55.1 cents per unit, that is, 95.4% of distributable income and an annualized return of 15% calculated on $6.00 per instalment receipt.

Of these distributions, 70.2% are tax deferred compared to the 58% foreseen in the prospectus. This tax deferral offers a significant advantage to unitholders.

EVOLUTION OF THE FINANCIAL SITUATION

Asset

On May 21, 1998, the REIT acquired a diversified portfolio comprising 51 office, retail, industrial and mixed use properties for a total cost of $244.59 million.

The acquisition of this portfolio was financed by the proceeds of the Initial Public Offering which was carried out by the REIT on May 21, 1998. Afterwards, the REIT acquired 5 additional income properties thus bringing its real estate assets up to $267.17 million as of December 31, 1998 representing an increase of 9.0%.

- July 2, 1998 - 650 Godin Avenue, Ville Vanier (Quebec), an industrial and mixed use income property of 196,000 square feet located in the Ville Vanier industrial park which is home to approximately 250 industries;

- September 21, 1998 - 579 Godin Avenue, Ville Vanier (Quebec), an industrial and mixed use income property of 12,000 square feet located in the Ville Vanier industrial park.

- October 14, 1998 - 150 Rene Levesque Boulevard East, Quebec (Quebec), a 20 story, 242,000 square feet office tower, near Parliament Hill, the ”Convention Centre”, and the ”Quebec Grand Theatre”.

- October 23, 1998 - 2700 Jean-Perrin Street, Quebec (Quebec), an industrial and mixed use income property of 131,000 square feet located along side the ”de la Capitale” highway, one of Quebec City’s principle arteries.

- October 28, 1998 - 625, avenue Godin, Ville Vanier (Quebec), an industrial and mixed income of 60,000 square feet located in the Ville Vanier industrial park.

As of December 31, 1998, the REIT portfolio consisted of 56 office, retail, industrial and mixed use properties, for 3.7 million square feet of gross leasable area, this being an increase of 0.6 million square feet or 20.6%, in relation to the portfolio acquired on May 21, 1998.

Instalment Receipts Receivable

At the closing of the Offering, on May 21, 1998, the REIT issued 8,300,000 Receipt Units for a buying price of $10.00 per unit, payable in instalments, that is $6.00 at the closing and $4.00 on the first anniversary of the closing, May 21, 1999.

Since instalment receipts due are non-interest-bearing, they have been discounted at a rate of 4.4% which represents $1.46 million at May 21, 1998.

As of December 31, 1998, imputed interest earned of $0.90 million was included under the heading "Other (income) expenses" in the consolidated net income statement, leaving a balance of $0.56 million to be recorded in the financial year ending December 31, 1999.

Liabilities

As of December 31, 1998, the REIT's indebtedness comprised $119.46 million in hypothec loans bearing interest at a weighted average annual rate of 7.32%, of which the remaining weighted average term before renewal is approximately 3.6 years. These loans are secured by real estate hypothecs on income producing properties.

The REIT obtained a line of credit from a financial institution for $15 million in the form of variable credit, guaranteed by a first rank immovable hypothec on a property in the portfolio and by a movable hypothec on specific properties. The amount drawn as of December 31, 1998 was $12.18 million and it served mainly to finance some of the acquisitions completed during the course of 1998.

As of December 31, 1998, the REIT also had a loan guaranteed by the rights and entitlements of the REIT on the second instalment of $4.00 payable on May 21, 1999, and by the pledge of Receipt Units.

The REIT's Contract of Trust limits its debt to a maximum of 60% of the Gross Book Value, namely the REIT's asset book value, plus the accumulated depreciation, with the exclusion of the instalment receipts receivable. As of December 31, 1998, the REIT's indebtedness was 48.2% compared to 46.4% after the closing of the offering on May 21, 1998. This slight increase is attributable to the effect of the acquisitions completed during the course of 1998.

During 1999, 10 hypothec loans will come to maturity. As of December 31, 1998, the combined balance of these loans was $11.11 million and bore a weighted average annual interest rate of 9.10%. The management believes it will be in a position to renew these hypothec loans at a lower rate.

