ANNUAL REPORT 2004

COMINAR REAL ESTATE INVESTMENT TRUST

COMINAR

www.cominar.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, 2004, Cominar owned a portfolio of 122 office, commercial, industrial and mixed-use properties in the Montreal and Quebec City areas.

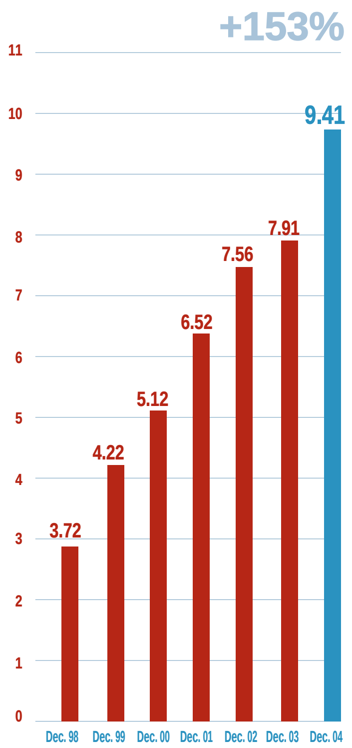
ITS PRINCIPAL OBJECTIVES ARE TO:

- 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.

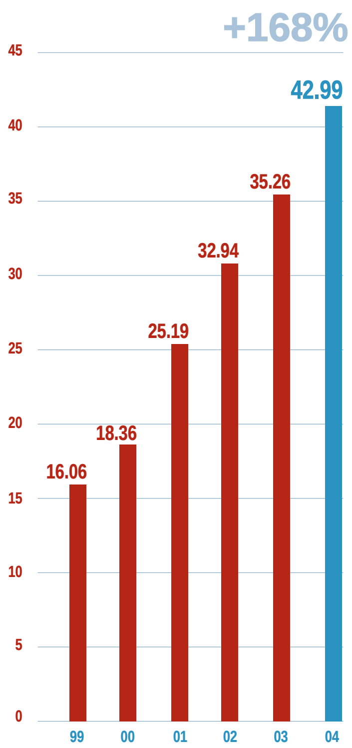
With the participation of a reliable and experienced team, the REIT will continue to grow by striving for a balanced extension of its portfolio, according to trends in the marketplace.

HIGHLIGHTS

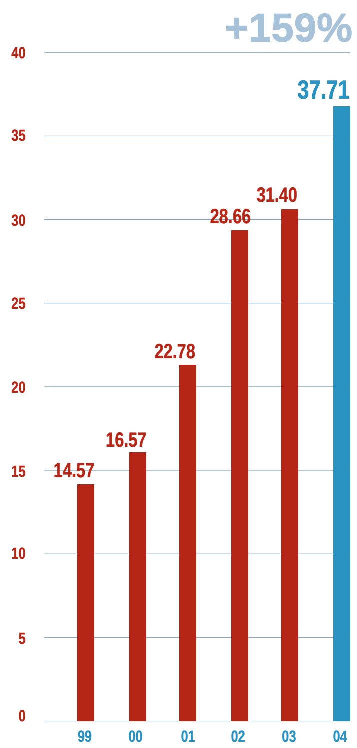
Through a series of profitable acquisitions made during the course of the last seven years, Cominar has increased, every year since its inception, its leasable area, distributable income and distributions to unitholders.



Portfolio Expansion
(in millions of sq.ft.)



Distributable Income
(in millions of $)



Distributions
(in millions of $)

The stability and growth in revenues generated by Cominar's real estate portfolio lie in a balanced distribution of its net operating income among its three sectors of activity, geographical diversification between the Montreal and Quebec City regions and prudent debt management.

Breakdown of Net Operating Income by Sector

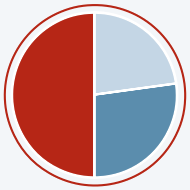
- Office 34.7%
- Industrial and mixed-use 32.8%
- Retail 32.5%

Breakdown of Leasable Area by Sector

- Office 23,6 %
- Industrial and mixed-use 51.1%
- Retail 25.3%

Breakdown of Leasable Area by Region

- Montreal 35.0%
- Quebec City 65.0%



Balance Sheet as at December, 31 2004

- Assets 50.0%
- Liabilities 23.5%
- Unitholders equity 26.5%

Jules Dallaire
Chairman of the Board and Chief Executive Officer

Michel Dallaire
President and Chief Operating Officer

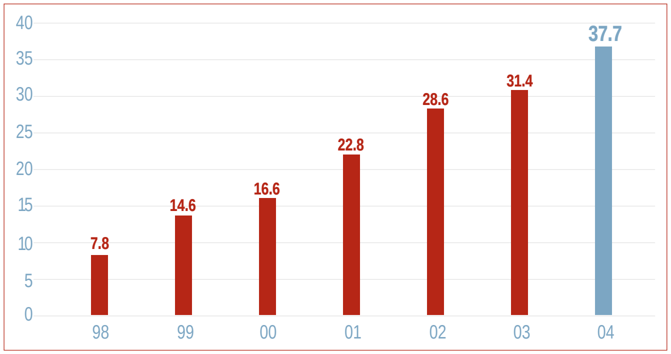
MESSAGE TO UNITHOLDERS

Year 2004: another excellent year for Cominar

Cominar is proud of the performance achieved by the REIT since its creation in 1998. The real estate portfolio's value and the return on investment earned by unitholders have increased every year as we have grown and expanded. We have remained focused on the commitments made seven years ago and have built a solid foothold upon which we continue to grow and prosper according to the long-term vision shared by all our team members.

We are pleased with our results for 2004, as distributable income rose 21.9% and total distributions paid to unitholders grew by 20.1%, thanks to the quality acquisitions and developments completed in 2003 and 2004. Since the creation of the REIT, distributable income has grown, on an annualized basis, from $13.6 million to $43.0 million, which allowed Cominar to substantially increase its distributions to unitholders.

Distributions
(in millions of $)



Including the increase in unit price and distributions paid, the return achieved by unitholders in 2004 was 24.3%. Over the past five years, the average annual return, including distributions and the increase in unit price, stood at 23.7%.

1 YEAR	3 YEARS	5 YEARS
24.3%	22.1%	23.7%

This solid performance and steady growth set Cominar's unit apart as a secure and attractive investment.

MESSAGE TO UNITHOLDERS

During the last year, we issued debentures for gross proceeds of $100 million which will protect about one-third of our debt against an increase in interest rates for the next 10 years. In a real estate market of high prices, we were even more selective with our acquisitions to ensure they matched our criteria of quality and profitability over the short and long term. We made six acquisitions that benefit from an average capitalization rate of 9.7% and represent a leasable area of 693,000 square feet. The construction of two new properties added another 51,000 square feet of leasable space with a 100% occupancy rate. We also completed six expansions totalling about 330,000 square feet, including the new Place de la Cité office tower in Quebec City. Representing a total cost of $121.4 million, including $103.8 million in 2004, these acquisitions and developments added a leasable area of 1.1 million square feet to the portfolio during the year.

Finally, four more development projects are currently underway covering a total of 658,000 square feet and representing an investment of $44.1 million. With these projects, we will have more than tripled the leasable space of Cominar's portfolio since 1998.

To maintain stable distributions and further increase our unitholders' return on investment, we have implemented prudent and flexible growth, operational risk and debt management practices, which are also reflected in our outstanding customer service.

Growth Management

We have built a flexible organization that allows us to adapt to market fluctuations. Our expansion strategy is focused on creating unitholder value, even when market conditions are more restrictive. Over the past three years, the sustained increases in property prices have prompted us to select our acquisitions with even greater care. Hence, we have stepped up the development of those of our properties offering a potential increase in return, while being alert and poised to seize acquisition opportunities meeting our criteria.

Within the last three years, we have thus completed 13 development and construction projects having an average capitalization rate of 11%, for a total investment of $66 million. During this same period, we have also made 28 quality acquisitions matching our growth criteria, having an average capitalization rate of 10.3% and representing a total investment of $151 million.

As part of our conservative expansion strategy as well, we thoroughly analyze acquisition and development projects according to strict criteria based on experience, so that every project contributes to create value. The members of our management team combine several decades of real estate market knowledge and experience, having founded, managed and developed Cominar long before the creation of the REIT — in which they moreover hold a major interest of over 22%. Since 1998, they have fully leveraged this tradition of commitment and professionalism to ensure the REIT's stability and the dynamic expansion of its real estate portfolio.

Finally, a conservative expansion strategy entails diversifying to a reasonable and moderate extent. While further consolidating our dominant presence in the Quebec City area, we are establishing a portfolio in the Montreal region where we have opened a business office to be closer to our customers and more alert to expansion opportunities. Using this solid two-tiered growth platform, we can strive for excellence in customer service and accelerate our expansion. Work, build and grow with our customers — is the motto applied in both our two markets, and it remains the key to our success and most distinctive asset.

Developing this two-tiered growth platform and clustering properties in busy areas has given us several competitive advantages. Our clustering strategy favours economies of scale and low operating costs while providing our present and future customers with a broader selection of premises within Cominar's portfolio. Furthermore, our specialized leasing consultants in each region build a relationship of trust with our customers, enabling us to maintain stable and high occupancy rates.

Operational Risk Management

By diversifying our portfolio in three sectors — office, retail and industrial and mixed-use properties — we reduce the risk associated with any particular sector. The segmented breakdown of our net operating income certainly varies on the basis of our acquisitions and developments in each sector as well as economic conditions, but this diversification generates regular and growing results. For instance, although the industrial and mixed-used sector offers appreciable stability, even when economic conditions are less favourable, we focus on ensuring that our three sectors contribute fairly equally to net operating income.

