

# WELL-POSITIONED TO GROW

## INTERIM REPORT

COMINAR REAL ESTATE INVESTMENT TRUST  
QUARTER ENDED MARCH 31, 2010



# TABLE OF CONTENTS

## FIRST QUARTER

ENDED MARCH 31, 2010

|      |   |
|------|---|
| / 03 | <b>Message to Unitholders</b>                             |
| / 05 | <b>Interim Management's Discussion and Analysis</b>       |
| / 05 | Introduction  |
| / 05 | Caution Regarding Forward-Looking Statements              |
| / 06 | Non-GAAP Financial Measures                               |
| / 06 | Highlights for the First Quarter ended March 31, 2010     |
| / 06 | Subsequent Events   |
| / 07 | Financial and Operational Highlights                      |
| / 08 | General Business Overview                                 |
| / 08 | Objectives and Strategy                                   |
| / 09 | Performance Indicators                                    |
| / 10 | Performance Analysis                                      |
| / 12 | Results of Operations                                     |
| / 17 | Distributable Income and Distributions                    |
| / 19 | Funds from Operations                                     |
| / 20 | Adjusted Funds from Operations                            |
| / 22 | Liquidity and Capital Resources                           |
| / 26 | Property Portfolio  |
| / 26 | Acquisition and Development Program                       |
| / 32 | Real Estate Operations                                    |
| / 34 | Issued and Outstanding Units                              |
| / 35 | Related-Party Transactions                                |
| / 35 | Unitholders taxation                                      |
| / 36 | Outlook   |
| / 36 | Controls and Procedures                                   |
| / 36 | Significant Accounting Estimates                          |
| / 38 | New Accounting Policies                                   |
| / 39 | Risks and Uncertainties                                   |
| / 43 | <b>Consolidated Interim Financial Statements</b>          |
| / 48 | <b>Notes to Consolidated Interim Financial Statements</b> |
| / 66 | <b>Corporate Information</b>                              |
| / 67 | <b>Unitholder Information</b>                             |

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Photos cover page left to right:

Complexe Jules-Dallaire, 2828 Laurier Boulevard, Québec City

Collaboration in Interim Report:

Claude Dumoulin, photographer | *Médiane Design et Communication*

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# MESSAGE TO UNITHOLDERS

Fellow Unitholders,

We are pleased with the growth achieved in the first quarter, even though the past two years have been marked by challenging economic conditions and a climate of uncertainty. The overall occupancy rate declined slightly in the first three months of the year, but we believe this situation will improve because the leasing activity during the quarter shows encouraging signs of a recovery. Considering our presence in resilient markets, our disciplined management, our financial health and our expansion strategy adapted to the market context, Cominar is well positioned to pursue its expansion.

## **OUR PERFORMANCE INDICATORS ARE ON THE RISE**

Our operating revenues totaled \$69.9 million for the first quarter of 2010, an increase of 3% reflecting the contribution of the property acquisitions completed in 2009. We posted net operating income of \$38.1 million, up 3.7% over the first quarter of 2009. Same property net operating income remained stable, whereas recurring distributable income rose 13.1% to \$19.7 million. Recurring adjusted funds from operations grew by 14.8% and we maintained our distributions per unit at \$0.36 over the first quarter of 2010. These results reflect the quality of our real estate portfolio, combined with our clients' loyalty and our teams' sustained commitment.

## **OUR OCCUPANCY RATE REMAINS SATISFACTORY**

Our overall occupancy rate decreased to 92.7% in the first quarter, down from 93.5% as at December 31, 2009. This decline is partly attributable to the integration into the portfolio, at the end of 2009, of three properties that had yet to be fully developed, thereby increasing the vacant space. Excluding these three properties from the calculation, the occupancy rate stands at 93.3%, almost the same as at December 31, 2009. Cominar's management is confident that this available space will find tenants in 2010. It should also be noted that the occupancy rate is below the 95% average normally posted by the portfolio mostly because of the industrial and mixed-use sector in the Montréal region, which was affected by the economic slowdown. However, since the fourth quarter of 2009, we have seen a significant increase in the demand for rental space in the industrial sector and we remain positive we will improve this rate by year-end.

## **OUR FINANCIAL POSITION REMAINS HEALTHY AND SOLID**

During the first quarter of 2010, we closed an offering of convertible debentures for \$86.3 million, followed by a unit offering for some \$3 million pursuant to an agreement to sell securities at market price.

As at March 31, 2010, the debt ratio stood at 61.0% (62.8% as at March 31, 2009), below the maximum debt ratio of 65.0% allowed by the REIT's Contract of Trust when convertible debentures are outstanding. The proceeds from the unit offering completed on April 7, 2010 will contribute to lower the debt ratio. In addition,



the annualized interest coverage ratio, which stood at 2.72:1 as at March 31, 2010 (2.63:1 as at March 31, 2009) compares favorably with that of our peers.

## **ACQUISITION IN THE MARITIME PROVINCES**

In March 2010, we acquired all the outstanding common shares of Overland Realty Limited for a transaction amount of \$71 million. Overland is fully compatible with our activities and our segmented and geographic diversification strategy. Its real estate portfolio consist of 16 high-quality properties located in the Maritime Provinces, including seven office, three retail and six industrial and mixed-use buildings as well as a land lease representing a total area of 603,000 square feet. This acquisition is a perfect fit with our expansion strategy and brings an experienced team with in-depth knowledge of the Maritime Provinces, which becomes our fourth geographic market.

## **ONGOING DEVELOPMENT - COMPLEXE JULES-DALLAIRE**

The construction of Phase I of Complexe Jules-Dallaire, strategically located on Laurier Boulevard in Québec City, is almost completed and the fitting out of the rental space is on track. The first retail tenant was welcomed in February 2010. The office premises will welcome their first tenants in the second quarter of 2010; the pre-leasing rate stands at 64%, in line with our objectives.

## **OUTLOOK**

We continue to exercise efficient and disciplined management of our operations while pursuing our growth by way of our development projects, land holdings for future development and solid financial position. We remain on the lookout for acquisition and development opportunities in line with our return on investment and stability criteria and, in an economic context that is showing positive signs, we are focused on value creation over the long term.



Michel Dallaire, Eng.  
President and Chief Executive Officer



# INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

The following interim 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, 2010, in comparison with the corresponding quarter of 2009, as well as its financial position at that date and its outlook. Dated May 13, 2010, this interim MD&A reflects all significant information available as at that date and should be read in conjunction with the unaudited interim consolidated 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").

Additional information about us, including our 2009 Annual Information Form, is available on our website at [www.cominar.com](http://www.cominar.com) and on the Canadian Securities Administrators' ("CSA") website at [www.sedar.com](http://www.sedar.com).

The Board of Trustees, on 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 2010 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 the use of the conditional tense, 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 general 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.

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

In this interim MD&A, we issue guidance on and report on 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, 2010

- Increases of:
  - 3.0% in operating revenues
  - 3.7% in net operating income
  - 13.1% in recurring distributable income
  - 10.0% in recurring funds from operations
  - 14.8% in recurring adjusted funds from operations
  - 19.9% in distributions
- Occupancy rate of 92.7%
- Annualized interest coverage ratio of 2.72:1
- Issuance on January 12, 2010 of convertible debentures with an aggregate principal amount of \$86.3 million, bearing interest at 5.75%, maturing in seven and a half years.
- Acquisition in March 2010 of 100% of common shares issued and outstanding of Overland Realty Limited (“Overland”). The transaction, including the assumption of debt by the REIT, valued Overland at approximately \$71 million. Overland’s real estate portfolio consists of 16 high quality properties located in the Maritimes, including seven office buildings, three retail buildings, six industrial and mixed-use buildings and one land lease, representing a total area of 603,000 square feet.
- During the period from March 16, 2010 to March 24, 2010, Cominar issued 153,500 units for total gross proceeds of approximately \$3.0 million under the at-the-market equity distribution agreement.

## SUBSEQUENT EVENTS

- On April 7, 2010, the Trust proceeded with the closing of an underwritten offering of 6,021,400 units pursuant to the terms of Cominar’s short form base shelf prospectus dated October 29, 2009, the terms of the offering being set forth in a prospectus supplement dated March 29, 2010 filed with the Canadian securities regulators. The units were sold to a syndicate of underwriters for total gross proceeds of approximately \$115 million.
- On April 8, 2010, the REIT acquired land covering an area of 299,000 square feet located at the western limit of Laurier Boulevard, one of the major thoroughfares in Québec City, for a cash consideration of \$17.4 million. This acquisition represents a unique opportunity for Cominar to acquire land with an exceptional location by the bridges that link the two shores of the St-Lawrence River. Cominar benefits from a strong presence in this prospering area of Laurier Boulevard with its Place de la Cité property and, more recently, Complexe Jules-Dallaire, of which Phase I is under development. A hotel complex is currently located on the purchased land and its demolition is considered once the corporation operating the hotel ceases its activities on these premises at the end of its lease.

- On April 9, 2010, the REIT acquired an industrial property located in Brossard, Québec, with 31,000 square feet of leasable area for a cash consideration of \$5.6 million. The capitalization rate related to this acquisition was 9%. This property is a very recent construction and is fully occupied by a AAA client under a long-term lease.
- On May 6, 2010, the REIT entered into an agreement in respect of the sale of land held for future developments, namely a group of properties at the intersection of Charest and Duplessis Highways in Québec City for a consideration of \$11.7 million and a property on du Marais Street in Québec City for a consideration of \$11.6 million. This transaction is carried to optimize the REIT's land holdings subsequent to the April 8, 2010 acquisition of the unique site on Laurier Boulevard in Québec City.

## FINANCIAL AND OPERATIONAL HIGHLIGHTS

| For the quarters ended March 31,                                 | 2010      | 2009      | Δ %   |
|--|-----------|-----------|-------|
| <b>FINANCIAL DATA</b>  |           |           |       |
| Operating revenues   | 69,907    | 67,867    | 3.0   |
| Net operating income <sup>(1)</sup>                              | 38,109    | 36,765    | 3.7   |
| Same property net operating income growth <sup>(1)</sup>         | 0.3%      | 2.3%      |       |
| Net income   | 6,377     | 4,042     | 57.8  |
| (Recurring) distributable income <sup>(1)</sup>                  | 19,736    | 17,445    | 13.1  |
| (Recurring) funds from operations <sup>(1)</sup>                 | 22,943    | 20,859    | 10.0  |
| (Recurring) adjusted funds from operations <sup>(1)</sup>        | 19,572    | 17,046    | 14.8  |
| Distributions  | 19,815    | 16,523    | 19.9  |
| Debt ratio   | 61.0%     | 62.8%     |       |
| Debt ratio (excluding convertible debentures)                    | 42.6%     | 52.0%     |       |
| Total assets   | 1,940,342 | 1,738,135 |       |
| Market capitalization  | 1,064,261 | 631,186   |       |
| <b>PER UNIT FINANCIAL DATA</b>                                   |           |           |       |
| Net income (basic)   | 0.12      | 0.09      | 33.3  |
| Distributable income (basic) <sup>(1)</sup>                      | 0.36      | 0.38      | (5.3) |
| Recurring distributable income (FD) <sup>(1) (2)</sup>           | 0.36      | 0.38      | (5.3) |
| Recurring funds from operations (FD) <sup>(1) (2)</sup>          | 0.40      | 0.44      | (9.1) |
| Recurring adjusted funds from operations (FD) <sup>(1) (2)</sup> | 0.35      | 0.37      | (5.4) |
| Distributions  | 0.360     | 0.360     | —     |
| <b>OPERATIONAL DATA</b>  |           |           |       |
| Number of properties   | 241       | 215       |       |
| Leasable area (in thousands of sq. ft.)                          | 19,393    | 18,547    |       |
| Occupancy rate   | 92.7%     | 94.5%     |       |
| <b>ACQUISITIONS AND DEVELOPMENTS</b>                             |           |           |       |
| <b>Acquisitions</b>  |           |           |       |
| Number of properties   | 16        | 1         |       |
| Land lease   | 1         | —         |       |
| Leasable area (in thousands of sq. ft.)                          | 603       | 227       |       |
| Total investment <sup>(3)</sup>                                  | 71,130    | 36,820    |       |
| Weighted average capitalization rate                             | 8.9%      | 8.8%      |       |
| <b>Ongoing developments</b>                                      |           |           |       |
| Number of properties   | 1         | 4         |       |
| Estimated leasable area (in thousands of sq. ft.)                | 396       | 671       |       |
| Anticipated investment   | 77,000    | 97,400    |       |
| Forecast weighted average capitalization rate                    | 9.2%      | 9.4%      |       |

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

(2) Fully diluted.

(3) In 2010, represents the fair value of properties acquired. See "Acquisition and Development Program."

## GENERAL BUSINESS OVERVIEW

Cominar Real Estate Investment Trust is the largest owner of commercial properties in the Province of Québec. As at March 31, 2010, we owned and managed a high-quality portfolio of 241 properties including 45 office buildings, 51 retail buildings and 145 industrial and mixed-use buildings covering 19.4 million square feet in the Québec City, Montréal and Ottawa areas as well as in the Maritime provinces.

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 nearly ninefold since 1998, rising to over \$2.1 billion as at March 31, 2010 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, and more recently in the Maritime provinces. 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 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 sector. This diversification contributes to steady revenue and income growth;



[b] **Geographic diversification** - While consolidating its leading position in the Québec City region, Cominar has from the outset established a major presence in the Montréal area where it owns, as at March 31, 2010, 127 properties representing a leasable area of over 11.4 million square feet. With four properties representing 0.6 million square feet, Cominar also has a presence in the Ottawa region. Cominar entered the Maritime provinces during the first quarter of 2010 with the acquisition of Overland Realty Limited. Overland's real estate portfolio consists of 16 high quality properties representing an area of 0.6 million square feet. 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 6,600 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 level authorized by 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.

