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Cominar Real Estate Investment Trust

COMINAR

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION

The terms "Cominar", the "REIT", the "Trust", "we", "us" and "our" in the following Management's Discussion and Analysis ("MD&A") refer to Cominar Real Estate Investment Trust. This MD&A is provided to enable a reader to assess our results of operations, financial condition and future prospects for the fiscal year ended December 31, 2006, compared to the preceding year. This MD&A should be read in conjunction with our Consolidated Financial Statements and related notes and is dated March 14, 2007. All amounts are in Canadian dollars and are based on financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

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

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 2007 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 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 business and economic conditions in Canada, 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 tenants, our ability to refinance our debts upon maturity and to lease vacant space, 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 us, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf.

Additional information about these factors can be found in the Risks and Uncertainties section of this MD&A.

NON-GAAP FINANCIAL MEASURES

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", that we use to evaluate our performance. Because non-GAAP measures do not have a standardized meaning and may differ from 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 these financial measures.

OUR MD&A AT-A-GLANCE

For the year ended December 31 (in thousands of dollars, except per-unit amounts)

	2006	2005
FINANCIAL DATA		
Operating revenues	**$131,686**	$121,561
Net operating income	**80,271**	73,644
Recurring net income	**33,794**	31,079
Recurring distributable income	**48,615**	44,749
Recurring funds from operations	**56,209**	51,363
Recurring adjusted funds from operations	**46,246**	41,115
Cash distributions	**42,724**	39,549
Distributable income payout ratio	**87.9%**	88.1%
Debt ratio	**45.6%**	49.0%
Acquisition capacity @ 55% debt level	**177,500**	102,000
Interest coverage ratio	**3.55**	3.50
Total assets	**790,217**	725,582
Per-unit data:		
Recurring distributable income (basic)	**1.41**	1.37
Recurring distributable income (FD) [1]	**1.36**	1.31
Recurring funds from operations (FD) [1]	**1.56**	1.48
Recurring adjusted funds from operations (FD) [1]	**1.30**	1.22
Cash distributions	**1.23**	1.21
OPERATIONAL DATA		
Number of properties	**139**	128
GLA[2] (in thousands of sq. ft.)	**10,190**	9,524
Occupancy rate	**94.4%**	95.3%
Retention rate	**85.6%**	75.4%
Same-property net operating income growth	**3.5%**	2.6%
ACQUISITION/DEVELOPMENT HIGHLIGHTS		
Acquisitions		
Number of properties	**9**	3
GLA[2] (in thousands of sq. ft.)	**586,623**	79,455
Total investment	**44,067**	3,767
Weighted average capitalization rate of acquisitions	**9.0%**	9.6%
Developments completed		
Number of properties	**8**	6
GLA[2] (in thousands of sq. ft.)	**393,506**	322,140
Total investment	**23,200**	24,430
Weighted average capitalization rate of developments completed	**10.3%**	10.7%
Ongoing and upcoming developments		
Number of properties	**7**	11
GLA[2] (in thousands of sq. ft.)	**563,979**	744,285
Total investment	**39,200**	46,650
Weighted average capitalization rate of properties under development	**9.7%**	10.1%

1 Fully diluted

2 Gross leasable area

EXECUTIVE SUMMARY

Cominar Real Estate Investment Trust is an unincorporated closed-end investment trust created in 1998 by a Contract of Trust and governed by the laws of the Province of Quebec. The Trust's units and convertible debentures are publicly traded on the Toronto Stock Exchange (TSX) under the symbols CUF.UN and CUF.DB, respectively.

We are one of the largest owners and managers of commercial properties in the Province of Quebec. We own a high-quality portfolio of 143 properties [(1)] in the Greater Montreal and Quebec City areas totaling over 10.3[(1)] million square feet. Our property portfolio is evenly divided among office buildings, retail properties and industrial and mixed-use buildings. Each sector of activity contributes to Cominar's results in roughly the same proportions.

Through a series of acquisitions, construction projects and developments made since 1998, leasable space in our property portfolio has more than tripled. The gross book value of our real estate assets rose from $244.6 million in 1998 to $735.7 million as at December 31, 2006.

Our asset and property management is internalized and we are a fully integrated, self-managed real estate investment operation. In this way, we are not subject to any third-party management contracts or property management fees, which we believe reduces the potential for conflict between the interests of management and the Trust. This fully internalized management structure ensures the interests of management and employees are aligned with those of unitholders and results in improved financial performance for Cominar.

OBJECTIVES AND BUSINESS STRATEGY

Objectives

Our principal objectives are to deliver to our unitholders growing tax-deferred cash distributions and to increase and maximize unit value through proactive management and the growth of our property portfolio.

Business Strategy

To achieve our objectives, we pursue the following strategy:

Property Portfolio Expansion

In order to increase the leasable space in our property portfolio, we continue to seek opportunities for accretive acquisitions, construction projects and developments more particularly in the Quebec City and Montreal areas. The first criterion we use in evaluating any acquisition or development continues to be the ratio between the acquisition/development price, the related debt and the anticipated profitability of the project in question, in the short and long term.

We maintain a conservative growth strategy, based on a very strict selection of properties to be acquired and on the construction and development of quality properties in strategic locations sought by customers.

Proactive Property Management

Commercial real estate is a dynamic investment and requires active and experienced management. We stress keeping our occupancy rates high and seek growth in our lease income to maximize return on investment for unitholders. We also carefully monitor our operating costs to ensure we are delivering services to our tenants both efficiently and cost-effectively. As our portfolio grows, we also strive to capture the available economies of scale and cost synergies.

Sector Diversification

An integral part of our strategy from the beginning has been to aim to maintain an even balance in our property portfolio among the following three sectors of activity: office buildings, retail properties and industrial and mixed-use properties. This diversification of our activities among three types of properties allows us to reduce the risk associated with a given sector and also contributes to steady revenue and income growth.

(1) As at March 14, 2007.

Geographic Diversification

Geographic diversification is also an integral part of our growth strategy. While strengthening our dominant position in the Quebec City area, we have established a major presence in the Montreal area from the outset where we own 54 (1) properties amounting to nearly 4.2 million square feet of leasable space. Like sector diversification, geographic diversification helps us to better mitigate the risks associated with the real estate business.

Prudent Debt Management

Debt management continues to be a decisive factor in growth and stability for a real estate investment trust. Although the Contract of Trust that governs us authorizes a debt ratio of less than or equal to 60% of the gross book value of the portfolio, we try to keep this ratio equal to or less than 55%. We believe that this disciplined policy contributes to the stability of future distributions and prudent growth.

KEY PERFORMANCE INDICATORS

We measure the success of our strategy by a series of performance indicators. The main indicators are as follows:

Operational Performance Indicators

Occupancy

We strive, through our hands-on approach to our business, to maintain high, stable occupancy rates from year to year. As at December 31, 2006, the average occupancy of our property portfolio stood at 94.4%, compared to 95.3% as at December 31, 2005.

Same-Property Net Operating Income

Through our active leasing program, proactive capital investments and rigorous expense management, we also strive to achieve growth in our same property (2) net operating income. Compared to fiscal 2005, our same property NOI increased by 3.5%, with the office sector up 4.9% and the industrial and retail sectors up 3.0% and 1.6%, respectively.

Financial Performance Indicators

Distributable Income, Funds from Operations and Adjusted Funds from Operations

Another important objective is to increase our long-term distributable income, funds from operations and adjusted funds from operations per unit. In fiscal 2006, our recurring distributable income per unit (fully diluted) rose 3.8%, from $1.31 to $1.36 per unit. Recurring funds from operations per unit (fully diluted) have increased by 5.4% compared to 2005, reaching $1.56 per unit, while recurring adjusted funds from operations per unit (fully diluted) were up 6.6%, from $1.22 to $1.30.

Cash Distributions

Our principal objective continues to be to increase distributions to our unitholders. Compared to fiscal 2005, annual distributions per unit rose from $1.21 to $1.23, an increase of 1.7%.

Payout Ratio

In accordance with our Contract of Trust, we are required to distribute each year at least 85% of our distributable income to our unitholders. For the last few years, we have maintained one of the lowest payout ratios of real estate investment trusts in Canada. This conservative approach allows us to retain the funds necessary for expenditures on fixed assets and our leasing objectives. For the fiscal year ended December 31, 2006, our payout ratio was 87.9%, in line with the ratio of previous years.

(1) As at March 14, 2007.
(2) See page 27 for definition.

Debt Ratio

As indicated above, debt management is a decisive factor in the growth and stability of a real estate investment trust. We prefer to have a prudent and disciplined policy and keep our portfolio's debt to gross book value ratio at 55% or less. For the year ended December 31, 2006, our debt ratio was 45.6% compared to 49.0% as at December 31, 2005.

RESULTS OF OPERATIONS

The following table summarizes our results of operations for fiscal 2006 and 2005. It should be read in conjunction with our financial statements.

For the year ended December 31 (in thousands of dollars, except per-unit amounts)

	2006	2005	% Change
Operating revenues	**131,686**	121,561	8.3
Operating expenses			
Operating costs	**25,491**	24,609	3.6
Realty taxes and services	**24,919**	22,065	12.9
Property management expenses	**1,005**	1,243	(19.2)
Total operating expenses	**51,415**	47,917	7.3
Net operating income (1)	**80,271**	73,644	9.0
Interest on borrowings	**22,021**	20,533	7.2
Depreciation of income properties	**16,188**	14,678	10.3
Amortization of deferred leasing costs	**6,139**	5,491	11.8
Amortization of deferred financing costs and other assets	**728**	703	3.7
	45,076	41,405	8.9
Operating income from real estate assets	**35,195**	32,239	9.2
Trust administrative expenses	**2,130**	1,757	21.2
Other revenues	**488**	238	
Unusual item (2)	**554**	—	
Net income from continuing activities	**32,999**	30,720	7.4
Net income from discontinued activities	**1,076**	607	
Net income	**34,075**	31,327	8.8
Net income per unit (basic)	**0.99**	0.96	3.1
Net income per unit (diluted)	**0.98**	0.95	3.2

(1) Net operating income is defined on page 27 of this MD&A.

(2) Cominar incurred non-recurring expenses in the amount of $554 in the first quarter of 2006 in connection with its offer for Alexis Nihon Real Estate Investment Trust.

It should be noted that the amounts reported above for fiscal 2005 have been reduced to remove revenues and any costs related to properties classified as discontinued operations in the fiscal year. The revenues and costs have been included in discontinued operations, consistent with the treatment required under GAAP.

Operating Revenues

Overall, our operations reported strong results in fiscal 2006. The 8.3% increase in operating revenues was mainly the effect of new revenue generated through the acquisition and integration of new properties throughout the year and the strong performance of our existing portfolio.

Approximately 69% of our revenue increase in fiscal 2006 was derived from acquisitions and development of new properties completed in 2006 while 31% came from our existing portfolio. Our existing portfolio (or same property) is defined as all properties owned by Cominar as at December 31, 2004, and, therefore, does not take into account the impact on performance of acquisitions and developments completed during 2005 and 2006.

OPERATING REVENUES

For the year ended December 31 (in thousands of dollars)

	2006	2005	% Change
Same property	**108,992**	105,810	3.0
Acquisitions and developments	**22,694**	15,751	
Total operating revenues	**131,686**	121,561	8.3

Overall, our same-property portfolio performed extremely well during the year with revenue growth of 3.0% compared to fiscal 2005, due to price increases in existing leases and increases in rental rates upon renewal or in new leases, as a result of the high quality of our properties, combined with the sustained growth in our markets.

Operating Expenses

Operating expenses for the year ended December 31, 2006 rose primarily due to the increase in the size of the property portfolio resulting from property acquisitions and developments. As a percentage of total revenues, overall operating expenses were at the exact same level as in fiscal 2005 (39.0% of operating revenues), which attests to our ability to contain our operating expenses.

OPERATING EXPENSES

For the year ended December 31 (in thousands of dollars)

	2006	2005	% Change
Same property	**42,457**	41,501	2.3
Acquisitions and developments	**8,958**	6,416	
Total operating expenses	**51,415**	47,917	7.3

The increase in operating expenses for our existing portfolio is mainly attributable to the rise in property taxes which are recovered from tenants.

Net Operating Income

Although Net Operating Income ("NOI") is not a 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 deferred expenses and other assets, Trust administrative expenses, other revenues and unusual items. It may not, however, be comparable to similar measures presented by other real estate investment trusts or companies.

NOI for fiscal 2006 increased by 9.0% while our NOI margin remained stable at 60.9% of total revenues, slightly above the previous year's and still one of the highest margins among Canadian REITs.

NET OPERATING INCOME

For the year ended December 31 (in thousands of dollars)

	2006	2005	% Change
Same property	**66,535**	64,309	3.5
Acquisitions and developments	**13,736**	9,335	
Total NOI	**80,271**	73,644	9.0
NOI margin	**60.9%**	60.6%	

Same property NOI increased 3.5% compared to fiscal 2005, due mainly to our rigorous management of operating expenses, the rise in rents on lease renewals and rent increases set forth in our existing leases (step-up).

