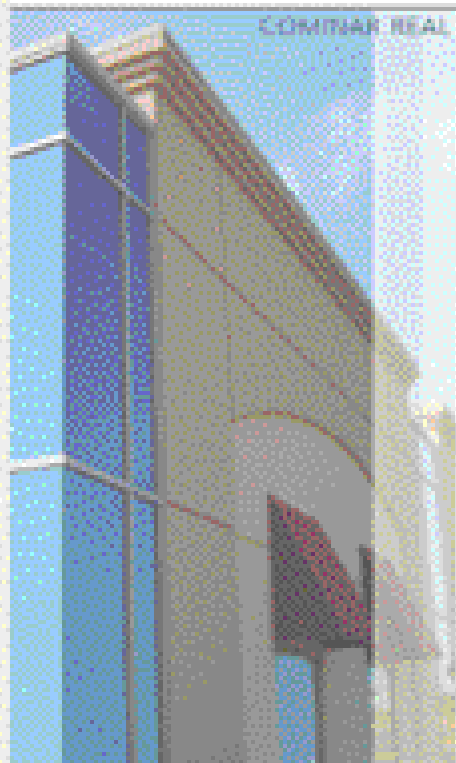


ANNUAL REPORT 2002

COMINAR REAL ESTATE INVESTMENT TRUST



COMINAR
WWW.COMINART.COM



CORPORATE PROFILE

COMINAR REAL ESTATE INVESTMENT TRUST ("REIT" or "COMINAR") 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. As at December 31, 2002, Cominar owned a portfolio of 103 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 extension 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 extension of its portfolio, according to trends in the marketplace.

2 Corporate Profile

3 Steady Growth & Stability

4 Message to Unitholders

7 *Place de la Cité* Continues to Expand...

8 Trustees and Officers

10 Summary of the Income Properties

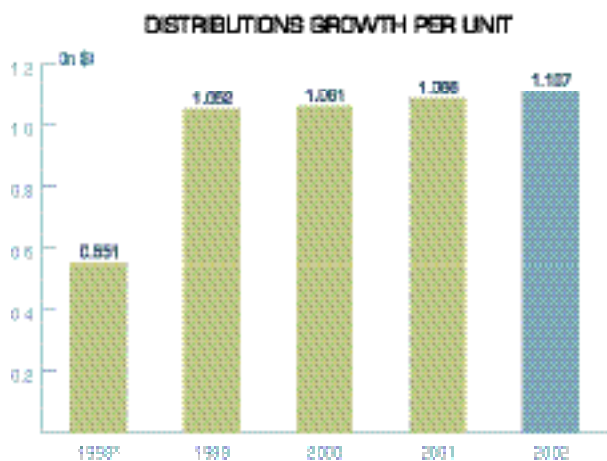
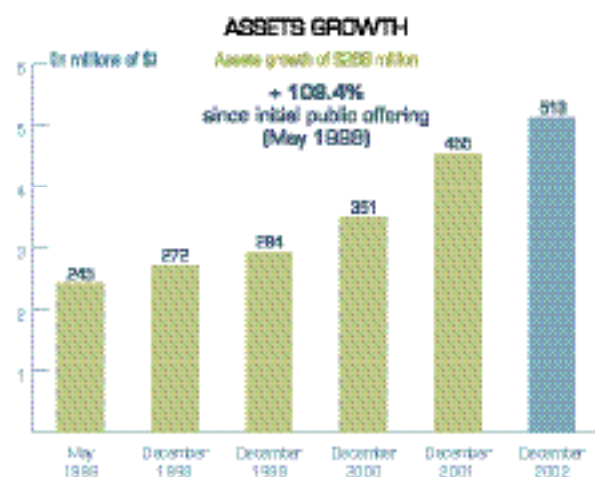
14 Management's Discussion and Analysis

23 Auditors' Report

24 Financial Statements

32 Information

Steady Growth & Stability...



* 1998=225 days



MESSAGE TO UNITHOLDERS

Fiscal 2002 was another period of strong growth and expansion at Cominar, as reflected by the increases of 22.3% in operating revenues and of 30.8% in distributable income, as well as the 16% growth in its portfolio's leasable area. At fiscal year-end, the portfolio included 103 income properties for a total of 7.5 million square feet, making Cominar one of the eight largest real estate owners in Quebec, where it also ranks as one of the top five owners of industrial properties.

Cominar has offered an excellent return to unitholders since its beginnings in 1998. Those who purchased units at the time of the initial public offering have enjoyed a yield of about 75%, considering the price per unit as at December 31, 2002, plus the distributions paid since the REIT's inception. The return stands at 15% on an annualized basis, not to mention the tax benefits provided by such units.

Cominar's performance comes from its stable and profitable vision in all phases of the business cycle, combined with its solid long-term growth potential and a unit that represents a secure and attractive value for investors. Its conservative yet dynamic growth strategy, combined with a management approach that sets it apart, enable it to increase its portfolio's value in its three sectors, by acquiring and developing quality properties and by building a partnership with a solid and diversified client base.

EXCELLENT GROWTH IN DISTRIBUTABLE INCOME AND DISTRIBUTIONS TO UNITHOLDERS

At the time of our initial public offering in 1998, we made a commitment to our unitholders to steadily increase their cash distributions and the value of their units. Our distributable income has risen from \$13.2 million on an annualized basis since 1998 to \$32.9 million in fiscal 2002, up 149.3%. This growth represents a 39.8% increase per unit — within less than five years — considering the rise in the weighted average number of units which grew from \$14.5 million in 1998 to \$25.8 million in 2002.

Distributable income per unit amounted to \$1.277 in 2002, which works out to a total of \$32.9 million, compared with \$1.212 or \$25.2 million a year earlier, up by 5.4% and 30.8% respectively. These results enabled us to raise distributions per unit from \$1.086

in 2001 to \$1.107 in 2002. Total distributions therefore stood at \$28.7 million in fiscal 2002, an increase of \$5.9 million over the previous year.

This growth in distributions per unit reflects that the distribution rate was reduced to 86.7% in 2002, down 2.9% from 2001, consistent with our objective of ensuring sufficient financial flexibility. With its positive impact on Cominar's liquidity and the growth of our portfolio, this distribution policy fully matches our conservative management strategy aimed at sustained growth over the long term.

GROWTH AND DIVERSIFICATION OF THE REAL ESTATE PORTFOLIO

From the outset, we have continued to actively expand our real estate portfolio, increasing its leasable area by 144.9% since 1998, and raising the number of properties from 51 to 103 by December 31, 2002. In 2002, we acquired 18 properties covering 1.04 million square feet and representing an investment of \$46.4 million. These acquisitions include a 141,420-square-foot office building, a 63,228-square-foot retail building and 16 industrial and mixed-use properties covering a

total of 838,872 square feet. Six of them are in the Greater Quebec City Area while the other 12 — all in the industrial sector — are in the Montreal region. We also completed development work at a total cost of \$17.9 million last year.

In today's context of soaring property selling prices, we successfully conducted these transactions at capitalization rates of 10.1% to

11.5%, not to mention the leveraging impact. An acquisition's profitability over the short and long terms is still one of our key decision-making criteria. We have said it many times: we believe a real estate company manager must be extremely conservative when purchasing properties in a bullish market, and must ensure that an acquisition will remain profitable even in a more difficult economy.