## 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 is 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 areas 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 ("DI") per unit**, which represents a benchmark for investors to judge the stability of distributions;

- **(Recurring) funds from operations (“FFO”) per unit**, which represent a standard real estate benchmark to measure an entity’s performance, excluding amortization expense related to income properties and capitalized leasing costs calculated using historical costs and losses on disposal of an income property from net income established in accordance with GAAP;
- **(Recurring) adjusted funds from operations (“AFFO”) per unit**, which, excluding the investments needed to maintain the property portfolio’s ability to generate rental income from the calculation of funds from operations, represent a meaningful measure of Cominar’s ability to generate cash flows;
- **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, 2010 and 2009, and should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes presented in this interim MD&A.

| For the quarters ended March 31,          | 2010   | 2009   | Δ%    |
|---|--------|--------|-------|
| Operating revenues                        | 69,907 | 67,867 | 3.0   |
| Operating expenses                        | 31,798 | 31,102 | 2.2   |
| Net operating income                      | 38,109 | 36,765 | 3.7   |
| Interest on borrowings                    | 14,084 | 14,777 | 4.7   |
| Depreciation of income properties         | 13,985 | 14,219 | (1.6) |
| Amortization of capitalized leasing costs | 2,581  | 2,598  | (0.6) |
| Amortization of other assets              | 97     | 91     | 6.6   |
| Trust administrative expenses             | 1,041  | 1,093  | (4.8) |
| Other revenues                            | (56)   | (55)   | 1.8   |
| Net income                                | 6,377  | 4,042  | 32.3  |
| Net income per unit (basic)               | 0.12   | 0.09   | 33.3  |
| Net income per unit (diluted)             | 0.12   | 0.09   | 33.3  |

## FINANCIAL POSITION

The following table summarizes our assets and liabilities as well as unitholders' equity as at March 31, 2010 and December 31, 2009, and should be read in conjunction with the interim consolidated financial statements and accompanying notes presented in this interim MD&A.

|   | March 31, 2010   | December 31, 2009 | Δ \$           | Δ %          |
|---|------------------|-------------------|----------------|--------------|
| <b>ASSETS</b>   |                  |                   |                |              |
| Income properties (at amortized cost)                             | 1,642,125        | 1,581,831         | 60,294         | 3.8          |
| Properties under development and land held for future development | 189,770          | 174,654           | 15,166         | 8.7          |
| Other assets  | 108,447          | 79,461            | 28,986         | 36.5         |
| <b>Total</b>  | <b>1,940,342</b> | <b>1,835,946</b>  | <b>104,396</b> | <b>5.7</b>   |
| <b>LIABILITIES</b>  |                  |                   |                |              |
| Mortgages payable   | 824,650          | 771,991           | 52,659         | 6.8          |
| Convertible debentures  | 396,334          | 313,620           | 82,714         | 26.4         |
| Bank indebtedness   | 91,174           | 134,809           | (43,635)       | (32.4)       |
| Other liabilities   | 48,184           | 32,035            | 16,149         | 50.4         |
|   | <b>1,360,342</b> | <b>1,252,455</b>  | <b>107,887</b> | <b>8.6</b>   |
| <b>UNITHOLDERS' EQUITY</b>  | <b>580,000</b>   | <b>583,491</b>    | <b>(3,491)</b> | <b>(0.6)</b> |
| <b>Total</b>  | <b>1,940,342</b> | <b>1,835,946</b>  | <b>104,396</b> | <b>5.7</b>   |

## PERFORMANCE INDICATORS

The following table summarizes our performance indicators for the quarters ended March 31, 2010 and 2009. A detailed analysis of each of these performance indicators is provided on the page indicated:

### Performance Indicators

| For the quarters ended March 31,                            | Page | 2010   | 2009   | Δ %   |
|---|------|--------|--------|-------|
| Same property net operating income                          | 13   | 35,834 | 35,711 | 0.3   |
| Recurring distributable income per unit (FD) <sup>(1)</sup> | 17   | 0.36   | 0.38   | (5.3) |
| Recurring FFO per unit (FD) <sup>(1)</sup>                  | 20   | 0.40   | 0.44   | (9.1) |
| Recurring AFFO per unit (FD) <sup>(1)</sup>                 | 21   | 0.35   | 0.37   | (5.4) |
| NOI margin  | 13   | 54.5%  | 54.2%  |       |
| Debt ratio (including convertible debentures)               | 24   | 61.0%  | 62.8%  |       |
| Occupancy rate  | 32   | 92.7%  | 94.5%  |       |

(1) Fully diluted.

# RESULTS OF OPERATIONS

## OVERALL ANALYSIS

### OPERATING REVENUES

During the first quarter of 2010, our operating revenues rose 3.0% from the corresponding period in 2009. This increase resulted from the contribution of property acquisitions and developments completed in 2009.

#### Operating Revenues

| For the quarters ended March 31,       | 2010          | 2009          | Δ %        |
|--|---------------|---------------|------------|
| Same property portfolio <sup>(1)</sup> | 65,988        | 66,204        | (0.3)      |
| Acquisitions and developments          | 3,919         | 1,663         | —          |
| <b>Total operating revenues</b>        | <b>69,907</b> | <b>67,867</b> | <b>3.0</b> |

(1) The same property portfolio includes all properties owned by Cominar as at December 31, 2008 and does not include the benefits of acquisitions and developments completed and integrated in 2009.

Same property portfolio operating revenues remained stable in the first quarter of 2010 relative to the corresponding quarter of 2009.

### OPERATING EXPENSES

Operating expenses rose 2.2% in the first quarter of 2010 compared with 2009. This slight variance stemmed mainly from an expanded portfolio through acquisitions and developments completed in 2009.

#### Operating Expenses

| For the quarters ended March 31,       | 2010          | 2009          | Δ %        |
|--|---------------|---------------|------------|
| Same property portfolio <sup>(1)</sup> | 30,154        | 30,493        | (1.1)      |
| Acquisitions and developments          | 1,644         | 609           | —          |
| <b>Total operating expenses</b>        | <b>31,798</b> | <b>31,102</b> | <b>2.2</b> |

(1) See "Operating Revenues."

### NET OPERATING INCOME

Although net operating income ("NOI") 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

| For the quarters ended March 31,       | 2010          | 2009          | Δ %        |
|--|---------------|---------------|------------|
| Same property portfolio <sup>(1)</sup> | 35,834        | 35,711        | 0.3        |
| Acquisitions and developments          | 2,275         | 1,054         | —          |
| <b>Total NOI</b>                       | <b>38,109</b> | <b>36,765</b> | <b>3.7</b> |
| NOI margin                             |               |               |            |
| Same property portfolio                | 54.3%         | 53.9%         |            |
| Overall portfolio                      | 54.5%         | 54.2%         |            |

(1) See "Operating Revenues."

Same property NOI (a financial performance indicator) for the first quarter ended March 31, 2010 remained steady relative to the corresponding period of 2009, despite a lower occupancy rate.

At 54.5% of operating revenues, the NOI margin was up slightly compared with the first quarter of 2009.

## INTEREST ON BORROWINGS

For the first quarter of 2010, total interest on borrowings decreased 4.7% compared with 2009. Total interest on borrowings represented equal to 20.1% of operating revenues as at March 31, 2010 compared with 21.8% as at March 31, 2009, which compares favourably with other REITs. As at March 31, 2010, the weighted average contractual interest rate of our long-term debt stood at 5.58%, up 8 basis points from December 31, 2009.

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

### Interest on Borrowings

| For the quarters ended March 31,                                    | 2010          | 2009          | Δ %          |
|---|---------------|---------------|--------------|
| Mortgages and bank indebtedness                                     | 11,091        | 12,187        | (9.0)        |
| Convertible debentures  | 6,013         | 3,099         | 94.0         |
| Amortization of borrowing costs                                     | 824           | 620           | 32.9         |
| Accretion of liability component of convertible debentures          | 56            | 10            | —            |
| Amortization of fair value adjustments on assumed mortgages payable | (30)          | (31)          | (3.2)        |
| Less: Capitalized interest  | (3,870)       | (1,108)       | —            |
| <b>Total interest on borrowings</b>                                 | <b>14,084</b> | <b>14,777</b> | <b>(4.7)</b> |

## DEPRECIATION OF INCOME PROPERTIES

Depreciation expense of income properties for the first quarter of 2010 fell 1.6% compared with 2009. 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 depreciation is therefore accelerated relative to the depreciation of properties held for a number of years.



## Depreciation of Income Properties

| For the quarters ended March 31,               | 2010          | 2009          | Δ%           |
|--|---------------|---------------|--------------|
| Same property portfolio                        | 13,106        | 13,795        | (5.0)        |
| Acquisitions and developments                  | 879           | 424           | —            |
| <b>Total depreciation of income properties</b> | <b>13,985</b> | <b>14,219</b> | <b>(1.6)</b> |

## TRUST ADMINISTRATIVE EXPENSES

Administrative expenses, amounting to \$1.0 million as at March 31, 2010, were unchanged from their 2009 level. Trust administrative expenses represented 1.5% of operating revenues as at March 31, 2010.

## NET INCOME

Cominar reported \$6.4 million in net income for the first quarter of 2010, up 57.85% from 2009. Basic net income per unit stood at \$0.12 for the first quarter of 2010, up 33.3% over 2009.

### Net income

| For the quarters ended March 31, | 2010  | 2009  | Δ%   |
|----------------------------------|-------|-------|------|
| Net income                       | 6,377 | 4,042 | 57.8 |
| Net income per unit (basic)      | 0.12  | 0.09  | 33.3 |
| Net income per unit (diluted)    | 0.12  | 0.09  | 33.3 |

## CONTINGENCY

In June 2006, an expropriation process was initiated by the Centre hospitalier de l'Université de Montréal (the "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 Administrative Tribunal of Québec awarded Cominar, on September 10, 2007, a provisional indemnity pursuant to applicable legislation. The provisional indemnity, amounting to \$30 million, was received in 2007. The definitive indemnity will be set by the Administrative Tribunal of Québec or settled between the parties. 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 Québec City, Montréal and Ottawa areas, and, as of March 2010, in the Maritime provinces. The following tables show the contributions of these properties to NOI, by activity segment and geographic markets, for the quarters ended March 31, 2010 and 2009. Variations are primarily attributable to property acquisitions and developments completed in 2009.

### SEGMENTED INFORMATION BY ACTIVITY SEGMENT

#### Net Operating Income

| For the quarters ended March 31, | 2010          | 2009          | Δ %        |
|----------------------------------|---------------|---------------|------------|
| Activity segment                 |               |               |            |
| Office                           | 17,751        | 17,497        | 1.5        |
| Retail                           | 7,776         | 6,599         | 17.8       |
| Industrial and mixed-use         | 12,582        | 12,669        | (0.7)      |
| <b>Total NOI</b>                 | <b>38,109</b> | <b>36,765</b> | <b>3.7</b> |

| For the quarters ended March 31, | 2010          | 2009          |
|----------------------------------|---------------|---------------|
| Activity segment                 |               |               |
| Office                           | 46.6%         | 47.6%         |
| Retail                           | 20.4%         | 17.9%         |
| Industrial and mixed-use         | 33.0%         | 34.5%         |
| <b>Total NOI</b>                 | <b>100.0%</b> | <b>100.0%</b> |

#### Office Segment

NOI from office properties for the first quarter of 2010 remained relatively unchanged from the corresponding quarter of 2009.

| For the quarters ended March 31, | 2010          | 2009          | Δ %        |
|----------------------------------|---------------|---------------|------------|
| Operating revenues               | 32,914        | 32,792        | 0.4        |
| Operating expenses               | 15,163        | 15,295        | (0.9)      |
| <b>NOI — Office</b>              | <b>17,751</b> | <b>17,497</b> | <b>1.5</b> |
| <b>NOI margin — Office</b>       | <b>53.9%</b>  | <b>53.4%</b>  |            |

#### Retail Segment

Retail segment NOI rose 17.8% in the first quarter of 2010 compared with corresponding period of 2009, due primarily to the December 2009 acquisition of the Quartier Laval retail complex.

| For the quarters ended March 31, | 2010         | 2009         | Δ %         |
|----------------------------------|--------------|--------------|-------------|
| Operating revenues               | 14,279       | 12,130       | 17.7        |
| Operating expenses               | 6,503        | 5,531        | 17.6        |
| <b>NOI — Retail</b>              | <b>7,776</b> | <b>6,599</b> | <b>17.8</b> |
| <b>NOI margin — Retail</b>       | <b>54.5%</b> | <b>54.4%</b> |             |

### Industrial and Mixed-Use Segment

Industrial and mixed-use segment NOI for the first quarter of 2010 remained unchanged from its 2009 level. The slight drop in operating revenues stems from a decrease in billable operating expenses, largely related to energy.

| For the quarters ended March 31,             | 2010          | 2009   | Δ %   |
|--|---------------|--------|-------|
| Operating revenues                           | 22,714        | 22,945 | (1.0) |
| Operating expenses                           | 10,132        | 10,276 | (1.4) |
| <b>NOI — Industrial and mixed-use</b>        | <b>12,582</b> | 12,669 | (0.7) |
| <b>NOI margin — Industrial and mixed-use</b> | <b>55.4%</b>  | 55.2%  |       |

### SEGMENTED INFORMATION BY GEOGRAPHIC MARKET

The following table shows NOI growth and breakdown in Cominar's four geographic markets.

#### Net Operating Income

| For the quarters ended March 31, | 2010          | 2009   | Δ % |
|----------------------------------|---------------|--------|-----|
| Geographic market                |               |        |     |
| Québec                           | 13,994        | 13,776 | 1.6 |
| Montréal                         | 21,586        | 20,940 | 3.1 |
| Ottawa                           | 2,161         | 2,049  | 5.5 |
| Maritimes                        | 368           | —      | —   |
| <b>Total NOI</b>                 | <b>38,109</b> | 36,765 | 3.7 |

| For the quarters ended March 31, | 2010          | 2009   |
|----------------------------------|---------------|--------|
| Geographic market                |               |        |
| Québec                           | 36.7%         | 37.5%  |
| Montréal                         | 56.6%         | 57.0%  |
| Ottawa                           | 5.7%          | 5.5%   |
| Maritimes                        | 1.0%          | —      |
| <b>Total NOI</b>                 | <b>100.0%</b> | 100.0% |

Cominar entered the Maritime provinces during the first quarter of 2010 with the acquisition of Overland Realty Limited. Overland's real estate portfolio consists of 16 high quality properties representing an area of 0.6 million square feet. Like activity segment diversification, geographic diversification allows Cominar to better spread its real estate risk.

# 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.

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

| For the quarters ended March 31,                                  | 2010          | 2009   | Δ %    |
|---|---------------|--------|--------|
| Net income (GAAP)   | 6,377         | 4,042  | 57.8   |
| + Depreciation of income properties                               | 13,985        | 14,219 | (1.6)  |
| - Amortization of below-market leases                             | (203)         | (204)  | (0.5)  |
| + Compensation expense related to unit option plan                | 223           | 173    | 28.9   |
| + Accretion of liability component of convertible debentures      | 56            | 10     | —      |
| - Rental income – recognition of leases on straight-line basis    | (672)         | (764)  | (12.0) |
| - Amortization of fair value adjustments on assumed indebtedness  | (30)          | (31)   | (3.2)  |
| <b>Recurring DI</b>   | <b>19,736</b> | 17,445 | 13.1   |
| <b>DISTRIBUTIONS TO UNITHOLDERS</b>                               | <b>19,815</b> | 16,523 | 19.9   |
| Distributions reinvested under the distribution reinvestment plan | (534)         | (268)  | —      |
| Cash distributions  | 19,281        | 16,255 | 18.6   |
| Per unit information:   |               |        |        |
| Recurring DI (basic)  | 0.36          | 0.38   | (5.3)  |
| Recurring DI (FD) <sup>(1)</sup>                                  | 0.36          | 0.38   | (5.3)  |
| <b>DISTRIBUTIONS PER UNIT</b>                                     | <b>0.360</b>  | 0.360  | —      |
| DI payout ratio   | 100.0%        | 94.7%  |        |

(1) Fully diluted.

Recurring DI for the first quarter of 2010 amounted to \$19.7 million, up 13.1% from the corresponding period of 2009, due mainly to the impact of acquisitions and developments completed in 2009. Recurring DI per fully diluted unit totalled \$0.36 compared with \$0.38 for the first quarter of 2009. This decline in per unit income resulted primarily from the dilutive effect of unit issues in 2009. Cominar management expects per unit income to improve when the proceeds of these issues are invested in additions to income properties and when Complexe Jules-Dallaire is completed and integrated into income properties.

Distributions to unitholders in the first quarter of 2010 totalled \$19.8 million, up 19.9% from the same period of 2009, with per unit distributions at \$0.36 as in the first quarter of 2009.

Cominar drives growth through income property acquisitions and construction projects. Property development generally allows for higher returns, particularly in periods of rising property prices. Cominar also acquires land for future developments when favourable opportunities arise, both in terms of location and price, which provides the Trust with a key competitive advantage. However, these major investments have an impact on Cominar's short-term growth rate as they will contribute to results only on their integration as income properties.

Cominar takes a conservative approach to managing its distribution ratio, which it regards as a key factor in the stability of future distributions. This approach provides greater financial flexibility for its capital expenditures and the implementation of its leasing programs. The DI payout ratio as at March 31, 2010 stood at 100.0%, slightly higher than as at March 31, 2009, owing primarily to the dilutive effect of units issued under the two public offerings in 2009. Management expects that its DI payout ratio per unit in 2010 will be below 100%. Cominar management's long-term objective is a payout ratio of approximately 87%.

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

| For the quarters ended March 31,          | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|------|------|------|------|------|
| DI per unit (basic)                       | 0.36 | 0.38 | 0.35 | 0.31 | 0.30 |
| Recurring DI per unit (FD) <sup>(1)</sup> | 0.36 | 0.38 | 0.35 | 0.31 | 0.31 |

(1) Fully diluted.