Interest on Borrowings

Interest expense increased by 7.2% in 2006 as a result of new debt associated with the acquisition of properties, offset by a slight decrease in the weighted average interest rate and the conversion of a large number of convertible debentures during the year. However, given the fact that interest in the amount of $1.5 million was capitalized in 2006 versus $1.9 million in 2005, the real increase in interest expense was 4.7%.

INTEREST EXPENSE

For the year ended December 31 (in thousands of dollars)

	2006	2005	% Change
Mortgages and bank indebtedness	**17,382**	14,289	21.6
Convertible debentures	**4,639**	6,244	(25.7)
Total	**22,021**	20,533	7.2
- Capitalized interest	**1,480**	1,907	(22.4)
Total	**23,501**	22,440	4.7

Depreciation of Income Properties

Depreciation expense increased by 10.3% in 2006 due to the growth in our property portfolio.

Amortization of Deferred Expenses and Other Assets

Amortization remained stable in fiscal 2006 and represented 5.2% of operating revenues versus 5.1% the previous year.

Trust Expenses

Trust expenses increased by 21.2% in 2006 compared to 2005 mainly due to higher overall compensation costs as a result of the addition of new staff during the year, and increased compliance and investor relations costs.

Discontinued Operations

In accordance with chapter 3475 of the Canadian Institute of Chartered Accountants ("CICA") Handbook , the results of operations of sold properties must be reported as a distinct component of net income for the fiscal year in which the sale took place as well as for previous fiscal years. Consequently, net income related to two industrial properties sold in 2005 and 2006, respectively, are presented as discontinued operations. The sale, in December 2006, of an industrial and mixed-use property located on Hugues-Randin had a $1.1 million impact on 2006 net income, including a gain of $0.6 million. Net income generated by the property in fiscal 2005 amounted to $0.4 million.

The funds from these disposals will be redeployed and used to acquire or develop additional properties.

Net Income

For comparative purposes, net income for fiscal years 2005 and 2006 presented below has been adjusted to exclude non-recurring items, i.e., gains on sales of real estate assets of $835,000 and $248,000 realized in 2006 and 2005, respectively, and expenses of $554,000 incurred in the first quarter of 2006 in connection with our offer for Alexis Nihon Real Estate Investment Trust.

The following table presents the net income calculations, taking into consideration these adjustments:

NET INCOME

For the year ended December 31 (in thousands of dollars, except per-unit amounts)

	2006	2005 (1)
Net income	**34,075**	31,327
- Gain on sale of real estate assets	**(835)**	(248)
+ Unusual item (2)	**554**	—
Recurring net income	**33,794**	31,079
Recurring net income per unit (basic)	**0.98**	0.95
Recurring net income per unit (diluted)	**0.97**	0.94

(1) Fiscal 2005 information has been reclassified to conform to disclosure requirements of discontinued operations (see note 18 to the Consolidated Financial Statements).

(2) Cominar incurred non-recurring expenses of $554 in the first quarter of 2006 in connection with its offer for Alexis Nihon Real Estate Investment Trust.

SEGMENTED INFORMATION

We strive to maintain a balance between our three sectors of activity so that each sector contributes approximately a third to our total net operating income. As shown below, the office and industrial sectors had almost identical contribution to net operating income in fiscal 2006, with 34.9% and 35.6%, respectively, while the retail sector represented 29.5% of net operating income during the same period.

For the year ended December 31 (in thousands of dollars)

Sector of Activity (%)	2006	2005	2006 (%)	2005 (%)
Office	**28,039**	26,429	**34.9**	35.9
Retail	**23,652**	22,795	**29.5**	31.0
Industrial and mixed-use	**28,580**	24,420	**35.6**	33.1
Total NOI	**80,271**	73,644	**100.0**	100.0

Office Sector

The office sector showed strong growth in net operating income in fiscal 2006 with a rise of 6.1% due largely to rent increases upon lease renewals and higher rents related to new leases.

For the year ended December 31 (in thousands of dollars)

	2006	2005	% Change
Operating revenues	**46,349**	44,176	4.9
Operating expenses	**18,310**	17,747	3.2
NOI office sector	**28,039**	26,429	6.1
NOI margin office sector	**60.5%**	59.8%	

Retail Sector

Net operating income in the retail sector was up 3.8% in fiscal 2006 compared to the previous year, which is strong, considering the high level of competition existing in the Greater Quebec City area, in particular.

For the year ended December 31 (in thousands of dollars)

	2006	2005	% Change
Operating revenues	**41,129**	38,954	5.6
Operating expenses	**17,477**	16,159	8.2
NOI retail sector	**23,652**	22,795	3.8
NOI margin retail sector	**57.5%**	58.5%	

Industrial and Mixed-Use Sector

The industrial and mixed-use sector performed extremely well in 2006, registering a 17.0% increase in net operating income. Operating revenues were up 15.0% while the increase in operating expenses was limited to 11.5%.

For the year ended December 31 (in thousands of dollars)

	2006	2005	% Change
Operating revenues	**44,208**	38,431	15.0
Operating expenses	**15,628**	14,011	11.5
NOI industrial sector	**28,580**	24,420	17.0
NOI margin industrial sector	**64.6%**	63.5%	

DISTRIBUTABLE INCOME AND CASH DISTRIBUTIONS

Although the concept of "distributable income" ("DI") is not a financial measure defined under GAAP, it is a measure widely used in the field of income trusts. We consider DI an excellent tool for assessing Cominar's operating performance. DI generally corresponds to net income established in accordance with GAAP, excluding depreciation of income properties, amortization of above-market leases, compensation costs related to unit options, deferred rentals and gains or losses on sale of real estate assets. Under the Contract of Trust governing Cominar, the annual total of monthly distributions paid to unitholders must represent at least 85% of annual DI.

The table below presents the DI and recurring distributable income ("RDI") calculations as well as a reconciliation with net income calculated in accordance with GAAP:

DISTRIBUTABLE INCOME

For the year ended December 31 (in thousands of dollars, except per-unit amounts)

	2006	2005
Net income	**$34,075**	$31,327
+ Depreciation of income properties	**16,276**	14,793
+ Amortization of above-market leases	**120**	120
+ Compensation costs related to unit option plan	**179**	200
- Deferred rentals	**(1,754)**	(1,443)
- Gain on sale of real estate assets	**(835)**	(248)
DI	**48,061**	44,749
+ Unusual item (1)	**554**	—
RDI	**48,615**	44,749
Cash distributions	**42,724**	39,549
Per-unit amounts:		
DI (basic)	**1.40**	1.37
DI (FD) (2)	**1.35**	1.31
RDI (basic)	**1.41**	1.37
RDI (FD) (2)	**1.36**	1.31
Cash distributions	**1.23**	1.21
DI payout ratio	**87.9%**	88.1%
RDI payout ratio	**86.9%**	88.1%

(1) Cominar incurred, in the first quarter of 2006, $554 in non-recurring expenses in connection with its offer for Alexis Nihon Real Estate Investment Trust.

(2) Fully diluted

RDI per-unit (on a fully diluted basis) increased by 3.8% mainly due to the positive impact of accretive acquisitions and developments realized since the end of 2005 and strong same-property NOI growth of 3.5%.

Per-unit distributions rose from $1.21 in 2005 to $1.23 in 2006, while the RDI payout ratio stood at 86.9% compared to 88.1% in 2005. This attests to Cominar's ability to manage growing distributions while maintaining its payout ratio in order to secure enough leeway to ensure the stability of future distributions.

In accordance with CSA Staff Notice 52-306 (Revised") "Non-GAAP Financial Measures", the Trust is required to reconcile DI to cash flows from operating activities. The table below outlines this reconciliation:

For the year ended December 31 (in thousands of dollars)

	2006	2005
Cash flows from operating activities	**51,413**	55,020
- Deferred rentals	**(1,754)**	(1,443)
- Amortization of deferred leasing costs	**(6,139)**	(5,491)
- Amortization of deferred financing costs and other assets	**(728)**	(703)
+ Change in non-cash operating working capital items	**5,269**	(2,634)
DI	**48,061**	44,749

LIQUIDITY AND CAPITAL RESOURCES

The following table presents a summary of our consolidated balance sheet for the years ended December 31, 2006 and 2005:

SELECTED DATA FROM THE CONSOLIDATED BALANCE SHEET

Year ended December 31 (in thousands of dollars)

	2006	2005
Income properties	**711,441**	658,855
Properties under development and land held for future development	**24,232**	22,020
Other	**54,544**	44,707
Total assets	**790,217**	725,582
Mortgages payable	**270,649**	253,581
Convertible debentures	**43,239**	97,535
Bank indebtedness	**73,616**	25,811
Other	**25,705**	25,513
Total liabilities	**413,209**	402,440

Long-Term Debt

The following table presents Cominar's debt balance, including mortgages payable and convertible debentures, as at December 31, 2006, by year of maturity and weighted average interest rate:

Year ending December 31 (in thousands of dollars)

	Debt Balance ($)	**Weighted Average Interest Rate (%)**
2007	54,133	6.38
2008	120,363	6.06
2009	—	—
2010	—	—
2011	—	—
2012 and after (1)	139,392	6.36
Total	**313,888**	**6.25**

(1) Includes $43.2 million in convertible debentures maturing in 2014.

Mortgages Payable

During fiscal 2006, we entered into two loan agreements totaling approximately $59.7 million, which were used to repay credit facilities and mortgage loans that expired during the year. The weighted average interest rate on these new loans was 5.8% and we managed to extend the term of these loans to 15 years and 13 years, respectively.

As at December 31, 2006, our mortgages payable amounted to $270.6 million, compared with $253.6 million the previous year, a 7% increase.

As at the same date, the weighted average mortgage rate was 6.24%, slightly down from 6.27% on December 31, 2005. Cominar has staggered its mortgage expiry dates over a number of years to reduce the risks related to renewal. In 2007, $53.0 million in mortgages will be up for renewal. Cominar does not foresee any difficulties refinancing these mortgages as they mature.

The table below shows mortgage repayments for the upcoming fiscal years:

MORTGAGE REPAYMENTS

Year ending December 31 (in thousands of dollars)

	Payment of Principal	Balance at Maturity	Total	% of Total	Weighted Average Interest Rate (%)
2007	8,476	53,000	61,476	22.7	6.20
2008	4,210	114,736	118,946	43.9	6.34
2009	3,283	—	3,283	1.2	6.32
2010	3,517	—	3,517	1.3	6.29
2011	3,768	—	3,768	1.4	6.25
2012	3,710	7,436	11,146	4.1	6.05
2013	2,615	4,841	7,456	2.8	5.97
2014	2,413	2,022	4,435	1.6	5.93
2015	2,420	—	2,420	0.9	5.91
2016 and after	12,375	41,827	54,202	20.0	5.88
Total	**46,787**	**223,862**	**270,649**	**100.0**	**6.24**

Convertible Debentures

As a result of the significant increase in Cominar's unit price since the convertible debentures were issued in September 2004, a large number of convertible debentures were converted into units during the year ended December 31, 2006. Of the original $100 million issue, only $43.2 million remained outstanding at the end of 2006. These additional units have reduced our debt to gross book value ratio to 45.6%, below our desired level of 55%, as further detailed below.

Bank Indebtedness

In April 2006, we entered into an agreement with a financial institution pursuant to which the line of credit made available by such institution was increased from $25 million to $55 million. The interest rate applicable is prime.

As at December 31, 2006, we had operating and acquisition facilities of up to $118 million, renewable annually, with interest rates set at 0.00% to 0.50% above prime. They were secured by movable and immovable hypothecs on specific assets. These credit facilities are provided by two different financial institutions, and management has reason to believe they will remain available in the future. As at December 31, 2006, bank indebtedness totaled $73.6 million.

Debt Ratios

Since we were first founded, we have managed our debt and used leverage cautiously. We prefer to keep our debt ratio at or below 55% of our property portfolio's gross book value, although our Contract of Trust permits up to 60%. The following tables present our debt to gross book value and interest coverage ratios for the years ended December 31, 2006 and 2005:

DEBT TO GROSS BOOK VALUE RATIO

In thousands of dollars

	2006	2005
Mortgages payable	**270,649**	253,581
Convertible debentures	**43,239**	97,535
Bank indebtedness	**73,616**	25,811
Total long-term debt	**387,504**	376,927
Portfolio gross book value	**849,722**	768,976
Debt ratio (1) (2)	**45.6%**	49.0%
Borrowing power		
55% of gross book value	**177,500**	102,000
60% of gross book value	**305,000**	211,000

(1) The debt to gross book value ratio is equal to total bank indebtedness, mortgages payable, and convertible debentures divided by the gross book value of the property portfolio (total value of assets plus accumulated depreciation).

