


Stability Through Turbulent Times

COMINAR

# INTERIM REPORT

COMINAR REAL ESTATE INVESTMENT TRUST

QUARTER ENDED MARCH 31, 2009

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## FIRST QUARTER

ENDED MARCH 31, 2009



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2001 McGill College, Montréal

**Photos cover page left to right:**
Place de la Cité, Québec City and 565-585 Charest Boulevard East, Québec City


**Collaboration in Interim Report:**
Photographer: Claude Dumoulin - Médiane Design et Communication


# MESSAGE TO UNITHOLDERS

Fellow Unitholders,

We are pleased to hereby disclose our first-quarter financial results. The first three months ended March 31, 2009 were our 43rd consecutive quarter of growth, despite the difficult economic conditions and climate of uncertainty that have prevailed since 2008. Thanks to sustained disciplined and prudent operational and financial management and an expansion strategy that considers economic fundamentals, we can take full advantage of one of our strategic assets, namely our presence in resilient markets that are doing well in the current context, including in Québec City where our portfolio retains a dominant position.

## STEADY GROWTH IN THE FIRST QUARTER OF 2009 AND SUSTAINED COST MANAGEMENT DISCIPLINE

Our revenue totalled $67.9 million for the first quarter of 2009, an increase of 18.4% reflecting the contribution of the acquisitions and developments completed in 2008 and beginning of 2009. We recorded net operating income of $36.7 million, an increase of 16.6%. Same property net operating income grew by 2.3%. Recurring distributable income increased by 10.5% to $17.4 million; recurring adjusted funds from operations grew by 8.7% and distributions by 7.5% over the first quarter of 2008. We are pleased with these results which reflect the quality of our properties and tenants, sound segmented diversification and the expertise, dynamism and professionalism of our teams.

## HIGH, STABLE OCCUPANCY RATE IN OUR MARKETS AND LOW RATE OF EXPIRING LEASES IN 2009

To date, our real estate operations have not been affected by the economic crisis and the demand for rental space in our portfolio is still strong. Our occupancy rate remained stable and high at 94.5% in the first quarter, close to our objective of 95%. In 2009, some 13.4% of our leases will expire, primarily for industrial and mixed-use properties, traditionally our most stable sector. We are confident we will renew a significant proportion of expiring leases at a higher rate per square foot considering the demand for rental space and the current level of rents in our markets. The office property vacancy rate in Québec City stands at approximately 2.9%, one of the lowest of all Canadian metropolitan areas. Furthermore, it is worth noting that approximately 43% of our first-quarter net operating income came from the Québec City and Ottawa regions, which benefit from very low unemployment and a stable economy driven by government agencies and the services industry.

## FINANCIAL POSITION THAT REMAINS HEALTHY AND SOLID AS AT MARCH 31, 2009

Our interest coverage ratio was 2.42:1, comparing favourably with our peers, thanks to the increase in value created since the REIT's inception and our strong capacity to generate cash flows. Our debt ratio stood at 62.8%, below the maximum of 65.0% permitted by our Contract of Trust.

## EARLY RENEWAL OF OUR OPERATING AND ACQUISITION CREDIT FACILITY AND ACCESS TO THE CAPITAL MARKET

Despite tighter and more costly lending conditions, Cominar successfully gains access to the capital market. At the beginning of the year, we renewed, in advance and at low interest rates, our operating and acquisition credit facility of a maximum of $255 million. In the first quarter, we also contracted or assumed mortgages payable totalling $88.0 million and repaid outstanding mortgages payable of $47.1 million. Subsequent to the end of the quarter, on April 21, 2009, we completed a public offering of 4,792,050 units for proceeds of $57.5 million. The net proceeds from the offering were used to pay down the outstanding debt used to finance our ongoing acquisition and development pipeline. Using the net proceeds raised by the offering, our debt ratio was lowered to 59.9% as at May 12, 2009.

## DESIGNATION OF COMPLEXE JULES-DALLAIRE AND INVESTMENT BY THE DALLAIRE FAMILY IN THIS LARGE-SCALE PROJECT

On March 30, 2009, our large-scale real estate project under construction on Laurier Boulevard in Québec City was officially named COMPLEXE JULES-DALLAIRE, in honour and memory of Cominar's founder, the late Jules Dallaire. We also announced that the Dallaire family had entered into an agreement to acquire a 5% interest in this large-scale complex. The advancement of the work on Phase 1, covering 396,000 square feet and estimated at $74 million, is right on schedule and the first tenants should move into the premises in November 2009. We are highly confident regarding the future of this remarkable complex.

## OUTLOOK

In the first quarter, we invested $36.8 million to acquire a 227,260-square-foot office property strategically located in Montreal, and ongoing developments in the Montréal and Québec City regions are progressing on schedule. While being extra cautious in the current economic context, we continue to look for acquisition and development opportunities meeting our criteria. Cominar has the strengths and fundamentals to achieve another sound performance in upcoming periods. Maintaining good liquidity and disciplined growth will remain our priorities in 2009.

**Michel Dallaire**, P.Eng.
President and Chief Executive Officer

# INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") is provided to enable a reader to assess the results of operations of Cominar Real Estate Investment Trust ("Cominar," the "Trust" or the "REIT") for the quarter ended March 31, 2009, in comparison with the corresponding quarter of 2008, as well as its financial position at that date and its outlook. Dated May 12, 2009, this interim MD&A reflects all significant information available as of that date and should be read in conjunction with the consolidated interim financial statements and accompanying notes included in this report. **Unless otherwise indicated, all amounts are in thousands of Canadian dollars, except for per unit and per square-foot amounts**, and are based on financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

The interim consolidated financial statements have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants ("CICA"). In compliance with National Instrument 51-102 of the Canadian Securities Administrators, we hereby caution the reader that the interim consolidated financial statements for the periods ended March 31, 2009 and 2008 have not been reviewed by Cominar's auditors.

Additional information about us, including our 2008 Annual Information Form, is available on our website at www.cominar.com and on the Canadian Securities Administrators' ("CSA") website at www.sedar.com.

The Board of Trustees, under the recommendation of the Audit Committee, has approved the contents of this interim MD&A.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, we make written or oral forward-looking statements within the meaning of applicable Canadian securities legislation. We may make such statements in this document and in other filings with Canadian regulators, in reports to unitholders or in other communications. These forward-looking statements include, among others, statements with respect to our medium-term and 2009 objectives, and strategies to achieve our objectives, as well as statements with respect to our beliefs, outlooks, plans, objectives, expectations, anticipations, estimates and intentions. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and words and expressions of similar import are intended to identify forward-looking statements.

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



**Photo:** 3400 Jean-Béraud Avenue, Laval
An office building with a leasable area of 156,270 square feet

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to Cominar, investors and others should carefully consider the foregoing factors, as well as other factors and uncertainties.

Additional information about these factors can be found in the "Risks and Uncertainties" section of this interim MD&A.

## NON-GAAP FINANCIAL MEASURES

We made disclosures in this interim MD&A regarding certain non-GAAP measures, including "net operating income," "distributable income," "funds from operations" and "adjusted funds from operations," which we use to evaluate our performance. Because non-GAAP measures do not have a standardized meaning and may differ from similar measures presented by other issuers, securities regulations require that non-GAAP measures be clearly defined and qualified, reconciled with their nearest GAAP measure and given no more prominence than the closest GAAP measure. You may find such information in the sections dealing with each of these measures.

## HIGHLIGHTS FOR THE FIRST QUARTER ENDED MARCH 31, 2009

- Increases of:
  - 18.4% in operating revenues
  - 16.6% in net operating income
  - 10.5% in recurring distributable income
  - 11.4% in recurring funds from operations
  - 8.7% in recurring adjusted funds from operations
  - 7.5% in distributions

- Maintenance of a stable occupancy rate of 94.5%

- Conservative interest coverage ratio of 2.42:1

- Acquisition of a property representing nearly 0.2 million square feet of leasable area and a $36.8 million investment

- Development pipeline as at March 31, 2009 representing a total investment of $97.4 million and adding approximately 0.7 million square feet of leasable area to our portfolio

## SUBSEQUENT EVENTS

- April 21, 2009 issuance of new units for proceeds of $57.5 million subsequent to a public offering

- Major project under construction on Laurier Boulevard in Québec City officially named "Complexe Jules-Dallaire"

# FINANCIAL AND OPERATIONAL HIGHLIGHTS

| Quarters ended March 31 | 2009 | 2008 | Δ% |
|---|---|---|---|
| **FINANCIAL DATA** | | | |
| Operating revenues [1][2] | **67,867** | 57,333 | 18.4 |
| Net operating income [1][2][3] | **36,684** | 31,450 | 16.6 |
| Same property net operating income growth [3] | **2.3%** | 1.9% | |
| Net income [1] | **4,042** | 4,125 | (2.0) |
| (Recurring) distributable income [1][3] | **17,445** | 15,794 | 10.5 |
| (Recurring) funds from operations [1][3] | **20,859** | 18,726 | 11.4 |
| (Recurring) adjusted funds from operations [1][3] | **17,046** | 15,682 | 8.7 |
| Distributions | **16,523** | 15,369 | 7.5 |
| Debt ratio | **62.8%** | 57.3% | |
| Debt ratio (excluding convertible debentures) | **52.0%** | 44.4% | |
| Total assets | **1,738,135** | 1,472,893 | 18.0 |
| Market capitalization | **631,186** | 924,746 | (31.7) |
| **PER UNIT FINANCIAL DATA** | | | |
| Net income (basic) | **0.09** | 0.09 | — |
| Distributable income (basic) [3] | **0.38** | 0.35 | 8.6 |
| Recurring distributable income (FD) [3][4] | **0.38** | 0.35 | 8.6 |
| Recurring funds from operations (FD) [3][4] | **0.44** | 0.40 | 10.0 |
| Recurring adjusted funds from operations (FD) [3][4] | **0.37** | 0.35 | 5.7 |
| Distributions | **0.360** | 0.339 | 6.2 |
| **OPERATIONAL DATA** | | | |
| Number of properties | **215** | 208 | |
| Leasable area (in thousands of sq. ft.) | **18,547** | 17,253 | |
| Occupancy rate | **94.5%** | 95.3% | |
| **ACQUISITIONS AND DEVELOPMENTS** | | | |
| **Acquisitions** | | | |
| Number of properties | **1** | 7 | |
| Leasable area (in thousands of sq. ft.) | **227** | 231 | |
| Total investment | **36,820** | 18,564 | |
| Weighted average capitalization rate | **8.8%** | 6.8% | |
| **Ongoing developments** | | | |
| Number of properties | **4** | 7 | |
| Estimated leasable area (in thousands of sq. ft.) | **671** | 1,103 | |
| Forecast total investment | **97,400** | 144,200 | |
| Forecast weighted average capitalization rate | **9.4%** | 9.4% | |

*(1) Certain 2008 figures have been modified subsequent to the retroactive adoption of a new accounting policy.*

*(2) Certain 2008 figures have been reclassified as discontinued operations in accordance with GAAP.*

*(3) Non-GAAP financial measure. See relevant sections for definition and reconciliation to closest GAAP measure.*

*(4) Fully diluted.*

# GENERAL BUSINESS OVERVIEW

Cominar Real Estate Investment Trust is the largest owner of commercial properties in the Province of Québec. As at May 12, 2009, we owned and managed a high-quality portfolio of 215 properties including 38 office buildings, 38 retail properties and 139 industrial and mixed-use properties covering more than 18.5 million square feet in the Québec City, Montréal and Ottawa areas.

Since its inception in 1998, Cominar has made a series of acquisitions and completed many construction and property development projects. Consequently, the gross carrying value of our real estate assets has increased more than sevenfold since 1998, rising to nearly $1.9 billion as at March 31, 2009 from $244.6 million.

Our asset and property management is entirely internalized and we are a fully integrated, self-managed real estate investment trust. Thus, we are not bound to a third party by management contracts or property management fees. This mode of operation reduces the potential for conflict between the interests of management and the Trust, while ensuring that the interests of management and employees are aligned with those of unitholders. The result is an improved financial performance for Cominar.

# OBJECTIVES AND STRATEGY

## OBJECTIVES

Cominar's primary objectives are to provide its unitholders with growing cash distributions, payable monthly, and to increase and maximize unit value through proactive management and the growth of its property portfolio.

## STRATEGY

To continue to ensure the growth of distributions and to increase return on investment for unitholders, Cominar strives to manage growth, operational risk and debt in a flexible and prudent manner. The key strategic elements for reaching these objectives are:

- **Acquisition as well as construction, redevelopment and expansion of properties offering a high potential for return.**

  To increase the leasable area in its property portfolio, Cominar continues to seek acquisition, construction and development opportunities in the Québec City, Montréal and Ottawa areas. The key criterion in evaluating any acquisition or development continues to be the ratio between the acquisition or development price, the related debt and the anticipated profitability of the project in question over the short- and long-term. Cominar maintains a conservative growth strategy, based on a very strict selection of properties to be acquired and the construction and development of quality properties in locations in great demand with clients.

- **Diversification of our property portfolio**

This strategic element encompasses the following:

a) **Activity segment diversification** has been an integral part of our strategy from the beginning and consists in maintaining the right balance in our property portfolio among three activity segments: office buildings, retail properties and industrial and mixed-use properties. By diversifying its activities among three types of properties, Cominar reduces the risk associated with any given activity segment. This diversification contributes to steady revenue and income growth;

b) **Geographic diversification** – While consolidating its leading position in the Québec City area, Cominar has from the outset established a major presence in the Montréal area where it owns, as at May 12, 2009, 117 properties representing a leasable area of over 11.1 million square feet. In addition, in 2007, Cominar acquired its first properties in the Ottawa region. Like activity segment diversification, geographic diversification allows Cominar to better spread its real estate risk;

c) **Client diversification –** Cominar serves an extensive and diverse client base across many industries. Clients occupy an average area of 6,900 square feet. This diversification allows for the maintenance of foreseeable cash flows.

- **Proactive property management emphasizing growth of occupancy rates and net leasing income**

  Commercial real estate is a dynamic investment that requires active and experienced management. With its integrated management, Cominar exercises rigorous, preventive and cost-effective control over its operations. Expanding our property portfolio enables us to achieve economies of scale and synergies. We thereby ensure delivery of efficient, cost-effective services to our clients. The result is increased client satisfaction, and high occupancy and retention rates.

- **Prudent financial management**

  Debt management continues to be a decisive factor in growth and stability for a real estate investment trust. Cominar maintains its debt ratio below the maximum authorized under its Contract of Trust and at a level we deem prudent. We believe that this disciplined policy contributes to the stability of future distributions and to the prudent growth of the Trust. We also take a conservative approach to managing the distributions ratio, which we regard as another key factor in the stability of future distributions. This approach provides us with greater financial flexibility for our capital expenditures and for the implementation of our leasing programs. Furthermore, we opted for early renewal of our credit facility, which now matures on June 30, 2010, while all mortgages maturing in 2009 have been renewed.

# PERFORMANCE INDICATORS

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

## OPERATIONAL PERFORMANCE

Client satisfaction is defined as client perception and judgment of service received and demonstrates loyalty to Cominar. Two indicators are used to measure client satisfaction: occupancy rate and retention rate, the latter being calculated as the leasable area of renewed leases in relation to the leasable area of leases that expired during the year. These indicators also provide an overview of the economic well-being of the regions in which Cominar owns properties.

## FINANCIAL PERFORMANCE

To measure its financial performance, Cominar uses the following key indicators:

- **Same property net operating income**, which provides an indication of the operating profitability of the existing portfolio, i.e. Cominar's ability to increase revenues and reduce costs, and thereby generate added value for its unitholders;

- **Net operating income ("NOI") margin**, which provides an indication of the operating profitability of the portfolio;

- **(Recurring) distributable income per unit,** which represents a benchmark for investors to judge the stability of distributions;

- **(Recurring) funds from operations per unit**, which represents a standard real estate benchmark to compare an entity's performance, excluding depreciation and amortization calculated using historical costs from net income established in accordance with GAAP;

- **(Recurring) adjusted funds from operations per unit**, represented by funds from operations net of the investments needed to maintain the property portfolio's ability to generate rental income, which constitutes a meaningful measure of Cominar's ability to generate cash flows; and

- **Debt ratio**, which is used to assess the financial balance essential to the smooth running of an organization.