Also in 2002, we finished expanding and developing *Les Promenades Beauport* shopping centre, at a total cost of \$20.3 million. With a 95.2% occupancy rate as at March 1st, 2003, this project is a success from every point of view. It is now a busy shopping mall and customer traffic is constantly growing.

Furthermore, we started working on an office tower with 190,000 square feet of leasable space on 17 floors, plus a four-storey parking lot. Estimated at \$22.0 million, the project could be ready for occupancy by January 2004. This building will complete the *Place de la Cité* business and shopping centre, raising its total leasable area to over 1 million square feet. One of the best-located centres in Quebec City, *Place de la Cité* has a great reputation and is certainly an asset of choice in Cominar's real estate portfolio.

BEHIND OUR GROWTH: STRATEGIES CREATING VALUE FOR THE BENEFIT OF INVESTORS

To further strengthen its business model, Cominar continues to build on the core values that have earned its renown as one of the best-managed and most solid real estate investment trusts in Canada, namely:

- Maintenance of a balanced portfolio in terms of size and types of properties**
 This strategy enables us to diversify our client base, reduce cash flow instability, and increase our capital appreciation potential. As at December 31, 2002, our net operating income was distributed as follows among our three business sectors: 33.4% came from office buildings, 37% from retail properties and 29.6% from industrial and mixed-use properties.
- Geographical diversification of the portfolio**
 Since 1999, when we acquired a first property in the Greater Montreal Area, this region has been developed with the quality of service and management that has proven successful in terms of client satisfaction in Quebec City. It is for this reason that, as soon as we penetrated the Montreal market, we opened a regional office and set up a team committed to meeting clients' needs. As at December 31, 2002, our portfolio included 26 Montreal-area properties covering 2.1 million square feet and accounting for some 28% of our total portfolio.
- Consolidation of dominant presence in the Greater Quebec City Area**
 With its 77 properties and 5.4 million square feet of leasable space, Cominar ranks as the largest real estate portfolio owners in the Greater Quebec City Area. The size of this portfolio, its strategically-located properties, and their clustering in busy zones, encourages synergies and improves the management of costs and service, making Cominar an appealing prospect to attract solid tenants and conclude long-term leases.

- Acquisitions and developments raising cash flows and increasing the portfolio's long-term value**
 All our acquisition and development projects are carefully analyzed on the basis of specific criteria, including sustained profitability, quality and the property's location. These projects are then submitted to the Board of Trustees for analysis and approval. As at December 31, 2002, we estimate we have created an increase in value of over \$85 million since Cominar's inception.
- Prudent borrowing policy**
 Our objective is to maintain a prudent indebtedness ratio and a combination of short, medium and long-term financial commitments that take our overall indebtedness into account. We therefore favour fixed-rate, medium-term debt securities. While our Contract of Trust allows us to reach a maximum debt to gross book value ratio of 60%, we prefer to maintain a ratio of no more than 55%. As at December 31, 2002, our portfolio's debt to gross book value ratio stood at 49%.

FISCAL 2003 TO DRIVE COMINAR'S GROWTH AND ITS PORTFOLIO'S EXPANSION

Real estate spending will continue to boom in 2003 and the market offers Cominar several expansion opportunities. We got the year off to a strong start, with the acquisition of two Montreal-area properties covering more than 100,000 square feet of leasable space and representing an investment of some \$8 million. In addition to these acquisitions, two agreements will be finalized in the coming months, at a cost of \$22.4 million, for another 200,000 square feet in Greater Montreal Area. There are also several opportunities to be watched in this region, especially in the industrial and mixed-use sector. The quality of these first acquisitions in 2003 and our projects will further enhance our portfolio's value.

Given our team's experience and the economic conditions prevailing in Quebec, we are confident and optimistic about the future. We are enthusiastic about the coming years given that real estate trusts like Cominar, which are disciplined in managing their busi-

ness and conservative when expanding, while diversifying acquisitions in the most promising sectors, will have the strengths and the edge to continue growing.

We express our appreciation to all members of our team for their quality work and professionalism. We extend our gratitude to our trustees for their wise counsel, and we thank all our business partners including our clients. We reiterate to the REIT's unitholders our commitment to growing their return on investment in 2003 and the coming years, and extend our thanks for their support. You may rest assured that Cominar will continue to be a secure growth value.



Jules Dallaire
Chairman, President and
Chief Executive Officer

Place de la Cité

Continues to Expand...



Michel Dallaire, Engineer.
Executive Vice-President
Operations

Built in 1988, *Place de la Cité* is a fully-integrated shopping and office complex. First expanded in 1993, it is now undergoing a further expansion with the current construction of a 180,000-square-foot office tower. On completion of the work, this \$150 million complex will cover an area of over one million square feet, including 388,000 square feet of retail space.

Enjoying a location of choice on Laurier Boulevard, the main access road to the Greater Quebec City Area, *Place de la Cité* is strategically situated between two major shopping centres covering a total of approximately 1.7 million square feet. Together, these three centres form one of the largest shopping hubs in North America.

The *Place de la Cité* complex was entirely planned, built and developed by Cominar under the supervision of Michel Dallaire, Engineer. The success of this important real estate complex is due to the 16 years of experience gained at Cominar.

TRUSTEES AND OFFICERS

Richard Marion
Trustee

Yvan Caron
Trustee

Pierre Gingras
Trustee

Robert Després
Trustee

Jules Dallaire
Trustee,
Chairman, President
and
Chief Executive Officer

Ghislaine Laberge
Trustee



COMINAR



Michel Dallaire
Trustee,
Executive Vice-President
Operations

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

Michel Ouellette
Executive Vice-President
Acquisitions and Development

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

Luc-André Picotte
Vice-President
Retail Operations



SUMMARY OF THE INCOME PROPERTIES

PROPERTY

(Cominar's ownership in each property is 100%)

Leasable Area
(sq.ft.)

Occupancy Rate
(%)

OFFICE PROPERTIES

150, boul. René-Lévesque, Quebec City	242,049	100.00
255, boul. Crémazie, Montreal	232,414	70.89
455, rue Marais, Vanier	61,207	82.24
979, avenue de Bourgogne, Sainte-Foy	67,154	97.89
1265, boul. Charest Ouest, Quebec City	141,420	70.88
2014, boul. Jean-Talon Nord, Sainte-Foy	61,556	81.73
2200, boul. Jean-Talon Nord, Sainte-Foy	29,816	100.00
2600, boul. Laurier, Sainte-Foy	428,354	95.98
3175, chemin des Quatre-Bourgeois, Sainte-Foy	99,755	90.96
4605-25-35, 1ère Avenue, Charlesbourg	40,336	70.22
5055, boul. Wilfrid-Hamel Ouest, Quebec City	26,497	c
5075, boul. Wilfrid-Hamel Ouest, Quebec City	28,055	95.34
8500, boul. Décarie, Mont-Royal	175,060	100.00

Sub-total (Office)