Cominar's recurring DI per unit, established in accordance with its Contract of Trust, is in our opinion a material measure 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 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:

| For the quarters ended March 31,                               | 2010          | 2009          |
|--|---------------|---------------|
| Cash flows from operating activities (GAAP)                    | 11,835        | 16,716        |
| - Amortization of capitalized leasing costs                    | (2,581)       | (2,598)       |
| - Amortization of capitalized financing costs and other assets | (921)         | (711)         |
| - Rental income – recognition of leases on straight-line basis | (672)         | (764)         |
| + Change in non-cash working capital items                     | 12,075        | 4,802         |
| <b>Distributable income</b>                                    | <b>19,736</b> | <b>17,445</b> |

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:

| <b>For the quarters ended March 31,</b>  | <b>2010</b>    | <b>2009</b> | <b>2008</b> |
|--|----------------|-------------|-------------|
| Cash flows from operating activities   | <b>11,835</b>  | 16,716      | 4,552       |
| Net income   | <b>6,377</b>   | 4,042       | 4,125       |
| Distributions to unitholders   | <b>19,815</b>  | 16,523      | 15,369      |
| Cash flows from operating activities in excess (deficit) of distributions payable to unitholders | <b>(7,980)</b> | 193         | (10,817)    |

Just as in each fiscal year since the REIT's inception, Cominar expects cash flows from operating activities for the year ending December 31, 2010 to be sufficient to fund distributions to unitholders.

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, 2010 and 2009:

### Funds From Operations

| For the quarters ended March 31,            | 2010          | 2009   | Δ%    |
|---|---------------|--------|-------|
| <b>Net income (GAAP)</b>                    | <b>6,377</b>  | 4,042  | 57.8  |
| + Depreciation of income properties         | <b>13,985</b> | 14,219 | (1.6) |
| + Amortization of capitalized leasing costs | <b>2,581</b>  | 2,598  | (0.7) |
| <b>Recurring FFO</b>                        | <b>22,943</b> | 20,859 | 10.0  |
| <b>Per unit information:</b>                |               |        |       |
| Recurring FFO (basic)                       | <b>0.42</b>   | 0.45   | (6.7) |
| Recurring FFO (FD) <sup>(1)</sup>           | <b>0.40</b>   | 0.44   | (9.1) |

(1) Fully diluted.

For the first quarter of 2010, FFO rose 10.0% from the same period of 2009, due to acquisitions and developments completed during 2009. Recurring FFO per unit fell by 9.1% on a fully diluted basis compared with 2009 due primarily to the dilutive effect of unit issues in 2009 and a lower occupancy rate.

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

| For the quarters ended March 31,  | 2010        | 2009 | 2008 | 2007 | 2006 |
|-----------------------------------|-------------|------|------|------|------|
| FFO per unit (basic)              | <b>0.42</b> | 0.45 | 0.41 | 0.37 | 0.35 |
| Recurring FFO (FD) <sup>(1)</sup> | <b>0.40</b> | 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, amortization of capitalized leasing costs and amortization of above-market leases, net of the investments required to maintain Cominar's ability to 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.

In calculating AFFO, 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.

The following table presents a reconciliation of FFO and AFFO for the quarters ended March 31, 2010 and 2009:

#### Adjusted Funds From Operations

| For the quarters ended March 31,  | 2010          | 2009          | Δ%          |
|---|---------------|---------------|-------------|
| Funds from operations   | 22,943        | 20,859        | 10.0        |
| + Compensation expense related to unit option plan                        | 223           | 173           | 28.9        |
| - Rental income – recognition of leases on straight-line basis            | (672)         | (764)         | (12.0)      |
| - Amortization of below-market leases                                     | (203)         | (204)         | (0.5)       |
| - Amortization of capitalized leasing costs                               | (2,581)       | (2,598)       | (0.7)       |
| - Capital expenditures – maintenance of rental income generating capacity | (138)         | (420)         | (67.1)      |
| <b>Recurring AFFO</b>   | <b>19,572</b> | <b>17,046</b> | <b>14.8</b> |
| <b>Per unit information:</b>  |               |               |             |
| Recurring AFFO (basic)  | 0.36          | 0.37          | (2.7)       |
| Recurring AFFO (FD) <sup>(1)</sup>  | 0.35          | 0.37          | (5.4)       |
| <b>Distributions per unit</b>   | <b>0.360</b>  | <b>0.360</b>  | <b>—</b>    |
| AFFO payout ratio   | 100.0%        | 97.3%         |             |

(1) Fully diluted.

Cominar reported \$19.6 million in recurring AFFO for the first quarter of 2010, up 14.8% compared with the corresponding period of 2009. Recurring AFFO per unit stood at \$0.36, down 2.7% from 2009. This decline in per unit income arises primarily from the dilutive effect of share issues in 2009 and a lower occupancy rate. Management expects per unit income to improve when the proceeds of these issues are invested in additions to income properties and development projects are integrated into income properties.

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

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

| For the quarters ended March 31,            | 2010 | 2009 | 2008 |
|---|------|------|------|
| AFFO per unit (basic)                       | 0.36 | 0.37 | 0.35 |
| Recurring AFFO per unit (FD) <sup>(1)</sup> | 0.35 | 0.37 | 0.35 |

(1) Fully diluted.

# LIQUIDITY AND CAPITAL RESOURCES

## LONG-TERM DEBT

The following table presents Cominar's balances of mortgages payable and convertible debentures as at March 31, 2010 by year of maturity and weighted average contractual interest rates:

### Long-Term Debt – Balances as at March 31, 2010

| Maturity     | Balance of convertible debentures (\$) | Balance of mortgages payable (\$) | Weighted average contractual interest rate (%) |
|--------------|--|-----------------------------------|--|
| 2010         |  | 52,310                            | 5.24   |
| 2011         |  | 6,544                             | 7.62   |
| 2012         |  | 26,313                            | 6.82   |
| 2013         |  | 180,509                           | 4.41   |
| 2014         | 211,986                                | 85,944                            | 5.86   |
| 2015         |  | 84,756                            | 5.33   |
| 2016         | 115,000                                | 18,550                            | 6.38   |
| 2017         | 86,250                                 | 127,859                           | 5.53   |
| 2018         |  | 96,589                            | 5.77   |
| 2019         |  | 15,700                            | 6.65   |
| 2020         |  | 1,447                             | 6.39   |
| 2021         |  | 94,620                            | 5.55   |
| 2022         |  | 33,583                            | 5.35   |
| <b>Total</b> | <b>413,236</b>                         | <b>824,724</b>                    | <b>5.58</b>                                    |

As at March 31, 2010, the weighted average contractual interest rate of our long-term debt stood at 5.58%, up 8 basis points from December 31, 2009.

## MORTGAGES PAYABLE

As at March 31, 2010, mortgages payable amounted to \$824.7 million, up \$51.3 million from \$773.4 million as at December 31, 2009. As at March 31, 2010, the weighted average contractual interest rate was 5.38%, up 12 basis points from 5.26% as at December 31, 2009.

Cominar has staggered mortgage maturity dates over a number of years to reduce the risks related to renewal. As at March 31, 2010, the residual average term of mortgages payable was 6.1 years.

The following table presents the changes in mortgages payable in 2010:

### Mortgages Payable

| For the quarter ended March 31, 2010             | \$             | Weighted average contractual interest rate (%) |
|--|----------------|--|
| Balance of mortgages payable, beginning of year  | 773,391        | 5.26   |
| Mortgages payable contracted or assumed          | 110,124        | 5.63   |
| Repayments of balances at maturity               | (53,406)       | 4.24   |
| Monthly repayments of principal                  | (5,385)        |  |
| <b>Balance of mortgages payable, end of year</b> | <b>824,724</b> | <b>5.38</b>                                    |

The following table shows mortgage repayments for the coming periods:

#### Repayment of Mortgages Payable

| For the period ending<br>December 31, | Repayment<br>of capital | Balance<br>at maturity | Total          | % of<br>total |
|---------------------------------------|-------------------------|------------------------|----------------|---------------|
| 2010                                  | 16,820                  | 51,635                 | 68,455         | 8.3           |
| 2011                                  | 22,512                  | 5,855                  | 28,367         | 3.4           |
| 2012                                  | 22,697                  | 22,951                 | 45,648         | 5.5           |
| 2013                                  | 20,945                  | 161,628                | 182,573        | 22.1          |
| 2014                                  | 13,931                  | 75,819                 | 89,750         | 10.9          |
| 2015                                  | 13,776                  | 74,063                 | 87,839         | 10.7          |
| 2016                                  | 12,952                  | 11,517                 | 24,469         | 3.0           |
| 2017                                  | 11,586                  | 109,423                | 121,009        | 14.7          |
| 2018                                  | 9,858                   | 58,712                 | 68,570         | 8.3           |
| 2019                                  | 4,038                   | 4,141                  | 8,179          | 1.0           |
| 2020                                  | 4,018                   | 1,039                  | 5,057          | 0.6           |
| 2021                                  | 2,396                   | 67,963                 | 70,359         | 8.5           |
| 2022                                  | 263                     | 24,186                 | 24,449         | 3.0           |
| <b>Total</b>                          | <b>155,792</b>          | <b>668,932</b>         | <b>824,724</b> | <b>100.0</b>  |

#### CONVERTIBLE DEBENTURES

On January 12, 2010, Cominar issued convertible unsecured subordinated debentures totalling \$86.3 million, bearing interest at 5.75% per annum and maturing on June 30, 2017. Net proceeds were applied against the current balance of debt contracted under the terms of existing credit facilities.

As at March 31, 2010, Cominar had five series of convertible debentures outstanding totalling \$413.2 million. These debentures bear interest at contractual rates ranging from 5.70% to 6.50% per annum and mature between 2014 and 2017. As at March 31, 2010, these debentures had a weighted average contractual interest rate of 5.99% per annum.

#### BANK INDEBTEDNESS

Cominar has an operating and acquisition credit facility of \$255.0 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, 2010, bank indebtedness totalled \$91.2 million, which meant that Cominar had \$163.8 million in borrowing capacity under the terms of its credit facilities.



## DEBT RATIO

The following table presents debt ratios as at March 31, 2010 and December 31, 2009:

### Debt to Gross Carrying Value Ratio

|  | As at March 31, 2010 | As at December 31, 2009 |
|--|----------------------|-------------------------|
| Mortgages payable  | 824,650              | 771,991                 |
| Convertible debentures   | 396,334              | 313,620                 |
| Bank indebtedness  | 91,174               | 134,809                 |
| Total debt   | 1,312,158            | 1,220,420               |
| Portfolio gross carrying amount                                  | 2,150,099            | 2,031,922               |
| <b>Overall debt ratio <sup>(1) (2)</sup></b>                     | <b>61.0%</b>         | 60.1%                   |
| <b>Debt ratio (excluding convertible debentures)</b>             | <b>42.6%</b>         | 44.6%                   |
| Borrowing capacity — 65% of gross carrying amount <sup>(3)</sup> | 244,000              | 287,000                 |

(1) The overall debt ratio is equal to total bank indebtedness, mortgages payable and convertible debentures divided by the gross carrying amount 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 amount (65% if convertible debentures are outstanding).

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

| For the quarters ended March 31,                       | 2010    | 2009    | 2008    | 2007    | 2006    |
|--|---------|---------|---------|---------|---------|
| Overall debt ratio                                     | 61.0%   | 62.8%   | 57.3%   | 47.3%   | 50.0%   |
| Debt ratio (excluding convertible debentures)          | 42.6%   | 52.0%   | 44.4%   | 43.9%   | 37.8%   |
| Maximum borrowing capacity under the Contract of Trust | 244,000 | 118,000 | 346,000 | 288,000 | 197,000 |

As at March 31, 2010, Cominar maintained a debt ratio of 61.0%, which is below the maximum debt ratio of 65.0% allowed under its Contract of Trust where convertible debentures are outstanding, and which provides the Trust with the ability to borrow up to an additional \$244 million to fund future acquisitions and developments. Management expects that the current debt ratio, which is slightly above its target of 58% including convertible debentures, will adjust downward during 2010 to return to target levels. Total gross proceeds of approximately \$115 million from the underwritten offering of April 7, 2010 will contribute to this adjustment. Further, Cominar's annualized interest coverage ratio of 2.72:1 compares favourably with its peers.

Management considers Cominar's current financial situation very sound and does not foresee any difficulties in renewing the mortgages maturing in the three remaining quarters of 2010. The Fund also has credit facilities sufficient to fully fund development projects currently underway.

The following table presents the annualized interest coverage ratio as at March 31, 2010 and 2009:

### Annualized Interest Coverage Ratio

| As at March 31,  | 2010        | 2009        |
|--|-------------|-------------|
| Net income   | 31,347      | 24,902      |
| + Net loss from discontinued operations                      | —           | 344         |
| - Other revenues   | (218)       | (293)       |
| + Interest on borrowings                                     | 56,080      | 53,645      |
| + Depreciation of income properties                          | 54,848      | 53,593      |
| + Amortization of capitalized leasing costs                  | 9,861       | 8,706       |
| + Amortization of other assets                               | 425         | 359         |
| EBITDA <sup>(1)</sup>  | 152,343     | 141,256     |
| Interest expense   | 56,080      | 53,645      |
| <b>Annualized interest coverage ratio <sup>(2) (3)</sup></b> | <b>2.72</b> | <b>2.63</b> |

(1) EBITDA is earnings before interest, tax, depreciation and amortization and is a non-GAAP measure.

(2) The annualized interest coverage ratio is equal to EBITDA divided by interest expense.

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

The annualized interest coverage ratio is used to assess Cominar's ability to pay interest on its debt using its operating revenues. As at March 31, 2010, the annualized interest coverage ratio stood at 2.72:1, a satisfactory level in management's opinion.

### 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 interim consolidated financial statements.

During the quarter ended March 31, 2010, 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,   | 2010             | 2009             |
|---|------------------|------------------|
| Income properties (at cost)                                       | 1,851,882        | 1,677,764        |
| Properties under development and land held for future development | 189,770          | 135,697          |
| Other assets  | 108,447          | 80,397           |
| <b>Portfolio gross carrying amount</b>                            | <b>2,150,099</b> | <b>1,893,858</b> |

| As at March 31,                         | 2010   | 2009   |
|---|--------|--------|
| Number of properties                    | 241    | 215    |
| Leasable area (in thousands of sq. ft.) | 19,393 | 18,547 |

### Summary by Activity Segment

| As at March 31, 2010     | Number of properties | Leasable area (sq. ft.) |
|--------------------------|----------------------|-------------------------|
| Office                   | 45                   | 5,836,000               |
| Retail                   | 51                   | 3,065,000               |
| Industrial and mixed-use | 145                  | 10,492,000              |
| <b>Total</b>             | <b>241</b>           | <b>19,393,000</b>       |

### Summary by Geographic Area

| As at March 31, 2010 | Number of properties | Leasable area (sq. ft.) |
|----------------------|----------------------|-------------------------|
| Québec City          | 94                   | 6,749,000               |
| Montréal             | 127                  | 11,432,000              |
| Ottawa               | 4                    | 609,000                 |
| Maritimes            | 16                   | 603,000                 |
| <b>Total</b>         | <b>241</b>           | <b>19,393,000</b>       |

## 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 sectors 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 and hence, drawing on our specialized resources and 40-year expertise in real estate development.

## ACQUISITIONS

In March 2010, Cominar acquired 100% of the issued common shares of Overland. The transaction, including the assumption of debt by the REIT, valued Overland at \$71 million. Overland's real estate portfolio consists of 16 high quality properties located in the Maritimes, including seven office buildings, three retail buildings, six industrial and mixed-use buildings and one land lease, representing a total area of 603,000 square feet.

### Description of properties

The following is a detailed description of the properties referred to above. Summary leasing information is as at March 10, 2010.