Definitions and other information regarding these performance indicators are provided in the relevant sections.

# PERFORMANCE ANALYSIS

## RESULTS OF OPERATIONS

The following table summarizes our results of operations for the periods ended March 31, 2009 and 2008, and should be read in conjunction with the consolidated interim financial statements and accompanying notes presented in this interim MD&A. It should be noted that certain amounts relating to fiscal 2008 have been modified subsequent to the retroactive adoption of a new accounting policy. Other amounts have been reclassified as discontinued operations in accordance with GAAP.

| Quarters ended March 31 | 2009 | 2008 | Δ % |
|---|---|---|---|
| Operating revenues | **67,867** | 57,333 | 18.4 |
| Operating expenses | **31,183** | 25,883 | 20.5 |
| Net operating income | **36,684** | 31,450 | 16.6 |
| Interest on borrowings | **14,696** | 11,850 | 24.0 |
| Depreciation of income properties | **14,219** | 12,459 | 14.1 |
| Amortization of capitalized leasing costs | **2,598** | 2,124 | 22.3 |
| Amortization of other assets | **91** | 62 | 46.8 |
| Trust administrative expenses | **1,093** | 879 | 24.3 |
| Other revenues | **55** | 51 | 7.8 |
| Net income from continuing operations | **4,042** | 4,127 | (2.1) |
| Net loss from discontinued operations | **—** | (2) | — |
| Net income | **4,042** | 4,125 | (2.0) |
| Basic and diluted net income per unit | **0.09** | 0.09 | — |

## FINANCIAL POSITION

The following table summarizes our assets and liabilities as well as unitholders' equity as at March 31, 2009 and December 31, 2008, and should be read in conjunction with the consolidated interim financial statements and accompanying notes presented in this interim MD&A.

| | March 31, 2009 | December 31, 2008 | Δ $ |
|---|---|---|---|
| ASSETS | | | |
| Income properties (at amortized cost) | **1,522,041** | 1,507,087 | 14,954 |
| Properties under development and land held for future development | **135,697** | 93,802 | 41,895 |
| Other assets | **80,397** | 67,447 | 12,950 |
| **Total** | **1,738,135** | 1,668,336 | 69,799 |
| LIABILITIES | | | |
| Mortgages payable | **767,135** | 730,711 | 36,424 |
| Convertible debentures | **204,084** | 203,723 | 361 |
| Bank indebtedness | **218,401** | 186,987 | 31,414 |
| Other liabilities | **48,639** | 34,987 | 13,652 |
| | **1,238,259** | 1,156,408 | 81,851 |
| UNITHOLDERS' EQUITY | **499,876** | 511,928 | (12,052) |
| **Total** | **1,738,135** | 1,668,336 | 69,799 |

## PERFORMANCE INDICATORS

The following table summarizes our performance indicators for the quarters ended March 31, 2009 and 2008. A detailed analysis of each of these performance indicators is provided on the page indicated:

**Performance Indicators**

| Quarters ended March 31 | Page | 2009 | 2008 | Δ % |
|---|---|---|---|---|
| Same property net operating income | 12 | **31,565** | 30,868 | 2.3 |
| Recurring DI per unit (FD) (1) | 16 | **0.38** | 0.35 | 8.6 |
| Recurring FFO per unit (FD) (1) | 18 | **0.44** | 0.40 | 10.0 |
| Recurring AFFO per unit (FD) (1) | 19 | **0.37** | 0.35 | 5.7 |
| NOI margin | 12 | **54.1** | 54.9 | |
| Debt ratio (excluding convertible debentures) | 22 | **62.8** | 57.3 | |
| Occupancy rate | 26 | **94.5** | 95.3 | |

*(1) Fully diluted.*

# RESULTS OF OPERATIONS

## OVERALL ANALYSIS

### OPERATING REVENUES

We achieved excellent growth in operating revenues during the first quarter of 2009. The 18.4% increase resulted mainly from the contribution of office, industrial and mixed-use property acquisitions and developments completed in 2008 and 2009.

**Operating Revenues**

| Quarters ended March 31 | 2009 | 2008 | Δ % |
|---|---|---|---|
| Same property portfolio (1) | **58,875** | 56,314 | 4.5 |
| Acquisitions and developments | **8,992** | 1,019 | — |
| **Total operating revenues** | **67,867** | 57,333 | 18.4 |

*(1) The same property portfolio includes all properties owned by Cominar as at December 31, 2007, except those taken into account in the calculation of net income from discontinued operations, and does not include the benefits of acquisitions and developments completed and integrated in 2008.*

For the first quarter of 2009, our same property portfolio operating revenues rose 4.5% compared with the corresponding quarter of 2008. This organic growth was driven by rent increases provided for under existing leases, as well as lease renewal at higher rates and the execution of new leases, and reflects the high quality of our properties and sustained rental growth in our markets.

### OPERATING EXPENSES

Operating expenses for the first period of 2009 were up 20.5% from the corresponding period of 2008. This variation stemmed mainly from the portfolio's increased size due to acquisitions and developments completed in 2008 and 2009.

**Operating Expenses**

| Quarters ended March 31 | 2009 | 2008 | Δ % |
|---|---|---|---|
| Same property portfolio (1) | **27,310** | 25,446 | 7.3 |
| Acquisitions and developments | **3,873** | 437 | — |
| **Total operating expenses** | **31,183** | 25,883 | 20.5 |

*(1) See "Operating Revenues".*

## NET OPERATING INCOME

Although net operating income is not a financial measure defined by GAAP, it is widely used in the real estate industry to assess operating performance. We define it as operating income before interest on borrowings, depreciation of income properties, amortization of capitalized leasing costs and other assets, Trust administrative expenses and other revenues. This definition may differ from that of other issuers and, therefore, Cominar's NOI may not be comparable to similar measures presented by such other issuers.

### Net Operating Income

| Quarters ended March 31 | 2009 | 2008 | Δ % |
|---|---|---|---|
| Same property portfolio (1) | **31,565** | 30,868 | 2.3 |
| Acquisitions and developments | **5,119** | 582 | — |
| **Total NOI** | **36,684** | 31,450 | 16.6 |
| NOI margin | | | |
| Same property portfolio | **53.6%** | 54.8% | |
| Overall portfolio | **54.1%** | 54.9% | |

*(1) See "Operating Revenues."*

For the first quarter of 2009, NOI was up 16.6% from the corresponding period of 2008, while our NOI margin stood at 54.1% of operating revenues, which is slightly below our average of the past few years.

Same property NOI (a financial performance indicator) was up 2.3% in the first quarter of 2009. At 53.6%, same property NOI margin held relatively steady compared with 2008.

Cominar's management considers the analysis of same property NOI particularly important since this measure provides an indication of our ability to grow our revenues through an increase in occupancy and rental rates, and to contain our operating expenses.

## INTEREST ON BORROWINGS

For the first quarter of 2009, total interest on borrowings increased 24.0% compared with the first quarter of 2008, owing primarily to the various financing agreements entered into or assumed in connection with the settlement of recent acquisitions. Total interest on borrowings represented 21.7% of operating revenues as at March 31, 2009, which compares favourably with our peers. By comparison, the rate stood at 20.7% of operating revenues as at March 31, 2008. As at March 31, 2009, the weighted average contractual interest rate of our long-term debt stood at 5.55%, down 8 basis points from December 31, 2008.

The following table indicates the source of interest on borrowings presented in our financial statements for the periods indicated:

### Interest on Borrowings

| Quarters ended March 31 | 2009 | 2008 | Δ % |
|---|---|---|---|
| Mortgages and bank indebtedness | **12,106** | 9,413 | 28.6 |
| Convertible debentures | **3,099** | 3,135 | (1.1) |
| Amortization of borrowing costs | **620** | 373 | 66.2 |
| Accretion of liability component of convertible debentures | **10** | 9 | 11.1 |
| Amortization of fair value adjustments on assumed mortgages payable | **(31)** | (31) | — |
| Less: Capitalized interest | **(1,108)** | (1,019) | 8.7 |
| Less: Interest related to discontinued operations | **—** | (30) | — |
| **Total interest on borrowings** | **14,696** | 11,850 | 24.0 |

## DEPRECIATION OF INCOME PROPERTIES

During the first quarter of 2009, depreciation expense in respect of income properties rose 14.1% compared with the same period in 2008. It should be noted that since September 2003, the CICA requires that the purchase price of an income property be allocated between tangible assets comprising the land and the building, and intangible assets such as operating leases and client relationships. These intangible assets are amortized on a straight-line basis over the terms of related leases. The resulting amortization is therefore accelerated relative to the depreciation of properties held for a number of years. Depreciation attributable to the same property portfolio was fourfold the expense allocated to income properties acquired or completed during 2008 or 2009, or 82.1% of the total depreciation expense arising from income properties for the quarter ended March 31, 2009.

### Depreciation of Income Properties

| Quarters ended March 31 | 2009 | 2008 | Δ% |
|---|---|---|---|
| Same property portfolio | **11,677** | 12,215 | (4.4) |
| Acquisitions and developments | **2,542** | 244 | — |
| **Total depreciation of income properties** | **14,219** | 12,459 | 14.1 |

### Depreciation of Income Properties

| Quarters ended March 31 | 2009 | 2008 | Δ% |
|---|---|---|---|
| Depreciation of tangible assets | **8,368** | 7,209 | 16.1 |
| Amortization of intangible assets | **5,851** | 5,250 | 11.4 |
| **Total depreciation of income properties** | **14,219** | 12,459 | 14.1 |

## TRUST ADMINISTRATIVE EXPENSES

Administrative expenses rose 24.3% to $1.1 million for the first quarter of 2009. This increase resulted primarily from a higher headcount arising from acquisitions and developments completed during the past two fiscal years amounting to nearly $880 million. Despite this increase, Trust administrative expenses represented only 1.6% of operating revenues for the first quarter of 2009, compared with 1.5% for the corresponding period of 2008.

## DISCONTINUED OPERATIONS

In accordance with *CICA Handbook* Section 3475, the results of discontinued operations must be reclassified as a separate component of net income for the fiscal year in which the sale of these operations took place, as well as for the previous year presented for comparative purposes. Accordingly, net income related to a retail property sold in October 2008 is presented under net loss from discontinued operations.

## NET INCOME

The stellar results achieved since the beginning of 2009 and the improvement in several main performance indicators resulted in net income per share of $0.09, matching the level from the corresponding period of 2008.

### Net Income

| Quarters ended March 31 | 2009 | 2008 | Δ% |
|---|---|---|---|
| Net income | **4,042** | 4,125 | (2.0) |
| Basic and diluted net income per unit | **0.09** | 0.09 | — |

### CONTINGENCY

In June 2006, an expropriation process was initiated by the Centre hospitalier de l'Université de Montréal (CHUM) for the property located at 300 Viger Street in Montréal, Québec. The expropriation procedure is currently at the definitive indemnity setting stage. Cominar was served with a property transfer notice on August 27, 2007, with an effective date of September 1, 2007, and the Québec Administrative Court awarded Cominar, on September 10, 2007, a provisional indemnity pursuant to applicable legislation. The provisional indemnity, amounting to $30 million, was received during 2007. The definitive indemnity will be set by the Québec Administrative Court or settled between the parties in 2009. At this stage, it is impossible to estimate or assess the amount of the definitive indemnity and, consequently, Cominar has recognized no gain or loss in connection with this expropriation.

## SEGMENTED ANALYSIS

Cominar's activities encompass three categories of real estate properties located in the Greater Québec City, Montréal and Ottawa areas. The following tables show the contributions of these properties to NOI, by activity segment and geographic location, for the quarters ended March 31, 2009 and 2008. Variations are primarily attributable to acquisitions completed in 2008 and 2009.

### SEGMENTED INFORMATION BY ACTIVITY SEGMENT

#### Net Operating Income

| Quarters ended March 31 | 2009 | 2008 | Δ % |
|---|---|---|---|
| Activity segment | | | |
| Office | **17,461** | 13,211 | 32.2 |
| Retail | **6,582** | 6,422 | 2.5 |
| Industrial and mixed-use | **12,641** | 11,817 | 7.0 |
| **Total NOI** | **36,684** | 31,450 | 16.6 |

| Quarters ended March 31 | 2009 | 2008 |
|---|---|---|
| Activity segment | | |
| Office | **47.6%** | 42.0% |
| Retail | **17.9%** | 20.4% |
| Industrial and mixed-use | **34.5%** | 37.6% |
| **Total NOI** | **100.0%** | 100.0% |

**Office Segment**

For the first quarter of 2009, NOI from office properties was up 32.2% compared the corresponding period of 2008, mainly due to a 2.7% increase in renewal rates and acquisitions completed in 2008 and 2009.

| Quarters ended March 31 | 2009 | 2008 | Δ % |
|---|---|---|---|
| Operating revenues | **32,792** | 24,801 | 32.2 |
| Operating expenses | **15,331** | 11,590 | 32.3 |
| **NOI – Office** | **17,461** | 13,211 | 32.2 |
| **NOI margin – Office** | **53.2%** | 53.3% | |

### Retail Segment

Retail segment NOI rose 2.5% in the first quarter of 2009 compared with corresponding period of 2008.

| Quarters ended March 31 | 2009 | 2008 | Δ % |
|---|---|---|---|
| Operating revenues | **12,130** | 11,630 | 4.3 |
| Operating expenses | **5,548** | 5,208 | 6.5 |
| **NOI – Retail** | **6,582** | 6,422 | 2.5 |
| **NOI margin – Retail** | **54.3%** | 55.2% | |

### Industrial and Mixed-Use Segment

The industrial and mixed-use segment also turned in a very strong performance in the first quarter of 2009, with a 7.0% increase in NOI, driven mainly by acquisitions completed in 2009 and 2008.

| Quarters ended March 31 | 2009 | 2008 | Δ % |
|---|---|---|---|
| Operating revenues | **22,945** | 20,902 | 9.8 |
| Operating expenses | **10,304** | 9,085 | 13.4 |
| **NOI – Industrial and mixed-use** | **12,641** | 11,817 | 7.0 |
| **NOI margin – Industrial and mixed-use** | **55.1%** | 56.5% | |

## SEGMENTED INFORMATION BY GEOGRAPHIC LOCATION

The following table shows NOI growth in our three geographic markets and the geographic allocation of NOI.

### Net Operating Income

| Quarters ended March 31 | 2009 | 2008 | Δ % |
|---|---|---|---|
| Region | | | |
| Québec City | **13,741** | 12,756 | 7.7 |
| Montréal | **20,899** | 16,623 | 25.7 |
| Ottawa | **2,044** | 2,071 | (1.3) |
| **Total NOI** | **36,684** | 31,450 | 16.6 |

| Quarters ended March 31 | 2009 | 2008 |
|---|---|---|
| Region | | |
| Québec City | **37.5%** | 40.5% |
| Montréal | **57.0%** | 52.9% |
| Ottawa | **5.5%** | 6.6% |
| **Total NOI** | **100.0%** | 100.0% |

# DISTRIBUTABLE INCOME AND DISTRIBUTIONS

Although the concept of “distributable income” (“DI”) is not a financial measure defined under GAAP, it is a measure widely used by investors in the field of income trusts. We consider DI an excellent tool for assessing the Trust’s performance. Given its historical nature, DI per unit is also a useful benchmark enabling investors to evaluate the stability of distributions.

For the first quarter of 2009, DI grew 8.6%, while our cumulative monthly distribution per unit was $0.360, up 6.2% from the corresponding period of 2008.