(2) This ratio is not defined by GAAP and may differ from those of other entities.

As shown above, our debt ratio as at December 31, 2006 stood at 45.6%, well below fiscal 2005. The decrease is mainly due to the conversion in fiscal 2006 of $54.3 million convertible debentures into units as a result of our units trading at a significant premium to the conversion price ($22.50 per unit as at December 31, 2006 versus $17.40 conversion price).

Although we favor a prudent use of leverage, we believe that the current debt ratio is not optimal and are aiming to increase it to approximately 55% by continuing to finance our acquisitions of income-producing properties and development program through the use of debt.

As at the end of fiscal 2006, our debt ratio provided up to $305.0 million in funds for our future acquisitions at debt ratios authorized under our Contract of Trust and $177.5 million at our preferred 55% debt level.

INTEREST COVERAGE RATIO

In thousands of dollars

	2006	2005
Net income	**34,075**	31,327
- Net income from discontinued operations	**(1,076)**	(607)
+ Unusual item (2)	**554**	—
- Other revenues	**(488)**	(238)
+ Interest on borrowings	**22,021**	20,533
+ Depreciation of income properties	**16,188**	14,678
+ Amortization of deferred leasing costs	**6,139**	5,491
+ Amortization of deferred financing costs and other assets	**728**	703
EBITDA	**78,141**	71,887
Interest expense	**22,021**	20,533
Interest coverage ratio	**3.55**	3.50

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

(2) Cominar incurred, in the first quarter of 2006, $554 in non-recurring expenses in connection with the offer for Alexis Nihon Real Estate Investment Trust.

(3) This ratio is not defined by GAAP and may differ from those of other entities.

As shown above, as at December 31, 2006, our interest coverage ratio was at a very strong 3.55, compared with 3.50 the previous year.

Our financial position therefore remains extremely solid, with one of the lowest debt to gross book value ratios among Canadian REITs, an acquisition capacity of over $177.5 million at our preferred 55% debt ratio, relatively little interest rate risk, and credit facilities of $118 million, of which only $73.6 million was used as at December 31, 2006. In addition, on February 7, 2007, we entered into another mortgage loan in the amount of $35.1 million, the proceeds of which were used to repay bank indebtedness, thereby decreasing the portion of credit facilities used to only $38.5 million. We believe the funds available to us will be sufficient to meet our current obligations and finance our future growth.

Funds from Operations

Although the notion 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), excluding gains (or impairment provisions and losses) from sales of income properties and extraordinary items, plus depreciation of income properties and amortization of deferred leasing costs. FFO 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 FFO is in compliance with REALpac's recommendations, but may differ from the methods used by other trusts, and therefore cannot be used for comparison.

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 table below presents a reconciliation of net income, as determined in accordance with GAAP, and FFO for the 12 month periods ended December 31, 2006 and 2005:

FUNDS FROM OPERATIONS

For the year ended December 31 (in thousands of dollars, except per-unit amounts)

	2006	2005
Net income	**34,075**	31,327
+ Depreciation of income properties	**16,276**	14,793
+ Amortization of deferred leasing costs	**6,139**	5,491
- Gain on sale of real estate assets	**(835)**	(248)
FFO	**55,655**	51,363
+ Unusual item (1)	**554**	—
Recurring FFO	**56,209**	51,363
FFO per unit (basic)	**1.62**	1.58
FFO per unit (FD) (2)	**1.54**	1.48
Recurring FFO per unit (basic)	**1.64**	1.58
Recurring FFO per unit (FD) (2)	**1.56**	1.48

(1) Cominar incurred, in the first quarter of 2006, $554 in non-recurring expenses in connection with its offer for Alexis Nihon Real Estate Investment Trust.

(2) Fully diluted.

FFO increased in 2006, due primarily to acquisitions and developments completed during the year and strong internal growth. Recurring FFO per unit for the year were up 4.0% while, on a fully-diluted basis, they showed a 5.4% increase over the previous year.

Adjusted Funds from Operations

We are introducing for the first time, in this MD&A, the notion of "Adjusted Funds from Operations" ("AFFO"), which is fast becoming a key financial measure in the world of real estate investment trusts. AFFO constitutes an additional measure to assess Cominar's financial performance as well as its capacity to maintain and increase its distribution in the long run. We believe AFFO to be a good measure to evaluate the financial results of different real estate investment trusts operating in a similar sector of activity, since it takes into consideration leasing costs and capital expenditures, which may vary substantially from one entity to the other, depending on their sector of activity.

The AFFO measure is not 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 cannot be used for comparison.

We define AFFO as FFO adjusted for deferred rentals, non-recoverable capital expenditures, amortization of deferred financing costs and other assets, amortization of above-market leases, deferred financing costs, compensation costs related to the unit option plan and leasing costs.

The following table shows a reconciliation of FFO and AFFO for the 12 month periods ended December 31, 2006 and 2005:

ADJUSTED FUNDS FROM OPERATIONS

For the year ended December 31 (in thousands of dollars, except per-unit amounts)

	2006	2005
FFO	**55,655**	51,363
- Non-recoverable capital expenditures (1)	**(1,195)**	(737)
- Deferred rentals	**(1,753)**	(1,443)
+ Amortization of above-market leases	**120**	120
+ Amortization of deferred financing costs and other assets	**550**	546
- Deferred financing costs	**(385)**	—
+ Compensation costs related to unit option plan	**179**	200
- Leasing costs (2)	**(7,479)**	(8,934)
AFFO	**45,692**	41,115
+ Unusual item (3)	**554**	—
Recurring AFFO	**46,246**	41,115
Per-unit information:		
AFFO (basic)	**1.33**	1.26
AFFO (FD) (4)	**1.29**	1.22
Recurring AFFO (basic)	**1.35**	1.26
Recurring AFFO (FD) (4)	**1.30**	1.22

(1) The non-recoverable capital expenditures represent actual expenses incurred by Cominar to maintain its property portfolio, which are not recoverable from tenants.

(2) Leasing costs represent actual leasing costs incurred, including those related to development projects.

(3) Cominar incurred, in the first quarter of 2006, $554 in non-recurring expenses in connection with its offer for Alexis Nihon Real Estate Investment Trust.

(4) Fully diluted.

Recurring AFFO per unit (FD) registered a strong 6.6% increase in fiscal 2006 compared to the previous year, due to acquisitions and developments completed during the year and strong internal growth.

Contractual Obligations

Cominar's most substantial contractual obligations are with regard to its long-term debt, including mortgages, convertible debentures and lines of credit, as described above, and its agreement with Homburg Invest Inc. with respect to the acquisition of the office and industrial properties of Alexis Nihon Real Estate Investment Trust. For more information on the transaction, please refer to the Proposed Acquisition of Alexis Nihon Real Estate Investment Trust Properties section of this MD&A.

PROPERTY PORTFOLIO

The following table presents Cominar's property portfolio as at December 31, 2006 and 2005:

For the year ended December 31

	2006	2005
Income properties (in thousands of $)	**711,441**	658,855
Properties under development and		
land held for future development (in thousands of $)	**24,232**	22,020
Total (in thousands of $)	**735,673**	680,875
Number of properties (1)	**139**	128
GLA (in thousands of sq.ft.) (1)	**10,190**	9,524
Composition (% of net operating income)		
Office	**34.9**	35.9
Retail	**29.5**	31.0
Industrial and mixed-use	**35.6**	33.1
Geographic location (% of net operating income)		
Greater Quebec City area	**63.3**	64.9
Greater Montreal area	**36.7**	35.1

(1) Includes properties built and under development

As shown in the table above, Cominar added 11 properties, representing 0.7 million square feet, to its portfolio in the last year, a 7.0% increase. The total value of its properties went from $680.9 million to $735.7 million, up 8.0%.

While maintaining our dominant position in the Greater Quebec City area, we are also increasingly present in the Greater Montreal Area. For the year ended December 31, 2006, properties in the Montreal area accounted for 36.7% of net operating income versus 35.1% the previous year.

REAL ESTATE OPERATIONS

The following table highlights our key operational performance indicators as at December 31, 2006 and 2005:

For the year ended December 31 (in thousands of dollars)

	2006	2005	% Change
Occupancy	**94.4%**	95.3%	(0.9)
Tenant retention	**85.6%**	75.4%	10.2
Same property NOI growth	**3.5%**	2.6%	

Occupancy

Cominar consistently strives to maximize occupancy rates throughout its portfolio and has succeeded, since its creation, to maintain a 95.0% average in occupancy. As at December 31, 2006, occupancy stood at 94.4% compared with 95.3% the previous year, a 0.9% decrease, due to a 2.5% decrease in the industrial sector, partially offset by occupancy gains in the office and retail sectors.

The following table presents occupancy by sector of activity in the last five years:

Sector of Activity (%)	2006	2005	2004	2003	2002
Office	**96.0**	95.0	94.7	92.8	90.0
Retail	**94.3**	93.6	94.0	95.7	94.3
Industrial and mixed-use	**93.7**	96.2	95.2	97.3	97.3
Total portfolio	**94.4**	95.3	94.8	96.0	94.7

Office Sector. Occupancy in the office sector increased by 1.0% during the year to reach its highest level in the past five years, fuelled by high demand and the limited availability of office space in Quebec City, where most of our office properties are located.

Retail Sector. Occupancy in the retail sector also showed improvements in fiscal 2006 compared to the previous year, with an increase of 0.7%. The demand for retail properties remained strong during the year due in part to the good performance of the local economy.

Industrial and Mixed-Use Sector. Occupancy in the industrial and mixed-use sector decreased by 2.5% as at December 31, 2006 primarily as a result of the bankruptcy, in the third quarter, of one of the REIT's tenants which was the sole occupant of a 275,000-square-foot industrial and mixed-use property in Laval. Although approximately 35% of the property has been released, the vacancy still had a negative impact on our results. We nonetheless remain confident that we will be able to reach a satisfactory occupancy level within a reasonable timeframe, due to the property's quality and excellent location.

Leasing Activity

The following table contains a summary of our leasing activity during the year:

LEASE EXPIRIES AND RENEWALS BY SEGMENT

	Office	Retail	Industrial and Mixed-Use	Total
Expiring leases / 2006				
Number of tenants	81	105	101	287
Area (sq.ft.)	200,838	200,514	601,471	1,002,823
Average net rent/sq.ft.	$7.93	$10.01	$5.24	$6.73
Renewed leases				
Number of tenants	46	72	72	190
Area (sq.ft.)	147,578	130,470	580,035	858,083
Average net rent/sq.ft.	$8.51	$12.02	$5.35	$6.91
% renewal	**73.5%**	**65.1%**	**96.4%**	**85.6%**
New leases				
Number of tenants	19	28	88	135
Area (sq.ft.)	43,583	75,548	442,982	562,113
Average net rent/sq.ft.	$9.50	$7.51	$7.02	$7.28

As can be seen above, we experienced very strong leasing activity across our portfolio, especially in the industrial sector, where 96.4% of leases expiring in 2006 were renewed. Our leasing team worked extremely hard and managed to renew, overall, 85.6% of leases expiring during the year, an all-time high. In addition, we were able to sign new leases representing 0.6 million square feet of space.

Our renewal rates were up in all three sectors of activity with the office sector showing a 9.3% increase, the retail sector up 6.7% and the industrial sector up 2.2%.

The following table details our lease maturity profile for the next five-year period:

LEASE MATURITY

	2007	2008	2009	2010	2011
Office					
Leasable area (square feet)	274,726	265,673	94,754	219,912	173,820
Lease rate/square foot	$9.14	$9.44	$10.78	$9.47	$9.68
% of office portfolio	11.7%	11.3%	4.0%	9.4%	7.4%
Retail					
Leasable area (square feet)	273,140	264,165	187,980	229,786	270,468
Lease rate/square foot	$9.71	$8.76	$11.20	$11.29	$10.02
% of retail portfolio	11.8%	11.4%	8.1%	9.9%	11.7%
Industrial and mixed-use					
Leasable area (square feet)	1,056,763	766,759	452,381	464,048	792,577
Lease rate/square foot	$5.49	$5.41	$5.86	$6.17	$5.77
% of industrial and mixed-use portfolio	19.1%	13.9%	8.2%	8.4%	14.4%
Total portfolio					
Leasable area (square feet)	1,604,629	1,296,597	735,115	913,746	1,236,865
Lease rate/square foot	$6.83	$6.92	$7.86	$8.25	$7.25
% of total portfolio	15.8%	12.7%	7.2%	9.0%	12.1%

Looking into fiscal 2007, 15.8% of our leases are up for renewal, representing 1.6 million square feet of leasable space. As of March 14, 2007, we have been successful at renewing 30.8% of leases expiring in 2007, covering 0.5 million square feet, at higher rents than expiring ones. Based on our solid renewal track record and the demand we are seeing for rental properties in our two geographical markets, we remain optimistic that we will be able to renew a significant portion of expiring leases at higher rates per square foot.