As of December 31, 1998, the REIT's debt maturities of the hypothec loans for the next five years are shown in the following chart:

Debt Maturities	Amount (in thousand of dollars)
1999	11,105
2000	-
2001	25,779
2002	3,881
2003	78,689

Management does not anticipate any difficulty renewing these hypothec loans on their respective debt maturities.

The REIT intends to maintain a combination of short, medium and long term loan maturities. To do this, it takes into account the availability of financing, the economic climate as well as the financial terms of the leases which provide its cash flow.

Unitholders' equity

Unitholders' equity was $136.73 million as of December 31, 1998. This amount stems from the proceeds of this Offering of $145 million for 14,500,000 units, consisting of $83 million from the sale of Receipt Units and of $62 million from the issue of Cominar Units, after deducting the Underwriters'fee and the expenses of this offering of $6.94 million, the discount on the instalment receipts receivable of $1.46 million, plus the net non distributable income to unitholders of $0.13 million.

Over the course of the 1999 financial year, the REIT intends to distribute 95% of distributable income to unitholders. The amounts not distributed will be used for the REIT's capital expenditures.

Liquidity and capital resources

During the course of the financial period which ended December 31, 1998, for liquidity needs, the REIT used various sources of financing such as the issuance of units, hypothec loans, bank loans and the cash flow from the operations of its real estate portfolio. Management foresees using the same sources of liquidity for operations and the financing of its new acquisitions.

The REIT enhanced its liquidity by arranging a $15 million variable bank line of credit contract guaranteed by an immovable hypothec on a sole building and movable hypothec on specific assets. This loan bears interest selected by the REIT at 0.25% above the prime rate, or accepted bank rates increased by 1.25%. At year end, $2.82 million was still available on this line of credit.

To finance future growth, the REIT foresees increasing its sources of capital by again making a Public Offering and by increasing its indebtedness level when conditions permit.

Starting January 1, 1999, the REIT could acquire new properties for an amount of $10 million while maintaining its indebtedness level at 50% of Gross Book Value or up to an amount of $40 million and increase its indebtedness level to 55% thereof.

RISKS AND UNCERTAINTIES

The REIT, like any real estate company, is subject to certain risk elements in the course of normal operations.

Operational Risks

All immovable property investments entail elements of risk. The investments are affected by the general economic conditions, local real estate markets, demand for rental space, competition from other unoccupied spaces, just to name a few.

The value of real estate properties can also depend on the solvency and the financial stability of the tenants and the economic situation which prevails in the territories in which they operate their businesses and provide services.

The main risk that the REIT is subject to is related to the possibility that income from income properties decreases if it becomes impossible to maintain a high rate of occupancy in its properties. This risk is controlled by the great diversity of its tenants which ensure a predictable cash flow and by the fact that no tenant occupies a rental space under lease of more than 6.6% of the REIT's income, and that the average space occupied per tenant is less than 4,000 square feet.

The REIT, in its operation, is an entirely integrated real estate Trust. This structure assures the REIT of full control of its activities while allowing it to create a relationship of confidence with its customers thus improving both the REIT's financial and operational returns.

Debt and Refinancing

To ensure healthy risk management in terms of debt and the level of indebtedness, the REIT can neither contract nor assume debt if, after taking into account the debt thus contracted or assumed, the total indebtedness of the REIT (with the exception of the loan relative to instalment receipts) was greater than 60% of the Gross Book Value.

As of December 31, 1998, the REIT's indebtedness was 48.2% of Gross Book Value.

By distributing its hypothec loans over several years, the REIT decreases risks related to their renewal. In the course of 1999, $11.11 million of hypothec loans will be renewed which represents 9.3% of the REIT's indebtedness. The REIT does not anticipate any difficulty in refinancing its debt as it falls due.

Environmental Risk

By their very nature, the REIT's assets and activities are not subject to a high environmental risk. The REIT must, by virtue of the operating policies contained in the Contract of Trust, proceed with an environmental check before the acquisition of each new property or on its own properties when it judges necessary.

In its leases, the REIT requires that the tenant must operate its enterprise in conformity with environmental laws and that the tenant will be held responsible for any damage which could result from its use of the leased premises.

Unitholders' Liability

The Contract of Trust, under the heading "Operating Policies" states that all written documents certifying an immovable hypothec or, according to the trustees, an important obligation, must contain terms limiting responsibility only to the REIT's properties and stating that no recourse may be taken against unitholders.