#### 1113 Regent Street, Fredericton, New Brunswick

An 11,270 square foot office/retail building, with a current occupancy rate of 86.6%. This building is located on 119,354 square feet of land on the upper end of Regent Street, immediately across from the Everett Chalmers Regional Hospital and the entrance to the University of New Brunswick.

| Major tenants                        | Leasable area<br>(sq. ft.) | Expiration date | Percentage of<br>leasable area<br>occupied by<br>indicated tenant |
|--------------------------------------|----------------------------|-----------------|---|
| Regional Health Authority            | 7,157                      | March 2012      | 63.5%   |
| New Brunswick Association of Nursing | 2,000                      | May 2014        | 17.7%   |

#### 1115 Regent Street, Fredericton, New Brunswick

A 16,426 square foot office building, with a current occupancy rate of 98.7%. This building is located on 119,354 square feet of land adjacent to the property located at 1113 Regent Street.

| Major tenants             | Leasable area<br>(sq. ft.) | Expiration date | Percentage of<br>leasable area<br>occupied by<br>indicated tenant |
|---------------------------|----------------------------|-----------------|---|
| Atlantic Business College | 8,733                      | July 2019       | 53.1%   |
| Brunswick Valley Lumber   | 3,370                      | October 2013    | 20.5%   |

#### 570 Queen Street, Fredericton, New Brunswick

The six-storey 70,225 square foot office building known as "Barker House" is Fredericton's most highly regarded Class "A" office tower, located in the heart of downtown Fredericton, with a current occupancy rate of 99.7%. Built in 1990 on 22,227 square feet of land, this property overlooks historic Officers Square Park and the Saint John River.

| Major tenants       | Leasable area<br>(sq. ft.) | Expiration date | Percentage of<br>leasable area<br>occupied by<br>indicated tenant |
|---------------------|----------------------------|-----------------|---|
| Public Works Canada | 25,075                     | March 2010      | 35.7%   |
| McInnes Cooper LLP  | 14,034                     | September 2017  | 20.0%   |
| Grant Thornton LLP  | 11,932                     | June 2025       | 17.0%   |
| Sun Life            | 5,253                      | August 2015     | 7.5%  |

### 385 Wilsey Road, Fredericton, New Brunswick

A 31,410 square foot industrial/office building located on 130,680 square feet of land at the centre point of the Fredericton Industrial Park on the major traffic artery of Wilsey Road. This property has a current occupancy rate of 82.8%.

| Major tenants              | Leasable area<br>(sq. ft.) | Expiration date | Percentage of<br>leasable area<br>occupied by<br>indicated tenant |
|----------------------------|----------------------------|-----------------|---|
| Fairview Plymouth Chrysler | 5,100                      | September 2010  | 16.2%   |
| Carmichael Engineering     | 3,620                      | May 2012        | 11.5%   |

### 900 Hanwell Road, Fredericton, New Brunswick

A 66,502 square foot single storey office/retail complex located on 247,856 square feet of land in the uptown commercial district, one of Fredericton's fastest growing areas, with a current occupancy rate of 97.6%.

| Major tenants             | Leasable area<br>(sq. ft.) | Expiration date | Percentage of<br>leasable area<br>occupied by<br>indicated tenant |
|---------------------------|----------------------------|-----------------|---|
| United Parcel Service     | 26,967                     | July 2011       | 41.6%   |
| Sport New Brunswick       | 5,207                      | June 2013       | 8.0%  |
| Regional Health Authority | 4,907                      | February 2018   | 7.6%  |
| Public Works Canada       | 4,032                      | December 2011   | 6.2%  |
| Procraft Industrial Ltd.  | 3,983                      | March 2013      | 6.1%  |

### 360 Pleasant Street, Miramichi, New Brunswick

A 24,450 square foot office/retail building located on 40,753 square feet in immediate proximity to City Hall and the downtown district, with a current occupancy rate of 100%. This property, built in 1991, is a landmark centre providing ease of accessibility to key regional services.

| Major tenants             | Leasable area<br>(sq. ft.) | Expiration date | Percentage of<br>leasable area<br>occupied by<br>indicated tenant |
|---------------------------|----------------------------|-----------------|---|
| Province of New Brunswick | 12,345                     | December 2011   | 50.5%   |
| Service New Brunswick     | 7,137                      | April 2013      | 29.2%   |
| A Canadian chartered bank | 3,462                      | December 2011   | 14.2%   |

### 245 Hilton Road, Fredericton, New Brunswick

An 18,970 square foot industrial building located on 101,495 square feet of land located within the Fredericton Industrial Park, with a current occupancy rate of 91.4%.

| Major tenants           | Leasable area<br>(sq. ft.) | Expiration date | Percentage of<br>leasable area<br>occupied by<br>indicated tenant |
|-------------------------|----------------------------|-----------------|---|
| Activation Laboratories | 3,892                      | June 2012       | 20.5%   |
| Public Works Canada     | 2,806                      | July 2010       | 14.8%   |
| Leonard Corporation     | 2,500                      | April 2010      | 13.2%   |



**371 Queen Street, Fredericton, New Brunswick**

A 33,370 square foot four-storey Class "A" office building situated adjacent to City Hall and the Justice Building on 15,207 square feet of land in the downtown business district overlooking the banks of the Saint John River, with a current occupancy rate of 99.1%. Built in 1900 and renovated in 1988, the award-winning property incorporates a landmark historic structure in a revitalized modern complex.

| Major tenants           | Leasable area<br>(sq. ft.) | Expiration date | Percentage of<br>leasable area<br>occupied by<br>indicated tenant |
|-------------------------|----------------------------|-----------------|---|
| Cox & Palmer            | 16,090                     | January 2014    | 50.5%   |
| RBC Dominion Securities | 4,921                      | November 2012   | 15.4%   |
| London Life             | 3,438                      | November 2014   | 10.8%   |

**565 Priestman Street, Fredericton, New Brunswick**

A 35,130 square foot four-storey Class "B+" office building located on 67,285 square feet of land at the key intersection of Priestman and Regent streets, adjacent to the Everett Chalmers Regional Hospital, with a current occupancy rate of 98.3%.

| Major tenants             | Leasable area<br>(sq. ft.) | Expiration date | Percentage of<br>leasable area<br>occupied by<br>indicated tenant |
|---------------------------|----------------------------|-----------------|---|
| Public Works Canada       | 8,085                      | May 2012        | 23.4%   |
| Teed Saunders Doyle       | 5,003                      | August 2014     | 14.5%   |
| Province of New Brunswick | 3,530                      | August 2013     | 10.2%   |

**1133 Regent Street, Fredericton, New Brunswick**

A 87,708 square foot four-storey Class "B+" office building located on 134,204 square feet of land in the uptown business district of Fredericton, in immediate proximity to the city's primary arterial intersection and the primary regional shopping centre, with a current occupancy rate of 97.0%.

| Major tenants                | Leasable area<br>(sq. ft.) | Expiration date | Percentage of<br>leasable area<br>occupied by<br>indicated tenant |
|------------------------------|----------------------------|-----------------|---|
| ADI Group                    | 38,278                     | January 2014    | 44.6%   |
| Delta Hotels                 | 9,914                      | February 2016   | 11.6%   |
| Investors Group              | 9,196                      | June 2013       | 10.7%   |
| Law Society of New Brunswick | 5,926                      | August 2010     | 6.9%  |

**291 Industrial Drive, Saint John, New Brunswick**

A 33,330 square foot industrial building located on 169,884 square feet of land off Grandview Avenue, within the city's largest industrial park and across from the Irving Refinery. Built in 1987, this property has a current occupancy rate of 100%.

| Major tenants                         | Leasable area<br>(sq. ft.) | Expiration date | Percentage of<br>leasable area<br>occupied by<br>indicated tenant |
|---------------------------------------|----------------------------|-----------------|---|
| Intelplast Bags and Films Corporation | 33,330                     | June 2025       | 100%  |

**590 Queen Street, Fredericton, New Brunswick**

A high profile mixed use development consisting of 41,540 square feet of class "A" office space and residential accommodations, with a current occupancy rate of 94.6%. The property is well located in the heart of downtown Fredericton with scenic river views and underground parking.

| Major tenants          | Leasable area<br>(sq. ft.) | Expiration date | Percentage of<br>leasable area<br>occupied by<br>indicated tenant |
|------------------------|----------------------------|-----------------|---|
| Public Works Canada    | 7,139                      | March 2010      | 34.0%   |
| BMO Nesbitt Burns Inc. | 6,963                      | October 2015    | 33.1%   |

**140 MacNaughton Avenue, Moncton, New Brunswick**

A 37,858 square foot single tenant industrial building located on 153,767 square feet of land with direct frontage on the Trans Canada Highway within the Caledonia Industrial Park, adjacent to the new Molson Brewery. Built in 2002, this property has a current occupancy rate of 100%.

| Major tenants     | Leasable area<br>(sq. ft.) | Expiration date | Percentage of<br>leasable area<br>occupied by<br>indicated tenant |
|-------------------|----------------------------|-----------------|---|
| Kraft Canada Inc. | 37,858                     | September 2012  | 100%  |

**50 & 70 Crown Street, Saint John, New Brunswick**

A 33,290 square foot office/retail building located on 75,794 square feet of land on the major arterial route leading to Saint John's downtown district, with a current occupancy rate of 64.9%. Consisting of a two-storey office centre and a retail strip, this complex meets the needs of a wide range of users.

| Major tenants             | Leasable area<br>(sq. ft.) | Expiration date | Percentage of<br>leasable area<br>occupied by<br>indicated tenant |
|---------------------------|----------------------------|-----------------|---|
| Province of New Brunswick | 3,761                      | July 2013       | 11.4%   |
| Wade Co. Ltd.             | 2,861                      | September 2014  | 8.7%  |

**146-154 Main Street, Fredericton, New Brunswick**

A 24,697 square foot retail/office property located on 47,480 square feet of land with prime visibility on Main Street in Fredericton North, a major residential area, with a current occupancy rate of 93.5%.

| Major tenants             | Leasable area<br>(sq. ft.) | Expiration date | Percentage of<br>leasable area<br>occupied by<br>indicated tenant |
|---------------------------|----------------------------|-----------------|---|
| A Canadian chartered bank | 4,952                      | August 2011     | 34.2%   |
| MacMillan and MacMillan   | 2,273                      | November 2013   | 15.7%   |

### 1080 Champlain Street, Dieppe, New Brunswick

A 36,638 square foot office/warehouse building located on 138,085 square feet of land, with a current occupancy rate of 97.3%. Built in 2004, this property is located at the entrance to the Champlain Business Park with high visibility on Champlain Street, in immediate proximity of the Moncton International Airport.

| Major tenants      | Leasable area<br>(sq. ft.) | Expiration date | Percentage of<br>leasable area<br>occupied by<br>indicated tenant |
|--------------------|----------------------------|-----------------|---|
| Johnston Equipment | 6,686                      | May 2015        | 18.3%   |
| Direct Energy      | 2,250                      | January 2011    | 6.2%  |

## 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 2010, Cominar incurred \$3.1 million (\$3.1 million in 2009) of capital expenditures to increase the rental income generating capacity of its properties. Cominar also incurred \$0.1 million (\$0.4 million in 2009) of capital expenditures to maintain rental income generating capacity, consisting mainly of major expenditures for maintenance and repairs, as well as property equipment replacements. Although made during the period, these expenditures will garner benefits for Cominar over their estimated useful life which extends into the coming years.

Finally, \$3.8 million (\$4.2 million in 2009) were incurred in the first quarter of 2010 under capitalized leasing costs, including \$0.4 million (\$0.3 million in 2009) 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 phase 1 of 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 many hotels, office buildings and shopping centres. This property benefits from an excellent location. Phase 1 of the project consists 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. Construction is close to completion and the fitting out of the rental space is on the track. The first retail tenant moved into its premises in February 2010 while the first office tenants are slated for the second quarter of 2010. The construction cost is now estimated at approximately \$77 million, up \$3 million from our previous estimate considering the additional improvements integrated to the project and cost overrun. The capitalization rate is expected to reach 9.2% and the pre-leasing rate of 64% is in line with our objectives.

Following the transaction closed on May 4, 2009 and discussed under Related Party Transactions, Cominar owns 95% of the development property.

The following table provides detailed information about the ongoing developments as at March 31, 2010:

| Development             | City   | Activity<br>segment <sup>(1)</sup> | Completion<br>date | Leasable<br>area (sq. ft.) | Investment<br>(\$) | Capitalization<br>rate (%) | Pre-lease<br>rate (%) |
|-------------------------|--------|------------------------------------|--------------------|----------------------------|--------------------|----------------------------|-----------------------|
| Complexe Jules-Dallaire | Québec | O, R                               | Q2-2010            | 396,000                    | 77,000             | 9.2                        | 64.0                  |

(1) O = Office, R = Retail

The expected return on this ongoing development project is based on the estimated costs to complete the project 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, 2010, December 31, 2009 and March 31, 2009:

| As at March 31                       | March 31, 2010 | December 31, 2009 | March 31, 2009 |
|--------------------------------------|----------------|-------------------|----------------|
| Occupancy rate                       | 92.7%          | 93.5              | 94.5%          |
| Tenant retention rate <sup>(1)</sup> | 53.1%          | 72.0              | 35.0%          |

(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, 2010, occupancy stood at 92.7%, down from 93.5% as at December 31, 2009. This decline is partly attributable to the integration into the portfolio, at the end of 2009, of three properties that had yet to be fully developed, thereby increasing the vacant space. Excluding these three properties from the calculation, the occupancy rate stands at 93.3%, almost the same as at December 31, 2009. Cominar's management is confident that these spaces will find tenants in 2010.

Moreover, the occupancy rate remains under the portfolio's usual average of 95%, mostly due to the industrial and mixed-use segment properties located in the Montréal area. This activity segment was most affected by the recent downturn. However, having observed a significant rise in demand for rental space in the industrial segment since the last quarter of 2009, Cominar's management remains optimistic that the occupancy rate will improve by the end of the fiscal year, given the more aggressive rental strategy.

Furthermore, as at March 31, 2010, just three months after the beginning of the year, 53.1% of leases maturing in 2010 have already been renewed, showing some signs of an economic recovery.

### 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, 2010:

|                          | March 31, 2010 | December 31, 2009 | December 31, 2008 | December 31, 2007 | December 31, 2006 |
|--------------------------|----------------|-------------------|-------------------|-------------------|-------------------|
| Activity segment (%)     |                |                   |                   |                   |                   |
| Office                   | 95.1           | 94.1              | 94.5              | 94.7              | 96.0              |
| Retail                   | 93.5           | 96.3              | 97.1              | 96.0              | 94.3              |
| Industrial and mixed-use | 91.1           | 92.5              | 94.0              | 94.4              | 93.7              |
| <b>Portfolio total</b>   | <b>92.7</b>    | 93.5              | 94.6              | 94.7              | 94.4              |

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. The average occupancy rate of 94.5% has held relatively steady over the past five years.

Geographic and activity segment diversification of the property portfolio provides for more stable occupancy rates.

## LEASING ACTIVITY

The following table summarizes Cominar's leasing activity as at March 31, 2010:

### Lease Maturities and Renewals by Activity Segment

|                                | Office      | Retail      | Industrial and mixed-use | Total       |
|--------------------------------|-------------|-------------|--------------------------|-------------|
| <b>Leases maturing in 2010</b> |             |             |                          |             |
| Number of tenants              | 249         | 138         | 229                      | 616         |
| Leasable area (sq. ft.)        | 819,000     | 328,000     | 1,914,000                | 3,061,000   |
| Average net rent (\$)/sq. ft.  | 9.75        | 10.28       | 5.31                     | 7.03        |
| <b>Renewed leases</b>          |             |             |                          |             |
| Number of tenants              | 92          | 54          | 79                       | 225         |
| Leasable area (sq. ft.)        | 471,000     | 148,000     | 1,008,000                | 1,627,000   |
| Average net rent (\$)/sq. ft.  | 9.37        | 10.82       | 5.10                     | 6.86        |
| <b>Renewal %</b>               | <b>57.6</b> | <b>45.1</b> | <b>52.7</b>              | <b>53.1</b> |
| <b>New leases</b>              |             |             |                          |             |
| Number of tenants              | 22          | 28          | 34                       | 84          |
| Leasable area (sq. ft.)        | 55,000      | 115,000     | 231,000                  | 401,000     |
| Average net rent (\$)/sq. ft.  | 8.58        | 8.36        | 5.89                     | 6.97        |

As indicated in the table above, leasing activity has been satisfactory across our portfolio during the first quarter of 2010, with over 53.1% of maturing leases renewed in spite of difficult economic conditions.

