

ANNUAL REPORT
2003

COMINAR REAL ESTATE INVESTMENT TRUST



www.cominar.com

CORPORATE PROFILE

COMINAR REAL ESTATE INVESTMENT TRUST ("REIT" or "COMINAR") is a closed-end investment trust established by a Contract of Trust under the laws of the Province of Quebec. Founded on March 31, 1998, the REIT made its initial public offering in May 1998. As at December 31, 2003, Cominar owned a portfolio of 111 office, commercial, industrial and mixed use properties in the Montreal and Quebec City areas.

ITS PRINCIPAL OBJECTIVES ARE TO:

- provide unitholders with growing tax-deferred cash distributions payable monthly
- increase and maximize unit value through proactive management, including the acquisition of income properties and the redevelopment and extension of various properties in its portfolio.

With the participation of a reliable, experienced team, the REIT will continue to grow by striving for a balanced extension of its portfolio, according to trends in the marketplace.



1	Corporate Profile
2	2003 Highlights
3	4 5 Message to Unitholders
6	Trustees and Officers
7	8 9 Summary of the Income Properties
10	11 12 13 14 15 16 17 Management's Discussion and Analysis
18	Management's Responsibility
19	Auditors' Report
20	21 22 23 24 25 26 27 Financial Statements
28	Information

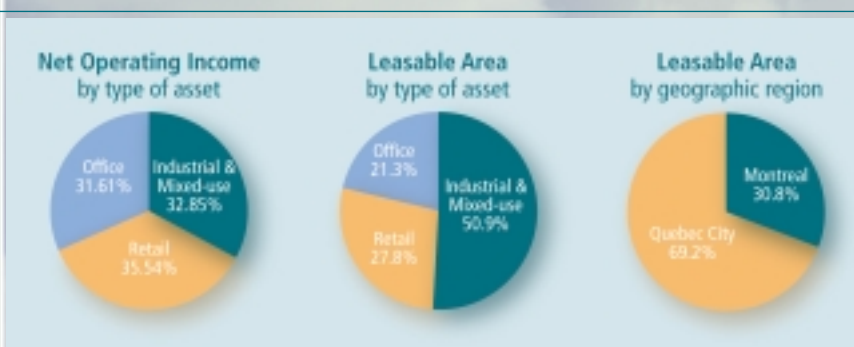
2003 HIGHLIGHTS

SOLID RETURN ON INVESTMENT

- Total return of 32.1% in 2003
- 5-year average yield of 19.2%



SOLID DIVERSIFICATION



SOLID FINANCIAL POSITION

- Indebtedness / gross value ratio: 43.7%
- 5th public offering
 - Issue of 5,000,000 units
 - Net proceeds: \$66.2 million

SOLID PORTFOLIO GROWTH

- Since 1998: + 157% or 4,834,000 sq.ft.

SOLID OCCUPANCY RATE

2003	2002	2001	2000	1999
96.0%	94.7%	94.3%	95.1%	95.3%

MESSAGE TO UNITHOLDERS

Cominar achieved solid growth and expansion for a fifth consecutive year in fiscal 2003. Operating revenues totalled \$96.6 million, an increase of 17.9%. Net operating income grew by \$58.1 million to reach 14.6%. Distributable income rose 7.1% to \$35.3 million, and distributions to unitholders rose 9.6% to \$31.4 million. The year's acquisitions and development projects further increased the size and quality of the portfolio, bringing it to over 7.9 million square feet by year-end. It now totals 111 properties in three business sectors and two markets: the Quebec Area where Cominar still has a dominant presence, and the Montreal region where the portfolio is growing.

In 2003, Cominar continued to make gains at every level, focusing on further enhancing the real estate portfolio's value, while providing unitholders with an attractive return and the investment stability they seek. With the distributions of \$1.152 per unit paid in 2003, as well the \$2.72 increase in unit price since December 31, 2002, unitholders benefited from a 32.1% return in 2003.

The REIT is not only committed to offering unitholders a solid return, but also to providing clients with quality of service at all times. Building on its teams' complementary skills and know-how and acting as a responsible manager, Cominar emphasizes quality service in everything it does. As at December 31, 2003, its property occupancy rate stood at 96.0%.



Jules Dallaire
Chairman of the Board and Chief Executive Officer

MESSAGE TO UNITHOLDERS

Our expansion strategy is based on our goals of stability and long-term growth and adapted to real estate conditions.

As we announced in 2003, in a property market where prices are still high, we decided to act conservatively in order to respect our long-term commitments to unitholders. For an acquisition project to be successful, there must be a positive ratio between the property's purchasing price, its potential profit over the medium and long terms and the necessary financing. Our market intelligence prompted us to temporarily give priority to development works, either through the expansion of some of our buildings offering this potential, or new constructions based on our criterias.

Thus, in 2003, we completed development works covering some 120,000 square feet in the Montreal and Quebec City regions. At 2003 year-end, we had another 10 developments under way, including eight new construction projects. These works in progress represent a total investment of over \$66 million for an additional area of about 1,000,000 square feet, part of which is already leased. According to our planning, it should be completed between the beginning of 2004 and summer 2005. All these developments have capitalization rates ranging from 9.9% to 11.7%. We are especially pleased to have obtained these conditions which provide good assurance for our future profitability.

That focus did not keep us from concluding four major acquisitions meeting our criteria of quality, location, capitalization rate and potential profitability. These acquisitions were made in the retail and the industrial and mixed-use sectors, thereby adding some 231,000 square feet of leasable space to our Montreal-area portfolio. Their capitalization rates range from 9.8% to 10.8%, which is also outstanding, especially under current market conditions.

Our expansion in 2003 improved the segmented breakdown of our net operating income. The office sector now stands at 31.6%, the retail at 35.5%, and the industrial and mixed-use at 32.9%.



We maintain conservative financial management to minimize the interest rate risk, continue raising our distributions, and have the flexibility to seize opportunities.

Sustaining the previous trend, our financial position remained healthy and solid in 2003. We showed a debt to gross book value ratio of 43.7% at fiscal year-end, leaving an expansion-by-acquisition and development capacity of more than \$250 million considering the maximum indebtedness level of 60% authorized by our Contract of Trust. However, we prefer to keep a conservative debt ratio of under 55%, which brings our expansion-by-acquisition and development capacity to about \$155 million. Since Cominar's inception, our debt ratio has consistently remained below 55%.

Furthermore, our debt management policy entails extending mortgage loan maturities over a five-year period. The only year with a higher renewal rate coincided with the expiry of the *Place de la Cité* mortgage, which was refinanced in April 2003 for a five-year term. In 2002 and 2003, we benefited from lower interest rates to arrange new financing. On December 31, 2003, we thus had mortgages payable of just \$14.7 million maturing in 2004 and \$10.8 million maturing in 2005, and do not foresee any problems renewing them.