The following table presents the calculation of DI in accordance with the terms of the Contract of Trust as well as its reconciliation with net income calculated in accordance with GAAP:

**Distributable Income**

| Quarters ended March 31 | 2009 | 2008 | Δ % |
|---|---|---|---|
| Net income (GAAP) | **4,042** | 4,125 | (2.0) |
| + Depreciation of income properties | **14,219** | 12,470 | 14.0 |
| - Amortization of below-market leases | **(204)** | (127) | 60.6 |
| + Compensation expense related to unit option plan | **173** | 130 | 33.1 |
| + Accretion of liability component of convertible debentures | **10** | 9 | 11.1 |
| - Rental income – recognition of leases on straight-line basis | **(764)** | (782) | (2.3) |
| - Amortization of fair value adjustments on assumed indebtedness | **(31)** | (31) | — |
| **Recurring DI** | **17,445** | 15,794 | 10.5 |
| DISTRIBUTIONS TO UNITHOLDERS | **16,523** | 15,369 | 7.5 |
| Distributions reinvested under the distribution reinvestment plan | **(268)** | (352) | (23.8) |
| Cash distributions | **16,255** | 15,017 | 8.2 |
| **Per unit information:** | | | |
| Recurring DI (basic) | **0.38** | 0.35 | 8.6 |
| Recurring DI (FD)(1) | **0.38** | 0.35 | 8.6 |
| DISTRIBUTIONS PER UNIT | **0.360** | 0.339 | 6.2 |
| DI payout ratio | **94.7%** | 96.8% | |

*(1) Fully diluted.*

Recurring DI per unit for the quarter ended March 31, 2009 stood at $0.38, up 8.6% from the corresponding period of 2008, due mainly to the impact of acquisitions and developments completed since the beginning of 2008 and to the 2.3% increase in same property NOI.

**Track Record of DI per Unit (Financial Performance Indicator)**

| Quarters ended March 31 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| DI per unit (basic) | **0.38** | 0.35 | 0.31 | 0.30 | 0.29 |
| Recurring DI per unit (FD) (1) | **0.38** | 0.35 | 0.31 | 0.31 | 0.29 |

*(1) Fully diluted.*

Cominar's recurring DI per unit, established in accordance with its Contract of Trust, is in our opinion a useful tool for assessing the Trust's operating performance because it highlights per unit cash flows that are distributable to unitholders. Furthermore, given its historical nature, it is also a useful benchmark for determining the stability of distributions.

On July 6, 2007, the Canadian Securities Administrators ("CSA") issued an amended version of National Policy 41-201, *Income Trusts and Other Indirect Offerings*, which includes guidelines on distributable cash.

Under amended National Policy 41-201, the Trust is required to reconcile distributable income (a non-GAAP measure) with cash flows from operating activities as shown in the financial statements.

The following table presents this reconciliation:

| Quarters ended March 31 | 2009 | 2008 |
|---|---|---|
| Cash flows from operating activities (GAAP) | **16,716** | 4,552 |
| - Amortization of capitalized leasing costs | **(2,598)** | (2,131) |
| - Amortization of capitalized financing costs and other assets | **(711)** | (435) |
| - Rental income – recognition of leases on straight-line basis | **(764)** | (782) |
| - Change in non-cash working capital items | **4,802** | 14 ,590 |
| **DI** | **17,445** | 15,794 |

Rental income – recognition of leases on straight-line basis results from straight-line accounting for rent increases set forth in leases. As Cominar does not collect these amounts during the period, they are deducted from net income in the calculation of DI.

Although amortization of capitalized leasing costs, capitalized financing costs and other assets are non-cash items, Cominar deducts them in the calculation of DI, as this amortization expense must be excluded from cash flows available for distribution to unitholders.

As non-cash working capital items tend to fluctuate over time, Cominar expects that these items should not affect distributions to unitholders. Therefore, Cominar does not consider them in the calculation of DI.

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

| Quarters ended March 31 | 2009 | 2008 | 2007 |
|---|---|---|---|
| Cash flows from operating activities | **16,716** | 4,552 | 11,906 |
| Net income | **4,042** | 4,125 | 7,324 |
| Distributions to unitholders | **16,523** | 15,369 | 11,378 |
| Cash flows from operating activities in excess of distributions to unitholders | **193** | (10,817) | 528 |

For the fiscal year ending December 31, 2009, Cominar expects that its cash flows from operating activities will suffice to finance distributions to unitholders, as has been the case for every fiscal year since the inception of the REIT.

Cominar considers that the comparison of distributions with net income is not indicative of its capacity to pay sustained distributions to unitholders. The difference between distributions, calculated on the basis of DI, and net income, is primarily attributable to non-cash items, as shown in the reconciliation between net income and DI.

# FUNDS FROM OPERATIONS

Although the concept of funds from operations (“FFO”) is not a financial measure defined under GAAP, it is widely used in the field of real estate investment trusts. The Real Property Association of Canada (“REALpac”) defines this measure as net income (calculated in accordance with GAAP) before depreciation of income properties and amortization of capitalized leasing costs, as well as realized gains (or impairment provisions and losses) from sales of depreciable real properties and extraordinary items. FFO should not be substituted for net income or cash flows from operating activities established in accordance with GAAP in measuring our performance. While our method of calculating FFO is in compliance with REALpac recommendations, it may differ from that applied by other issuers. Therefore, it may not be useful for comparison with other issuers.

We consider FFO a meaningful additional measure of operating performance, since it excludes the assumption that the value of real estate assets diminishes predictably over time and discounts certain items included in net income, established in accordance with GAAP, that are not necessarily indicative of our operating performance (for example, gains or losses from the sale of real estate assets).

The following table presents a reconciliation of net income, as determined in accordance with GAAP, and FFO for the quarters ended March 31, 2009 and 2008:

**Funds From Operations**

| Quarters ended March 31 | 2009 | 2008 | Δ % |
|---|---|---|---|
| **Net income (GAAP)** | **4,042** | 4,125 | (2.0) |
| + Depreciation of income properties | **14,219** | 12,470 | 14.0 |
| + Amortization of capitalized leasing costs | **2,598** | 2,131 | 21.9 |
| Recurring FFO | **20,859** | 18,726 | 11.4 |
| **Per unit information:** | | | |
| Recurring FFO (basic) | **0.45** | 0.41 | 9.8 |
| Recurring FFO (FD) (1) | **0.44** | 0.40 | 10.0 |

*(1) Fully diluted.*

For the first quarter of 2009, FFO increased due to acquisitions and developments completed during 2008 and 2009, and organic growth. Recurring FFO per unit grew 9.8% compared with the corresponding period of 2008; on a fully diluted basis, it increased by 10.0%.

**Track Record of Funds from Operations per Unit (Financial Performance Indicator)**

| Quarters ended March 31 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| FFO per unit (basic) | **0.45** | 0.41 | 0.37 | 0.35 |
| Recurring FFO per unit (FD) (1) | **0.44** | 0.40 | 0.36 | 0.35 |

*(1) Fully diluted.*

# ADJUSTED FUNDS FROM OPERATIONS

The concept of adjusted funds from operations ("AFFO") is fast becoming a key financial measure in the field of real estate investment trusts. Cominar defines this measure as FFO adjusted for non-cash items such as compensation expense related to the unit plan, rental income arising from the recognition of leases on a straight-line basis and amortization of above-market leases, net of the investments required to maintain Cominar's ability generate rental income from its property portfolio. AFFO is an additional indicator to assess Cominar's financial performance and its ability to maintain and increase distributions over the long term. AFFO is not a measure defined under GAAP and should not be substituted for net income or cash flows from operating activities established in accordance with GAAP in measuring our performance. Our method of calculating AFFO may differ from the methods used by other trusts and, therefore, may not be useful for comparison.

Cominar considers the amortization of capitalized leasing costs expensed during a period to be a realistic estimate of the expenses a REIT must continually incur to maintain its ability to generate rental income. Since such amortization represents the spreading over the lease term of amounts incurred irregularly over time (lease maturities, occupancy rates, etc.), the Trust believes that there is a better correlation between cash flows from leases and the investments required to generate such cash flows.

Cominar's January 2009 adoption of the recommendations of new Section 3064, *Goodwill and Intangible Assets*, prompted it to review its AFFO calculation. As of January 1, 2009, the Trust deducts the capital expenditures incurred representing the investments made in connection with its program to maintain its capacity to generate rental income from its property portfolio. These expenditures, which primarily include major expenditures for maintenance and repairs, are typically incurred unevenly during a fiscal year. Therefore, AFFO could vary from quarter to quarter and such variances could be material.

Prior-period AFFO has been restated to reflect this change.

The following table presents a reconciliation of FFO and AFFO for the quarters ended March 31, 2009 and 2008:

### Adjusted Funds from Operations

| Quarters ended March 31 | 2009 | 2008 | Δ % |
|---|---|---|---|
| Funds from operations | **20,859** | 18,726 | 11.4 |
| + Compensation expense related to unit option plan | **173** | 130 | 33.1 |
| - Rental income – recognition of leases on straight-line basis | **(764)** | (782) | (2.3) |
| - Amortization of below-market leases | **(204)** | (127) | 60.6 |
| - Amortization of capitalized leasing costs | **(2,598)** | (2,131) | 21.9 |
| - Capital expenditures – maintenance of rental income generating capacity | **(420)** | (134) | — |
| Recurring AFFO | **17,046** | 15,682 | 8.7 |
| **Per unit information:** | | | |
| Recurring AFFO per unit (basic) | **0.37** | 0.35 | 5.7 |
| Recurring AFFO (FD) (1) | **0.37** | 0.35 | 5.7 |

*(1) Fully diluted.*

Cominar reported $17.0 million in recurring AFFO for the first quarter of 2009, up 8.7% compared with the corresponding period of 2008. Recurring AFFO per unit grew 5.7% compared with the corresponding period of 2008; on a fully diluted basis, it also rose 5.7%.

The following table presents the Trust's AFFO per unit for the quarters ended March 31, 2008 and 2009:

### Track Record of Adjusted Funds from Operations per Unit (Financial Performance Indicator)

| Quarters ended March 31 | 2009 | 2008 |
|---|---|---|
| AFFO per unit (basic) | **0.37** | 0.35 |
| Recurring AFFO per unit (FD)(1) | **0.37** | 0.35 |

*(1) Fully diluted.*

# LIQUIDITY AND CAPITAL RESOURCES

## LONG-TERM DEBT

The following table presents Cominar's debt balances as at March 31, 2009, including mortgages payable and convertible debentures, by year of maturity and weighted average contractual interest rates:

### Long-Term Debt

| Maturity | Balance of convertible debentures ($) | Balance of mortgages payable ($) | Weighted average contractual interest rate (%) |
|---|---|---|---|
| 2009 | | — | — |
| 2010 | | 101,629 | 4.66 |
| 2011 | | 6,932 | 7.68 |
| 2012 | | 20,259 | 7.02 |
| 2013 | | 168,875 | 5.29 |
| 2014 | 213,135 | 70,687 | 5.86 |
| 2015 | | 13,785 | 5.13 |
| 2016 | | 13,392 | 5.55 |
| 2017 | | 129,896 | 5.38 |
| 2018 | | 96,256 | 5.72 |
| 2019 | | 16,623 | 6.66 |
| 2020 | | — | — |
| 2021 | | 96,304 | 5.55 |
| 2022 | | 34,130 | 5.35 |
| **Total** | **213,135** | **768,768** | **5.55** |

As at March 31, 2009, the weighted average contractual interest rate of our long-term debt stood at 5.55%, down 8 basis points from December 31, 2008.

## MORTGAGES PAYABLE

As at March 31, 2009, mortgages payable amounted to $768.8 million, up $36.5 million from $732.3 million as at December 31, 2008. As of the date hereof, the weighted average contractual interest rate was 5.48%, down 10 basis points from 5.58% as at December 31, 2008.

Cominar has staggered mortgage maturity dates over a number of years to reduce the risks related to renewal. As at March 31, 2009, the residual average term of mortgages payable was 6.8 years.

The following table presents the changes in mortgages payable in 2009:

### Mortgages Payable

| Quarter ended March 31, 2009 | $ | Weighted average contractual interest rate (%) |
|---|---|---|
| Balances of mortgages payable, beginning of period | 732.3 | 5.58 |
| Mortgages payable contracted or assumed | 88.0 | 4.65 |
| Repayments of balances at maturity | (47.1) | 5.53 |
| Monthly repayments of principal | (4.4) | |
| **Balances of mortgages payable, end of period** | **768.8** | **5.48** |

During the first quarter of 2009, Cominar contracted or assumed $88.0 million in mortgages payable bearing interest at a weighted average contractual rate of 4.65%. The Trust repaid $47.1 million in outstanding mortgage balances at maturity bearing interest at a weighted average contractual rate of 5.53% using its credit facilities and the proceeds from new mortgage borrowings. These financing transactions are detailed as follows:

- January 16, 2009 – assumption of a $13.5 million mortgage financing bearing interest at a contractual rate of 5.55%, maturing in 2016, on acquisition of an office building located at 8400 Décarie Boulevard in Montréal;
- February 2, 2009 – $50.0 million one-year mortgage financing with a Canadian financial institution, bearing interest at a contractual rate of 4.06% and secured by an immovable hypothec on income properties; and
- March 31, 2009 – $24.5 million mortgage financing with a Canadian financial institution, bearing interest at 5.42%, maturing in 2014 and secured by an immovable hypothec on income properties.

The following table shows mortgage repayments for the coming years:

**Repayment of Mortgages Payable**

| Periods ending December 31 | Repayment of principal | Balance at maturity | Total | % of total |
|---|---|---|---|---|
| 2009 | 14,630 | — | 14,630 | 1.9 |
| 2010 | 19,109 | 98,326 | 117,435 | 15.3 |
| 2011 | 18,775 | 5,855 | 24,630 | 3.2 |
| 2012 | 18,890 | 16,380 | 35,270 | 4.6 |
| 2013 | 17,665 | 149,499 | 167,164 | 21.8 |
| 2014 | 13,872 | 58,756 | 72,628 | 9.4 |
| 2015 | 13,092 | 11,073 | 24,165 | 3.1 |
| 2016 | 12,699 | 6,626 | 19,325 | 2.5 |
| 2017 | 11,408 | 109,423 | 120,831 | 15.7 |
| 2018 | 9,776 | 55,990 | 65,766 | 8.6 |
| 2019 | 3,988 | 4,141 | 8,129 | 1.0 |
| 2020 | 3,987 | — | 3,987 | 0.5 |
| 2021 | 2,396 | 67,963 | 70,359 | 9.2 |
| 2022 | 262 | 24,187 | 24,449 | 3.2 |
| **Total** | **160,549** | **608,219** | **768,768** | **100.0** |

## CONVERTIBLE DEBENTURES

As at March 31, 2009, we had three series of convertible debentures outstanding totalling $213.1 million. These debentures bear interest at contractual rates ranging from 5.70% to 6.30% per annum and mature in 2014. As at the end of the first quarter, these debentures had a weighted average contractual interest rate of 5.82% per annum.

## BANK INDEBTEDNESS

In January 2009, Cominar proceeded with the early renewal of its operating and acquisition credit facility with a maximum authorized amount of $255 million. This facility is renewable in June 2010 and bears interest at prime plus 2.0% or the bankers' acceptance rate plus 3.0%. It is secured by a movable and immovable hypothec on specific assets. This credit facility is provided by a syndicate of lenders, and management believes it will remain available in the future. As at March 31, 2009, bank indebtedness totalled $218.4 million, which meant that Cominar had $29.6 million in borrowing capacity under the terms of its available credit facilities.

