1999 ANNUAL REPORT

COMINAR

REAL ESTATE INVESTMENT TRUST

WWW.COMINAR.COM

CORPORATE PROFILE

COMINAR REAL ESTATE INVESTMENT TRUST (REIT) is a closed-end investment trust established by a Contract of Trust under the laws of the province of Quebec. Founded on March 31, 1998, the REIT made its initial public offering in May 1998. Cominar owns a portfolio of 65 office, commercial, industrial and mixed-use properties in the Montreal and Quebec City areas.

Its principal objectives are to :

- provide unitholders with growing tax-deferred cash distributions payable monthly;
- increase and maximize unit value through proactive management, including the acquisition of income properties and the redevelopment and expansion of various properties in its portfolio.

With the participation of a reliable, experienced team, the REIT will continue to grow by striving for a balanced expansion of its portfolio, according to trends in the marketplace.

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HIGHLIGHTS

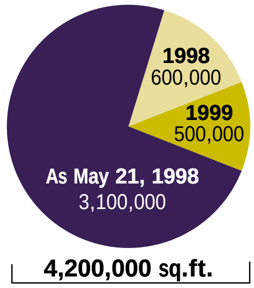
First complete fiscal year since listing on May 21, 1998

Financial Highlights
(in millions of dollars, except per unit amounts)

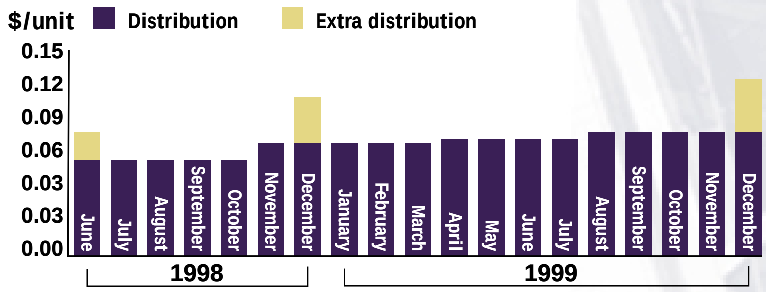
	12-31-1999	Forecasts (1998 prospectus)
Rental income	48 381	41 133
Net operating income	27 886	23 002
Distributable income*	16 064	13 478
Distributable income per unit*	1,11	0,93

*Adjustment of prospectus forecasts for purposes of comparison with results for the fiscal year ended December 31, 1999, with interest payable applied against loans and interest income against instalment receipts for 1999.

Portfolio Expansion



Distributions



Acquisition of 9 industrial and mixed-use properties:

- 4 in Greater Quebec City area
- 5 in Greater Montreal area - initial breakthrough

Growth of 508,000 sq.ft. in portfolio's leasable area, an increase of 13.5%, having an acquisition cost of $20.6 million.

69% of distributions paid to unitholders are subject to a tax deferral.

COMPETITIVE ADVANTAGES

- Dominant position in the Greater Quebec City area: One of the largest property owners in the real estate market
- Integrated management structure harmonizing the interests of management and employees with those of unitholders
- Preferred relationship with tenants
- Innovative cost management practices
- Exhaustive and exclusive data bank on the tenants of competitive office, industrial and mixed-use properties in the Quebec City market
- Relationship of trust with financial institutions

For its first complete fiscal year since its listing on the stock exchange, Cominar Real Estate Investment Trust is pleased to announce a healthy financial performance and dynamic growth of its real estate portfolio. Our building occupancy rate, distributable income and distributions to unitholders all showed satisfactory growth, reflecting the soundness of our expansion strategy, integrated management and quality service. Our positioning and knowledge of the market, combined with a strong economy, enabled us to continue increasing the real estate portfolio's core value in 1999.

Mr. Jules Dallaire,
Chairman, President and Chief Executive Officer

We achieved all of our growth objectives in 1999. Our development plan coupled with our rental agents' efforts yielded a 0.9% increase in **our building occupancy rate**, which rose to 95.3%, representing more than one thousand tenants. We recorded **rental income** of $48.4 million, up 17.8% over the forecasts of $41.1 million issued for our initial public offering. **Distributable income** income reached $16.1 million or $1.11 per unit, an increase of 19.2% over the adjusted forecasts of $13.5 million or $0.93 per unit. This increase was reflected in **the distribution to unitholders**, which was up 19.1% over the prospectus forecasts, at $1.052 per unit. Since the inception of the REIT, we have continually increased the real estate portfolio's value, assuring a diversified flow of growing revenues to reduce the risk and volatility of the unitholders' return on investment.

A YEAR OF DYNAMIC GROWTH MARKED BY OUR FIRST ACQUISITIONS IN MONTREAL

In 1999, we further expanded our real estate portfolio by acquiring nine industrial and mixed-use properties for a total consideration of $20.6 million. As a result, the portfolio's total area increased by 13.5% to reach 4.2 million square feet. Since the REIT was created in late May 1998, its real estate portfolio has increased by 1.1 million square feet, or 35.5%.

In the Quebec City region, where we enjoy a dominant position, we acquired a 45,000-square-foot industrial and mixed-use property in November 1999. Purchased at a cost of $0.7 million, this building is located in the Jean Talon industrial park, one of the busiest in the Quebec City area. Then, in December 1999, we invested $4.5 million to acquire three other industrial and mixed-use properties at an average capitalization rate of 11.11%. These properties are located in the Carrefour du Commerce zone, which borders on Highway Henri-IV and major roadways, where we already own 10 buildings.