Our team members share a culture of excellence focused on quality of service and total commitment.

We are proud of our know-how which we continue to perfect – namely, our in-depth market intelligence with our exclusive database on the real estate sector, our integrated management and the quality of our customer service.

Our employees' skills and sense of belonging are among our major competitive advantages. At every level, our employees are concerned with quality, improving productivity and achieving results. Our management structures are flexible and our working climate promotes initiative. Our teams' diversified expertise in layout, refitting and expansion work enable us to take advantage of unique property development opportunities which, given their potential for short and long-term profitability, will contribute to sustained growth in distributable income.

As a fully-integrated, self-administered and self-directed income trust, Cominar is not subject to third-party administration contracts. This structure not only reduces the risk of conflict of interest between management and Cominar, it also greatly improves the REIT's operational and financial performance, while giving us complete control over the quality of our customer service.

The operational and financial solidity we have acquired in the past five years allows us to look to the future with confidence and optimism.

Over the last full five years as a listed trust:

- the net value of our assets rose from \$272 million to \$602.9 million, up 121.6%. We thus surpassed our five-year objective of a half-billion dollars;
- our portfolio's total leasable space went from 3.7 million square feet to over 7.9 million square feet, a 135.1% increase arising from the acquisition and development of quality properties. All our expansion projects took market conditions into account and focused on our objective of constantly enhancing the portfolio's value;
- the portfolio's value increased every year. It is currently estimated at \$120 million to \$130 million, which represents good security for maintaining distributions in the future;
- as for the return to unitholders, it has steadily improved in the last five years, making Cominar's unit not only a solid and reliable investment, but also an attractive one. During this five-year period, the average annual return has been 19.1%, not to mention the related tax benefit.

This performance has been achieved thanks to the quality of our team, our business culture and our growth strategy, which is and will remain focused on balanced diversification

in our three sectors; expansion in two major metropolitan regions, specifically the Montreal and Quebec Areas where we maintain our dominant presence; and conservative borrowing practices adapted to our growth objectives.

In 2004, we expect to pursue our growth as we will benefit from the expansion completed in 2003. Our development projects will also progress according to our planning; some of the work is scheduled for completion by year-end so as to receive the first tenants in 2004. For instance, *Place de la Cité* in Quebec City will welcome its first clients in April of this year.

Greater interest in sound corporate governance has arisen during the past two years. Cominar's trustees and the members of its management team have always been committed to practising proper corporate governance, and have stood out as leaders in the matter by applying several guidelines even before their adoption by regulatory authorities.

On behalf of the REIT's trustees, we wish to thank our employees, our clients, our unitholders and all our business partners. Cominar is determined to maintain the strict standards and dynamism that have guided it since its inception. It is committed to making the most informed decisions in order to continue managing its business in a timely and disciplined manner, to further increase the portfolio's value and to remain a responsible employer, an unmatched service provider, as well as a secure value and profitable investment for its unitholders.



Jules Dallaire
Chairman of the Board and Chief Executive Officer

TRUSTEES AND OFFICERS

COMINAR



Jules Dallaire
Trustee, Chairman of the Board
and Chief Executive Officer



Michel Dallaire
Trustee, President and
Chief Operation Officer



Michel Berthelot
Trustee,
Executive Vice-President and
Chief Financial Officer



Michel Paquet
Trustee,
Executive Vice-President,
Legal Affairs and Secretary



Michel Ouellette
Executive Vice-President
Acquisitions and Development



Luc-André Picotte
Vice-President
Retail Operations



René Bérubé
Vice-President
Industrial and Commercial
Properties



Robert Larivière
Vice-President
Buildings Operations



Richard Marion
Trustee



Yvan Caron
Trustee



Pierre Gingras
Trustee



Robert Després
Trustee



Ghislaine Laberge
Trustee

SUMMARY OF THE INCOME PROPERTIES



PROPERTY
(Cominar's ownership in each property is 100%)

Leasable Area
(sq.ft.)

Occupancy Rate
(%)

OFFICE PROPERTIES

4635, 1 ^{ère} Avenue, Charlesbourg	40,811	70.56
5055, boulevard Wilfrid-Hamel Ouest, Québec	27,461	94.60
5073-5075-5079, boulevard Wilfrid-Hamel Ouest, Québec	28,215	100.00
2014, rue Jean-Talon Nord, Sainte-Foy	60,885	89.17
2200, rue Jean-Talon Nord, Sainte-Foy	30,485	100.00
2600, boulevard Laurier, Sainte-Foy (Place de la Cité)	467,993	98.32
455, rue Marais, Vanier	60,809	89.74
3175, chemin des Quatre-Bourgeois, Sainte-Foy	99,715	78.41
979, avenue de Bourgogne, Sainte-Foy	65,287	98.58
150, boulevard René-Lévesque Est, Québec (Place de la Capitale)	234,962	100.00
1265, boulevard Charest Ouest, Québec	140,328	99.14
255, boulevard Crémazie Est, Montréal	249,151	74.54
8500, boulevard Décarie, Ville Mont-Royal	175,060	100.00
Sub-total	1,681,162	92.79

RETAIL PROPERTIES

1367-1371, chemin Sainte-Foy, Québec	5,491	100.00
5, Place Orléans, Beauport	5,792	100.00
1400, avenue Saint-Jean-Baptiste, Québec	104,249	86.98
245, rue Soumande, Vanier (Halles Fleur de Lys)	91,219	93.46
2195, boulevard de la Rive-Sud, Saint-Romuald	6,225	100.00
2160, boulevard de la Rive-Sud, Saint-Romuald	72,261	100.00
2600, boulevard Laurier, Sainte-Foy (Place de la Cité)	365,881	97.06
8500, boulevard Henri-Bourassa, Charlesbourg (Carrefour Charlesbourg)	265,938	95.81
355, rue Marais, Vanier	37,365	93.68
325, rue Marais, Vanier	77,933	97.79
550, rue Marais, Vanier	16,849	100.00
3333, rue du Carrefour, Beauport (Promenades Beauport)	468,560	95.33
1295, boulevard Charest Ouest, Québec	49,280	72.44
50, route du Président-Kennedy, Lévis (Place Lévis)	223,426	94.25
3319, rue du Carrefour, Beauport (Tim Horton)	3,090	100.00
329, rue Seigneuriale, Beauport	3,792	100.00
1970, avenue Chauveau, Québec	2,400	100.00
1275, boulevard Charest Ouest, Québec	63,249	100.00
1479-1481-1483-1485 boulevard Saint-Bruno, St-Bruno-de-Montarville	12,971	100.00
1465, boulevard Saint-Bruno, St-Bruno-de-Montarville	26,093	100.00
1475, boulevard Saint-Bruno, St-Bruno-de-Montarville	129,638	100.00
1495, boulevard Saint-Bruno, St-Bruno-de-Montarville	34,808	100.00
800, boulevard Claude-Jutra, Longueuil	30,352	100.00
239-245, boulevard Samson, Laval	40,533	100.00
2101-2137, boulevard Curé-Labelle, Laval	64,729	100.00
Sub-total	2,202,124	95.74



PROPERTY
(Cominar's ownership in each property is 100%)

Leasable Area
(sq.ft.)

