

Quarterly Report June 30 2002

COMINAR REAL ESTATE INVESTMENT TRUST



www.cominar.com

COMINAR REAL ESTATE INVESTMENT TRUST

Message to Unitholders

On behalf of the trustees, management and employees of Cominar Real Estate Investment Trust, we are pleased to present the results for the second quarter and the first six months ended June 30, 2002. During the second quarter, Cominar maintained its momentum and achieved an excellent performance, as reflected by the increases of 27.7% in distributable income, 22.9% in net operating income and 23.4% in operating revenues compared with the corresponding period of the previous fiscal year. The quarter was also highlighted by the expansion of the real estate portfolio, the progress of the development work on several properties and an important construction start.

Since March 31, 2002, we have seized a number of expansion opportunities that match our growth criteria and made nine acquisitions in the Montreal and Quebec City regions, including those closed in early July. At the end of the second quarter, four industrial and mixed-use buildings in Quebec City were added to our portfolio, for a consideration of about \$6.4 million, at capitalization rates of 10.1% to 11.5%. These acquisitions cover a total additional leasable area of 151,000 square feet. They were followed at the beginning of July by the purchase of five industrial and mixed-use properties in the Montreal region, at a cost of \$9.6 million, totalling 218,000 square feet and having a capitalization rate of 10.2%.

At the end of the period, we also started construction work on a 17-storey office building which will cover 190,000 square feet of leasable area plus a 450-space underground parking lot. Budgeted at a cost of \$22 million, this construction will complete Place de la Cité, one of the most beautiful business and retail centres in the Greater Quebec City region.

What's more, the development work under way on several properties has advanced on schedule. The official opening of Les Promenades Beauport shopping centre is planned for September 17, 2002. The expansion of the Sears distribution centre located on Pierre Bertrand Boulevard is nearing completion and the property has been fully rented since August 1st, 2002.

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

Operating Results

For the second quarter ended June 30, 2002, Cominar achieved excellent profitability, even though it performed development work and made acquisitions that will yield benefits in the future. Distributable income rose to \$7.9 million, up 27.7% or \$1.7 million over the corresponding period of fiscal 2001. Distributable income per unit amounted to \$0.309, up from \$0.303 for the second quarter of the previous year, a satisfactory growth considering the 6,000,000 increase in the number of units. Net operating income rose 22.9% to \$12.0 million, compared with \$9.8 million in the second quarter of 2001. Operating revenues grew by \$3.8 million to total \$20.2 million, up from \$16.4 million for the second quarter of the previous fiscal year.

For the first six months, distributable income totalled \$14.9 million, an increase of 36.0% or \$3.9 million over the first half of 2001. Distributable income per unit rose to \$0.581, up from \$0.558 for the first six months of the previous fiscal year. Net operating income grew by 25.1% or \$4.6 million to reach \$23.2 million. This increase came from mostly a productivity gain, as indicated by the net operating income to operating revenues ratio, which stood at 58.9% for the first half, versus 57.5% for the comparable period of 2001. Operating revenues totalled \$39.4 million, an increase of 22.1%.

Distributions to unitholders amounted to \$13.7 million for the first six months, up 32.1% over the first half of 2001. As of April 2002, we raised the monthly distribution per unit from \$0.088 to \$0.090, reflecting our confidence in our earnings growth.

Cash flows from operating activities also increased significantly, from \$6.4 million to \$8.6 million for the second quarter and from \$11.5 million to \$16.1 million for the first half. Per unit, they rose to \$0.333 for the second quarter, up from \$0.312 for the comparable period of 2001, and to \$0.627 for the first six months, compared with \$0.584 for the first half of the previous fiscal year.

Financial Position

In May 2002, we contracted a new mortgage loan of \$22.5 million, bearing interest at 7.04% and maturing in May 2007. Cominar's financial position remains excellent. As at June 30, 2002, we showed a debt to gross book value ratio of 45.8%, giving us an acquisition capacity of \$97.0 million at a rate of 55%. Also, in July 2002, a Canadian chartered bank granted us an additional line of credit of \$25.0 million, bearing interest at prime plus 0.50%.

The net book value rose to \$476.0 million, up from \$455.4 million as at December 31, 2001.

At the beginning of July 2002, the real estate portfolio consisted of 94 properties covering a leasable area of about 6.9 million square feet, divided between 11 office buildings, 20 retail buildings and 63 industrial and mixed-use buildings. Since July 1, 2001, our portfolios leasable area has increased by 1,165,000 square feet or over 20%.

Outlook

Considering the positive trends in the real estate market where demand is outpacing supply in the Montreal and Quebec City regions, favourable economic conditions, and the quality of our diversified property portfolio, our outlook for the coming periods is highly encouraging. Coupled with our distinctive and efficient management, these key factors allow us to be confident and optimistic about the future. We are currently pursuing the analysis and due diligence review of several acquisition projects and are convinced we can achieve our expansion objective for fiscal 2002. However, we continue to focus on a growth-by-acquisition and conservative development strategy centred mainly on profitability. The weighted average capitalization rate of the acquisitions made since the beginning of this year is 10.1%, which is higher than a number of real estate transactions. While further expanding the portfolio, our objective is to assure unitholders that distributions will continue to grow in the coming years.