1,633,673

89.0

RETAIL PROPERTIES

Place de la Cité, 2600, boul. Laurier, Sainte-Foy	388,263	96.78
Les Promenades Beauport, 3333, rue du Carrefour, Beauport	470,000	93.21
Carrefour Charlesbourg, 8500, boul. Henri-Bourassa, Charlesbourg	265,036	96.48
Halles Fleur de Lys, 245, rue Soumande, Vanier	89,808	89.08
5, Place Orléans, Beauport	5,792	100.00
50, Route du Président-Kennedy, Lévis	224,642	91.88
329, rue Seigneuriale, Beauport	3,792	100.00
325, rue Marais, Vanier	77,517	96.66
355, rue Marais, Vanier	37,178	100.00
550, rue Marais, Vanier	16,627	100.00
1275, boul. Charest Ouest, Sainte-Foy	63,228	96.01
1295, boul. Charest Ouest, Sainte-Foy	49,280	70.01
1365-1369, chemin Sainte-Foy, Quebec City	5,491	100.00
1400, avenue Saint-Jean-Baptiste, Quebec City	102,700	82.63
1465, boul. Saint-Bruno, Saint-Bruno-de-Montarville	26,093	100.00
1475, boul. Saint-Bruno, Saint-Bruno-de-Montarville	129,638	100.00
1485, boul. Saint-Bruno, Saint-Bruno-de-Montarville	12,971	100.00
1495, boul. Saint-Bruno, Saint-Bruno-de-Montarville	34,808	100.00
1970, avenue Chauveau, Quebec City	2,400	100.00
2160, boul. de la Rive-Sud, Saint-Romuald	74,966	100.00
2195, boul. de la Rive-Sud, Saint-Romuald	6,225	100.00

Sub-total (Retail)

2,086,455

94.3



PROPERTY

(Cominar's ownership in each property is 100%)

Leasable Area
(sq.ft.)

Occupancy Rate
(%)

INDUSTRIAL AND MIXED-USE PROPERTIES

100, rue Chabot, Vanier	107,000	100.00
235, rue Fortin, Vanier	26,006	100.00
280, rue Racine, Loretteville	18,801	100.00
320, chemin de la Canardière, Quebec City	12,777	80.03
445, avenue St-Jean Baptiste, Quebec City	56,226	96.44
450, avenue Saint-Jean-Baptiste, Quebec City	44,869	100.00
500, avenue St-Jean Baptiste, Quebec City	43,671	84.05
955, avenue Saint-Jean-Baptiste, Quebec City	32,904	100.00
625, rue des Canetons, Quebec City	19,981	100.00
1075, rue des Basses-Terres, Quebec City	48,025	100.00
1165, rue Gouin, Quebec City	70,913	93.79
1515, avenue Saint-Jean-Baptiste, Quebec City	61,771	100.00
454-456, rue Marconi, Sainte-Foy	15,853	100.00
470, avenue Godin, Vanier	23,000	100.00
579, avenue Godin, Vanier	12,337	100.00
625, avenue Godin, Vanier	60,078	93.51
650, avenue Godin, Vanier	196,335	97.54
765, avenue Godin, Vanier	19,405	100.00
830, avenue Godin, Vanier	48,990	100.00
905, avenue Ducharme, Vanier	20,504	100.00
955, boul. Pierre-Bertrand, Vanier	41,479	80.96
989, boul. Pierre-Bertrand, Vanier	35,619	89.83
1041, boul. Pierre-Bertrand, Vanier	111,338	100.00
620-650, rue Giffard, Longueuil	53,181	87.60
667-687, rue Giffard, Longueuil	42,794	99.39
796-818, boul. Guimond, Longueuil	48,356	85.50
40, chemin du Tremblay, Boucherville	100,805	100.00
1315, rue Gay-Lussac, Boucherville	43,693	100.00
1675, boul. de Montarville, Boucherville	109,264	100.00
1415, 32 ième Avenue, Lachine	71,500	100.00
1455, 32 ième Avenue, Lachine	32,500	100.00
1475, 32 ième Avenue, Lachine	91,690	100.00
1540, boul. Jean-Talon Nord, Sainte-Foy	9,425	100.00
1750-90, avenue Newton, Quebec City	63,135	100.00
1670, rue Semple, Quebec City	91,200	93.75
1990, boul. Jean-Talon Nord, Sainte-Foy	88,843	98.80
2020, boul. Jean-Talon Nord, Sainte-Foy	41,133	100.00
2100, boul. Jean-Talon Nord, Sainte-Foy	31,316	100.00
2150, boul. Jean-Talon Nord, Sainte-Foy	22,560	100.00
2160, boul. Jean-Talon Nord, Sainte-Foy	45,151	70.23



PROPERTY (Cominar's ownership in each property is 100%)	Leasable Area (sq.ft.)	Occupancy Rate (%)
INDUSTRIAL AND MIXED-USE PROPERTIES (CONT'D)		
2180, boul. Jean-Talon Nord, Sainte-Foy	17,444	100.00
2010, rue Lavoisier, Sainte-Foy	68,235	100.00
2015, rue Lavoisier, Sainte-Foy	2,006	100.00
2022, rue Lavoisier, Sainte-Foy	59,249	92.94
2025, rue Lavoisier, Sainte-Foy	37,078	100.00
2181-2211, rue Léon Harmel, Quebec City	45,000	90.92
894-930, rue Bergar, Laval	32,942	100.00
901-937, rue Michelin, Laval	42,180	100.00
1405, rue Bergar, Laval	32,480	100.00
2105, boul. Dagenais Ouest, Laval	243,687	100.00
3370-3418, boul. Industriel, Laval	55,048	100.00
3401-3421, boul. Industriel, Laval	55,400	100.00
2345, rue Dalton, Sainte-Foy	54,258	100.00
2755, rue Dalton, Sainte-Foy	23,880	100.00
2385, rue Watt, Sainte-Foy	65,828	100.00
2500, rue Jean-Perrin, Quebec City	79,032	91.84
2600, rue Jean-Perrin, Quebec City	50,000	95.94
2700, rue Jean-Perrin, Quebec City	131,066	92.07
2955, rue Kepler, Sainte-Foy	14,960	100.00
3300, JB Deschamps, Lachine	19,393	100.00
4175, boul. Sainte-Anne, Beauport	39,245	100.00
4975, rue Rideau, Quebec City	32,861	89.41
5000, rue Rideau, Quebec City	2,475	100.00
5125, rue Rideau, Quebec City	11,575	100.00
5130, rue Rideau, Quebec City	24,408	100.00
5275, boul. Wilfrid-Hamel, Quebec City	29,719	96.78
8288, boul. Pie-IX, Montréal	119,000	100.00
9100, boul. du Parcours, Anjou	122,600	100.00
9101-9175, boul. des Sciences, Anjou	71,600	100.00
10550, boul. Parkway, Anjou	110,000	100.00
Sub-total (Industrial and Mixed-Use)	3,807,007	97.3
TOTAL	7,527,205	94.7



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

This management's discussion and analysis of the operating results and financial position of Cominar Real Estate Investment Trust ("Cominar") for the fiscal years ended December 31, 2002 and 2001 should be read in conjunction with the consolidated financial statements and related notes appearing in this annual report. Those consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Since its listing, Cominar's number of properties has more than doubled, rising to 103, including the 18 acquired in 2002, while its real estate portfolio's square footage has increased by 144.9%. The portfolio thus covered a total of 7.5 million square feet of leasable space as at December 31, 2002, comprised of 12 office buildings for 1,633,673 square feet, 21 retail properties for 2,086,455 square feet, and 70 industrial and mixed-use properties for 3,807,077 square feet.

Cominar has also further expanded its presence outside the Quebec City market, by acquiring 26 properties in the Greater Montreal Area since 1999 – 12 of them in 2002 – thus raising its portfolio's leasable space in this region to 2.1 million square feet, or 28.0% of its total portfolio.