The following table summarizes the average lease term information as at December 31, 2006:

	Average Remaining Lease Term (years)	**Average Tenant Size (sq.ft.)**	**Average In-Place net rent / Sq.Ft. ($)**
Office	5.2	6,015	11.29
Retail	5.8	3,418	10.85
Industrial and mixed-use	4.1	9,250	5.62
Portfolio Average	**4.8**	**6,050**	**8.15**

We have approximately 1,500 tenants that occupy, on average, 6,000 square feet of space. Our broad base of tenants is highly diversified by industry.

Our three largest tenants, Société immobilière du Québec, a Quebec government corporation, Ericsson Canada and Public Works Canada, represent approximately 8.2%, 4.7% and 4.2% of our revenues, respectively. The stability and quality of our cash flow is further enhanced with approximately 15.9% coming from government agencies. The table below sets out the percentage contribution to our revenues of our ten largest tenants:

Tenant	**% of Revenues**	**Leased Space (in sq.ft.)**
Société immobilière du Québec (1)	8.2	811,584
Ericsson Canada inc.	4.7	175,060
Public Works Canada (1)	4.2	237,102
Québécor Média inc.	3.3	171,532
City of Montreal (1)	1.7	112,774
National Bank of Canada (1)	1.5	114,068
Wal-Mart Canada inc.	1.4	129,638
Alcan Packaging Canada Ltée	1.4	162,000
Dynacast Canada inc.	1.2	101,222
Autorité des marchés financiers	1.2	78,764
Total	**28.8**	**2,093,744**

(1) This tenant has entered into several long-term leases with Cominar for different premises.

ACQUISITION AND DEVELOPMENT PROGRAM

There continued to be very strong demand for quality income properties in our two markets during the past year, with pension funds, private equity and other players seeking to deploy their capital. This increasing demand has put a downward pressure on capitalization rates.

Nevertheless, we were able to close acquisitions and complete developments representing approximately one million square feet of leasable space in fiscal 2006, totaling a $67 million investment, at a 9.5% weighted average capitalization rate, which is substantially higher than what we have been seeing. Our knowledge of the Montreal and Quebec City markets allows us to identify and close acquisitions at higher capitalization rates than the average. At the same time, our expertise in the full spectrum of real estate disciplines makes us well qualified to evaluate and execute successful development projects.

Acquisitions

For the year ended December 31, 2006, Cominar purchased nine properties totaling approximately 0.6 million square feet of leasable space and a $44.1 million investment at a weighted average capitalization rate of 9.0%. The REIT also purchased parcels of land in the Greater Quebec City and Montreal areas for future development purposes totalling 2.0 million square feet, 56% of which are located in the Greater Montreal area, for a total investment of $8.0 million. Details of our income property acquisitions are shown in the following table:

Income Property	City	Sector of Activity (1)	Closing Date	GLA (2) (sq.ft.)	Purchase Price (in thousands of $)	Capitalization Rate (%)
11000 boul. Parkway	Anjou	I	01/06	217,000	$7,505	9.4
20 Hymus	Pointe-Claire	I	06/06	50,413	2,956	9.4
2156 de la Province	Longueuil	I	07/06	41,276	6,250 (3)	9.0 (3)
2170 de la Province	Longueuil	I	07/06	22,572	- (3)	- (3)
715 Delage	Longueuil	I	07/06	42,462	- (3)	- (3)
6445 Côte de Liesse	St-Laurent	I	08/06	49,500	2,450	9.6
2760 Jacques-Cartier East	Longueuil	R	09/06	24,400	5,442 (4)	9.0 (4)
2790 Jacques-Cartier East	Longueuil	R	09/06	6,000	- (4)	- (4)
201 Laurier East	Montréal	O	10/31	133,000	19,464	8.8
Total/Weighted Average Capitalization Rate				**586,623**	**$44,067**	**9.0%**

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

(2) Gross Leasable Area. Excludes land acquisitions

(3) These three properties were acquired pursuant to the same transaction for $6,250 at a 9% capitalization rate.

(4) These two properties were acquired pursuant to the same transaction for $5,442 at a 9% capitalization rate.

Development program

Completed developments

Cominar's internal development program continued to progress at a steady pace during the year. In 2006, the REIT converted eight properties, representing 0.4 million square feet of space and a total investment of $23.2 million, into income-producing status at an average development yield of 10.3%. The following table details the developments completed this year:

Development	City	Sector of Activity (1)	Completion Date	GLA (2) (sq.ft.)	Investment (in thousands of $)	Capitalization Rate (%)	Leasing Status (%)
3000 St-Jean-Baptiste	Quebec City	I	Q1	45,000	$2,800	10.5	78
2800 St-Jean-Baptiste	Quebec City	I	Q3	105,000	6,500	10.5	90
4451 Aut. Laval West	Laval	I	Q3	117,000	7,100	10.1	100
1050 René-Lévesque	Drummondville	R	Q3	28,906	300	9.5	76
940 Bergar	Laval	I	Q3	22,800	400	11.8	100
40 du Tremblay	Longueuil	I	Q4	37,600	1,700	10.8	100
120 de New-York	St-Augustin	I	Q4	33,000	4,000	9.9	100
3323 du Carrefour	Quebec City	R	Q4	4,200	400	9.9	100
Total/Weighted Average Capitalization Rate				**393,506**	**$23,200**	**10.3%**	

(1) I = Industrial and Mixed-Use, R = Retail

(2) Gross Leasable Area

Ongoing Developments

As at December 31, 2006, Cominar's ongoing development pipeline included four properties representing 0.3 million square feet and a $15.8 million total investment. Details of the REIT's ongoing development program are as follows:

Development	City	Sector of Activity (1)	Scheduled Completion	GLA (2) (sq.ft.)	Investment (in thousands of $)	Capitalization Rate (%)	Leasing Status (%)
275 St-Sacrement	Quebec City	I	Q1-2007	66,479	2,200	9.6	29
2900 J.-A. Bombardier	Laval	I	Q1-2007	106,500	6,200	10.1	95
3025 J.-A. Bombardier	Laval	I	Q3-2007	80,000	5,300	9.9	25
1255 des Artisans	Quebec City	I	Q3-2007	36,000	2,100	9.5	42
Total/Weighted Average Capitalization Rate				**288,979**	**$15,800**	**9.9%**	

(1) I = Industrial and Mixed-Use

(2) Gross Leasable Area

Upcoming Developments

Cominar's development portfolio benefits from a very strong average development yield of 9.6%. The REIT currently has three upcoming developments totaling 0.3 million square feet and a $23.4 million total investment. Details are as follows:

Development	City	Sector of Activity (1)	Start Date	GLA (2) (sq.ft.)	Investment (in thousands of $)	Capitalization Rate (%)
579 Godin	Quebec City	I	Q1-2007	10,000 (3)	$500	9.4
Power Centre	St-Bruno	R	Q1-2007 (4)	105,000	12,600	9.8
Highway 20	Lévis	I, R	Q2-2007 (4)	160,000	10,300	9.4
Total/Weighted Average Capitalization Rate				**275,000**	**$23,400**	**9.6%**

(1) I = Industrial and Mixed-Use, R = Retail

(2) Gross Leasable Area

(3) This development project was reduced from 30,000 square feet to 10,000 square feet.

(4) This development will be carried out in phases. The start date indicates the scheduled start of phase one of the project.

(5) We are withdrawing, for the time being, the project located at 20 Hymus, Pointe-Claire, a 25,000-square-foot development estimated at $1.3 million, due to zoning issues.

The expected returns on the developments listed above are within a 9.4% to 9.8% range. These returns are based on the estimated costs to complete the projects and the expected rental rates to be achieved. Actual results could vary based on actual costs and rental rates.

Sale

In the fourth quarter of 2006, Cominar sold a 56,337-square-foot industrial and mixed-use property located in Quebec City to Canada Post Corporation pursuant to the exercise of a purchase option. The property was sold for $3.6 million and generated a $0.6 million gain.

Portfolio Summary

The following table summarizes Cominar's property portfolio as at March 14, 2007[1] by sector of activity and geographic location:

SUMMARY BY SECTOR OF ACTIVITY

	Number of Properties	GLA (1) (square feet)
Office	15	2,348,863
Retail	31	2,318,703
Industrial	97	5,634,632
Total	**143**	**10,302,198**

(1) Gross Leasable Area

SUMMARY BY GEOGRAPHIC LOCATION

	Number of Properties	GLA (1) (square feet)
Greater Quebec City Area	89	6,114,369
Greater Montreal Area	54	4,187,829
Total	**143**	**10,302,198**

(1) Gross Leasable Area

PROPOSED ACQUISITION OF ALEXIS NIHON REAL ESTATE INVESTMENT TRUST PROPERTIES

As part of our growth strategy, from time to time, we explore opportunities for strategic acquisitions of entities in our lines of business or property portfolios. On December 3, 2006, we entered into a combination agreement (the "Combination Agreement") with Alexis Nihon Real Estate Investment Trust ("Alexis Nihon") to create one of Quebec's largest commercial property owners. Under the terms of the Combination Agreement, as amended on December 20, 2006 and subsequently on January 24, 2007, Cominar proposed to acquire all of the issued and outstanding units of Alexis Nihon for either: (i) $18.50 in cash per Alexis Nihon unit, up to a maximum of $138.75 million Alexis Nihon units in the aggregate, pursuant to a cash offer or (ii) 0.77 of a Cominar unit up to a maximum of 17,284,777 units, on a tax-deferred, rollover basis. Cominar was also entitled to receive from Alexis Nihon, if the Combination Agreement was terminated in certain circumstances, a termination fee in the amount of $12.5 million (the "Termination Fee").

On February 14, 2007, Homburg Invest Inc. ("Homburg") announced that it intended to make an all cash offer to acquire all of the issued and outstanding units of Alexis Nihon at a price of $18.50 per unit.

On February 16, 2007, Homburg announced that it had submitted a binding written proposal to the Board of Trustees of Alexis Nihon proposing to increase its announced offer to acquire all of the outstanding units of Alexis Nihon to $18.60 per unit (the "Homburg Proposal"), which the Board of Trustees of Alexis Nihon determined constituted a "superior proposal" within the meaning of the Combination Agreement.

1 Includes properties built and under development.

On February 20, 2007, Cominar announced that it had entered into a binding asset purchase agreement with Homburg pursuant to which Cominar agreed to purchase approximately 6.5 million square feet of office and industrial properties (the "Properties") of Alexis Nihon for a sum of $592 million. Cominar also announced that it had waived the five day period right to match set forth in the Combination Agreement as well as its Termination Fee, but only as it relates to the Homburg Proposal, if it is completed, and not in respect of any other acquisition proposal. The purchase of the Properties is conditional upon the success of Homburg's previously announced offer for Alexis Nihon units.

The Properties represent approximately 72% of Alexis Nihon's leasable space as at September 30, 2006 and comprise 35 industrial buildings representing approximately 4.1 million square feet of leasable space and 19 office properties representing approximately 2.4 million square feet of space.

The transaction would allow Cominar to become one of the largest commercial property owners and managers in the Province of Quebec. Upon completion of the transaction, Cominar would continue to own a well-diversified portfolio of properties made of up 34 office (41% of estimated net operating income), 132 industrial (39%) and 31 retail (20%). The geographic profile of Cominar's portfolio would be further diversified. The resultant geographic mix would be 54% in Montreal, 40% in Quebec City and 6% in the Ottawa-Gatineau region.

The purchase of the Properties is expected to be immediately accretive to Cominar's distributable income and funds from operations on a pro forma basis and for future periods. The purchase of the Properties would be funded through the provision of debt and equity financing. Cominar has received a commitment from National Bank of Canada for the debt financing required to effect the transaction. It is anticipated that the transaction would close within the 60 days following the completion of Homburg's offer.

We believe that the purchase of the Properties would provide substantial benefits to Cominar unitholders, including:

- **Leading Market Position:** The acquisition of the Properties would create one of the largest owners and managers of commercial real estate in the Province of Quebec, with 197 properties and approximately 16.8 million square feet of leasable space;
- **Diversified and Enhanced Portfolio:** The purchase would further diversify Cominar's geographic base of properties and would further enhance its office and industrial holdings; and
- **Immediately Accretive:** The transaction is expected to be immediately accretive to distributable income and funds from operations. Future benefits are also expected to be derived from property management and operating synergies as well as enhanced clustering of Cominar's properties.

The transaction should bring considerable benefits to the unitholders of Cominar by significantly expanding the property portfolio in terms of size, scope and diversification with a focus on the Montreal and Quebec markets. Following the completion of the proposed purchase, Cominar would have total assets of over $1.4 billion.

