

QUARTERLY REPORT

June 30, 2003

COMINAR REAL ESTATE INVESTMENT TRUST



COMINAR REAL ESTATE INVESTMENT TRUST

Message to Unitholders

On behalf of the trustees and all the employees of Cominar, I am pleased to present the financial results for the second quarter and the first six months of the fiscal year ended June 30, 2003, and to point out that Cominar continues to show steady growth.

We made three acquisitions at a cost of \$12.0 million during the first half of this year. These new properties added 166,368 square feet of leasable space to our portfolio in the Montreal region and have capitalization rates between 9.9% and 10.8%, which is very satisfactory given current conditions in the real estate market. As at June 30, 2003, our portfolio in the Greater Montreal Area therefore included 29 properties for 2,322,000 square feet of leasable space. With these acquisitions, our overall portfolio for the Montreal and Quebec City regions now consists of 108 properties: 12 office buildings, 23 retail buildings and 73 industrial and mixed-use buildings, which cover a total area of approximately 7.8 million square feet.

With regard to development work, the construction of the 190,000-square-foot office tower at Place de la Cité in Quebec City is on schedule and within budget, and the first tenants will move into the premises in early 2004. The construction of the 32,000-square-foot Déco Découverte store in Saint-Bruno, in the Montreal region, is now completed and the customer began operations on July 2, 2003. We are pursuing six other industrial and mixed-use property development projects in the Montreal and Quebec City regions, representing an area of about 160,000 square feet.

We maintain a conservative and disciplined portfolio management and targeted acquisition strategy. Favourable economic conditions have resulted in a strong real estate market in Quebec, making it more difficult to comply with our criteria when acquiring properties. We are therefore intensifying our property development work while pursuing our acquisition strategy. We have undertaken development projects estimated at \$30 million and are finalizing agreements for an equivalent amount. This market-driven approach enables us to continue growing, increasing our portfolio's value and maximizing the return for unitholders.

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

This management's discussion and analysis for the second quarter should be read in conjunction with the consolidated financial statements and related notes for the quarter ended June 30, 2003 and the fiscal year ended December 31, 2002, as well as the management's discussion and analysis, including the risks and uncertainties section, appearing in the annual report for fiscal 2002.

Operating results

Operating revenues for the second quarter grew by 21.5% or \$4.3 million to reach \$24.5 million, up from \$20.2 million in the same period of fiscal 2002, due to the acquisitions and development work completed in 2002 and 2003. **Net operating income** (before interest on mortgages and bank indebtedness, depreciation of income properties, amortization of deferred expenses and other assets) totalled \$14.2 million, an increase of 18.0% or \$2.2 million over the corresponding quarter of 2002. Distributable income rose 4.4% to \$8.3 million. **Distributable income per unit** amounted to \$0.315, up from \$0.309 in the second quarter of the previous fiscal year.

Cash flows from operating activities increased by 9.2% to total \$9.4 million or \$0.356 per unit, compared with \$8.6 million or \$0.327 per unit in the same period of 2002.

We raised **quarterly distributions** to unitholders by 7.4% to \$7.5 million, and **distributions per unit** amounted to \$0.283. Monthly distributions currently stand at \$0.095 per unit, representing \$1.14 on an annualized basis. In order to sustain our future growth, we plan to maintain our distribution ratio at about 87%

For the first six months of the current fiscal year, operating revenues grew by 22.6% or \$8.9 million to total \$48.2 million. **Net operating income** (before interest on mortgages and bank indebtedness, depreciation of income properties, amortization of deferred expenses and other assets) rose to \$27.3 million, an increase of 17.8% or \$4.1 million. **Distributable income** increased by 5.8% to reach \$15.8 million. **Distributable income per unit** amounted to \$0.60, up from \$0.581 in the first half of fiscal 2002.

Cash flows from operating activities rose 8.9% to \$17.5 million or \$0.664 per unit, compared with \$16.1 million or \$0.613 per unit in the first half of the previous fiscal year.

Financial position

Assets totalled \$546.7 million as at June 30, 2003, compared with \$513.0 million as at December 31, 2002. This increase of 6.6% was due to the acquisitions and development work completed since the beginning of the fiscal year.

At the end of the period, we showed a healthy financial structure with a **debt to gross book value ratio** of 50.6%, below the rate of 60% authorized by our Contract of Trust. It should be pointed out that our trustees prefer to limit this ratio to about 55%, which corresponds to an acquisition capacity of approximately \$55 million.