It was strategic for us to penetrate the Montreal market, as Canada's second biggest city, where industrial and commercial lease rates rose substantially in 1999, reflecting buoyant activity, especially in the Lachine, Dorval, St-Laurent and Town of Mount Royal areas. We started by seizing excellent opportunities, with the acquisition in August of a 120,000-square-foot industrial property at a cost of $5 million and a capitalization rate of 10.25%. Located on Pie-IX Boulevard near Highway 40, this high-quality building is completely leased until 2010 and houses the head office of Belron Canada Inc., a division of the multinational Belron International.

Our first Montreal acquisition was followed by four others in November 1999, in the Lachine industrial park near Dorval Airport. Fully occupied by single tenants who are international and national companies, these buildings raised the REIT's rental space in the Montreal area to 335,400 square feet. For our initial expansion phase in this region, we will focus on high-quality industrial and mixed-use properties representing stable and secure investments at an average capitalization rate of 10.5%. We will apply the same cluster strategy as in Quebec City, giving us the critical mass to achieve significant economies of scale.

Moreover, we firmly believe that top-quality service remains our major strength. In December 1999, using the bases established in the Montreal region, we therefore opened a Montreal office to favour our expansion and provide the same quality of service as in the Quebec City area.

A GROWTH STRATEGY BUILT ON QUALITY ACQUISITIONS, EXISTING PROPERTY DEVELOPMENT AND A HEALTHY FINANCIAL POSITION

The acquisitions made in 1999 were fully aligned with our growth strategy. We will continue to look for investment opportunities that will rapidly enhance the value of the REIT's portfolio. With this in mind, we will respect strict acquisition criteria by focusing on high-quality properties located in busy, easily accessible areas, with acquisition costs below replacement cost, and ensuring balanced diversification of the portfolio. According to trends in the marketplace, we will maintain an even balance between office, commercial, industrial and mixed-use properties. This diversification fosters stable cash flows and the potential for an increase in the real estate portfolio's value.

In addition, we will continue to enhance the value of the properties comprising the REIT's portfolio, through redevelopments and expansions likely to fuel a rise in lease rates and net rental income.

Our borrowing policy will remain prudent and conservative to minimize our risk exposure in the coming years. As at December 31, 1999, the REIT's indebtedness was equivalent to 51.7% of the gross book value. Even though the Trust's by-laws allow us to reach a level of 60%, we plan to keep this ratio below 55%.

EXPERT, FULLY-INTEGRATED MANAGEMENT

As an entirely self-administered and self-directed real estate investment trust, the REIT is not subject to any management contracts with third parties and therefore does not have to pay any property management fees. This integrated management promotes harmonization of the interests of management and employees with those of the unitholders.

From its inception, the REIT had the privilege of welcoming Cominar's managers and employees, a seasoned team with a long experience and proven expertise in real estate acquisitions, development and administration. The Trust therefore hired human resources instilled with a corporate culture focused on customer satisfaction, where every tenant is regarded as a true customer, which has largely contributed to Cominar's success. This team is committed to keeping the REIT on track of profitable growth.

OUTLOOK

On the strength of our solid assets and the growth achieved in 1999, we are highly optimistic about the coming year, especially since the economic outlook is encouraging. According to the Conference Board of Canada, the renewed creation of jobs in the public administration, health and education sectors, combined with the strong performance of the high-technology sector, will result in the creation of some 30,000 jobs in the Greater Quebec City area over the next three years.

This boom should fuel new business development and an increase in the demand for rental space. The Cominar REIT is strategically positioned to take advantage of the best opportunities arising in the region. Given the promising outlook across the country, we plan to seize investment opportunities yielding a minimum return of about 10%, without considering leverage, in the Montreal and Quebec City areas.

We would like to sincerely thank the Cominar REIT's trustees and all of its human resources for their commitment and professionalism. We also express our gratitude to our growing numbers of unitholders for their confidence and support, and we renew our commitment to building on their investment. With a healthy financial position, a high-quality real estate portfolio and considerable growth potential, the Cominar REIT is poised to achieve its short and long-term objectives.

Jules Dallaire
Chairman, President
and Chief Executive Officer

TRUSTEES AND OFFICERS

1 **Robert Després**
Trustee

2 **Jules Dallaire**
Trustee, Chairman, President and Chief Executive Officer

3 **Ghislaine Laberge**
Trustee

4 **Michel Dallaire**
Trustee, Executive Vice-President Operations

5 **Michel Berthelot**
Trustee, Executive Vice-President and Chief Financial Officer

6 **Luc-André Picotte**
Vice-President, Retail Operations

7 **Pierre Gingras**
Trustee

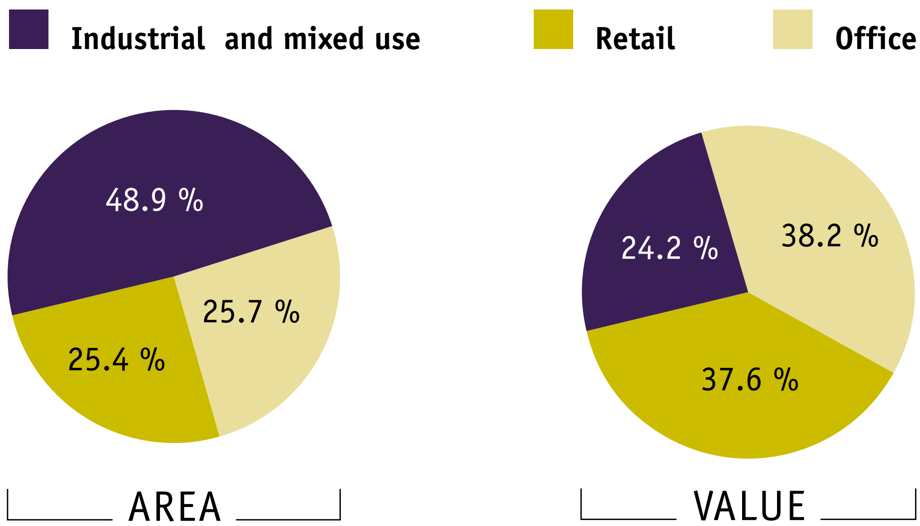
8 **Yvan Caron**
Trustee

9 **Michel Paquet**
Trustee, Executive Vice-President Legal Affairs and Secretary