OPERATING RESULTS

Cominar achieved excellent growth in 2002, with increases of 22.3% in its operating revenues, 25.3% in its net operating income – the latter representing the operating income before interest on mortgages payable and bank indebtedness, depreciation of income properties, and depreciation of deferred expenses and other assets – and 30.8% in its distributable income over fiscal 2001.

Distributable income per unit rose 5.4% from \$1.212 in 2001 to \$1.277 in 2002, considering an increase of about 24.1% in the weighted average number of units during the year. The following table reproduces the consolidated statement of income for the years ended December 31, 2002 and 2001 with the variations in dollars and as a percentage.

(in thousands of dollars except per-unit amounts)	2002	2001	Variation	
	Dec. 31	Dec. 31	\$	%
Operating revenues	81,925	66,978	14,947	22.3%
Operating expenses				
Property operating costs	17,575	14,925	2,650	17.8%
Realty taxes and services	12,806	10,817	1,989	18.4%
Property management expenses	870	798	72	9.0%
	31,251	26,540	4,711	17.8%
		-		
Net operating income	50,674	40,438	10,236	25.3%
		-		
Interest on mortgages payable	13,848	12,262	1,586	12.9%
Depreciation of income properties	3,506	2,828	678	24.0%
Amortization of deferred expenses and other assets	3,505	2,339	1,166	49.9%
	20,859	17,429	3,430	19.7%
		-		
Operating income from real estate assets	29,815	23,009	6,806	29.6%
		-		
Trust administrative expenses	1,228	1,171	57	4.9%
		-		
Other (revenues) expenses			-	
Interest expense	-	132	(132)	-100.0%
Other income	(845)	(653)	(192)	29.4%
	(845)	(521)	(324)	62.2%
		-		
Net income	29,432	22,359	7,073	31.6%
Depreciation of income properties	3,506	2,828	678	24.0%
Distributable income	32,938	25,187	7,751	30.8%
Basic net income per unit	1.141	1.076	0.065	6.0%
Weighted average distributable income per unit	1.277	1.212	0.065	5.4%

The outstanding performance achieved in 2002 came from internal growth, a reduction in operating expenses as well as acquisitions and development work. Every year, Cominar increases its productivity gains through the implementation of innovative energy-savings measures, rigorous management of its maintenance expenses, and its policy of clustering acquisitions in zones where it is already present. The net income to operating revenues ratio was 61.9% in 2002, compared with 60.4% in 2001.

Furthermore, one of its strategies is to maintain a balanced portfolio, which ensures more stable cash flows. For instance, the industrial and mixed-use sector is more resistant to economic fluctuations, whereas the retail sector yields a greater contribution when the economy is stronger.

The segmented information table below shows the breakdown of rentals from income properties and net operating income among the three sectors. In 2002, the retail sector made the greatest contribution to net operating income with 37.0%, compared with 38.3% in 2001, whereas the contribution by office buildings rose from 31.5% in 2001 to 33.4% in 2002. Such rentals increased due to a favourable market context in 2002. For its part, the indus-

trial and mixed-use sector remained quite stable, with a contribution of some 30.0% over the past two fiscal years.

SEGMENTED INFORMATION

(in thousands of dollars)

Sectors	Rental Income		Net Operating Income	
	2002	2001	2002	2001
Office	26,218	20,840	16,931	12,738
Retail	31,887	26,169	18,754	15,484
Industrial and mixed use	23,820	19,969	14,989	12,216
Total	81,925	66,978	50,674	40,438

INTEREST ON MORTGAGES PAYABLE AND BANK INDEBTEDNESS

In 2002, interest on mortgages payable and bank indebtedness rose 12.93% over the previous fiscal year. This increase came from the higher loans resulting from the year's acquisitions and development work. It should be noted that this interest represented 16.9% of rentals from income properties in 2002 versus 18.3% in 2001, this decline being due directly to lower interest rates. In fact, the weighted average mortgage lending rate was in the 6.55% to 6.84% range in 2002, whereas it varied between 6.84% and 7.29% in 2001.

TRUST ADMINISTRATIVE EXPENSES

Cominar was the first real estate investment trust in Canada to set up a fully integrated property management structure, which favours effective control over operating expenses. For fiscal 2002, such expenses represented 1.50% of rentals from income properties, compared with 1.75% a year earlier.

OTHER REVENUES

During fiscal 2002, Cominar exercised its option to purchase the properties securing a mezzanine loan, which yielded \$784,000 in interest income. These properties will contribute to earnings in 2003.

DISTRIBUTABLE INCOME AND DISTRIBUTIONS

Distributable income is one of the key criteria used to evaluate Cominar's performance. It partly determines the return obtained by unitholders, as the distributions they are paid arise directly therefrom. Distributable income amounted to \$32.9 million or \$1.277 per unit in 2002, up 30.8% and 5.4% respectively over the previous fiscal year. It should be pointed out that the weighted average number of units increased by 5 million units in 2002.

Unitholders received distributions of \$28.7 million in 2002, up 25.8% over \$22.8 million in 2001. Distributions per unit amounted to \$1.107, compared with \$1.086 in 2001. It should be noted that Cominar successfully increased its distributions per unit while reducing its distribution ratio by 2.9% to 86.7% in 2002. This conservative measure provides Cominar with greater financial flexibility to pursue its growth.

REAL ESTATE PORTFOLIO

INCOME PROPERTIES

In 2002, Cominar acquired 18 properties at a cost of \$46.4 million, thereby adding 1.04 million square feet to its portfolio's leasable square footage.

Six of these acquisitions are in the **Greater Quebec City Area**, representing some 356,000 square feet and a cost of \$18.2 million, as follows:

- four industrial and mixed-use properties covering a total of 151,000 square feet and acquired at a cost of \$6.7 million. They are all located in a sector where Cominar was already present — two are built on lots adjacent to properties it owns;
- one retail and one office building completing *Carrefour Charest*, which will consist of three properties (two retail and one office) for a total of some 205,000 square feet.

As at December 31, 2002, Cominar's real estate portfolio in the Greater Quebec City Area was comprised of 77 properties, for 5.4 million square feet of leasable space.

The other 12 acquisitions were made in the industrial and mixed-use sector, in the **Greater Montreal Area**. They represent 686,000 square feet and a total investment of \$28.2 million, as follows:

- five properties in the new Laval industrial park, near Highway 440, totalling 288,800 square feet;
- five properties clustered in the Longueuil and Boucherville industrial parks, near Highway 20, covering 218,050 square feet of leasable space; and
- two properties located in Anjou where Cominar already owned several others, adding some 181,000 square feet to the real estate portfolio.

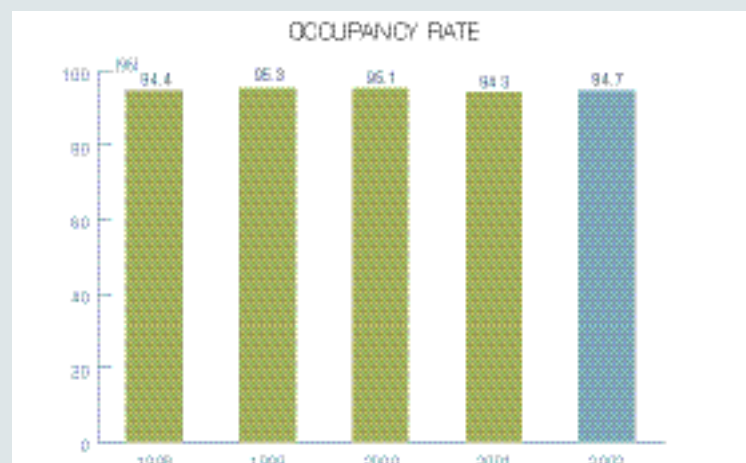
These acquisitions reflect the clustering strategy practised by Cominar to achieve major savings, especially in operating costs.