Growth outlook for 2003

We are confident we will achieve a solid performance in the second half of this year thanks to the quality and the geographical and sectorial diversification of our real estate portfolio, as well as an occupancy rate that currently stands at about 95.6%. We are studying other potential acquisitions in both the Montreal and Quebec City areas. As for property developments, they continue to play a growing role in our projects and match our long-term return and growth objectives.



Jules Dallaire
Chairman of the Board and Chief Executive Officer
July 2003

COMINAR REAL ESTATE
INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF INCOME AND DISTRIBUTABLE INCOME

Period ended June 30	Triestrial		Cumulative	
(unaudited in thousands of dollars except per unit amounts)	2003	2002	2003	2002
	\$	\$	\$	\$
Operating Revenues				
Property rental revenue	24,534	20,186	48,234	39,355
Operating expenses				
Property operating costs	5,207	4,435	11,098	8,947
Realty taxes & services	4,798	3,508	9,146	6,766
Property management expenses	336	211	684	453
	10,341	8,154	20,928	16,166
Operating income before the following	14,193	12,032	27,306	23,189
Interest on mortgages & bank indebtedness	4,343	3,180	8,429	6,447
Depreciation of income properties	1,056	833	2,098	1,666
Amortization of deferred expenses & other assets	1,254	853	2,424	1,672
	6,653	4,866	12,951	9,785
Operating income from real estate assets	7,540	7,166	14,355	13,404
Trust administrative expenses	355	299	755	651
	7,185	6,867	13,600	12,753
Other income	55	245	55	475
Net income for the period	7,240	7,112	13,655	13,228
Add				
Depreciation of income properties	1,056	833	2,098	1,666
Distributable income	8,296	7,945	15,753	14,894
Basic net income per unit (note 6)	0.275	0.276	0.520	0.516
Diluted net income per unit (note 6)	0.273	0.276	0.518	0.516
Distributable income per weighted average unit (note 6)	0.315	0.309	0.600	0.581

See accompanying notes to consolidated financial statements.

**COMINAR REAL ESTATE
INVESTMENT TRUST**

CONSOLIDATED BALANCE SHEETS

	As at June 30, 2003 (unaudited)	As at Dec. 31, 2002 (audited)
(In thousands of dollars)	\$	\$
Assets		
Income properties	502,902	485,695
Properties under development	8,722	2,798
Deferred expenses and other assets	21,296	18,479
Prepaid expenses	7,482	1,571
Accounts receivable	6,314	4,449
	546,716	512,992

Liabilities and Unitholders' Equity

Liabilities		
Mortgages payable (note 3)	274,402	223,991
Bank indebtedness (note 4)	9,425	33,332
Accounts payable and accrued liabilities	10,448	7,422
Distributions payable to Unitholders	2,510	-
	296,785	264,745
Unitholder's Equity	249,931	248,247
	546,716	512,992

**COMINAR REAL ESTATE
INVESTMENT TRUST**

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

Period ended June 30, (unaudited, in thousands of dollars)	Trimestrial		Cumulative	
	2003	2002	2003	2002
	\$	\$	\$	\$
Unitholders' Equity –				
Beginning of period	248,975	242,426	248,247	240,849
Issue of units (note 5)	1,200	1,703	2,844	3,933
Net income for the period	7,240	7,112	13,655	13,228
Distributions to Unitholders	(7,484)	(6,971)	(14,815)	(13,740)
Unitholders' Equity –				
End of period	249,931	244,270	249,931	244,270

See accompanying notes to consolidated financial statements.