10 **Richard Marion**
Trustee

11 **Michel Ouellette**
Executive Vice-President Acquisitions and development

DIVERSIFIED PORTFOLIO



SUMMARY OF THE PROPERTIES

Property	Ownership Interest (%)	Leasable Area (in square feet)	Occupancy %
Office Properties			
Place de la Cité, 2600, boul. Laurier, Sainte-Foy	100	428 354	96.77
3175, chemin des Quatre-Bourgeois, Sainte-Foy	100	99 755	97.74
979, avenue de Bourgogne, Sainte-Foy	100	67 154	77.81
2014, Jean-Talon Nord, Sainte-Foy	100	61 556	96.09
455, rue Marais, Vanier	100	61 207	85.15
4635, 1ère Avenue, Charlesbourg	100	40 336	80.29
2200, boul. Jean-Talon Nord, Sainte-Foy	100	29 816	80.57
5055, boul. Wilfrid-Hamel Ouest, Quebec	100	26 497	100.00
5075, boul. Wilfrid-Hamel Ouest, Quebec	100	28 055	84.95
150, boul. René-Lévesque, Quebec	100	242 049	100.00
Sub-Total (Office)		1 084 779	94.43
Retail Properties			
Place de la Cité, 2600, boul. Laurier, Sainte-Foy	100	388 263	94.90
Carrefour Charlesbourg, 8500, boul. Henri-Bourassa, Charlesbourg	100	265 036	89.36
Halles Fleur-de-Lys, 245, rue Soumande, Vanier	100	89 808	89.10
325, rue Marais, Vanier	100	77 517	93.93
1400, rue Saint-Jean-Baptiste, Quebec	100	102 700	98.82
2160, boul. de la Rive-Sud, Saint-Romuald	100	74 966	97.19
355, rue Marais, Vanier	100	37 178	100.00
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
1371, chemin Sainte-Foy, Quebec	100	5 491	100.00
2195, boul. de la Rive-Sud, Saint-Romuald	100	6 225	100.00
1970, avenue Chauveau, Quebec	100	2 400	100.00
Sub-Total (Retail)		1 075 795	93.88

Property	Ownership Interest (%)	Leasable Area (in square feet)	Occupancy %
Industrial and Mixed Use Properties			
1990, boul. Jean-Talon Nord, Sainte-Foy	100	88 843	90.53
320, chemin de la Canardière, Quebec	100	12 777	80.03
1515, rue Saint-Jean-Baptiste, Quebec	100	61 771	100.00
2022, rue Lavoisier, Sainte-Foy	100	59 249	91.35
100, rue Chabot, Vanier	100	107 000	100.00
2160, boul. Jean-Talon Nord, Sainte-Foy	100	45 151	86.06
4975, rue Rideau, Quebec	100	32 861	77.94
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	94.24
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, Quebec	100	11 575	100.00
454-456, rue Marconi, Sainte-Foy	100	15 853	100.00
5000, rue Rideau, Quebec	100	2 475	100.00
1750-90, avenue Newton, Quebec	100	63 135	100.00
1165, rue Gouin, Quebec	100	70 913	100.00
2010, rue Lavoisier, Sainte-Foy	100	68 235	100.00
830, rue 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	91.39
625, rue des Canetons, Quebec	100	19 981	100.00
955, rue Saint-Jean-Baptiste, Quebec	100	32 904	100.00
5130, rue Rideau, Quebec	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	100.00
625, avenue Godin, Vanier	100	60 078	94.13
579, avenue Godin, Vanier	100	12 337	100.00
2700, rue Jean-Perrin, Quebec	100	131 066	86.49
2181, rue Léon Harmel, Quebec	100	45 000	88.49
445, St-Jean Baptiste, Quebec	100	56 226	92.12
500, St-Jean Baptiste, Quebec	100	43 671	100.00
5275, boul. Wilfrid-Hamel, Quebec	100	29 719	86.99
8288, boul. Pie-IX, Montréal	100	119 000	100.00
1415, 32ième Avenue, Lachine	100	71 500	100.00
1455, 32ième Avenue, Lachine	100	32 500	100.00
1475, 32ième Avenue, Lachine	100	91 690	100.00
3300, JB Deschamps, Lachine	100	19 393	100.00
Sub-Total (Industrial and Mixed Use)		2 063 649	96.48
Total Portfolio		**4 224 223**	**95.29**

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.

325, RUE MARAIS
VANIER

CARREFOUR CHARLESBOURG
CHARLESBOURG

Office

COMINAR
VANIER

LE SAINT-MATHIEU
SAINTE-FOY

150, BOULEVARD RENÉ-LÉVESQUE
QUEBEC

Industrial and Mixed Use (Quebec)

2022, LAVOISIER
SAINTE-FOY

1790, NEWTON
QUEBEC

4975,RIDEAU
QUEBEC

Industrial and Mixed Use (Montreal)

1455, 32nd Avenue
LACHINE

1475, 32nd Avenue
LACHINE

8288, Pie-IX blvd.
MONTREAL

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

Established on March 31, 1998, the REIT acquired Cominar's portfolio of real estate properties and assets on May 21, 1998. The REIT is one of the largest private property owners in the Greater Quebec City area, where it enjoys a dominant position and significant economies of scale. The only real estate investment trust in the Province of Quebec, the REIT owns a diversified portfolio of 65 properties consisting of nine office buildings covering 1,084,779 square feet, 13 commercial buildings covering 1,075,795 square feet and 43 industrial and mixed-use buildings covering 2,063,649 square feet. The leasable area of the portfolio totalled approximately 4.2 million square feet as at December 31, 1999.

