

WELL-POSITIONED TO GROW

INTERIM REPORT

COMINAR REAL ESTATE INVESTMENT TRUST
QUARTER ENDED SEPTEMBER 30, 2010



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THIRD QUARTER

ENDED SEPTEMBER 30, 2010

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Photos cover page left to right:

Complexe Jules-Dallaire, 2828 Laurier Boulevard, Québec City

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MESSAGE TO UNITHOLDERS

In line with the first half of 2010, our solid results for the quarter ended September 30, 2010 attest to our sustained growth. The improved economic context favored intensified leasing activity in the industrial and mixed-use sector in the Montréal region. Combined with our proactive approach, this more positive environment stimulated new rentals and the renewal of expiring leases. Our sound financial position enabled us to actively pursue our business strategy in markets that remain highly competitive. Thus, we completed acquisitions consistent with our criteria, specifically an office building in Québec during the quarter, and another 11 properties in October, of which 10 in New Brunswick.

FURTHER GROWTH IN OUR PERFORMANCE INDICATORS

Our operating revenues totaled \$69.4 million for the third quarter of 2010, up 10.0% over the same period of the previous year. Net operating income rose 7.8% to \$42.3 million. Recurring distributable income grew by 9.3% to \$23.7 million. Recurring funds from operations increased by 7.7% over the third quarter of 2009, to \$26.9 million, and we maintained distributions per unit at \$0.36. This strong performance attests to the quality of our real estate portfolio, the loyalty of our customers and the service provided by our dedicated and dynamic personnel.

OVERALL OCCUPANCY RATE ON THE RISE

The downward trend in the occupancy rate seen in the first quarter has turned around and our occupancy rate is on track to improve, rising from 92.7% on last March 31st to 93.7% at the closing of the third quarter. The initiatives taken by our leasing team are paying off and the economic recovery had a further impact during the third quarter, especially in the Montréal region where demand in the industrial and mixed-use sector is on the rise. As at September 30, 2010, the leasing team had already renewed 76.2% of the leases expiring in 2010 and new leases had been signed for an area of 1.0 million square feet.

SUSTAINED FINANCIAL HEALTH

Our financial health remains solid; we posted a debt ratio of 56.5% as at September 30, 2010 (58.1% as at September 30, 2009), well below the 65% limit allowed by our Contract of Trust when convertible debentures are outstanding. At the end of the third quarter, the annualized interest coverage ratio stood at 2.80:1 (2.63:1 as at September 30, 2009), which compares favorably with that of our peers.

ONGOING EXPANSION OF THE PORTFOLIO

In the third quarter, we acquired an office property covering a leasable area of 90,000 square feet in Brossard, at a cost of \$13 million, with a capitalization rate of 8.5%. Subsequent to the end of the quarter, in October, we acquired eleven other properties for a total consideration of \$29.8 million, adding some 463,000 square feet of leasable area to its portfolio, of which 196,000 square feet are located in Laval, Québec and 267,000 square feet in Fredericton and Moncton, New Brunswick. Furthermore, the construction of Phase I of Complexe Jules-Dallaire has been completed and the office space tenants continue to gradually move in.

OUTLOOK

By maintaining a disciplined management approach and operational efficiency the REIT shall continue to grow. We are on the constant lookout for acquisition and development opportunities consistent with our criteria of stability and increased value over the long term. The consistent improvement of our overall occupancy rate, the acquisitions completed so far in 2010 and the REIT's sound financial position are leading us to be confident in completing this year with strong results.



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 periods ended September 30, 2010, in comparison with the corresponding periods of 2009, as well as its financial position at that date and its outlook. Dated November 11, 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 and on the Canadian Securities Administrators' ("CSA") website at www.sedar.com.

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

HIGHLIGHTS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2010

- Increases of:
 - 10.0% in operating revenues
 - 7.8% in net operating income
 - 9.3% in recurring distributable income
 - 7.7% in recurring funds from operations
 - 10.7% in recurring adjusted funds from operations
 - 13.8% in distributions
- Occupancy rate of 93.7%
- Annualized interest coverage ratio of 2.80: 1
- On July 29, 2010, the REIT acquired an office building located in Brossard, Québec, with 90,000 square feet of leasable area for a cash consideration of \$13 million. The capitalization rate related to this acquisition was 8.5%.

SUBSEQUENT EVENTS

- On October 14, 2010, the REIT acquired an industrial and mixed-use property located in Laval, Québec, with 196,000 square feet of leasable area for a consideration of \$11.9 million, consisting of \$7.2 million for the assumption of a mortgage payable and \$4.7 million in cash. The capitalization rate related to this acquisition is 9.0 %. This property is a recent construction located near Highway 440 with an occupancy rate of 92.2%.
- On October 31, 2010, the REIT acquired eight industrial and mixed-use properties, of which seven are located in Fredericton and one is located in Moncton, and an office building located in Fredericton, representing a total leasable area of 229,000 square feet, for a consideration of \$15.7 million, consisting of \$3.8 million for the assumption of mortgages payable and \$11.9 million in cash. The capitalization rate related to this acquisition is 9.4%, and the occupancy rate of these properties is 94.4%.
- On October 31, 2010, the REIT acquired an industrial and mixed-use property located in Moncton, New Brunswick, with 38,000 square feet of leasable area and an occupancy rate of 93.0%, for a consideration of \$2.2 million in cash. The capitalization rate related to this acquisition is 9.1%.
- On November 5, 2010, the REIT sold land held for future developments in Québec City to a related company, for a cash consideration of \$34.3 million. This transaction has allowed the REIT to optimize its land holdings for future developments while meeting the limitations set forth in its Contract of Trust regarding such properties.

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.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Periods ended September 30	Quarter			Cumulative (9 months)		
	2010	2009	Δ %	2010	2009	Δ %
FINANCIAL DATA						
Operating revenues	69,432	63,133	10.0	212,147	198,373	6.9
Net operating income ⁽¹⁾	42,349	39,295	7.8	122,723	115,526	6.2
Same property net operating income growth (decline) ⁽¹⁾	—	0.9%		(0.1)%	2.0%	
Net income	10,033	8,860	12.2	26,334	20,617	27.7
(Recurring) distributable income ⁽¹⁾	23,651	21,636	9.3	66,636	59,707	11.6
(Recurring) funds from operations ⁽¹⁾	26,896	24,967	7.7	76,893	69,661	10.4
(Recurring) adjusted funds from operations ⁽¹⁾	23,312	21,060	10.7	65,615	58,267	12.6
Distributions	22,371	19,655	13.8	64,376	54,439	18.3
Debt ratio				56.5%	58.1%	
Debt ratio (excluding convertible debentures)				38.7%	42.0%	
Total assets				1,976,195	1,761,388	
Market capitalization				1,349,844	1,065,685	
PER UNIT FINANCIAL DATA						
Net income (basic)	0.16	0.16	—	0.44	0.41	7.3
Distributable income (basic) ⁽¹⁾	0.38	0.40	(5.0)	1.12	1.20	(6.7)
Recurring distributable income (FD) ⁽¹⁾⁽²⁾	0.37	0.39	(5.1)	1.10	1.18	(6.8)
Recurring funds from operations (FD) ⁽¹⁾⁽²⁾	0.42	0.44	(4.5)	1.24	1.35	(8.1)
Recurring adjusted funds from operations (FD) ⁽¹⁾⁽²⁾	0.37	0.38	(2.6)	1.09	1.15	(5.2)
Distributions	0.36	0.36	—	1.08	1.08	—
OPERATIONAL DATA						
Number of properties				243	215	
Leasable area (in thousands of sq. ft.)				19,525	18,547	
Occupancy rate				93.7%	93.8%	
ACQUISITIONS AND DEVELOPMENTS						
Acquisitions						
Number of properties	1	—		18	1	
Land lease	—	—		1	—	
Leasable area (in thousands of sq. ft.)	90	—		724	227	
Total investment	13,000	—		89,730	36,820	
Weighted average capitalization rate	8.5%	—		8.9%	8.8%	
Ongoing developments						
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.

GENERAL BUSINESS OVERVIEW

Cominar Real Estate Investment Trust is the largest owner of commercial properties in the Province of Québec. As at September 30, 2010, we owned and managed a high-quality portfolio of 243 properties including 46 office buildings, 51 retail buildings and 146 industrial and mixed-use buildings covering 19.5 million square feet in the Québec City, Montréal and Ottawa areas as well as in the Atlantic provinces.

Since its inception in 1998, Cominar has made a series of acquisitions and completed many construction and property development projects, increasing the gross carrying value of its real estate assets to more than \$2.2 billion as at September 30, 2010.

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 Atlantic 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 September 30, 2010, 129 properties representing a leasable area of nearly 11.6 million square feet. With four properties representing 0.6 million square feet, Cominar also has a presence in the Ottawa region. Cominar entered the Atlantic provinces during the first quarter of 2010 with the acquisition of Overland Realty Limited, which includes 16 high quality properties representing an area of 0.6 million square feet. In October 2010, Cominar made 10 new additions to properties in this region, thus increasing the total area to nearly 0.9 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, capitalized leasing costs calculated using historical costs and future income taxes 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 September 30, 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 periods ended September 30,	Quarter			Cumulative (9 months)		
	2010	2009	Δ %	2010	2009	Δ %
Operating revenues	69,432	63,133	10.0	212,147	198,373	6.9
Operating expenses	27,083	23,838	13.6	89,424	82,847	7.9
Net operating income	42,349	39,295	7.8	122,723	115,526	6.2
Interest on borrowings	14,025	13,284	5.6	41,968	42,513	(1.3)
Depreciation of income properties	13,994	13,609	2.8	42,310	41,559	1.8
Amortization of capitalized leasing costs	2,890	2,498	15.7	8,335	7,485	11.4
Amortization of other assets	106	108	(1.9)	310	290	6.9
Trust administrative expenses	1,370	980	39.8	3,827	3,234	18.3
Other revenues	(48)	(44)	9.1	(275)	(172)	59.9
Future income tax benefit	(21)	—	—	(86)	—	—
Net income	10,033	8,860	13.2	26,334	20,617	27.7
Net income per unit (basic)	0.16	0.16	—	0.44	0.41	7.3
Net income per unit (diluted)	0.16	0.16	—	0.44	0.41	7.3

FINANCIAL POSITION

The following table summarizes our assets and liabilities as well as unitholders' equity as at September 30, 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.