We also signed new leases for a total leasable area of 0.4 million square feet. Lease renewal rates rose 3.7% overall. The three segments posted increases in lease renewal rates: 2% (office), 4.8% (retail) and 3.9% (industrial and mixed-use).

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

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

### Lease Maturities

|   | 2011      | 2012      | 2013      | 2014      | 2015      |
|---|-----------|-----------|-----------|-----------|-----------|
| <b>Office</b>                             |           |           |           |           |           |
| Leasable area (sq. ft.)                   | 727,000   | 964,000   | 582,000   | 789,000   | 592,000   |
| Lease rate (\$)/square foot               | 11.23     | 10.53     | 11.63     | 10.45     | 14.14     |
| % of portfolio – Office                   | 12.5%     | 16.5%     | 10.0%     | 13.5%     | 10.1%     |
| <b>Retail</b>                             |           |           |           |           |           |
| Leasable area (sq. ft.)                   | 403,000   | 390,000   | 235,000   | 196,000   | 260,000   |
| Lease rate (\$)/square foot               | 9.53      | 10.54     | 12.81     | 12.01     | 10.38     |
| % of portfolio – Retail                   | 13.1%     | 12.7%     | 7.7%      | 6.4%      | 8.5%      |
| <b>Industrial and mixed-use</b>           |           |           |           |           |           |
| Leasable area (sq. ft.)                   | 1,655,000 | 1,863,000 | 1,063,000 | 1,133,000 | 1,250,000 |
| Lease rate (\$)/square foot               | 5.79      | 6.19      | 6.26      | 5.57      | 5.68      |
| % of portfolio – Industrial and mixed-use | 15.8%     | 17.8%     | 10.1%     | 10.8%     | 11.9%     |
| <b>Portfolio total</b>                    |           |           |           |           |           |
| Leasable area (sq. ft.)                   | 2,785,000 | 3,217,000 | 1,880,000 | 2,118,000 | 2,102,000 |
| Lease rate (\$)/square foot               | 7.75      | 8.02      | 8.74      | 7.99      | 8.64      |
| % of portfolio                            | 14.4%     | 16.6%     | 9.7%      | 10.9%     | 10.8%     |

The following table summarizes average remaining lease term information as at March 31, 2010:

|                          | Average remaining lease term (years) | Average leased area per tenant (sq. ft.) | Average net rent/sq. ft. (\$) |
|--------------------------|--------------------------------------|--|-------------------------------|
| Office                   | 3.8                                  | 5,500                                    | 11.40                         |
| Retail                   | 5.1                                  | 3,700                                    | 11.19                         |
| Industrial and mixed-use | 3.8                                  | 10,500                                   | 5.86                          |
| <b>Portfolio average</b> | <b>4.0</b>                           | <b>6,600</b>                             | <b>8.48</b>                   |

Cominar has a broad, highly diversified client base, consisting of some 2,700 tenants occupying an average of approximately 6,600 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 6.2%, 4.4% and 4.4% 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 10.6% stems from government agencies.

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

| Tenant  | % of revenues | Leased area (sq.ft.) |
|---|---------------|----------------------|
| Public Works Canada   | 6.2           | 767,000              |
| Société immobilière du Québec                                   | 4.4           | 1,046,000            |
| Ericsson Canada Inc.  | 4.4           | 402,000              |
| Bertrand distributeur en alimentation (Colabor)                 | 1.6           | 345,000              |
| LDC Logistics Development Corp.                                 | 1.5           | 527,000              |
| Hudson's Bay Company  | 1.3           | 349,000              |
| SITA (Société internationale de télécommunication aéronautique) | 1.0           | 62,000               |
| National Bank of Canada   | 0.9           | 136,000              |
| Equant Canada Inc. (Orange Business)                            | 0.9           | 55,000               |
| Alcan Packaging Canada Ltd                                      | 0.8           | 162,000              |
| <b>Total</b>  | <b>23.0</b>   | <b>3,851 000</b>     |

## 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, 2010 and 2009:

| Quarters ended March 31  | 2010              | 2009              |
|--|-------------------|-------------------|
| Units issued and outstanding, beginning of period                    | 54,758,271        | 45,852,175        |
| + Units issued on exercise of options                                | 403,700           | —                 |
| + Units issued under distribution reinvestment plan                  | 19,538            | 18,887            |
| + Units issued on conversion of convertible debentures               | 37,583            | —                 |
| + Units issued under the at-the-market equity distribution agreement | 153,500           | —                 |
| <b>Units issued and outstanding, end of period</b>                   | <b>55,372,592</b> | <b>45,871,062</b> |

During the period from March 16, 2010 to March 24, 2010, Cominar issued 153,500 units for total gross proceeds of approximately \$3.0 million under the at-the-market equity distribution agreement.

## 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                                      | 2010       | 2009       |
|--|------------|------------|
| Weighted average number of units outstanding, basic          | 54,788,288 | 45,855,239 |
| Dilutive effect of unit options                              | 376,135    | 68,028     |
| Weighted average number of units outstanding, diluted        | 55,164,423 | 45,923,267 |
| Dilutive effect of convertible debentures                    | 17,151,062 | 8,584,570  |
| Weighted average number of units outstanding – fully diluted | 72,315,485 | 54,507,837 |

## RELATED-PARTY TRANSACTIONS

Michel Dallaire and Alain Dallaire, trustees and members of the Trust's management team, exercise indirect control over Corporation Financière Alpha (CFA) Inc. ("CFA"), Société de développement Laurier (SDL) Inc. ("SDL") and Dalcon Inc. ("Dalcon"). Michel Paquet, also a trustee and a member of the Trust's management team, is a related party of these companies as their Secretary. During the first quarter of 2010, Cominar recorded \$0.1 million in net rental income from Dalcon and CFA. The Trust incurred costs of \$3.1 million for leasehold improvements performed by Dalcon on its behalf and costs of \$10.1 million for the construction and development of income properties. These transactions were entered into 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.

On May 4, 2009, Cominar sold a 5% interest in the Complexe Jules-Dallaire to SDL for a consideration of \$2.0 million, reflecting 5% of investments made to date in the Complexe Jules-Dallaire by Cominar. SDL continues to assume its share of investments made since that date. As part of this transaction, Cominar and SDL have entered into a co-ownership agreement with various liquidity rights such as a buy-sell mechanism in favour of Cominar, mutual rights of first refusal, and acquisition rights in favour of Cominar in the event of a change of control of SDL, and in favour of SDL in the event of an acquisition proposal in respect of Cominar.

## UNITHOLDERS TAXATION

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

| For the years ended December 31        | 2009           | 2008           |
|--|----------------|----------------|
| Taxable to unitholders as other income | 28.96%         | 32.60%         |
| Tax deferral                           | 71.04%         | 67.40%         |
| <b>Total</b>                           | <b>100.00%</b> | <b>100.00%</b> |

## TAX DEFERRAL ON 2010 DISTRIBUTIONS

Management estimates that about 60% of distributions payable by the REIT to unitholders in 2010 will be tax deferred as the Trust can claim capital cost allowances and certain other deductions.

## OUTLOOK

Events in early 2010 give Cominar's management reasons for optimism about the future. With the completed acquisition of all the shares of Overland Realty Limited, a company that owns 16 properties in New Brunswick, for a total investment of approximately \$71 million, Cominar has extended its geographic diversification to a fourth region, in addition to the Québec City, Montréal and Ottawa areas where the Trust already has a presence.

The convertible debenture issuance on January 12, 2010 for a total capital of \$86.3 million and the closing of an underwritten offering for total gross proceeds of approximately \$115 million on April 7, 2010 are very much part of the sound financial management approach adopted by the REIT since its inception.

Backed by its solid financial resources, Cominar will continue in 2010 its growth strategy focused on quality and profitable acquisitions. Leveraging the strong competitive edge provided by its land held for future development, Cominar will also continue to develop new properties that will contribute to higher profitability. Accordingly, Cominar management remains confident about sustaining growth in the next quarters of 2010 and over the coming years.

## 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 effectiveness of DC&P, including this interim MD&A and the interim financial statements, has been evaluated. 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 interim period ended March 31, 2010 and, more specifically, that the design of these controls and procedures provides reasonable assurance that material information about the Trust, including its consolidated subsidiaries, is made known to them during the period in which these filings are being prepared.

The effectiveness of ICFR has also been evaluated. 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 interim period ended March 31, 2010 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 of 2010 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 interim consolidated financial statements, prepared in accordance with GAAP. The preparation and presentation of the interim 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 require 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* Emerging Issues Committee (“EIC”) Abstract 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 AND GOODWILL**

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.

The carrying amount of goodwill is reviewed annually or more frequently if events or circumstances indicate it is more likely than not that goodwill may be impaired. The impairment test to be performed requires management to estimate the fair value of goodwill and compare it to its carrying amount. If the carrying amount exceeds fair value, an impairment charge must be recognized for an amount equal to the excess.

## **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.

# NEW ACCOUNTING POLICIES

## INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

On February 13, 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed the adoption of IFRS for the interim and annual periods beginning on or after January 1, 2011 for Canadian profit-oriented publicly accountable enterprises. IFRS will replace Canada’s current generally accepted accounting principles (“GAAP”) for these enterprises. Enterprises will also have to provide comparative IFRS information for the previous fiscal year. The Trust’s IFRS changeover date will be January 1, 2011.

Cominar has developed an IFRS changeover plan for the conversion of GAAP consolidated financial statements to IFRS. We have completed the first two phases of this plan, which consisted mainly of performing a diagnostic and setting up the changeover project. Phase 3 “Development of accounting positions and identification and development of modifications required for IFRS disclosure” and Phase 4 “Solution implementation” are underway. A multidisciplinary team is working on the development of accounting positions and the implementation of modifications required for the preparation of financial information in accordance with IFRS. The internal Steering Committee approves accounting positions and modifications required for IFRS disclosure and submits its recommendations to the Audit Committee, which ensures that the project remains on track and on schedule. The Board of Trustees monitors the work of the Audit Committee and takes the necessary measures to ensure that management fulfills its responsibilities and delivers a successful IFRS conversion within the established timeframe.

The team has structured the conversion project in accordance with the results of the diagnostic and logically categorized the accounting issues in line with Cominar’s operations. Project work is sequenced by priority, in accordance with impact on financial information and implementation complexity. In-depth analysis of accounting standards is completed. Items to be modified—processes, systems or other—have been identified and solutions are being developed. Work is proceeding according to schedule. Cominar is currently assessing the impact of the future adoption of IFRS on the consolidated financial statements as well as the Contract of Trust and other agreements.

To date, the following significant differences between IFRS and GAAP that might impact Cominar’s financial statements have been identified:

- **IAS 40, Investment Property**

Investment property is immovable property held to earn rental revenue or for capital appreciation, or both. All of Cominar’s income properties currently meet this definition. Under IFRS, Cominar must account for its investment properties using either the cost model or the fair value model. The cost model is similar to GAAP. Under the fair value model, any gain or loss arising from a change in the fair value of an investment property is recognized in the statement of income for the period in which it arises. Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction. With the fair value model, investment property is not depreciated.

The Board of Trustees has approved the use of the fair value model to measure investment properties when IFRS come into effect. This will lead to significant adjustments to the opening balance sheet, including the opening balances of income properties and unitholders’ equity.

- **Business Combinations**

Under both IFRS and current GAAP, business combinations are accounted for using the acquisition method. However, there are major differences between the two standards in other areas. The most important difference is that, under IFRS, transaction costs are expensed as incurred while GAAP requires these amounts to be included in the cost of the asset.

- **IAS 32, Financial Instruments – Presentation**

According to this standard, Trust units may be treated as liabilities rather than as equity. For GAAP and IFRS purposes, a Trust unit is a financial instrument and must be disclosed as a liability if there is a contractual obligation to deliver cash or another financial asset to another entity. As a result of the commitment of Cominar’s trustees to pay unitholders at least 85% of its distributable income, Trust units will be deemed a liability for IFRS purposes. Should this interpretation be accurate and should it apply to Cominar, the adoption of IFRS will have a significant impact on its financial statements. At its next unitholders’ meeting, Cominar will request unitholders to approve the desired amendments to its Contract of

Trust. These amendments include the elimination of the Trust's requirement to distribute at least 85% of distributable income and all of its taxable income. The purpose of these amendments is to allow Cominar to continue including its issued and outstanding units as well as its distributions in unitholders' equity without having to reclassify these units as liabilities and the distributions as an expense for the year when IFRS are adopted.

- **IAS 12, Income Taxes**

Cominar is a REIT that meets certain criteria set forth in the *Income Tax Act* (Canada) and enjoys special tax treatment whereby it can deduct the amounts it distributes to unitholders in order to avoid tax. Under EIC-107, Application of Section 3465 to Mutual Fund Trusts, Real Estate Investment Trusts, Royalty Trusts and Income Trusts, a REIT whose distributions exceed its taxable income is not required to report taxable income for the period and, if it meets certain criteria set forth in the standard, is not required to report future income taxes relating to temporary differences, primarily differences between the carrying amount of the trust's real estate investments and the tax basis of the properties. IFRS does not currently include any standard equivalent to EIC-107. Under the current IFRS on income taxes, it appears that REITs would be required to recognize future income taxes, even if the trust meets the criteria required to qualify for the REIT exemption. Future income taxes result from temporary differences between the carrying amounts of the trust's assets and liabilities and their tax basis.

- **Standing Interpretations Committee ("SIC") Interpretation SIC-15, Operating Leases - Incentives**

Under GAAP, leasehold improvements and certain other leasing costs are capitalized and expensed to income as amortization over the lease term. Under IFRS, these incentives or a portion thereof may be viewed as incentives provided to the tenant which must be recognized as a reduction in rental income over the lease term. Application of this interpretation will affect only the presentation of financial data.

Conversion to IFRS is an ongoing process as new standards and recommendations are issued by the International Accounting Standards Board. Accordingly, IFRS on the date of adoption may differ from current IFRS. Cominar therefore continues to assess the impact of the adoption of IFRS on its activities, procedures and accounting policies and it may modify its conversion plan as further information on the adoption of IFRS in Canada becomes available.

The financial data presented in accordance with GAAP in the current financial statements of the Trust may differ significantly when presented in accordance with IFRS.

## RISKS AND UNCERTAINTIES

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

### ACCESS TO CAPITAL AND DEBT FINANCING, AND CURRENT GLOBAL FINANCIAL CONDITIONS

The real estate industry is highly capital intensive. The REIT will require access to capital to maintain its properties, as well as to fund its growth strategy and significant capital expenditures from time to time. There can be no assurance that the REIT will have access to sufficient capital (including debt financing) or access to capital (including debt financing) on terms favourable to the REIT for future property acquisitions and developments, financing or refinancing of properties, funding operating expenses or other purposes. In addition, the REIT may not be able to borrow funds under its credit facilities due to the limitations on the incurrence of debt by the REIT set forth in the Contract of Trust. Failure by the REIT to access required capital could adversely impact the REIT's financial position and results of operations and decrease the amount of cash available for distributions.

Recent market events and conditions, including disruptions in the international and regional credit markets and other financial systems, could impede the REIT's access to capital (including debt financing) or increase the cost of capital.

Many countries, including Canada, were affected by a recession in 2008 and early 2009. However, conditions have gradually eased in recent months with improvements in the main indicators pointing to an economic recovery. Failure to raise capital when needed or on reasonable terms may have a material adverse effect on the REIT's financial position and results of operations, including its acquisition and development program.

