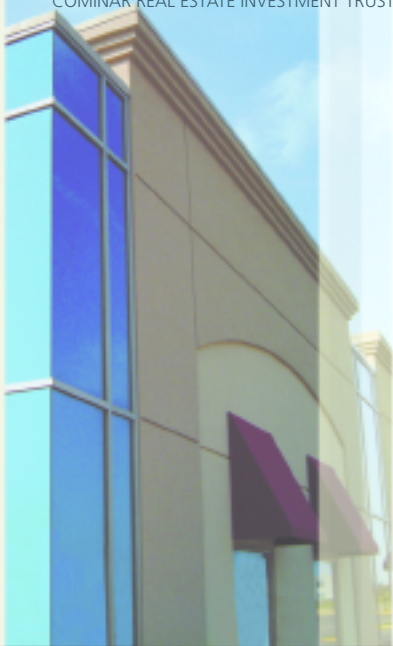


# QUARTERLY REPORT

March 31, 2003

COMINAR REAL ESTATE INVESTMENT TRUST



**COMINAR**  
[www.cominar.com](http://www.cominar.com)

# COMINAR REAL ESTATE INVESTMENT TRUST

## Message to Unitholders

On behalf of the trustees and all the employees of Cominar, I am pleased to present our financial results for the first three months of fiscal 2003, ended March 31. This period yielded the REIT's 20th quarter of growth, in which development work was completed on several properties and others showed good progress. In addition, two excellent acquisitions were made in the Montreal area, and a third was made subsequent to the first quarter, in April 2003.

During these first three months, we completed the 30,000-square-foot expansion of a property located in Laval, as well as the construction of a 37,778-square-foot industrial and mixed-use property in Vanier, in the Greater Quebec City Area. We carried on with the development work begun at Place de la Cité, in Quebec City, where the construction of a 190,000-square-foot office tower is advancing on track and on schedule. The same holds true for the construction of a 32,000-square-foot Déco Découverte store in St-Bruno, on the outskirts of Montreal.

In addition, we closed the acquisition of a 59,462-square-foot industrial and mixed-use property strategically located in an industrial park along Highway 30, giving it easy access toward Montreal. This building is fully occupied by Hydro-Québec. The transaction amounted to \$3.7 million, some \$1.2 million of which was paid cash. The property has a capitalization rate of 10.3%.

Shortly afterwards, we purchased a 40,721-square-foot retail property at a cost of \$4.16 million, paid cash, and having a capitalization rate of 10.8%. This well-located property enjoys great visibility in a booming zone in Laval. It has 14 tenants, including the Jean Coutu Group and the Vidéotron Centre.

These two acquisitions thus add 100,183 square feet of leasable space to Cominar's real estate portfolio in the Greater Montreal Area, bringing it to 2.2 million square feet.

### **Management's Discussion and Analysis of Operating Results and Financial Position**

#### **Operating results**

Operating revenues rose 23.7% to \$23.7 million, compared with \$19.2 million in the first quarter of 2002, reflecting the portfolio's expansion.

Net operating income amounted to \$13.1 million, up 17.6% over the corresponding period of 2002.

Distributable income totalled \$7.5 million, an increase of 7.3%. Distributable income per unit thus amounted to \$0.285, compared with \$0.272 for the first quarter of 2002.

Cash flows from operating activities increased by 8.7% to reach \$8.2 million or \$0.312 per unit, up from \$7.5 million or \$0.294 per unit for the first quarter of 2002.

We are really pleased with this performance, which was positively affected by the economies of scale achieved thanks to our strategy of geographically clustered acquisitions and by the positive impact of interest rate what prevailing over the last few years. We raised total distributions to unitholders by 8.3%, bringing them to \$7.3 million for the quarter.

Moreover, we have just increased the monthly distributions per unit, from \$0.093 to \$0.095. These distributions are payable on June 13, 2003, to all unitholders of record as at May 30, 2003.

## Financial position

We had **assets** of \$538.5 million as at March 31, 2003, compared with \$512.9 million on December 31, 2002.

The real estate portfolio showed a **debt to gross book value ratio** of 49.3%, which is much lower than the rate of 60% authorized by our Contract of Trust. Consistent with our prudent and conservative debt management, we prefer to keep this rate below 55%. This rate would allow for an acquisition capacity of approximately \$70 million.

As previously announced, we have concluded a **\$95.0 million mortgage financing arrangement** with a syndicate of lenders. This mortgage loan, secured by the Place de la Cité building in Quebec City, will bear interest at 6.15% and mature in 2008. We have thus substantially reduced our interest rate risk for the coming years. The other loans maturing in 2003 total just \$5.3 million. As for the loans maturing in 2004 and 2005, they are quite low.