	September 30, 2010	December 31, 2009	Δ \$	Δ %
ASSETS				
Income properties (at amortized cost)	1,661,992	1,581,831	80,161	5.1
Properties under development and land held for future development	168,748	174,654	(5,906)	(3.4)
Other assets	145,455	79,461	65,994	83.1
Total	1,976,195	1,835,946	140,249	7.6
LIABILITIES				
Mortgages payable	810,802	771,991	38,811	5.0
Convertible debentures	395,509	313,620	81,889	26.1
Bank indebtedness	45,535	134,809	(89,274)	(66.2)
Other liabilities	44,142	32,035	12,107	37.8
	1,295,988	1,252,455	43,533	3.5
UNITHOLDERS' EQUITY				
Total	680,207	583,491	96,716	16.6
	1,976,195	1,835,946	140,249	7.6

PERFORMANCE INDICATORS

The following table summarizes our performance indicators for the periods ended September 30, 2010 and 2009. A detailed analysis of each of these performance indicators is provided on the page indicated:

Performance indicators

For the periods ended September 30	Page	Quarter			Cumulative (9 months)		
		2010	2009	Δ %	2010	2009	Δ %
Same property net operating income	12	38,500	38,511	—	112,534	112,644	(0.2)
Recurring distributable income per unit (FD) ⁽¹⁾	16	0.37	0.39	(5.1)	1.10	1.18	(6.8)
Recurring FFO per unit (FD) ⁽¹⁾	19	0.42	0.44	(4.5)	1.24	1.35	(8.1)
Recurring AFFO per unit (FD) ⁽¹⁾	20	0.37	0.38	(2.6)	1.09	1.15	(5.2)
NOI margin	12	61.0%	62.2%		57.8%	58.2%	
Debt ratio (including convertible debentures)	23				56.5%	58.1%	
Occupancy rate	28				93.7%	93.8%	

(1) Fully diluted.

RESULTS OF OPERATIONS

OVERALL ANALYSIS

OPERATING REVENUES

During the third quarter of 2010, our operating revenues rose 10.0% from the corresponding period in 2009. This increase resulted from the contribution of income property acquisitions and developments completed in 2009 and 2010.

Operating Revenues

For the periods ended September 30,	Quarter			Cumulative (9 months)		
	2010	2009	Δ %	2010	2009	Δ %
Same property portfolio ⁽¹⁾	63,530	62,262	2.0	195,844	194,367	0.8
Acquisitions and developments	5,902	871	—	16,303	4,006	—
Total operating revenues	69,432	63,133	10.0	212,147	198,373	6.9

(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 and 2010.

Same property portfolio operating revenues showed a 2.0% increase in the third quarter of 2010 relative to the corresponding quarter of 2009.

OPERATING EXPENSES

Operating expenses rose 13.6% in the third quarter of 2010 compared with 2009. This increase stemmed mainly from an expanded portfolio through acquisitions and developments completed in 2009 and 2010. It should be noted that the rise in same property portfolio operating expenses is due mainly to the significant increase in real estate taxes. Such expense is however fully recovered from the clients.

Operating Expenses

For the periods ended September 30,	Quarter			Cumulative (9 months)		
	2010	2009	Δ %	2010	2009	Δ %
Same property portfolio ⁽¹⁾	25,030	23,751	5.4	83,310	81,723	1.9
Acquisitions and developments	2,053	87	—	6,114	1,124	—
Total operating expenses	27,083	23,838	13.6	89,424	82,847	7.9

(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, other revenues and future income taxes. 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 periods ended September 30,	Quarter			Cumulative (9 months)		
	2010	2009	Δ %	2010	2009	Δ %
Same property portfolio ⁽¹⁾	38,500	38,511	—	112,376	112,534	(0.1)
Acquisitions and developments	3,849	784	—	10,189	2,882	—
Total NOI	42,349	39,295	7.8	122,723	115,526	6.2
NOI margin						
Same property portfolio	60.6%	61.9%		57.5%	58.0%	
Overall portfolio	61.0%	62.2%		57.8%	58.2%	

(1) See "Operating Revenues."

Same property NOI (a financial performance indicator) for the third quarter ended September 30, 2010, remains stable relative to the corresponding period of 2009. We note that the decline in the occupancy rate present at the beginning of 2010 is behind us in light of the September 30, 2010 results.

At 60.6% of operating revenues, the NOI margin was down compared with the third quarter of 2009.

For the nine-month period ended September 30, 2010, NOI rose 6.2% from the corresponding period of 2009, due to acquisitions completed in 2009 and 2010, while same property NOI remained steady compared with 2009, mainly due to an occupancy rate slightly lower than that recorded as at September 30, 2009.

INTEREST ON BORROWINGS

For the third quarter of 2010, total interest on borrowings increased 5.6% compared with 2009. Total interest on borrowings represented 20.2% of operating revenues as at September 30, 2010 compared with 21.0% as at September 30, 2009, which compares favourably with other REITs. As at September 30, 2010, the weighted average contractual interest rate of our long-term debt stood at 5.61%, up 11 basis points from December 31, 2009.

For the nine-month period ended September 30, 2010, total interest on borrowings decreased 1.3%, due primarily to proceeds from public offerings completed in 2009 and 2010 and to the increase in capitalized interest.

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

Interest on Borrowings

For the periods ended September 30,	Quarter			Cumulative (9 months)		
	2010	2009	Δ %	2010	2009	Δ %
Mortgages and bank indebtedness	11,253	11,606	(3.0)	33,692	36,031	(6.5)
Convertible debentures	6,172	3,261	89.3	18,357	9,458	94.1
Amortization of borrowing costs	792	727	8.9	2,483	2,053	20.9
Accretion of liability component of convertible debentures	56	10	—	168	30	—
Amortization of fair value adjustments on assumed mortgages payable	(133)	(30)	—	(296)	(92)	—
Less: Capitalized interest	(4,115)	(2,290)	79.7	(12,436)	(4,967)	—
Total interest on borrowings	14,025	13,284	5.6	41,968	42,513	(1.3)

DEPRECIATION OF INCOME PROPERTIES

Depreciation expense of income properties for the third quarter of 2010 increased 2.8% compared with 2009. This rise resulted from the contribution of property acquisitions completed in 2009 and 2010. 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 buildings, 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 periods ended September 30,	Quarter			Cumulative (9 months)		
	2010	2009	Δ %	2010	2009	Δ %
Same property portfolio	12,305	13,307	(7.5)	38,148	40,722	(6.3)
Acquisitions and developments	1,689	302	—	4,162	837	—
Total depreciation of income properties	13,994	13,609	2.8	42,310	41,559	1.8

TRUST ADMINISTRATIVE EXPENSES

Administrative expenses stood at \$1.4 million as at September 30, 2010 compared to \$1.0 million for the same period of 2009. Trust administrative expenses represented 2.0% of operating revenues as at September 30, 2010, compared to 1.6% as at September 30, 2009.

NET INCOME

Cominar reported \$10.0 million in net income for the third quarter of 2010, up 13.2% from 2009. Basic net income per unit stood at \$0.16, at the same level as at September 30, 2009.

For the nine-month period ended September 30, 2010, net income stood at \$26.3 million, up 27.7% compared with 2009. The increase in net income mainly results from Cominar's recent acquisitions.

Net Income

For the periods ended September 30,	Quarter			Cumulative (9 months)		
	2010	2009	Δ %	2010	2009	Δ %
Net income	10,033	8,860	13.2	26,334	20,617	27.7
Net income per unit (basic)	0.16	0.16	—	0.44	0.41	7.3
Net income per unit (diluted)	0.16	0.16	—	0.44	0.41	7.3

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.

SEGMENT 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 Atlantic provinces. The following tables show the contributions of these properties to NOI, by activity segment and geographic markets, for the periods ended September 30, 2010 and 2009. Variations are primarily attributable to property acquisitions and developments completed in 2009 and 2010.

SEGMENT INFORMATION BY ACTIVITY SEGMENT

Net Operating Income

For the periods ended September 30,	Quarter			Cumulative (9 months)		
	2010	2009	Δ %	2010	2009	Δ %
Activity segment						
Office	18,826	18,342	2.6	55,754	54,789	1.8
Retail	8,828	7,264	21.5	25,488	20,923	21.8
Industrial and mixed-use	14,695	13,689	7.3	41,481	39,814	4.2
Total NOI	42,349	39,295	7.8	122,723	115,526	6.2

For the periods ended September 30,	Quarter		Cumulative (9 months)	
	2010	2009	2010	2009
Activity segment				
Office	44.5%	46.7%	45.4%	47.4%
Retail	20.8%	18.5%	20.8%	18.1%
Industrial and mixed-use	34.7%	34.8%	33.8%	34.5%
Total NOI	100.0%	100.0%	100.0%	100.0%

Office Segment

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

The marked decrease in the NOI margin from office properties is mainly attributable to the rise in real estate taxes that are recovered from our clients.

For the periods ended September 30,	Quarter			Cumulative (9 months)		
	2010	2009	Δ %	2010	2009	Δ %
Operating revenues	32,691	30,885	5.8	100,159	96,760	3.5
Operating expenses	13,865	12,543	10.5	44,405	41,971	5.8
NOI — Office	18,826	18,342	2.6	55,754	54,789	1.8
NOI margin — Office	57.6%	59.4%		55.7%	56.6%	

Retail Segment

Retail segment NOI rose 21.5% in the third quarter of 2010 compared with the corresponding period of 2009, due primarily to the December 2009 acquisition of the Quartier Laval retail complex and to the March 2010 acquisition of Overland Realty Limited.