## DEBT RATIO

The following table presents debt ratios as at March 31, 2009 and December 31, 2008:

### Debt to Gross Carrying Value Ratio

| | As at March 31, 2009 | As at December 31, 2008 |
|---|---|---|
| Mortgages Payable | **767,135** | 730,711 |
| Convertible debentures | **204,084** | 203,723 |
| Bank indebtedness | **218,401** | 186,987 |
| Total debt | **1,189,620** | 1,121,421 |
| Portfolio gross carrying value | **1,893,858** | 1,811,932 |
| **Overall debt ratio** (1)(2) | **62.8%** | 61.9% |
| **Debt ratio (excluding convertible debentures)** | **52.0%** | 50.6% |
| Borrowing capacity – 65% of gross carrying value (3) | **118,000** | 161,000 |

*(1) The overall debt ratio is equal to total bank indebtedness, mortgages payable and convertible debentures divided by the gross carrying value of the property portfolio (total assets plus accumulated depreciation of income properties).*

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

*(3) Pursuant to its Contract of Trust, Cominar's maximum debt ratio is 60% of gross carrying value (65% if convertible debentures are outstanding).*

### Debt Ratio Track Record
### (Financial Performance Indicator)

| Quarters ended March 31 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Overall debt ratio | **62.8%** | 57.3% | 47.3% | 50.0% | 49.5% |
| Debt ratio (excluding convertible debentures) | **52.0%** | 44.4% | 43.9% | 37.8% | 35.9% |
| Maximum borrowing capacity under the Contract of Trust | **118,000** | 346,000 | 288,000 | 197,000 | 192,000 |

As at March 31, 2009, Cominar maintained a debt ratio of 62.8%, which is less than the maximum debt ratio of 65.0% allowed under its Contract of Trust where convertible debentures are outstanding, and which provides it with the ability to borrow up to an additional $118 million to fund future acquisitions and developments. While Cominar's debt ratio is currently above its target of 58% including the convertible debentures, its interest coverage ratio of 2.42:1 ranks competitively among its peers due to the value added since the Trust's inception and its exceptional cash flow generating capacity. This situation garners it access to debt markets even under difficult market conditions, as experienced throughout most of 2008 and currently forecast for 2009.

In addition, Cominar's management considers that given its current financial position, the Trust will be able to fully fund its scheduled development initiatives in 2009.

The following table presents the interest coverage ratio as at March 31, 2008 and 2009:

**Interest Coverage Ratio**

| As at March 31 | 2009 | 2008 |
|---|---|---|
| Net income | **4,042** | 4,125 |
| + Net loss from discontinued operations | **—** | 2 |
| - Other revenues | **(55)** | (51) |
| + Interest on borrowings | **14,696** | 11,850 |
| + Depreciation of income properties | **14,219** | 12,459 |
| + Amortization of capitalized leasing costs | **2,598** | 2,124 |
| + Amortization of other assets | **91** | 62 |
| EBITDA (1) | **35,591** | 30,571 |
| Interest expense | **14,696** | 11,850 |
| **Interest coverage ratio** (2)(3) | **2.42** | 2,58 |

*(1) EBITDA is earnings before interest, income taxes, depreciation and amortization.*

*(2) The interest coverage ratio is equal to EBITDA (non-GAAP measure) divided by interest expense.*

*(3) This is a non-GAAP measure and may differ from similar measures presented by other entities.*

The interest coverage ratio is used to assess Cominar's ability to pay interest on its debt using its operating revenues. As at March 31, 2009, the interest coverage ratio remained strong at 2.42:1, down slightly from 2.58:1 as at March 31, 2008.

## UNIT REPURCHASE PROGRAM

On March 6, 2008, Cominar announced that the Toronto Stock Exchange had approved its unit repurchase program, authorizing it to repurchase up to 2,265,278 of the 45,305,565 units issued and outstanding as at February 25, 2008 (representing 5% of Cominar's issued and outstanding units at that date). Cominar thus had the opportunity to repurchase units in the open market on the Toronto Stock Exchange, from time to time, over the 12-month period beginning on March 10, 2008 and ending on March 9, 2009. Cominar deemed this program an appropriate use of its funds. As a result of these repurchases, the number of units outstanding would have been reduced and the proportionate interest of all remaining unitholders in the unitholders' equity of Cominar would have been increased rateably. All units repurchased under the unit repurchase program would have been cancelled. As at March 9, 2009, no units had been repurchased under this program.

## OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL COMMITMENTS

Cominar does not have any off-balance sheet arrangements that have or are likely to have an impact on its operating results or its financial position, including its cash flows and sources of financing.

The Trust has no significant contractual commitments other than those arising from its long-term debt and the payments due under emphyteutic leases for land held for income properties, as described in further detail in the notes to the consolidated financial statements.

During the quarter ended March 31, 2009, Cominar complied with all of its loan commitments and was not in default with any covenant as at the balance sheet date.

# PROPERTY PORTFOLIO

The following table presents information about our property portfolio:

| As at March 31 | 2009 | 2008 |
|---|---|---|
| Income properties (at cost) | 1,677,764 | 1,438,252 |
| Properties under development and land held for future development | 135,697 | 68,613 |
| Other assets | 80,397 | 70,766 |
| **Portfolio gross carrying value** | **1,893,858** | 1,577,631 |

| As at March 31 | 2009 | 2008 |
|---|---|---|
| Number of properties | 215 | 208 |
| Leasable area (in thousands of sq. ft.) | 18,547 | 17,253 |

### Summary by Activity Segment

| As at May 12, 2009 | Number of properties | Leasable area (sq. ft.) |
|---|---|---|
| Office | 38 | 5,553,402 |
| Retail | 38 | 2,685,867 |
| Industrial and mixed-use | 139 | 10,308,088 |
| **Total** | **215** | **18,547,357** |

### Summary by Geographic Location

| As at May 12, 2009 | Number of properties | Leasable area (sq. ft.) |
|---|---|---|
| Québec City | 94 | 6,742,281 |
| Montréal | 117 | 11,196,579 |
| Ottawa | 4 | 608,497 |
| **Total** | **215** | **18,547,357** |

# ACQUISITION AND DEVELOPMENT PROGRAM

Over the years, Cominar has achieved much of its growth through high-quality acquisitions based on strict selection criteria in its three activity segments. However, the commercial and industrial real estate market is evolving, and we have adjusted our expansion strategy accordingly to optimize our return on investment.

In light of the conditions that have prevailed in our three activity segments in recent years, specifically the great demand for quality income properties, and a lack of office rental space in the Québec City area, we are intensifying our expansion through construction and development projects that represent strong value-added potential, thereby drawing on our specialized resources and 40-year expertise in real estate development.

## ACQUISITIONS

In 2009, we made a single $36.8 million property acquisition representing nearly 0.2 million square feet of leasable area. This acquisition is summarized as follows:

On January 16, 2009, Cominar purchased a 227,260 square-foot office building at 8400 Décarie Boulevard in Montréal for a purchase price of $36.8 million, consisting of $13.5 million for the assumption of a mortgage payable and $23.3 million paid in cash. The capitalization rate for this transaction was 8.8%.

## CAPITAL EXPENDITURES

Cominar continues to develop its income properties in the normal course of business. Capital expenditures made included additions, expansions, modernizations, modifications and upgrades to existing properties with a view to increasing or maintaining the rental income generating capacity of its property portfolio.

During the first quarter of fiscal 2009, Cominar incurred $2.3 million ($1.7 million in 2008) of capital expenditures that increased the rental income generating capacity of its properties. Cominar also incurred $0.4 million ($0.1 million in 2008) of capital expenditures to maintain rental income generating capacity, consisting mainly of major expenditures for maintenance and repairs, as well as property equipment replacements. These expenditures, although usually made during the period, will garner benefits for Cominar over their estimated useful life which extends into the coming years.

Finally, $4.2 million ($4.6 million in 2008) were invested in capitalized leasing costs, including $0.3 million ($2.1 million in 2008) in connection with newly acquired properties or properties under development.

## DEVELOPMENT PROGRAM

**Ongoing developments**

Consistent with its growth strategy, Cominar is going forward with its property development initiatives, which currently generate higher returns than acquisitions in the current real estate market.

In January 2008, Cominar undertook a major project on Laurier Boulevard in Québec City, namely the construction of "Complexe Jules-Dallaire". One of the largest thoroughfares in Québec City, located at the exit of the bridges connecting the two shores of the St. Lawrence River, Laurier Boulevard is one of the gateways into the city, with its many hotels, office buildings and shopping centres. This future property will enjoy an excellent location. In light of current economic uncertainty, Cominar's management elected to postpone construction of the second phase. As a result, the current project will consist of a leasable area of 396,000 square feet, of which approximately 100,000 square feet is reserved for retail space, leaving approximately 296,000 square feet for office space. Cominar's management remains optimistic as to project delivery, as this project is located in Québec City where the vacancy rate for Class "A" office property is less than 1.4% and unemployment stood at 4.0% in March 2009, compared with a national average of 8.0%. Moreover, the project's pre-lease rate has already reached 33%, which is satisfactory given the property's current stage of completion. The construction cost is estimated at approximately $74 million, and the capitalization rate is expected to reach 9.3%. The first tenants are slated to move in for November 2009. We are currently building the parking and office tower's structure. Although the project is slightly behind schedule, no budget overruns are anticipated.

We are also moving forward with our 110,000 square-foot retail development in St-Bruno, representing an investment of approximately $12.6 million. Construction of the buildings has been completed, with land and parking lot development scheduled for completion in spring 2009.

During the first quarter of 2008, Cominar began the final revitalization phase at Les Promenades Beauport shopping centre on du Carrefour Street in Québec City. This project consists in renovating 65,000 square feet and building a 50,000 square-foot expansion, which will increase this shopping centre's total leasable area to approximately 551,000 square feet. The expansion will be primarily devoted to office space. The project's total cost is estimated at $7.9 million with a 9.3% capitalization rate. Work is progressing according to plan and on schedule.

In addition, a 50,000 square-foot, two-storey industrial and mixed-use property will be built on 4th Avenue in Lévis, at an estimated cost of $2.9 million with a 9.6% capitalization rate.

Combined, these projects represent an estimated investment of over $97.4 million. The estimated average capitalization rate is 9.4%, much higher than returns obtained on acquisitions.

The following table provides detailed information about ongoing developments as at March 31, 2009:

| Development | City | Activity segment(1) | Completion date | Leasable area (sq. ft.) | Investment ($) | Capitalization rate (%) | Occupancy rate (%) |
|---|---|---|---|---|---|---|---|
| Complexe Jules-Dallaire | Québec | O, R | Q2-2010 | 396,000 | 74,000 | 9.3 | 33.0 |
| Mégacentre St-Bruno | St-Bruno | R | Q2-2009 | 110,240 | 12,600 | 9.8 | 31.0 |
| Promenades Beauport | Québec | O, R | Q2-2009 | 115,000 | 7,900 | 9.3 | 51.0 |
| 4th Avenue | Lévis | I | Q3-2009 | 50,000 | 2,900 | 9.6 | 50.0 |
| **Total/Weighted average capitalization rate (estimate)** | | | | **671,240** | **97,400** | **9.4** | |

*(1) I = Industrial and mixed-use, R = Retail, O = Office.*

The expected returns on our ongoing developments are based on the estimated costs to complete the projects and the anticipated occupancy rates. Actual returns could vary based on actual costs and occupancy rates.

# REAL ESTATE OPERATIONS

The following table shows our operational performance indicators as at March 31, 2009 and 2008:

| As at March 31 | 2009 | 2008 |
|---|---|---|
| Occupancy rate | **94.5%** | 95.3% |
| Tenant retention rate (1) | **35.0%** | 34.2% |

*(1) Percentage of lease renewals.*

## OCCUPANCY RATE

Cominar continuously strives to maximize occupancy rates throughout its portfolio and has successfully maintained an average occupancy of approximately 95% since its inception. As at March 31, 2009, occupancy stood at 94.5%, unchanged from the previous year.

### Occupancy Track Record (Operational Performance Indicator)

The following table breaks down occupancy rates of Cominar properties by activity segment as at the end of the years indicated, as well as at March 31, 2009:

| | March 31, 2009 | December 31, 2008 | December 31, 2007 | December 31, 2006 | December 31, 2005 |
|---|---|---|---|---|---|
| Activity segment (%) | | | | | |
| Office | **94.3** | 94.5 | 94.7 | 96.0 | 95.0 |
| Retail | **97.0** | 97.1 | 96.0 | 94.3 | 93.6 |
| Industrial and mixed-use | **93.9** | 94.0 | 94.4 | 93.7 | 96.2 |
| **Total du portefeuille** | **94.5** | 94.6 | 94.7 | 94.4 | 95.3 |

The occupancy rate is regarded by Cominar's management as a key indicator of client satisfaction. Client satisfaction is defined as client perception and judgment of our ability to meet their needs and expectations. Our average occupancy rate of 94.8% over the past five years has held relatively steady.

**Office** – The occupancy rate in this activity segment stood at 94.3% as at March 31, 2009, unchanged from a year earlier.

**Retail** – The occupancy rate in this activity segment held steady at 97.0% compared with the rate as at December 31, 2008.

**Industrial and mixed-use** – The occupancy rate in this activity segment stood at 93.9% as at March 31, 2009, unchanged from the rate as at the previous fiscal year-end.

## LEASING ACTIVITY

The following table summarizes Cominar's leasing activity as at March 31, 2009:

### Lease Maturities and Renewals by Activity Segment

| | Office | Retail | Industrial and mixed-use | Total |
|---|---|---|---|---|
| **Leases maturing in 2009** | | | | |
| Number of tenants | 178 | 113 | 244 | 535 |
| Leasable area (sq. ft.) | 563,076 | 279,096 | 1,650,626 | 2,492,798 |
| Average net rent ($)/sq. ft. | 10.52 | 11.09 | 5.36 | 7.16 |
| **Renewed leases** | | | | |
| Number of tenants | 39 | 28 | 89 | 156 |
| Leasable area (sq. ft.) | 171,454 | 108,282 | 591,534 | 871,270 |
| Average net rent ($)/sq. ft. | 11.72 | 13.68 | 5.82 | 7.96 |
| **Renewal %** | **30.4** | **38.8** | **35.8** | **35.0** |
| **New leases** | | | | |
| Number of tenants | 19 | 9 | 23 | 51 |
| Leasable area (sq. ft.) | 43,797 | 10,645 | 179,759 | 234,201 |
| Average net rent ($)/sq. ft. | 11.49 | 10.97 | 6.10 | 7.33 |

As indicated in the table above, there was a great deal of leasing activity across our portfolio in the first quarter of 2009, as nearly 35% of maturing leases were renewed. We also signed new leases totalling 0.2 million square feet of leasable area. Our occupancy rates for renewed leases are up in two activity segments, with increases of 2.7% and 3.2%, respectively, for the office and industrial and mixed-use segments, respectively. In the retail segment, lower lease renewals pertaining to significant leasable area, to a movie theatre, resulted in a 11.3% decline in our average renewal rate. Excluding this renewal, the retail sector would have shown a 5.1% increase. This rate is expected to recover gradually between now and the end of the fiscal year. On a cumulative basis, rental rates on renewed leases in the first quarter were relatively unchanged from the corresponding period in fiscal 2008, in spite of the decline experienced in the retail sector.

Considering our solid renewal track record and demand for rental space in our three geographic markets, we remain confident that a significant portion of maturing leases will be renewed at a higher rate per square foot, despite current economic uncertainty.