On May 21, 1998, the REIT closed its initial public offering, which consisted of 14,500,000 units, including 8,300,000 units represented by instalment receipts, and 6,200,000 units issued to Cominar on a fully paid-up basis. The price was $10.00 per unit. In the case of the instalment receipt units, the initial instalment of $6.00 per unit was payable at the closing of the issue, and the second instalment of $4.00 per unit was payable on or before the first anniversary of the closing. In addition to the net proceeds of $44.8 million, the REIT contracted a $33.2 million loan secured by its rights and entitlements by virtue of the pledging of the instalment receipt units, which were sold.

On May 21, 1999, all instalment receipts receivable were redeemed and the proceeds were used to repay the $33.2 million loan.

The year ended December 31, 1999 marked the REIT's first complete 12-month fiscal period. During the year, the REIT continued to expand its portfolio by acquiring nine industrial and mixed-use properties: five in the Montreal region and four others in the Greater Quebec City area. These nine acquisitions cover a total of 508,000 square feet, for an aggregate consideration of $20.6 million.

OPERATING RESULTS

The Management's Discussion and Analysis of the REIT's financial results should be read in conjunction with the audited consolidated financial statements for the fiscal year ended December 31, 1999.

For purposes of comparison with the results for the fiscal year ended December 31, 1999, we have adjusted forecasts from the prospectus issued for the initial public offering by replacing interest payable against loans and interest income against instalment receipts with 1999 figures.

Comparative results
(in thousands of dollars except per unit amounts)

	Actual 12/31/1999 $	Prospectus forecasts (12 months) $	Adjustments $	Adjusted prospectus forecasts $
Rentals from income properties	48,381	41,133		41,133
Operating expenses				
Property operating costs	11,707	10,566		10,566
Realty taxes and services	8,121	6,938		6,938
Property management expenses	667	627		627
	20,495	18,131		18,131
Net operating income	27,886	23,002		23,002
Interest on hypothecs and bank indebtedness	9,491	8,385		8,385
Depreciation of income properties	2,052	1,819		1,819
Depreciation of deferred expenses and other assets	768	414		414
	12,311	10,618		10,618
Operating income	15,575	12,384		12,384
Trust expenses	809	565		565
Other (revenues) expenses				
Loan interest	860	2,058	1 198	860
Instalment receipts interest income	-565	-1,460	-895	-565
Other income	-106	-700		-700
	189	-102		-405
Net income	14,577	11,921		12,224
Depreciation of income properties	2,052	1,819		1,819
Instalment receipts interest income	-565	-1,460	-895	-565
Distributable income for the year	16,064	12,280		13,478
Net income per unit	1.01	0.82		0.84
Distributable income per unit	1.11	0.85		0.93

Operating revenues, net operating income and net income

For fiscal 1999, the REIT generated **operating revenues** of $48.4 million, an increase of 17.8% over the prospectus forecasts, which totalled $41.1 million. **Net operating income** and **net income** followed the same trend. Operating income amounted to $27.9 million, up 21.3% over the forecasts of $23.0 million. Net income rose to $14.6 million or $1.01 **per unit**, , an increase of 19.3% over the adjusted forecasts from the prospectus.

This excellent performance was due mainly to a 0.9% increase in the occupancy rate, which rose from 94.4% as at December 31, 1998 to 95.3% as at December 31, 1999. As the acquisitions in 1999 were made primarily at year-end, their contribution to results for fiscal 1999 was negligible. **Rental income from income properties, excluding the acquisitions made in 1999**, , amounted to $47.9 million, an increase of 16.5% over the prospectus forecasts.

For the fiscal year ended December 31, 1999
(in thousands of dollars)

	Rentals from income properties $	Net operating income $	Net income $
Total for the year	48,381	27,886	14,577
Contribution of 1999 acquisitions	452	423	281
	47,929	**27,463**	**14,296**

The REIT's team of internal leasing consultants renewed the leases of 80% of the 550,000 square feet expiring in 1999 and will spare no effort to maintain this rate in the coming years.

The leasable area expiring annually corresponds to an average of 16.0% of the total square footage in the REIT's portfolio. The spreading of lease expiry dates over several years ensures a good stability of rental income and reduces the risk of a major annual fluctuation in lease renewals. This risk is further reduced by diversification of the real estate portfolio and the fact that the average area occupied by tenant is about 4,000 square feet.

Interest on hypothecs payable and bank indebtedness

For the fiscal year ended December 31, 1999, the REIT incurred interest expenses of $9.5 million, up 13.2% over the interest on hypothecs payable and bank indebtedness forecasted in the prospectus. This variance was caused by an increase in total net indebtedness to finance acquisitions made during the year.

Trust expenses

As an entirely self-administered and self-directed real estate investment trust, the REIT is not subject to any management contracts with third parties and therefore does not have to pay any property management fees to external specialists. In 1999, the REIT minimized its expenses, equivalent to 1.67% of its rentals from income properties.