For the periods ended September 30,	Quarter			Cumulative (9 months)		
	2010	2009	Δ %	2010	2009	Δ %
Operating revenues	14,847	12,111	22.6	44,209	36,220	22.1
Operating expenses	6,019	4,847	24.2	18,721	15,297	22.4
NOI — Retail	8,828	7,264	21.5	25,488	20,923	21.8
NOI margin — Retail	59.5%	60.0%		57.7%	57.8%	

Industrial and Mixed-Use Segment

Industrial and mixed-use segment NOI rose 7.3% in the third quarter of 2010 compared with the corresponding period of 2009, due mainly to the acquisition of the Overland Realty Limited's properties.

For the periods ended September 30,	Quarter			Cumulative (9 months)		
	2010	2009	Δ %	2010	2009	Δ %
Operating revenues	21,894	20,137	8.7	67,779	65,393	3.6
Operating expenses	7,199	6,448	11.6	26,298	25,579	2.8
NOI — Industrial and mixed-use	14,695	13,689	7.3	41,481	39,814	4.2
NOI margin — Industrial and mixed-use	67.1%	68.0%		61.2%	60.9%	

SEGMENT INFORMATION BY GEOGRAPHIC MARKET

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

Net Operating Income

For the periods ended September 30,	Quarter			Cumulative (9 months)		
	2010	2009	Δ %	2010	2009	Δ %
Geographic market						
Québec	15,045	15,283	(1.6)	44,804	43,783	2.3
Montréal	23,516	21,839	7.7	67,904	65,206	4.1
Ottawa	2,162	2,173	(0.5)	6,572	6,537	0.5
Atlantic provinces	1,626	—	—	3,443	—	—
Total NOI	42,349	39,295	7.8	122,723	115,526	6.2

For the periods ended September 30,	Quarter		Cumulative (9 months)	
	2010	2009	2010	2009
Geographic market				
Québec	35.5%	38.9%	36.5%	37.9%
Montréal	55.5%	55.6%	55.3%	56.4%
Ottawa	5.1%	5.5%	5.4%	5.7%
Atlantic provinces	3.9%	—	2.8%	—
Total NOI	100.0%	100.0%	100.0%	100.0%

Cominar entered the Atlantic 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 periods ended September 30,	Quarter			Cumulative (9 months)		
	2010	2009	Δ %	2010	2009	Δ %
Net income (GAAP)	10,033	8,860	13.2	26,334	20,617	27.7
+ Depreciation of income properties	13,994	13,609	2.8	42,310	41,559	1.8
- Amortization of below-market leases	(230)	(193)	19.2	(671)	(572)	17.3
+ Compensation expense related to unit options	221	109	—	664	432	53.7
+ Accretion of liability component of convertible debentures	56	10	—	168	30	—
- Rental income – recognition of leases on straight-line basis	(269)	(729)	(63.1)	(1,787)	(2,267)	(21.2)
- Amortization of fair value adjustments on assumed Indebtedness	(133)	(30)	—	(296)	(92)	—
- Future income tax benefit	(21)	—	—	(86)	—	—
Recurring DI	23,651	21,636	9.3	66,636	59,707	11.6
DISTRIBUTIONS TO UNITHOLDERS	22,371	19,655	13.8	64,376	54,439	18.3
Distributions reinvested under the distribution reinvestment plan	(766)	(377)	—	(1,993)	(1,078)	84.9
Cash distributions	21,605	19,278	12.1	62,383	53,361	16.9
Per unit information:						
Recurring DI (basic)	0.38	0.40	(5.0)	1.12	1.20	(6.7)
Recurring DI (FD) ⁽¹⁾	0.37	0.39	(5.1)	1.10	1.18	(6.8)
DISTRIBUTIONS PER UNIT	0.36	0.36	—	1.08	1.08	—
DI payout ratio	94.7%	90.0%		96.4%	90.0%	

(1) Fully diluted.

Recurring DI for the third quarter of 2010 amounted to \$23.7 million, up 9.3% from the corresponding period of 2009, due mainly to the impact of acquisitions and developments completed in 2009 and 2010. Recurring DI per fully diluted unit totalled \$0.37 compared with \$0.39 for the third quarter of 2009. This decline in per unit income resulted primarily from the dilutive effect of unit issues in 2009 and 2010. Cominar management expects per unit income to improve when the proceeds from these issues are invested in additions to income properties and when Complexe Jules-Dallaire is completed and integrated into income properties. The anticipated rise in the occupancy rate will also have a positive impact.

Distributions to unitholders in the third quarter of 2010 totalled \$22.4 million, up 13.8% from the same period of 2009, with per unit distributions at \$0.36 as in the third quarter of 2009.

For the nine-month period ended September 30, 2010, recurring DI stood at \$66.6 million, up 11.6% from the same period of 2009, while total distributions to unitholders amounted to \$64.4 million, a significant rise of 18.3% compared with the same period 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 September 30, 2010 stood at 96.4%, higher than as at September 30, 2009, owing primarily to the dilutive effect of units issued under the public offerings completed in 2009 and 2010. Management expects that its DI payout ratio per unit in 2010 will be below 100.0%. Cominar management's long-term objective is a payout ratio of approximately 87%.

Track Record of DI per Unit (Financial Performance Indicator)

For the nine-month periods ended September 30,	2010	2009	2008	2007	2006
DI per unit (basic)	1.12	1.20	1.20	1.12	1.03
Recurring DI per unit (FD) ⁽¹⁾	1.10	1.18	1.17	1.09	0.99

(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 periods ended September 30,	Quarter		Cumulative (9 months)	
	2010	2009	2010	2009
Cash flows from operating activities (GAAP)	36,256	33,998	64,034	56,999
- Amortization of capitalized leasing costs	(2,890)	(2,498)	(8,335)	(7,485)
- Amortization of capitalized financing costs and other assets	(898)	(836)	(2,794)	(2,344)
- Rental income – recognition of leases on a straight-line basis	(269)	(729)	(1,787)	(2,267)
+ Change in non-cash working capital items	(8,548)	(8,299)	15,518	14,804
Distributable income	23,651	21,636	66,636	59,707

Rental income – recognition of leases on a 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:

For the nine-month periods ended September 30,	2010	2009	2008
Cash flows from operating activities	64,034	56,999	52,022
Net income	26,334	20,617	18,838
Distributions to unitholders	64,376	54,439	47,963
Cash flows from operating activities in excess (deficit) of distributions payable to unitholders	(342)	2,560	4,059

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, future income taxes 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 periods ended September 30, 2010 and 2009:

Funds From Operations

For the periods ended September 30,	Quarter			Cumulative (9 months)		
	2010	2009	Δ %	2010	2009	Δ %
Net income (GAAP)	10,033	8,860	13.2	26,334	20,617	27.7
+ Depreciation of income properties	13,994	13,609	2.8	42,310	41,559	1.8
+ Amortization of capitalized leasing costs	2,890	2,498	15.7	8,335	7,485	11.4
+ Future income tax benefit	(21)	—	—	(86)	—	—
Recurring FFO	26,896	24,967	7.7	76,893	69,661	10.4
Per unit information:						
Recurring FFO (basic)	0.43	0.46	(6.5)	1.30	1.40	(7.1)
Recurring FFO (FD) ⁽¹⁾	0.42	0.44	(4.5)	1.24	1.35	(8.1)

(1) Fully diluted.

For the third quarter of 2010, recurring FFO rose 7.7% from the same period of 2009, due to acquisitions and developments completed during 2009 and 2010. Recurring FFO per unit fell by 4.5% on a fully diluted basis compared with 2009 due primarily to the dilutive effect of unit issues in 2009 and 2010 and a slightly lower occupancy rate.

For the nine-month period ended September 30, 2010, recurring FFO stood at \$76.9 million, up 10.4% from 2009, due to acquisitions and developments completed during 2009 and 2010.

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

For the nine-month periods ended September 30,	2010	2009	2008	2007	2006
FFO per unit (basic)	1.30	1.40	1.38	1.29	1.20
Recurring FFO (FD) ⁽¹⁾	1.24	1.35	1.32	1.24	1.15

(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 unit options; 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 periods ended September 30, 2010 and 2009:

Adjusted Funds From Operations

For the periods ended September 30,	Quarter			Cumulative (9 months)		
	2010	2009	Δ %	2010	2009	Δ %
Funds from operations	26,896	24,967	7.7	76,893	69,661	10.4
+ Compensation expense related to unit options	221	109	—	664	432	53.7
- Rental income – recognition of leases on a straight-line basis	(269)	(729)	(63.1)	(1,787)	(2,267)	(21.2)
- Amortization of below-market leases	(230)	(193)	19.2	(671)	(572)	17.3
- Amortization of capitalized leasing costs	(2,890)	(2,498)	15.7	(8,335)	(7,485)	11.4
- Capital expenditures – maintenance of rental income generating capacity	(416)	(596)	(30.2)	(1,149)	(1,502)	(23.5)
Recurring AFFO	23,312	21,060	10.7	65,615	58,267	12.6
Per unit information:						
Recurring AFFO (basic)	0.38	0.39	(2.6)	1.11	1.17	(5.1)
Recurring AFFO (FD) ⁽¹⁾	0.37	0.38	(2.6)	1.09	1.15	(5.2)
Distributions per unit	0.360	0.360	—	1.080	1.080	—
AFFO payout ratio	94.7%	92.3%		97.3%	92.3%	

(1) Fully diluted.

Cominar reported \$23.3 million in recurring AFFO for the third quarter of 2010, up 10.7% compared with the corresponding period of 2009. Recurring AFFO per unit stood at \$0.38, down 2.6% from 2009. This decline in per unit income arises primarily from the dilutive effect of unit issues in 2009 and 2010 and a slightly lower occupancy rate than that recorded as at September 30, 2009. Management expects per unit income to improve when the proceeds from these issues are invested in additions to income properties and development projects are integrated into income properties.

For the nine-month period ended September 30, 2010, recurring AFFO stood at \$65.6 million, up 12.6% from 2009. This increase is attributable to acquisitions and developments completed in 2009 and in the first nine months of 2010.

The following table presents the Trust's AFFO per unit for the periods ended September 30:

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

For the nine-month periods ended September 30,	2010	2009	2008
AFFO per unit (basic)	1.11	1.17	1.17
Recurring AFFO per unit (FD) ⁽¹⁾	1.09	1.15	1.15

(1) Fully diluted.