The following table profiles lease maturities in the next five years:

**Lease Maturities**

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| **Office** | | | | | |
| Leasable area (sq. ft.) | 703,464 | 634,574 | 837,001 | 482,566 | 576,677 |
| Lease rate ($)/square foot | 10.64 | 11.78 | 10.70 | 11.81 | 10.84 |
| % of portfolio – Office | 12.7% | 11.4% | 15.1% | 8.7% | 10.4 % |
| **Retail** | | | | | |
| Leasable area (sq. ft.) | 285,227 | 287,016 | 377,973 | 172,596 | 119,821 |
| Lease rate ($)/square foot | 10.85 | 10.75 | 10.68 | 13.94 | 13.67 |
| % of portfolio – Retail | 10.6% | 10.7% | 14.1% | 6.4% | 4.5% |
| **Industrial and mixed-use** | | | | | |
| Leasable area (sq. ft.) | 1,717,979 | 1,347,062 | 1,436,225 | 1,035,647 | 889,130 |
| Lease rate ($)/square foot | 5.48 | 5.87 | 6.39 | 6.32 | 5.28 |
| % of portfolio – Industrial and mixed-use | 16.7% | 13.1% | 13.9% | 10.0% | 8.6% |
| **Total portfolio** | | | | | |
| Leasable area (sq. ft.) | 2,706,670 | 2,268,652 | 2,651,199 | 1,690,809 | 1,585,628 |
| Lease rate ($)/square foot | 7.39 | 8.14 | 8.36 | 8.66 | 7.93 |
| % of portfolio | 14.6% | 12.2% | 14.3% | 9.1% | 8.5% |

The following table summarizes average lease term information as at March 31, 2009:

| | Average remaining lease term (years) | Average leased area per tenant (sq. ft.) | Average in-place net rent / sq. ft. ($) |
|---|---|---|---|
| Office | 4.5 | 5,700 | 11.77 |
| Retail | 5.3 | 3,400 | 10.98 |
| Industrial and mixed-use | 4.0 | 11,000 | 5.79 |
| **Portfolio average** | **4.3** | **6,900** | **8.38** |

Cominar has a broad, highly diversified client base, consisting of some 2,500 tenants occupying an average of approximately 6,900 square feet each. Our three largest tenants, Public Works Canada, Société immobilière du Québec—both of which are government entities—and Ericsson Canada, account for approximately 6.3%, 5.1% and 4.8% of our revenues, respectively, stemming from several leases with staggered maturities. The stability and quality of our cash flows from operating activities are enhanced by the fact that approximately 11.4% stems from government entities.

The following table shows our top ten tenants by percentage of revenues:

| **Tenant** | **% of revenues** | **Leased area (sq. ft.)** |
|---|---|---|
| Public Works Canada | 6.3 | 722,559 |
| Société immobilière du Québec | 5.1 | 1,033,495 |
| Ericsson Canada inc. | 4.8 | 402,320 |
| Bertrand distributeur en alimentation | 1.6 | 344,846 |
| LDC Logistics Development Corp. | 1.5 | 527,000 |
| Hudson's Bay Company | 1.3 | 349,312 |
| National Bank of Canada | 0.9 | 136,093 |
| SITA | 0.9 | 64,236 |
| Alcan Packaging Canada Ltd | 0.8 | 162,000 |
| Breton, Banville et Associés S.E.N.C. | 0.8 | 84,261 |
| **Total** | **24.0** | **3,826,122** |

# ISSUED AND OUTSTANDING UNITS

Ownership interests in Cominar are represented by a single class of units, unlimited in number. Units represent a unitholder's proportionate and undivided ownership interest in Cominar. Each unit confers the right to one vote at any unitholders' meeting and to participate equally and rateably in any Cominar distributions.

The following table summarizes unit issues during the quarters ended March 31, 2009 and 2008:

| Quarters ended March 31 | 2009 Units | 2009 $ | 2008 Units | 2008 $ |
|---|---|---|---|---|
| Units issued and outstanding, beginning of period | **45,852,175** | **600,965** | 45,272,683 | 591,172 |
| + Units issued on exercise of options | — | — | 41,800 | 572 |
| + Units issued under the distribution reinvestment plan | **18,887** | **256** | 12,549 | 490 |
| + Units issued on conversion of convertible debentures | — | — | 3,676 | 64 |
| + Reversal of contributed surplus on exercise of options | — | — | — | 6 |
| **Units issued and outstanding, end of period** | **45,871,062** | **601,221** | 45,330,708 | 592,304 |

On April 21, 2009, Cominar issued 4,792,050 units for proceeds of $57.5 million. This issue is discussed in greater detail under "Subsequent Events" in this interim MD&A.

## PER UNIT CALCULATIONS

The following table reconciles the weighted average number of basic units outstanding, the weighted average number of diluted units outstanding and the weighted average number of fully diluted units outstanding, used for calculations per unit:

| Quarters ended March 31 | 2009 | 2008 |
|---|---|---|
| Weighted average number of units outstanding, basic | **45,855,239** | 45,285,032 |
| Effect of dilutive unit options | **68,028** | 329,455 |
| Weighted average number of units outstanding, diluted | **45,923,267** | 45,614,487 |
| Dilution related to conversion of convertible debentures | **8,584,570** | 8,668,402 |
| Weighted average number of units outstanding, fully diluted | **54,507,837** | 54,282,889 |

# RELATED-PARTY TRANSACTIONS

Michel Dallaire, Alain Dallaire and Michel Paquet, trustees and members of Cominar's management team, exercise indirect control over Dalcon Inc. ("Dalcon") and Corporation Financière Alpha (CFA) Inc. ("CFA"). During the first quarter of 2009, Cominar recorded $0.1 million in net rental income from Dalcon and CFA. The Trust incurred costs of $4.2 million for leasehold improvements performed by Dalcon on its behalf and costs of $12.9 million for the construction and development of income properties. These transactions were in the normal course of business and are measured at the exchange amount. By retaining the services of related companies for property construction work and leasehold improvements, Cominar achieves significant cost savings while providing better service to its clients.

# SUBSEQUENT EVENTS

a) Cominar has announced that it has formally named its large scale real estate project located on Laurier Boulevard in Québec City, Québec "Complexe Jules-Dallaire" in honour and memory of the founder of Cominar, the late Jules Dallaire. It further announced that Cominar has entered into an agreement with a company indirectly owned by the Dallaire family pursuant to which said company acquired, on May 4, 2009, a 5% undivided ownership interest in complexe Jules-Dallaire for a purchase price of approximately $2.0 million reflecting its pro rata share of investments made to date in respect of complexe Jules-Dallaire. In addition, said company will assume its pro-rata share of the project's future expenditures.

   Complexe Jules-Dallaire will be managed by Les services administratifs Cominar inc., a wholly owned subsidiary of Cominar. Daily decisions, budgetary matters and leasing will remain under the control of Cominar.

b) On April 21, 2009, Cominar issued units at a unit price of $12.00 for proceeds totalling $57.5 million. Net issue proceeds were applied against the current balance of debt contracted under the terms of existing credit facilities, which debt was used to fund Cominar's acquisition program and ongoing developments.

# UNITHOLDERS TAXATION

For Canadian unitholders, distributions are treated as follows for tax purposes:

| For the years ended December 31 | 2008 | 2007 |
|---|---|---|
| Taxable to unitholders as other income | **32.60%** | 45.03% |
| Taxable to unitholders as capital gains income | **—** | 0.39% |
| Tax deferral | **67.40%** | 54.58% |
| **Total** | **100.00%** | **100.00%** |

# OUTLOOK

It is worth noting that despite the prevailing credit tightening, Cominar successfully refinanced all of its mortgages payable maturing in fiscal 2009 and pushed back the maturity of its operating and acquisition credit facility to June 30, 2010. We ended the period with a strong interest coverage ratio, which stood at 2.42:1, and we have $97.4 million in projects under development with an estimated average capitalization rate of 9.4%. We are progressing with these development projects as planned and do not foresee any budget overruns. As at March 31, 2009, the properties in our portfolio posted an occupancy rate of 94.5%, which was unchanged from the end of fiscal 2008. In the next few quarters, we will continue to apply an effective and disciplined management approach to our operations and costs and remain confident that we will continue to grow, thanks to our strong base and high occupancy rates across our three activity segments.

# CONTROLS AND PROCEDURES

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer of Cominar are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as those terms are defined in Canadian Securities Administrators Multilateral Instrument 52-109. They are assisted in this responsibility by the Disclosure Committee, which consists of executive officers and the Internal Audit Department of the Trust.

The President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer have caused to be evaluated under their supervision the effectiveness of DC&P, including this interim MD&A, the annual financial statements, the Annual Information Form and the Management Proxy Circular. Based on that evaluation, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer of Cominar concluded that the DC&P were effective as at the end of the fiscal year ended December 31, 2008 and, more specifically, that the design of these controls and procedures provides reasonable assurance that material information about the Trust, including its consolidated entities, is made known to them during the period in which these filings are being prepared.

The President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer of Cominar caused to be evaluated under their supervision the effectiveness of ICFR. Based on that evaluation, the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer of the Trust concluded that the ICFR was effective as at the end of the first quarter ended March 31, 2009 and, more specifically, that the financial reporting is reliable and that the financial statements have been prepared for external purposes in accordance with GAAP.

No changes were made in our internal control over financial reporting during the first quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# SIGNIFICANT ACCOUNTING ESTIMATES

Our interim MD&A is based upon the Trust's consolidated financial statements, prepared in accordance with GAAP. The preparation and presentation of the consolidated financial statements and any other financial information contained in this interim MD&A includes the proper selection and application of appropriate accounting principles and methods, which requires management to make estimates and informed judgments. Our estimates are based upon assumptions which we believe to be reasonable, such as those often based upon past experience. They represent the basis of our judgments regarding the carrying amount of assets and liabilities that, in reality, would not be available from other sources. Use of other methods of estimation might have yielded different amounts than those presented. Actual results could differ from these estimates.

## ACQUISITIONS OF INCOME PROPERTIES

Since September 12, 2003, Cominar has applied *CICA Handbook* EIC-140, *Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination*. Under this Abstract, the CICA requires that a portion of the purchase price of an income property be allocated to the fair value of in-place operating leases, the fair value of client relationships and the fair value of leasehold improvements. This allocation is based on assumptions and estimates made by management. These estimates have an impact on operating revenues and on depreciation of income properties.

## DEPRECIATION OF INCOME PROPERTIES

When income properties are acquired, management allocates a significant portion of the acquisition cost to the "building" component. Management must then estimate the useful life of the building in order to depreciate it on an annual basis. Should the allocation of cost to the "building" component or estimated useful life be different, the depreciation of income properties recorded during the year could prove inadequate.

## PROPERTIES UNDER DEVELOPMENT AND LAND HELD FOR FUTURE DEVELOPMENT

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

## IMPAIRMENT OF LONG-LIVED ASSETS

Real estate 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 their fair value.

### CONVERTIBLE DEBENTURES

Under CICA requirements, Cominar's management estimates the fair value of the conversion option included in the convertible debentures. This estimate, should it be inadequate, would have an impact on interest expense for the financial statement reporting period.

### UNIT OPTION PLAN

The compensation expense related to unit options is measured at fair value and amortized using the graded vesting method based on the Black-Scholes option pricing model. This model requires the input of various estimates, including volatility, weighted average distribution return and weighted average risk-free interest rate.

### FINANCIAL INSTRUMENTS

*CICA Handbook* Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Financial instruments must initially be measured at fair value. Subsequent measurements will depend on whether Cominar classifies the financial instrument as financial assets held for trading, loans and receivables, or other financial liabilities.

Cominar must also estimate and disclose the fair value of mortgages payable and convertible debentures for information purposes. The estimated fair value of debts is based on assumptions as to the interest rates used in the calculation models.

## CHANGES IN ACCOUNTING POLICIES

### IFRS CHANGEOVER

In January 2006, the Accounting Standards Board announced its decision to require all publicly accountable enterprises to report under International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011.

The change from Canadian GAAP to IFRS will apply to all publicly accountable enterprises, which include listed companies and any other organizations that are responsible to large or diverse groups of stakeholders, including non-listed financial institutions, securities dealers and many co-operative enterprises. IFRS will have a significant effect on how these enterprises report their financial information to the wider community.

The changeover date to IFRS is effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. On that date in 2011, IFRS will replace current Canadian GAAP for publicly accountable enterprises.

Cominar has developed a plan for the changeover to IFRS. We have completed the initial diagnosis phase of the plan and have identified the differences between Canadian GAAP and IFRS. Work has commenced on assessing the impact of the differences on our business processes and systems. While the project is on schedule, we are not currently able to accurately quantify the impact that the future adoption of IFRS will have on our consolidated financial statements. IFRS on the date of adoption may differ from current IFRS. We will prepare our financial statements in accordance with IFRS effective January 1, 2011.

## NEW ACCOUNTING POLICIES

**Adopted in 2009**

During the first quarter of 2009, Cominar adopted the recommendation of new Section 3064, *Goodwill and Intangible Assets*, which states that intangible assets are to be initially recognized as assets only if they meet the definition of an intangible asset and the asset recognition criteria. Section 1000, *Financial Statement Concepts*, has been harmonized with the new standard.

As of January 1, 2009, it is no longer possible to defer capital expenditures for maintenance and repairs recoverable from tenants and amortize them as revenues are earned. These recoverable capital expenditures must now be capitalized or expensed as incurred.

Cominar's adoption of this new standard and the amended standard required the restatement of the balance of unitholder' equity as at December 31, 2007 and the consolidated and quarterly financial statements for fiscal 2008 on January 1, 2009.

**Recently issued**

In January 2009, the CICA issued the following new standards: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests.*

**Section 1582, *Business Combinations***

This Section, which supersedes former Section 1581, establishes standards for the recognition of a business combination.

The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted.

**Section 1601, *Consolidated Financial Statements***

This Section which, together with new Section 1602, supersedes former Section 1600, *Consolidated Financial Statements*, establishes standards for the preparation of consolidated financial statements.

This Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. However, earlier adoption is permitted as of the beginning of a fiscal year.

**Section 1602, *Non-controlling interests***

This new Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

This Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. However, earlier adoption is permitted as of the beginning of a fiscal year.

Cominar does not expect the prospective adoption of these new accounting policies to have a material impact on its results, its financial position and its cash flows.

# RISKS AND UNCERTAINTIES

Like any real estate entity, Cominar is exposed to certain risk factors in the normal course of business including:

## GENERAL BUSINESS AND ECONOMIC CONDITIONS

Financial markets, interest rates, consumer spending, business investment, government spending, the level of capital market activity and volatility, and inflation impact the business and economic environments in which we operate and, ultimately, the level of business activity we conduct, the revenues we generate, and the cost and availability of our equity and debt.

## EXECUTION OF OUR STRATEGY

Our ability to achieve our objectives and implement our strategy impacts our financial performance. If we do not meet or elect to change our strategic objectives, our financial results could be adversely affected.

## ACQUISITIONS

Although we regularly explore opportunities for strategic acquisitions in our operating segments, there can be no assurance that we will be able to complete acquisitions on terms and conditions that meet our investment criteria. There can also be no assurance that we will achieve our financial or strategic objectives or that we will realize anticipated cost savings following acquisitions. Our performance is contingent on our ability to retain clients and key employees of acquired entities, and there can be no assurance that we will always succeed in doing so.

## DEVELOPMENT PROGRAM

Information regarding our development projects, development costs, capitalization rates and expected returns are subject to change, which may be material, as assumptions regarding items including, but not limited to, occupancy rates, tenant rents, building sizes, leasable areas, and project completion timelines and costs, are updated periodically based on revised site plans, our cost tendering process, continuing tenant negotiations, demand for leasable space in our markets, obtaining required building permits, ongoing discussions with municipalities and successful property re-zonings. There can be no assurance that any assumptions in this regard will materialize as expected and changes could have a material adverse effect on our development program, asset values and financial results. Certain development projects are material to the REIT.

## OPERATIONAL RISK

All immovable property investments are subject to risk exposures. Such investments are affected by general economic conditions, local real estate markets, demand for leased premises, competition from other vacant premises and various other factors.

The value of immovable property and improvements thereto may also depend on the solvency and financial stability of the tenants and the economic environment in which they operate. The Trust's operating revenues and distributable income would be adversely affected if one or more major tenants or a significant number of tenants were unable to meet their lease obligations or if a significant portion of vacant space in our properties could not be leased under economically favourable lease terms.

However, this risk is minimized by the diversification of Cominar's portfolio, which allows the Trust to maintain foreseeable cash flows. This risk is also mitigated by the fact that tenants occupy an average leasable area of about 6,900 square feet.