Jules Dallaire
Chairman of the Board and Chief Executive Officer

August 2002

**COMINAR REAL ESTATE
INVESTMENT TRUST**

CONSOLIDATED STATEMENTS OF INCOME AND DISTRIBUTABLE INCOME

Period ended June 30 (unaudited, in thousands of dollars, except per unit amounts)	Trimestrial		Cumulative	
	2002	2001	2002	2001
	\$	\$	\$	\$
Operating revenues				
Rentals from income properties	20,186	16,353	39,355	32,236
Operating expenses				
Property operating costs	4,435	3,552	8,947	7,495
Realty taxes and services	3,508	2,835	6,766	5,825
Property management expenses	211	178	453	386
	8,154	6,565	16,166	13,706
Net Operating Income	12,032	9,788	23,189	18,530
Interest on mortgages and bank indebtedness	3,180	2,842	6,447	5,946
Depreciation of income properties	833	672	1,666	1,343
Depreciation of deferred expenses and other assets	853	531	1,672	1,064
	4,866	4,045	9,785	8,353
Operating income from real estate assets	7,166	5,743	13,404	10,177
Trust expenses	299	267	651	600
	6,867	5,476	12,753	9,577
Other (revenues) expenses				
Loan interest	-	51	-	97
Other income	(245)	(127)	(475)	(132)
	(245)	(76)	(475)	(35)
Net income	7,112	5,552	13,228	9,612
Add				
Depreciation of income properties	833	672	1,666	1,343
Distributable income	7,945	6,224	14,894	10,955
Basic and diluted net income per unit (note 6)	0,276	0,270	0,516	0,489
Distributable income per unit (note 6)	0,309	0,303	0,581	0,558

See accompanying notes to consolidated financial statements

**COMINAR REAL ESTATE
INVESTMENT TRUST
CONSOLIDATED BALANCE SHEETS**

	As at June 30 2002 (unaudited)	As at December 31 2001 (audited)
	\$	\$
(in thousands of dollars)		
Assets		
Income properties	414,380	405,987
Income properties under development	27,637	21,675
Mortgage receivable	9,000	9,000
Deferred expenses and other assets	15,911	14,023
Prepaid expenses	5,511	1,273
Accounts receivable	3,471	3,486
	475,910	455,444
Liabilities and Unitholders' Equity		
Liabilities		
Mortgages payable (note 3)	210,540	202,743
Bank indebtedness	11,746	5,483
Accounts payable and accrued liabilities	7,026	6,369
Distributions payable to Unitholders	2,328	-
	231,640	214,595
Unitholder's Equity	244,270	240,849
	475,910	455,444

**COMINAR REAL ESTATE
INVESTMENT TRUST
STATEMENTS OF UNITHOLDERS' EQUITY**

	Trimestrial		Cumulative	
	2002	2001	2002	2001
Period ended June 30 (unaudited, in thousands of dollars)	\$	\$	\$	\$
Unitholders' Equity, beginning of period	242,426	190,377	240,849	157,700
Issuance of units	1,703	2,871	3,933	38,036
Underwriters' fees and offering costs	-	(15)	-	(1,617)
Net income for the period	7,112	5,552	13,228	9,612
Distributions to Unitholders	(6,971)	(5,453)	(13,740)	(10,399)
Unitholders' Equity, end of period	244,270	193,332	244,270	193,332

See accompanying notes to consolidated financial statements

**COMINAR REAL ESTATE
INVESTMENT TRUST**

CONSOLIDATED CASH FLOWS STATEMENTS

Period ended June 30 (unaudited, in thousands of dollars, except per unit amounts)	Trimestrial		Cumulative	
	2002 \$	2001 \$	2002 \$	2001 \$
Cash flow from operating activities				
Net income for the period	7,112	5,552	13,228	9,612
Adjustments :				
Depreciation of income properties	833	672	1,666	1,343
Depreciation of deferred expenses and other assets	853	531	1,672	1,064
Deferred expenses	(216)	(355)	(480)	(559)
Funds from operations	8,582	6,400	16,086	11,460
Deferred expenses	(1,495)	(941)	(2,805)	(2,300)
Change in non-cash working capital				
Change in accounts receivable	2,088	188	15	(1,282)
Change in prepaid expenses	(4,366)	(292)	(4,238)	(2,927)
Change in accounts payable and accrued liabilities	995	(522)	524	(810)
	(2,778)	(1,567)	(6,504)	(7,319)
	5,804	4,833	9,582	4,141
Cash flow from financing activities				
Mortgages payable	22,500	-	30,500	7,000
Mortgages principal repayments	(4,904)	(1,662)	(24,609)	(5,565)
Bank indebtedness	(8,898)	19,779	6,263	(6,859)
Distributions to Unitholders	(6,803)	(5,396)	(11,204)	(8,531)
Net proceeds of offering	1,604	2,841	3,725	36,474
Underwriters' fees and offering costs	-	(15)	-	(95)
	3,499	15,547	4,675	22,424
Cash flow from investing activities				
Acquisitions of income properties	(5,476)	(8,282)	(8,057)	(13,251)
Acquisitions of income properties under development	(3,664)	(3,083)	(5,925)	(4,242)
Mortgage receivable	-	(9,000)	-	(9,000)
Deferred expenses and other assets	(163)	(15)	(275)	(72)
	(9,303)	(20,380)	(14,257)	(26,565)
Net change in cash	-	-	-	-
Cash beginning of period	-	-	-	-
Cash end of period	-	-	-	-
Funds from operations per unit (note 6)	0,333	0,312	0,627	0,584
Interests paid	2,825	2,842	5,906	5,946
Acquisitions of income properties and income properties under development by assumption of mortgages payable	1,906	7,588	1,906	12,588
Acquisitions of income properties and income properties under development unpaid	(416)	-	133	-
Issuance of units under distribution reinvestment plan	100	30	209	40