Cominar has provided Homburg with a deposit of $17.1 million on February 20, 2007. If Homburg is not successful in its offer for Alexis Nihon units, the deposit will be refunded to Cominar. If Cominar decides not to purchase the Properties, it will forfeit its deposit. Homburg and Cominar have initiated discussions to most efficiently transition administrative and property management functions within Alexis Nihon.

In the first quarter of 2006, $554,000 in costs were treated as expenses related to our offer for Alexis Nihon, in accordance with CICA Abstract EIC-94 (please refer to note 19 to the Consolidated Financial Statements). These costs included legal, advisory and other professional fees. Additional costs were incurred in 2006 and are expected to be incurred in future quarters. If the transaction is completed, management believes that these costs will be capitalized.

OUTSTANDING UNIT DATA

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 ratably in any Cominar distributions.

The table below compares the issuance in units in 2005 and 2006:

For the year ended December 31 (in thousands)

	2006	2005
Units issued and outstanding, beginning of year	**32,941**	32,284
+ Units issued from options exercised	**470**	453
+ Units issued under DRIP (1)	**69**	62
+ Units issued from conversion of convertible debentures	**3,120**	142
Units issued and outstanding, end of year	**36,600**	32,941
Weighted average number of units outstanding (basic)	**34,365**	32,585
Weighted average number of units outstanding (FD) (2)	**39,058**	38,795

(1) Distribution Reinvestment Plan

(2) Fully diluted

RELATED-PARTY TRANSACTIONS

Michel Dallaire, Alain Dallaire and Michel Paquet, all trustees and members of Cominar's management team, exercise indirect control over Dalcon Inc. ("Dalcon") and Corporation Financière Alpha (CFA) Inc. ("CFA").

In 2006, Cominar posted net rental revenues of $1.2 million from Dalcon and CFA. The REIT incurred $8.6 million in expenses for leasehold improvements performed by Dalcon and $14.9 million for the construction and development of income properties.

Using the services of related companies for property construction work and leasehold improvements enables Cominar to achieve important savings while providing better service to its customers.

SELECTED QUARTERLY INFORMATION

The following table presents, in summary form, Cominar's financial information for each of the completed quarters in 2005 and 2006:

Quarter ended (in thousands of dollars, except per-unit amounts)

	Dec. 31, 2006	Sept. 30, 2006	June 30, 2006	March 31, 2006	Dec. 31, 2005	Sept. 30, 2005	June 30, 2005	March 31, 2005
Operating revenues	**$33,433**	$32,605	$33,046	$32,602	$31,079	$29,678	$30,534	$30,270
Operating expenses	**12,291**	11,801	13,061	14,262	11,358	10,752	12,201	13,606
Net operating income	**21,142**	20,804	19,985	18,340	19,721	18,926	18,333	16,664
Net income	**10,447**	9,100	8,364	6,164	8,918	8,322	8,042	6,045
Net income per unit (basic)	**0.29**	0.26	0.25	0.19	0.27	0.26	0.25	0.19
Net income per unit (diluted)	**0.28**	0.26	0.25	0.18	0.27	0.25	0.24	0.18
Recurring net income	**9,612**	9,100	8,364	6,718 (2)	8,918	8,322	8,042	6,045
Recurring net income per unit (diluted)	**0.26**	0.26	0.25	0.20 (2)	0.27	0.25	0.24	0.18
DI	**13,394**	12,919	12,030	9,718	12,292	11,818	11,220	9,419
DI per unit (FD) (3)	**0.36**	0.36	0.34	0.29	0.35	0.34	0.33	0.28
RDI	**13,394**	12,919	12,030	10,272 (4)	12,292	11,818	11,220	9,419
RDI per unit (FD) (3)	**0.36**	0.36	0.34	0.30 (4)	0.35	0.34	0.33	0.28
FFO	**15,338**	14,778	13,923	11,616	14,094	13,425	12,811	11,033
FFO per unit (FD) (3)	**0.41**	0.41	0.39	0.34	0.40	0.39	0.37	0.33
Recurring FFO	**15,338**	14,778	13,923	12,170 (4)	14,094	13,425	12,811	11,033
Recurring FFO per unit (FD) (3)	**0.41**	0.41	0.39	0.35 (4)	0.40	0.39	0.37	0.33
Cash distributions	**11,655**	10,744	10,305	10,020	10,196	9,815	9,811	9,727
Cash distributions per unit	**0.316**	0.306	0.306	0.302	0.310	0.300	0.300	0.300

(1) Amounts reported above have been reduced to remove revenues and any costs related to properties classified as discontinued operations.

(2) Excludes gains on sale of real estate assets and non-recurring expenses of $554 incurred in the first quarter of 2006 in connection with the offer for Alexis Nihon Real Estate Investment Trust.

(3) Fully diluted.

(4) Excludes non-recurring expenses of $554 incurred in the first quarter of 2006 in connection with the offer for Alexis Nihon Real Estate Investment Trust.

Cominar has steadily grown revenues, distributable income and funds from operations over the past two years as a result of new acquisitions and developments, improved average rents and stable occupancies.

The first quarter of each year tends to generate a weaker performance due to increased consumption of energy and snow removal in the winter months.

FOURTH QUARTER 2006 RESULTS

Operating Results

The table below compares our results for the fourth quarter 2006 with the previous corresponding period:

Three months ended December 31 (in thousands of dollars, except per-unit amounts)

	2006	2005 (1)	% Change
Operating revenues	**33,433**	31,079	7.6
Operating expenses			
Operating costs	**6,390**	6,300	1.4
Realty taxes and services	**5,697**	4,772	19.4
Property management expenses	**204**	285	(28.4)
Total operating expenses	**12,291**	11,357	8.2
Net operating income	**21,142**	19,722	7.2
Interest on borrowings	**5,395**	5,222	3.3
Depreciation of income properties	**4,167**	3,701	12.6
Amortization of deferred expenses and other assets	**1,538**	1,453	5.9
Amortization of deferred financing costs and other assets	**193**	183	5.5
	11,293	10,559	7.0
Operating income from real estate assets	**9,849**	9,163	7.5
Trust administrative expenses	**502**	391	28.4
Other revenues	**287**	57	
Net income from continuing activities	**9,634**	8,829	9.1
Net income from discontinued activities	**813**	89	
Net income	**10,447**	8,918	17.2
Net income per unit (basic)	**0.29**	0.27	7.4
Net income per unit (diluted)	**0.28**	0.27	3.7

(1) Some 2005 financial data was reclassified to remove revenues and costs related to properties classified as discontinued operations.

Our fourth-quarter results showed continued growth in operating revenues, net operating income and net income.

Distributable Income

Recurring distributable income ("RDI") for the fourth quarter was as follows:

Three months ended December 31 (in thousands of dollars, except per-unit amounts)

	2006	2005
Net income	**10,447**	8,918
+ Depreciation of income properties	**4,188**	3,723
+ Amortization of above-market leases	**30**	30
+ Compensation costs related to unit option plan	**33**	54
- Deferred rentals	**(469)**	(433)
- Gain on sale of real estate assets	**(835)**	—
RDI	**13,394**	12,292
Cash distributions	**11,655**	10,196
Per-unit amounts:		
RDI (basic)	**0.37**	0.38
RDI (FD) (1)	**0.36**	0.35
Cash distributions	**0.32**	0.31
RDI payout ratio	**86.5%**	81.6%
Weighted average number of units outstanding (basic)	**36,339**	32,770
Weighted average number of units outstanding (FD) (1)	**39,559**	38,974
Units issued and outstanding at end of year	**36,600**	32,941

(1) Fully diluted

RDI per unit (FD) was up one cent over the previous corresponding quarter. The bankruptcy of a tenant, which was the sole occupant of a 275,000-square-foot industrial and mixed-use property in Laval, had a $0.3 million negative impact on RDI. The building is currently 35% leased.

A reconciliation of cash flows provided by operating activities for the three months ended December 31, 2006 and 2005 to RDI is as follows:

Three months ended December 31 (in thousands of dollars)

	2006	2005
Cash flows from operating activities	**18,304**	19,579
- Deferred rentals	**(469)**	(433)
- Amortization of deferred leasing costs	**(1,538)**	(1,454)
- Amortization of deferred financing costs and other assets	**(193)**	(183)
- Change in non-cash operating working capital items	**(2,710)**	(5,217)
RDI	**13,394**	12,292

Funds from Operations

Recurring funds from operations ("Recurring FFO") for the fourth quarter were as follows:

Three months ended December 31 (in thousands of dollars, except per-unit amounts)

	2006	2005
Net income	**10,447**	8,918
+ Depreciation of income properties	**4,188**	3,723
+ Amortization of deferred leasing costs	**1,538**	1,453
- Gain on sale of real estate assets	**(835)**	—
Recurring FFO	**15,338**	14,094
Recurring FFO per unit (basic)	**0.42**	0.43
Recurring FFO per unit (FD) (1)	**0.41**	0.40
Weighted average number of units outstanding (basic)	**36,339**	32,770
Weighted average number of units outstanding (FD) (1)	**39,559**	38,974

(1) Fully diluted

As shown above, recurring FFO increased 8.8% from the fourth quarter of 2005 to the corresponding period in 2006. On a fully diluted per unit basis, recurring FFO were up 1 cent.

In the fourth quarter, we completed the acquisition of approximately 0.5 million square feet of land for future development purposes for a total of $1.8 million and sold a 56,337-square-foot industrial and mixed-use property located in Quebec City for $3.7 million, pursuant to the exercise of a purchase option set forth in the tenant lease agreement. We also sold, during the fourth quarter, a parcel of land in St-Bruno for an amount of $0.4 million. For additional details on our acquisition and development program, please see the Acquisition and Development Program section of this MD&A.

Finally, on December 3, 2006, we announced our intention to make an offer to acquire all of the issued and outstanding units of Alexis Nihon for a combination of cash and Cominar units. Please refer to the Proposed Acquisition of Alexis Nihon Real Estate Investment Trust Properties section of this MD&A for more information.

SUBSEQUENT EVENTS

For information on events subsequent to December 31, 2006 related to our expired offer for Alexis Nihon and proposed transaction with Homburg regarding the acquisition of Alexis Nihon's industrial and office portfolio, please refer to the Proposed Acquisition of Alexis Nihon Real Estate Investment Trust Properties section of this MD&A.

In January 2007, we acquired a 25,564-square-foot industrial and mixed-use property in Baie d'Urfé for $2.1 million. The capitalization rate related to this transaction was 9.4%. The building is located in the heart of an industrial park and is 100% leased.

Since the end of the year, we have also acquired strategically located land for a total amount of $9.6 million in order to fuel our future development projects.

In March 2007, we acquired a 16,297-square-foot industrial and mixed-use property in Longueuil and two industrial and mixed-use properties totalling 70,285 square feet in Brossard for $6.1 million at a 9.0% weighted average capitalization rate.

UNITHOLDER TAXATION

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

For the year ended December 31

	2006	2005
Taxable to unitholders as other income	**59.50%**	52.03%
Taxable to unitholders as capital gain income	**0.36%**	0.08%
Tax deferral	**40.14%**	47.89%
Total	**100.00%**	100.00%

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designated to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, to allow timely decisions regarding required disclosure.

An evaluation was carried out, under the supervision of and with the participation of management, including the President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined under Multilateral Instrument 52-109. Based on that evaluation, the President and Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as at December 31, 2006.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

No changes were made in our internal control over financial reporting during the year ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

OUTLOOK

We enter 2007 with our most significant acquisition to date underway which, if completed, will bring our asset base to over $1.4 billion, a portfolio positioned to deliver maximum results in the current economic environment, several development projects in progress and a very strong balance sheet. Our goals for 2007 are to:

- continue to achieve same-property growth in all three segments of operation;

- aggressively manage our costs;

- reach an optimal capital structure by increasing our debt to gross book value ratio to approximately 55%;

- successfully complete the acquisition of the Alexis Nihon properties and promptly integrate these properties into our portfolio; and

- continue expanding our property portfolio thru accretive acquisitions and developments.

SIGNIFICANT ACCOUNTING ESTIMATES

Our MD&A is based upon the REIT's consolidated financial statements, prepared in accordance with GAAP. The preparation and presentation of the consolidated financial statements and other financial information contained in the MD&A involves a judicious choice of appropriate accounting principles and methods whose application requires the making of estimates and enlightened judgments. Our estimates are based upon assumptions which we believe to be reasonable, such as those based upon passed experience. These estimates constitute the basis for our judgments regarding the book value of assets and liabilities that would not otherwise be readily available through other sources. Use of other methods of estimation might have yielded different amounts than those presented. Actual results could differ from these estimates.

Income Properties

Income properties are stated at cost. The cost includes all acquisition costs and improvements to income properties. Since September 12, 2003, Cominar has applied EIC-140 of the CICA Handbook, "Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination". In accordance with this Abstract, the CICA requires that a portion of the purchase price of an income property be allocated to in-place operating leases, based on their fair value, to the value of customer relationships, if any, and to the fair value of leasehold improvements.