## DEBT FINANCING

The REIT has and will continue to have substantial outstanding consolidated indebtedness comprised primarily of hypothecs, property mortgages, indebtedness under its acquisition facility and its debentures. The REIT intends to finance its growth strategy, including acquisitions and developments, through a combination of its working capital and liquidity resources, including its cash flows from operations, additional indebtedness and public or private sales of equity or debt securities. The REIT may not be able to renegotiate the terms of repayment of existing indebtedness at favourable rates, or to refinance such debt. In addition, the terms of the REIT's indebtedness in general contain customary provisions that, upon an event of default, result in the acceleration of repayment of amounts owed and that restrict the distributions that may be made by the REIT. Therefore, upon an event of default under such indebtedness or an inability to renew same at maturity, the REIT's ability to make distributions will be adversely affected.

A portion of the REIT's cash flows is devoted to servicing its debt, and there can be no assurance that the REIT will continue to generate sufficient cash flows from operations to meet required interest or principal payments, such that it could be required to seek renegotiation of such payments or obtain additional financing, including equity or debt financing. The credit margin matures in June 2010 and the REIT has started negotiations with its lenders to renew it. Approximately \$51.6 million of the REIT's secured debt matures by the end of 2010, including an amount of \$7.0 million already renewed in April 2010.

The REIT is subject to the risk that any of its existing indebtedness may not be able to be refinanced upon maturity or that the terms of any such refinancing may not be as favourable as the terms of its existing indebtedness.

## OWNERSHIP OF IMMOVABLE PROPERTY

All immovable property investments are subject to risk exposures. Such investments are affected by general economic conditions, real estate markets, demand for leased premises, competition from other vacant premises, municipal valuations and assessments, 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 income 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 the properties in which the REIT has an interest is not able to be leased on economically favourable lease terms. In the event of default by a tenant, delays or limitations in enforcing rights as a lessor may be experienced and substantial costs in protecting the REIT's investment may be incurred. The ability to rent unleased space in the properties in which the REIT has an interest will be affected by many factors, including the level of general economic activity and the competition for tenants by other properties. Costs may be incurred in making improvements or repairs to property required by a new tenant. The failure to rent unleased space on a timely basis or at all or at rents that are equivalent or higher than current rents would likely have an adverse effect on the REIT's financial position and the value of its properties.

Certain significant expenditures, including property taxes, maintenance costs, hypothecary payments, insurance costs and related charges must be made throughout the period of ownership of immovable property regardless of whether the property is producing any income. If the REIT is unable to meet mortgage payments on any property, loss could be sustained as a result of the mortgage creditor's exercise of its hypothecary remedies.

Immovable property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relationship with the demand for and the perceived desirability of such investments. Such illiquidity may tend to limit the REIT's ability to make changes to its portfolio promptly in response to changing economic or investment conditions. If the REIT were to be required to liquidate its immovable property investments, the proceeds to the REIT might be significantly less than the aggregate carrying value of its properties.

The REIT is exposed to debt financing risks, including the risk that existing mortgage indebtedness 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.

Leases for the REIT's properties, including those of significant tenants, will mature from time to time over the short and long term. There can be no assurance that the REIT will be able to renew any or all of the leases upon maturity or that rental rate increases will occur or be achieved upon any such renewals. The failure to renew leases or achieve rental rate increases may adversely impact the REIT's financial position and results of operations and decrease the amount of cash available for distribution.

## **COMPETITION**

The REIT competes for suitable immovable property investments with individuals, corporations and institutions (both Canadian and foreign) which are presently seeking or which may seek in the future immovable property investments similar to those desired by the REIT. Many of those investors have greater financial resources than Cominar, or operate without the investment or operating restrictions of the REIT 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 REIT 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 and and, consequently, its ability to meet its debt obligations.

## **ACQUISITIONS**

The REIT's business plan focuses on growth through identifying suitable acquisition opportunities, pursuing such opportunities, completing acquisitions and effectively operating and leasing such properties. If the REIT is unable to manage its growth effectively, it could adversely impact the REIT's financial position and results of operations, and decrease the amount of cash available for distribution. There can be no assurance as to the pace of growth through property acquisitions or that the REIT will be able to acquire assets on an accretive basis, and as such there can be no assurance that distributions to unitholders will increase in the future.

## **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, 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 performance.

## **RECRUITMENT AND RETENTION OF EMPLOYEES AND EXECUTIVES**

Competition for qualified employees and executives is intense. If Cominar is unable to attract and retain qualified employees and executives, the conduct of its activities may be adversely affected.

## **GOVERNMENT REGULATION**

The REIT and its properties are subject to various government statutes and regulations. Any change in such statutes or regulation adverse to the REIT and its properties could affect the REIT's operating results and financial performance.

In addition, environmental and ecological legislation and policies have become increasingly important in recent years. Under various laws, the REIT could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations or for the costs of other remedial or preventive

work. The failure to remove or remediate such substances, or to effect such remedial or preventive work, if any, may adversely affect an owner's ability to sell such real estate or to borrow using such real estate as collateral, and could potentially also result in claims against the owner by private plaintiffs or governmental agencies.

## **LIMIT ON ACTIVITIES**

In order to maintain its status as a "mutual fund trust" under the *Income Tax Act*, the REIT cannot carry on most active business activities and is limited in the types of investments it may make. The Contract of Trust contains restrictions to this effect.

## **STATUS FOR TAX PURPOSES**

### **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.

Cominar's subsidiaries are subject to tax on their taxable income under the *Income Tax Act* and the *Taxation Act*.

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

Since 2007, SIFT entities are subject to income taxes on the distributions they make. In short, a SIFT entity is an entity (including 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 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, 2010, Cominar's management believes that the REIT currently meets all the criteria required to qualify for the REIT exception. As a result, the SIFT trust tax rules do not apply to Cominar. Cominar's management intends to take all the necessary steps to meet these conditions on an on-going basis in the future.

Were the REIT exception not applicable to the REIT at any time in a year (including the current taxation year), the SIFT amendments and the SIFT regime (under which amounts deductible will no longer be deductible in computing the income of the REIT and additional taxes will be payable by the REIT) will, commencing in such year, impact materially the level of cash distributions which would otherwise be made by the REIT.

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**COMINAR REAL ESTATE INVESTMENT TRUST**

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Unaudited  
March 31, 2010

# CONSOLIDATED BALANCE SHEETS

[unaudited, in thousands of dollars]

|  | As at March 31, 2010<br>\$ | As at December 31, 2009<br>\$ |
|--|----------------------------|-------------------------------|
| <b>ASSETS</b>  |                            |                               |
| Income properties <i>[notes 4, 5, 9 and 11]</i>            |                            |                               |
| Buildings  | 1,332,093                  | 1,282,447                     |
| Land   | 235,852                    | 229,266                       |
| Intangible assets  | 74,180                     | 70,118                        |
|  | 1,642,125                  | 1,581,831                     |
| Properties under development <i>[note 6]</i>               | 126,419                    | 113,608                       |
| Land held for future development <i>[note 6]</i>           | 63,351                     | 61,046                        |
| Goodwill <i>[note 4]</i>                                   | 8,049                      | —                             |
| Capitalized leasing costs and other assets <i>[note 7]</i> | 49,812                     | 50,706                        |
| Prepaid expenses   | 15,180                     | 2,428                         |
| Accounts receivable <i>[note 8]</i>                        | 31,848                     | 26,327                        |
| Cash and cash equivalents                                  | 3,558                      | —                             |
|  | 1,940,342                  | 1,835,946                     |
| <b>LIABILITIES</b>   |                            |                               |
| Mortgages payable <i>[note 9]</i>                          | 824,650                    | 771,991                       |
| Convertible debentures <i>[note 10]</i>                    | 396,334                    | 313,620                       |
| Bank indebtedness <i>[note 11]</i>                         | 91,174                     | 134,809                       |
| Accounts payable and accrued liabilities                   | 36,708                     | 32,035                        |
| Future income tax liability <i>[notes 4 and 13]</i>        | 4,831                      | —                             |
| Distributions payable to unitholders                       | 6,645                      | —                             |
|  | 1,360,342                  | 1,252,455                     |
| <b>UNITHOLDERS' EQUITY</b>                                 |                            |                               |
| Unitholders' equity  | 580,000                    | 583,491                       |
|  | 1,940,342                  | 1,835,946                     |

See accompanying notes to interim consolidated financial statements



# CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

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

|  | 2010<br>\$     | 2009<br>\$     |
|--|----------------|----------------|
| <b>Unitholders' contributions [note 12]</b>                  |                |                |
| Balance, beginning of period                                 | 715,593        | 600,965        |
| Issue of units   | 10,061         | 256            |
| Underwriters' fees and unit issue expenses                   | (206)          | —              |
| Balance, end of period                                       | 725,448        | 601,221        |
| <b>Cumulative net income</b>                                 |                |                |
| Balance, beginning of period                                 | 301,411        | 272,399        |
| Net income   | 6,377          | 4,042          |
| Balance, end of period                                       | 307,788        | 276,441        |
| <b>Cumulative distributions</b>                              |                |                |
| Balance, beginning of period                                 | (436,971)      | (362,817)      |
| Distributions to unitholders [note 15]                       | (19,815)       | (16,523)       |
| Balance, end of period                                       | (456,786)      | (379,340)      |
| <b>Contributed surplus</b>                                   |                |                |
| Balance, beginning of period                                 | 1,569          | 1,069          |
| Unit option plan   | 92             | 173            |
| Balance, end of period                                       | 1,661          | 1,242          |
| <b>Equity components of convertible debentures [note 10]</b> |                |                |
| Balance, end of period                                       | 1,889          | 312            |
| <b>Total unitholders' equity</b>                             | <b>580,000</b> | <b>499,876</b> |

See accompanying notes to interim consolidated financial statements

# CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

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

|   | 2010<br>\$ | 2009<br>\$ |
|---|------------|------------|
| <b>Operating revenues</b>                     |            |            |
| Rental revenue from income properties         | 69,907     | 67,867     |
| <b>Operating expenses</b>                     |            |            |
| Operating costs                               | 14,160     | 14,887     |
| Realty taxes and services                     | 16,696     | 15,350     |
| Property management expenses                  | 942        | 865        |
|   | 31,798     | 31,102     |
| <b>Operating income before the undernoted</b> | 38,109     | 36,765     |
| Interest on borrowings                        | 14,084     | 14,777     |
| Depreciation of income properties             | 13,985     | 14,219     |
| Amortization of capitalized leasing costs     | 2,581      | 2,598      |
| Amortization of other assets                  | 97         | 91         |
| Trust administrative expenses                 | 1,041      | 1,093      |
| Other revenues                                | (56)       | (55)       |
| <b>Net income and comprehensive income</b>    | 6,377      | 4,042      |
| <b>Basic net income per unit [note 14]</b>    | 0.116      | 0.088      |
| <b>Diluted net income per unit [note 14]</b>  | 0.116      | 0.088      |

See accompanying notes to interim consolidated financial statements

# CONSOLIDATED STATEMENTS OF CASH FLOWS

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

|   | 2010<br>\$ | 2009<br>\$ |
|---|------------|------------|
| <b>OPERATING ACTIVITIES</b>   |            |            |
| Net income  | 6,377      | 4,042      |
| Items not affecting cash:   |            |            |
| Depreciation of income properties   | 13,985     | 14,219     |
| Amortization of below-market leases   | (203)      | (204)      |
| Amortization of capitalized leasing costs   | 2,581      | 2,598      |
| Amortization of capitalized financing costs and other assets                            | 921        | 711        |
| Amortization of fair value adjustments on assumed indebtedness                          | (30)       | (31)       |
| Accretion of liability component of convertible debentures                              | 56         | 10         |
| Compensation expense related to unit option plan  | 223        | 173        |
|   | 23,910     | 21,518     |
| Change in non-cash working capital items [note 17]                                      | (12,075)   | (4,802)    |
|   | 11,835     | 16,716     |
| <b>INVESTING ACTIVITIES</b>   |            |            |
| Business combinations [note 4]  | (28,474)   | —          |
| Additions to income properties [note 5]   | (3,155)    | (26,773)   |
| Additions to properties under development and land held for future development [note 6] | (16,550)   | (28,930)   |
| Capitalized leasing costs   | (3,786)    | (4,236)    |
| Other assets  | (182)      | (94)       |
|   | (52,147)   | (60,033)   |
| <b>FINANCING ACTIVITIES</b>   |            |            |
| Mortgages payable   | 14,252     | 74,318     |
| Repayment of mortgages payable  | (5,248)    | (51,546)   |
| Net proceeds from issue of convertible debentures                                       | 82,775     | —          |
| Bank indebtedness   | (43,809)   | 31,307     |
| Net proceeds from issue of units [note 12]  | 8,699      | (12)       |
| Distributions to unitholders  | (12,799)   | (10,750)   |
|   | 43,870     | 43,317     |
| Net change in cash and cash equivalents   | 3,558      | —          |
| Cash and cash equivalents, beginning of period  | —          | —          |
| Cash and cash equivalents, end of period  | 3,558      | —          |

See accompanying notes to interim consolidated financial statements

# NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the quarters ended March 31, 2010 and 2009

[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 Quebec.

## 2. FUTUR ACCOUNTING POLICIES

International Financial Reporting Standards (IFRS)

In March 2009, the Canadian Accounting Standards Board ("AcSB") confirmed the adoption of IFRS for the interim and annual periods beginning on or after January 1, 2011 for Canadian profit-oriented publicly accountable enterprises. IFRS will replace Canada's current generally accepted accounting principles ("GAAP") for these enterprises. Enterprises will also have to provide comparative IFRS information for the previous fiscal year. The Trust's IFRS changeover date will be January 1, 2011.

The Trust is currently assessing the potential impact of the adoption of IFRS on its consolidated financial statements. A review of the Trust's IFRS changeover plan is provided in the interim Management's Discussion and Analysis for the quarter ended March 31, 2010. Conversion to IFRS is an ongoing process as new standards and recommendations are issued by the International Accounting Standards Board. Accordingly, IFRS on the changeover date may differ from current IFRS.

The consolidated financial position and financial performance of the Trust as reported in the current financial statements prepared in accordance with GAAP will be different when presented in accordance with IFRS.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

Cominar's unaudited interim consolidated financial statements have been prepared in accordance with GAAP and do not include all the disclosures normally found in the Trust's annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the most recent audited annual consolidated financial statements. The accounting policies and methods followed are the same as those used in the preparation of the December 31, 2009 audited annual consolidated financial statements.

### Consolidation

These interim consolidated financial statements include the accounts of Cominar and its wholly owned subsidiaries and its proportionate share of the assets, liabilities, revenues and expenses of 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. The actual results that could differ materially from those estimates are income property purchase price allocations and business combinations, the fair value measurement of unit purchase options, the allocation of components on issuance of convertible debentures and the determination of the allowance for doubtful accounts. 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 is 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 in-place 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 usually based on achieving a satisfactory occupancy level.

**Disposal 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 from discontinued operations when:

- The operating results and cash flows of the disposed property are eliminated from current operations; and
- Cominar no longer has significant and ongoing involvement in the operations of the sold property.

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

**Capitalized leasing costs**

Capitalized leasing costs consist 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 and goodwill**

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 asset exceeds its fair value.

Goodwill represents the excess of the purchase price of acquired business over the fair value of net identifiable assets acquired. Goodwill is not amortized but is subject to an annual impairment review or more frequently if events or circumstances indicate it is more likely than not that goodwill may be impaired. The recoverability of goodwill is determined using a two-step test approach at the segment level. Under the first step, the net carrying amount of the operating segment is compared to its fair value, which is generally determined using a market approach. If the net carrying amount of an operating segment exceeds its fair value, the second step of the test must be performed. Under the second step, the impairment amount is determined as the excess of the carrying amount of goodwill over its fair value and is charged to income for the period during which the impairment occurs. For the purposes of the impairment test, the fair value of goodwill is estimated using the same method for business combinations, that is, it represents the excess of the fair value of an operating segment over the fair value of its net identifiable assets.

### **Income taxes**

Under current tax legislation, Cominar is not subject to income tax when its taxable income for the year is fully distributed to unitholders [note 13].