COMINAR REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

Period ended June 30, (unaudited, in thousands of dollars, except per unit amounts)	Trimestrial		Cumulative	
	2003 \$	2002 \$	2003 \$	2002 \$
Operating activities				
Net income for the period	7,240	7,112	13,655	13,228
Items not affecting cash				
Depreciation of income properties	1,056	833	2,098	1,666
Amortization of deferred expenses & other assets	1,254	853	2,424	1,672
Leasing costs	(178)	(216)	(652)	(480)
Funds from operations	9,372	8,582	17,525	16,086
Leasing costs	(2,327)	(1,495)	(3,633)	(2,805)
Change in non-cash operating working capital items				
Prepaid expenses	(2,404)	(4,366)	(5,911)	(4,238)
Accounts receivable	(1,060)	2,088	(1,865)	15
Accounts payable & accrued liabilities	219	995	1,298	524
	(5,572)	(2,778)	(10,111)	(6,504)
	3,800	5,804	7,414	9,582
Financing activities				
Mortgages payable	30,806	22,500	52,806	30,500
Repayments of mortgages payable	(1,960)	(4,904)	(7,386)	(24,609)
Bank indebtedness	(19,342)	(8,898)	(23,907)	6,263
Distributions to Unitholders	(7,419)	(6,803)	(12,305)	(11,204)
Net proceeds from issue of units (note 5)	1,200	1,604	2,844	3,725
	3,285	3,499	12,052	4,675
Investing activities				
Acquisitions of income properties	(3,301)	(5,476)	(13,058)	(8,057)
Acquisitions of properties under development	(3,738)	(3,664)	(6,162)	(5,925)
Other assets	(46)	(163)	(246)	(275)
	(7,085)	(9,303)	(19,466)	(14,257)
Net change in cash	0	0	0	0
Cash beginning and end of period	0	0	0	0
Additional information				
Interest paid	4,176	2,825	8,113	5,906
Leasing costs unpaid	202	0	710	0
Acquisitions of income properties by assumption of mortgages payable	2,558	1,906	4,991	1,906
Acquisitions of income properties & properties under development unpaid	825	(416)	1,018	133
Properties under development transferred to income properties	0	100	838	209

See accompanying notes to consolidated financial statements.

COMINAR REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Period ended June 30, 2003

1. Description of the Fund

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

2. Accounting policies

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

3. Mortgages payable

Mortgages payable are secured by income properties, bear interest at rates varying from 4.75% to 11.00% per annum representing a weighted average year-end rate of 6.30% and are renewable between September 2003 and January 2019.

4. Bank indebtedness

Cominar has a number of operating and acquisition lines of credit of up to \$35,700. These credit facilities, subject to annual renewal, bear interest at prime rate plus 0.50%. As at June 30, 2003, the prime rate was 5.00%.

5. Issued and outstanding units

	Period of three months ended June 30, 2003	Period of six months ended June 30, 2003
Units issued and outstanding, beginning of period	26,296,080	26,121,419
Issued from options exercised	92,000	250,700
Issued under distribution reinvestment plan	19,320	35,281
Units issued and outstanding, end of period	26,407,400	26,407,400

6. Per-unit results

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

	Period of three months ended June 30, 2003	Period of six months ended June 30, 2003
Weighted average number of units outstanding – basic	26,357,720	26,260,723
Effect of dilutive unit options	118,458	118,458
Weighted average number of units outstanding – diluted	26,476,178	26,379,181

7. Segment disclosures (in thousands of dollars)

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

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

Period of three months ended June 30, 2003

	Office Properties \$	Retail Properties \$	Industrial & Mixed-Use Properties \$	Total \$
Property rental revenue	7,743	8,842	7,949	24,534
Interest on mortgages payable and bank indebtedness	1,845	1,173	1,325	4,343
Depreciation of income properties	388	372	296	1,056
Net operating income	4,552	4,842	4,799	14,193

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Period of three months ended June 30, 2002

	Office Properties \$	Retail Properties \$	Industrial & Mixed-Use Properties \$	Total \$
Property rental revenue	6,570	7,841	5,775	20,186
Interest on mortgages payable and bank indebtedness	1,067	1,168	945	3,180
Depreciation of income properties	300	334	199	833
Net operating income	4,274	4,276	3,482	12,032

Period of six months ended June 30, 2003

	Office Properties \$	Retail Properties \$	Industrial & Mixed-Use Properties \$	Total \$
Property rental revenue	15,097	17,522	15,615	48,234
Interest on mortgages payable and bank indebtedness	3,362	2,505	2,562	8,429
Depreciation of income properties	735	783	580	2,098
Net operating income	8,667	9,463	9,176	27,306
Income properties	153,632	201,083	148,187	502,902

Period of six months ended June 30, 2002

	Office Properties \$	Retail Properties \$	Industrial & Mixed-Use Properties \$	Total \$
Property rental revenue	12,972	15,142	11,241	39,355
Interest on mortgages payable and bank indebtedness	2,282	2,271	1,894	6,447
Depreciation of income properties	599	669	398	1,666
Net operating income	8,259	8,447	6,483	23,189
Income properties	138,341	168,579	107,460	414,380

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

INFORMATION

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