PROPERTIES ACQUIRED IN 2002

Date of Acquisition	Location	Quantity	Interest (%)	Area (sq. ft.)
June	989, Pierre Bertrand, Quebec City	1	100%	35,619
June	955, Pierre Bertrand, Quebec City	1	100%	41,479
June	1075, Des Basses Terres, Quebec City	1	100%	48,025
June	235, Fortin, Quebec City	1	100%	26,006
July	<i>Laval Industrial Park</i>	5	100%	218,050
October	<i>Longueuil and Boucherville Industrial Parks</i>	5	100%	288,829
November	9101, Des Sciences, Anjou	1	100%	71,600
November	Carrefour Charest, Quebec City	2	100%	204,648
December	1675, Montarville, Boucherville	1	100%	109,264
Total		18		1,043,520

RENTAL ACTIVITIES

The occupancy rate was 94.7% as at December 31, 2002, up from 94.3% a year earlier. It should be noted that the overall occupancy rate has held fairly steady at 95.0% since 1998. The occupancy rate in the office sector was 89.0% as at December 31, 2002, after the addition of two properties that temporarily lowered the rate. The occupancy rate in this sector had already risen to 91.7% by February 28, 2003, and everything points to its reaching its usual level toward the end of May 2003. Cominar serves a large, diversified client base, and as such can readily deal with a client's unexpected departure.



PROPERTIES UNDER DEVELOPMENT

DEVELOPMENT WORK IN PROGRESS AS AT DECEMBER 31, 2002

The major development project involved the construction of a 17-storey office tower with a leasable area of 190,000 square feet. This building will complete the *Place de la Cité* complex, which will cover more than one million square feet at the end of the work, some 400,000 square feet of which will be allocated for the rental of retail space. *Place de la Cité* is a fully integrated retail and office complex that is ideally located on Laurier Boulevard, one of the main access roads to Downtown Quebec City.

The project on Dagenais Boulevard involves the expansion of a 31,700-square-foot industrial and mixed-use property that will be fully occupied by the current tenant.

In addition, the construction of a 32,000-square-foot retail building on St-Bruno Boulevard that will house a *Déco Découverte* store will complete the St-Bruno megacentre near Montreal, which is comprised of four properties already owned by Cominar.

Lastly, Cominar will finish erecting a 40,000-square-foot industrial and mixed-use property on Pruneau Street in Quebec City. Adjacent to properties owned by Cominar, this building will be fully occupied as of August 2003.

Address	Sector	Actual Cost (\$)	Budget (\$)	Estimated Capitalization Rate	Estimated Maturity Date
Place de la Cité, Quebec City	Office	1,700,699	22,000,000	9.9%	Fall 2004
2105 Dagenais Blvd., Laval	Industrial and mixed-use	432,080	1,214,200	11.7%	February 2003
St-Bruno Blvd., St-Bruno	Retail	111,622	2,660,000	11.5%	June 2003
Pruneau Street, Quebec City	Industrial and mixed-use	405,564	1,600,000	10.9%	March 2003
Bergar Street, Laval	Industrial and mixed-use	148,350	991,000	10.6%	September 2003
		2,798,315			

LIQUIDITY AND CAPITAL RESOURCES

Cominar ended fiscal 2002 with a debt to gross book value of 49%, which is far below the maximum ratio of 60% authorized by its Contract of Trust. It should be noted that a debt ratio of 60% would give it an acquisition capacity of approximately \$144 million. However, Cominar prefers to be conservative in managing its loans and to limit itself to a ratio of 55% or less, which represents an acquisition capacity of some \$70 million.

In 2002, Cominar's principal financing activities consisted of three mortgages payable:

- a \$8 million loan in March, repayable at a rate of \$20,000 per month, with interest calculated at prime rate plus 0.50%;
- a \$22.5 million loan in May, bearing interest at 7.04% and maturing in May 2007; and
- a \$17.7 million loan, bearing interest at 5.68% and maturing in December 2007.

The net amount of these mortgages payable served to repay the bank indebtedness used to finance the acquisitions and development work carried out in 2002. The balance of this bank indebtedness totalled \$33.3 million as at December 31, 2002. Cominar has short-term credit facilities of \$50.0 million.

The weighted average rate of mortgages payable as at December 31, 2002 was 6.55%, versus 6.84% a year earlier. It should be noted that the interest rate risk to which Cominar is exposed has been substantially reduced for the coming years. For example, of a total of \$75.0 million maturing in 2003, a \$65.4 million loan on the *Place de la Cité* complex has now been renewed for a five-year term. The loan was renewed for an amount of \$95 million, which also includes the financing of the office tower under construction. Moreover, the other loans maturing in the next four years are fairly low, and Cominar does not foresee any difficulty in renewing them.

In addition to its financing capacity, Cominar increased its cash flows from operating activities by 35.6% or \$9.3 million in 2002, to \$35.5 million. That works out to \$1.378 basic per unit, up from \$1.262 in 2001.

EXPIRY OF MORTGAGES AS AT DECEMBER 31, 2002

Year	Amount	Weighted average interest rate
2003	\$75,035,174	6.77%
2004	\$14,395,352	7.13%
2005	\$11,128,617	7.97%
2006	\$33,613,019	6.23%
2007	\$68,267,501	5.92%
Others	\$21,551,172	7.16%

NEW ACCOUNTING STANDARD REGARDING THE STOCK-BASED COMPENSATION OF EMPLOYEES AND OFFICERS AND OTHER STOCK-BASED PAYMENTS

Cominar's unit option plan is described in detail in note 9 of the financial statements appearing in this annual report. On January 1, 2002, Cominar adopted the new *Canadian Institute of Chartered Accountants* (CICA) recommendations regarding the stock-based compensation of employees and officers and other stock-based payments. Cominar chose not to recognize any charge in regard to unit options granted to employees and officers who did not expect a cash settlement. Moreover, Cominar did not grant any unit options during the 2002 fiscal year.

SUBSEQUENT EVENTS

Cominar's first acquisition of fiscal 2003 involved a 59,462-square-foot industrial and mixed-use property strategically located in an industrial park along Highway 30, providing it with easy access toward Montreal. This building is fully occupied by Hydro-Quebec. The transaction amounted to \$3.7 million, including \$1.2 million paid cash. The property has a capitalization rate of 10.25%.

Cominar also closed the acquisition of a 40,721-square-foot retail building at a cost of \$4.16 million, paid cash, and having a capitalization rate of 10.8%. This well-located building enjoys great visibility in a busy area of Laval. It has 14 tenants, including the *Jean Coutu Group* and the *Videotron Centre*.

These two acquisitions add more than 100,000 square feet of leasable space to Cominar's real estate portfolio in the Greater Montreal Area, bringing it to 2.2 million square feet.