Cominar uses the liability method to account for future income taxes related to incorporated subsidiaries. The net future income tax liability represents the cumulative amount of taxes applicable to temporary differences between the reported carrying amounts of assets and liabilities and their carrying amounts for tax purposes. In addition, the benefit of tax losses available to be carried forward to future years for tax purposes, which are more likely than not to be realized, is recognized as a reduction of future income taxes. Future income taxes are measured at the tax rates expected to apply in the future as temporary differences reverse and tax losses are utilized. Changes to future income taxes related to changes in tax rates are recognized in income in the period when the rate change is substantively enacted.

### **Financial instruments**

Cominar has 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 trade and other receivables, 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.
- Mortgages payable, convertible debentures, bank indebtedness and accounts payable and accrued liabilities 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.

### **Unit option plan**

Cominar has a unit option plan for the benefit of trustees, management and employees. The plan does not provide for cash settlement. Cominar recognizes compensation expense on unit options granted, based on their fair value which is calculated using an option valuation model. The compensation expense is amortized using the graded vesting method.

### **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. ACQUISITIONS

### Business combinations carried in 2010

In March 2010, Cominar acquired 100% of the common shares of Overland Realty Limited ("Overland"). Overland is a real estate corporation headquartered in Halifax, Nova Scotia, and owns a real estate portfolio of 16 high quality properties, consisting of seven office, three retail, six industrial and mixed-use buildings and one land lease that cover a total area of approximately 603,000 square feet in the Maritimes.

A consideration of \$31,341 or \$28,474, net of cash acquired of \$2,867, was paid for this acquisition. The total consideration includes acquisition-related costs estimated at \$500.

The transaction was accounted for using the purchase method. The results of operations of income properties acquired are included in the interim consolidated financial statements from their acquisition date.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed:

|  | 2010<br>\$ |
|--|------------|
| Income properties                        |            |
| Buildings                                | 55,976     |
| Land                                     | 6,283      |
| Intangible assets                        |            |
| In-place operating leases                | 5,614      |
| Client relationships                     | 3,257      |
|  | 71,130     |
| Prepaid expenses and other               | 1,898      |
| Accounts receivable                      | 1,574      |
|  |            |
| Mortgages payable                        | (43,572)   |
| Accounts payable and accrued liabilities | (5,774)    |
| Future income tax liabilities            | (4,831)    |
|  |            |
| Net identifiable assets acquired         | 20,425     |
| Goodwill                                 | 8,049      |
| Purchase price, less cash acquired       | 28,474     |

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

### Additions to income properties in 2009

On January 16, 2009, Cominar acquired an income property in the Montréal, Québec area.

On December 21, 2009, Cominar acquired a mega-shopping centre consisting of ten Laval, Québec area income properties.

These transactions were accounted for using the purchase method.

The following table shows the net assets acquired:

|  | 2009<br>\$ |
|--|------------|
| Income properties                          |            |
| Buildings                                  | 54,848     |
| Land                                       | 24,815     |
| Intangible assets                          |            |
| In-place operating leases                  | 9,445      |
| Client relationships                       | 2,507      |
| Total purchase price                       | 91,615     |
| The purchase price was settled as follows: |            |
| Cash and cash equivalents                  | 78,094     |
| Assumption of a mortgage payable           | 13,521     |
|  | 91,615     |

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

## 5. INCOME PROPERTIES

|                                 | As at March 31, 2010 |                                   |                         |
|---------------------------------|----------------------|-----------------------------------|-------------------------|
|                                 | Cost<br>\$           | Accumulated<br>depreciation<br>\$ | Amortized<br>cost<br>\$ |
| Buildings                       | 1,483,414            | 151,321                           | 1,332,093               |
| Land                            | 235,852              | —                                 | 235,852                 |
| Intangible assets               |                      |                                   |                         |
| In-place operating leases       | 94,341               | 48,295                            | 46,046                  |
| Client relationships            | 35,176               | 8,070                             | 27,106                  |
| Acquired leasehold improvements | 3,099                | 2,071                             | 1,028                   |
|                                 | 132,616              | 58,436                            | 74,180                  |
|                                 | 1,851,882            | 209,757                           | 1,642,125               |



|                                 | As at December 31, 2009 |                                   |                         |
|---------------------------------|-------------------------|-----------------------------------|-------------------------|
|                                 | Cost<br>\$              | Accumulated<br>depreciation<br>\$ | Amortized<br>cost<br>\$ |
| Buildings                       | 1,424,797               | 142,350                           | 1,282,447               |
| Land                            | 229,266                 | —                                 | 229,266                 |
| Intangible assets               |                         |                                   |                         |
| In-place operating leases       | 88,727                  | 44,448                            | 44,279                  |
| Client relationships            | 31,918                  | 7,212                             | 24,706                  |
| Acquired leasehold improvements | 3,099                   | 1,966                             | 1,133                   |
|                                 | 123,744                 | 53,626                            | 70,118                  |
|                                 | 1,777,807               | 195,976                           | 1,581,831               |

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 income generating capacity of its real estate portfolio. As at March 31, 2010, outlays related to these investments totalled \$3,155 [\$3,474 in 2009].

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

During the first quarter of 2010, Cominar capitalized \$3,870 [\$1,108 in 2009] in interest to properties under development and land held for future development. During the same quarter, Cominar pursued its property development and land acquisition for future development activities, with outlays totalling \$12,680 [\$27,822 in 2009]. The projects underway as at March 31, 2010 will comprise estimated construction costs of over \$4,250 during the coming quarters, assuming work proceeds according to plan.

## 7. CAPITALIZED LEASING COSTS AND OTHER ASSETS

|                           | As at March 31, 2010<br>\$ | As at December 31, 2009<br>\$ |
|---------------------------|----------------------------|-------------------------------|
| At amortized cost         |                            |                               |
| Capitalized leasing costs | 47,258                     | 48,237                        |
| Other assets              | 2,554                      | 2,469                         |
|                           | 49,812                     | 50,706                        |

## 8. ACCOUNTS RECEIVABLE

|  | As at March 31, 2010<br>\$ | As at December 31, 2009<br>\$ |
|--|----------------------------|-------------------------------|
| Trade receivables  | 15,622                     | 10,780                        |
| Trade receivables – recognition of leases on straight-line basis   | 13,438                     | 12,754                        |
| Other receivables bearing interest at a weighted effective tax rate<br>of 7.34% as at March 31, 2010 [7.35% as at December 31, 2009] | 1,783                      | 1,848                         |
| Deposits in advance of work to be performed  | 1,005                      | 945                           |
|  | 31,848                     | 26,327                        |

## 9. MORTGAGES PAYABLE

Mortgages payable are secured by immovable hypothecs on income properties having a net carrying amount of \$1,193,008 [\$1,131,940 as at December 31, 2009]. They bear contractual fixed interest rates ranging from 2.19% to 11.00% per annum [2.19% to 11.00% as at December 31, 2009] representing a weighted average rate of 5.38% as at March 31, 2010 [5.26% as at December 31, 2009] and are renewable at various dates between April 2010 and March 2022. As at March 31, 2010, the weighted average effective rate was 5.35% [5.26% as at December 31, 2009]. Some mortgages payable contain restrictive covenants that were met as at March 31, 2010.

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.

One of Cominar's subsidiaries has entered into a debt reduction agreement relating to a mortgage payable. A bond portfolio was created to replace the security for guaranteeing the mortgage. The investment, which is held in trust, will be sufficient to cover principal and interest payments, including the balance at maturity.

Mortgage repayments are as follows:

| Years ending December 31                          | As at March 31, 2010         |                           |             | As at December 31, 2009 |
|---|------------------------------|---------------------------|-------------|-------------------------|
|   | Repayment of principal<br>\$ | Balance at maturity<br>\$ | Total<br>\$ | Total<br>\$             |
| 2010  | 16,820                       | 51,635                    | 68,455      |                         |
| 2011  | 22,512                       | 5,855                     | 28,367      |                         |
| 2012  | 22,697                       | 22,951                    | 45,648      |                         |
| 2013  | 20,945                       | 161,628                   | 182,573     |                         |
| 2014  | 13,931                       | 75,819                    | 89,750      |                         |
| 2015 and thereafter                               | 58,887                       | 351,044                   | 409,931     |                         |
|   | 155,792                      | 668,932                   | 824,724     | 773,391                 |
| Plus: fair value adjustments on assumed mortgages |                              |                           | 1,697       | 215                     |
| Less: unamortized financing costs                 |                              |                           | (1,544)     | (1,615)                 |
| Less: net debt reduction                          |                              |                           | (227)       | —                       |
|   |                              |                           | 824,650     | 771,991                 |

The following table presents the changes in mortgages payable for the period:

### Mortgages payable

|   | As at March 31, 2010                        |             | As at December 31, 2009                     |             |
|---|---|-------------|---|-------------|
|   | Weighted average contractual interest<br>\$ | rate (%)    | Weighted average contractual interest<br>\$ | rate (%)    |
| Balance of mortgages payable, beginning of period   | 773,391                                     | 5.26        | 732,293                                     | 5.58        |
| Mortgages payable contracted or assumed             | 110,124                                     | 5.63        | 108,021                                     | 4.88        |
| Repayments of balances at maturity                  | (53,406)                                    | 4.24        | (47,064)                                    | 5.53        |
| Monthly repayments of principal                     | (5,385)                                     |             | (19,859)                                    |             |
| <b>Balance of mortgages payable – end of period</b> | <b>824,724</b>                              | <b>5.38</b> | <b>773,391</b>                              | <b>5.26</b> |

## 10. CONVERTIBLE DEBENTURES

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

|                                     | As at<br>March 31,<br>2010 |                          |                            |                            |                          |          | As at<br>December 31,<br>2009 |
|-------------------------------------|----------------------------|--------------------------|----------------------------|----------------------------|--------------------------|----------|-------------------------------|
|                                     | Series A                   | Series B                 | Series C                   | Series D                   | Series E                 | Total    | Total                         |
| Contractual interest rate           | 6.30%                      | 5.70%                    | 5.80%                      | 6.50%                      | 5.75%                    |          |                               |
| Effective interest rate             | 6.89%                      | 6.42%                    | 6.60%                      | 7.50%                      | 6.43%                    |          |                               |
| Issue date                          | September 2004             | May 2007                 | October 2007               | September 2009             | January 2010             |          |                               |
| Conversion price per unit           | \$17.40                    | \$27.50                  | \$25.25                    | \$20.50                    | \$25.00                  |          |                               |
| Interest payment dates              | June 30 &<br>December 31   | June 30 &<br>December 31 | March 31 &<br>September 30 | March 31 &<br>September 30 | June 30 &<br>December 31 |          |                               |
| Redemption date at Cominar's option | June 2008                  | June 2010                | September 2010             | September 2012             | June 2013                |          |                               |
| Maturity date                       | June 2014                  | June 2014                | September 2014             | September 2016             | June 2017                |          |                               |
|                                     | \$                         | \$                       | \$                         | \$                         | \$                       | \$       | \$                            |
| Balance, beginning of period        | 22,140                     | 80,500                   | 110,000                    | 115,000                    | —                        | 327,640  | 213,135                       |
| Issuance                            | —                          | —                        | —                          | —                          | 86,250                   | 86,250   | 115,000                       |
| Holders' option conversions         | (654)                      | —                        | —                          | —                          | —                        | (654)    | (495)                         |
| Balance, end of period              | 21,486                     | 80,500                   | 110,000                    | 115,000                    | 86,250                   | 413,236  | 327,640                       |
| Less: equity component              |                            |                          |                            |                            |                          | (1 704)  | (1 760)                       |
| Less: unamortized financing costs   |                            |                          |                            |                            |                          | (15 198) | (12 260)                      |
|                                     |                            |                          |                            |                            |                          | 396 334  | 313 620                       |

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.

On January 12, 2010, Cominar issued convertible unsecured subordinated debentures totalling \$86,250, bearing interest at 5.75% per annum and maturing on June 30, 2017.

In accordance with CICA Handbook Section 3855 and Section 3861, convertible debentures have been recorded as liabilities in the balance sheet, net of the 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 2010, 654 Series A convertible debentures [nil in 2009] were converted into 37,583 units [nil in 2009] at a conversion price of \$17.40 per unit, for a total of \$654 [nil in 2009].

## 11. BANK INDEBTEDNESS

Cominar has an operating and acquisition credit facility of up to \$255,000 [\$255,000 as at December 31, 2009]. This credit facility, subject to annual renewal, bears interest at prime plus 2.00% [2.00% in 2009] or at the bankers' acceptance rate plus 3.00% [3.00% in 2009]. This credit facility is secured by a movable and immovable hypothec on specific assets, including the carrying amount of immovable property totalling \$272,123 as at March 31, 2010 [\$273,530 as at December 31, 2009]. As at March 31, 2010, the prime rate was 2.25% [2.25% as at December 31, 2009]. This credit facility contains certain covenants which were met throughout the period ending March 31, 2010.

## 12. 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 2010, Cominar issued 614,321 units [18,887 in 2009]. The issuance of these units resulted in net proceeds of \$8,699 [nil in 2009].

The following table shows the change in balances during the periods ended March 31:

| Quarters ended March 31  | 2010       |         | 2009       |         |
|--|------------|---------|------------|---------|
|  | Units      | \$      | Units      | \$      |
| Units issued and outstanding, beginning of period                  | 54,758,271 | 715,593 | 45,852,175 | 600,965 |
| Units issued on exercise of options                                | 403,700    | 5,943   | —          | —       |
| Units issued under distribution reinvestment plan                  | 19,538     | 372     | 18,887     | 256     |
| Units issued on conversion of convertible debentures               | 37,583     | 654     | —          | —       |
| Units issued under the at-the-market equity distribution agreement | 153,500    | 2,756   | —          | —       |
| Reversal of contributed surplus on exercise of options             | —          | 130     | —          | —       |
| Units issued and outstanding, end of period                        | 55,372,592 | 725,448 | 45,871,062 | 601,221 |

### 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, 2010, options to purchase 3,818,700 units were outstanding.

The following table shows the option characteristics in effect at period-end:

| As at March 31, 2010             |                            |                   |                   |                     |                     |
|----------------------------------|----------------------------|-------------------|-------------------|---------------------|---------------------|
| Date of grant                    | Acquisition vesting method | Maturity date     | Exercise price \$ | Outstanding options | Exercisable options |
| November 13, 2003                | 20%                        | November 13, 2010 | 14.00             | 370,100             | 370,100             |
| April 8, 2005                    | 25%                        | November 13, 2010 | 17.12             | 57,000              | 57,000              |
| May 23, 2006                     | 20%                        | May 23, 2013      | 18.90             | 379,000             | 201,000             |
| May 15, 2007                     | 50%                        | May 15, 2014      | 23.59             | 30,000              | 30,000              |
| February 6, 2008                 | 33 1/3%                    | February 6, 2013  | 18.68             | 835,500             | 553,100             |
| December 19, 2008                | 33 1/3%                    | December 19, 2013 | 15.14             | 986,100             | 280,300             |
| December 21, 2009 <sup>(1)</sup> | 33 1/3%                    | December 21, 2014 | 19.48             | 1,161,000           | —                   |
|                                  |                            |                   |                   | 3,818,700           | 1,491,500           |

(1) The grant is subject to ratification by unitholders at Cominar's 2010 annual and special meeting.

The following table shows the change in balances of outstanding options during the periods ended March 31:

| Quarters ended March 31            | 2010      |                                    | 2009      |                                    |
|------------------------------------|-----------|------------------------------------|-----------|------------------------------------|
|                                    | Options   | Weighted average exercise price \$ | Options   | Weighted average exercise price \$ |
| Outstanding, beginning of period   | 4,226,800 | 17.32                              | 3,504,700 | 16.45                              |
| Exercised                          | (403,700) | 14.72                              | —         | —                                  |
| Cancelled                          | (4,400)   | 17.35                              | (40,700)  | 16.85                              |
| Outstanding, end of period         | 3,818,700 | 17.59                              | 3,464,000 | 16.44                              |
| Exercisable options, end of period | 1,491,500 | 16.92                              | 1,359,400 | 15.85                              |

### 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 \$( <sup>(1)</sup> ) | Weighted average 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%                                    |
| December 21, 2009 | 18.50%     | 19.48                               | 7.67%                   | 2.13%                                    |

(1) Option exercise price is closing price of Cominar units on day before date of grant.