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

## DEBT AND REFINANCING

The Trust is exposed to debt financing risks, including the risk that existing mortgages payable secured by its properties cannot be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing mortgages. The Trust's profitability may be impacted by tight and unfavourable credit markets and interest rate changes, as interest on borrowings represents a significant cost in real estate property ownership. Cominar seeks to reduce interest rate risks by spreading out the maturities of its long-term debt and limiting the use of floating rate debt as much as possible.

## UNITHOLDER LIABILITY

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

## COMPETITION

Cominar competes for suitable immovable property investments with third parties seeking immovable property investments similar to those of interest to the Trust. Many of those investors have greater financial resources than Cominar, or operate without the investment or operating restrictions of the Trust or according to more flexible conditions. An increase in the availability of investment funds and heightened interest in immovable property investments could increase competition for immovable property investments, thereby increasing purchase prices and reducing their yield. In addition, numerous property developers, managers and owners compete with the Trust in seeking tenants. The existence of competing developers, managers and owners and competition for the Trust's tenants could have an adverse effect on the Trust's ability to lease space in its properties and on the rents charged, and could adversely affect the Trust's revenues.

## GOVERNMENT REGULATION

The Trust and its properties are subject to various government statues and regulations. Any change in such statutes or regulation adverse to the Trust and its properties could affect the Trust's financial results. By their very nature, Cominar's assets and business are not exposed to high environmental risk. In accordance with the operating principles stipulated in its

Contract of Trust, Cominar conducts an environmental audit before acquiring any new properties. Environmental audits are conducted on its existing properties when deemed appropriate. In its leases, Cominar requires that tenants conduct their business in compliance with environmental legislation, and that they be held liable for any damages resulting from their use of the leased premises.

## INCOME TAXES

Cominar is considered a mutual fund trust for income tax purposes. Pursuant to the Contract of Trust, the trustees intend to distribute or designate all taxable income directly earned by Cominar to unitholders and to deduct such distributions and designations for income tax purposes. Therefore, no provision for income taxes is required.

Cominar's subsidiaries are subject to tax on their taxable income under the *Income Tax Act* (Canada) and *Taxation Act* (Québec) at an average combined rate of approximately 31%. No provision is required for the period ended March 31, 2009.

The carrying value of Cominar's net assets as at December 31, 2008 exceeded the tax basis by approximately $87,000.

## TAXATION OF DISTRIBUTIONS OF SPECIFIED INVESTMENT FLOW-THROUGH (SIFT) TRUSTS

Since 2007, SIFT trusts are subject to income taxes on the distributions they make. In short, a SIFT trust is a trust that resides in Canada, its investments are listed on a stock exchange or other public market and it holds one or more non-portfolio properties.

## EXCEPTION FOR REAL ESTATE INVESTMENT TRUSTS (REITS)

The SIFT trust rules do not apply to SIFT trusts that qualify as REITs for a given taxation year. The conditions to qualify as a REIT have been amended in connection with Bill C-10, which received Royal Assent on March 12, 2009. Generally, to qualify as a REIT, a trust must be resident in Canada and meet the following conditions: [i] the only "non-portfolio properties" it owns during the year are "qualified REIT properties," [ii] at least 95% of its income for the taxation year is from one or more of the following sources: "rent from real or immovable properties"; interest; capital gains from the disposition of real or immovable properties; dividends and royalties, [iii] at least 75% of its income for the taxation year is from one or more of the following sources: "rent from real or immovable properties"; interest from mortgages on real or immovable properties and capital gains from dispositions of real or immovable properties; and [iv] at no time in the taxation year is the total fair market value of all properties held by the trust, each of which is a real or immovable property, a debt of a Canadian corporation represented by a banker's acceptance, cash or generally, an amount receivable from the Government of Canada or from certain other public agencies, less than 75% of the trust's net worth at that time.

As at March 31, 2009, Cominar met all of these conditions and qualified as a REIT. As a result, the SIFT trust tax rules do not apply to Cominar.

Cominar's management intends to take the necessary steps to meet these conditions on an on-going basis in the future.

## RECRUITMENT OF EMPLOYEES AND EXECUTIVES

Competition for qualified employees and executives is intense. If we are unable to attract and retain qualified employees and executives, our results of operations and financial condition, including our competitive position, may be materially adversely affected.

## CAPITAL REQUIREMENTS

Cominar accesses the capital markets from time to time through the issuance of debt, equity or equity-related securities. If Cominar were unable to raise additional funds, then acquisition or development activities may be curtailed and property-specific financing might need to be renegotiated.

# CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**COMINAR REAL ESTATE INVESTMENT TRUST**

Unaudited
March 31, 2009

# CONSOLIDATED BALANCE SHEETS

[unaudited, in thousands of dollars]

| | As at March 31, 2009<br>$ | As at December 31, 2008<br>$ |
|---|---|---|
| **ASSETS** | | |
| Income properties *[notes 2, 4, 8 and 10]* | | |
| Buildings | **1,241,937** | 1,228,770 |
| Land | **202,211** | 199,211 |
| Intangible assets | **77,893** | 79,106 |
| | **1,522,041** | 1,507,087 |
| Properties under development *[note 5]* | **98,521** | 72,945 |
| Land held for future development *[note 5]* | **37,176** | 20,857 |
| Capitalized leasing costs and other assets *[notes 2 and 6]* | **45,061** | 44,141 |
| Prepaid expenses | **8,892** | 1,954 |
| Accounts receivable *[notes 2 and 7]* | **26,444** | 21,352 |
| | **1,738,135** | 1,668,336 |
| **LIABILITIES** | | |
| Mortgages payable *[note 8]* | **767,135** | 730,711 |
| Convertible debentures *[note 9]* | **204,084** | 203,723 |
| Bank indebtedness *[note 10]* | **218,401** | 186,987 |
| Accounts payable and accrued liabilities | **43,134** | 34,987 |
| Distributions payable to unitholders | **5,505** | — |
| | **1,238,259** | 1,156,408 |
| **UNITHOLDERS' EQUITY** | | |
| Unitholders' equity *[note 2]* | **499,876** | 511,928 |
| | **1,738,135** | 1,668,336 |

*See accompanying notes to consolidated interim financial statements*

# CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

For the quarters ended March 31
[unaudited, in thousands of dollars]

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| **Unitholders' contributions** *[note 11]* | | |
| Balance, beginning of period | **600,965** | 591,172 |
| Issue of units | **256** | 1,132 |
| Balance, end of period | **601,221** | 592,304 |
| **Cumulative net income** | | |
| Balance, beginning of period | **272,399** | 247,779 |
| Change due to new accounting policy | **—** | (365) |
| Net income | **4,042** | 4,125 |
| Balance, end of period | **276,441** | 251,539 |
| **Cumulative distributions** | | |
| Balance, beginning of period | **(362,817)** | (298,080) |
| Distributions to unitholders | **(16,523)** | (15,369) |
| Balance, end of period | **(379,340)** | (313,449) |
| **Contributed surplus** | | |
| Balance, beginning of period | **1,069** | 513 |
| Unit option plan | **173** | 124 |
| Balance, end of period | **1,242** | 637 |
| **Other equity component** *[note 9]* | | |
| Equity component of convertible debentures | **312** | 312 |
| **Total unitholders' equity** | **499,876** | 531,343 |

*See accompanying notes to consolidated interim financial statements*

# CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the quarters ended March 31
[unaudited, in thousands of dollars except per unit amounts]

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| **Operating revenues** | | |
| Rental revenue from income properties *[note 2]* | **67,867** | 57,333 |
| **Operating expenses** | | |
| Operating costs *[note 2]* | **14,887** | 11,959 |
| Realty taxes and services | **15,431** | 13,332 |
| Property management expenses | **865** | 592 |
| | **31,183** | 25,883 |
| **Operating income before the undernoted** | **36,684** | 31,450 |
| Interest on borrowings | **14,696** | 11,850 |
| Depreciation of income properties | **14,219** | 12,459 |
| Amortization of capitalized leasing costs | **2,598** | 2,124 |
| Amortization of other assets | **91** | 62 |
| | **31,604** | 26,495 |
| **Operating income from real estate assets** | **5,080** | 4,955 |
| **Trust administrative expenses** | **(1,093)** | (879) |
| **Other revenues** | **55** | 51 |
| **Net income from continuing operations** | **4,042** | 4,127 |
| **Net loss from discontinued operations** *[note 21]* | **—** | (2) |
| **Net income and comprehensive income** | **4,042** | 4,125 |
| **Basic net income per unit** *[note 13]* | **0.088** | 0.091 |
| **Diluted net income per unit** *[note 13]* | **0.088** | 0.090 |

*See accompanying notes to consolidated interim financial statements*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the quarters ended March 31
[unaudited, in thousands of dollars]

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income | **4,042** | 4,125 |
| Items not affecting cash: | | |
| Depreciation of income properties | **14,219** | 12,470 |
| Amortization of below-market leases | **(204)** | (127) |
| Amortization of capitalized leasing costs | **2,598** | 2,131 |
| Amortization of capitalized financing costs and other assets | **711** | 435 |
| Amortization of fair value adjustments on assumed indebtedness | **(31)** | (31) |
| Accretion of liability component of convertible debentures | **10** | 9 |
| Compensation expense related to unit option plan | **173** | 130 |
| | **21,518** | 19,142 |
| Change in non-cash working capital items *[note 16]* | **(4,802)** | (14,590) |
| | **16,716** | 4,552 |
| **INVESTING ACTIVITIES** | | |
| Additions to income properties *[note 4]* | **(26,773)** | (23,241) |
| Additions to properties under development and land held for future development *[note 5]* | **(28,930)** | (5,907) |
| Capitalized leasing costs | **(4,236)** | (4,574) |
| Other assets | **(94)** | (540) |
| | **(60,033)** | (34,262) |
| **FINANCING ACTIVITIES** | | |
| Mortgages payable | **74,318** | 29,864 |
| Repayment of mortgages payable | **(51,546)** | (55,228) |
| Bank indebtedness | **31,307** | 70,505 |
| Net proceeds from issue of units *[note 11]* | **(12)** | 572 |
| Distributions to unitholders | **(10,750)** | (16,003) |
| | **43,317** | 29,710 |
| Net change in cash and cash equivalents | **—** | — |
| Cash and cash equivalents, beginning of period | **—** | — |
| Cash and cash equivalents, end of period | **—** | — |

*See accompanying notes to consolidated interim financial statements*

# NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the quarters ended March 31, 2009 and 2008
[unaudited, in thousands of dollars except per unit amounts]

## 1. DESCRIPTION OF THE TRUST

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

## 2. NEW ACCOUNTING POLICIES

### Adopted in 2009

During the first quarter of 2009, Cominar adopted the recommendation of new Section 3064, *Goodwill and Intangible Assets*, issued by the Canadian Institute of Chartered Accounts ("CICA"), which states that intangible assets are to be initially recognized as assets only if they meet the definition of an intangible asset and the asset recognition criteria. Section 1000, *Financial Statement Concepts*, has been harmonized with the new standard.

As of January 1, 2009, it will no longer be possible to defer capital expenditures for maintenance and repairs recoverable from tenants and amortize them as revenues are earned. These recoverable capital expenditures must now be capitalized or expensed as incurred.

Cominar's adoption of this new standard and the amended standard required the restatement of the balance of unitholder' equity as at December 31, 2007 and the consolidated financial statements for fiscal 2008 as follows:

**Consolidated balance sheet**

| **Effect of restatement as at December 31, 2008** | **Increase (decrease) $** |
|---|---|
| Income properties | 556 |
| Other assets | (970) |
| Unitholders' equity | (414) |

**Consolidated statement of income and comprehensive income**

| **Effect of restatement on fiscal year ended December 31, 2008** | **Increase (decrease) $** |
|---|---|
| Operating costs | 49 |
| **Net income and comprehensive income** | (49) |
| **Basic and diluted net income per unit** | (0.001) |

### Recently issued

In January 2009, the CICA issued the following new standards: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests.*

***Business Combinations, Section 1582***

This Section, which supersedes former Section 1581, establishes standards for the recognition of a business combination.

The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted.

***Consolidated Financial Statements, Section 1601***

This Section which, together with new Section 1602, supersedes former Section 1600, *Consolidated Financial Statements*, establishes standards for the preparation of consolidated financial statements.

This Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. However, earlier adoption is permitted as of the beginning of a fiscal year.

***Non-controlling Interests, Section 1602***

This new Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

This Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. However, earlier adoption is permitted as of the beginning of a fiscal year.

Cominar does not expect the prospective adoption of these new accounting policies to have a material impact on its results, its financial position and its cash flows.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation**

Cominar's unaudited consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements and do not include all the disclosures normally found in the Trust's consolidated annual financial statements. Except for the new accounting policies adopted in 2009 described in note 2, the accounting policies and methods followed are the same as those used in the preparation of the December 31, 2008 audited consolidated financial statements.

**Consolidation**

These consolidated interim financial statements include the accounts of Cominar and its wholly owned subsidiaries and its proportionate share of the assets, liabilities, revenues and expenses of previously co-owned properties.

**Use of estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates that affect the reported amounts of assets and liabilities 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 period. Actual results could therefore differ from those estimates.

**Revenue recognition**

Rental revenue from income properties includes rent 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 on a straight-line basis.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash and investments that are readily convertible into a known amount of cash, that are not subject to a significant risk of change in value and that have original maturities of three months or less.

**Income properties**

Income properties are stated at cost. Cost includes acquisition costs and improvements to income properties. Cost also includes other capital expenditures, particularly major expenditures for maintenance and repairs. Regarding income properties acquired after September 12, 2003, a portion of the purchase price, if any, is allocated to operating leases, client relationships and leasehold improvements.

Depreciation of buildings and other capital expenditures is calculated on a straight-line basis over a 40-year period and the estimated useful life.

Intangible assets, described as acquisition costs related to in-place operating leases, client relationships and acquired leasehold improvements, are amortized on a straight-line basis over the terms of the related leases or the estimated duration of the client relationships.

**Properties under development and land held for future development**

Properties under development and land held for future 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 expenses during the development period.

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

**Disposals of income properties**

Operating results and the gains and losses on disposal relating to income properties disposed of during the period are presented in net income (loss) from discontinued operations when:

- The operating results and cash flows of the disposed property are eliminated from current operations; and
- Cominar will not have significant and ongoing involvement in the operations of the sold property.

Prior period revenues and expenses have been reclassified to conform to current period presentation.

**Capitalized leasing costs and other assets**

Capitalized leasing costs and other assets consist mainly of costs such as leasehold improvements made through operating activities and other leasing costs, including tenant inducements and leasing commissions. These costs are capitalized and amortized on a straight-line basis over the terms of the related leases.

**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 amortizable long-lived 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 their fair value.

**Financial Instruments**

Cominar used the following classifications:

- Cash and cash equivalents are classified as “Financial Assets Held for Trading.” They are measured at their fair value and the gains/losses resulting from the period-end revaluations are recorded in net income.

- Accounts receivable, including loans to certain customers, are classified as “Loans and Receivables.” They are initially measured at fair value. Subsequently, they are measured at amortized cost using the effective interest method. For Cominar, the measured amount generally corresponds to cost.

— Mortgages payable, convertible debentures, bank indebtedness, accounts payable and accrued liabilities, and distributions payable to unitholders are classified as “Other Financial Liabilities.” They are initially measured at fair value. Subsequently, they are measured at amortized cost using the effective interest method. For Cominar, the measured amount generally corresponds to cost.

**Unit option plan**

Cominar has a unit option plan which is described in note 11. Cominar recognizes compensation expense when unit options are granted to trustees, management and employees. The plan does not provide for cash settlement.

**Per unit calculations**

Basic net income per unit is calculated based on the weighted average number of units outstanding for the period. The calculation of net income per unit on a diluted basis considers the potential exercise of outstanding unit purchase options and the potential issuance of units under convertible debentures, if dilutive.