Our dominant presence in the Greater Quebec City Area, which is economically stable as it is the seat of the provincial government, also helps keep our revenues regular in our three sectors. In fact, although the provincial government is our largest tenant, it accounts for only 8.2% of the real estate portfolio's net income. Cominar serves a customer base of more than 1,600 companies, businesses and organizations in widely diversified sectors of the economy, which is a key factor underlying our stable occupancy rates and annual revenues.

Debt Management

Just like excellence in customer service, debt management is fundamental to the growth and stability of a real estate investment trust, and Cominar has a long tradition of skill and prudence in this regard. Upon the REIT's inception, we announced we intended to maintain a debt to gross book value ratio of 55% or less, even though a ratio of 60% is authorized by our Contract of Trust. In 2004, our debt to gross book value remained below 50% despite our public issue of 100,000 convertible subordinated debentures recorded as debt.

Our experience has proven that such disciplined business practices directly contribute to the stability of forthcoming distributions and growth of the REIT, and we will continue to implement them in the future.

Outlook

We are most confident about Cominar's future, based on our culture of excellence and our strengths, especially:

- the skill and commitment of our team members who are responsible for managing the REIT and serving our

customers in both Montreal and Quebec City;
- our quality properties, the total leasable area of which has grown by 203% since 1998;
- the portfolio's added value, which is estimated at $210 million based on an 8% capitalization rate and which increases every year, thereby ensuring the payment of future distributions to unitholders;
- our solid operational and financial health, as our net asset value has grown by 142% since the REIT's inception to total $705.7 million as of December 31, 2004, and the fact that we are well positioned to further expand the portfolio;
- and finally, the steady growth in our unitholders' return on investment, which is associated with a significant tax benefit.

In 2005, we will reap the benefits of the developments and acquisitions completed in 2004 and of those we will undertake and complete in 2005. We will also continue to focus on leveraging our strengths as economic conditions are generally expected to remain favourable in the regions where Cominar operates.

We wish to thank our trustees and the members of Cominar's management who consistently uphold the highest standards of corporate governance. We also express our gratitude to our employees, our customers, our unitholders and all our business partners. As we do every year, we renew our commitment to optimizing our unitholders' return on investment, while continuing to strive for excellence both in customer service and in operational and financial management of the REIT. That excellence is the surest guarantee of our future growth and success.

Jules Dallaire
Chairman of the Board and Chief Executive Officer

Michel Dallaire
President and Chief Operating Officer

TRUSTEES AND OFFICERS

Jules Dallaire
Trustee, Chairman of the Board and Chief Executive Officer

Michel Dallaire
Trustee, President and Chief Operating Officer

1 Yvan Caron
Trustee

2 Robert Després
Trustee

3 Pierre Gingras
Trustee

4 Ghislaine Laberge
Trustee

5 Richard Marion
Trustee

6 Michel Berthelot
Trustee,
Executive Vice-President &
Chief Financial Officer

7 Michel Paquet
Trustee,
Executive Vice-President
Legal Affairs & Secretary

8 Michel Ouellette
Executive Vice-President
Acquisitions & Development

9 René Bérubé
Vice-President
Industrial & Commercial
Properties

10 Louis Bolduc
Vice-President
Development - Montreal

11 Alain Dallaire
Vice-President
Retail Operations

12 Robert Larivière
Vice-President
Buildings Operations

SUMMARY OF INCOME PROPERTIES

OFFICE PROPERTIES	No.	Leasable area (sq.ft.)
Income properties	14	2,200,000
Properties under development		
TOTAL	14	2,200,000

RETAIL PROPERTIES	No.	Leasable area (sq.ft.)
Income properties	25	2,178,360
Properties under development		199,400
TOTAL	25	2,377,760

INDUSTRIAL AND MIXED-USE PROPERTIES	No.	Leasable area (sq.ft.)
Income properties	79	4,508,000
Properties under development	4	307,000
TOTAL	83	4,815,000

PROPERTY (Cominar's ownership in each property is 100%)	Leasable area (sq.ft.)	Occupancy rate (%)
OFFICE PROPERTIES		
4635 1ere Avenue, Charlesbourg	40,644	89.00
5055 Wilfrid Hamel Ouest Blvd., Quebec City	27,498	100.00
5073,5075,5079 Wilfrid-Hamel Ouest Blvd., Quebec City	28,215	100.00
2014 Jean-Talon Nord, Sainte-Foy	60,953	100.00
2200 Jean-Talon Nord, Sainte-Foy	30,485	100.00
2600 Laurier Blvd., Sainte-Foy (Place de la Cité)	678,780	94.18
455 Marais, Vanier	60,809	100.00
3175 chemin des Quatres-Bourgeois, Sainte-Foy (Le St-Mathieu)	100,065	85.28
979 de Bourgogne, Sainte-Foy	65,186	96.12
150 René-Lévesque Est Blvd., Quebec City (Place de la Capitale)	235,106	100.00
1265 Charest Ouest Blvd., Quebec City	140,246	100.00
255 Crémazie Est Blvd., Montreal	249,151	77.58
8500 Décarie Blvd., Ville Mont-Royal	175,060	100.00
3400 Jean-Béraud, Montreal	156,270	100.00
300-330 Viger Est, Montreal	171,532	100.00
Sub-Total	2,220,000	


BUREAU
EN GROS

PROPERTY (Cominar's ownership in each property is 100%)	Leasable area (sq.ft.)	Occupancy rate (%)
RETAIL PROPERTIES		
1367-1371 chemin Sainte-Foy, Sainte-Foy	5,491	100.00
5 Place Orléans, Beauport	5,792	100.00
1400 Saint-Jean-Baptiste, Quebec City	104,256	92.47
245 Soumande, Vanier (Halles Fleur de Lys)	91,221	88.24
2195 de la Rive-Sud Blvd., Saint-Romuald	6,225	100.00
2160 de la Rive-Sud Blvd., Saint-Romuald	72,261	100.00
2600 Laurier Blvd., Sainte-Foy (Place de la Cité)	375,858	95.50
8500 Henri-Bourassa Blvd., Charlesbourg (Carrefour Charlesbourg)	315,730	86.98
355 Marais, Vanier	37,375	93.68
32 Marais, Vanier	77,933	100.00
550 Marais, Vanier	16,849	100.00
3333 du Carrefour, Beauport (Les Promenades Beauport)	390,800	93.05
1295 Charest Ouest Blvd., Quebec City	48,080	71.75
50 route du Président Kennedy, Lévis (Place Lévis)	218,595	95.01
3333 du Carrefour (Tim Horton), Beauport	3,090	100.00
329 Seigneuriale, Beauport	3,792	100.00
1970 Chauveau, Quebec City	2,400	100.00
1275 Charest Ouest Blvd., Quebec City	63,249	100.00
1479-1481-1483-1485 Saint-Bruno Blvd., St-Bruno-de-Montarville	12,971	100.00
1465 Saint-Bruno Blvd., St-Bruno-de-Montarville	26,093	100.00
1475 Saint-Bruno Blvd., St-Bruno-de-Montarville	129,638	100.00
1495 Saint-Bruno Blvd., St-Bruno-de-Montarville	34,808	100.00
800 Claude-Jutra Blvd., Longueuil	30,352	100.00
239-245 Samson Blvd., Laval	40,772	100.00
2101 Curé-Labelle Blvd., Laval	64,729	100.00
	2,178,360	94.02
PROPERTIES UNDER DEVELOPMENT		
Les Promenades Beauport	123,400	
Carrefour Charlesbourg	76,000	
Sub-Total	2,377,760	94.02

PROPERTY (Cominar's ownership in each property is 100%)	Leasable area (sq.ft.)	Occupancy rate (%)
INDUSTRIAL AND MIXED-USE PROPERTIES		
2383-2393 Watt, Sainte-Foy	67,092	100.00
2345-2349 Dalton, Sainte-Foy	54,110	100.00
830 Godin, Vanier	49,055	93.79
1165 Gouin, Quebec City + 1096, 1098 Lescarbot, Quebec City	71,577	88.63
320 de la Canardière, Quebec City	12,819	96.08
1990 Jean-Talon Nord, Sainte-Foy	89,509	96.60
2006-2010 Lavoisier, Sainte-Foy	68,235	100.00
2022 Lavoisier, Sainte-Foy	58,880	88.86
2025 Lavoisier, Sainte-Foy	37,124	100.00
2015 Lavoisier & Morse, Sainte-Foy	2,134	100.00
280 Racine, Loretteville	18,801	100.00
5130 Rideau, Quebec City	24,402	100.00
2955 Kepler, Sainte-Foy	14,960	100.00
1515 Saint-Jean-Baptiste, Quebec City	61,923	100.00
955 Saint-Jean-Baptiste, Quebec City	33,034	100.00
2020 Jean-Talon Nord, Sainte-Foy	41,133	100.00
2100 Jean-Talon Nord, Sainte-Foy	31,419	100.00
2150 Jean-Talon Nord, Sainte-Foy	22,432	100.00
2160 Jean-Talon Nord, Sainte-Foy	45,160	80.06
2180 Jean-Talon Nord, Sainte-Foy	20,100	100.00
100 Chabot, Vanier	59,900	85.68
90, Ducharme, Vanier	19,239	100.00
454-456 Marconi, Sainte-Foy	15,592	100.00
1730-1790 Newton, Quebec City	62,925	95.23
5000 Rideau, Quebec City	2,475	100.00
5125 Rideau, Quebec City	11,575	100.00
4175 Sainte-Anne Blvd., Beauport	39,245	100.00
625 des Canetons, Quebec City	19,981	100.00
4975 Rideau, Quebec City	32,807	83.20
2755 Dalton, Sainte-Foy	23,880	85.13
1050 Ducharme, Vanier	38,815	100.00
650 Godin, Vanier + 460 Desrochers, Vanier	188,790	93.36
625 Godin, Vanier	60,415	100.00
579 Godin, Vanier	12,337	100.00
2700 Jean-Perrin, Quebec City	129,778	95.42
2181 to 2211 Léon-Harmel, Quebec City	70,709	76.24
1540 Jean-Talon nord, Sainte-Foy	9,425	100.00
445 Saint-Jean-Baptiste, Quebec City	91,713	100.00
500 Saint-Jean-Baptiste, Quebec City	86,993	95.56
5275 Wilfrid-Hamel Blvd., Quebec City	30,071	100.00
1670 Semple, Quebec City	89,154	97.13
2500 Jean-Perrin, Quebec City	74,987	54.78