In addition, Cominar has signed an agreement for the July 2003 acquisition of a 66,185-square-foot industrial and mixed-use property strategically located just off Highway 20 in Dorval. This fully occupied building will be purchased at a cost of \$4.1 million and has a capitalization rate of 9.9%. Another agreement has been signed to acquire two retail properties. Both have *Sobey's* as principal tenant, which will operate the two supermarkets under the *IGA Extra* banner. One of them was built in 2002 and is well located in St-Léonard, Montreal. It covers an area of 64,000 square feet, represents an investment of \$9.2 million, and has a capitalization rate of 10.5%. This transaction is scheduled to close on March 1, 2003. The other retail building is currently under construction in Laval and will be occupied as of May 1, 2003, when the transaction is scheduled to close. This 65,000-square-foot property represents a cost of \$9.1 million and has a capitalization rate of 9.8%.

To lower its acquisition credit margins, Cominar has contracted a mortgage payable of \$22.0 million maturing in five years and bearing interest at a rate of 6.0%. Moreover, as previously indicated under the heading "Liquidity and Capital Resources", Cominar has entered into another agreement with a syndicate of lenders to renew the mortgage payable of \$67.4 million, maturing in May 2003, on the *Place de la Cité* complex in Quebec City. The new loan will amount to \$95.0 million and will mature in five years.

OUTLOOK

Cominar is confident and optimistic about the future. During its four and a half years in business, it has successfully built an organization recognized for its efficiency and performance, and fully committed to managing, developing and steadily increasing the value of a quality real estate portfolio. Cominar continues to apply the growth strategy that so far has enabled it to provide unitholders with an enviable return on investment, making its unit one of the most secure and attractive values on the stock market. Its market vigilance and its conservative acquisition and borrowing strategy will continue to guide its expansion decisions in a real estate market that once again looks highly favourable in 2003. Including over the past year when rates generally rose considerably, Cominar continued to acquire properties at capitalization rates of over 10% before leveraging impact. In addition, the success of development projects like *Les Promenades Beauport* and *Place de la Cité* will make a significant contribution to its financial results while greatly increasing the portfolio's value in the coming years.

RISKS AND UNCERTAINTIES

Like any real estate entity, Cominar is subject to certain risk factors in the normal course of business.

OPERATIONAL RISKS

All property investments carry risk factors, such as market demand which is affected by economic conditions, and competition from vacant premises.

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

The primary risk facing Cominar lies in a potential decline in its rental income. However, this risk is minimized by the diversification of its portfolio, which ensures foreseeable cash flows. This risk is also reduced by the fact that tenants occupy an average area of about 5,900 square feet.

As a fully integrated real estate investment trust, Cominar can also exercise tighter preventive control over its business, while developing a relationship of trust with its clients and improving its operational and financial performance.

DEBT AND REFINANCING

Cominar has spread the maturities of its mortgages payable over several years to reduce the risks related to their renewal. In 2003, mortgages payable of \$71.9 million are renewable at a weighted average interest rate of 6.75%. A mortgage payable of \$67.4 million has already been renewed, and Cominar does not foresee any difficulty in refinancing the others as they fall due.

ENVIRONMENTAL RISK

By their very nature, Cominar's assets and business are not subject to a high environmental risk. In accordance with the operating principles stipulated in its Contract of Trust, Cominar must conduct an environmental audit before acquiring a new property, or on its existing properties when it is deemed appropriate.

In its leases, Cominar requires that tenants conduct their business in compliance with environmental legislation, and that they be held accountable for any damage resulting from their use of the leased premises.

UNITHOLDER LIABILITY

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

CAUTIONARY STATEMENT

Management's comments and analysis are intended to facilitate understanding of the audited consolidated financial statements and accompanying notes and should therefore be read in conjunction with that information. The comments and analysis may include objectives, projections, estimates, expectations and forecasts of the Trust or management that are forward-looking. Positive or negative verbs such as to "believe", "plan", "estimate", "expect" and "evaluate", or similar expressions, are used to identify forward-looking statements. The Trust cautions readers that, by their very nature, forward-looking statements involve major risks and uncertainties such that the Trust's activities or results could differ significantly from those indicated, whether explicitly or implicitly.

SUMMARY OF QUARTERLY FINANCIAL INFORMATION

(unaudited – in thousands of dollars except per-unit amounts)

	2002					2001				
	March 31	June 30	Sept 30	Dec 31	Total	March 31	June 30	Sept 30	Dec 31	Total
Operating revenues	19,169	20,186	20,891	21,679	81,925	15,883	16,353	16,905	17,837	66,978
Net operating income	11,157	12,032	13,374	11,111	50,674	8,742	9,788	10,549	11,359	40,438
Net income	6,116	7,112	7,780	8,424	29,432	4,060	5,552	6,058	6,689	22,359
Basic net income per unit	0.240	0.276	0.301	0.324	1.141	0.217	0.270	0.291	0.290	1.076
Distributable income	6,949	7,945	8,733	9,311	32,938	4,731	6,224	6,761	7,471	25,187
Weighted average distributable income per unit	0.272	0.309	0.338	0.358	1.277	0.253	0.303	0.325	0.324	1.212
Weighted average number of units (in thousands)	25,533	25,736	25,873	26,046	25,799	18,717	20,545	20,794	23,035	20,786

MANAGEMENT'S RESPONSIBILITY

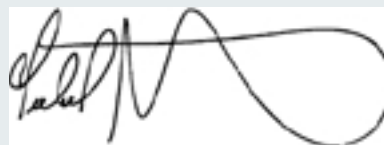
The accompanying consolidated financial statements have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public and Private Real Estate Companies. The management of the REIT is responsible for their integrity and objectivity. 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.

A handwritten signature in black ink, appearing to read "Jules Dallaire".

Jules Dallaire
Chairman, President and Chief Executive Officer

"Ernst & Young LLP" were retained as auditors of the REIT. They have audited the consolidated financial statements in accordance with generally accepted accounting 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.

A handwritten signature in black ink, appearing to read "Michel Berthelot".

Michel Berthelot, CA
Executive Vice-President and Chief Financial Officer



AUDITORS' REPORT

To the Unitholders of Cominar Real Estate Investment Trust

We have audited the consolidated balance sheet of Cominar Real Estate Investment Trust as at December 31, 2002 and the consolidated statements of income, unitholders' equity and cash flows for the year 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 audit.

We conducted our audit 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, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2001 and for the year then ended were audited by other auditors who expressed an unqualified opinion on those consolidated financial statements in their report dated January 11, 2002.

Quebec, Canada
January 22, 2003

Ernst & Young
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31

(in thousands of dollars)

	2002 \$	2001 \$
ASSETS		
Income properties (note 3)	485,695	405,987
Properties under development (note 4)	2,798	21,675
Deferred expenses and other assets (note 5)	18,479	14,023
Mortgage receivable (note 6)	–	9,000
Prepaid expenses	1,571	1,273
Accounts receivable	4,449	3,486
	512,992	455,444
LIABILITIES AND UNITHOLDERS' EQUITY		
LIABILITIES		
Mortgages payable (note 7)	223,991	202,743
Bank indebtedness (note 8)	33,332	5,483
Accounts payable and accrued liabilities	7,422	6,369
	264,745	214,595
UNITHOLDERS' EQUITY (note 9)	248,247	240,849
	512,992	455,444

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

Years ended December 31

(in thousands of dollars)

	2002 \$	2001 \$
UNITHOLDERS' EQUITY, BEGINNING OF YEAR	240,849	157,700
Issue of units (note 9)	6,623	87,712
Underwriter's fees and offering costs	–	(4,145)
Net income for the year	29,432	22,359
Distributions to Unitholders	(28,657)	(22,777)
UNITHOLDERS' EQUITY, END OF YEAR	248,247	240,849