### Unitholder distribution reinvestment plan

Cominar has 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, 2010, 19,538 units [18,887 units in 2009] were issued for a total consideration of \$372 [\$256 in 2009] under this plan.

## 13. 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.

### 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, 2010, 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.

The carrying amount of Cominar’s net assets as at December 31, 2009, excluding the net assets of incorporated subsidiaries, exceeded the tax basis by approximately \$89,000 [\$87,000 as at December 31, 2008].

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 for income tax payable is required for the period ended March 31, 2010.

Future income taxes relating to incorporated subsidiaries are shown in the following table:

|                             | As at March 31, 2010 | As at December 31, 2009 |
|-----------------------------|----------------------|-------------------------|
| Future income tax liability |                      |                         |
| Income properties           | 5,330                | —                       |
| Mortgages payable [note 9]  | (499)                | —                       |
|                             | 4,831                | —                       |

## 14. 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                                | 2010       | 2009       |
|--|------------|------------|
| Weighted average number of units outstanding – basic   | 54,788,288 | 45,855,239 |
| Dilutive effect of unit options                        | 376,135    | 68,028     |
| Weighted average number of units outstanding – diluted | 55,164,423 | 45,923,267 |

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

## 15. 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      | 2010<br>\$ | 2009<br>\$ |
|------------------------------|------------|------------|
| Distributions to unitholders | 19 815     | 16 523     |
| Distributions per unit       | 0,360      | 0,360      |

## 16. INVESTMENTS IN A CO-OWNED PROPERTY

On May 4, 2009, Cominar entered into a co-ownership agreement under which it holds a 95% undivided ownership interest in Complexe Jules-Dallaire, a property currently under construction [note 18]. As at March 31, 2010, this is the only property held in co-ownership.

Cominar's share of the assets and liabilities of the co-owned property was as follows:

|             | March 31, 2010<br>\$ | December 31, 2009<br>\$ |
|-------------|----------------------|-------------------------|
| Assets      | 94,863               | 82,366                  |
| Liabilities | 2,756                | 4,032                   |

## 17. SUPPLEMENTAL CASH FLOW INFORMATION

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

| Quarters ended March 31   | 2010<br>\$ | 2009<br>\$ |
|---|------------|------------|
| Prepaid expenses  | (10,853)   | (6,938)    |
| Accounts receivable   | (3,947)    | (5,092)    |
| Accounts payable and accrued liabilities  | 2,725      | 7,228      |
|   | (12,075)   | (4,802)    |
| <b>Other information</b>  |            |            |
| Interest paid   | 18,066     | 15,192     |
| Unpaid leasing costs  | 649        | 2,666      |
| Additions to income properties and properties under development through assumption of liabilities | —          | 13,521     |
| Unpaid additions to income properties and properties under development                            | 3,788      | 7,146      |
| Income properties transferred to properties under development                                     | —          | 11,248     |

## 18. RELATED PARTY TRANSACTIONS

During the first quarter of 2010, 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 amount. They are reflected in the interim consolidated financial statements as follows:

| Quarters ended March 31                            | 2010<br>\$ | 2009<br>\$ |
|--|------------|------------|
| Rental revenue from income properties              | 145        | 141        |
| Income properties and properties under development | 10,102     | 12,869     |
| Capitalized leasing costs and other assets         | 3,137      | 4,228      |
| Accounts receivable                                | 528        | 240        |
| Accounts payable and accrued liabilities           | 3,981      | 9,169      |

On May 4, 2009, Cominar sold a 5% undivided ownership interest in Complexe Jules-Dallaire to a company owned indirectly by the Dallaire family for a purchase price of \$2,015 reflecting investments of 5% made to date by Cominar in the Complexe. This company has continued to pay its share since that date. The Trust also entered into a co-ownership agreement with this company.

## 19. 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, 2010<br>\$ | As at December 31, 2009<br>\$ |
|---|----------------------------|-------------------------------|
| Cash and cash equivalent                      | 3,558                      | —                             |
| Mortgages payable                             | 824,650                    | 771,991                       |
| Convertible debentures                        | 396,334                    | 313,620                       |
| Bank indebtedness                             | 91,174                     | 134,809                       |
| Unitholders' equity                           | 580,000                    | 583,491                       |
| Total of capital                              | 1,895,716                  | 1,803,911                     |
| Overall debt ratio <sup>(1)</sup>             | 61.0%                      | 60.1%                         |
| Debt ratio (excluding convertible debentures) | 42.6%                      | 44.6%                         |
| Interest coverage ratio <sup>(2)</sup>        | 2.72 <sup>(3)</sup>        | 2.66                          |

(1) The overall debt ratio is equal to total bank indebtedness, mortgages payable and convertible debentures divided by the gross carrying amount 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.

(3) Annualized.



Cominar's Contract of Trust provides that it may not incur debt if, taking into consideration the debt thus incurred or assumed, its 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, 2010, Cominar maintained a debt ratio of 61.0%, including convertible debentures.

The annualized 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, 2010, the annualized interest coverage ratio was 2.72:1, reflecting the Trust's capacity to meet its debt-related obligations.

Capital management objectives remain unchanged from the previous year.

## 20. FINANCIAL INSTRUMENTS

### Fair value

Fair value is estimated using valuation techniques and assumptions. Fair value amounts disclosed in these interim consolidated 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 amounts and fair values are as follows:

|   | As at March 31, 2010 |                  | As at December 31, 2009 |                  |
|---|----------------------|------------------|-------------------------|------------------|
|   | Carrying amount      | Fair value       | Carrying amount         | Fair value       |
|   | \$                   | \$               | \$                      | \$               |
| <b>FINANCIAL ASSETS</b>                                 |                      |                  |                         |                  |
| <b>Held for trading</b>                                 |                      |                  |                         |                  |
| Cash and cash equivalents                               | 3,558                | 3,558            | —                       | —                |
| <b>Loans and receivables</b>                            |                      |                  |                         |                  |
| Accounts receivable <sup>(1)</sup>                      | 18,410               | 18,410           | 13,573                  | 13,573           |
| <b>Total financial assets</b>                           | <b>21,968</b>        | <b>21,968</b>    | <b>13,573</b>           | <b>13,573</b>    |
| <b>FINANCIAL LIABILITIES</b>                            |                      |                  |                         |                  |
| <b>Other financial liabilities</b>                      |                      |                  |                         |                  |
| Mortgages payable <sup>(2)</sup>                        | 824,497              | 828,229          | 773,391                 | 751,748          |
| Convertible debentures <sup>(2)</sup>                   | 413,236              | 414,641          | 327,640                 | 326,020          |
| Bank indebtedness                                       | 91,714               | 91,174           | 134,809                 | 134,809          |
| Accounts payable and accrued liabilities <sup>(3)</sup> | 29,188               | 29,188           | 26,417                  | 26,417           |
| <b>Total financial liabilities</b>                      | <b>1,358,095</b>     | <b>1,359,232</b> | <b>1,262,257</b>        | <b>1,238,994</b> |

(1) Excludes receivables – recognition of leases on straight-line basis amounting to \$13,438 [\$12,754 in 2009].

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

(3) Excludes commodity taxes and other non-financial liabilities

The fair value of Cominar's cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximated the carrying value as at March 31, 2010 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 risk, interest rate risk 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 sectoral portfolio diversification [note 21], 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 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 its 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 8, 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 \$40 increase or decrease in Cominar's net income for the quarter ended March 31, 2010.

#### **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 19].

Undiscounted contractual maturities of financial liabilities as at March 31, 2010 are as follows:

|   | <b>Maturity<br/>Carrying<br/>amount</b> | <b>Under<br/>one year</b> | <b>One to<br/>five years</b> | <b>Over five years</b> |
|---|---|---------------------------|------------------------------|------------------------|
| Mortgages payable <sup>(1)</sup> [note 9]               | 824,497                                 | 73,986                    | 407,228                      | 343,283                |
| Convertible debentures <sup>(1)</sup> [note 10]         | 413,236                                 | —                         | 211,986                      | 201,250                |
| Bank indebtedness [note 11]                             | 91,174                                  | 91,174                    | —                            | —                      |
| Accounts payable and accrued liabilities <sup>(2)</sup> | 29,188                                  | 28,900                    | 288                          | —                      |
| <b>Total financial liabilities</b>                      | <b>1,358,095</b>                        | <b>194,060</b>            | <b>619,502</b>               | <b>544,533</b>         |

(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 and other non-financial liabilities

## 21. SEGMENTED INFORMATION

Cominar's activities include three property types located in the greater Québec City, Montréal and Ottawa areas and in the Maritimes. 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:

|                                       | <b>Office<br/>properties<br/>\$</b> | <b>Retail<br/>properties<br/>\$</b> | <b>Industrial<br/>and mixed-use<br/>properties<br/>\$</b> | <b>Total<br/>\$</b> |
|---------------------------------------|-------------------------------------|-------------------------------------|---|---------------------|
| <b>Quarter ended March 31, 2010</b>   |                                     |                                     |   |                     |
| Rental revenue from income properties | 32,914                              | 14,279                              | 22,714  | <b>69,907</b>       |
| Depreciation of income properties     | 7,693                               | 2,047                               | 4,245   | <b>13,985</b>       |
| Net operating income <sup>(1)</sup>   | 17,751                              | 7,776                               | 12,582  | <b>38,109</b>       |
| Income properties (amortized cost)    | 790,982                             | 325,661                             | 525,482   | <b>1,642,125</b>    |

|                                       | <b>Office<br/>properties<br/>\$</b> | <b>Retail<br/>properties<br/>\$</b> | <b>Industrial<br/>and mixed-use<br/>properties<br/>\$</b> | <b>Total<br/>\$</b> |
|---------------------------------------|-------------------------------------|-------------------------------------|---|---------------------|
| <b>Quarter ended March 31, 2009</b>   |                                     |                                     |   |                     |
| 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 <sup>(1)</sup>   | 17,497                              | 6,599                               | 12,669  | 36,765              |
| Income properties (amortized cost)    | 763,096                             | 239,834                             | 519,111   | 1,522,041           |

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

## 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 either be set by the Québec Administrative Court, or it will be settled by the parties. 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, 2010 amounted to \$490. These letters have been provided as a performance guarantee to execute required repairs under mortgage agreements.

## 23. COMMITMENTS

[a] The annual future payments required under emphyteutic leases expiring between 2046 and 2065, on land for three income properties having a total net carrying value of \$59,277, are as follows:

| Periods ending December 31 | Total<br>\$ |
|----------------------------|-------------|
| 2010                       | 383         |
| 2011                       | 512         |
| 2012                       | 547         |
| 2013                       | 547         |
| 2014                       | 547         |
| 2015 and thereafter        | 25,592      |

[b] Cominar has undertaken to pay \$2,273 in exchange for work to be performed on land held for future development activities.

## 24. SUBSEQUENT EVENTS

[a] Issuance on April 7, 2010 of 6,021,400 units for gross proceeds of \$115.0 million subsequent to a public offering

[b] Acquisition on April 8, 2010 of a 0.3 million square feet parcel of land along Laurier Boulevard, one of the largest thoroughfares in Québec City, located at the exit of the bridges connecting the two shores of the St. Lawrence River, for a cash consideration of \$17.4 million.

[c] Acquisition on April 9, 2010 of an industrial property located in Brossard, Québec with 31,000 square feet of leasable area for a consideration of \$5.6 million.

[d] Entering into an agreement on May 6, 2010 in respect of the sale of land held for future development in Quebec City for a total consideration of \$23.3 million, such transaction being carried to optimize the REIT's land holdings subsequent to the April 8, 2010 acquisition.

## 25. COMPARATIVE FIGURES

Certain 2009 figures have been reclassified to conform to the current year presentation.



# CORPORATE INFORMATION

## BOARD OF TRUSTEES

**Robert Després, O.C., G.O.Q.** <sup>(1)(3)</sup>

Chairman of the Board of Trustees  
Cominar Real Estate Investment Trust  
Corporate Director

**Me Gérard Coulombe, Q.C.** <sup>(2)(3)</sup>

Senior Partner  
Lavery De Billy

**Alban D'Amours** <sup>(1)(2)</sup>

Corporate Director

**Alain Dallaire**

Executive Vice President, Operations  
Cominar Real Estate Investment Trust

**Michel Dallaire, P.Eng.**

President and Chief Executive Officer  
Cominar Real Estate Investment Trust

**Dino Fuoco** <sup>(1)(4)</sup>

President, Matvet Veterinary Equipment inc.

**Pierre Gingras** <sup>(4)</sup>

President, Placements Moras Inc.

**Ghislaine Laberge** <sup>(2)(4)</sup>

Corporate Director

**Michel Paquet, LL.L.**

Senior Executive Vice President  
Cominar Real Estate Investment Trust

## OFFICERS

**Michel Dallaire, P.Eng.**

President and Chief Executive Officer

**Me Michel Paquet, LL.L.**

Senior Executive Vice President

**Michel Berthelot, CA**

Executive Vice President  
and Chief Financial Officer

**Alain Dallaire**

Executive Vice President, Operations

**Scott McCrea**

Executive Vice President - Maritimes

**Michel Ouellette, C.App.**

Executive Vice President,  
Acquisitions and Development

**Todd Bechard, CMA, CFA**

Vice President, Finance - Maritimes

**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 and Development - Montréal/Ottawa

**Jean-Guy Moreau**

Vice President, Development

**Richard S. Nolin**

Vice President, Retail

**Carl Pepin, CA**

Vice President, Accounting

**Me Patrick Quigley, LL.B., MBA**

Vice President, Corporate Secretary

**Roger Turpin**

Vice President, Treasurer

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(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

# UNITHOLDER INFORMATION

## COMINAR REAL ESTATE INVESTMENT TRUST

455 du Marais St.  
Québec City (QC) Canada G1M 3A2

Tel.: 418 681-8151  
Toll free: 1 866 COMINAR  
Fax: 418 681-2946

Email: [info@cominar.com](mailto:info@cominar.com)  
Website : [www.cominar.com](http://www.cominar.com)

## 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, CUF.DB, CUF.DB.B, CUF.DB.C, CUF.DB.D et CUF.DB.E.

## TRANSFER AGENT

Computershare Trust Company of Canada  
1500 University St., Suite 700  
Montréal (QC) Canada H3A 3S8

Tel.: 514 982-7555  
Toll free: 1 800 564-6253  
Fax: 514 982-7850

Email: [service@computershare.com](mailto:service@computershare.com)

## TAXABILITY OF DISTRIBUTIONS

In 2009, 71.04% of the distributions made by Cominar to unitholders were tax deferred.

## LEGAL COUNSEL

Davies Ward Phillips & Vineberg LLP

## AUDITORS

Ernst & Young LLP

## ANNUAL MEETING OF UNITHOLDERS

May 18, 2010 - 11:00 a.m.

Château Bonne Entente  
3400 Chemin Sainte-Foy  
Québec City (QC)

## 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](http://www.cominar.com) or contact us by email at [info@cominar.com](mailto:info@cominar.com) or contact the Plan agent: Computershare Trust Company of Canada, 1500 University St., Suite 700, Montréal (QC) Canada, H3A 3S8

Tel.: 514 982-7555  
Toll free: 1 800 564-6253  
Fax: 514 982-7850  
Email: [service@computershare.com](mailto:service@computershare.com)

## COMINAR REAL ESTATE INVESTMENT TRUST

455 du Marais St.  
Québec City (QC) Canada G1M 3A2  
[www.cominar.com](http://www.cominar.com)



COMINAR.COM  
TSX: CUF.UN