See accompanying notes to consolidated financial statements

COMINAR REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERIOD OF SIX MONTHS ENDED JUNE 30, 2002

1. Description of the Fund

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

2. Accounting policies

Cominar consolidated financial statements are prepared in conformity with Canadian generally accepted accounting principles and are substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies. These accounting policies and methods of their application follow the ones used in the annual financial statements as at December 31, 2001, with the exception of the application of the new recommendations of the Canadian Institute of Chartered Accountants regarding stock-based compensation and other stock-based payments. Cominar has chosen to recognize no compensation when unit options are granted to employees and directors under unit option plan with no cash settlement features. Cominar has not granted any options under unit option plan since December 31, 2001.

3. Mortgages payable

Mortgages payable are secured by income properties, bear interest at a fixed weighted average annual rate of 6.79% and are renewable between September 2002 and January 2019.

4. Bank indebtedness

The bank indebtedness includes a bank overdraft of \$171, lines of credit amounting to \$11,575 bearing interest at rates varying from prime rate plus 0.25% and prime rate plus 0.5%; the lines of credit are secured by income properties and chattel mortgages on the lines of credit are secured by income properties and chattel mortgages on specific properties.

5. Issued and outstanding units

	Period of three months ended June 30, 2002	Period of six months ended June 30, 2002
Units issued and outstanding, beginning of period	25,665,337	25,424,335
Issued from options exercised	187,200	419,000
Issued under distribution reinvestment plan	8,127	17,329
Units issued and outstanding, end of period	25,860,664	25,860,664

6. Per unit amounts

Net income per unit, distributable income per unit and funds from operation per unit have been computed based on the weighted average number of units outstanding during the period:

	2002	2001
Period of three months ended June 30	25,736,250	20,545,174
Period of six months ended June 30	25,635,743	19,638,301

7. Segment disclosures (in thousands of dollars)

Cominar's activities include three property types. The following tables show the financial information related to these property types:

Period of three months ended June 30, 2002

	Office properties \$	Retail properties \$	Industrial and mixed-use properties \$	Total \$
Rentals from income properties	6,570	7,841	5,775	20,186
Interest on mortgages and bank indebtedness	1,067	1,168	945	3,180
Depreciation of income properties	300	334	199	833
Operating income from real estate assets	2,643	2,481	2,042	7,166

COMINAR REAL ESTATE INVESTMENT TRUST

Period of three months ended June 30, 2001

	Office \$	Retail \$	Industrial & mixed-use \$	Total \$
Rentals from income properties	4,891	6,429	5,033	16,353
Interest on mortgages and bank indebtedness	914	1,199	729	2,842
Depreciation of income properties	207	304	161	672
Operating income from real estate assets	1,633	2,142	1,968	5,743

Period of six months ended June 30, 2002

	Office \$	Retail \$	Industrial & mixed-use \$	Total \$
Rentals from income properties	12,972	15,142	11,241	39,355
Interest on mortgages and bank indebtedness	2,282	2,271	1,894	6,447
Depreciation of income properties	599	669	398	1,666
Operating income from real estate assets	4,854	4,952	3,598	13,404

Period of six months ended June 30, 2001

	Office \$	Retail \$	Industrial & mixed-use \$	Total \$
Rentals from income properties	9,533	12,848	9,855	32,236
Interest on mortgages and bank indebtedness	1,966	2,439	1,541	5,946
Depreciation of income properties	414	610	319	1,343
Operating income from real estate assets	2,856	3,879	3,442	10,177

	Office \$	Retail \$	Industrial & mixed-use \$	Total \$
Income properties				
As of June 30, 2002	138,341	168,579	107,460	414,380
As of December 31, 2001	137,654	166,193	102,140	405,987

8. Subsequent events

As at July 2002, Cominar acquired five industrial and mixed-use properties for a consideration of \$9.65 million.

Also, as at July 2002, Cominar obtained from a Canadian chartered bank an additional credit facility amounting to \$25 million bearing interest at prime rate plus 0.50%, secured by a mortgage on a specific property.

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