PROPERTY (Cominar's ownership in each property is 100%)	Leasable area (sq.ft.)	Occupancy rate (%)

INDUSTRIAL AND MIXED-USE PROPERTIES

2600 Jean-Perrin, Quebec City	48,814	100.00
470 Godin, Vanier	22,532	100.00
765 Godin, Vanier	15,350	100.00
1041 Pierre-Bertrand Blvd., Quebec City	118,611	100.00
989 Pierre-Bertrand Blvd., Vanier	37,800	84.09
955 Pierre-Bertrand Blvd., Vanier	47,489	100.00
1075 des Basses-Terres, Quebec City	48,025	100.00
235 Fortin, Vanier	26,006	100.00
975 Ducharme, Vanier	28,708	100.00
1775 Léon-Harmel, Quebec City	22,093	100.00
8288 Pie-IX Blvd., Montreal	119,522	100.00
1415 32e Avenue, Lachine	71,503	100.00
1455 32e Avenue, Lachine	32,500	100.00
1475 32e Avenue, Lachine	89,232	100.00
3300 J.B. Deschamps, Lachine	19,393	100.00
9100 du Parcours Blvd., Anjou	122,602	100.00
10550 Parkway Blvd., Anjou	110,000	100.00
2105 Dagenais Ouest Blvd., Laval	274,700	100.00
894-930 Bergar, Laval	33,134	100.00
901-937 Michelin, Laval	42,548	100.00
3370-3418 Industriel Blvd., Laval	55,331	100.00
3401-3421 Industriel Blvd., Laval	53,422	100.00
1405-1453 Bergar, Laval	32,480	100.00
3424-3428 Francis-Hugues, Laval	16,114	100.00
1315 Gay-Lussac, Boucherville	43,693	100.00
40 Chemin du Tremblay, Boucherville	100,805	100.00
620-650 Giffard, Longueuil	53,161	82.37
677 Giffard, Longueuil	42,435	16.08
796-818 Guimond, Longueuil	80,426	82.18
9101 Des Sciences Blvd., Anjou	71,727	91.08
1675 de Montarville Blvd., Longueuil	142,264	100.00
5250 Armand-Frappier, Saint-Hubert	59,460	100.00
1405,1455,1495 55e Avenue, Dorval	66,185	100.00
5055 Hugues-Randin, Quebec City	56,337	100.00
9055 Impasse-de-L'Invention, Anjou	45,671	73.18
330 Avro, Pointe-Claire	101,222	100.00
19701 Clark-Graham, Baie d'Urfé	162,000	100.00
	4,508,000	95.24
PROPERTIES UNDER DEVELOPMENT		
Project Henri IV (2 properties)	141,000	
Project Laval (2 properties)	166,000	
Sub-Total	4,815,000	
TOTAL	9,412,760	94.82

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF OPERATING RESULTS AND FINANCIAL POSITION

This management's discussion and analysis of the consolidated operating results and financial position of Cominar Real Estate Investment Trust ("Cominar" or the "REIT") for the fiscal years ended December 31, 2004 and 2003 should be read in conjunction with the consolidated financial statements and accompanying notes appearing in this annual report. The consolidated financial statements have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants ("CICA").

Management's discussion and analysis is intended to facilitate understanding of the audited consolidated financial statements and accompanying notes. The discussion and analysis may include objectives, projections, estimates and forecasts by Cominar or management that are forward-looking. Positive or negative verbs such as "believe", "plan", "estimate" "expect" and "evaluate" as well as related expressions are used to identify forward-looking statements. Cominar cautions readers that, by their very nature, forward-looking statements involve major risks and uncertainties such that Cominar's actions or results could differ significantly from those indicated, whether explicitly or implicitly.

All amounts contained herein are expressed in Canadian dollars.

March 3, 2005

BUSINESS OVERVIEW

Cominar Real Estate Investment Trust is an unincorporated closed-end investment trust established by a Contract of Trust under the laws of the Province of Quebec.

Founded on March 31, 1998, Cominar began its operations following its initial public offering on May 21, 1998, when it acquired a portfolio of 51 properties in Quebec City. At the time, this portfolio consisted of eight office buildings, 13 retail buildings and 30 industrial and mixed-use buildings, for a total leasable area of approximately 3.1 million square feet. Subsequently, between May 21, 1998 and December 31, 2003, Cominar acquired another 60 properties covering a total area of 4.8 million square feet, including 2.4 million square feet in the Montreal region. In 2004, Cominar added a leasable area of approximately 1.1 million square feet to its portfolio through — the acquisition of six properties totalling 693,000 square feet — the expansion of six properties, including the new Place de la Cité office tower, for a total of 330,000 square feet — and the construction of two properties covering a leasable area of 51,000 square feet. These acquisitions and developments represent a total investment of $121.4 million, of which $103.8 million was invested in 2004.

As at December 31, 2004, Cominar's portfolio consisted of 122 properties, including four properties under development, for a total of over 9.4 million square feet: 6.1 million square feet in the Greater Quebec City Area and 3.3 million square feet in the Montreal region.

The REIT's 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 development of various properties in its portfolio, with the participation of a reliable and experienced team.

Cominar's distributions have yielded an average return of 9.82% over the past five years. Including the increase in unit price and distributions paid, the average annual return works out to 23.7% without considering the tax benefit.

Result per unit	2004	2003	2002	2001	2000
Distributable income ($)	1.349	1.303	1.277	1.212	1.180
Distributions ($)	1.178	1.152	1.107	1.086	1.061
Closing price ($)	17.20	14,79	12.07	12.00	10.15
Return/distributions (%)	7.96	9.54	9.23	10.70	11.66
Total return (%)	24.26	32.08	9.81	28.93	23.20

This performance reflects Cominar's growth, the value attributed by investors to the quality of its portfolio, and their confidence in its management team as well as its growth strategy.

GROWTH STRATEGY

In 2004, Cominar continued to apply a conservative acquisition strategy and to develop quality properties in strategically located sites sought by customers in the Montreal and Quebec City regions.

As stated over the last three years, to meet its profit criteria in a context of steadily rising properties prices, Cominar has focused on accelerating the development of those of its properties offering a potential increase in return, and the construction of new properties on vacant lots under its ownership.

Based on its long experience in the real estate sector and its in-depth market intelligence, Cominar is committed to remaining conservative in developing its property portfolio in order to secure its profitability over the medium and long term. Every project is therefore appraised in accordance with specific criteria, the most important being the property's current and future profitability.

The key criterion in analyzing a prospective property acquisition remains the ratio between its purchase price, the debt involved and its profitability. The purchase price must be supported by the property's actual value, so as to associate a reasonable debt with the transaction and to ensure satisfactory profitability throughout the various phases of an economic cycle.

Cominar also practises disciplined debt management, maintaining a debt to gross book value of less than 55% even though a ratio of 60% is authorized by its Contract of Trust. This provides Cominar with greater leverage and flexibility in less favourable economic periods. As at December 31, 2004, the REIT showed a debt to gross book value ratio of 49.3%.

Furthermore, to reduce the risk associated with a particular sector, Cominar continues to ensure that its portfolio is well balanced among its three sectors — office, retail and industrial and mixed-use properties.

The table below shows the breakdown of net operating income (1) among the three sectors. While this breakdown varies according to changes in the real estate portfolio, each sector represents approximately one-third of the REIT's annual net operating income.

(in thousands of dollars)	Net operating income			Breakdown between sectors (%)		
Sectors	2004	2003	2002	2004	2003	2002
Office	23,668	18,362	14,991	34.73	31.61	29.58
Retail	22,164	20,641	18,752	32.52	35.54	37.01
Industrial and mixed-use	22,322	19,082	16,931	32.75	32.85	33.41
Total	68,154	58,085	50,674	100.00	100.00	100.00

(1) Net operating income equals operating income before interest on mortgages payable, bank indebtedness and convertible debentures, depreciation of income properties and amortization of deferred expenses and other assets, Trust administrative expenses and other income.

(2) Although the concept of net operating income is not a measure defined by generally accepted accounting principles ("GAAP"), it is widely used in real estate.

Geographical diversification also plays a key role in Cominar's growth strategy. While consolidating its dominant presence in the Greater Quebec City Area, Cominar has been developing a real estate portfolio in the Montreal region since 1999. As at December 31, 2004, properties in this region accounted for some 35% of its portfolio's leasable area.

In conclusion, Cominar's primary strategies are focused on:

- continuing to make acquisitions and carry out developments that match its criteria of quality and profitability over the short and long term;
- maintaining a fairly well-balanced segmented diversification among office, retail and industrial and mixed-use properties;
- continuing to maintain geographical diversification between the Montreal and Quebec City areas;
- maintaining a conservative financing structure.

REAL ESTATE PORTFOLIO

In 2004, Cominar further expanded its real estate portfolio by acquiring six income properties covering over 693,000 square feet at a total cost of $84.8 million. Except for the building in Ville d'Anjou (Montreal), all these properties benefit from 100% occupancy rates and long-term leases.