## Expansion subsequent to the first quarter: New acquisition in the Greater Montreal Area

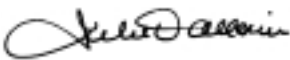
In April 2003, we closed the acquisition a 66,185-square-foot industrial and mixed-use property in the Montreal region. This third acquisition since the beginning of the fiscal year represents an investment of \$4.1 million and has a capitalization rate of 9.9%. That brings the total leasable space of the real estate portfolio in the Greater Montreal Area to 2,322,000 square feet, for 29 properties. As at May 13, 2003, our portfolio covered a total of 7,797,000 square feet, including 79 properties and 5,475,000 square feet in the Greater Quebec City Area.

## Appointment to Cominar's management

At its last meeting, held on May 13, 2003 just prior to the Annual Meeting of Unitholders, the Board of Trustees approved the appointment of Michel Dallaire, formerly Executive Vice-President, Operations, as President and Chief Operating Officer of Cominar. As for myself, I remain Chairman of the Board of Trustees and Chief Executive Officer. This appointment, which fits into the REIT's long-term vision, will enable us to share responsibilities. This appointment will allow me to be more active seeking for acquisitions and to participate in its development.

## Growth outlook for 2003

The economic conditions for Quebec are favourable to the pursuit of our expansion in the areas where Cominar is involved. We are pursuing the development work in progress, which will contribute to significantly increasing our portfolio's value. Our property occupancy rate stood at 95.4% on March 31, 2003, which is excellent. So far we have renewed more than 40% of the leases expiring in 2003, and the new leases added during the first quarter represent a leasable area of 284,000 square feet. We are confident we can achieve solid growth in the coming quarters of fiscal 2003, while remaining conservative in our expansion and borrowing strategy. That will allow us to steadily increase the real estate portfolio's value, and always provide our unitholders with the best possible return on investment.



Jules Dallaire

Chairman of the Board and Chief Executive Officer  
May 2003

**COMINAR REAL ESTATE  
INVESTMENT TRUST**

**CONSOLIDATED STATEMENTS OF INCOME AND DISTRIBUTABLE INCOME**

Period of three months ended March 31,

(unaudited, in thousands of dollars  
except per unit amounts)

	2003	2002
	\$	\$

**Operating Revenues**

Property rental revenue	23,700	19,169
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**Operating expenses**

Property operating costs	5,891	4,512
Realty taxes & services	4,348	3,258
Property management expenses	348	242
	10,587	8,012

**Operating income**

before the following	13,113	11,157
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Interest on mortgages &

bank indebtedness	4,086	3,267
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Depreciation of income properties	1,042	833
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Amortization of deferred expenses & other assets	1,170	819
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	6,298	4,919
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**Operating income from**

real estate assets	6,815	6,238
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**Trust administrative expenses**

	400	352
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	6,415	5,886
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**Other income**

	0	230
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Net income for the period	6,415	6,116
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**Add**

Depreciation of income properties	1,042	833
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**Distributable income**

	7,457	6,949
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Basic net income per unit (note 6)	0.245	0.240
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Diluted net income per unit (note 6)	0.244	0.238
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**Distributable income per**

weighted average unit (note 6)	0.285	0.272
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See accompanying notes to consolidated financial statements.

**COMINAR REAL EST ATE  
INVESTMENT TRUST**

**CONSOLIDATED BALANCE SHEETS**

(In thousands of dollars)	As at March 31, 2003 (unaudited) \$	As at December 31, 2002 (audited) \$
<b>Assets</b>		
Income properties	497,438	485,695
Properties under development	3,926	2,798
Deferred expenses and other assets	19,797	18,479
Prepaid expenses	5,078	1,571
Accounts receivable	5,254	4,449
	<b>531,493</b>	<b>512,992</b>

**Liabilities and Unitholders' Equity**

<b>Liabilities</b>		
Mortgages payable (note 3)	242,998	223,991
Bank indebtedness (note 4)	28,767	33,332
Accounts payable and accrued liabilities	8,308	7,422
Distributions payable to Unitholders	2,445	-
	<b>282,518</b>	<b>264,745</b>
<b>Unitholder's Equity</b>	<b>248,975</b>	<b>248,247</b>
	<b>531,493</b>	<b>512,992</b>

**COMINAR REAL EST ATE  
INVESTMENT TRUST**

**CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY**

Period ended March 31, (unaudited, in thousands of dollars)	2003 \$	2002 \$
<b>Unitholders' equity –</b>		
Beginning of period	248,247	240,849
Issue of units (note 5)	1,644	2,230
Net income for the period	6,415	6,116
Distributions to Unitholders	(7,331)	(6,769)
<b>Unitholders' equity –</b>		
<b>End of period</b>	<b>248,975</b>	<b>242,426</b>

See accompanying notes to consolidated financial statements.