This allocation is based on management assumptions and estimates. These intangible assets are included in income properties.

Depreciation of Income Properties

In accordance with Section 1100 of the CICA Handbook, "Generally Accepted Accounting Principles", income properties have been depreciated using the straight-line method in order to fully depreciate their residual value over a forty-year term.

The intangible assets, which represent acquisition costs for in-place operating leases, customer relationships and tenant improvements, are amortized on a straight-line basis over the terms of the related leases.

Properties under Development and Land held for Future Developments

Properties under 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 all expenses during the development period.

Capitalization of costs to properties under development continues until the property reaches its accounting completion date, the determination of which is based on achieving a satisfactory occupancy level within a predetermined time limit.

Impairment of Real Estate Investments

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use together with its residual value. If Cominar considers that such assets are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value.

Deferred Expenses and Other Assets

Deferred expenses and other assets mainly consist of leasing costs such as leasehold improvements realized through operating activities and other expenses, including tenant inducements and leasing commissions. These expenses are deferred and amortized on a straight-line basis over the terms of the related leases. Financing costs are deferred and amortized on a straight-line basis over the terms of the related loans.

Unit Option Plan

Under a unit option plan, Cominar has granted options to purchase units to its trustees, management and employees. In accordance with Section 3870 of the CICA Handbook, "Stock-Based Compensation and Other Stock-based Payments", Cominar recognizes an expense for employee stock-based compensation using the fair value-based method and the stock-based compensation costs are amortized using the graded vesting method.

RECENTLY PUBLISHED ACCOUNTING CHANGES

The following accounting standards were recently issued by the CICA. We are currently evaluating the application of these standards and their potential impact on our financial statements.

Comprehensive Income

The CICA issued Section 1530 "Comprehensive Income". This Section dictates that the presentation of comprehensive income and its components in the consolidated financial statements should be given the same importance as all other statements which form part of the consolidated financial statements. Comprehensive income corresponds to the variations in the net assets of a corporation caused by operations, events, and circumstances unrelated to its shareholders. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

Financial Instruments – Recognition and Measurement

Section 3855 "Financial Instruments – Recognition and Measurement" determines accounting and evaluation standards applicable to financial assets, financial liabilities and non-financial derivatives. These financial instruments must be classified in defined categories. The classification determines the manner of evaluation of each instrument and presentation of related gains and losses. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

Hedges

Section 3865 "Hedges" is an optional standard which provides the choice of applying hedge accounting with regard to certain financial instruments. It replaces AcG-13 "Hedging Relationships" as well as the provisions of former Section 1650 "Foreign Currency Translation". This section addresses hedge accounting and related disclosure. It applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

We do not anticipate any major repercussion on Cominar's consolidated financial statements related to the adoption of Sections 1530, 3855 and 3865 described above.

Accounting Changes

In July 2006, the CICA issued Section 1506 "Accounting Changes", which modifies certain aspects of the previous standard. A reporting entity may not change its accounting method unless required by a primary source of GAAP or to provide a more reliable and relevant presentation of the financial statements. In addition, changes in accounting method must be applied retroactively and additional information must be disclosed. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2007.

Harmonization of Canadian and International Standards

In March 2006, the Accounting Standards Board of the CICA released its new strategic plan which proposed to abandon Canadian GAAP and effect a complete convergence to the International Financial Reporting Standards. At the end of a transitional period of approximately five years, Canadian GAAP will cease to exist as a separate, distinct basis of financial reporting for public companies. We will closely monitor changes arising from this convergence.

RISKS AND UNCERTAINTIES

Like any real estate entity, we are exposed to certain risk factors in our normal course of business including:

General Business and Economic Conditions

Interest rates, consumer spending, business investment, government spending, the level of activity and volatility of the capital markets and inflation, each impact the business and economic environments in which we operate and, ultimately, the level of business activity we conduct and earnings we generate.

Execution of our Strategy

Our ability to execute on our objectives and strategic goals will influence our financial performance. If our strategic goals do not meet with success or there is a change in our strategic goals, our financial results could be adversely affected.

Acquisitions

Although we regularly explore opportunities for strategic acquisitions of entities in our lines of business or real estate portfolios, there is no assurance that we will be able to complete acquisitions on terms and conditions that satisfy our investment criteria. There is also no assurance we will achieve our financial or strategic objectives or anticipated cost savings following acquisitions. Our performance is contingent on retaining the tenants and key employees of acquired entities, and there is no assurance that we will always succeed in doing so.

Operational Risk

All immovable property investments are subject to elements of risk. Such investments are affected by local real estate markets, demand for leased premises, competition from other available premises and various other factors.

The value of immovable property and any improvements thereto may also depend on the credit and financial stability of the tenants and the economic environment in which they operate. Our income and distributable income would be adversely affected if one or more major tenants or a significant number of tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in our properties could not be leased on economically favourable lease terms. However, this risk is minimized by the diversification of the portfolio, which brings more certainty to foreseeable cash flows. This risk is also reduced by the fact that tenants occupy an average area of about 6,000 square feet.

As a fully integrated real estate investment trust, we can also exercise tighter preventive control over our operations while developing a relationship of trust with our clients and improving our operational and financial performance.

Debt and Refinancing

We are subject to the risks associated with debt financing, including the risk that existing mortgages secured by our properties will not be able to be refinanced or that the terms of such refinancing will not be as favorable as the terms of existing mortgages. Our profitability may be impacted by interest rates changes, as interest on borrowings represents a significant cost in the ownership of real estate investments. We seek to reduce our interest rate risks by spreading the maturity of our long-term debt and limiting as much as possible the use of floating rate debt. As at December 31, 2006, only 2.2% of our long-term debt had floating interest rates. In 2007, an amount of $53.0 million in mortgages bearing interest at an average weighted rate of 6.38% will have to be renewed. We do not foresee any difficulty in refinancing them as they become due.

Unitholders' Liabilities

Under the heading "Operating Principles", the Contract of Trust states that any written document identifying an immovable hypothec or, in the opinion of the trustees, a material obligation, must contain terms limiting liability to our assets exclusively, and specifying that no recourse may be taken against unitholders.

Competition

We compete for suitable immovable property investments with third parties that are presently seeking or may seek in the future immovable property investments similar to those we desire. An increase in the availability of investment funds and interest in immovable property investments may tend to increase competition for immovable property investments, thereby increasing purchase prices and reducing their yield.

In addition, numerous developers, managers and owners of properties compete with us in seeking tenants. The existence of competing developers, managers and owners and competition for our tenants could have an adverse effect on our ability to lease space in our properties and on the rents charged, and could adversely affect our revenues.

Government Regulation

We and our properties are subject to various governmental legislation and regulations. Any change in such legislation or regulation adverse to us and our properties could affect our financial results.

By their very nature, our assets and business are not subject to a high environmental risk. In accordance with the operating principles stipulated in our Contract of Trust, we must conduct an environmental audit before acquiring a new property. Environmental audits are conducted on our existing properties when deemed appropriate.

In our leases, we require that tenants conduct their business in compliance with environmental legislation, and that they be held responsible for any damage resulting from their use of the leased premises.

Income Taxes

We currently qualify as a mutual fund trust for income tax purposes. We are required by our Declaration of Trust to annually distribute all of our taxable income to unitholders and thus are generally not subject to tax on such amount. In order to maintain our current mutual fund status, we are required to comply with specific restrictions regarding our activities and the investments held by us. If we were to cease to qualify as a mutual fund trust, the consequences could be material and adverse.

On December 21, 2006, the Minister of Finance (Canada) released draft legislation (the "Proposals") relating to the federal income taxation of publicly-traded trusts (such as income trusts and REITs) and partnerships. The Proposals are contemplated to apply to a publicly-traded trust that is a specified investment flow-through entity (a "SIFT") which existed before November 1, 2006 ("Existing Trust") commencing with taxation years ending in or after 2011 (other than those Existing Trusts which qualify for the REIT Exception as described below).

Certain distributions attributable to a SIFT will not be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. Distributions paid by a SIFT as returns of capital will not be subject to this tax. There will be circumstances where an Existing Trust may lose its transitional relief where the Existing Trust undergoes "undue expansion".

The new taxation regime will not apply to certain Existing Trusts that qualify as REITs (the "REIT Exception") as defined in the Proposals. Accordingly, unless the REIT Exception is applicable to Cominar, the Proposals could, commencing in 2011, impact the level of cash distributions which would otherwise be made by Cominar. The Proposals do not fully accommodate the current business structures used by many Canadian REITs and contain a number of technical tests that many Canadian REITs, including Cominar, will likely find difficult to satisfy. The Minister's stated intention is to exempt REITs from taxation as SIFTs in recognition of "the unique history and role of collective real estate investment vehicles". Accordingly, it is possible that changes to these technical tests will be made prior to their enactment in order to accommodate some or all of the existing Canadian REITs, including Cominar. Alternatively, if the Proposals are not changed, existing Canadian REITs, including Cominar, may need to restructure their affairs in order to limit the application of the Proposals.

In the light of the foregoing, it is not currently possible to predict whether the Proposals as ultimately enacted will have an adverse effect on Cominar.

Construction Risk

Due to our involvement in development and construction activities, we are subject to related risks such as construction cost overruns and other unforeseeable delays. Such risks are minimized by the fact that major projects are done by phases, which allows to better assess the demand for a project in particular.

Ability to Attract and Retain Key Employees

Competition for qualified employees and executives is intense. If we are unable to retain and attract qualified employees and executives, our results of operations and financial condition, including our competitive position, may be materially adversely affected.

SELECTED FINANCIAL INFORMATION

The following table presents a summary of selected financial information for the fiscal years indicated below:

For the year ended December 31 (in thousands of dollars, except per-unit amounts)

	2006	2005	2004
Income Statement Data			
Operating revenues	**131,686**	121,561	110,499
Net operating income (2)	**80,271**	73,644	67,780
Net income	**34,075**	31,327	31,535
Net income per unit (basic)	**0.99**	0.96	0.99
Net income per unit (diluted)	**0.98**	0,95	0,98
RDI (2)	**48,615**	44,749	42,252
RDI per unit(FD) (2)(3)	**1.36**	1.31	1.31
Distributions	**42,724**	39,549	37,706
Distributions per unit	**1.23**	1.21	1.18
Balance Sheet Data			
Income properties	**711,411**	658,855	640,889
Properties under development and land held for future developments	**24,232**	22,020	20,967
Assets	**790,217**	725,582	705,654
Mortgages payable	**270,649**	253,581	262,247
Convertible debentures	**43,239**	97,535	100,000
Bank indebtedness	**73,616**	25,811	—
Weighted average number of units-basic (000s)	**34,365**	32,585	31,869
Weighted average number of units-FD (000s) (3)	**39,058**	38,795	33,581

(1) Fiscal 2005 and 2004 information has been reclassified to conform to disclosure requirements of discontinued operations (see note 18 to the Consolidated Financial Statements).

(2) "Net Operating Income" and "Distributable income" are defined on page 27 and 30, respectively of this MD&A.

(3) Fully diluted.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying Consolidated Financial Statements of Cominar Real Estate Investment Trust ("Cominar") were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that must of necessity be based on estimates and judgments. These Consolidated Financial Statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Financial information appearing throughout our MD&A is consistent with these Consolidated Financial Statements.

In discharging our responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, we maintain the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records are maintained.

The Board of Trustees oversees management's responsibilities for financial reporting through an Audit Committee, which is composed entirely of independent Trustees.

This Committee reviews our consolidated financial statements and recommends them to the Board for approval. Other key responsibilities of the Audit Committee include reviewing our existing internal control procedures and planned revisions to those procedures, and advising the trustees on auditing matters and financial reporting issues.