## 4. INCOME PROPERTIES

| | As at March 31, 2009 | | |
|---|---|---|---|
| | Cost<br>$ | Accumulated depreciation<br>$ | Amortized cost<br>$ |
| Buildings | **1,358,716** | **116,779** | **1,241,937** |
| Land | **202,211** | **—** | **202,211** |
| Intangible assets | | | |
| In-place operating leases | **82,096** | **32,468** | **49,628** |
| Client relationships | **31,642** | **4,827** | **26,815** |
| Acquired leasehold improvements | **3,099** | **1,649** | **1,450** |
| | **116,837** | **38,944** | **77,893** |
| | **1,677,764** | **155,723** | **1,522,041** |

| | As at December 31, 2008 | | |
|---|---|---|---|
| | Cost<br>$ | Accumulated depreciation<br>$ | Amortized cost<br>$ |
| Buildings | 1,337,658 | 108,888 | 1,228,770 |
| Land | 199,211 | — | 199,211 |
| Intangible assets | | | |
| In-place operating leases | 80,743 | 29,042 | 51,701 |
| Client relationships | 29,972 | 4,123 | 25,849 |
| Acquired leasehold improvements | 3,099 | 1,543 | 1,556 |
| | 113,814 | 34,708 | 79,106 |
| | 1,650,683 | 143,596 | 1,507,087 |

**Additions to income properties**

On January 16, 2009, Cominar acquired an income property. This transaction was accounted for using the acquisition method.

The following table shows the net assets acquired:

| | 2009<br>$ |
|---|---|
| Income properties | |
| Buildings | **27,788** |
| Land | **3,985** |
| Intangible assets | |
| In-place operating leases | **2,814** |
| Client relationships | **2,233** |
| **Total purchase price** | **36,820** |
| **The purchase price was settled as follows:** | |
| Cash and cash equivalents | **23,299** |
| Assumption of a mortgage payable | **13,521** |
| | **36,820** |

The allocation of purchase price at fair value of the net assets acquired during the quarter has not yet been finalized and remains subject to change.

On February 29, 2008, Cominar acquired the remaining interest in industrial and mixed-use properties located in Montréal that were previously co-owned. This transaction was accounted for using the purchase method.

The following table shows the net assets acquired:

| | **2008**<br>**$** |
|---|---|
| Income properties | |
| Buildings | 11,904 |
| Land | 3,826 |
| Intangible asset | |
| In-place operating leases | 968 |
| Client relationships | 1,866 |
| Total purchase price | 18,564 |
| **The purchase price was settled as follows:** | |
| Cash and cash equivalents | 18,564 |

The results of operations of income properties acquired are included in the consolidated financial statements as of their acquisition date.

During the quarter, Cominar continued to develop its income properties. Capital expenditures included additions, expansions, modernizations, modifications and upgrades to existing properties with a view to increasing or maintaining the production capacity of its real estate portfolio. As at March 31, 2009, outlays related to these investments totalled $3,474 [$4,677 in 2008].

## 5. PROPERTIES UNDER DEVELOPMENT AND LAND HELD FOR FUTURE DEVELOPMENT

During the first quarter of 2009, Cominar capitalized $1,108 [$1,019 in 2008] in interest to properties under development and land held for future development.

During the first quarter of 2009, Cominar pursued its property development and land acquisition for future development activities, with outlays totalling $28,930 [$5,907 in 2008]. Projects underway as at March 31, 2009 represent an estimated investment of over $ 32,600 in the coming years, assuming work proceeds according to plan.

## 6. CAPITALIZED LEASING COSTS AND OTHER ASSETS

| | As at March 31, 2009<br>$ | As at December 31, 2008<br>$ |
|---|---|---|
| At amortized cost | | |
| Capitalized leasing costs | **42,772** | 41,855 |
| Other assets | **2,289** | 2,286 |
| | **45,061** | 44,141 |

## 7. ACCOUNTS RECEIVABLE

| | As at March 31, 2009<br>$ | As at December 31, 2008<br>$ |
|---|---|---|
| Receivables | **12,637** | 8,301 |
| Receivables – recognition of leases on straight-line basis | **10,616** | 9,852 |
| Other receivables, bearing interest at a weighted average effective rate of 7.37% as at March 31, 2009 [7.38% as at December 31, 2008] | **2,074** | 2,143 |
| Deposits in advance of work to be performed | **1,117** | 1,056 |
| | **26,444** | 21,352 |

## 8. MORTGAGES PAYABLE

Mortgages payable are secured by immovable hypothecs on income properties with a net carrying value of $1,123,060 [$1,085,684 as at December 31, 2008]. The mortgages payable bear contractual interest at rates ranging from 4.06% to 11.00% per annum [4.22% to 11.00% as at December 31, 2008] representing a weighted average rate of 5.48% as at March 31, 2009 [5.58% as at December 31, 2008] and are renewable at various dates from March 2010 to March 2022. As at March 31, 2009, the weighted average effective rate was 5.46% [5.54% as at December 31, 2008]. Some mortgages payable contain restrictive covenants that were met as at March 31, 2009.

Certain loans on income properties assumed in connection with acquisitions completed were adjusted to their fair value using market rates in effect at the date of acquisition. These fair value adjustments are amortized through income using the effective interest method over the residual term to maturity of the loans under "Interest on borrowings" in the consolidated statement of income and comprehensive income.

Transaction costs related to mortgages payable are deducted from these loans, amortized through income using the effective interest method over the terms of the related mortgages under "Interest on borrowings" in the consolidated statement of income and comprehensive income.

Mortgage repayments are as follows:

| Periods ending December 31 | Repayment of principal $ | Balance at maturity $ | Total $ |
|---|---|---|---|
| 2009 | 14,630 | — | **14,630** |
| 2010 | 19,109 | 98,326 | **117,435** |
| 2011 | 18,775 | 5,855 | **24,630** |
| 2012 | 18,890 | 16,380 | **35,270** |
| 2013 | 17,665 | 149,499 | **167,164** |
| 2014 and thereafter | 71,480 | 338,159 | **409,639** |
| | 160,549 | 608,219 | **768,768** |
| Plus: fair value adjustments on assumed mortgages | | | **307** |
| Less: unamortized financing costs | | | **(1,940)** |
| | | | **767,135** |

All mortgages payable bear interest at fixed rates.

## 9. CONVERTIBLE DEBENTURES

The following table presents the characteristics of Cominar's convertible unsecured subordinated debentures as well as changes during the period:

| | 2009 | | | | 2008 |
|---|---|---|---|---|---|
| | **Series A** | **Series B** | **Series C** | **Total** | **Total** |
| Contractual interest rate | **6.30%** | **5.70%** | **5.80%** | | |
| Effective interest rate | **6.89%** | **6.42%** | **6.60%** | | |
| Issue date | **September 2004** | **May 2007** | **October 2007** | | |
| Conversion price per unit | **$ 17.40** | **$ 27.50** | **$ 25.25** | | |
| Interest payment dates | **June 30 and December 31** | **June 30 and December 31** | **March 31 and September 30** | | |
| Redemption date at Cominar's option | **June 2008** | **June 2010** | **September 2010** | | |
| Maturity date | **June 2014** | **June 2014** | **September 2014** | | |
| | **$** | **$** | **$** | **$** | **$** |
| Balance, beginning of period | **22,635** | **80,500** | **110,000** | **213,135** | 214,617 |
| Holders' option conversions | **—** | **—** | **—** | **—** | (1,482) |
| Balance, end of period | **22,635** | **80,500** | **110,000** | **213,135** | 213,135 |
| Less: unamortized financing costs and equity component of convertible debentures | | | | **(9,051)** | (9,412) |
| | | | | **204,084** | 203,723 |

As of the above-mentioned redemption dates, Cominar may, under certain terms and conditions, elect to satisfy its principal repayment obligations under the debentures by issuing units of Cominar.

In accordance with *CICA Handbook Section* 3855 and Section 3861, convertible debentures have been recorded as liabilities in the balance sheet, net of the $312 equity component of convertible debentures related to the holders' conversion options and interest has been charged to "Interest on borrowings" in the consolidated statement of income and comprehensive income. Convertible debenture issue costs are deducted from debt and are amortized through income using the effective interest method over the term of the debentures under "Interest on borrowings" in the consolidated statement of income and comprehensive income.

During the first quarter of 2008, 64 convertible debentures (Series A) were converted into 3,676 units at a conversion price of $17.40 per unit, for a total of $64.

## 10. BANK INDEBTEDNESS

Cominar has an operating and acquisition credit facility of up to $255,000 [$255,000 as at December 31, 2008]. This credit facility, subject to annual renewal, bears interest at prime plus 2.00% [0.25% in 2008] or at the bankers' acceptance rate plus 3.00% [1.50% in 2008]. This credit facility is secured by a movable and immovable hypothec on specific assets, including the carrying value of immovable property totalling $254,851 as at March 31, 2009 [$252,491 as at December 31, 2008]. As at March 31, 2009, the prime rate was 2.50% [3.50% as at December 31, 2008]. This credit facility contains certain restrictive covenants which were met as at March 31, 2009.

## 11. ISSUED AND OUTSTANDING UNITS

Ownership interests in Cominar are represented by a single class of units, unlimited in number. Units represent a unitholder's proportionate and undivided ownership interest in Cominar. Each unit confers the right to one vote at any unitholders' meeting and to participate equally and rateably in any Cominar distributions.

During the first quarter of 2009, Cominar issued 18,887 units under the distribution reinvestment plan.

During the first quarter of 2008, Cominar issued 58,025 units, consisting of 3,676 units on the conversion of convertible debentures, 12,549 units under the distribution reinvestment plan and the balance of 41,800 units via the exercise of options. The issuance of these units resulted in net proceeds of $572.

| Quarters ended March 31 | 2009 | | 2008 | |
|---|---|---|---|---|
| | Units | $ | Units | $ |
| Units issued and outstanding, beginning of period | **45,852,175** | **600,965** | 45,272,683 | 591,172 |
| Units issued on exercise of options | — | — | 41,800 | 572 |
| Units issued under distribution reinvestment plan | **18,887** | **256** | 12,549 | 490 |
| Units issued on conversion of convertible debentures | — | — | 3,676 | 64 |
| Reversal of contributed surplus on exercise of options | — | — | — | 6 |
| Units issued and outstanding, end of period | **45,871,062** | **601,221** | 45,330,708 | 592,304 |

**Unit repurchase program**

During the first quarter of 2008, Cominar implemented a unit repurchase program, authorizing Cominar to redeem up to 2,265,278 units, representing 5% of issued and outstanding units as at February 25, 2008. This 12-month program ended on March 9, 2009. As of that date, no units had been redeemed under this program.

## Unit option plan

Cominar has granted options to management and employees for the purchase of units under a unit option plan. A maximum of 4,530,257 units may be issued under the plan. As at March 31, 2009, options for the purchase of 3,464,000 units were outstanding and 746,357 options could be granted under the plan.

The following tables show option characteristics and changes during the period:

| | As at March 31, 2009 | | | | |
|---|---|---|---|---|---|
| **Date of grant** | **Graded vesting method** | **Maturity date** | **Exercise price $** | **Outstanding options** | **Exercisable options** |
| November 13, 2003 | 20% | November 13, 2010 | 14.00 | 837,900 | 837,900 |
| April 8, 2005 | 25% | November 13, 2010 | 17.12 | 113,000 | 65,000 |
| May 23, 2006 | 20% | May 23, 2013 | 18.90 | 419,000 | 128,000 |
| May 15, 2007 | 50% | May 15, 2014 | 23.59 | 60,000 | 30,000 |
| February 6, 2008 | 33 1/3% | February 6, 2013 | 18.68 | 894,100 | 298,500 |
| December 19, 2008 | 33 1/3% | December 19, 2013 | 15.14 | 1,140,000 | — |
| | | | | **3,464,000** | **1,359,400** |

| **Quarters ended March 31** | **2009** | | **2008** | |
|---|---|---|---|---|
| | **Options** | **Exercise price $** | **Options** | **Weighted average exercise price $** |
| Outstanding, beginning of period | **3,504,700** | **16.45** | 1,782,000 | 15.84 |
| Exercised | **—** | **—** | (41,800) | 13.75 |
| Granted | **—** | **—** | 932,700 | 18.68 |
| Cancelled | **(40,700)** | **16.85** | — | — |
| Outstanding, end of period | **3,464,000** | **16.44** | 2,672,900 | 16.86 |
| Options pouvant être exercées à la fin de la période | **1,359,400** | **15.85** | 729,200 | 14.62 |

## Unit-based compensation

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

| **Date of grant** | **Volatility** | **Exercise price $(1)** | **Weighted average distribution return** | **Weighted average risk-free interest rate** |
|---|---|---|---|---|
| November 13, 2003 | 11.70% | 14.00 | 8.74% | 4.21% |
| April 8, 2005 | 13.50% | 17.12 | 7.58% | 3.78% |
| May 23, 2006 | 13.00% | 18.90 | 7.14% | 4.10% |
| May 15, 2007 | 13.60% | 23.59 | 5.55% | 4.04% |
| February 6, 2008 | 15.60% | 18.68 | 7.47% | 3.89% |
| December 19, 2008 | 18.00% | 15.14 | 9.74% | 3.00% |

*(1) The options' exercise price represents the closing price of Cominar units on the day before the grant date.*

Compensation expense is amortized using the graded vesting method.

**Unitholder distribution reinvestment plan**

Cominar adopted a distribution reinvestment plan under which unitholders may elect to have all cash distributions of Cominar automatically reinvested in additional units. The plan provides plan participants with a number of units equal to 105% of the cash distributions. For the period ended March 31, 2009, 18,887 units [12,549 units in 2008] were issued for a total consideration of $256 [$490 in 2008] under this plan.

## 12. INCOME TAXES

Cominar is considered a mutual fund trust for income tax purposes. Pursuant to the Contract of Trust, the trustees intend to distribute or designate all taxable income directly earned by Cominar to unitholders and to deduct such distributions and designations for income tax purposes. Therefore, no provision for income taxes is required.

Cominar's subsidiaries are subject to tax on their taxable income under the *Income Tax Act* (Canada) and *Taxation Act* (Québec) at an average combined rate of approximately 31%. No provision is required for the period ended March 31, 2009.

The carrying value of Cominar's net assets as at December 31, 2008 exceeded the tax basis by approximately $87,000.

**Taxation of distributions of specified investment flow-through (SIFT) trusts**

Since 2007, SIFT trusts are subject to income taxes on the distributions they make. In short, a SIFT trust is a trust that resides in Canada, its investments are listed on a stock exchange or other public market and it holds one or more non-portfolio properties.

**Exception for real estate investment trusts (REITs)**

The SIFT trust rules do not apply to SIFT trusts that qualify as REITs for a given taxation year. The conditions to qualify as a REIT have been amended in connection with Bill C-10, which received Royal Assent on March 12, 2009. Generally, to qualify as a REIT, a trust must be resident in Canada and meet the following conditions: [i] the only "non-portfolio properties" it owns during the year are "qualified REIT properties," [ii] at least 95% of its income for the taxation year is from one or more of the following sources: "rent from real or immovable properties"; interest; capital gains from the disposition of real or immovable properties; dividends and royalties, [iii] at least 75% of its income for the taxation year is from one or more of the following sources: "rent from real or immovable properties"; interest from mortgages on real or immovable properties and capital gains from dispositions of real or immovable properties; and [iv] at no time in the taxation year is the total fair market value of all properties held by the trust, each of which is a real or immovable property, a debt of a Canadian corporation represented by a banker's acceptance, cash or generally, an amount receivable from the Government of Canada or from certain other public agencies, less than 75% of the trust's net worth at that time.

As at March 31, 2009, Cominar met all of these conditions and qualified as a REIT. As a result, the SIFT trust tax rules do not apply to Cominar.

Cominar's management intends to take the necessary steps to meet these conditions on an on-going basis in the future.