Occupancy Rate
(%)

INDUSTRIAL AND MIXED-USE PROPERTIES

2383-2393, avenue Watt, Sainte-Foy	67,092	100.00
2345-2349, avenue Dalton, Sainte-Foy	54,110	100.00
830, avenue, Godin, Vanier	49,055	100.00
1165, rue Gouin, Québec + 1096, 1098, Lescarbot, Québec	71,577	100.00
320, chemin de la Canardière, Québec	12,996	96.14
1990, rue Jean-Talon Nord, Sainte-Foy	89,331	95.68
2006-2010, rue Lavoisier, Sainte-Foy	68,235	100.00
2022, rue Lavoisier, Sainte-Foy + rue Morse, Sainte-Foy	58,836	100.00
2025, rue Lavoisier, Sainte-Foy	37,124	100.00
2015, rue Lavoisier, Sainte-Foy	2,134	100.00
280, rue Racine, Loretteville	18,801	100.00
5130, rue Rideau, Québec	24,402	100.00
2955, avenue Kepler, Sainte-Foy	14,960	100.00
1515, avenue Saint-Jean-Baptiste, Québec	61,923	92.64
955, avenue Saint-Jean-Baptiste, Québec	33,034	100.00
2020, rue Jean-Talon Nord, Sainte-Foy	41,133	100.00
2100, rue Jean-Talon Nord, Sainte-Foy	31,419	100.00
2150, rue Jean-Talon Nord, Sainte-Foy	22,560	100.00
2160, rue Jean-Talon Nord, Sainte-Foy	45,160	73.95
2180, rue Jean-Talon Nord, Sainte-Foy	20,032	100.00
100, rue Chabot, Vanier	107,000	100.00
905, avenue Ducharme, Vanier	19,239	100.00
454,-456, avenue Marconi, Sainte-Foy	15,592	100.00
1730-1790, avenue Newton, Québec	62,925	100.00
5000, rue Rideau, Québec	2,475	100.00
5125, rue Rideau, Québec	11,575	100.00
4175, boulevard Sainte-Anne, Beauport	39,245	100.00
625, rue des Canetons, Québec	19,981	100.00
4975, rue Rideau, Québec	32,780	96.34
2755, avenue Dalton, Sainte-Foy	23,880	85.13
1050, avenue Ducharme, Vanier	38,815	100.00
650, avenue Godin, Vanier + 460, rue Desrochers, Vanier	196,624	100.00
625, avenue Godin, Vanier	60,415	100.00
579, avenue Godin, Vanier	12,337	100.00
2700, rue Jean-Perrin, Québec	128,247	99.14
2181 à 2211, rue Léon-Harmel, Québec	44,048	79.02
1540, rue Jean-Talon Nord, Sainte-Foy	9,425	100.00
445, avenue Saint-Jean-Baptiste, Québec	57,368	99.33
500, avenue Saint-Jean-Baptiste, Québec	87,137	91.80
5275, boulevard Wilfrid-Hamel, Québec	30,071	96.62
1670, rue Semple, Québec	89,154	91.45
2500, rue Jean-Perrin, Québec	75,231	79.59



PROPERTY
(Cominar's ownership in each property is 100%)

Leasable Area
(sq.ft.)

Occupancy Rate
(%)

INDUSTRIAL AND MIXED-USE PROPERTIES (CONT'D)

2600, rue Jean-Perrin, Québec	48,814	100.00
470 avenue Godin, Vanier	22,920	100.00
765, avenue Godin, Vanier	15,350	100.00
1041, boulevard Pierre-Bertrand, Vanier	118,611	100.00
989, boulevard Pierre-Bertrand, Vanier	38,440	87.74
955, boulevard Pierre-Bertrand, Vanier	47,489	100.00
1075, des Basses-Terres, Québec	48,025	100.00
235, rue Fortin, Vanier	26,006	100.00
8288 boulevard Pie-IX, Montréal	119,522	100.00
1415, 32 ^e Avenue, Lachine	71,503	100.00
1455, 32 ^e Avenue, Lachine	32,500	100.00
1475, 32 ^e Avenue, Lachine	91,690	100.00
3300, J.B. Deschamps, Lachine	19,393	100.00
9100, Boulevard du Parcours, Anjou	122,602	100.00
10550, boul. Parkway, Anjou	110,000	100.00
2105, boul. Dagenais Ouest, Laval	274,700	100.00
894-930, rue Bergar, Laval	33,134	100.00
901-937, rue Michelin, Laval	42,190	80.14
3370-3418, boulevard Industriel, Laval	55,331	100.00
3401-3421, boulevard Industriel, Laval	53,422	100.00
1405-1453, rue Bergar, Laval	32,480	100.00
3424-3428, Francis-Hugues, Laval	16,114	100.00
1315, Gay-Lussac, Boucherville	43,693	100.00
40, Chemin du Tremblay, Boucherville	100,805	100.00
620-650, rue Giffard, Longueuil	53,161	82.25
667-687, rue Giffard, Longueuil	42,173	93.51
796-818, rue Guimond, Longueuil	50,095	89.77
9101, boulevard des Sciences, Anjou	71,727	91.08
1675, boulevard de Montarville, Longueuil	109,264	100.00
5250, rue Armand-Frappier, Saint-Hubert	59,460	100.00
1405-1455-1495, 55 ^e Avenue, Dorval	66,185	100.00
Sub-total	4,024,277	97.41
TOTAL	7,907,563	95.96



MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

This management's discussion and analysis of the consolidated operating results and financial position of Cominar Real Estate Investment Trust ("Cominar") for the fiscal years ended December 31, 2003 and 2002 should be read in conjunction with the consolidated financial statements and accompanying notes appearing in this annual report. Those consolidated financial statements have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public and Private Real Estate Companies.

Management's discussion and analysis is intended to facilitate understanding of the audited consolidated financial statements and accompanying notes. The discussion and analysis may include objectives, projections, estimates, expectations, forecasts and predictions by Cominar or management that are forward-looking. Positive or negative verbs such as "believe", "plan", "estimate", "expect" and "evaluate" are used to identify forward-looking statements. Cominar cautions readers that, by their very nature, forward-looking statements involve major risks and uncertainties such that Cominar's actions, results and financial position could differ significantly from those indicated, whether explicitly or implicitly.