Acquisitions - Income Properties

Date	Location	Type	Leasable area (sq.ft.)	Amount ($)	Capitalization rate (%)
April 2004	Anjou, Montreal	Industrial	45,671	2,300,000	10.2
April 2004	Quebec City	Industrial	56,337	3,300,000	10.3
May 2004	Laval, Montreal	Office	156,270	28,460,000	9.2
July 2004	Montreal	Industrial	101,222	8,500,000	10.0
September 2004	Baie D'urfé, Montreal	Industrial	162,000	11,290,000	9.2
September 2004	Montreal	Office	171,532	30,998,000	9.1
			693,032	84,848,000	

Note: Although capitalization rate is not a measure defined by GAAP, it is widely used in real estate to evaluate a property's performance. The capitalization rate is a factor establishing the relationship between a property's value and its net operating income.

New Constructions - Income Properties

In 2004, Cominar also built three industrial and mixed-use properties covering a total leasable area of about 51,000 square feet for an investment of $2.8 million.

Date	Location	Type	Leasable area (sq.ft.)	Amount ($)	Capitalization rate (%)
March 2004	1775 Léon-Harmel, Quebec City	Industrial	22,093	1,130,000	10.5
March 2004	975 Ducharme, Quebec City	Industrial	28,708	1,660,000	10.3
			50,801	2,790,000	

Expansions - Income Properties

In 2004, Cominar completed the expansion and development work undertaken on five properties in previous years. These projects, including the new Place de la Cité office tower, represent close to 330,000 square feet and a total investment of $33.8 million.

Date	Location	Type	Additional leasable area (sq.ft.)	Amount ($)	Capitalization rate (%)
January 2004	1675 Montarville, Montreal	Industrial	33,000	1,275,000	10.6
March 2004	445 St-Jean-Baptiste, Quebec City	Industrial	34,345	1,906,000	10.4
March 2004	796 Guimond, Longueuil	Office	30,331	1,729,000	10.3
March 2004	2181 Léon-Harmel, Quebec City	Industrial	26,661	1,265,000	10.6
December 2004	Place de la Cité, Quebec City	Industrial	205,611	27,590,000	9.9
			329,948	33,765,000	

Developments in Progress – Income Properties

Cominar has four development projects under way:

- Representing an investment of $15.7 million and covering a leasable area of 270,500 square feet, the project near Highway 440 in Laval involves the construction of three industrial and mixed-use properties. Cominar had initially planned to build four properties for a total of 301,000 square feet. As this decision was revised to increase the project's rental value and profitability, three properties will be built rather than four. The first two buildings, which cover about 166,000 square feet, are currently under development and are scheduled to be included in the real estate portfolio in 2005. The construction of the third 106,500-square-foot property will begin once the previous projects are sufficiently advanced. As at December 31, 2004, $8.5 million had been invested in this project.

- The development of the first two phases of the Henri IV project, namely two industrial and mixed-use properties covering a leasable area of 141,000 square feet, was undertaken in the fall of 2003 and should be completed by the winter of 2005. The third and final phase of the project, namely the construction of a third property, should begin this spring and be finalized toward the end of 2005. This project represents a leasable area of 188,000 square feet and an investment of $10.8 million, including the $7.8 million invested in 2004.

- The development of the Carrefour Charlesbourg shopping centre in Quebec City, which is advancing on schedule, represents a leasable area of 76,000 square feet and a cost of $9.8 million, of which $9 million was invested in 2004. A 58,830-square-foot expansion has already been completed and some 58,000 square feet have been occupied by a grocery store since April 2004.

- The second phase of Les Promenades Beauport shopping centre's development began in the fall 2004, following the departure of the Zellers store which occupied some 80,000 square feet. This second phase covers a leasable area of 123,400 square feet, including a 40,000-square-foot expansion. So far, a long-term lease for over 58,000 square feet has been signed by Leon's Furniture which will move into these new premises as of June 2005. Cominar has also undertaken the construction of a 24,000-square-foot property on this shopping centre's land and an area of 16,000 square feet is already leased to a financial institution which will move into these premises in July 2005. The cost of the second development phase and this new construction is estimated at $7.8 million.

Breakdown by Sector as at December 31, 2004

	OFFICE		RETAIL		INDUSTRIAL		TOTAL	
	No.	Leasable area (sq.ft.)	No.	Leasable area (sq.ft.)	No.	Leasable area (sq.ft.)	No.	Leasable area (sq.ft.)
Income properties	14	2,220,000	25	2,279,000	79	4,508,000	118	9,007,000
Properties under development								
Henri IV project					2	141,000	2	141,000
Laval					2	166,000	2	166,000
Les Promenades Beauport				39,930				39,930
Carrefour Charlesbourg				58,830				58,830
Total	14	2,220,000	25	2,377,760	83	4,815,000	122	9,412,760

Geographical Breakdown as at December 31, 2004

	QUEBEC CITY		MONTREAL		TOTAL	
	No.	Leasable area (sq.ft.)	No.	Leasable area (sq.ft.)	No.	Leasable area (sq.ft.)
Income properties	81	5,875,000	37	3,132,000	118	9,007,000
Properties under development	2	239,760	2	166,000	4	405,760
Total	83	6,114,760	39	3,298,000	122	9,412,760

RENTAL ACTIVITIES

As at December 31, 2004, Cominar showed an occupancy rate of 94.8%, comparable to the average it has obtained since 1999. The variation in occupancy rate in the various sectors is attributable to the usual tenant turnover. Moreover, in recent years, the office property developments completed by Cominar have had a slight impact on its occupancy rate in this sector, which has now returned to normal.

The low variation in the occupancy rate of Cominar's portfolio reflects its high-quality properties, diversified customer base and fairly well-balanced breakdown among its three sectors.

Trend in Occupancy Rate by Sector (%)

Sector	2004	2003	2002	2001	2000	1999
Office	94.73	92.80	90.00	96.03	93.30	94.43
Retail	94.02	95.70	94.30	93.71	94.70	93.88
Industrial and mixed-use	95.24	97.30	97.30	93.99	96.20	96.48
Total portfolio	94.82	96.00	94.70	94.34	95.10	95.29

Leasable Areas of Expiring Leases, Renewed Leases and New Leases (as at December 31)

	Expiring leases (sq.ft.)	Renewed leases (sq.ft.)	New leases (sq.ft.)	Total (sq.ft.)
1999	546,820	437,624	132,100	569,724
2000	770,387	580,674	331,845	912,519
2001	1,098,301	894,217	392,158	1,286,375
2002	1,141,790	912,739	557,826	1,470,565
2003	1,397,779	1,069,024	580,302	1,649,326
2004	1,350,176	1,030,303	517,997	1,548,300

Besides renewing over 76% of the leases expiring in 2004, Cominar signed new leases for a total of 518,000 square feet. Thus, the total renewed and new leases exceed by nearly 198,000 square feet the total leasable area represented by the leases expiring in 2004. Moreover, it should be noted that since the REIT’s inception, the total new and renewed leases have exceeded the expiring leases every year.

These excellent results have been obtained thanks to the experience and commitment of Cominar’s team of leasing consultants. It should be mentioned that these consultants are an integral part of the REIT’s team, enabling it to avoid potential conflicts of interest.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies are essential to the understanding and interpretation of the financial results appearing in this annual report. The significant accounting policies used in preparing the consolidated financial statements are summarized in note 2 of the notes to financial statements. Special importance underlies some of the policies relating to Cominar’s financial position and operating results as management must often make difficult, complex or subjective judgments about matters that are inherently uncertain in nature. The following text deals with these policies.

Revenue Recognition

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

Rental revenue from leases with contractual rent increases are recognized based on the straight-line method.

Income Properties and Properties Under Development

Income properties are stated at cost. Cost includes acquisition costs and improvements to income properties. Regarding income properties acquired after September 12, 2003, a portion of the purchase price, if any, is allocated to operating leases, customer relationships and tenant improvements.

Depreciation of buildings is recorded using the straight-line method in order to fully amortize the cost of buildings over 40 years.

Intangible costs, described as acquisition costs related to in-place operating leases, customer relationships and tenant improvements are amortized on a straight-line basis over the terms of the related leases.

Properties under development are stated at cost. 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.

Capitalization of costs to properties under development continues until the property reaches its accounting completion date, the determination of which is based on achieving a satisfactory occupancy level within a predetermined time limit.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use together with its residual value. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value.

NEW ACCOUNTING POLICIES

Revenue Recognition

As of January 1, 2004, in accordance with Section 1100 of the CICA Handbook, "Generally Accepted Accounting Principles", rentals from leases with contractual rent increases are recognized in income based on the straight-line method. Previously, rentals from leases were recognized as they became due. The prospective adoption of this accounting policy resulted in an increase in net income of $1.4 million for the year ended December 31, 2004. This change in accounting policy had no effect on distributable income, since deferred rentals are added back to net income.

Depreciation of Income Properties

As of January 1, 2004, in accordance with Section 1100 of the CICA Handbook, "Generally Accepted Accounting Principles", income properties are depreciated using the straight-line method in order to fully depreciate their residual value over a forty-year term. Previously, income properties were depreciated using the sinking fund basis at the rate of 5%. The prospective adoption of this accounting policy increased depreciation of income properties by $7.1 million for the year ended December 31, 2004, thereby reducing net income by the same amount. However, there was no impact on distributable income since the depreciation of income properties is added back to net income for the purpose of calculating distributable income.

Unit-Based Compensation Costs

As of January 1, 2004, Cominar retroactively applied as at January 1, 2002, Section 3870 of the CICA Handbook, "Stock-based Compensation and other Stock-based Payments." The CICA now requires an expense to be recognized for all forms of employee stock-based compensation using a fair value-based method. The fair value of the options granted to Cominar employees and trustees on November 13, 2003, amounts to $607,000 and the stock-based compensation costs related are amortized using the graded vesting method. Accordingly, the opening balance of cumulative net income was adjusted by $39,000 without restatement of prior financial statements. The application of this change in accounting policy also had the effect of increasing Trust administrative expenses by $289,000 and reduced net income by the same amount for the year ended December 31, 2004. However, there was no impact on the unitholders' equity.