Other revenues and expenses

Interest payable on loans and interest income from instalment receipts decreased significantly during the year. On May 21, 1999, the REIT collected $33.2 million on the redemption of the instalment receipts receivable and repaid the related loan.

Distributions to unitholders

The REIT ended fiscal 1999 with **distributable income** of $16.1 million or $1.11 per unit, an increase of 19.2% over the adjusted prospectus forecasts. Distributions to unitholders for fiscal 1999 totalled $15.3 million or $1.052 per unit, equivalent to 95.0% of distributable income.

Of these distributions, 69% are subject to a tax deferral, compared with 70% for the previous year and the prospectus forecasts of 58%. This tax deferral offers significant advantages to many unitholders.

FINANCIAL POSITION

Assets

During the year, the REIT acquired nine industrial and mixed-use properties at a total cost of $20.6 million, including hypothecs of $4.9 million on such properties. The difference of $15.7 million was financed by a bank loan.

These acquisitions increased the portfolio's leasable area by 13.5% or 508,000 square feet over 1998, including 334,000 square feet in the Greater Montreal area. Made in August and November 1999, the REIT's first acquisitions in Montreal are buildings occupied by single tenants who are international and national companies holding long-term leases.

The 174,000 square feet of properties acquired in the Greater Quebec City area further strengthened the REIT's dominant position. Like those in Montreal, these properties are located in vibrant industrial parks near major roadways. The occupancy rate of buildings acquired in 1999 is 97.3%.

Properties acquired in 1999

Acquisition date	Location	Interest (%)	Area (sq.ft.)
August 17	8288 Pie-IX Blvd., Montreal	100	119,000
November 15	1415 32nd Avenue, Lachine	100	71,500
November 15	1455 32nd Avenue, Lachine	100	32,500
November 15	1475 32nd Avenue, Lachine	100	91,960
November 15	3300 JB Deschamps Blvd., Lachine	100	19,393
November 15	2181 Léon-Harmel Blvd., Quebec City	100	45,000
December 29	445 St-Jean Baptiste, Quebec City	100	56,226
December 29	500 St-Jean Baptiste, Quebec City	100	43,671
December 29	5275 Wilfrid-Hamel Blvd., Quebec City	100	29,719

All of the acquisitions made in 1999 are fully aligned with our overall proactive management strategy aimed at stimulating the REIT's growth and continually improving its financial performance and results. Made at capitalization rates varying between 10.3% and 11.7%, these acquisitions created positive leverage due to the fact that they were financed with a loan bearing interest at prime plus 0.25% to 0.375%.

While management often has the opportunity to study portfolio expansion projects, it remains prudent when selecting acquisitions. The priority is to achieve the Trust's financial objectives, including the maintenance of a healthy and solid financial position.

As at December 31, 1999, the REIT's portfolio of properties consisted of 65 office, commercial, industrial and mixed-use buildings covering an aggregate leasable area of 4.2 million square feet. It should be pointed out that the total square footage has increased by 35.5% since the portfolio's creation.

Instalment receipts receivable

At the closing of the initial public offering on May 21, 1998, the REIT issued 8,300,000 units represented by instalment receipts. As instalment receipts receivable are non-interest-bearing, they were discounted at a rate of 4.4%, corresponding to imputed interest of $1.5 million. Imputed interest of $0.56 million is included under "Other (revenues) expenses" in the consolidated statement of income as at December 31, 1999. On May 21, 1999, all instalment receipts receivable were fully redeemed.

Deferred expenses

During the year, the mix of deferred expenses was altered to include leasehold improvements. This change was made to conform to practices generally applied by other listed real estate investment trusts.

Liabilities

As at December 31, 1999, the REIT's indebtedness consisted of $126.1 million in hypothecs payable bearing interest at a weighted average annual rate of 7.26%, with a weighted average remaining term before renewal of about 3.2 years. Hypothecs payable are secured by immovable hypothecs on income properties. The increase in hypothecs payable was due to the assumption of debts on acquisitions.

In May 1999, the REIT arranged a $17.0 million loan in the form of revolving term credit secured by a first hypothec on properties. With the $15.0 million in variable credit arranged in 1998, the REIT has a line of credit totalling $32.0 million. As at December 31, 1999, the REIT had used $27.9 million of this line of credit, mostly to finance acquisitions.

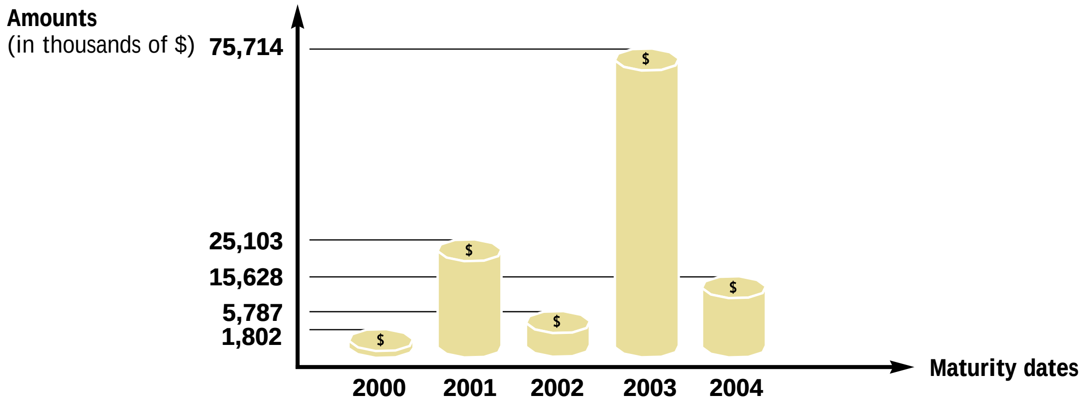
As at December 31, 1999, the REIT had repaid a loan payable secured by the REIT's rights and entitlements on the second instalment of the units represented by instalment receipts, which was due on May 21, 1999.