The decline in AFFO per unit resulted primarily from the dilutive effect of unit issues in 2009 and 2010.

LIQUIDITY AND CAPITAL RESOURCES

LONG-TERM DEBT

The following table presents Cominar's balances of mortgages payable and convertible debentures as at September 30, 2010 by year of maturity and weighted average contractual interest rates:

Long-Term Debt – Balances as at September 30, 2010

Maturity	Balance of convertible debentures (\$)	Balance of mortgages payable (\$)	Weighted average contractual interest rate (%)
2010 (last 3 months)		25,840	5.39
2011		6,337	7.58
2012		25,636	6.80
2013		177,944	4.65
2014	209,895	84,628	5.86
2015		107,255	5.18
2016	115,000	18,058	6.38
2017	86,250	126,799	5.53
2018		94,847	5.77
2019		15,216	6.65
2020		1,433	6.39
2021		93,743	5.55
2022		33,299	5.35
Total	411,145	811,035	5.61

As at September 30, 2010, the weighted average contractual interest rate of our long-term debt stood at 5.61%, up 11 basis points from December 31, 2009.

MORTGAGES PAYABLE

As at September 30, 2010, mortgages payable amounted to \$811.0 million, up \$37.6 million from \$773.4 million as at December 31, 2009, arising primarily from the assumption, in March 2010, of mortgages payable by Overland Realty Limited. At the end of the third quarter, the weighted average contractual interest rate was 5.42%, up 16 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 September 30, 2010, the residual average term of mortgages payable was 5.7 years.

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

Mortgages Payable

For the periods ended September 30,	Quarter		Cumulative (9 months)	
	Weighted average contractual interest rate (%)		Weighted average contractual interest rate (%)	
	\$	rate (%)	\$	rate (%)
Balance of mortgages payable, beginning of period	817,892	5.37	773,391	5.26
Mortgages payable contracted or assumed	16,500	4.51	133,652	5.46
Repayments of balances at maturity	(17,716)	4.71	(79,346)	4.52
Monthly repayments of principal	(5,641)		(16,662)	
Balance of mortgages payable, end of period	811,035	5.42	811,035	5.42

The following table shows mortgage repayments for the coming periods:

Repayment of Mortgages Payable

For the period ending December 31,	Repayment of capital	Balance at maturity	Total	% of total
2010 (last 3 months)	5,698	25,699	31,397	3.9
2011	22,939	5,855	28,794	3.6
2012	23,161	22,951	46,112	5.7
2013	21,508	162,106	183,614	22.6
2014	14,610	75,819	90,429	11.1
2015	14,306	94,291	108,597	13.4
2016	12,952	11,517	24,469	3.0
2017	11,586	109,423	121,009	14.9
2018	9,858	58,712	68,570	8.5
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	8.7
2022	263	24,186	24,449	3.0
Total	147,333	663,702	811,035	100.0

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 September 30, 2010, Cominar had five series of convertible debentures outstanding totalling \$411.1 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 September 30, 2010, these debentures had a weighted average contractual interest rate of 5.99% per annum.

BANK INDEBTEDNESS

In accordance with its financing strategy, Cominar has elected to reduce available borrowings under credit facilities. Cominar has now two operating and acquisition credit facilities of up to \$131.2 million. These credit facilities are renewable in June 2011 and bear interest at prime plus 1.5% or the bankers' acceptance rate plus 2.5%. These credit facilities are secured by movable and immovable hypothecs on specific assets. Management believes they will remain available in the future. As at September 30, 2010, bank indebtedness totalled \$45.5 million, which meant that Cominar had \$85.7 million in borrowing capacity under the terms of its credit facilities.

DEBT RATIO

The following table presents debt ratios as at September 30, 2010 and December 31, 2009:

Debt to Gross Carrying Amount Ratio

	As at September 30, 2010	As at December 31, 2009
Mortgages payable	810,802	771,991
Convertible debentures	395,509	313,620
Bank indebtedness	45,535	134,809
Total debt	1,251,846	1,220,420
Portfolio gross carrying amount	2,213,811	2,031,922
Overall debt ratio ^{(1) (2)}	56.5%	60.1%
Debt ratio (excluding convertible debentures)	38.7%	44.6%
Borrowing capacity — 65% of gross carrying amount ⁽³⁾	535,000	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)

As at September 30,	2010	2009	2008	2007	2006
Overall debt ratio	56.6%	58.1%	57.9%	55.8%	45.0%
Debt ratio (excluding convertible debentures)	38.7%	42.0%	45.5%	49.3%	39.1%
Maximum borrowing capacity under the Contract of Trust	535,000	384,000	322,000	401,000	307,500

As at September 30, 2010, Cominar maintained a debt ratio of 56.5%, 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 \$535 million to fund future acquisitions and developments. Cominar's annualized interest coverage ratio of 2.80:1 compares favourably with its peers.

Management considers Cominar's current financial situation very sound and does not foresee any difficulties in renewing the mortgage maturing in the next quarter of 2010 as well as those maturing in 2011. 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 September 30, 2010 and 2009:

Annualized Interest Coverage Ratio

Twelve-month periods ended September 30,	2010	2009
Net income	34,729	26,940
+ Net loss from discontinued operations	—	376
- Other revenues	(320)	(241)
- Future income tax benefit	(86)	—
+ Interest on borrowings	56,147	56,947
+ Depreciation of income properties	55,833	55,735
+ Amortization of capitalized leasing costs	10,728	9,504
+ Amortization of other assets	439	395
EBITDA ⁽¹⁾	157,470	149,656
Interest expense	56,147	56,947
Annualized interest coverage ratio ^{(2) (3)}	2.80	2.63

(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 September 30, 2010, the annualized interest coverage ratio stood at 2.80:1, 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 September 30, 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 September 30,	2010	2009
Income properties (at cost)	1,899,608	1,687,343
Properties under development and land held for future development	168,748	171,940
Other assets	145,455	84,801
Portfolio gross carrying amount	2,213,811	1,944,084

As at September 30,	2010	2009
Number of properties	243	215
Leasable area (in thousands of sq. ft.)	19,525	18,547

Summary by Activity Segment

As at September 30,	Number of properties	Leasable area (sq. ft.)
Office	46	5,926,000
Retail	51	3,065,000
Industrial and mixed-use	146	10,534,000
Total	243	19,525,000

Summary by Geographic Area

As at September 30,	Number of properties	Leasable area (sq. ft.)
Québec	94	6,749,000
Montréal	129	11,564,000
Ottawa	4	609,000
Atlantic provinces	16	603,000
Total	243	19,525,000

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 Realty Limited. 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 Atlantic provinces, 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.

The following schedule is a summarized description of the properties included in the real estate portfolio acquired through the acquisition of Overland Realty Limited.

7 office buildings

	Leasable area (sq. ft.)
1115 Regent Street, Fredericton, New Brunswick	16,000
570 Queen Street, Fredericton, New Brunswick	70,000
371 Queen Street, Fredericton, New Brunswick	33,000
565 Priestman Street, Fredericton, New Brunswick	35,000
1133 Regent Street, Fredericton, New Brunswick	88,000
590 Queen Street, Fredericton, New Brunswick	42,000
1113 Regent Street, Fredericton, New Brunswick	11,000

3 retail buildings

	Leasable area (sq. ft.)
900 Hanwell Road, Fredericton, New Brunswick	67,000
360 Pleasant Street, Miramichi, New Brunswick	25,000
146-154 Main Street, Fredericton, New Brunswick	25,000

6 industrial and mixed-use buildings

	Leasable area (sq. ft.)
50 and 70 Crown Street, Saint-Jean, New Brunswick	33,000
385 Wilsey Road, Fredericton, New Brunswick	31,000
245 Hilton Road, Fredericton, New Brunswick	19,000
291 Industrial Drive, Saint-Jean, New Brunswick	33,000
140 MacNaughton Avenue, Moncton, New Brunswick	38,000
1080 Champlain Street, Dieppe, New Brunswick	37,000

On April 9, 2010, Cominar acquired a 31,000 square foot industrial and mixed-use building located at 3855 Matte Boulevard in Brossard for a cash consideration of \$5.6 million. The capitalization rate for this building is 9%.

On July 29, 2010, Cominar acquired a 90,000 square foot office building located at 9955 Catania Avenue in Brossard, Québec for a cash consideration of \$13 million. The capitalization rate for this building is 8.5%.

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 third quarter of 2010, Cominar incurred \$2.7 million (\$2.9 million in 2009) of capital expenditures to increase the rental income generating capacity of its properties. Cominar also incurred \$0.4 million (\$0.6 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 third quarter, these expenditures will garner benefits for Cominar over their estimated useful life which extends into the coming years.

Finally, \$5.0 million (\$3.5 million in 2009) were incurred in the third quarter of 2010 under capitalized leasing costs, including \$1.5 million (\$0.5 million in 2009) in connection with newly acquired properties or properties under development.

DEVELOPMENT PROGRAM

Ongoing development

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.

The construction of phase 1 of the Complexe Jules-Dallaire for a leasable area of 396,000 square feet has been completed and the fitting out of the rental space is on the track. The office space tenants continue to gradually move in. The construction cost is estimated at approximately \$77 million. The capitalization rate is expected to reach 9.2% and the leasing rate of 70% 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 this ongoing development project as at September 30, 2010:

Development	City	Activity segment ⁽¹⁾	Completion date	Leasable area (sq. ft.)	Investment (\$)	Capitalization rate (%)	Lease rate (%)
Complexe Jules-Dallaire	Québec	O, R	Q4-2010	396,000	77,000	9.2	70

(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.

Upcoming Developments

As part of its anticipated development projects, the Trust currently has two development initiatives to be undertaken upon attainment of a pre-leasing rate deemed satisfactory. Such developments represent approximately 313,000 square feet and a \$28.3 million investment, as detailed in the following table:

Development	City	Activity Segment ⁽¹⁾	GLA ⁽²⁾ (sq. ft.)	Investment (\$)	Capitalization rate (%)
Saint-Romuald, phase II	Lévis	I	73,000	5,300	9.2
Place Laval (expansion)	Laval	O	240,000	23,000	9.0
Total/Average Weighted Capitalization Rate			313,000	28,300	9.1

(1) I = Industrial and Mixed-Use, O = Office.