Acquisition of Income Properties

As of September 12, 2003, Cominar prospectively applied EIC-140 of the CICA Handbook, "Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination." In accordance with this Abstract, the CICA now requires that a portion of the purchase price of an income property be allocated to in-place operating leases, based on their fair value, to the value of customer relationships and the fair value of leasehold improvements. This allocation is based on management assumptions and estimates. These intangible assets are included in income properties and are amortized on a straight-line basis over the terms of the related leases. Previously, no value was allocated to these intangible assets. The adoption of this Abstract accelerated the depreciation of income properties, but had no impact on distributable income.

This accounting policy has been applied to acquisitions made during the year ended December 31, 2004. Of the acquisition cost of the current financial year, Cominar allocated $7.5 million to the estimated fair value of the acquired intangible assets.

OPERATING RESULTS

Fiscal 2004 was another excellent year for Cominar. The quality of its acquisitions and developments in fiscal 2003 and 2004, in addition to favourable market conditions, enabled it to achieve strong growth in results. Operating revenues increased by $14.4 million or 14.9% to total $111.0 million, compared with $96.6 million in 2003. Net operating income jumped by 17.3% to reach $68.2 million, up from $58.1 million in 2003. It should be noted that this $10.1 million increase includes $1.4 million in deferred rental revenues as a result of the application of CICA Handbook Section 1100, as mentioned in the new accounting policies.

Distributable income amounted to $43.0 million, up by 21.9% or $7.7 million over the previous year. That works out to $1.349 per unit, compared with $1.303 in 2003, an increase of 3.5% per unit.

Consolidated Statements of Income for Fiscal 2004 and 2003

(in thousands of dollars, except amounts per unit)

	Dec. 31, 04	Dec. 31, 03	Variation ($)	Variation (%)
Operating revenues	111,012	96,577	14,435	14.95
Operating expenses				
Operating costs	22,202	21,083	1,119	5.31
Realty taxes and services	19,567	16,235	3,332	20.52
Property management expenses	1,089	1,174	(85)	(7.24)
	42,858	38,492	4,366	11.34
Net operating income	68,154	58,085	10,069	17.33
Interest on mortgages payable and bank indebtedness	16,130	16,898	(768)	(4.54)
Interest on convertible debentures	1,928	-	1,928	-
Depreciation of income properties	12,472	4,240	8,232	194.15
Amortization of deferred expenses and other assets	5,257	4,636	621	13.4
	35,787	25,774	10,013	38.85
Operating income from real estate assets	32,367	32,311	56	0.17
Trust administrative expenses	1,886	1,512	374	24.74
Other revenues	(1,054)	(223)	(831)	(372.65)
Net income	31,535	31,022	513	1.65
Distributable income (1)	42,992	35,262	7,730	21.92
Basic net income per unit (2)	0.990	1.146	(0.157)	(13.67)
Distributable income per unit	1.349	1.303	0.046	3.54

(1) The reconciliation of distributable income is presented in note 13 of the accompanying notes to consolidated financial statements and this management report.
(2) Considering there is a negligible difference between basic net income per unit and diluted net income per unit, the latter is not presented in the above table.

Considering the changes in accounting policies during the year, the following table shows an accurate comparison between net income for 2004 and 2003.

Impact of Accounting Changes on Fiscal 2004 Net Income
(in thousands of dollars, except amounts per unit)

Net income	31,535
Additional depreciation of income properties	7,120
Straight-line depreciation of rental revenues	(1,360)
Compensation expense related to unit purchase options	289
Amortization of intangible assets	56
Net income before application of the changes	37,640
Basic net income per unit before application of the changes	1.181

Application of the accounting changes resulted in a reduction of $6.1 million or $0.191 per unit in net income in 2004. Excluding this impact, net income amounted to $37.6 million or $1.181 per unit for fiscal 2004, compared with $31.0 million or $1.146 per unit in 2003.

The growth in results was due mainly to the acquisitions and developments completed in 2003 and 2004. Given that an acquisition or development only yields its full contribution the following year, the four acquisitions and five developments completed in 2003 contributed to the growth in operating results in 2004.

Furthermore, operating expenses increased by only 5.3% to $22.2 million in 2004, versus $21.1 million the previous year. They represented 20.0% of operating revenues in 2004, compared with 21.8% in 2003 and 24.2% in 1998, because of two factors: — first, since 1999, several acquisitions made primarily in the Montreal region are properties with net triple leases whose expenses are the tenants' responsibility — and secondly, certain maintenance expenses such as maintenance employees' salaries do not vary linearly with the increase in the number of properties.

Summary of Quarterly Information

(in thousands of dollars, except amounts per unit)

Data Contained in the Interim Reports for Fiscal 2004

	March 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004
Operating revenues	27,419	27,814	27,108	28,671
Net operating income	15,264	16,957	17,278	18,655
Net income	6,821	8,788	8,034	7,892
Basic net income per unit	0.215	0.276	0.252	0.246
Distributable income	9,249	11,533	10,991	11,219
Basic distributable income per unit	0.292	0.363	0.344	0.350
Weighted average number of units (000)	31,690	31,814	31,909	32,058

Data Accounting for Changes in Accounting Policies

	March 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004
Operating revenues	27,075	27,489	26,748	28,340
Net operating income	14,920	16,632	16,918	18,324
Net income	8,149	10,346	9,930	9,215
Basic net income per unit	0.257	0.325	0.311	0.287
Distributable income	9,249	11,533	10,991	11,219
Basic distributable income per unit	0.292	0.363	0.344	0.350
Weighted average number of units (000)	31,690	31,814	31,909	32,058

Data Contained in the Interim Reports for Fiscal 2003

	March 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003
Operating revenues	23,700	24,534	24,119	24,224
Net operating income	13,114	14,194	14,923	15,854
Net income	6,415	7,240	7,951	9,416
Basic net income per unit	0.245	0.275	0.301	0.322
Distributable income	7,457	8,296	9,032	10,477
Basic distributable income per unit	0.285	0.315	0.342	0.358
Weighted average number of units (000)	26,163	26,358	26,439	29,267

Note : Considering there is a negligible difference between basic net income per unit and diluted net income per unit, the latter is not presented in the above table.

For comparative purposes, the quarterly information for 2004 has been restated to reflect the impact of the new accounting policies that came into effect at the beginning of the year. Thus, deferred rental revenues are excluded from operating revenues and net operating income, whereas net income accounts for an additional depreciation expense and the compensation expense related to unit purchase options, along with deferred rental revenues.

The first quarter generally yields the year's lowest performance because of the expenses attributable to the winter season such as energy and snow-removal costs.

Quarterly results for 2004 show sustained growth in operating revenues reflecting the gradual integration of acquisitions and developments into the real estate portfolio. First and second-quarter operating revenues include a greater amount of realty tax revenues — however, those revenues had no impact on net income because an equivalent amount was recorded as expense. The second quarter shows strong growth in results; it should be noted that non-recurring revenues of $740,000 from the settlement of a legal dispute were recorded as "Other revenues". The fourth quarter shows fairly equivalent net income per unit and distributable income per unit to those for the corresponding quarter of the previous year, due mainly to the impact of the September 17, 2004 issue of convertible debentures which yielded gross proceeds of $100 million. This impact on net income is estimated at $500,000 or $0.015 per unit. The proceeds from the issue were used to repay short-term loans having a lower interest rate than the debentures. The primary objective was to protect Cominar against a potential increase in interest rates. Moreover, as Cominar has not acquired any new properties since the debenture issue, the $13.6 million balance from the issue has not been used and could not generate a 9.5% return before leveraging; it has been placed in bankers' acceptances at approximately 2.5%.

Two other factors affected fourth-quarter results: the October 1, 2004 departure of the Zellers store, which occupied some 80,000 square feet of Les Promenades Beauport shopping centre, and a strike at the grocery store, which is a tenant of this shopping centre. The combined impact of these factors totals about $300,000. It should be pointed out that Zellers' departure was anticipated when the shopping centre was acquired in December 2000; it enabled Cominar to begin the second phase of this centre's development in December 2004, which will greatly increase the centre's profitability. As previously mentioned, a 58,000-square-foot lease has been signed by Leon's Furniture which will move into these new premises in June 2005.

Interest on Mortgages Payable and Bank Indebtedness

Interest on mortgages payable declined to $16.1 million in 2004, down 4.5% from $16.9 million in 2003. This variation is attributable to an issue of 5,000,000 units in November 2003, whose net proceeds of $66.3 million were used to maintain a relatively low debt level in 2004. Furthermore, as previously mentioned, debentures of $100 million were issued on September 17, 2004, and part of this total was used to repay mortgage loans.

The trend in weighted average annual interest rates shows they have remained fairly stable over the past two years.

Trend in Weighted Average Annual Interest Rates

	2004	2003	2002	2001	2000	1999
Weighted average annual interest rate (%)	**6.32**	6.31	6.55	6.84	7.29	7.26

Interest on Convertible Debentures

On September 17, 2004, Cominar completed a public offering of 100,000 convertible unsecured subordinated debentures, bearing interest at an annual rate of 6.30%, for an aggregate principal amount of $100 million. The due date of the debentures is June 30, 2014 and the interest is payable semi-annually on June 30 and December 31. Each debenture is convertible into units of the REIT at the option of the holder at any time prior to the earlier of the due date and the last business day preceding the date specified by Cominar for redemption of the debentures, at a conversion price of $17.40 per unit.

The issue yielded net proceeds of $96.3 million, applied to the following:
(in millions of dollars)

	Actual	Budget (prospectus)
Financing of the acquisition of the property at 300 Viger East, Montreal	30.8	30.5
Repayment of acquisition facilities	29.0	29.0
Repayment of operating facilities	5.8	7.7
Repayment of mortgage loans	16.7	16.7
Financing of property developments and future acquisitions	13.6	11.7
Fees	0.4	0.4

Interest expenses amounted to $1.9 million in 2004, and will rise to $6.3 million in 2005.