Ernst & Young LLP, Independent Registered Chartered Accountants appointed by the unitholders of Cominar upon the recommendation of the Board, have performed an independent audit of the Consolidated Financial Statements and their report follows. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

Michel Dallaire, P.Eng.
President and Chief Executive Officer

Quebec City, March 14, 2007

Michel Berthelot, CA
Executive Vice President and Chief Financial Officer

AUDITORS' REPORT

To the unitholders of Cominar Real Estate Investment Trust:

We have audited the consolidated balance sheets of Cominar Real Estate Investment Trust as at December 31, 2006 and 2005 and the consolidated statements of income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Quebec City, Canada
February 2, 2007
[except as to note 21(b) which is as of February 20, 2007 and note 21(c) which is as of March 6, 2007]

Ernst & Young s.r.l./S.E.N.C.R.L.
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31,
[in thousands of dollars]

	2006	2005
	$	$
ASSETS		
Income properties *[note 3]*	**711,441**	658,855
Properties under development *[note 4]*	**16,628**	22,777
Land held for future development *[note 4]*	**7,604**	1,243
Deferred expenses and other assets *[note 5]*	**31,819**	30,009
Prepaid expenses	**2,654**	2,355
Accounts receivable *[note 6]*	**20,071**	12,343
	790,217	725,582
LIABILITIES AND UNITHOLDERS' EQUITY		
Liabilities		
Mortgages payable *[note 7]*	**270,649**	253,581
Convertible debentures *[note 8]*	**43,239**	97,535
Bank indebtedness *[note 9]*	**73,616**	25,811
Accounts payable and accrued liabilities	**21,606**	21,890
Distributions payable to unitholders	**4,099**	3,623
	413,209	402,440
Unitholders' equity *[note 10]*		
Unitholders' contributions	**400,698**	338,230
Cumulative net income	**218,538**	184,463
Cumulative distributions	**(242,626)**	(199,902)
Contributed surplus	**398**	351
	377,008	323,142
	790,217	725,582

Contingency *[note 20]*
Subsequent events and commitment *[note 21]*
See accompanying notes to consolidated financial statements

Approved by the Board

Michel Dallaire
Trustee

Michel Berthelot
Trustee

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

Years ended December 31,
[in thousands of dollars]

	2006	2005
	$	$
Unitholders' contributions		
Balance, beginning of year	**338,230**	328,433
Issue of units	**62,468**	9,797
Balance, end of year	**400,698**	338,230
Cumulative net income		
Balance, beginning of year	**184,463**	153,136
Net income	**34,075**	31,327
Balance, end of year	**218,538**	184,463
Cumulative distributions		
Balance, beginning of year	**(199,902)**	(160,353)
Distributions to unitholders	**(42,724)**	(39,549)
Balance, end of year	**(242,626)**	(199,902)
Contributed surplus		
Balance, beginning of year	**351**	252
Unit option plan	**47**	99
Balance, end of year	**398**	351
Unitholders' equity	**377,008**	323,142

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31,

[in thousands of dollars except per-unit amounts]

	2006 $	2005 $
Operating revenues		
Rental revenue from income properties	**131,686**	121,561
Operating expenses		
Operating costs	**25,491**	24,609
Realty taxes and services	**24,919**	22,065
Property management expenses	**1,005**	1,243
	51,415	47,917
Operating income before the undernoted	**80,271**	73,644
Interest on borrowings	**22,021**	20,533
Depreciation of income properties	**16,188**	14,678
Amortization of deferred leasing costs	**6,139**	5,491
Amortization of deferred financing costs and other assets	**728**	703
	45,076	41,405
Operating income from real estate assets	**35,195**	32,239
Trust administrative expenses	**2,130**	1,757
Other revenues	**488**	238
Unusual item *[note 19]*	**554**	—
Net income from continuing operations	**32,999**	30,720
Net income from discontinued operations *[note 18]*	**1,076**	607
Net income	**34,075**	31,327
Basic net income per unit *[note 12]*	**0.992**	0.961
Diluted net income per unit *[note 12]*	**0.977**	0.946

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,
[in thousands of dollars]

	2006	2005
	$	$
OPERATING ACTIVITIES		
Net income	**34,075**	31,327
Items not affecting cash		
Depreciation of income properties	**16,276**	14,793
Amortization of above-market leases	**120**	120
Amortization of deferred leasing costs	**6,139**	5,491
Amortization of deferred financing costs and other assets	**728**	703
Compensation costs related to unit option plan	**179**	200
Gain on sale of real estate assets	**(835)**	(248)
	56,682	52,386
Change in non-cash operating working capital items *[note 14]*	**(5,269)**	2,634
	51,413	55,020
FINANCING ACTIVITIES		
Mortgages payable	**59,652**	—
Repayments of mortgages payable	**(42,584)**	(9,693)
Bank indebtedness	**47,805**	25,811
Financing costs	**(385)**	—
Distributions to unitholders	**(40,876)**	(38,347)
Net proceeds from issue of units *[note 10]*	**6,668**	6,101
	30,280	(16,128)
INVESTING ACTIVITIES		
Acquisitions of income properties	**(59,260)**	(24,281)
Acquisitions of properties under development and land held for future development	**(15,122)**	(14,305)
Net proceeds on disposal of real estate assets	**393**	675
Leasing costs	**(7,479)**	(8,934)
Other assets	**(225)**	(221)
	(81,693)	(47,066)
Net change in cash and cash equivalents	**—**	(8,174)
Cash and cash equivalents, beginning of year	**—**	8,174
Cash and cash equivalents, end of year	**—**	—

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005
[in thousands of dollars except per-unit amounts]

1) DESCRIPTION OF THE FUND

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

2) SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

Cominar's consolidated financial statements are prepared in conformity with Canadian generally accepted accounting principles ("GAAP").

Consolidation

These consolidated financial statements include the accounts of Cominar and its wholly owned subsidiary, Les Services Administratifs Cominar Inc.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the amounts of assets and liabilities reported 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 year. Actual results could differ from those estimates.

Revenue recognition

Rental revenue from income properties includes rents 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 are recognized based on the straight-line method.

Income properties, properties under development and land held for future development

Income properties are stated at cost. Cost includes acquisition costs and improvements to income properties. Regarding income properties acquired after September 12, 2003, a portion of the purchase price, if any, is allocated to operating leases, customer relationships and leasehold improvements.

Depreciation of buildings is recorded on a straight-line basis over a 40-year period.

Intangible costs, described as acquisition costs related to in-place operating leases, customer relationships and leasehold improvements, are amortized on a straight-line basis over the terms of the related leases.

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 accounting completion date, the determination of which is based on achieving a satisfactory occupancy level.

Disposals of income properties

Operating results and the gains and losses on disposal relating to income properties disposed of during the year 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 will not have significant and ongoing involvement in the operations of the sold property.

December 31, 2006 and 2005 [in thousands of dollars except per-unit amounts]

Impairment of long-lived assets
Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use together with its residual value. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value.

Deferred expenses and other assets
Deferred expenses and other assets mainly consist of leasing costs such as leasehold improvements realized through operating activities and other expenses, including tenant inducements and leasing commissions. These expenses are deferred and amortized on a straight-line basis over the terms of the related leases. Financing costs are deferred and amortized on a straight-line basis over the terms of the related loans.

Cash and cash equivalents
Cash and cash equivalents consist of cash and investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, with original maturities of three months or less.

Unit option plan
Cominar has a unit option plan which is described in note 10. Cominar recognizes compensation expense when unit options are granted to trustees, management and employees with no cash settlement features.

Per unit results
Basic net income per unit is calculated based on the weighted average number of units outstanding for the year. 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.

3) INCOME PROPERTIES

		2006		2005
	Cost	Accumulated amortization	Amortized cost	Amortized cost
	$	$	$	$
Land	**97,988**	**—**	**97,988**	88,910
Buildings	**661,686**	**57,058**	**604,628**	563,749
Intangible assets	**11,272**	**2,447**	**8,825**	6,196
	770,946	**59,505**	**711,441**	658,855

4) PROPERTIES UNDER DEVELOPMENT AND LAND HELD FOR FUTURE DEVELOPMENT

During the year, Cominar capitalized $1,480 [$1,907 in 2005] in interest to properties under development and land held for future development, some of which are classified in income properties at year-end.

December 31, 2006 and 2005 [in thousands of dollars except per-unit amounts]

5) DEFERRED EXPENSES AND OTHER ASSETS

	2006 $	2005 $
At amortized cost		
Leasing costs	**27,339**	25,413
Financing costs	**3,762**	3,926
Other assets	**718**	670
	31,819	30,009

6) ACCOUNTS RECEIVABLE

	2006 $	2005 $
Accounts receivable	**6,391**	6,281
Deferred accounts receivable	**5,448**	3,695
Other accounts receivable, bearing interest at a weighted average rate of 7.50% [7.30% as at December 31, 2005]	**2,545**	342
Balances of sale *[note 18]*	**5,687**	2,025
	20,071	12,343

7) MORTGAGES PAYABLE

Mortgages payable are secured by immovable hypothecs on income properties stated at a net book value of $422,315 [$427,614 as at December 31, 2005]. They bear interest at rates ranging from 5.72% to 11.00% per annum [5.00% to 11.00% as at December 31, 2005] representing a weighted average year-end rate of 6.24% [6.27% as at December 31, 2005] and are renewable at various dates from February 2007 to July 2021.

Mortgage repayments are as follows:

	Principal repayments $	Balance at maturity $	Total $
Years ending December 31,			
2007	8,476	53,000	61,476
2008	4,210	114,736	118,946
2009	3,283	—	3,283
2010	3,517	—	3,517
2011	3,768	—	3,768
2012 and thereafter	23,533	56,126	79,659
	46,787	223,862	270,649

Mortgages payable having fixed rates amount to $263,809 [$222,314 as at December 31, 2005] and those having variable rates amount to $6,840 [$31,267 as at December 31, 2005].

8) CONVERTIBLE DEBENTURES

On September 17, 2004, Cominar completed a public offering of 100,000 convertible unsecured subordinated debentures, bearing interest at the annual rate of 6.30%, for total gross proceeds of $100,000. The debentures mature on June 30, 2014 and interest is paid semi-annually on June 30 and December 31. Each debenture is convertible into units of Cominar at the holder's option at any time prior to the earlier of the maturity date and the last business day immediately preceding the date specified by Cominar for redemption at a conversion price of $17.40 per unit. The debentures are not redeemable before June 30, 2008. On or after June 30, 2008 and prior to June 30, 2010, the debentures may be redeemed in whole or in part at Cominar's option at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted-average trading price of the units on the Toronto Stock Exchange (TSX) for a period of 20 consecutive days exceeds 125% of the conversion price. Subsequent to June 30, 2010 and prior to the maturity date, the debentures may be redeemed in whole or in part at Cominar's option at a price equal to their principal amount plus accrued and unpaid interest.

Cominar may satisfy its obligation to repay the principal of the debentures by issuing units of Cominar. In the event that Cominar elects to satisfy its obligation by repaying the principal with units of the Trust, it must issue units equal to 95% of the volume-weighted-average trading price of the units on the TSX during the period of 20 consecutive trading days ending on the fifth trading day preceding the scheduled redemption date or the maturity date.

In accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3860, convertible debentures have been recorded as liabilities on the balance sheet and interest has been charged to interest on borrowings on the statement of income. Debenture issue costs are amortized to interest on convertible debentures over a 10-year period and recorded under interest on borrowings. As the valuation of the unitholders' equity component of the conversion option did not have a material impact on the Cominar's consolidated results, the debentures have been recorded in whole as liabilities.

As at December 31, 2006, 54,296 convertible debentures were converted [2,465 convertible debentures in 2005] into 3,120,432 units [141,662 units in 2005] at a conversion price of $17.40 per unit, for a total amount of $54,296 [$2,465 in 2005].

9) BANK INDEBTEDNESS

Cominar has a number of operating and acquisition credit facilities of up to $118,000 [$65,865 as at December 31, 2005]. These credit facilities, subject to annual renewal, bear interest between prime rate and prime rate plus 0.00% and 0.50% [0.00% and 0.50% in 2005]. Of these credit facilities, $115,000 [$62,865 as at December 31, 2005] is secured by movable and immovable hypothecs on specific assets. As at December 31, 2006, the prime rate was 6.00% [5.00% as at December 31, 2005]. These credit facilities have a number of covenants which were met as at December 31, 2006.

10) ISSUED AND OUTSTANDING UNITS

The ownership interests in Cominar are represented by a single class of units. Units represent a unitholder's proportionate and undivided ownership interest in Cominar. Each unit confers the right to one vote at any meeting of unitholders and to participate equally and ratably in any distributions by Cominar.

During the year, Cominar issued 3,659,626 units [656,326 units in 2005] of which 3,120,432 units were issued pursuant to the convertible debenture conversion [141,662 units in 2005] and 68,744 units under the distribution reinvestment plan [61,714 units in 2005], the balance of 470,450 units via the exercise of options resulted in net proceeds of $6,668 [452,950 units for net proceeds of $6,101 in 2005].

December 31, 2006 and 2005 [in thousands of dollars except per-unit amounts]

	2006		2005	
	Units	$	**Units**	$
Units issued and outstanding, beginning of year	**32,940,735**	**338,230**	32,284,409	328,433
Issued from options exercised	**470,450**	**6,668**	452,950	6,101
Issued under distribution reinvestment plan	**68,744**	**1,372**	61,714	1,130
Issued from conversion of convertible debentures	**3,120,432**	**54,296**	141,662	2,465
Reversal of contributed surplus on exercise of options	**—**	**132**	—	101
Units issued and outstanding, end of year	**36,600,361**	**400,698**	32,940,735	338,230

Unit option plan

Under the unit option plan, Cominar granted options to the trustees, management and employees for the purchase of units. The maximum number of units issuable in connection with the plan is 3,319,210 units. As at December 31, 2006, options for the acquisition of 2,170,600 units were outstanding and 865,410 options were awardable under the plan.