Risks for the Year 2000

The transition to the Year 2000 constitutes a risk that all companies must face. The origin of the problem stems from the fact that a large number of computer programs were conceived and developed without consideration for the change in century. Since they use two numbers rather than four to identify the year, date sensitive systems could stop functioning or produce erroneous results in the Year 2000 or even before.

As early as 1998, the REIT began to evaluate to what extent it might become vulnerable in the transition to the Year 2000. In its analysis, the REIT needed to take into account its dependence on computer technologies, the complexity of its systems and the frequency of their interaction with other systems, as well as its equipment. The REIT first took the time to identify the systems representing a high degree of risk and whose failure could cause serious consequences on financial and operational information, those representing a risk as high, but whose failure would cause little or no consequences on the financial and operational information, and finally, those representing no risk or consequences.

The REIT then elaborated and put into place a plan including the collaboration of its partners, in order to prepare the systems and the equipment for the transition to the Year 2000. It is, nevertheless, not possible to be sure that all aspects of the problem related to the transition into the next century which have an impact on the REIT, including those which concern the efforts of its customers, suppliers or other partners, will be entirely resolved.

MANAGEMENT'S RESPONSABILITY

The accompanying consolidated financial statements have been prepared in accordance with the recommendations of the " Canadian Institute of Chartered Accountants " and the " Canadian Institute of Public Real Estate Companies ". The management of the REIT is responsible for their integrity and objectivity. The REIT maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting and administrative procedures are of high quality. The financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

" PricewaterhouseCoopers " were retained as auditors of the REIT. They have examined the consolidated financial statements in accordance with generally accepted auditing standards to enable them to express their opinion on the consolidated financial statements. Their report as auditors is set forth herein.

The consolidated financial statements have been further reviewed and approved by the Board of Trustees and its Audit Committee. The auditors have direct and full access to the Audit Committee.

Jules Dallaire
Chairman, President
and Chief Executive Officer

Michel Berthelot, c.a.
Executive Vice-President
and Chief Financial Officer

AUDITORS' REPORT

We have audited the consolidated balance sheet of Cominar Real Estate Investment Trust as at December 31, 1998 and the consolidated statements of income, unitholders' equity and changes in financial position for the period from May 21 to December 31, 1998. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 1998 and the results of its operations and the changes in its financial position for the period from May 21 to December 31, 1998 in accordance with generally accepted accounting principles.

February 10, 1999
Quebec, Canada

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants

Consolidated Balance Sheet
As at December 31, 1998

(in thousands of dollars)	**$**
Assets	
Income properties (note 3)	267 167
Hypothec receivable (note 4)	2 577
Instalment receipts receivable (note 5)	32 635
Deferred expenses	537
Prepaid expenses and other assets	931
Accounts receivable	841
	304 688
Liabilities and Unitholders' Equity	
Liabilities	
Hypothecs payable (note 6)	119 455
Bank indebtedness (note 7)	12 179
Loan payable (note 8)	33 200
Accounts payable and accrued liabilities	3 120
	167,954
Unitholders' Equity	136 734
	304 688

Consolidated Statement of Unitholders' Equity
Period from May 21 to December 31, 1998

(in thousands of dollars)	**$**
Unitholders' Equity, beginning of period	–
Proceeds of offering (note 9)	145 000
Underwriters' fees and offering costs	(6 940)
Discount on instalment receipts receivable	(1 460)
Net income for the period	8 123
Distributions to Unitholders	(7 989)
Unitholders' Equity, end of period	136 734

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income
Period from May 21 to December 31, 1998

(in thousands of dollars except per unit amount)	$
Operating revenues	
Rentals from income properties	26 348
Operating expenses	
Property operating costs	6 409
Realty taxes and services	4 608
Property management expenses	398
	11 415
Net operating income	14 933
Interest on hypothecs	5 283
Depreciation - income properties	1 144
Depreciation - tenant improvements	89
Amortization of deferred expenses	27
	6 543
Operating income from real estate assets	8 390
Trust expenses	290
Other (income) expenses	
Loan interest	1 072
Instalment receipt interest income	(895)
Other income	(200)
	(23)
Net income	8 123
Net income per Unit (note 11)	0,560

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position
Period from May 21 to December 31, 1998