Amortization of Deferred Expenses and Other Assets

Amortization of deferred expenses and other assets rose 13.4% in 2004, a much smaller increase than in previous years. Considering that on Cominar's inception such expenses showed a zero balance and that the deferred expenses accrued each year are amortized over an average of five years, it is normal for amortization of deferred expenses to have increased significantly until 2003, which was the fifth complete fiscal year of the REIT. Subsequently, amortization will rise on the basis of future acquisitions and developments and expiring leases.

Trust Administrative Expenses

Trust administrative expenses increased by $374,000 in 2004, of which $289,000 is attributable to the new accounting policy relating to "Stock-Based Compensation Costs".

Other Revenues

Other revenues consist mainly of a consideration of $740,000 from the settlement of a legal dispute and interest on investments and bank balances.

Distributable Income and Distributions

Although it is not a measure defined by GAAP, distributable income is a very important measurement unit for a real estate investment trust. It generally corresponds to net income established in accordance with GAAP, excluding depreciation of income properties and amortization of intangible assets, compensation expense related to unit purchase options and deferred rental revenues. The distributions paid annually to unitholders must represent at least 85% of distributable income and partly determine the return obtained by unitholders.

Distributable Income for Fiscal 2004 and 2003
(in thousands of dollars, except amounts per unit)

	2004	2003
Net income for the year	31,535	31,022
Depreciation of income properties	12,472	4,240
Deferred rental revenues	(1,360)	
Compensation expense related to unit purchase options	289	
Amortization of above-market leases	56	
Distributable income	42,992	35,262
Weighted average number of units	31,869	27,064
Basic distributable income per unit	1.349	1.303
Distributions paid per unit	1.178	1.152
Distribution rate	87.3%	88.4%

Distributable income amounted to $43.0 million or $1.349 per unit in 2004, compared with $35.3 million or $1.303 per unit. Distributions paid to unitholders totalled $37.7 million, up 20.1% over $31.4 million the previous year. The distribution rate stood at 87.3%, a slight decline of 1.1% from the previous year. It should be noted that the REIT's distribution rate, which is one of the lowest among real estate investment trusts in Canada, reflects the conservative management of Cominar's team.

RELATED PARTY TRANSACTIONS

Jules Dallaire and Michel Dallaire, both of whom are trustees and members of Cominar's management, exercise indirect control over Dalcon Inc., Électricité Hamo Inc. and Corporation financière Alpha (CFA) Inc. ("CFA"). Michel Paquet, also a trustee and member of Cominar's management, has ties to these companies as a manager. Alain Dallaire, member of Cominar's management team, has ties to CFA.

During 2004, Cominar received net rental revenues of $1.3 million from Dalcon Inc., Électricité Hamo Inc. and CFA. It incurred expenditures of $5.1 million for leasehold improvements performed by Dalcon Inc. and $33.4 million for the construction and developments of properties.

Using the services of related companies for property construction work and leasehold improvements enables Cominar to achieve major savings while providing better service to its customers.

LIQUIDITY AND CAPITAL RESOURCES

The experience acquired by management over the past 40 years has proven how important it is to carefully manage loans and to use leverage with moderation. Management therefore prefers to limit its debt to gross book value ratio to 55%, even though a ratio of 60% is authorized by its Contract of Trust. While this measure can potentially affect profit growth, it greatly reduces the financial risk.

Borrowing Ratios
(in thousands of dollars)

	2004	2003
Mortgages payable	262,247	270,715
Convertible debentures	100,000	---------
Total	362,247	270,715
Gross book value	734,176	618,876
Debt to gross book value ratio (1) (3)	49.3%	43.7%
Borrowing capacity		
55% of gross book value	92,500	155,000
60% of gross book value	195,000	253,000
Interest coverage ratio (2) (3)	3.73	3.36

(1) The debt to gross book value ratio is equal to the total of long-term debt and bank indebtedness, divided by gross book value (total asset value plus accumulated depreciation).
(2) The interest coverage ratio is equal to income before interest on mortgages payable and convertible debentures, divided by interest on mortgages payable, bank indebtedness and convertible debentures.
(3) These ratios are not defined by GAAP and may differ from that of other entities.

Among the highlights of the past year, the issue of $100 million in convertible debentures enabled Cominar to protect more than one-third of its debt against potential increases in interest rates for the next 10 years. The weighted average rate of mortgages was 6.32% as at December 31, 2004, being an amount equal to last year. Cominar has very little exposure to the risk of an increase in interest rates in 2005, with only $19.7 million due. This risk also remains fairly low for subsequent years, with capital balances due on expiry of $2.4 million to $50.8 million, excluding the $80.0 million mortgage on Place de la Cité, which is negotiable in 2008.

Expiry of Mortgages Payable for the Next Five Years, Excluding the Convertible Debentures of $100 million Due in 2014

(in thousands of dollars)

	Repayment of capital	Balance due on expiry	Total	Weighted average interest rate (%)
Fiscal years ended December 31,				
2005	9,308	10,361	19,669	7.97
2006	9,340	31,664	41,004	6.29
2007	7,646	43,162	50,808	5.86
2008	3,025	115,186	118,211	6.06
2009	2,382	—	2,382	
2010 and subsequent	15,567	14,606	30,173	7.29
	47,268	214,979	262,247	6.32

Besides the issue of various securities on the stock market and mortgages payable, Cominar's funds are derived from short-term credit facilities and cash flows from operating activities.

Cominar currently has operating and acquisition credit facilities of nearly $66.0 million, renewable annually. The borrowing capacity relating to credit facilities totalled $66.0 million as at December 31, 2004, as no credits was used.

In addition, cash flows from operating activities rose from $38.9 million as at December 31, 2003 to $49.6 million as at December 31, 2004, an increase of 20.6%. That works out to $1.557 per unit, up from $1.439 per unit. While the concept of "cash flows from operating activities per unit" is not a financial measure defined by GAAP, it is widely used in the real estate sector.

In conclusion, Cominar's financial position remains healthy and solid, with — a debt to gross book value ratio of under 50% at the close of fiscal 2004 — relatively little interest rate risk — and unused credit facilities of $66.0 million.

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 proportionately in any distributions of Cominar.

During the year, Cominar issued 616,118 units for net proceeds received of $7.8 million (5,546,872 units for net proceeds received of $71.7 million in 2003).

	2004	2003
Units issued and outstanding, beginning of year	31,668,291	26,121,419
Issued on November 13, 2003 (at $13.80 per unit)	—	5,000,000
Issued from options exercised	479,166	451,367
Issued under distribution reinvestment plan	136,952	95,505
Units issued and outstanding, end of year	32,284,409	31,668,291

OUTLOOK

Cominar continues to apply its strategy of growth through profitable high-quality acquisitions and the development of those of its properties offering a potential increase in return, while maintaining conservative financial management. Considering its quality properties, market intelligence, solid balance sheet and available cash, Cominar is confident it will remain on the growth track in 2005 and subsequent 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 6,200 square feet.

Finally, with its fully-integrated management, Cominar can exercise tighter preventive control over its operations, while developing a relationship of trust with its customers 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 2005, mortgages payable of $19.7 million are renewable at a weighted average interest rate of 7.97%. Cominar does not foresee any difficulty in refinancing them 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.

SELECTED FINANCIAL INFORMATION

(in thousands of dollars, except amounts per unit)

	Dec 31, 2004	Dec. 31, 2003	Dec. 31, 2002
Operating revenues	111,012	96,577	81,925
Net operating income	68,154	58,085	50,674
Net operating income per unit	2.14	2.15	1.96
Net income	31,535	31,022	29,432
Basic net income per unit	0.99	1.146	1.141
Diluted net income per unit	0.981	1.143	1.135
Distributable income per unit	1.349	1.303	1.277
Distributions per unit	1.178	1.152	1.107
Total assets	705,654	602,882	512,992
Weighted average number of units (000)	31,869	27,064	25,799

Management's Discussion and Analysis of Operating Results and Financial Position, the Annual Information Form, the Annual Report and the Management Proxy Circular will be filed on SEDAR's website at www.sedar.com.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MANAGEMENT'S RESPONSIBILITY

The accompanying consolidated financial statements have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants. 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.