The Contract of Trust limits the REIT's debt to 60% of its gross book value, equivalent to the book value of its assets, plus accumulated depreciation, excluding instalment receipts receivable. As at December 31, 1999, the REIT's indebtedness corresponded to 51.7% of its gross book value, compared with 48.2% as at December 31, 1998. This increase is attributable to the nine acquisitions made during the year.

Three hypothecs payable mature in 2000. As at December 31, 1999, the total balance of payments was $1.8 million, bearing interest at a weighted average annual rate of 7.63%.

In the third quarter, the REIT arranged a five-year hypothec payable of $15.8 million, bearing interest at 7.125%, to renew matured loans of $8.5 million, bearing interest at an average rate of 8.1%. The balance of $7.3 million was used to refinance the capitalization relating to existing long-term debt, and the remainder was allocated to working capital.

Maturity dates of hypothecs payable for the next five years



Management does not foresee any difficulty for the renewal of the hypothecs payable at their respective maturity dates.

The REIT intends to maintain an adequate combination of short, medium and long-term financial commitments. To that end, it will take into account the availability of financing, economic conditions and the financial terms of the leases generating its cash flows.

Liquidity and capital resources

Considering that the REIT currently pays out approximately 95% of its distributable income, its principal sources of liquidity are determined by its capacity to issue new equity units and arrange new loans.

During the year, the REIT had recourse to various sources of financing such as hypothecs payable, bank loans and cash flows from the operation of its real estate portfolio. Management plans to use the same sources of liquidity for its ongoing operations and for the financing of new acquisitions during fiscal 2000.

The REIT increased its liquidity by arranging a $17.0 million bank loan under the terms of a revolving credit facility secured by an immovable hypothec and a first hypothec on properties. This loan bears interest at the rate selected by the REIT, either at prime plus 0.375%, or at bankers' acceptances plus 1.75%.

At year-end, $4.1 million remained available on total bank loans of $32.0 million.

As at December 31, 1999, the REIT had supplementary borrowing capacity of $61.8 million to finance its future growth, while continuing to respect the leverage effect limit of 60%, and ensuring that debts bearing interest at variable rates and maturing within a year do not exceed 12.5% of its gross book value. Effective January 1, 2000, the REIT therefore had the capacity to acquire a total of $61.8 million in new properties.

In addition, the REIT plans to make another public offering when conditions are appropriate.

The REIT has had a unit distribution reinvestment plan since its initial public offering. At present, the effects of the plan are difficult to assess in light of its recent use.

RISKS AND UNCERTAINTIES

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

Operational risk

All property investments carry risk factors, including economic conditions, local real estate markets, demand and competition from unoccupied premises.

The rental value of the real estate properties can also depend on tenants' solvency and financial stability as well as economic conditions prevailing in territories in which they do business and provide services.

The main risk facing the REIT relates to the possibility that its rental income from income properties should decrease if it were unable to maintain a high occupancy rate in its buildings. This risk is controlled by diversification of its portfolio, which ensures foreseeable cash flows, and by the fact that no tenant occupies lease space accounting for more than 6.5% of net income, and that the average area occupied by tenant is about 4,000 square feet.

Operating as a fully integrated real estate investment trust, the REIT is also able to exercise tighter preventive control over its business, while developing a relationship of trust with customers and improving operational and financial returns.

Debt and refinancing

To ensure healthy risk management with regard to debt and indebtedness, the REIT may neither contract nor assume any debt, if its total indebtedness (including new debt and excluding the loan relating to instalment receipts) exceeds 60% of its gross book value.

As at December 31, 1999, the REIT's indebtedness corresponded to 51.7% of its gross book value.

By spreading the maturities of its hypothecs payable over several years, the REIT reduces the risks related to their renewal. During fiscal 2000, hypothecs payable of $1.8 million are renewable, which represents a very low percentage of the REIT's total indebtedness. The latter does not foresee any difficulty in refinancing its debt as it falls due.

Environmental risk

By their very nature, the REIT's assets and business are not subject to a high environmental risk. In accordance with the operating principles stipulated in the Contract of Trust, the REIT must carry out an environmental audit before acquiring a new property, or on its own properties when it judges necessary.

In its leases, the REIT requires that tenants run their business in accordance with environmental laws and that they be held responsible for any damage resulting from their use of the leased premises.

Unitholder liability

The Contract of Trust under the heading "Operating Principles" states that any written document identifying an immovable hypothec, or in the opinion of the trustees, an important obligation, must contain terms limiting liability to the REIT's assets exclusively, and stating that no recourse may be taken against unitholders.

Year 2000 risk

The year 2000 issue was a problem faced by all businesses. The problem originated from the fact that a large number of computer programs were designed and developed without regard for the change in century. Since they used two digits rather than four to identify the year, date-sensitive systems could have stopped functioning or produced erroneous results in the year 2000 or even before.

As of 1998, the REIT started evaluating to what extent it might be vulnerable to the year 2000 issue. In its analysis, the REIT had to consider its dependency on information technologies, the complexity of its systems and the frequency of its interactions with third parties, as well as its equipment. The REIT focused first on identifying systems presenting a high degree of risk and whose failure could have a serious impact on operations and financial information, then on those presenting just as high a degree of risk but whose failure could have little or no impact on operations and financial information, and finally, on those presenting no risk or impact.

The REIT then drew up and implemented a plan with the cooperation of its business partners, in order to prepare systems and equipment for the transition to the year 2000.