BUSINESS OVERVIEW

Cominar is an unincorporated closed-end investment trust established by a Contract of Trust under the laws of the Province of Quebec.

Founded on March 31, 1998, Cominar began its operations following its initial public offering on May 21, 1998, when it acquired a portfolio of 51 properties in Quebec City, comprised of eight office, 13 retail and 30 industrial and mixed-use buildings, for a total leasable area of approximately 3.1 million square feet.

Subsequently and until December 31, 2003, Cominar acquired a total of 60 other properties covering about 4.8 million square feet, including 2.4 million in the Montreal region. As at December 31, 2003, Cominar thus owned a portfolio of 111 properties, for a total leasable area of approximately 7.9 million square feet.

The quality and diversification of its portfolio enables Cominar to regularly generate cash flows and provide stable and growing returns for unitholders.

The table below shows the relationship between distributable income per unit, distributions per unit and the closing price on the *Toronto Stock Exchange* on the last trading day of each year since Cominar's inception.

Per unit	2003	2002	2001	2000	1999	1998
	\$	\$	\$	\$	\$	\$
Distributable income	1.303	1.277	1.212	1.180	1.110	0.577
Distributions	1.152	1.107	1.086	1.061	1.052	0.551
Closing price	14.79	12.07	12.00	10.15	9.10	10.00

Excluding 1998 (224-day fiscal year), Cominar's distributions have steadily grown, reflecting an average annual return of 9.40% (calculated using an average closing price of \$11.62). Considering the increase in unit price, the average annual return works out to 19.2% over the last five years.

GROWTH STRATEGY

Cominar's principal growth sources are acquisitions and developments of income properties. In addition to enhancing its short and long-term profitability, these expansion projects are aimed at creating a solid increase in the real estate portfolio's value over the long term.

Economic conditions during the past two years have exerted an upward pressure on property prices, enabling the Quebec real estate market to undergo strong growth, especially in large urban centres. Nevertheless, Cominar believes that high prices call for caution. Since Cominar's inception, the real estate portfolio has undergone a major strong expansion while management has applied a cautious strategy based on its strict criteria and market conditions. The current context continues to prompt it to favour property developments rather than acquisitions. This conservative strategy yields capitalization rates of about 10% before leveraging. Generally higher than current market values, these capitalization rates will contribute to ensuring Cominar's future profitability and enhance its ability to withstand an eventual increase in interest rates and decline in occupancy rates.

A key factor in analyzing an acquisition project remains the ratio between a target property's purchasing price, potential profitability and the debt to be contracted. To stay profitable during phases of the economic cycle, Cominar ensures that a property's purchasing price is always supported by its actual value, and then determines the appropriate debt.

Maintaining a balanced portfolio is another important component of Cominar's acquisition strategy. As shown in the table below, Cominar develops its portfolio by taking market trends into account so the breakdown of its net operating income remains fairly well balanced among its three sectors, namely office, retail and industrial and mixed-use properties. This breakdown necessarily varies from one year to the next according to the acquisitions and development projects completed during the year.

(in thousands of dollars)	Operating revenues		Net operating income		Breakdown between sectors	
Sectors	2003	2002	2003	2002	2003	2002
Office	30,914	26,218	18,362	14,991	31.61%	29.58%
Retail	35,637	31,887	20,641	18,752	35.54%	37.01%
Industrial and mixed-use	30,026	23,820	19,082	16,931	32.85%	33.41%
Total	96,577	81,925	58,085	50,674	100.00%	100.00%

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cominar's accounting policies are essential to the understanding and interpretation of the financial results appearing in this annual report. The significant accounting policies used in preparing the consolidated financial statements are summarized in note 2 to the financial statements. Special importance underlies some of these policies as management must often make complex or subjective judgments about matters that are inherently uncertain in nature. The following text deals with these policies.

REVENUE RECOGNITION

Rental revenues include rents from tenants under leases, realty taxes, property operating cost recoveries, lease cancellation fees, parking income and incidental income. These revenues are recorded once management has reasonable assurance that they will be effectively received.

However, as soon as management estimates that recorded revenues are unlikely to be received, the account receivable is provisioned as a bad debt. Management regularly reviews its list of accounts receivable to establish the necessary provision for bad debts.

INCOME PROPERTIES AND PROPERTIES UNDER DEVELOPMENT

Income properties are stated at cost, which includes all acquisition and property improvement costs. Properties under development are also stated at cost, which in this case also includes initial acquisition costs, other direct costs, realty taxes, financing interest, and all operating revenues and expenses incurred during the development period.

Since Cominar's inception, management has examined the return on each property every quarter to ensure that there has not been any decline in value. It establishes whether major events or changes might have permanently affected the property's value and ensures that its book value is not unrecoverable.

NEW ACCOUNTING POLICY

IMPAIRMENT OF LONG-TERM ASSETS

Effective January 1, 2003, Cominar prospectively adopted the CICA Handbook's new Section 3063, "Impairment of long-lived assets". Impairment is estimated by comparing the carrying value of an asset with net future non-discounted cash flows planned for use plus its residual value. If the value of the assets is considered to have sustained an impairment, the impairment to be recorded corresponds to the excess of their carrying value over their fair value. It should be noted that the adoption of Section 3063 had no impact on Cominar's financial statements as no impairment of long-lived assets was necessary as at December 31, 2003.

OPERATING RESULTS

Cominar pursued its growth in 2003, with operating revenues of \$96.6 million, an increase of \$14.7 million or 17.9% over \$81.9 million a year earlier. Net operating income grew by 14.6%, rising from \$50.7 million in 2002 to \$58.1 million in 2003. The ratio of net operating income to operating revenues was down by 1.7% compared with 2002, due mainly to an increase in realty taxes. It should be noted that this expense was totally recovered from tenants. Nevertheless, the impact of the equivalent increase in revenues and expenses led to a decline in the net operating income ratio. The nature of the leases of properties acquired during the year also affects the net operating income ratio. In 2002, several acquisitions were properties occupied by tenants with net triple leases, which had an upward impact on the growth in net earnings. In the case of a net triple lease, property operating costs are the tenant's responsibility.

Net operating income, which is a term frequently used by real estate professionals, is defined as operating income before interest on mortgages and bank indebtedness, depreciation of income properties, and amortization of deferred expenses and other assets.

Distributable income totalled \$35.3 million, compared with \$32.9 million in 2002, an increase of 7.1%. Distributable income per unit amounted to \$1.303, up from \$1.277 the prior year.