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

Jules Dallaire
Chairman of the Board and Chief Executive Officer

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 sheets of *Cominar Real Estate Investment Trust* as at December 31, 2004 and 2003 and the consolidated statements of income, unitholders' equity 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, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Quebec, Canada
January 25, 2005

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31,
[In thousands of dollars]

	2004	2003
	$	$
ASSETS		
Income properties [note 4]	**640,889**	518,770
Properties under development [note 5]	**20,967**	21,486
Deferred expenses and other assets [note 6]	**26,736**	21,540
Prepaid expenses	**2,010**	1,901
Accounts receivable	**6,878**	5,525
Cash and cash equivalents [note 14]	**8,174**	33,660
	705,654	602,882
LIABILITIES AND UNITHOLDERS' EQUITY		
Liabilities		
Mortgages payable [note 7]	**262,247**	270,715
Convertible debentures [note 8]	**100,000**	—
Accounts payable and accrued liabilities	**18,388**	12,570
Distributions payable to unitholders	**3,551**	—
	384,186	283,285
Unitholders' equity		
Unitholders' contributions [note 10]	**328,433**	320,604
Cumulative net income	**153,136**	121,640
Cumulative distributions	**(160,353)**	(122,647)
Contributed surplus [note 10]	**252**	—
	321,468	319,597
	705,654	602,882

See accompanying notes to consolidated financial statements

Approved by the Board

(signed) Jules Dallaire, Trustee

(signed) Michel Berthelot, Trustee

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

Years ended December 31,
[In thousands of dollars]

	2004	2003
	$	$
Unitholders' contributions		
Balance, beginning of year	**320,604**	248,874
Issue of units [note 10]	**7,903**	74,652
Underwriters' fees and offering expenses	**(74)**	(2,922)
Balance, end of year	**328,433**	320,604
Cumulative net income		
Balance, beginning of year	**121,640**	90,618
Change in an accounting policy [note 3]	**(39)**	—
Net income	**31,535**	31,022
Balance, end of year	**153,136**	121,640
Cumulative distributions		
Balance, beginning of year	**(122,647)**	(91,245)
Distributions to unitholders	**(37,706)**	(31,402)
Balance, end of year	**(160,353)**	(122,647)
Contributed surplus [note 10]		
Change in an accounting policy [note 3]	**39**	—
Unit option plan	**213**	—
Balance, end of year	**252**	—
Unitholders' equity	**321,468**	319,597

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31,
[In thousands of dollars except per unit amounts]

	2004	2003
	$	$
Operating revenues		
Rental revenue from income properties [note 3]	**111,012**	96,577
Operating expenses		
Operating costs	**22,202**	21,083
Realty taxes and services	**19,567**	16,235
Property management expenses	**1,089**	1,174
	42,858	38,492
Operating income before the under noted	**68,154**	58,085
Interest on mortgages and bank indebtedness	**16,130**	16,898
Interest on convertible debentures	**1,928**	—
Depreciation of income properties [note 3]	**12,472**	4,240
Amortization of deferred expenses and other assets	**5,257**	4,636
	35,787	25,774
Operating income from real estate assets	**32,367**	32,311
Trust administrative expenses	**1,886**	1,512
Other income	**(1,054)**	(223)
Net income	**31,535**	31,022
Basic net income per unit [note 12]	**0.990**	1.146
Diluted net income per unit [note 12]	**0.981**	1.143

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,
[In thousands of dollars]

	2004	2003
	$	$
OPERATING ACTIVITIES		
Net income	**31,535**	31,022
Items not affecting cash		
Depreciation of income properties	**12,472**	4,240
Amortization of above-market leases	**56**	—
Amortization of deferred expenses and other assets	**5,257**	4,636
Leasing costs	**—**	(953)
Compensation costs related to unit option plan [note 10]	**289**	—
Funds from operations	**49,609**	38,945
Leasing costs	**(6,512)**	(6,554)
Change in non-cash operating working capital items [note 14]	**(3,261)**	3,761
	39,836	36,152
FINANCING ACTIVITIES		
Mortgages payable	**—**	52,806
Repayments of mortgages payable	**(26,530)**	(17,216)
Net proceeds from issue of convertible debentures [note 8]	**96,250**	—
Bank indebtedness	**—**	(33,332)
Distributions to Unitholders	**(34,155)**	(31,402)
Net proceeds from issue of units [note 10]	**7,753**	71,730
	43,318	42,586
INVESTING ACTIVITIES		
Acquisitions of income properties	**(95,821)**	(25,546)
Acquisitions of properties under development	**(12,551)**	(19,185)
Other assets	**(268)**	(347)
	(108,640)	(45,078)
Net change in cash and cash equivalents	**(25,486)**	33,660
Cash and cash equivalents, beginning of year	**33,660**	—
Cash and cash equivalents, end of year [note 14]	**8,174**	33,660

See accompanying notes to consolidated financial statements

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 Québec.

2) SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

Cominar's consolidated financial statements are prepared in conformity with Canadian generally accepted accounting principles.

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 from income properties includes rents from tenants under leases, realty taxes and operating cost recoveries, lease cancellation fees, parking income and incidental income.

Rental revenue from leases with contractual rent increases are recognized based on the straight-line method.

Income properties and properties under development

Income properties are stated at cost. Cost includes acquisition costs and improvements to income properties. Regarding income properties acquired after September 12, 2003, a portion of the purchase price, if any, is allocated to operating leases, customer relationships and tenant improvements.

Depreciation of buildings is recorded using the straight-line method in order to fully amortize the cost of buildings over 40 years.

Intangible costs, described as acquisition costs related to in-place operating leases, customer relationships and tenant improvements are amortized on a straight-line basis over the terms of the related leases.

Properties under development are stated at cost. 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.

Capitalization of costs to properties under development continues until the property reaches its accounting completion date, the determination of which is based on achieving a satisfactory occupancy level within a predetermined time limit.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use together with its residual value. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value.

Deferred expenses and other assets

Deferred expenses and other assets mainly consist of leasing costs such as leasehold improvements realized through operating activities 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. Financing costs are deferred and amortized on the straight-line basis over the terms of the related loans.

Cash and cash equivalents

Cash and cash equivalents consist of balances with banks and short term investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, with original maturities of three months or less.

Unit option plan

Cominar has a unit option plan which is described in note 10. Cominar recognizes compensation expense when unit options are granted to trustees and employees with no cash settlement features.

Per unit results

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

3) CHANGES IN ACCOUNTING POLICIES

Revenue recognition

As of January 1, 2004, in accordance with Section 1100 of the Canadian Institute of Chartered Accountants (“CICA”) Handbook, “Generally Accepted Accounting Principles,” rentals from leases with contractual rent increases are recognized in income based on the straight-line method. Previously, rentals from leases were recognized as they became due. The prospective adoption of this accounting policy resulted in an increase in net income of $1,360 for the year ended December 31, 2004. This change in accounting policy had no effect on distributable income, since deferred rentals are added back to net income.

Depreciation of income properties

As of January 1, 2004, in accordance with Section 1100 of the CICA Handbook, “Generally Accepted Accounting Principles”, income properties are depreciated using the straight-line method in order to fully depreciate their residual value over a forty-year term. Previously, income properties were depreciated using the sinking fund basis at the rate of 5%. The prospective adoption of this accounting policy increased depreciation of income properties by $7,120 for the year ended December 31, 2004, thereby reducing net income by the same amount. However, there was no impact on distributable income since the depreciation of income properties is added back to net income for the purpose of calculating distributable income.

[In thousands of dollars except per unit amounts]

Unit-based compensation costs

As of January 1, 2004, Cominar retroactively applied as at January 1, 2002, Section 3870 of the CICA Handbook, "Stock-based Compensation and other Stock-based Payments." The CICA now requires an expense to be recognized for all forms of employee stock-based compensation using a fair value-based method. The fair value of the options granted to Cominar employees and trustees on November 13, 2003, amounts to $607 and the stock-based compensation costs related are amortized using the graded vesting method. Accordingly, the opening balance of cumulative net income was adjusted by $39 without restatement of prior financial statements. The application of this change in accounting policy also had the effect of increasing Trust administrative expenses by $289 and reduced net income by the same amount for the year ended December 31, 2004. However, there was no impact on the unitholders' equity.

Acquisitions of income properties

As of September 12, 2003, Cominar prospectively applied EIC-140 of the CICA Handbook, "Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination." In accordance with this Abstract, the CICA now requires that a portion of the purchase price of an income property be allocated to in-place operating leases, based on their fair value, to the value of customer relationships and the fair value of leasehold improvements. This allocation is based on management assumptions and estimates. These intangible assets are included in income properties and are amortized on a straight-line basis over the terms of the related leases. Previously, no value was allocated to these intangible assets. The adoption of this Abstract accelerated the depreciation of income properties, but had no impact on distributable income.

This accounting policy has been applied to acquisitions made during the year ended December 31, 2004. Of the acquisition cost of the current financial year, Cominar allocated $7,474 to the estimated fair value of the acquired intangible assets.

4) INCOME PROPERTIES

	2004	2003
	$	$
Land	**87,533**	78,611
Buildings	**574,404**	456,153
Intangible assets	**7,474**	—
	669,411	534,764
Accumulated depreciation and amortization	**28,522**	15,994
	640,889	518,770

5) PROPERTIES UNDER DEVELOPMENT

During the year, Cominar capitalized $1,172 [$491 in 2003] in interest to properties under development, some of which are classified in income properties at year-end.

[In thousands of dollars except per unit amounts]

6) DEFERRED EXPENSES AND OTHER ASSETS

	2004	2003
	$	$
At amortized cost		
Leasing costs	**21,658**	20,312
Financing costs	**4,442**	452
Other assets	**636**	776
	26,736	21,540

7) MORTGAGES PAYABLE

Mortgages payable are secured by income properties stated at a net book value of $375,595. They bear interest at rates ranging from 4.25% to 11.00% per annum [4.50% to 11.00% in 2003] representing a weighted-average year-end rate of 6.32% [6.31% in 2003] and are renewable at various dates from May 2005 to January 2019.

Mortgage repayments are as follows:

	Principal repayments	Balance at maturity	**Total**
	$	$	**$**
Years ending December 31,			
2005	9,308	10,361	**19,669**
2006	9,340	31,664	**41,004**
2007	7,646	43,162	**50,808**
2008	3,025	115,186	**118,211**
2009	2,382	—	**2,382**
2010 and thereafter	15,567	14,606	**30,173**
	47,268	214,979	**262,247**

Mortgages payable having fixed rates amount to $239,888 [$247,208 in 2003] and those having variable rates amount to $22,359 [$23,507 in 2003].

8) CONVERTIBLE DEBENTURES

On September 17, 2004, Cominar completed a public offering of 100,000 convertible unsecured subordinated debentures, bearing interest at the annual rate of 6.30%, for total gross proceeds of $100,000. The debentures mature on June 30, 2014 and interest is paid semi-annually on June 30 and December 31. Each debenture is convertible into units of Cominar at the holder's option at any time prior to the earlier of the maturity date and the last business day immediately preceding the date specified by Cominar for redemption at a conversion price of $17.40 per unit. The debentures are not redeemable before June 30, 2008. On or after June 30, 2008 and prior to June 30, 2010, the debentures may be redeemed in whole or in part at Cominar's option at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted-average trading price of the units on the Toronto Stock Exchange (TSX) for a period of 20 consecutive days exceeds

[In thousands of dollars except per unit amounts]

125% of the conversion price. Subsequent to June 30, 2010 and prior to the maturity date, the debentures may be redeemed in whole or in part at Cominar's option at a price equal to their principal amount plus accrued and unpaid interest.