(in thousands of dollars)	$
Cash provided by (used in) the following activities :	
Operating	
Net income	8 123
Items not affecting cash :	
Depreciation - income properties	1 144
Depreciation - tenant improvements	89
Amortization of deferred expenses	27
Instalment receipt interest income	(895)
	8 488
Net change in non-cash operating working capital items	1 348
	9 836
Financing	
Net proceeds of offering	136 600
Hypothecs payable	122 054
Hypothecs principal repayments	(2 599)
Proceeds of instalment receipts	(31 740)
Loan payable	33 200
Distributions to Unitholders	(7 989)
	249 526
Investing	
Acquisition of income properties	(268 400)
Hypothec receivable	(2 582)
Principal receipts of hypothec receivable	5
Deferred expenses	(564)
	(271 541)
Bank indebtedness, end of period	(12 179)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements, December 31, 1998
(in thousands of dollars except per unit amounts)

1 Description of the Fund

Cominar Real Estate Investment Trust (the "REIT") is an unincorporated closed-end real estate investment trust created by the Contract of Trust on March 31, 1998, under the laws of the Province of Quebec.

The REIT commenced active operations on May 21, 1998 with an initial public offering. The net proceeds of offering of $136,600 was used partially to acquire a portfolio of 51 income properties for a purchase price of $241,037 plus additional acquisition costs of $3,548, less assumed hypothecs of $120,340.

2 Summary of significant accounting policies

Basis of presentation

The REIT's consolidated financial statement are prepared in conformity with generally accepted accounting principles and are substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies.

Consolidation

The consolidated financial statements include the accounts of the REIT and its wholly-owned subsidiary, Les Services Administratifs Cominar Inc.

Use of estimates

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on management's estimates and judgment with consideration given to materiality. Actual results could differ from those estimates.

Income properties

Income properties are stated at the lower of cost less accumulated depreciation and net recoverable amount. Cost includes acquisition costs and improvements to income properties.

Depreciation of buildings is recorded on the 5 % sinking fund basis to fully amortize the cost of buildings over 40 years.

Depreciation of tenant improvements is recorded on a straight-line basis over the terms of the related leases.

Deferred expenses

Leasing expenses, including tenant inducements and commissions, are deferred and amortized on the straight-line basis over the terms of the related leases. Hypothecs financing expenses are deferred and amortized on the straight-line basis over the terms of the related hypothecs.

3 Income properties

	Cost $	Accumulated depreciation $	Net book value $
Land	37 082	–	37 082
Income properties	229 649	1 144	228 505
Tenant improvements	1 669	89	1 580
	268 400	1 233	267 167

4 Hypothec receivable

Hypothec receivable bears interest at 12 % and is recoverable in September 1999.

5 Instalment receipts receivable

Under the terms of the public distribution of Receipt Units, $4 of the issue price of each Receipt Unit, totalling $33,200, is receivable on May 21, 1999. The instalment receipts receivable are non interest bearing and are secured by the REIT's entitlements under the Final Instalments and the pledge of the Receipt Units sold. Accordingly, the instalment receipts receivable were discounted at 4.4 % per annum and the imputed interest of $1,460 was deducted from the gross amount receivable at the date of issue.

Notes to Consolidated Financial Statements, December 31, 1998
(in thousands of dollars except per unit amounts)

6 Hypothec payable

Hypothecs payable are secured by the income properties, bear interest at a weighted average annual rate of 7.32 % and are renewable between March 1999 and October 2003.

Future principal repayments of hypotecs are as follows :

Year ending December 31	$
1999	15,586
2000	4,803
2001	26,418
2002	7,175
2003	65,473
	119 455

7 Bank indebtedness

The bank indebtedness includes a bank overdraft of $1,729, credit facility of $2,450 bearing interest at prime rate plus 0.25 % and bankers acceptances of $8,000 bearing interest at 6.32 %; the credit facility is secured by a first rank immovable hypotec on an income property and by a movable hypotec on specific assets.

8 Loan payable

The loan payable bears interest at weighted average annual rate of 5.57 % and is secured by the REIT's rights an entitlements under the Final Instalments and the pledge of the Receipt Units sold under the public offering. The loan will be repaid from proceeds of the repayment of the instalment receipts receivable on May 21, 1999.