Although the REIT has not detected any failures arising from the transition to the year 2000, its contingency plan has been maintained to reduce the impact of any potential malfunction.

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 audited the consolidated financial statements in accordance with generally accepted auditing principles 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 sheets of **Cominar Real Estate Investment Trust** as at December 31, 1999 and 1998 and the consolidated statements of unitholders' equity, income and cash flows for the years then ended. 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 audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

January 12, 2000
Quebec, Canada

PricewaterhouseCoopers LLP
Chartered Accountants

Consolidated Balance Sheets
As at December 31, 1999 and 1998

(in thousands of dollars)	1999 $	1998 $ (note 18)
Assets		
Income properties (note 3)	284,898	265,380
Hypothec receivable (note 4)	-	2,577
Instalment receipts receivable (note 5)	-	32,635
Deferred expenses and other assets	6,790	2,324
Prepaid expenses	554	931
Accounts receivable	2,037	841
	294,279	304,688
Liabilities and Unitholders' Equity		
Liabilities		
Hypothecs payable (note 6)	126,144	119,455
Bank indebtedness (note 7)	27,991	12,179
Loan payable (note 8)	-	33,200
Accounts payable and accrued liabilities	4,084	3,120
	158,219	167,954
Unitholders' Equity		
14,500,398 issued and outstanding units (1998 – 14,500,000) (note 9)	136,060	136,734
	294,279	304,688

Consolidated Statements of Unitholders' Equity
For the years ended December 31, 1999 and 1998

(in thousands of dollars)	1999 $	1998 $ (224 days)
Unitholders' Equity, beginning of year	136,734	-
Proceeds of offering (note 9)	4	145,000
Underwriters' fees and offering costs	-	(6,940)
Discount on instalment receipts receivable	-	(1,460)
Net income for the year	14,577	8,123
Distributions to Unitholders	(15,255)	(7,989)
Unitholders' Equity, end of year	136,060	136,734

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statements of Income
For the years ended December 31, 1999 and 1998

(in thousands of dollars except per unit amounts)

	1999 $	1998 $ (224 days) (note 18)
Operating revenues		
Rentals from income properties	48,381	26,348
Operating expenses		
Property operating costs	11,707	6,160
Realty taxes and services	8,121	4,608
Property management expenses	667	398
	20,495	11,166
Net Operating Income	27,886	15,182
Interest on hypothecs and bank indebtedness	9,491	5,283
Depreciation of income properties	2,052	1,130
Depreciation of deferred expenses and other assets	768	130
	12,311	6,543
Operating income from real estate assets	15,575	8,639
Trust expenses	809	539
Other (revenues) expenses		
Loan interest	860	1,072
Instalment receipts interest income	(565)	(895)
Other income	(106)	(200)
	189	(23)
Net income for the year	14,577	8,123
Net income per Unit (note 11)	1.01	0.56

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statements of Cash Flows

For the years ended December 31, 1999 and 1998

(in thousands of dollars)

	1999 $	1998 $ (224 days) (note 18)
Cash flows from operating activities		
Net income for the year	14,577	8,123
Items not affecting cash		
Depreciation of income properties	2,052	1,130
Depreciation of deferred expenses and other assets	768	130
Instalment receipts interest income	(565)	(895)
	16,832	8,488
Change in non-cash operating working capital items		
Change in prepaid expenses	377	(931)
Change in accounts receivable	(1,196)	(841)
Change in accounts payable and accrued liabilities	964	3,120
	145	1,348
	16,977	9,836
Cash flows from financing activities		
Hypothecs payable	7,266	-
Hypothecs principal repayments	(5,494)	(2,599)
Bank indebtedness	15,812	12,179
Loan payable	(33,200)	33,200
Proceeds of instalment receipts	33,200	-
Net proceeds of offering (note 14)	-	44,820
Offering costs	-	(1,960)
Distributions to unitholders	(15,251)	(7,989)
	2,333	77,651
Cash flows from investing activities		
Acquisition of income properties portfolio (note 14)	-	(62,245)
Acquisitions of income properties	(16,653)	(20,211)
Hypothec receivable	2,577	(2,577)
Deferred expenses and other assets	(5,234)	(2,454)
	(19,310)	(87,487)
Net change in cash	-	-
Cash – Beginning of year	-	-
Cash – End of year	-	-
Total interests paid	10,351	6,355

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

(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 (note 14).

2. Summary of significant accounting policies

Basis of presentation

The REIT's consolidated financial statements are prepared in conformity with Canadian 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 preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the amounts of assets and liabilities reported in the financial statements. Those estimates also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Income properties and depreciation

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.

Deferred expenses and other assets

Deferred expenses and other assets mainly include tenant improvements and leasing expenses, including tenant inducements and commissions. These expenses 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.

Unit option plan

The REIT has a unit option plan described in note 9. No compensation expense is recognized for this plan when unit options are issued. Any consideration paid by optionholders on exercise of unit options is credited to unitholders' equity.

3. Income properties

			1999
	Cost $	**Accumulated Amortization** $	**Net** $
Land	42,702	-	42,702
Income properties	245,378	3,182	242,196
	288,080	3,182	284,898

			1998
	Cost $ **(note 18)**	**Accumulated Amortization** $ **(note 18)**	**Net** $ **(note 18)**
Land	37,082	-	37,082
Income properties	229,428	1,130	228,298
	266,510	1,130	265,380

Acquisition cost of land and income properties acquired during the year amounts to $21,570 (1998 – $266,510).