The options granted are exercisable on a cumulative basis of 25% of options after each of the first four anniversaries of the grant date for the options granted on April 8, 2005, 20% of options after each of the first five anniversaries of the grant date for the options granted on November 13, 2003 and May 23, 2006, and 33 1/3% of options after each of first three anniversaries of the grant date for the options granted prior to November 13, 2003. The exercise price of the options represents the closing price of the units of Cominar on the day before the grant date and the options have a maximum seven-year term.

	2006		2005	
	Options	**Weighted average exercise price** $	**Options**	**Weighted average exercise price** $
Outstanding, beginning of year	**2,354,050**	**14.29**	2,563,000	13.86
Exercised	**(470,450)**	**14.21**	(452,950)	13.47
Granted	**670,000**	**18.90**	244,000	17.12
Cancelled	**(383,000)**	**15.61**	—	—
Outstanding, end of year	**2,170,600**	**15.50**	2,354,050	14.29
Options exercisable, end of year	**497,600**	**13.96**	484,050	13.83

			2006	
Date of grant	**Maturity date**	**Exercise price $**	**Outstanding options**	**Options exercisable**
August 9, 2001	August 9, 2008	11.00	**13,000**	**13,000**
November 13, 2003	November 13, 2010	14.00	**1,428,100**	**478,100**
April 8, 2005	November 13, 2010	17.12	**159,500**	**6,500**
May 23, 2006	May 23, 2013	18.90	**570,000**	**—**
			2,170,600	**497,600**

Unit-based compensation plan

The compensation expense related to the options granted on May 23, 2006 was calculated using the Black-Scholes option pricing model assuming a volatility of 13.0% in respect of said units, a fixed exercise price of $18.90, a weighted average distribution return of approximately 7.14% and a weighted average risk-free interest rate of approximately 4.10%. For the options granted on April 8, 2005, Cominar assumed a volatility of 13.5%, a fixed exercise price of $17.12, a weighted average of approximately 7.58% and a weighted average risk-free interest rate of approximately 3.78% and for the options granted on November 13, 2003, assuming a volatility of 11.7% in respect of said units, a fixed exercise price of $14, a weighted-average distribution return of approximately 8.74% and a weighted average risk-free interest rate of 4.21%.

Compensation expense is amortized using the graded vesting method.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options with no restrictions. In addition, option pricing models require the input of highly subjective assumptions, including the expected stock price volatility. Because the unit options of Cominar's trustees, management and employees have characteristics significantly different from those of traded options, and because changes in subjective input assumptions can materially affect fair value estimates, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the unit options of its trustees, management and employees.

Distribution reinvestment plan

Cominar adopted 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 a number of units amounting to 105% of the cash distribution. During the year, 68,744 units [61,714 in 2005] were issued at a weighted average price of $19.96 [$18.30 in 2005] for a consideration of $1,372 [$1,130 in 2005] pursuant to the distribution reinvestment plan.

11) INCOME TAXES

Cominar is taxed as 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 of Cominar and to deduct such distributions and designations for income tax purposes. Therefore, no provision for income taxes is required.

The carrying value of Cominar's net assets as at December 31, 2006 exceeds the tax basis by approximately $83,700 [$75,400 as at December 31, 2005].

On December 21, 2006, the Minister of Finance (Canada) released draft legislation (the "Proposals") relating to the federal income taxation of publicly-traded trusts (such as income trusts and REITs) and partnerships. The Proposals are contemplated to apply to a publicly-traded trust that is a specified investment flow-through entity (a "SIFT") which existed before November 1, 2006 ("Existing Trust") commencing with taxation years ending in or after 2011 (other than those Existing Trusts which qualify for the REIT Exception as described below).

Certain distributions attributable to a SIFT will not be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. Distributions paid by a SIFT as returns of capital will not be subject to this tax. There will be circumstances where an Existing Trust may lose its transitional relief where the Existing Trust undergoes "undue expansion".

The new taxation regime will not apply to certain Existing Trusts that qualify as REITs (the "REIT Exception") as defined in the Proposals. Accordingly, unless the REIT Exception is applicable to Cominar, the Proposals could, commencing in 2011, impact the level of cash distributions which would otherwise be made by Cominar. The Proposals do not fully accommodate the current business structures used by many Canadian REITs and contain a number of technical tests that many Canadian REITs, including Cominar, will likely find difficult to satisfy. The Minister's stated intention is to exempt REITs from taxation as SIFTs in recognition of "the unique history and role of collective real estate investment vehicles". Accordingly, it is possible that changes to these technical tests will be made prior to their enactment in order to accommodate some or all of the existing Canadian REITs, including Cominar. Alternatively, if the Proposals are not changed, existing Canadian REITs, including Cominar, may need to restructure their affairs in order to limit the application of the Proposals.

In the light of the foregoing, it is not currently possible to predict whether the Proposals as ultimately enacted will have an adverse effect on Cominar.

December 31, 2006 and 2005 [in thousands of dollars except per-unit amounts]

12) PER-UNIT RESULTS

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

	2006	2005
Weighted average number of units outstanding - basic	**34,364,768**	32,585,028
Effect of dilutive unit options	**513,154**	526,294
Weighted average number of units outstanding - diluted	**34,877,922**	33,111,322

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

13) DISTRIBUTIONS

Cominar is governed by a Contract of Trust that requires it to distribute 85% or more of its distributable income to unitholders. The distributable income generally means the net income determined in accordance with GAAP excluding the depreciation of income properties and the amortization of above-market leases, compensation costs related to unit options, deferred rentals and gains or losses on sale of income properties.

	2006	2005
Distributions to unitholders	42,724	39,549
Distributions per unit	1.230	1.210

14) SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash operating working capital items is as follows:

	2006 $	2005 $
Prepaid expenses	**(299)**	(345)
Accounts receivable	**(4,066)**	(3,440)
Accounts payable and accrued liabilities	**(904)**	6,419
	(5,269)	2,634
Additional information		
Interest paid	**25,129**	19,432
Unpaid leasing costs	**1,325**	737
Acquisitions of income properties and properties under development by assumption of mortgages payable	**—**	1,027
Unpaid acquisitions of income properties and properties under development	**6,075**	6,043
Properties under development transferred to income properties	**14,288**	11,846

December 31, 2006 and 2005 [in thousands of dollars except per-unit amounts]

15) RELATED-PARTY TRANSACTIONS

During the year, Cominar entered into transactions with companies controlled by unitholders who are also members of the Trust's management. These transactions, made in the normal course of business, have been measured at the exchange amount and have been reflected in the financial statements as follows:

	2006	2005
	$	$
Rental revenue from income properties	**1,178**	1,339
Other revenues	**384**	414
Income properties and properties under development	**14,871**	21,862
Deferred expenses and other assets	**8,629**	8,279
Accounts receivable	**473**	534
Accounts payable and accrued liabilities	**8,146**	8,714

16) FINANCIAL INSTRUMENTS

Cominar is exposed to financial risks that arise from fluctuations in interest rates and in the credit quality of its tenants.

Interest rate risk

Accounts receivable, except for the balance of sale mentioned in note 18, and accounts payable and accrued liabilities bear no interest.

The interest rates on mortgages payable, convertible debentures and bank indebtedness are disclosed in notes 7, 8 and 9 respectively.

Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. Cominar mitigates this risk via geographic and sector diversification of its portfolio and a varied tenant mix.

Fair value

The fair value of Cominar's financial assets and liabilities, such as accounts receivable, cash and cash equivalents, bank indebtedness, accounts payable and accrued liabilities and distributions payable to unitholders, approximated the carrying value as at December 31, 2006 due to their short-term nature or based on current market rates.

As at December 31, 2006, the fair value of mortgages payable exceeded the carrying value by approximately $5,693 [$5,466 as at December 31, 2005] due to changes in interest rates since the dates on which the individual mortgages payable were obtained. The fair value of mortgages payable has been estimated based on current market rates for mortgages of similar terms and maturities.

As at December 31, 2006, the fair value of convertible debentures exceeded the carrying value by approximately $2,292 due to the change in interest rates since the issuance date [as at December 31, 2005, the fair value approximates their carrying value]. The fair value of convertible debentures has been estimated based on the current market rate for convertible debentures of similar terms and maturities.

17) SEGMENTED INFORMATION

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

December 31, 2006 and 2005 [in thousands of dollars except per-unit amounts]

	2006			
	Office properties $	**Retail properties** $	**Industrial and mixed-use properties** $	**Total** $
Rental revenue from income properties	**46,349**	**41,129**	**44,208**	**131,686**
Depreciation of income properties	**6,183**	**5,047**	**4,958**	**16,188**
Net operating income (1)	**28,039**	**23,652**	**28,580**	**80,271**
Income properties	**259,869**	**223,453**	**228,119**	**711,441**
Acquisitions of income properties	**21,197**	**16,340**	**31,237**	**68,774**

	2005			
	Office properties $	**Retail properties** $	**Industrial and mixed-use properties** $	**Total** $
Rental revenue from income properties	44,176	38,954	38,431	121,561
Depreciation of income properties	5,996	4,620	4,062	14,678
Net operating income (1)	26,429	22,795	24,420	73,644
Income properties	244,855	212,160	201,840	658,855
Acquisitions of income properties	1,451	14,772	16,509	32,732

(1) Net operating income is “operating income before the undernoted” in the statement of income.

18) DISCONTINUED OPERATIONS

On December 21, 2006, Cominar sold an industrial and mixed-use property for $3,662, the proceeds of which were received in January 2007. This amount is presented in the balances of sale in note 6. A $632 gain on sale was realized.

In 2005, Cominar sold an industrial and mixed-use property for $2,700 of which $675 was paid in cash. The balance of $2,025, bearing interest at 7.5%, is receivable in March 2007 and carried in accounts receivable. A $248 gain on sale was realized.

The following table summarizes the financial information relating to the properties sold in accordance with CICA Handbook Section 3475, Disposal of Long-Lived Assets and Discontinued Operations.

	2006 $	**2005** $
Net operating income	**532**	474
Depreciation of income properties	**(88)**	(115)
Net income	**444**	359
Gain on sale	**632**	248
Income from discontinued operations	**1,076**	607
Basic net income per unit	**0.031**	0.019
Diluted net income per unit	**0.031**	0.018

19) UNUSUAL ITEM

In connection with its growth strategy, Cominar incurred, in the first quarter of 2006, costs totaling $554 related to its offer for Alexis Nihon Real Estate Investment Trust (“Alexis Nihon”), which was not completed in 2006 *[see note 21(b)]*. These costs have been recorded in the statement of income of the first quarter of 2006, in accordance with the provisions of the Canadian Institute of Chartered Accountants Emerging Issues Committee Abstract EIC-94, which states that, in cases where the entity ceases to be engaged on a regular and ongoing basis with completion of the specifically identified transaction and it is not likely that activities with respect to completion of the particular transaction will resume within the next three months, the costs incurred at that date must be immediately expensed.

20) CONTINGENCY

Cominar received an expropriation notice relating to an office building with 171,000 sq. ft. of rental space located at 300 Viger Street, Montreal.

Since the expropriation process is in its preliminary stages, it is currently not possible to estimate the amount of the compensation that might be paid by the expropriating authority.

21) SUBSEQUENT EVENTS AND COMMITMENT

a) In January 2007, Cominar acquired the following properties:

- An industrial and mixed-use property, located in Baie d’Urfé, for a total of $2,100, of which $748 was paid in cash and $1,352 was included in the assumption of mortgages payable;
- Land for future development, located in Quebec City and totalling $1,899, was paid in cash;
- Land for future development, located in Lévis, for a total of $4,000, of which $1,170 was paid in cash. The balance of $2,830 will be payable over the next three fiscal years;

b) On February 19, 2007, Cominar entered into a binding asset purchase agreement with Homburg Invest Inc. (“Homburg”) under the terms of which Cominar agreed to purchase the office and industrial buildings of Alexis Nihon representing 6,500,000 sq. ft. of rental space for a total of $592,000. The purchase is conditional upon the completion of the purchase offer from Homburg for all the outstanding units of Alexis Nihon. Management intends to acquire these properties via the assumption of mortgages, loans and unit issues.

Cominar has provided Homburg with a deposit of $17,100 on February 20, 2007. If Homburg is not successful in its offer for Alexis Nihon units, the deposit will be refunded to Cominar. If Cominar decides not to purchase the properties, it will forfeit its deposit.

c) On March 1, 2007, Cominar acquired two industrial and mixed-use properties, located in Brossard, for a total of $5,000 paid in cash and an industrial and mixed-use property, located in Longueuil, for a total of $1,100 paid in cash. On March 6, 2007, Cominar acquired land for future development, located in Laval, for a total of $3,500, of which $1,500 was paid in cash and $2,000 as a balance of sale.

22) COMPARATIVE FIGURES

Certain 2005 figures have been reclassified to conform with the present year presentation.