Approved by the Board,
(signed) JULES DALLAIRE, Trustee

(signed) MICHEL BERTHELOT, CA, Trustee

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31

(in thousands of dollars except per-unit amounts)

	2002 \$	2001 \$
OPERATING REVENUES		
Property rental revenue	81,925	66,978
OPERATING EXPENSES		
Property operating costs	17,575	14,925
Realty taxes and services	12,806	10,817
Property management expenses	870	798
	31,251	26,540
OPERATING INCOME BEFORE THE FOLLOWING	50,674	40,438
Interest on mortgages and bank indebtedness	13,848	12,262
Depreciation of income properties	3,506	2,828
Amortization of deferred expenses and other assets	3,505	2,339
	20,859	17,429
OPERATING INCOME FROM REAL ESTATE ASSETS	29,815	23,009
TRUST ADMINISTRATIVE EXPENSES	1,228	1,171
OTHER (REVENUES) EXPENSES		
Interest expense	—	132
Other income	(845)	(653)
	(845)	(521)
NET INCOME FOR THE YEAR	29,432	22,359
BASIC NET INCOME PER UNIT (note 11)	1.141	1.076
DILUTED NET INCOME PER UNIT (note 11)	1.135	1.068

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

(in thousands of dollars except per-unit amounts)

	2002 \$	2001 \$
OPERATING ACTIVITIES		
Net income for the year	29,432	22,359
Items not affecting cash		
Depreciation of income properties	3,506	2,828
Amortization of deferred expenses and other assets	3,505	2,339
Leasing costs	(890)	(1,299)
Funds from operations	35,553	26,227
Leasing costs	(5,989)	(4,673)
Change in non-cash operating working capital items		
Prepaid expenses	(298)	(596)
Accounts receivable	(963)	(1,029)
Accounts payable and accrued liabilities	1,467	(1,322)
	(5,783)	(7,620)
	29,770	18,607
FINANCING ACTIVITIES		
Mortgages payable	48,231	49,300
Repayments of mortgages payable	(31,096)	(36,431)
Bank indebtedness	27,849	(25,157)
Distributions to Unitholders	(28,657)	(22,777)
Net proceeds from issue of units (note 9)	6,623	84,022
Offerings costs	-	(455)
	22,950	48,502
INVESTING ACTIVITIES		
Acquisitions of income properties	(50,142)	(41,557)
Acquisitions of properties under development	(2,148)	(16,313)
Mortgage receivable	-	(9,000)
Other assets	(430)	(239)
	(52,720)	(67,109)
Net change in cash	-	-
Cash, beginning and end of year	-	-
Basic funds from operations per unit (note 11)	1.378	1.262
Diluted funds from operations per unit (note 11)	1.371	1.252
Additional information		
Interest paid	12,926	11,759
Leasing costs unpaid	652	-
Acquisitions of income properties and properties under development by assumption of mortgages payable	4,113	32,339
Acquisitions of income properties and properties under development unpaid	1,447	2,513
Acquisition of an income property through cancellation of mortgage receivable	9,000	-
Properties under development transferred to income properties	21,675	1,408

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

(in thousands of dollars except per-unit amounts)

1. DESCRIPTION OF THE FUND

Cominar Real Estate Investment Trust ("Cominar") 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.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Cominar's consolidated financial statements are prepared in conformity with Canadian generally accepted accounting principles and are substantial, in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies.

CONSOLIDATION

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

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian 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.

REVENUE RECOGNITION

Rental revenue includes rents from tenants under leases, property tax and operating cost recoveries, lease cancellation fees, parking income and incidental income.

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. The net recoverable amount of income properties is the estimated future net cash flow from use, plus the residual value.

Depreciation of buildings is recorded on the 5% sinking fund basis to fully amortize the cost of buildings over 40 years. Properties under development are stated at the lower of cost and net recoverable amount. Cost includes initial acquisition costs, other direct costs, realty taxes, interest related to their financing and all operating revenues and all expenses during the development period.

DEFERRED EXPENSES AND OTHER ASSETS

Deferred expenses and other assets mainly include leasing costs such as tenant improvements and other expenses, including tenant inducements and leasing commissions. These expenses are deferred and amortized on a straight-line basis over the terms of the related leases. Mortgage financing costs are deferred and amortized on the straight-line basis over the terms of the related mortgages.

UNIT OPTION PLAN

Cominar has a unit option plan which is described in note 9. Effective January 1, 2002, Cominar adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to stock-based compensation and other stock-based payments. Cominar has chosen not to recognize compensation expense when unit options are granted to employees and directors with no cash settlement features. Cominar has not granted any options under unit option plan during the year.

PER-UNIT RESULTS

Basic net income per unit and basic funds from operations per unit are calculated based on the weighted average number of units outstanding for the year. The calculation of net income and funds from operations per unit on a diluted basis considers the potential exercise of outstanding unit purchase options, if dilutive, and are calculated using the treasury stock method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

(in thousands of dollars except per-unit amounts)

3. INCOME PROPER TIES

	2002		2001	
	Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Land	74,196	—	61,294	—
Buildings	423,253	11,754	352,941	8,248
	497,449	11,754	414,235	8,248
Accumulated depreciation	11,754		8,248	
	485,695		405,987	

4. PROPER TIES UNDER DEVELOPMENT

During the year, Cominar recorded in properties under development \$715 of interest related to their financing [\$723 in 2001]. Certain of these properties are included in income properties at year-end.

5. DEFERRED EXPENSES AND OTHER ASSETS

	2002 \$	2001 \$
Net of accumulated amortization		
Leasing costs	17,396	13,208
Other assets	1,083	815
	18,479	14,023

6. MORTGAGE RECEIVABLE

The mortgage receivable from a company controlled by unitholders was secured by properties under development and bore interest at 10% per year. During the year, Cominar exercised an option to acquire the income properties given as security.

7. MORTGAGES PAYABLE

Mortgages payable are secured by income properties, bear interest at rates varying from 4.50% to 11.00% per annum representing a weighted average year-end rate of 6.55% [6.84% in 2001] and are renewable between January 2003 and January 2019.

Mortgage repayments are as follows:

	Principal repayments \$	Balance at maturity \$	Total \$
Years ending December 31			
2003	6,778	73,294	80,072
2004	5,100	13,633	18,733
2005	4,856	10,331	15,187
2006	4,731	29,574	34,305
2007	2,884	40,721	43,605
2008 and thereafter	13,856	18,233	32,089
	38,205	185,786	223,991

Mortgages payable having a fixed rate amount to \$194,337 and those having a variable rate amount to \$29,654.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

(in thousands of dollars except per-unit amounts)

8. BANK INDEBTEDNESS

Cominar has a number of operating and acquisition lines of credit of up to \$50,000. These credit facilities, subject to annual renewal, bear interest at rates varying from prime rate plus 0.25% to prime rate plus 0.50% and \$47,000 of them are secured by mortgages on income properties and charges on specific assets. As at December 31, 2002, the prime interest rate was 4.50% [4.00% in 2001] per annum.

At year-end, the bank indebtedness consists of the utilized portion of the credit facilities and cheques issued which have not been drawn from the facilities.

9. ISSUED AND OUTSTANDING UNITS

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

During the year, Cominar issued 697,084 units for net proceeds received of \$6,623 (8,447,947 units for net proceeds received of \$84,022 in 2001).