CONSOLIDATED STATEMENTS OF INCOME

	Dec. 31, 2003	Dec. 31, 2002	Change \$	%
Operating revenues	96,577	81,925	14,652	17.9
Operating expenses				
Property operating costs	21,083	17,575	3,508	20.0
Realty taxes and services	16,235	12,806	3,429	26.8
Property management expenses	1,174	870	305	34.9
	38,492	31,251	7,242	23.2
Net operating income	58,085	50,674	7,410	14.6
Interest on mortgages	16,898	13,848	3,050	22.0
Depreciation of income properties	4,240	3,506	733	20.9
Amortization of deferred expenses and other assets	4,636	3,505	1,131	32.3
Operating income from real estate assets	32,311	29,815	2,496	8.4
Trust administrative expenses	1,512	1,228	284	23.1
Other revenues	(223)	(845)	(622)	(73.6)
Net income	31,022	29,432	1,590	5.4
Depreciation of income properties	4,240	3,506	734	20.9
Distributable income	35,262	32,938	2,324	7.1
Net income per unit	1.146	1.141	0.005	0.0
Distributable income per unit	1.303	1.277	0.026	2.1

Variations in operating income are due mainly to acquisitions and development projects completed in 2003 and 2002. As the acquisitions and developments in 2002 were all completed after June 1, 2002, they brought their full contribution to results for 2003. Eight properties were added to Cominar's portfolio in 2003: four acquired properties and four construction and development projects. The latter were all fully occupied as at December 31, 2003.

QUARTERLY INFORMATION (unaudited)

	Mar. 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003
Operating revenues	23,700	24,534	24,119	24,224
Net operating income	13,113	14,193	14,923	15,856
Net income	6,415	7,240	7,951	9,416
Basic net income per unit	0.245	0.275	0.301	0.322
Distributable income	7,457	8,296	9,032	10,477
Basic distributable income per unit	0.285	0.315	0.342	0.358
Weighted average number of units	26,163	26,358	26,439	29,267
	Mar. 31, 2002	June 30, 2002	Sept. 30, 2002	Dec. 31, 2002
Operating revenues	19,169	20,186	20,891	21,679
Net operating income	11,157	12,032	13,374	14,111
Net income	6,116	7,112	7,780	8,424
Basic net income per unit	0.240	0.276	0.301	0.323
Distributable income	6,949	7,945	8,733	9,311
Basic distributable income per unit	0.272	0.309	0.338	0.358
Weighted average number of units	25,534	25,736	25,873	26,045

Note: As the difference between basic net income and diluted net income is immaterial, the latter is not presented in the above table.

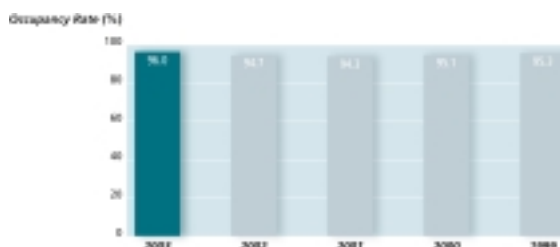
Quarterly variations result mainly from acquisitions and property developments plus seasonal expenses. The first quarter generally reflects higher energy and snow removal expenses. In the second quarter of 2003, there was a greater increase in operating revenues due to the billing of municipal taxes to clients. However, there was no impact on income as an equivalent amount was recorded as expenses. The fourth quarter generally yields the year's best performance because of lower expenses.

RENTAL ACTIVITIES

Cominar posted an occupancy rate of 96.0% as at December 31, 2003, which is comparable to the average of 95% obtained since 1998.

TREND IN OCCUPANCY RATE BY SECTOR (%)

Sector	2003	2002	2001	2000	1999
Office	92.80	90.00	96.03	93.30	94.43
Retail	95.70	94.30	93.71	94.70	93.88
Industrial and mixed-use	97.40	97.30	93.99	96.20	96.48
Portfolio's total	96.00	94.70	94.34	95.10	95.29



LEASE RENEWAL RATE

	Expiring leases sq.ft.	Renewed leases sq.ft.	Renewal rate %
1999	546,820	437,624	80.03
2000	770,387	580,674	75.37
2001	1,098,301	894,217	81.42
2002	1,141,790	912,739	79.94
2003	1,397,779	1,069,024	76.48

The annual renewal rate of leases expiring since 1998 stands at over 75%, reflecting the efforts made by Cominar's team of leasing consultants and the quality of its properties. New leases were signed for more than 580,000 square feet in 2003.

INTEREST ON MORTGAGES

Interest on mortgages payable rose 22.0% to \$16.9 million in 2003, up from \$13.8 million in 2002. This increase is due to the rise in indebtedness following the year's acquisitions and developments.

The weighted average interest rate went from 6.55% as at December 31, 2002 to 6.31% as at December 31, 2003. In April 2003, Cominar refinanced the mortgage on the Place de la Cité property for \$95.0 million, over a five-year period at a 6.15% interest rate, compared with 6.92% previously.

AMORTIZATION OF DEFERRED EXPENSES AND OTHER ASSETS

Amortization of deferred expenses and other assets rose 32.3% in 2003. This difference is due to the fact that on Cominar's inception, such expenses were at a zero balance. Considering that annually accumulated deferred expenses are amortized over an average of five years, a major increase in amortization of deferred expenses is normal until 2003, Cominar's fifth complete fiscal year. For future years, amortization will rise according to leasehold improvements made on the signing of new leases or on the renewal of expiring leases.

OTHER REVENUES

"Other revenues" consist mainly of interest on investments. The \$621,000 decline recorded in 2003 is due to the exercise at the end of 2002 of an option held by Cominar to purchase properties secured by a mezzanine loan bearing interest at 10%.

DISTRIBUTABLE INCOME AND DISTRIBUTIONS

Although it is not a measure defined by Canadian generally accepted accounting principles (GAAP), distributable income is a very important measurement unit for a real estate investment trust. It generally corresponds to net income established in accordance with GAAP, excluding amortization expense. The distributions paid annually to unitholders must represent at least 85% of distributable income and partly determine the return obtained by unitholders.

DISTRIBUTABLE INCOME

(in thousands of dollars except amounts per unit)	2003 \$	2002 \$
Net income for the year	31,022	29,432
Depreciation of income properties	4,240	3,506
Distributable income	35,262	32,938
Weighted average number of units	27,064	25,799
Basic distributable income per unit	1.303	1.277
Distributions paid per unit	1.152	1.107
Distribution rate	88.4%	86.7%

Distributable income amounted to \$35.3 million or \$1.303 per unit, compared with \$32.9 million or \$1.277 per unit in 2002. Distributions paid to unitholders rose 9.6% to \$31.4 million, up from \$28.7 million in 2002. The distribution rate per unit grew to 88.4%, being a slight 1.7% increase over 2002 because of the weak dilution generated by the issue of 5,000,000 units in November 2003. The dilutive effect will decrease as acquisitions are completed by Cominar.