(2) Gross Leasable Area.

The capitalization rates for these developments are based on the estimated costs to complete the projects and the expected rental rates to be achieved. Consequently, the rates currently forecasted could vary based on actual costs and rental rates.

REAL ESTATE OPERATIONS

The following table shows our operational performance indicators as at September 30, 2010, December 31, 2009 and September 30, 2009:

As at March 31	As at September 30, 2010	As at December 31, 2009	As at September 30, 2009
Occupancy rate	93.7%	93.5%	93.8%
Tenant retention rate ⁽¹⁾	76.2%	72.0%	59.4%

(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 September 30, 2010, occupancy stood at 93.7%, up from 92.7% at the end of the first quarter of 2010. The decline in the overall occupancy rate noted in the beginning of the year has been corrected, with an upward trend to return to rates approximating the historical annual average of the REIT. In fact, the results are encouraging given our more proactive approach adopted in the course of our leasing operations since the beginning of the year combined with the growing demand for industrial rental space in the Montréal area. However, the context remains difficult regarding office space leasing in downtown Montréal. We are confident to see more positive effects during the next quarters. Furthermore, as at September 30, 2010, 76.2% of leases maturing in 2010 have already been renewed, that is a level of renewal representing our annual average.

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 September 30, 2010:

	September 30, 2010	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006
Activity segment (%)					
Office	94.7	94.1	94.5	94.7	96.0
Retail	95.3	96.3	97.1	96.0	94.3
Industrial and mixed-use	92.8	92.5	94.0	94.4	93.7
Portfolio total	93.7	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 September 30, 2010:

Lease Maturities and Renewals by Activity Segment

	Office	Retail	Industrial and mixed-use	Total
Leases maturing in 2010				
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
Renewed leases				
Number of tenants	168	99	140	407
Leasable area (sq. ft.)	714,000	223,000	1,397,000	2,334,000
Average net rent (\$)/sq. ft.	10.28	11.00	5.31	7.38
Renewal%	87.2	68.0	73.0	76.2
New leases				
Number of tenants	78	44	68	190
Leasable area (sq. ft.)	269,000	162,000	573,000	1,004,000
Average net rent (\$)/sq. ft.	15.99	8.34	5.46	8.74

As indicated in the table above, leasing activity has reached an acceptable level across our portfolio since the beginning of 2010, with 76.2% of maturing leases renewed as at September 30, 2010. We also signed new leases for a total leasable area of 1.0 million square feet. Lease renewal rates rose 5.2% overall. Our three activity segments posted increases in lease renewal rates: 7.3% (office), 6.4% (retail) and 2.0% (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
Office					
Leasable area (sq. ft.)	807,000	1,039,000	581,000	800,000	696,000
Lease rate (\$)/square foot	11.07	10.64	11.59	10.66	14.22
% of portfolio – Office	13.8%	17.8%	10.0%	13.7%	11.9%
Retail					
Leasable area (sq. ft.)	426,000	399,000	236,000	190,000	305,000
Lease rate (\$)/square foot	9.11	10.39	12.76	12.28	11.10
% of portfolio – Retail	13.9%	13.0%	7.7%	6.2%	10.0%
Industrial and mixed-use					
Leasable area (sq. ft.)	1,795,000	1,839,000	1,196,000	1,273,000	1,625,000
Lease rate (\$)/square foot	5.75	6.30	6.24	5.82	5.76
% of portfolio – Industrial and mixed-use	16.9%	17.3%	11.3%	12.0%	15.3%
Portfolio total					
Leasable area (sq. ft.)	3,028,000	3,277,000	2,013,000	2,263,000	2,626,000
Lease rate (\$)/square foot	7.64	8.18	8.55	8.07	8.63
% of portfolio	15.5%	16.8%	10.3%	11.6%	13.4%

The following table summarizes information about leases as at September 30, 2010:

	Average remaining lease term (years)	Average leased area per tenant (sq. ft.)	Average net rent/ sq. ft. (\$)
Office	3.9	5,400	11.68
Retail	4.8	3,600	11.08
Industrial and mixed-use	3.7	10,700	5.79
Portfolio average	3.9	6,600	8.45

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 6.0%, 4.4% and 4.2% 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 10.4% 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	6.0	747,000
Société immobilière du Québec	4.4	1,043,000
Ericsson Canada Inc.	4.2	402,000
Bertrand distributeur en alimentation (Colabor)	1.5	345,000
LDC Logistics Development Corp.	1.4	527,000
Hudson's Bay Company	1.2	349,000
SITA (Société internationale de télécommunication aéronautique)	0.9	66,000
National Bank of Canada	0.8	132,000
Equant Canada Inc. (Orange Business)	0.8	56,000
Amcor PET Packaging Canada Ltd.	0.7	162,000
Total	21.9	3,829,000

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 periods ended September 30, 2010 and 2009:

For the periods ended September 30,	Quarter		Cumulative (9 months)	
	2010	2009	2010	2009
Units issued and outstanding, beginning of period	61,663,397	50,695,936	54,758,271	45,852,175
+ Units issued under a public offering	—	3,783,500	6,021,400	8,575,550
+ Units issued on exercise of options	498,650	132,800	1,078,650	141,800
+ Units issued under distribution reinvestment plan	40,707	21,552	92,603	64,263
+ Units issued on conversion of convertible debentures	59,422	16,724	157,752	16,724
+ Units issued under the at-the-market equity distribution agreement	—	—	153,500	—
Units issued and outstanding, end of period	62,262,176	54,650,512	62,262,176	54,650,512

On April 7, 2010, Cominar issued 6,021,400 units at a unit price of \$19.10 for total gross proceeds of \$115.0 million.

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:

For the periods ended September 30,	Quarter		Cumulative (9 months)	
	2010	2009	2010	2009
Weighted average number of units outstanding, basic	61,834,180	54,203,613	59,256,334	49,922,882
Dilutive effect of unit options	326,640	246,371	321,495	112,191
Weighted average number of units outstanding, diluted	62,160,820	54,449,984	59,577,829	50,035,073
Dilutive effect of convertible debentures	17,478,828	9,077,641	17,389,228	8,748,927
Weighted average number of units outstanding, fully diluted	79,639,648	63,527,625	76,967,057	58,784,000

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 third quarter of 2010, Cominar recorded \$0.2 million in net rental income from Dalcon and CFA. The Trust incurred costs of \$3.3 million for leasehold improvements performed by Dalcon on its behalf and costs of \$4.2 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%
Total	100.00%	100.00%

TAX DEFERRAL ON 2010 DISTRIBUTIONS

Management estimates that about 70% 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

The upturn in the total occupancy rate that is being confirmed, the acquisitions made since the beginning of 2010 and the REIT's financial position, shall have a positive effect on the results of the current fiscal year. The REIT's growth is sustained through a disciplined and effective business management. The REIT's management is constantly exploring opportunities for acquisitions and developments in line with its criteria and allowing for stability and growing profitability on a long-term basis.

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 Auditor 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 September 30, 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 September 30, 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 third 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 exists when the carrying amount of an asset is greater than its expected future net undiscounted cash flows from use together with its residual value. If an asset is considered to be impaired, the impairment amount to be recognized is determined as the excess of the carrying amount of the asset over its 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 loss 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 after discussion with the external auditors, 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 have been brought or are being developed. Work is proceeding according to schedule.

During the third quarter of fiscal 2010, Cominar implemented the following steps of its IFRS transition plan.

Development of a strategy for measuring investment properties

Cominar has completed the setting up of its investment property measurement process. An internal team of chartered business valuers has designed a measurement model and has finalized the collection of information required to measure immovable properties as at January 1, 2010. This team is responsible for updating the fair value of such properties periodically taking into account any significant change to the physical condition of immovable properties or any important variation in occupancy rates, rental terms and conditions, net operating income, applicable capitalization rates and other market conditions. In the course of its work, the team uses its thorough knowledge of real estate markets while considering the conclusions from various external appraisal reports carried out on the REIT's behalf in connection with its income property acquisition and financing activities.

Preparation of the opening balance sheet

Cominar's IFRS transition date is January 1, 2010, being the opening date of the first comparative period in the financial statements. Therefore the Trust has prepared its opening balance sheet at that date by applying currently effective IFRSs as if they had always been applied. In preparing its opening balance sheet, Cominar has applied IFRS1, First-time Adoption of International Financial Reporting Standards, and has specifically elected to use the exemption for business combinations. Consequently, the business combinations that occurred before the date of transition have not been restated.

Restatement of interim financial statements

Cominar has continued implementing a parallel data collection and accounting information restatement in line with the selected accounting positions. Restatements of financial statements and financial information appearing in the Q1 and Q2 MD&As have been made. In-place systems will continue to be tested until the end of the current fiscal year. Cominar is currently finalizing the evaluation of internal controls related to the production of such information.

Analysis of quantitative and qualitative effects of IFRSs

Although management has already selected and approved most of accounting positions and changes required to produce financial information in accordance with IFRSs, there are still uncertainties regarding the application of certain standards. In addition, changeover to IFRS is an ongoing process since the International Accounting Standards Board issues new standards and recommendations on a regular basis. Therefore, Cominar still continues to assess the impact of the application of those standards.

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 in order to record them on the balance sheet. 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.

- **Summary of the impact of the adoption of IFRS on investment property**

Cominar mainly used the direct capitalization method for measuring its income properties. The applied capitalization rates varied from 6.5% to 10.0%, resulting in a total average weighted rate of 7.8% for our portfolio. Cominar expects the carrying amount of its income properties to increase by \$410 million, from \$1.6 billion under GAAP to \$ 2 billion under IFRS, representing nearly 25.9% at the date of conversion on January 1, 2010. Total assets are expected to increase from \$1.8 billion to approximately \$2.2 billion at the same date, the corresponding adjustment being recognized in the unitholders' equity opening balance. Cominar's overall debt ratio is expected to decrease to 55.9% on January 1st, 2010 according to IFRS data compared to 60.1%, as previously reported under GAAP for the same date, representing a 4.2% decrease.