	2002	2001
Units issued and outstanding, beginning of year	25,424,335	16,976,388
Issued on February 15, 2001 [at \$10.10 per unit]	—	3,450,000
Issued on November 15, 2001 [at \$10.70 per unit]	—	4,600,000
Issued from options exercised	656,467	384,000
Issued under distribution reinvestment plan	40,617	13,947
Units issued and outstanding, end of year	26,121,419	25,424,335

UNIT OPTION PLAN

Under a unit option plan Cominar granted options to purchase units to the trustees and key employees of Cominar. The maximum number of units reserved for issuance pursuant to the unit option plan is 2,045,699 units. The options are exercisable on a cumulative basis of 33 1/3% of the options after each of the three first anniversary dates of the grant. The exercise price of options equals the market price of Cominar's units on the date of the grant and an option's maximum term is seven years.

	2002		2001	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
	\$	\$	\$	\$
Outstanding, beginning of year	1,456,000	9.65	1,401,000	9.10
Exercised	(656,467)	9.34	(384,000)	9.10
Granted	—	—	439,000	10.91
Outstanding, end of year	799,533	9.90	1,456,000	9.65
Options exercisable, end of year	340,866	9.71	440,000	9.44

			2002	
Date of grant	Maturity date	Exercise price	Outstanding price	Options exercisable
		\$		
May 21, 1999	May 21, 2004	9.25	240,000	240,000
January 14, 2000	January 14, 2005	8.55	173,000	7,000
March 27, 2001	March 27, 2006	10.20	37,833	5,166
August 9, 2001	August 9, 2008	11.00	348,700	88,700
			799,533	340,866

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

(in thousands of dollars except per-unit amounts)

DISTRIBUTION REINVESTMENT PLAN

Cominar adopted a distribution reinvestment plan pursuant to which unitholders may elect to have all cash distributions of Cominar automatically reinvested in additional units. The plan has been modified on March 27, 2001, to provide plan participants a number of units amounting to 105% of the cash distribution. During the year, 40,617 units [13,947 in 2001] were issued at a weighted average price of \$12.02 [\$10.85 in 2001] pursuant to the distribution reinvestment plan.

10. INCOME TAXES

Cominar 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 Cominar to Unitholders of Cominar and to deduct such distributions and designations for income tax purposes. Therefore, no provision for income taxes is required.

The carrying value of Cominar's net assets at December 31, 2002 exceeds the tax basis by approximately \$39,149 [\$22,421 at December 31, 2001].

11. PER-UNIT RESULTS

The following table provides a reconciliation of the weighted average number of units outstanding used to calculate basic and diluted net income per unit and funds from operations per unit.

	2002 \$	2001 \$
Weighted average number of units outstanding – basic	25,799,025	20,785,940
Effect of dilutive unit options	141,937	155,916
Weighted average number of units outstanding - diluted	25,940,962	20,941,856

12. DISTRIBUTABLE INCOME PER UNIT

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

	2002 \$	2001 \$
Net income for the year	29,432	22,359
Add		
Depreciation of income properties	3,506	2,828
Distributable income for the year	32,938	25,187
Distributable income per weighted average unit	1.277	1.212
Distributions per unit	1.107	1.086

13. RELATED PARTY TRANSACTIONS

During the year, Cominar entered into transactions with companies controlled by unitholders who are also members of the trust's management. These transactions, done in the normal course of business, have been measured at the exchange amounts and have been reflected in the financial statements as follows:

	2002 \$	2001 \$
Property rental revenue	1,480	1,338
Other income	784	454
Income properties and properties under development	14,442	19,777
Mortgage receivable	—	9,000
Deferred expenses and other assets	6,759	4,162
Accounts receivable	522	643
Accounts payable and accrued liabilities	1,973	1,688

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

(in thousands of dollars except per-unit amounts)

14. FINANCIAL INSTRUMENTS

Cominar is exposed to financial risks that arise from fluctuations in interest rates and in the credit quality of its tenants.

INTEREST RATE RISK

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

The interest rates on the mortgage receivable, mortgages payable and bank indebtedness are described in notes 6, 7 and 8 respectively.

CREDIT RISK

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. Cominar mitigates this risk by ensuring that its tenant mix is diversified, thereby limiting its exposure to any one tenant. Detailed credit evaluations are performed for each new tenant.

FAIR VALUE

The fair value of the majority of Cominar's financial assets and liabilities, representing net working capital, approximates the carrying value as at December 31, 2002 due to their short-term nature.

As at December 31, 2002 the fair value of mortgages payable exceeded the carrying value by approximately \$2,800 [\$3,800 as at December 31, 2001] due to changes in interest rates since the dates on which the individual mortgages payable were obtained. The fair value of mortgages payable has been estimated based on current market rates for mortgages of similar terms and maturities.

15. SEGMENT DISCLOSURES

Cominar's activities include three property types located entirely in the Province of Quebec. The accounting policies followed by each property type are the same as those disclosed in the significant accounting policies. The following table indicates the financial information related to these property types:

	2002			
	Office properties \$	Retail properties \$	Industrial and mixed-use properties \$	Total \$
Property rental revenue	26,218	31,887	23,820	81,925
Interest on mortgages payable and bank indebtedness	5,026	5,118	3,704	13,848
Depreciation of income properties	1,222	1,408	876	3,506
Operating income from real estate assets	9,584	11,037	9,194	29,815
Income properties	151,860	194,959	138,876	485,695
Acquisitions of income properties	15,428	30,174	37,612	83,214

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

(in thousands of dollars except per-unit amounts)

	2001			
	Office properties \$	Retail properties \$	Industrial and mixed-use properties \$	Total \$
Property rental revenue	20,840	26,169	19,969	66,978
Interest on mortgages payable and bank indebtedness	4,031	4,780	3,451	12,262
Depreciation of income properties	894	1,226	708	2,828
Operating income from real estate assets	7,067	8,751	7,191	23,009
Income properties	137,654	166,193	102,140	405,987
Acquisitions of income properties	41,617	13,891	16,947	72,455

16. COMMITMENT

At year-end, Cominar was committed to acquire, subject to the respect of certain conditions, an income property for a consideration of \$4,100.

17. SUBSEQUENT EVENTS

On January 9, 2003, Cominar acquired an income property for a consideration of \$3,650, of which \$1,218 was paid in cash and \$2,432 through the assumption of a mortgage payable.

On January 22, 2003, Cominar contracted a mortgage payable of \$22,000 bearing interest at 6.00% maturing in 2008 and secured by income properties. Net proceeds were used to reduce bank indebtedness.

INFORMATION

QUEBEC (HEAD OFFICE)

455 Marais St.
Vanier, Quebec G1M 3A2
Tel.: (418) 681-8151
Tel.: (418) COMINAR
Fax: (418) 681-2946

Toll free: 1 866 COMINAR

TRANSFER AGENT

National Bank Trust
Montreal, Toronto
UNIT LISTING: Toronto Stock Exchange
STOCK TRADING SYMBOL: CUF.UN

MONTREAL

255 Crémazie East Blvd.
Suite 120
Montreal, Quebec H2M 1M2
Tel.: (514) 337-8151
Fax: (514) 904-5000

Web Site: www.cominar.com
E-Mail: info@cominar.com

AUDITORS

Ernst & Young LLP
150 René-Lévesque Blvd.
Suite 1200
Quebec, Quebec Canada G1R 6C6