4. Hypothec receivable

Hypothec receivable bearing interest at 12% has been recovered 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, has been received on May 21, 1999. The instalment receipts receivable were non-interest bearing and were secured by the REIT's entitlements under the Final Instalments and the pledge of the Receipt Units sold. Accordingly, the instalment receipts receivable have been discounted for at 4.4% per annum and the imputed interest of $1,460 has been deducted from the gross amount receivable at the date of issuance.

(in thousands of dollars except per unit amounts)

6. Hypothecs payable

Hypothecs payable are secured by the income properties, bear interest at weighted average annual rate of 7.26% (1998 – 7.32%) and are renewable between December 2000 and September 2007.

Hypothecs principal repayments are as follows:

		$
Years ending December 31,	2000	7,410
	2001	27,938
	2002	9,440
	2003	66,199
	2004	14,206
	2005 and thereafter	951
		126,144

During the year, the REIT refinanced matured hypothecs for an amount of $10,296. These transactions had no effect on REIT's cash flows.

7. Bank indebtedness

The bank indebtedness includes a bank overdraft of $77 (1998 – $1,729), credit facilities amounting to $10,914 (1998 – $2,450) bearing interest at prime rate plus 0.25% and 0.375% and bankers acceptances of $17,000 (1998 – $8,000) bearing interest at rates varying from 6.26% to 6.84%; credit facilities and bankers acceptances are secured by income properties and by chattel mortgages on specific properties.

8. Loan payable

The loan payable bearing interest at weighted average annual rate of 5.57% has been repaid on May 21, 1999 with proceeds of the repayment of the instalment receipts receivable.

9. Unitholders' 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 has been received on closing and the final instalment of $4 per receipt unit has been received on May 21, 1999.

Unit option plan

The REIT adopted a unit option plan for which the participation is restricted to the trustees and key-employees of the REIT. The maximum number of units reserved for issuance pursuant to the unit option plan is 1,450,000 units. The options will be exercisable on a cumulative basis as to 33 1/3% of the options after each of the three first anniversary of the grant. The exercise price of options equals the market price of the REIT's units on the date of grant.

	1999		1998	
	Options	Weighted-average exercise price $	Options	Weighted-average exercise price $
Outstanding, beginning of year	189,000	10.10	-	-
Cancelled	(21,000)	(10.10)	-	-
Granted	735,000	9.25	189,000	10.10
Outstanding, end of year	903,000	9.41	189,000	10.10

			December 31, 1999	
Date of grant	Maturity date	Exercise price $	Outstanding options	Options exercisable
May 29, 1998	May 29, 2003	10.10	168,000	56,000
May 21, 1999	May 21, 2004	9.25	735,000	-
			903,000	56,000

Distribution reinvestment plan

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 year, 398 (1998 – 0) units have been issued at weighted average price of $9.32 pursuant to the distribution reinvestment plan.

(in thousands of dollars except per unit amounts)

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 ($14,577; 1998 – $8,123) by weighted average number of units (14,500,099; 1998 – 14,500,000) outstanding during the year.

The possible issuance of units under the unit option plan does not have a material effect on the current year's net income per unit amount.

12. Distributable income per unit

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

	1999 **$**	**1998** **$** **(224 days)** **(note 18)**
Net income for the year	14,577	8,123
Add (deduct) :		
Depreciation of income properties	2,052	1,130
Instalment receipts interest income	(565)	(895)
Distributable income for the year	16,064	8,358
Distributable income per unit	1.11	0.58
Distributions per unit	1.05	0.55

13. Related party transactions

During the year, 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:

	1999 **$**	**1998** **$**
Rentals from income properties	441	212
Loan interest	283	447
Deferred expenses and other assets	4,848	1,669
Accounts receivable	97	126
Loan payable	-	16,600
Accounts payable and accrued liabilities	72	460

14. Cash flows

On May 21, 1998, the REIT proceeded to an initial public offering. The effect of this initial public offering on the cash flows of the REIT for the year ended December 31, 1998 is as follows:

Net proceeds of offering	**$**
Proceeds of offering (8,300,000 units at $6) (note 9)	49,800
Underwriters' fees paid with the proceeds of offering	(4,980)
Net proceeds of offering	44,820

Acquisition of income properties portfolio	**$**
Acquisition cost	244,585
Assumed hypothecs	(120,340)
	124,245
Issuance of units in payment of acquisition cost (6,200,000 units at $10) (note 9)	(62,000)
Acquisition cost paid cash	62,245

15. 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 hypothecs payable and bank indebtedness are respectively described in notes 6 and 7.

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, approximates the carrying value at December 31, 1999 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.

(in thousands of dollars except per unit amounts)

16. 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:

				1999
	Office properties $	**Retail properties $**	**Industrial and mixed use properties $**	**Total $**
Rentals from income properties	17,740	18,833	11,808	48,381
Interest on hypothecs and bank indebtedness	4,367	3,571	1,553	9,491
Depreciation of income properties	766	901	385	2,052
Operating income from real estate assets	5,250	5,840	4,485	15,575
Income properties	96,007	116,726	72,165	284,898
Acquisition of income properties	-	-	21,570	21,570

				1998
				Note 18
Rentals from income properties	9,065	11,347	5,936	26,348
Interest on hypothecs and bank indebtedness	2,340	2,251	692	5,283
Depreciation of income properties	426	510	194	1,130
Operating income from real estate assets	2,462	3,748	2,429	8,639
Income properties	96,773	117,627	50,980	265,380
Acquisition of income properties	97,199	118,137	51,174	266,510

17. 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.

18. Comparative figures

Certain of the 1998 comparative figures have been reclassified to conform with the new presentation adopted in 1999.

Information

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