The following table breaks down the average capitalization rates used and the range of rates by activity segment and geographic area:

	Québec	Montréal	Ottawa	Total
Office	7.4%	7.5%	6.5%	7.4%
Retail	8.0%	7.8%	8.0%	7.9%
Industrial and mixed-use	8.3%	8.3%		8.3%
	7.8%	7.8%	6.7%	7.8%

	Québec	Montréal	Ottawa	Total
Office	7.3% - 8.0%	6.8% - 8.8%	6.5% - 6.8%	6.5% - 8.8%
Retail	7.3% - 9.0%	7.0% - 8.5%	8.0%	7.0% - 9.0%
Industrial and mixed-use	7.8% - 10.0%	7.8% - 9.3%		7.8% - 10.0%
	7.3% - 10.0%	6.8% - 9.3%	6.5% - 8.0%	6.5% - 10.0%

- **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 and its interpretation by the Canadian accounting professionals, Trust units may be treated under IFRS as liabilities rather than as equity as they currently are under GAAP. For IFRS purposes, a liability exists when a financial instrument contains a contractual obligation to deliver cash or another financial asset to another entity. A Trust unit is deemed a financial instrument under both IFRS and GAAP. Consequently, at the Annual and Special Meeting of Unitholders held on May 18, 2010, the Trust's unitholders adopted the desired amendments to the Contract of Trust, namely the amendments providing for the elimination of the Trust's requirement to distribute at least 85% of distributable income and all of its taxable income. The implementation of these amendments will 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 the REIT will be permitted not to recognize income taxes for the period as well as future income taxes if the trust meets the criteria required to qualify for the REIT exemption. Future income taxes result from temporary differences between the carrying amounts and tax bases of the trust's assets and liabilities.

- **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.

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) 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. At the maturity of its operating and acquisition credit facilities in June, the REIT concluded new credit facility arrangements for a maximum amount of \$131.2 million, renewable annually. Approximately \$25.7 million of the REIT's secured debt matures by the end of 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, 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 September 30, 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

Unaudited
September 30, 2010

CONSOLIDATED BALANCE SHEETS

[unaudited, in thousands of dollars]

	As at September 30, 2010 \$	As at December 31, 2009 \$
ASSETS		
Income properties <i>[notes 4, 5, 9 and 11]</i>		
Buildings	1,354,674	1,282,447
Land	240,201	229,266
Intangible assets	67,117	70,118
	1,661,992	1,581,831
Properties under development <i>[note 6]</i>	118,379	113,608
Land held for future development <i>[note 6]</i>	50,369	61,046
Land held for sale <i>[note 24]</i>	34,271	—
Goodwill <i>[note 4]</i>	10,065	—
Capitalized leasing assets and other assets <i>[note 7]</i>	53,250	50,706
Prepaid expenses	14,634	2,428
Accounts receivable <i>[note 8]</i>	33,235	26,327
	1,976,195	1,835,946
LIABILITIES		
Mortgages payable <i>[note 9]</i>	810,802	771,991
Convertible debentures <i>[note 10]</i>	395,509	313,620
Bank loans <i>[note 11]</i>	45,535	134,809
Accounts payable and accrued liabilities	30,095	32,035
Future income tax liability <i>[notes 4 and 13]</i>	6,576	—
Distributions payable to unitholders	7,471	—
	1,295,988	1,252,455
UNITHOLDERS' EQUITY		
Unitholders' equity	680,207	583,491
	1,976,195	1,835,946

See accompanying notes to interim consolidated financial statements

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

For the periods ended September 30
[unaudited, in thousands of dollars]

	Quarter		Cumulative (nine months)	
	2010 \$	2009 \$	2010 \$	2009 \$
Unitholders' contributions [note 12]				
Balance, beginning of period	839,831	656,489	715,593	600,965
Issue of units	10,326	60,049	139,645	118,275
Unit issue expenses	—	(2,504)	(5,081)	(5,206)
Balance, end of period	850,157	714,034	850,157	714,034
Cumulative net income				
Balance, beginning of period	317,712	284,156	301,411	272,399
Net income	10,033	8,860	26,334	20,617
Balance, end of period	327,745	293,016	327,745	293,016
Cumulative distributions				
Balance, beginning of period	(478,976)	(397,601)	(436,971)	(362,817)
Distributions to unitholders [note 15]	(22,371)	(19,655)	(64,376)	(54,439)
Balance, end of period	(501,347)	(417,256)	(501,347)	(417,256)
Contributed surplus				
Balance, beginning of period	1,828	1,392	1,569	1,069
Unit option plan	(65)	83	194	406
Balance, end of period	1,763	1,475	1,763	1,475
Equity component of convertible debentures [note 10]				
Balance, beginning and end of period	1,889	1,889	1,889	1,889
Total unitholders' equity	680,207	593,158	680,207	593,158

See accompanying notes to interim consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the periods ended September 30
[unaudited, in thousands of dollars except per unit amounts]

	Quarter		Cumulative (nine months)	
	2010 \$	2009 \$	2010 \$	2009 \$
Operating revenues				
Rental revenue from income properties	69,432	63,133	212,147	198,373
Operating expenses				
Operating costs	12,084	11,015	38,239	37,659
Realty taxes and services	13,870	11,922	48,109	42,564
Property management expenses	1,129	901	3,076	2,624
	27,083	23,838	89,424	82,847
Operating income before the undernoted	42,349	39,295	122,723	115,526
Interest on borrowings	14,025	13,284	41,968	42,513
Depreciation of income properties	13,994	13,609	42,310	41,559
Amortization of capitalized leasing costs	2,890	2,498	8,335	7,485
Amortization of other assets	106	108	310	290
Trust administrative expenses	1,370	980	3,827	3,234
Other revenues	(48)	(44)	(275)	(172)
Income before income taxes	10,012	8,860	26,248	20,617
Future income tax benefit	21	—	86	—
Net income and comprehensive income	10,033	8,860	26,334	20,617
Basic net income per unit [note 14]	0.162	0.163	0.444	0.413
Diluted net income per unit [note 14]	0.161	0.163	0.442	0.412

See accompanying notes to interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended September 30
[unaudited, in thousands of dollars]

	Quarter		Cumulative (nine months)	
	2010	2009	2010	2009
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net income	10,033	8,860	26,334	20,617
Adjustments for:				
Depreciation of income properties	13,994	13,609	42,310	41,559
Amortization of below-market leases	(230)	(193)	(671)	(572)
Amortization of capitalized leasing costs	2,890	2,498	8,335	7,485
Amortization of capitalized financing costs and other assets	898	836	2,794	2,344
Amortization of fair value adjustments on assumed indebtedness	(133)	(30)	(296)	(92)
Accretion of liability component of convertible debentures	56	10	168	30
Compensation expense related to unit options	221	109	664	432
Future income tax benefit	(21)	—	(86)	—
	27,708	25,699	79,552	71,803
Change in non-cash working capital items <i>[note 17]</i>	8,548	8,299	(15,518)	(14,804)
	36,256	33,998	64,034	56,999
INVESTING ACTIVITIES				
Business combination <i>[note 4]</i>	(298)	—	(28,923)	—
Additions to income properties <i>[note 5]</i>	(16,115)	(3,486)	(29,495)	(34,507)
Net proceeds from disposal of share in a property held in co-ownership <i>[note 18]</i>	—	—	—	2,015
Additions to properties under development and land held for future development <i>[note 6]</i>	(8,610)	(19,195)	(54,540)	(70,724)
Capitalized leasing costs	(4,977)	(3,520)	(13,223)	(12,408)
Other assets	(188)	(269)	(542)	(495)
	(30,188)	(26,470)	(126,723)	(116,119)
FINANCING ACTIVITIES				
Mortgages payable	16,444	(89)	30,652	94,073
Repayment of mortgages payable	(23,342)	(5,174)	(35,408)	(61,583)
Net proceeds from issue of convertible debentures	(14)	110,662	82,695	110,662
Bank indebtedness	14,138	(150,973)	(89,694)	(148,902)
Net proceeds from issue of units <i>[note 12]</i>	8,203	56,870	129,561	111,799
Distributions to unitholders	(21,497)	(18,824)	(55,117)	(46,929)
	(6,068)	(7,528)	62,689	59,120
Net change in cash and cash equivalents	—	—	—	—
Cash and cash equivalents, beginning of period	—	—	—	—
Cash and cash equivalents, end of period	—	—	—	—

See accompanying notes to interim consolidated financial statements

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended September 30, 2010 and 2009
[unaudited, in thousands of dollars except per unit amounts]

1) DESCRIPTION OF THE TRUST

Cominar Real Estate Investment Trust ("Cominar", the "REIT" 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) FUTURE ACCOUNTING CHANGES

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 September 30, 2010. Conversion to IFRS is an ongoing process as new standards and recommendations are issued by the International Accounting Standards Board on a regular basis. 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 the property it co-owns.

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 and business combination purchase price allocations, the fair value measurement of unit purchase options, the allocation of components on issuance of convertible debentures, the determination of the allowance for doubtful accounts and future income tax estimates. 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 in income 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, respectively.

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 a reporting 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 the 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 exists when the carrying amount of an amortizable long-lived asset is greater than its expected future net undiscounted cash flows from use together with its residual value. If an asset is considered to be impaired, the impairment amount to be recognized is determined as the excess of the carrying amount of the asset over 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 tested for impairment on an annual basis 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's subsidiaries use the liability method to account for future income taxes. The net future income tax liability represents the cumulative amount of taxes applicable to temporary differences between the reported carrying amounts and tax bases of the assets and liabilities. Future income taxes are measured at the tax rates expected to apply in the future as temporary differences reverse. 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, accounts payable and accrued liabilities and distributions payable to unitholders are classified as "Other Financial Liabilities." They are initially measured at fair value. Subsequently, they are measured at amortized cost using the effective interest method.

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. The Trust 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 combination 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 Atlantic provinces.

A consideration of \$31,790, or \$28,923, net of cash acquired of \$2,867, was paid for this acquisition. The total consideration includes acquisition-related costs estimated at \$685.