RELATED PARTY TRANSACTIONS

Jules Dallaire and Michel Dallaire, both of whom are trustees and members of Cominar's management, exercise indirect control over Dalcon Inc., Électricité Hamo Inc. and Corporation financière Alpha (CFA) Inc. Michel Paquet, also a trustee and member of Cominar's management, acts as manager of these companies.

During 2003, Cominar received net rental revenues of \$1.5 million from Dalcon Inc., Électricité Hamo Inc. and Corporation financière Alpha (CFA) Inc. Cominar incurred expenditures of \$7.5 million for leasehold improvements performed for its tenants by Dalcon Inc. and \$21.2 million for the construction of one property and the development of some of its properties.

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

REAL ESTATE PORTFOLIO

INCOME PROPERTIES

In 2003, Cominar added eight properties covering a leasable area of 350,291 square feet to its real estate portfolio:

	Dates	Location	Type	Capitalization rate (%)	Area (sq.ft.)
Acquisitions					
	January	5250 Armand Frappier, St-Hubert	Industrial and mixed-use	10.25	59,460
	February	245 Samson Blvd., Laval	Retail	10.80	40,533
	April	5055 55th Avenue,	Industrial and mixed-use	9.90	66,185
	August	2137 Curé Labelle, Laval	Retail	9.80	64,729
					230,907
Development work completed					
	January	2105 Dagenais Blvd. West, Laval (Expansion)	Industrial and mixed-use	11.70	31,013
	January	3333 du Carrefour, Beauport	Retail	11.50	3,090
	February	1050, Ducharme, Vanier (Pruneau 1)	Industrial and mixed-use	10.90	38,815
	August	800 Claude-Jutras Blvd., Longueuil	Retail	11.50	30,352
	December	3424, Francis-Hugues, Laval	Industrial and mixed-use	11.20	16,114
					119,384
	Total				350,291

Note: Although capitalization rate is not a measure defined by Canadian generally accepted accounting principles, it is widely used in real estate to evaluate a property's performance. The capitalization rate is a factor establishing the relationship between a property's value and its revenues.

Completed at a cost of \$27.9 million, at capitalization rates ranging from 9.8% to 11.7%, these acquisitions and development projects brought the portfolio's leasable area to over 7.9 million square feet. It is broken down as follows:

QUEBEC CITY		MONTREAL	
Number	Area (sq.ft.)	Number	Area (sq.ft.)
79	5,476,000	32	2,433,000

PROPERTIES UNDER DEVELOPMENT

As at December 31, 2003, properties under development represent a book value of \$21.5 million, the largest of which is the construction of a 205,000-square-foot office tower at Place de la Cité. On April 1, 2004, a first tenant will occupy an area of 72,386 square feet, and gradually the other clients will move into their premises in the following weeks. Signed leases currently represent 68.4% of the leasable space of the new construction which, once complete, will consolidate Place de la Cité's positioning as the leading financial centre in the Greater Quebec City Area. On completion of the work, the complex will cover more than 1,000,000 square feet, for a market value of approximately \$150 million.

DEVELOPMENT WORK

Address	Business sector	Current cost (thousands of \$)	Budget (thousands of \$)	Estimated capitalization rate (%)	Completion of work
Tour Cominar (Place de la Cité)	Office	13,435	22,000	9.9	Summer 04
1775 Léon-Harmel Quebec City	Industrial and mixed-use	609	650	10.5	Winter 04
975, Ducharme, Vanier	Industrial and mixed-use	947	1,500	10.3	Winter 04
445 St-Baptiste, Quebec City	Industrial and mixed-use	1,028	1,700	10.4	Spring 04
2181 Léon-Harmel, Quebec City	Industrial and mixed-use	700	1,200	10.6	Spring 04
796 Guimond Street, Longueuil	Industrial and mixed-use	859	1,300	10.3	Spring 04
Carrefour Charlesbourg	Retail	177	8,050	10.9	Fall 04
1675 Montarville Blvd., Longueuil	Industrial and mixed-use	0	1,300	10.6	Winter 04
Project Henri IV, Quebec City	Industrial and mixed-use	1,286	10,350	10.5	Summer 05
Project Highway 440, Laval	Industrial and mixed-use	2,445	18,000	10.1	Summer 05
		<u>21,486</u>	<u>66,050</u>		

The Highway 440 project in Laval covers a leasable area of 301,400 square feet and represents a total investment of \$18.0 million. It includes the construction of four industrial and mixed-use properties, the construction of two of which will begin shortly and to concluded in the fall of 2004. These first two projects represent a leasable area of 185,400 square feet and a cost of \$11.2 million. The construction of the other two properties should begin during the winter of 2004 and conclude in the summer of 2005.

The Henri IV project in Quebec City will start in a few weeks with the construction of two industrial and mixed-use properties covering 152,000 square feet of leasable space, at a cost of \$8.5 million. The work on these two properties should conclude in the winter of 2004. The other two constructions represent 36,000 square feet and an investment of \$1.85 million and should wrap up in the summer of 2005.

The expansion of Carrefour Charlesbourg, a shopping centre in Quebec City, should be complete in the fall of 2004. It will add 91,500 square feet of leasable space, at a cost of \$8.0 million. A supermarket will occupy 58,000 square feet of this expansion as of April 2004.

Together, these projects will add a leasable area of about 959,000 square feet to Cominar's portfolio, at capitalization rates from 9.9% to 10.9% before leveraging, which are much higher rates than those required by sellers in the Quebec real estate sector.

LIQUIDITY AND CAPITAL RESOURCES

In 2003, cash flows from operating activities rose to \$38.9 million or \$1.44 per unit, an increase of \$3.4 million. While the concept of "cash flows from operating activities" is not a financial measure defined by Canadian generally accepted accounting principles, it is widely used in the real estate sector. The Canadian Institute of Public and Private Real Estate Companies defines this concept as net income adjusted for extraordinary gains, gains or losses on disposal of assets,

amortization of deferred expenses and income properties. The concept of "cash flows from operating activities" should not be interpreted as a substitute for net income or cash flows from operating activities as determined by Canadian generally accepted accounting principles. As Cominar's cash flows calculation method may differ from the method used by other issuers, it may not be comparable to that of such issuers.

(in thousands of dollars)	2003	2002
Net income	31,022	29,432
Adjustments for:		
Depreciation of income properties	4,240	3,506
Amortization of deferred expenses and other assets	4,636	3,505
Leasing costs	(953)	(890)
Cash flows from operating activities	38,945	35,553

As at December 31, 2003, Cominar had \$33.7 million in cash and cash equivalents resulting from a November public offering of 5,000,000 units which yielded net proceeds of \$66.2 million. These proceeds served to repay the bank indebtedness contracted for acquisitions and developments completed since November 2001, while the balance will be used to finance current development projects and future acquisitions. As at December 31, 2003, the number of outstanding units stood at about 31.7 million.