**COMINAR REAL ESTATE  
INVESTMENT TRUST**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Period of three months ended March 31,  
(unaudited, in thousands of dollars  
except per unit amounts)

	2003 \$	2002 \$
<b>Operating activities</b>		
Net income for the period	6,415	6,116
Items not affecting cash		
Depreciation of income properties	1,042	833
Amortization of deferred expenses & other assets	1,170	819
Leasing costs	(474)	(264)
<u>Funds from operations</u>	<u>8,153</u>	<u>7,504</u>
Leasing costs	(1,306)	(1,310)
Change in non-cash operating working capital items		
Prepaid expenses	(3,507)	(2,073)
Accounts receivable	(805)	128
Accounts payable & accrued liabilities	1,079	(471)
	<u>(4,539)</u>	<u>(3,726)</u>
	<u>3,614</u>	<u>3,778</u>
<b>Financing activities</b>		
Mortgages payable	22,000	8,000
Repayments of mortgages payable	(5,426)	(19,705)
Bank indebtedness	(4,565)	15,161
Distributions to Unitholders	(4,886)	(4,401)
Net proceeds from issue of units (note 5)	1,644	2,121
	<u>8,767</u>	<u>1,176</u>
<b>Investing activities</b>		
Acquisitions of income properties	(9,757)	(2,581)
Acquisitions of properties under development	(2,424)	(2,261)
Other assets	(200)	(112)
	<u>(12,381)</u>	<u>(4,954)</u>
Net change in cash	0	0
Cash beginning and end of period	0	0
<b>Additional information</b>		
Interest paid	3,937	3,081
Leasing costs unpaid	508	0
Acquisition of an income property by assumption of a mortgage payable	2,433	0
Acquisitions of income properties & properties under development unpaid	193	549
Properties under development transferred to income properties	838	0

See accompanying notes to consolidated financial statements.

# COMINAR REAL ESTATE INVESTMENT TRUST

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Period of three months ended March 31, 2003

### 1. Description of the Fund

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

### 2. Accounting policies

Cominar consolidated financial statements are prepared in conformity with Canadian generally accepted accounting principles and are substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies. These accounting policies and methods of their application follow the ones used in the annual financial statements as at December 31, 2002.

### 3. Mortgages payable

Mortgages payable are secured by income properties, bear interest at rates varying from 4.75% to 11.00% per annum representing a weighted average year-end rate of 6.51% and are renewable between May 2003 and January 2019.

### 4. Bank indebtedness

Cominar has a number of operating and acquisition lines of credit of up to \$50000. These credit facilities, subject to annual renewal, bear interest at rates varying from prime rate plus 0.25% to prime rate plus 0.50%. As at March 31, 2003, the prime rate was 4.75%.

### 5. Issued and outstanding units

	Period of three months ended March 31, 2003
Units issued and outstanding, beginning of period	26,121,419
Issued from options exercised	158,700
Issued under distribution reinvestment plan	15,961
<b>Units issued and outstanding, end of period</b>	<b>26,296,080</b>

### 6. Per-unit results

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

	Period of three months ended March 31, 2003
Weighted average number of units outstanding – basic	26,162,648
Effect of dilutive unit options	114,186
<b>Weighted average number of units outstanding – diluted</b>	<b>26,276,834</b>

### 7. Subsequent events

As at March 31, 2003, Cominar contracted a mortgage payable of \$95 million at a rate of 6.15% maturing in 2008.

As at April 2003, Cominar acquired an industrial and mixed-use property for a consideration of \$4,125,000 of which 1,567,000 paid in cash and 2,558,000 by assumption of a mortgage payable.

### 8. Segment disclosures (in thousands of dollars)

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

The followings tables show the financial information related to these property types:

# COMINAR REAL ESTATE INVESTMENT TRUST

Period of three months ended March 31, 2003

	Office Properties \$	Retail Properties \$	Industrial & Mixed-Use Properties \$	Total \$
Property rental revenue	7,355	8,680	7,665	23,700
Interest on mortgages payable and bank indebtedness	1,516	1,332	1,238	4,086
Depreciation of income properties	348	411	283	1,042
Net operating income	4,115	4,621	4,377	13,113
Income properties	151,823	200,496	145,119	497,438

PERIOD OF THREE MONTHS ENDED MARCH 31, 2002

	Office Properties \$	Retail Properties \$	Industrial & Mixed-Use Properties \$	Total \$
Property rental revenue	6,402	7,300	5,467	19,169
Interest on mortgages payable and bank indebtedness	1,216	1,103	948	3,267
Depreciation of income properties	300	334	199	833
Net operating income	3,986	4,171	3,000	11,157
Income properties	138,411	166,894	102,483	407,788

The segment disclosure has been modified to present the net operating income (before interest, depreciation and amortization) instead of the operating income from real estate assets. Management considers this change enhances the performance analysis of Cominar.

## INFORMATION

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