Acquisition of income properties in 2010

On April 9, 2010, Cominar acquired an industrial and mixed-use building, with 31,000 square feet of leasable area, located in Brossard, Québec, for a purchase price of \$5,600 paid cash.

On July 29, 2010, Cominar acquired an office building, with 90,000 square feet of leasable area, located in Brossard, Québec, for a purchase price of \$13,000 paid cash.

These transactions were accounted for using the purchase method. The results of operations of the enterprise and 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:

	Business combination	Acquisition of income properties	Total 2010 \$
Income properties			
Buildings	54,992	13,373	68,365
Land	7,520	2,851	10,371
Intangible assets			
In-place operating leases	5,288	1,775	7,063
Client relationships	3,330	601	3,931
	71,130	18,600	89,730
Prepaid expenses and other assets	1,898	—	1,898
Accounts receivable	1,574	—	1,574
Mortgages payable	(43,572)	—	(43,572)
Accounts payable and accrued liabilities	(5,510)	—	(5,510)
Future income tax liability	(6,662)	—	(6,662)
Net identifiable assets acquired	18,858	18,600	37,458
Goodwill	10,065	—	10,065
Purchase price, less cash acquired	28,923	18,600	47,523

Purchase price allocations at fair value of the net assets acquired since the beginning of the year have not yet all been finalized and remain subject to change.

Additions to income properties in 2009

On January 16, 2009, Cominar acquired a 227,000 square-foot office building in Montréal, Québec, for a purchase price of \$38,315, consisting of \$13,521 for the assumption of a mortgage payable and \$24,794 in cash.

On December 21, 2009, Cominar acquired a mega-shopping centre consisting of ten income properties, with 253,000 square feet of leasable area, located in Laval, Québec, for a purchase price of \$53,300 paid cash.

These transactions were accounted for using the purchase method.

The following table shows the net assets acquired:

	2009 \$
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 consolidated financial statements from their acquisition date.

5) INCOME PROPERTIES

	As at September 30, 2010		
	Cost \$	Accumulated depreciation \$	Amortized cost \$
Buildings	1,524,668	169,994	1,354,674
Land	240,201	—	240,201
Intangible assets			
In-place operating leases	95,791	55,398	40,393
Client relationships	35,849	9,941	25,908
Acquired leasehold improvements	3,099	2,283	816
	134,739	67,622	67,117
	1,899,608	237,616	1,661,992

	As at December 31, 2009		
	Cost \$	Accumulated depreciation \$	Amortized cost \$
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 first nine months of 2010, 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 September 30, 2010, outlays related to these investments totalled \$10,895 [\$9,713 in 2009].

6) PROPERTIES UNDER DEVELOPMENT AND LAND HELD FOR FUTURE DEVELOPMENT

During the first nine months of 2010, Cominar capitalized \$12,436 [\$4,967 in 2009] in interest to properties under development and land held for future development. During the same period, Cominar pursued its property development and land acquisition for future development activities, with outlays totalling \$42,104 [\$65,757 in 2009]. The projects underway as at September 30, 2010 will comprise estimated construction costs of over \$1,500 during the coming periods, assuming work proceeds according to plan.

7) CAPITALIZED LEASING COSTS AND OTHER ASSETS

	As at September 30, 2010 \$	As at December 31, 2009 \$
At amortized cost		
Capitalized leasing costs	50,549	48,237
Other assets	2,701	2,469
	53,250	50,706

8) ACCOUNTS RECEIVABLE

	As at September 30, 2010 \$	As at December 31, 2009 \$
Trade receivables	17,158	10,780
Trade receivables – recognition of leases on a straight-line basis	14,541	12,754
Other receivables bearing interest at a weighted effective tax rate of 6.44% as at September 30, 2010 [7.35% as at December 31, 2009]	410	1,848
Deposits in advance of work to be performed	1,126	945
	33,235	26,327

9) MORTGAGES PAYABLE

Mortgages payable are secured by immovable hypothecs on income properties having a net carrying amount of \$1,175,466 [\$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 contractual rate of 5.42% as at September 30, 2010 [5.26% as at December 31, 2009] and are renewable at various dates between December 2010 and March 2022. As at September 30, 2010, the weighted average effective rate was 5.39% [5.26% as at December 31, 2009]. Some mortgages payable contain restrictive covenants that were met as at September 30, 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:

Periods ending December 31	As at September 30, 2010			As at December 31, 2009
	Repayment of principal \$	Balance at maturity \$	Total \$	Total \$
2010	5,698	25,699	31,397	
2011	22,939	5,855	28,794	
2012	23,161	22,951	46,112	
2013	21,508	162,106	183,614	
2014	14,610	75,819	90,429	
2015 and thereafter	59,417	371,272	430,689	
	147,333	663,702	811,035	773,391
Plus: fair value adjustments on assumed mortgages			1,430	215
Less: unamortized financing costs			(1,465)	(1,615)
Less: net debt reduction			(198)	—
			810,802	771,991

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

Mortgages payable

	As at September 30, 2010		As at December 31, 2009	
	Weighted average contractual interest \$	rate (%)	Weighted average contractual interest \$	rate (%)
Balance of mortgages payable, beginning of period	773,391	5.26	732,293	5.58
Mortgages payable contracted or assumed	133,652	5.46	108,021	4.88
Repayments of balances at maturity	(79,346)	4.52	(47,064)	5.53
Monthly repayments of principal	(16,662)		(19,859)	
Balance of mortgages payable, end of period	811,035	5.42	773,391	5.26

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 September 30, 2010						As at December 31, 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 & December 31	June 30 & December 31	March 31 & September 30	March 31 & September 30	June 30 & 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	(2,745)	—	—	—	—	(2,745)	(495)
Balance, end of period	19,395	80,500	110,000	115,000	86,250	411,145	327,640
Less: equity component						(1,592)	(1,760)
Less: unamortized financing costs						(14,044)	(12,260)
						395,509	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 nine months of 2010, 2,745 Series A convertible debentures [291 in 2009] were converted into 157,752 units [16,724 in 2009] at a conversion price of \$17.40 per unit, for a total of \$2,745 [\$291 in 2009].

11) BANK INDEBTEDNESS

Cominar has two operating and acquisition credit facilities of up to \$131,210 [\$255,000 as at December 31, 2009]. These credit facilities, subject to annual renewal, bear interest at prime plus 1.5% [2.00% in 2009] or at the bankers' acceptance rate plus 2.5% [3.00% in 2009]. These credit facilities are secured by movable and immovable hypothecs on specific assets, including the carrying amount of immovable property totalling \$198,416 as at September 30, 2010 [\$273,530 as at December 31, 2009]. As at September 30, 2010, the prime rate was 3.00% [2.25% as at December 31, 2009]. These credit facilities contain certain covenants which were met throughout the period ended September 30, 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 nine months of 2010, Cominar issued 7,503,905 units [8,798,337 in 2009]. The issuance of these units resulted in net proceeds of \$129,561 [\$111,799 in 2009].

The following table shows the change in balances during the periods ended September 30:

Three-month periods ended September 30	2010		2009	
	Units	\$	Units	\$
Units issued and outstanding, beginning of period	61,663,397	839,831	50,695,936	656,489
Units issued under a public offering	—	—	3,783,500	55,005
Units issued on exercise of options	498,650	8,203	132,800	1,865
Units issued under distribution reinvestment plan	40,707	802	21,552	357
Units issued on conversion of convertible debentures	59,422	1,034	16,724	291
Reversal of contributed surplus on exercise of options	—	287	—	27
Units issued and outstanding, end of period	62,262,176	850,157	54,650,512	714,034

Nine-month periods ended September 30	2010		2009	
	Units	\$	Units	\$
Units issued and outstanding, beginning of period	54,758,271	715,593	45,852,175	600,965
Units issued under a public offering	6,021,400	110,134	8,575,550	109,808
Units issued on exercise of options	1,078,650	16,671	141,800	1,991
Units issued under distribution reinvestment plan	92,603	1,787	64,263	952
Units issued on conversion of convertible debentures	157,752	2,745	16,724	291
Units issued under the at-the-market equity distribution agreement	153,500	2,756	—	—
Reversal of contributed surplus on exercise of options	—	471	—	27
Units issued and outstanding, end of period	62,262,176	850,157	54,650,512	714,034

Unit option plan

Cominar has granted options to management and employees for the purchase of units under a unit option plan. A maximum of 5,520,684 units may be issued under the plan. As at September 30, 2010, options to purchase 3,051,250 units were outstanding.

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

Date of grant	Acquisition vesting method	As at September 30, 2010			
		Maturity date	Exercise price \$	Outstanding options	Exercisable options
November 13, 2003	20%	November 13, 2010	14.00	70,000	70,000
May 23, 2006	20%	May 23, 2013	18.90	305,700	221,700
May 15, 2007	50%	May 15, 2014	23.59	30,000	30,000
February 6, 2008	33 1/3%	February 6, 2013	18.68	688,300	412,400
December 19, 2008	33 1/3%	December 19, 2013	15.14	858,650	171,450
December 21, 2009	33 1/3%	December 21, 2014	19.48	1,098,600	—
				3,051,250	905,550

The following table shows the change in balances of outstanding options during the periods ended September 30:

Three-month periods ended September 30	2010		2009	
	Options	Weighted average exercise price \$	Options	Weighted average exercise price \$
Outstanding, beginning of period	3,595,300	17.74	3,357,100	16.42
Exercised	(498,650)	16.48	(132,800)	14.06
Cancelled	(45,400)	18.38	(74,700)	18.58
Outstanding, end of period	3,051,250	17.93	3,149,600	16.46

Nine-month periods ended September 30	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	(1,078,650)	15.47	(141,800)	14.05
Cancelled	(96,900)	18.48	(213,300)	17.81
Outstanding, end of period	3,051,250	17.93	3,149,600	16.46
Exercisable options, end of period	905,550	17.86	1 338 800	16.25

Unit-based compensation

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

Date of grant	Volatility	Exercise price \$ ⁽¹⁾	Weighted average return	Weighted average risk-free interest rate
November 13, 2003	11.70%	14.00	8.74%	4.21%
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 nine-month period ended September 30, 2010, 92,603 units [64,263 units in 2009] were issued for a total consideration of \$1,787 [\$952 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 September 30, 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 takes 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.