9 Unitholders's Equity

The ownership interests in the REIT are represented by a single class of Units. The aggregate number of Units which the REIT may issue is unlimited. Units represent a Unitholder's proportionate undivided ownership interest in the REIT. Each Unit confers the right to one vote at any meeting of Unitholders and to participate equally and ratably in any distributions by the REIT.

On May 21, 1998, the REIT issued 14,500,000 units. This offering included 6,200,000 units issued at $10 per unit and 8,300,000 receipt units represented by instalment receipts. The initial instalment of $6 per receipt unit was received on closing and the final instalment of $4 per receipt unit is receivable on May 21, 1999.

The REIT adopted a unit option plan for which the participation is restricted to the trustees, officers and employees of the REIT. The maximum number of units reserved for issuance pursuant to the unit option plan is 1,450,000 units. On May 29, 1998, the REIT granted 189,000 options to acquire units of the REIT at $10.10 each. The options will be exercisable on a cumulative basis as to 33 1/3 % of the options after each of the first three anniversaries of the grant. These options expire on May 29, 2003.

Furthermore, the REIT adopted a distribution reinvestment plan pursuant to which unitholders may elect to have all cash distributions of the REIT automatically reinvested in additional units. During the period from May 21 to December 31, 1998, no unit has been issued pursuant to the distribution reinvestment plan.

10 Income taxes

The REIT is taxed as 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 the REIT to unitholders of the REIT and to deduct such distributions and designations for income tax purposes. Therefore, no provision for income taxes has been recorded.

11 Net income per unit

Net income per unit is calculated by dividing net income ($8,123) by the weighted average number of units (14,500,000 units) outstanding during the period.

Notes to Consolidated Financial Statements, December 31, 1998
(in thousands of dollars except per unit amounts)

12 Distributable income per unit

Distributable income has been calculated pursuant to the REIT's Contract of Trust as follows :

	$
Net income	8,123
Add (deduct) :	
Depreciation - income properties	1144
Instalment receipt interest income	(895)
Distributable income	8 372
Distributable income per unit	0,577
Cash distributions per unit	0,551

13 Related party transactions

During the period, the REIT had transactions with related parties. These transactions, done in the normal course of business, have been measured at exchange amounts and have been reflected in financial statements as follows :

	$
Rentals from income properties	212
Loan interest	447
Construction costs of tenant improvements	1 669

On December 31, 1998, accounts receivable included an amount of $126 receivable from related parties and accounts payable included an amount of $460 payable to related parties.

14 Financial instruments

The REIT is exposed to financial risk that arises from the fluctuation in interest rates and in the credit quality of its tenants. The REIT manages these risks as follows :

Interest rate risk

Accounts receivable and accounts payable and accrued liabilities bear no interest.

The interest rates on hypothec receivable, instalment receipts receivable, hypothecs payable, bank indebtedness and loan payable are respectively described in notes 4, 5, 6, 7 and 8.

Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT mitigates this risk of credit loss by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. Credit evaluations are made about each new tenant.

Fair value

The fair value of the majority of the REIT's financial assets and liabilities, representing net working capital, approximate the carrying value at December 31, 1998 due to their short term nature. In these circumstances, fair value is determined to be the market or exchange value of the assets and liabilities.

The fair value of the hypothecs payable approximates their carrying value.

Notes to Consolidated Financial Statements, December 31, 1998
(in thousands of dollars except per unit amounts)

15 Segment disclosures

The REIT's activities include three property types. The accounting policies followed by each property type are the same than those disclosed in the summary of accounting policies. The following table shows the financial information related to these property types :

	Office properties $	Retail properties $	Industrial and mixed use properties $	Total $
Rentals from income properties	9,065	11,347	5,936	26,348
Interest on hypothecs	2,340	2,251	692	5,283
Depreciation - income properties and tenant improvements	460	544	229	1,233
Operating income from real estate assets	2,394	3,638	2,358	8,390
Income properties	97,436	118,419	51,312	267,167

16 Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the REIT's ability to conduct normal business operations.

In 1998, the REIT has started to assess the situation in order to develop a strategy allowing to bring corrective actions in this regard. However, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the REIT, notably those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

Information

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Unit Listing

The Montreal Exchange
The Toronto Stock Exchange

Stock Trading Symbol

CUF.IR