Cominar may satisfy its obligation to repay principal of the debentures by issuing units of Cominar. In the event that Cominar elects to satisfy its obligation by repaying the principal with units of the Trust, it must issue units equal to 95% of the volume-weighted-average trading price of the units on the TSX during the period of 20 consecutive trading days ending on the fifth trading day preceding scheduled redemption date or the maturity date.

In accordance with the CICA Handbook Section 3860, convertible debentures have been recorded as liabilities on the balance sheet and interest has been charged to interest on convertible debentures on the statement of income. Debentures issue costs are amortized to interest on convertible debentures over a 10-year period and recorded under interest on convertible debentures. As the valuation of the unitholders' equity component of the conversion option did not have a material impact on the Cominar's consolidated results, the debentures have been recorded in whole as liabilities.

9) BANK INDEBTEDNESS

Cominar has a number of operating and acquisition credit facilities of up to $65,865 [$35,865 in 2003]. These credit facilities, subject to annual renewal, bear interest between prime rate and prime rate plus 0.50% [0.50% in 2003]. Certain credit facilities totalling $62,865 [$32,865 in 2003] are secured by movable and immovable hypothecs on specific assets. As at December 31, 2004, the prime rate was 4.25% [4.50% in 2003].

10) ISSUED AND OUTSTANDING UNITS

The ownership interests in Cominar are 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 616,118 units for net proceeds received of $7,753 [5,546,872 units for net proceeds received of $71,730 in 2003].

	2004	2003
Units issued and outstanding, beginning of year	**31,668,291**	26,121,419
Issued on November 13, 2003 [at $13.80 per unit]	**—**	5,000,000
Issued from options exercised	**479,166**	451,367
Issued under distribution reinvestment plan	**136,952**	95,505
Units issued and outstanding, end of year	**32,284,409**	31,668,291

Unit option plan

Under a unit option plan, Cominar granted options to purchase units to the trustees and employees of Cominar. The maximum number of units reserved for issuance under the terms of the plan is 3,160,000 units. The options are exercisable on a cumulative basis of 20% of the options after each of the five first anniversary dates of the grant [33 1/3% of the options after each of the three first anniversary dates of the grant for options granted before November 13, 2003]. The exercise price of options equals the market price of Cominar's units on the date of the grant, and the options have a maximum term of seven years.

[In thousands of dollars except per unit amounts]

	2004		2003	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
		$		$
Outstanding, beginning of year	**3,042,166**	**13.58**	799,533	9.90
Exercised	**(479,166)**	**12.09**	(451,367)	9.66
Granted	**—**	**—**	2,710,000	14.00
Cancelled	**—**	**—**	(16,000)	11.00
Outstanding, end of year	**2,563,000**	**13.86**	3,042,166	13.58
Options exercisable, end of year	**395,000**	**13.11**	185,833	9.62

			2004	
Date of grant	Maturity date	Exercise price	Outstanding options	Options exercisable
		$		
March 27, 2001	March 27, 2006	10.20	**4,000**	**4,000**
August 9, 2001	August 9, 2008	11.00	**111,500**	**111,500**
November 13, 2003	November 13, 2010	14.00	**2,447,500**	**279,500**
			2,563,000	**395,000**

Unit-based compensation plan

The compensation costs associated with the options granted on November 13, 2003, were calculated using the Black-Scholes option pricing model, assuming volatility of 11.7% on the underlying units, a fixed exercise price of $14, a weighted-average distribution yield of approximately 8.74% and a weighted-average risk-free interest rate of approximately 4.21%.

Compensation costs are amortized using the graded vesting method.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options and awards which have no restrictions. In addition, option pricing models require the input of highly subjective assumptions, including the expected stock price volatility. Because the unit options of Cominar's trustees and employees have characteristics significantly different from those of traded options, and because changes in subjective input assumptions can materially affect fair value estimates, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the unit options of its trustees and employees.

Distribution reinvestment plan

Cominar adopted a distribution reinvestment plan under to which unitholders may elect to have all cash distributions of Cominar automatically reinvested in additional units. The plan provides plan participants a number of units amounting to 105% of the cash distribution. During the year, 136,952 units [95,505 in 2003] were issued at a weighted-average price of $15.07 [$13.52 in 2003] pursuant to the distribution reinvestment plan.

[In thousands of dollars except per unit amounts]

11) 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 as at December 31, 2004 exceeds the tax basis by approximately $64,600 [$52,800 as at December 31, 2003].

12) 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.

	2004	2003
Weighted-average number of units outstanding - basic	**31,868,876**	27,063,868
Effect of dilutive unit options	**275,083**	82,944
Weighted-average number of units outstanding - diluted	**32,143,959**	27,146,812

The possible issuance of units under convertible debentures has an anti-dilutive effect on the calculation of the diluted net income per unit.

13) DISTRIBUTABLE INCOME PER UNIT

Cominar is governed by a Contract of Trust that requires it to distribute 85% or more of its distributable income to unitholders. The distributable income generally means the net income determined in accordance with Canadian generally accepted accounting principles ("GAAP") excluding the depreciation of income properties and the amortization of above-market leases, compensation costs related to unit options and deferred rentals recognized by the application of the straight-line method of accounting for contractual rent increases.

Distributable income is not a GAAP measurement and is not an alternative to net earnings determined in accordance with GAAP to assess Cominar's performance. Cominar's method of calculating distributable income may differ from that used by other trusts and accordingly, comparisons may be inappropriate.

[In thousands of dollars except per unit amounts]

Distributable income has been calculated under to the Contract of Trust as follows:

	2004	2003
	$	$
Net income for the year	**31,535**	31,022
Add		
Depreciation of income properties	**12,472**	4,240
Amortization of above-market leases	**56**	—
Compensation costs related to unit options	**289**	—
Deferred rentals	**(1,360)**	—
Distributable income for the year	**42,992**	35,262
Retention of distributable income	**(5,286)**	(3,860)
Distributions to unitholders	**37,706**	31,402
Distributable income per weighted-average unit	**1.349**	1.303
Distributions per unit	**1.178**	1.152
Payout ratio	**87.3%**	88.4%

14) SUPPLEMENTAL CASH FLOWS INFORMATION

Cash and cash-equivalents include the followings:

	2004	2003
	$	$
Cash [including $1,291 bearing interest at 1.25%] [$10,795 at 2.50% in 2003]	**2,787**	12,673
Short-term investment, 2.40% [2.65% and 2.68% in 2003], maturing in January 2005	**5,387**	20,987
	8,174	33,660

[In thousands of dollars except per unit amounts]

Change in non-cash operating working capital items is as follows:

	2004	2003
	$	$
Prepaid expenses	**(109)**	(330)
Accounts receivable	**(1,353)**	(1,076)
Accounts payable and accrued liabilities	**(1,799)**	5,167
	(3,261)	3,761

Additional information		
Interest paid	**17,798**	16,342
Unpaid leasing costs	**418**	495
Acquisitions of income properties and properties under development by assumption of mortgages payable	**18,062**	11,134
Unpaid acquisitions of income properties and properties under development	**9,279**	1,585
Properties under development transferred to income properties	**17,578**	1,098

15) 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, made in the normal course of business, have been measured at the exchange amounts and have been reflected in the financial statements as follows:

	2004	2003
	$	$
Rental revenue from income properties	**1,295**	1,542
Other income	**572**	698
Income properties and properties under development	**33,399**	21,214
Deferred expenses and other assets	**5,084**	7,503
Accounts receivable	**829**	605
Accounts payable and accrued liabilities	**10,714**	2,484

16) 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 mortgages payable, convertible debentures and bank indebtedness are described in notes 7, 8 and 9 respectively.

[In thousands of dollars except per unit amounts]

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 via geographic and sector diversification of its portfolio and a varied tenant mix.

Fair value

The fair value of Cominar's financial assets and liabilities, such as accounts receivable, cash and cash equivalents, accounts payable and accrued liabilities and distribution payable to unitholders, approximated the carrying value as at December 31, 2004 due to their short-term nature.

As at December 31, 2004, the fair value of mortgages payable exceeded the carrying value by approximately $7,379 [$4,800 as at December 31, 2003] 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.

As at December 31, 2004, the fair value of convertible debentures approximates their carrying value in light of current market rates for debentures with similar terms and maturities.

17) SEGMENTED INFORMATION

Cominar's activities include three property types located entirely in the Province of Québec. 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:

	2004			
	Office properties $	Retail properties $	Industrial and mixed use properties $	Total $
Rental revenue from income properties	38,457	37,701	34,854	111,012
Depreciation of income properties	4,623	4,213	3,636	12,472
Net operating income (1)	23,668	22,164	22,322	68,154
Income properties	249,400	202,008	189,481	640,889
Acquisitions of income properties	91,058	6,440	37,093	134,591

[In thousands of dollars except per unit amounts]

	2003			
	Office properties	Retail properties	Industrial and mixed use properties	Total
	$	$	$	$
Rental revenue from income properties	30,914	35,637	30,026	96,577
Depreciation of income properties	1,476	1,602	1,162	4,240
Net operating income (1)	18,362	20,641	19,082	58,085
Income properties	162,965	199,781	156,024	518,770
Acquisitions of income properties	12,581	6,424	18,310	37,315

(1) Net operating income is operating income before interest, depreciation, amortization, Trust administrative expenses and other income.

INFORMATION

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