Cominar’s subsidiaries are subject to tax on their taxable income under the Income Tax Act (Canada) and Taxation Act of the provinces concerned. No provision for income taxes payable is required for the nine-month period ended September 30, 2010.

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

	As at September 30, 2010	As at December 31, 2009
Future income tax liability		
Income properties	7,054	—
Mortgages payable	(478)	—
	6,576	—

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.

Periods ended September 30	Quarter		Cumulative (nine months)	
	2010	2009	2010	2009
Weighted average number of units outstanding – basic	61,834,180	54,203,613	59,256,334	49,922,882
Dilutive effect of unit options	326,640	246,371	321,495	112,191
Weighted average number of units outstanding – diluted	62,160,820	54,449,984	59,577,829	50,035,073

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 a straight-line basis, gains or losses on disposals of income properties, amortization of fair value adjustments on assumed mortgages payable and future income taxes.

Periods ended September 30	Quarter		Cumulative (nine months)	
	2010	2009	2010	2009
Distributions to unitholders	22,371	19,655	64,376	54,439
Distributions per unit	0.360	0.360	1.080	1.080

16) OWNERSHIP INTEREST 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 the Complexe Jules-Dallaire, a property currently under construction [note 18]. As at September 30, 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:

	September 30, 2010	December 31, 2009
	\$	\$
Assets	109,565	82,366
Liabilities	2,452	4,032

17) SUPPLEMENTAL CASH FLOW INFORMATION

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

Periods ended September 30	Quarter		Cumulative (nine months)	
	2010 \$	2009 \$	2010 \$	2009 \$
Change in non-cash working capital items				
Prepaid expenses	9,444	9,148	(10,307)	(9,742)
Accounts receivable	(1,022)	259	(5,334)	(4,503)
Accounts payable and accrued liabilities	126	(1,108)	123	(559)
	8,548	8,299	(15,518)	(14,804)
Other information				
Interest paid	18,016	17,746	52,682	44,998
Unpaid leasing costs	258	1,368	258	1,368
Additions to income properties and properties under development through assumption of liabilities	—	—	—	13,521
Unpaid additions to income properties and properties under development	433	5,454	433	5,454
Income properties transferred to properties under development	—	—	—	11,248
Properties under development transferred to income properties	22,010	—	22,010	—

18) RELATED PARTY TRANSACTIONS

During the first nine months 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:

Periods ended September 30	Quarter		Cumulative (nine months)	
	2010 \$	2009 \$	2010 \$	2009 \$
Rental revenue from income properties	150	130	451	413
Income properties and properties under development	4,201	16,515	25,260	41,696
Capitalized leasing costs and other assets	3,318	3,183	6,401	11,380
Accounts receivable	—	—	366	284
Accounts payable and accrued liabilities	—	—	437	5,887

On May 4, 2009, Cominar sold a 5% undivided ownership interest in the Complexe Jules-Dallaire to a company owned indirectly by the Dallaire family for a purchase price of \$2,015, reflecting 5% of investments made to date by Cominar in the Complexe. This company has continued to pay its share since that date. The REIT 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, bank indebtedness 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 September 30, 2010 \$	As at December 31, 2009 \$
Mortgages payable	810,802	771,991
Convertible debentures	395,509	313,620
Bank indebtedness	45,535	134,809
Unitholders' equity	680,207	583,491
Total capital	1,932,053	1,803,911
Overall debt ratio ⁽¹⁾	56.5%	60.1%
Debt ratio (excluding convertible debentures)	38.7%	44.6%
Interest coverage ratio ⁽²⁾	2.80 ⁽³⁾	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 September 30, 2010, Cominar maintained a debt ratio of 56.5%, 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 September 30, 2010, the annualized interest coverage ratio was 2.80:1, 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 September 30, 2010		As at December 31, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
FINANCIAL ASSETS				
Held for trading				
Cash and cash equivalents	—	—	—	—
Loans and receivables				
Accounts receivable ⁽¹⁾	18,694	18,694	13,573	13,573
Total financial assets	18,694	18,694	13,573	13,573
FINANCIAL LIABILITIES				
Other financial liabilities				
Mortgages payable ⁽²⁾	810,837	853,135	773,391	751,748
Convertible debentures ⁽²⁾	411,145	432,485	327,640	326,020
Bank indebtedness	45,535	45,535	134,809	134,809
Accounts payable and accrued liabilities ⁽³⁾	22,456	22,456	26,417	26,417
Distributions payable to unitholders	7,471	7,471	—	—
Total financial liabilities	1,297,444	1,361,082	1,262,257	1,238,994

(1) Excludes receivables – recognition of leases on a straight-line basis amounting to \$14,541 [\$12,754 in 2009].

(2) Excludes 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, accounts payable and accrued liabilities and distributions payable to unitholders approximated the carrying value as at September 30, 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 with similar terms and maturities.

The fair value of convertible debentures was estimated using current market rates for debt instruments 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 segment 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 \$77 increase or decrease in Cominar's net income for the nine-month period ended September 30, 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 September 30, 2010 are as follows:

	Carrying amount	Maturity		
		Under one year	One to five years	Over five years
Mortgages payable ⁽¹⁾ [note 9]	810,837	48,537	437,060	325,240
Convertible debentures ⁽¹⁾ [note 10]	411,145	—	209,895	201,250
Bank indebtedness [note 11]	45,535	45,535	—	—
Accounts payable and accrued liabilities ⁽²⁾	22,456	22,168	288	—
Distributions payable to unitholders	7,471	7,471	—	—
Total financial liabilities	1,297,444	123,711	647,243	526,490

(1) Excludes 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) SEGMENT INFORMATION

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

	Office properties \$	Retail properties \$	Industrial and mixed-use properties \$	Total \$
Three-month period ended September 30, 2010				
Rental revenue from income properties	32,691	14,847	21,894	69,432
Depreciation of income properties	7,623	2,216	4,155	13,994
Net operating income ⁽¹⁾	18,826	8,828	14,695	42,349

	Office properties \$	Retail properties \$	Industrial and mixed-use properties \$	Total \$
Three-month period ended September 30, 2009				
Rental revenue from income properties	30,885	12,111	20,137	63,133
Depreciation of income properties	7,635	1,580	4,394	13,609
Net operating income ⁽¹⁾	18,342	7,264	13,689	39,295

	Office properties \$	Retail properties \$	Industrial and mixed-use properties \$	Total \$
Nine-month period ended September 30, 2010				
Rental revenue from income properties	100,159	44,209	67,779	212,147
Depreciation of income properties	23,115	6,537	12,658	42,310
Net operating income ⁽¹⁾	55,754	25,488	41,481	122,723
Income properties (amortized cost)	800,376	322,880	538,656	1,661,912

	Office properties \$	Retail properties \$	Industrial and mixed-use properties \$	Total \$
Nine-month period ended September 30, 2009				
Rental revenue from income properties	96,760	36,220	65,393	198,373
Depreciation of income properties	23,074	4,718	13,767	41,559
Net operating income ⁽¹⁾	54,789	20,923	39,814	115,526
Income properties (amortized cost)	755,272	237,464	511,911	1,504,647

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

22) CONTINGENCY

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 \$30,000 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.

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 \$58,509, are as follows:

Periods ending December 31	Total \$
2010	129
2011	512
2012	547
2013	547
2014	547
2015 and thereafter	25,592

[b] Cominar has undertaken to pay \$1,273 in exchange for work to be performed on land held for future development activities.

24) SUBSEQUENT EVENTS

[a] On October 14, 2010, the REIT acquired an industrial and mixed-use property located in Laval, Quebec with 196,000 square feet of leasable area for a consideration of \$11,850, consisting of \$7,207 for the assumption of a mortgage payable and \$4,643 in cash. The capitalization rate related to this transaction was 9.0%.

[b] On October 31, 2010, the REIT acquired eight industrial and mixed-use properties, of which seven are located in Fredericton and one is located in Moncton, and an office building located in Fredericton, representing a total leasable area of 229,000 square feet, for a consideration of \$15,710, consisting of \$3,810 for the assumption of mortgages payable and \$11,900 in cash. The capitalization rate related to this acquisition is 9.4%.

[c] On October 31, 2010, the REIT acquired an industrial and mixed-use property located in Moncton, New Brunswick, with 38,000 square feet of leasable area and an occupancy rate of 93%, for a consideration of \$2,245 in cash. The capitalization rate related to this acquisition is 9.1%.

[d] On November 5, 2010, the REIT sold land held for future developments in Québec City to a related company for a cash consideration of \$34,271. This transaction has allowed the REIT to optimize its land holdings for future developments while meeting the limitations set forth in its Contract of Trust.

25) COMPARATIVE FIGURES

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

CORPORATE INFORMATION

BOARD OF TRUSTEES

Robert Després, O.C., G.O.Q. ⁽¹⁾⁽³⁾

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

Me Gérard Coulombe, Q.C. ⁽²⁾⁽³⁾

Senior Partner
Lavery De Billy

Alban D'Amours ⁽¹⁾⁽²⁾

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 ⁽¹⁾⁽⁴⁾

President, Matvet Veterinary Equipment inc.

Pierre Gingras ⁽⁴⁾

President, Placements Moras Inc.

Ghislaine Laberge ⁽²⁾⁽⁴⁾

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 - Atlantic provinces

Michel Ouellette, C.App.

Executive Vice President,
Acquisitions and Development

Todd Bechard, CMA, CFA

Vice President, Finance - Atlantic provinces

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

(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

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LISTING

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

TRANSFER AGENT

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Toll free: 1 800 564-6253
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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

PricewaterhouseCoopers LLP

UNITHOLDER DISTRIBUTION REINVESTMENT PLAN

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

For further information about the DRIP, please refer to the DRIP section of our website at www.cominar.com or contact us by email at info@cominar.com or contact the Plan agent: Computershare Trust Company of Canada, 1500 University St., Suite 700, Montréal (QC) Canada, H3A 3S8

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