In addition to the November offering, 451,367 units were issued upon the exercise of options and 95,505 units pursuant to the distribution reinvestment plan.

As at December 31, 2003, Cominar showed a debt to gross book value ratio of 43.7%, giving it an acquisition capacity of \$155 million at a debt ratio of 55%, and \$252 million at a ratio of 60% as authorized by its Contract of Trust.

MORTGAGE ACTIVITIES

In January 2003, Cominar contracted a \$22.0 million mortgage payable bearing interest at 6.0% for a five-year term. In April 2003, another \$95.0 million mortgage payable bearing interest at 6.15% was contracted to refinance Place de la Cité for a five-year term.

As at December 31, 2003, the weighted average interest rate of Cominar's mortgages was 6.31%, down 0.24% from 2002.

BALANCE DUE ON MORTGAGES PAYABLE AS AT DECEMBER 31, 2003 EXPIRING IN:

Year	Amounts (thousands of \$)	Weighted average interest rate %
2004	14,696	7.01
2005	10,817	7.97
2006	32,641	6.23
2007	53,566	6.15
2008	132,210	6.06
2009 and subsequent	26,785	7.08
	<u>270,715</u>	<u>6.31</u>

OUTLOOK

Cominar is confident about pursuing its solid growth in 2004 and the future. Its current development projects, all of which have excellent capitalization rates, will continue to improve its profitability. Moreover, its financial position is healthy, with a debt to gross book value ratio of 43.7% and an acquisition capacity of over \$250 million. In a context of high acquisition prices, Cominar believes it is prudent to still give priority to profitable development projects, through either property expansions or new constructions. All projects under way will contribute to further increasing the portfolio's value, while ensuring unitholders of a growing return and a stable investment.

FUTURE CHANGE IN ACCOUNTING POLICIES

STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

The CICA has amended CICA 3870, «Stock-Based Compensation and Other Stock-Based Payments», to require that the equity instruments awarded to employees be measured and expensed, thus eliminating the current provisions which permit a company to only disclose the fair value. Fair value of equity instruments would be used to measure compensation expense. The adoption of this standard will be retroactive on January 1st, 2002. As a result, on January 1st, 2004, Cominar will recognize the cumulative effect by making an adjustment to opening unitholders' equity without restatement. Cominar has estimated that the impact of the adoption of this standard will increase Trust administrative expenses during 2004 by approximately to \$0.3 million with a corresponding decrease to net earnings. There will be no impact on unitholders' equity.

RISKS AND UNCERTAINTIES

Like any real estate entity, Cominar is subject to certain risk factors in the course normal of business.

OPERATIONAL RISKS

All property investments carry risk factors, such as market demand, which is affected by economic conditions, and competition from vacant premises.

The rental value of real estate holdings can also depend on tenants' solvency and financial stability as well as the economic conditions prevailing in the communities where they do business and provide services.

The primary risk facing Cominar lies in a potential decline in its rental income. However, this risk is minimized by the diversification of its portfolio, which ensures foreseeable cash flows. This risk is also reduced by the fact that tenants occupy an average area of about 5,900 square feet.

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

DEBT AND REFINANCING

Cominar has spread the maturities of its mortgages payable over several years to reduce the risks related to their renewal. In 2004, mortgages payable of \$14.7 million are renewable at a weighted average interest rate of 7.01%. Cominar does not foresee any difficulty in refinancing them as they fall due.

ENVIRONMENTAL RISK

By their very nature, Cominar's assets and business are not subject to a high environmental risk. In accordance with the operating principles stipulated in its Contract of Trust, Cominar must conduct an environmental audit before acquiring a new property, or on its existing properties when it is deemed appropriate.

In its leases, Cominar requires 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.

UNITHOLDER LIABILITY

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

SELECTED FINANCIAL INFORMATION

	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2001
	(in thousands of dollars except amounts per unit)		
Operating revenues	96,577	81,925	66,978
Net operating income	58,085	50,674	40,438
Net income	31,022	29,432	22,359
Basic net income per unit	1.146	1.141	1.076
Diluted net income per unit	1.143	1.135	1.068
Distributable income per unit	1.303	1.277	1.212
Distributions per units	1.152	1.107	1.086
Total assets	602,882	512,992	455,444
Mortgages payable	270,715	223,991	202,743
Weighted average number of units	27,064	25,799	20,786

Management's Discussion and Analysis of Operating Results and Financial Position, the Annual Information Form, the Annual Report and the Management Proxy Circular will be filed on SEDAR's website at www.sedar.com.



MANAGEMENT'S RESPONSIBILITY

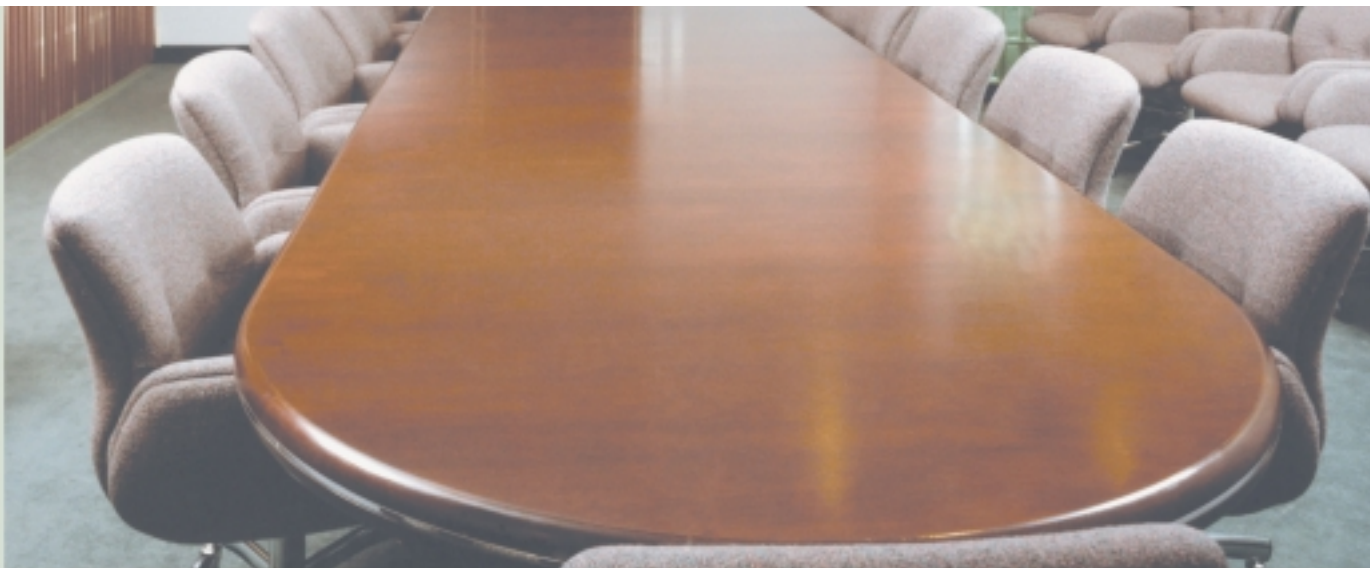
The accompanying consolidated financial statements have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public and Private Real Estate Companies. The management of the REIT is responsible for their integrity and objectivity. The REIT maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting and administrative procedures are of high quality. The financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

"Ernst & Young LLP" were retained as auditors of the REIT. They have audited the consolidated financial statements in accordance with Canadian generally accepted accounting principles to enable them to express their opinion on the consolidated financial statements. Their report as auditors is set forth herein.