## 13. PER UNIT CALCULATIONS

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

| Quarters ended March 31 | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Weighted average number of units outstanding – basic | **45,855,239** | 45,285,032 |
| Effect of dilutive unit options | **68,028** | 329,455 |
| Weighted average number of units outstanding – diluted | **45,923,267** | 45,614,487 |

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

## 14. DISTRIBUTIONS

Cominar is governed by a Contract of Trust that requires it to distribute a portion of its distributable income to unitholders. The distributable income generally means net income determined in accordance with GAAP, adjusted for depreciation of income properties and amortization of above- and below-market leases, compensation expense related to unit options, accretion of the liability component of convertible debentures, rental revenue – recognition of leases on straight-line basis, gains or losses on disposals of income properties and amortization of fair value adjustments on assumed mortgages payable.

| **Quarters ended March 31** | **2009** | **2008** |
|---|---|---|
| | **$** | **$** |
| Distributions to unitholders | **16,523** | 15,369 |
| Distributions per unit | **0.360** | 0.339 |

## 15. INVESTMENTS IN CO-OWNED PROPERTIES

On February 29, 2008, Cominar acquired the remaining interest in seven properties that were previously co-owned and now owns 100% of these income properties.

Cominar's share of revenues and net income for the period from January 1 to February 28, 2008 was as follows:

| | **2009** | **2008** |
|---|---|---|
| | **$** | **$** |
| Operating revenues | — | 254 |
| Net income | — | 80 |

## 16. SUPPLEMENTAL CASH FLOW INFORMATION

The change in non-cash working capital items is as follows:

| **Quarters ended March 31** | **2009** | **2008** |
|---|---|---|
| | **$** | **$** |
| Prepaid expenses | **(6,938)** | (7,330) |
| Accounts receivable | **(5,092)** | (5,627) |
| Accounts payable and accrued liabilities | **7,228** | (1,633) |
| | **(4,802)** | (14,590) |
| **Other information** | | |
| Interest paid | **19,833** | 12,649 |
| Unpaid leasing costs | **2,666** | 2,340 |
| Additions to income properties and properties under development by assumption of mortgages payable | **13,521** | — |
| Unpaid additions to income properties and properties under development | **7,146** | 4,428 |
| Income property transferred to properties under development | **11,248** | — |

## 17. RELATED PARTY TRANSACTIONS

During the first quarter of 2009, Cominar entered into transactions with companies controlled by unitholders who are also members of the Trust's management. These transactions were entered into in the normal course of business and are measured at the exchange value. They are reflected in the consolidated interim financial statements as follows:

| Quarters ended March 31 | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Rental revenue from income properties | **141** | 244 |
| Income properties and properties under development | **12,869** | 3,423 |
| Capitalized leasing costs and other assets | **4,228** | 2,362 |
| Accounts receivable | **240** | 342 |
| Accounts payable and accrued liabilities | **9,169** | 5,176 |

## 18. CAPITAL MANAGEMENT

Cominar manages its capital to ensure that capital resources are sufficient for its operations and development, while maximizing returns for unitholders by maintaining the debt to equity ratio. Cominar's capital consists of long term debt, cash and cash equivalents and unitholders' equity.

Cominar structures its capital based on expected business growth and changes in the economic environment, and is not subject to any capital requirements imposed by regulatory authorities.

Cominar's capital structure was as follows:

| | As at March 31, 2009<br>$ | As at December 31, 20088<br>$ |
|---|---|---|
| Mortgages payable | **767,135** | 730,711 |
| Convertible debentures | **204,084** | 203,723 |
| Bank indebtedness | **218,401** | 186,987 |
| Unitholders' equity | **499,876** | 511,928 |
| Total of capital | **1,689,496** | 1,633,349 |
| Overall debt ratio (1) | **62.8%** | 61.9% |
| Debt ratio (excluding convertible debentures) | **52.0%** | 50.6% |
| Interest coverage ratio (2) | **2.42** | 2.68 |

*(1) The overall debt ratio is equal to total bank indebtedness, mortgages payable and convertible debentures divided by the gross carrying value of the property portfolio (total assets plus accumulated depreciation of income properties).*

*(2) The interest coverage ratio is equal to EBITDA (earnings before interest, income taxes, depreciation and amortization) divided by interest expense.*

Cominar's Contract of Trust provides that it may not incur debt if, taking into consideration the debt thus incurred or assumed, Cominar's total debt exceeds 60% of the gross carrying value of Cominar, defined as total assets and accumulated depreciation of income properties (65% if convertible debentures are outstanding). As at March 31, 2009, Cominar maintained a debt ratio of 62.8%, including convertible debentures, up slightly from December 31, 2008 as a result of additions to income properties and to properties under development during the period ended March 31, 2009.

The interest coverage ratio is used to assess Cominar's ability to pay interest on its debt using its operating revenues. As such, as at March 31, 2009, the interest coverage ratio was 2.42:1, reflecting the REIT's capacity to meet its debt-related obligations.

Capital management objectives remain unchanged from the previous year.

## 19. FINANCIAL INSTRUMENTS

### Fair value

Fair value is estimated using valuation techniques and assumptions. Fair value amounts disclosed in these consolidated interim financial statements represent Cominar's estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors.

### Classification

The classification of financial instruments and their respective carrying values and fair values are as follows:

| | As at March 31, 2009 | | As at December 31, 2008 | |
|---|---|---|---|---|
| | Carrying value $ | Fair value $ | Carrying value $ | Fair value $ |
| FINANCIAL ASSETS | | | | |
| **Held for trading** | | | | |
| Cash and cash equivalents | **—** | **—** | — | — |
| **Loans and receivables** | | | | |
| Accounts receivable | **26,444** | **26,444** | 21,352 | 21,352 |
| **Total financial assets** | **26,444** | **26,444** | 21,352 | 21,352 |
| FINANCIAL LIABILITIES | | | | |
| **Other financial liabilities** | | | | |
| Mortgages payable (1) | **768,768** | **746,661** | 732,293 | 712,409 |
| Convertible debentures (1) | **213,135** | **221,817** | 213,135 | 220,330 |
| Bank indebtedness | **218,401** | **218,401** | 186,987 | 186,987 |
| Accounts payable and accrued liabilities (2) | **41,896** | **41,896** | 34,158 | 34,158 |
| Distributions payable to unitholders | **5,505** | **5,505** | — | — |
| **Total financial liabilities** | **1,247,705** | **1,234,280** | 1,166,573 | 1,153,884 |

*(1) Excludes amortization of fair value adjustments on assumed mortgages payable, unamortized financing costs and the equity component of convertible debentures.*

*(2) Excludes commodity taxes payable of $1,238 [$829 in 2008].*

The fair value of Cominar's cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and distributions payable to unitholders approximated the carrying value as at March 31, 2009 due to their short term nature or because they are based on current market rates.

The fair value of mortgages payable has been estimated based on current market rates for mortgages of similar terms and maturities.

The fair value of convertible debentures was estimated using current market rates for convertible debentures with similar terms and maturities.

### Risk management

The main risks arising from Cominar's financial instruments are credit, interest rate and liquidity risk. Cominar's risk management strategy is summarized below.

**Credit risk**

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments.

Cominar mitigates credit risk via geographic and activity segment diversification [note 20], staggered lease maturities, diversification of revenue sources through a varied tenant mix, avoiding dependence on any single tenant by ensuring that no individual tenant contributes a significant portion of Cominar's operating revenues and conducting credit assessment for all new tenants.

Cominar has a large and diversified base of approximately 2,500 clients, occupying on average 6,900 square feet of space. Our three largest clients account for approximately 6.3%, 5.1% and 4.8% of operating revenues, respectively, from a number of leases with staggered maturities. The stability and quality of our cash flows from operating activities are enhanced by the fact that approximately 11.4% of operating revenues are generated from government agencies.

Cominar regularly assesses its accounts receivable and records a provision for doubtful accounts when there is a risk of non-collection.

The maximum credit risk to which Cominar is exposed represents the carrying amount of its accounts receivable.

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Cominar's objective in managing this risk is to minimize the net impact on future cash flows. Cominar reduces its exposure to interest rate risk by staggering the maturities of its loans and by generally using long-term debt bearing interest at fixed rates.

Accounts receivable, except for other receivables mentioned in note 7, and accounts payable and accrued liabilities do not bear interest.

Mortgages payable and convertible debentures bear interest at fixed rates.

Cominar is exposed to interest rate fluctuations mainly due to bank indebtedness bearing interest at variable rates.

A 25 basis point increase or decrease in the average interest rate during the period, assuming all other variables held constant, would have resulted in a $139 increase or decrease in Cominar's net income for the quarter ended March 31, 2009.

**Liquidity risk**

Liquidity risk is the risk that Cominar will be unable to meet its financial obligations as they come due.

Cominar manages this risk by the management of its capital structure, the continuous monitoring of its current and projected cash flows and adherence to its capital management policy [note 18].

Undiscounted contractual maturities of financial liabilities as at March 31, 2009 are as follows:

| | | Maturity | | |
|---|---|---|---|---|
| | Carrying value | Under one year | One to five years | Over five years |
| Mortgages payable *[notes 8 and 24]* | 768,768 | 50,000 | 230,881 | 487,887 |
| Convertible debentures *[note 9]* | 213,135 | — | — | 213,135 |
| Bank indebtedness *[notes 10 and 24]* | 218,401 | — | 218,401 | — |
| Accounts payable and accrued liabilities | 41,896 | 34,961 | 6,935 | — |
| Distributions payable to unitholders | 5,505 | 5,505 | — | — |
| | 1,247,705 | 90,466 | 456,217 | 701,022 |

## 20. SEGMENTED INFORMATION

Cominar's activities include three property types located in the greater Québec City, Montréal and Ottawa areas. The accounting policies followed for each property type are the same as those disclosed in the significant accounting policies.

The following table indicates the financial information from continuing operations related to these property types:

| Quarter ended March 31, 2009 | Office properties $ | Retail properties $ | Industrial and mixed-use properties $ | Total $ |
|---|---|---|---|---|
| Rental revenue from income properties | 32,792 | 12,130 | 22,945 | 67,867 |
| Depreciation of income properties | 7,858 | 1,566 | 4,795 | 14,219 |
| Net operating income(1) | 17,461 | 6,582 | 12,641 | 36,684 |
| Income properties (amortized cost) | 763,096 | 239,834 | 519,111 | 1,522,041 |

| Quarter ended March 31, 2008 | Office properties $ | Retail properties $ | Industrial and mixed-use properties $ | Total $ |
|---|---|---|---|---|
| Rental revenue from income properties | 24,801 | 11,630 | 20,902 | 57,333 |
| Depreciation of income properties | 6,179 | 1,527 | 4,753 | 12,459 |
| Net operating income(1) | 13,211 | 6,422 | 11,817 | 31,450 |
| Income properties (amortized cost) | 583,012 | 243,252 | 507,250 | 1,333,514 |

*(1) Net operating income is "Operating income before the undernoted" in the consolidated statement of income and comprehensive income.*

## 21. DISCONTINUED OPERATIONS

On October 31, 2008, Cominar sold a 23,129 square foot retail property located in Drummondville for $2.0 million following the exercise by the tenant of its purchase option.

The following table discloses financial information relating to the property sold in accordance with *CICA Handbook* Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*.

| Quarters ended March 31 | 2009 $ | 2008 $ |
|---|---|---|
| Net operating income | — | 46 |
| Depreciation of income properties | — | 11 |
| Amortization of capitalized leasing costs | — | 7 |
| Interest on borrowings | — | 30 |
| Net loss from discontinued operations | — | (2) |
| Basic and diluted net income per unit | — | 0.000 |

## 22. CONTINGENCIES

a) An expropriation process was initiated in June 2006 by the CHUM for the property located at 300 Viger Street in Montréal, Québec.

The expropriation procedure is currently at the definitive indemnity setting stage, as a property transfer notice was served to Cominar on August 27, 2007, effective September 1, 2007, and the Québec Administrative Court awarded Cominar, on September 10, 2007, a provisional indemnity pursuant to applicable legislation. The provisional indemnity amounts to $30 million which was received during 2007. The definitive indemnity will be set by the Québec Administrative Court or settled between the parties in the coming year. At this stage, it is impossible to estimate or assess the amount of the definitive indemnity.

b) Letters of guarantee outstanding as at March 31, 2009 amounted to $2,990. These letters have been provided as a performance guarantee to execute required repairs under mortgage agreements.

## 23. COMMITMENTS

The annual future payments required under emphyteutic leases expiring between 2046 and 2047, on land for two income properties having a total net carrying value of $56,421, are as follows:

| Total<br>Periods ending December 31 | $ |
|---|---|
| 2009 | 358 |
| 2010 | 486 |
| 2011 | 491 |
| 2012 | 526 |
| 2013 | 526 |
| 2014 and thereafter | 24,749 |

## 24. SUBSEQUENT EVENTS

a) Cominar has announced that it has formally named its large scale real estate project located on Laurier Boulevard in Québec City, Québec “Complexe Jules-Dallaire” in honour and memory of the founder of Cominar, the late Jules Dallaire. It further announced that Cominar has entered into an agreement with a company indirectly owned by the Dallaire family pursuant to which said company acquired, on May 4, 2009, a 5% undivided ownership interest in complexe Jules-Dallaire for a purchase price of approximately $2.0 million reflecting its pro rata share of investments made to date in respect of complexe Jules-Dallaire. In addition, said company will assume its pro-rata share of the project’s future expenditures.

Complexe Jules-Dallaire will be managed by Les services administratifs Cominar inc., a wholly owned subsidiary of Cominar. Daily decisions, budgetary matters and leasing will remain under the control of Cominar.

b) On April 21, 2009, Cominar issued units at a unit price of $12.00 for proceeds totalling $57.5 million. Net issue proceeds were applied against the current balance of debt contracted under the terms of existing credit facilities, which debt was used to fund Cominar’s acquisition program and ongoing developments.

## 25. COMPARATIVE FIGURES

Certain 2008 figures have been reclassified to conform to the 2009 presentation.

# CORPORATE INFORMATION

## BOARD OF TRUSTEES



(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Governance and Nominating Committee
(4) Member of the Investment Committee

## OFFICERS

**Michel Dallaire, P.Eng.**
President and Chief Executive Officer

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

**Alain Dallaire**
Executive Vice President, Operations

**Michel Ouellette, C.App.**
Executive Vice President,
Acquisitions and Development

**Me Michel Paquet, LL.L.**
Executive Vice President,
Legal Affairs and Secretary

**René Bérubé, C.App.**
Vice President, Leasing - Québec City

**Wally Commisso**
Vice President,
Property Management - Montréal

**Me Andrée Dallaire, LL.L., MBA**
Vice President, Corporate Affairs

**Anne-Marie Dubois**
Vice President, Leasing - Montréal

**Jean-Guy Moreau**
Vice President, Development

**Richard S. Nolin**
Vice President, Retail

**Roger Turpin**
Vice President, Treasurer

# UNITHOLDER INFORMATION

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**LISTING**

The units and convertible debentures of Cominar Real Estate Investment Trust are listed on the Toronto Stock Exchange under the trading symbols "CUF.UN" and "CUF.DB", "CUF.DB.B" and "CUF.DB.C".

**TRANSFER AGENT**

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Tel.: (514) 982-7555
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Email: service@computershare.com

**LEGAL COUNSEL**

Davies Ward Phillips & Vineberg LLP

**AUDITORS**

Ernst & Young LLP

**UNITHOLDER DISTRIBUTION REINVESTMENT PLAN**

Cominar Real Estate Investment Trust offers unitholders the opportunity to participate in its Unitholder Distribution Reinvestment Plan (the "DRIP"). The DRIP allows participants to have their monthly distributions reinvested in additional units of Cominar. **In addition, participants will be entitled to receive an additional distribution equal to 5% of each cash distribution reinvested pursuant to the DRIP, which will be reinvested in additional units.**

For further information about the DRIP, please refer to the DRIP section of our website at www.cominar.com or contact us by email at info@cominar.com or contact the Plan agent: Computershare Trust Company of Canada, 100 University Avenue, 9th floor, Toronto, Ontario, Canada, M5J 2Y1, Tel.: (514) 982-7555, Toll free: 1 800 564-6253, Fax: (416) 263-9394, Email: *service@computershare.com*

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