The consolidated financial statements have been further reviewed and approved by the Board of Trustees and its Audit Committee. The auditors have direct and full access to the Audit Committee.

Jules Dallaire
Chairman of the Board and Chief Executive Officer

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, 2003 and 2002 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, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Québec, Canada
January 23, 2004

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31,

(in thousands of dollars)

	2003 \$	2002 \$
ASSETS		
Income properties (note 3)	518,770	485,695
Properties under development (note 4)	21,486	2,798
Deferred expenses and other assets (note 5)	21,540	18,479
Prepaid expenses	1,901	1,571
Accounts receivable	5,525	4,449
Cash and cash equivalents (note 12)	33,660	—
	<u>602,882</u>	<u>512,992</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
LIABILITIES		
Mortgages payable (note 6)	270,715	223,991
Bank indebtedness (note 7)	—	33,332
Accounts payable and accrued liabilities	12,570	7,422
	<u>283,285</u>	<u>264,745</u>
UNITHOLDERS' EQUITY		
Unitholders contributions (note 8)	320,604	248,874
Cumulative net earnings	121,640	90,618
Cumulative distributions	(122,647)	(91,245)
	<u>319,597</u>	<u>248,247</u>
	<u>602,882</u>	<u>512,992</u>

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

Years ended December 31,

(in thousands of dollars)

	2003 \$	2002 \$
Unitholders contributions		
Balance, beginning of year	248,874	242,251
Issue of units (note 8)	74,652	6,623
Underwriter's fees and offering expenses	(2,922)	—
Balance, end of year	<u>320,604</u>	<u>248,874</u>
Cumulative net earnings		
Balance, beginning of year	90,618	61,186
Net income	31,022	29,432
Balance, end of year	<u>121,640</u>	<u>90,618</u>
Cumulative distributions		
Balance, beginning of year	(91,245)	(62,588)
Distributions to Unitholders	(31,402)	(28,657)
Balance, end of year	<u>(122,647)</u>	<u>(91,245)</u>
Unitholders' Equity	<u>319,597</u>	<u>248,247</u>

Approved by the Board,

(signed) JULES DALLAIRE, Trustee

(signed) MICHEL BERTHELOT, CA, Trustee

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31,

(in thousands of dollars except per-unit amounts)

	2003	2002
	\$	\$
OPERATING REVENUES		
Property rental revenue	96,577	81,925
OPERATING EXPENSES		
Property operating costs	21,083	17,575
Realty taxes and services	16,235	12,806
Property management expenses	1,174	870
	38,492	31,251
Operating income before the undernoted	58,085	50,674
Interest on mortgages and bank indebtedness	16,898	13,848
Depreciation of income properties	4,240	3,506
Amortization of deferred expenses and other assets	4,636	3,505
	25,774	20,859
Operating income from real estate assets	32,311	29,815
Trust administrative expenses	1,512	1,228
Other revenues	223	845
Net income	31,022	29,432
Basic net income per unit (note 10)	1.146	1.141
Diluted net income per unit (note 10)	1.143	1.135

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,

(in thousands of dollars)

	2003	2002
	\$	\$
OPERATING ACTIVITIES		
Net income	31,022	29,432
Items not affecting cash		
Depreciation of income properties	4,240	3,506
Amortization of deferred expenses and other assets	4,636	3,505
Leasing costs	(953)	(890)
Funds from operations	38,945	35,553
Leasing costs	(6,554)	(5,989)
Change in non-cash operating working capital items (note 12)	3,761	206
	36,152	29,770
FINANCING ACTIVITIES		
Mortgages payable	52,806	48,231
Repayment of mortgages payable	(17,216)	(31,096)
Bank indebtedness	(33,332)	27,849
Distributions to unitholders	(31,402)	(28,657)
Net proceeds from issue of units (note 8)	71,730	6,623
	42,586	22,950
INVESTING ACTIVITIES		
Acquisitions of income properties	(25,546)	(50,142)
Acquisitions of properties under development	(19,185)	(2,148)
Other assets	(347)	(430)
	(45,078)	(52,720)
Net change in cash and cash equivalents	33,660	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	33,660	-

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED STATEMENTS

December 31, 2003 and 2002

(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 and are substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies.

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 Canadian generally accepted accounting principles 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 includes rents from tenants under leases, property tax and operating cost recoveries, lease cancellation fees, parking income and incidental income.

Income properties and properties under 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 is allocated, if any, to existing leases and intangible assets related to customer relationships.

Depreciation of buildings is recorded on the 5% sinking fund basis to fully amortize the cost of buildings over 40 years.

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 long-lived assets

On January 1, 2003, Cominar prospectively adopted section 3063 of the CICA handbook, "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. The adoption of the new section 3063 of the CICA handbook had no impact on Cominar's financial statements since no impairment of long-lived assets was necessary as at December 31, 2003.

Deferred expenses and other assets

Deferred expenses and other assets mainly include leasing costs such as tenant improvements 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. Mortgage financing costs are deferred and amortized on the straight-line basis over the terms of the related mortgages.

Cash and cash equivalents

Cash and cash equivalents consist of balances with banks and short term 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 8. Cominar has chosen not to recognize compensation expense when unit options are granted to trustees 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, if dilutive, and is calculated using the treasury stock method.

NOTES TO CONSOLIDATED STATEMENTS

December 31, 2003 and 2002

(in thousands of dollars except per-unit amounts)

3. INCOME PROPERTIES

	2003 \$	2002 \$
Land	78,611	74,196
Buildings	456,153	423,253
	534,764	497,449
Accumulated depreciation	15,994	11,754
	518,770	485,695

4. PROPERTIES UNDER DEVELOPMENT

During the year, Cominar capitalized \$491 (\$715 in 2002) of interest to properties under development. Certain of these properties are classified in income properties at year-end.

5. DEFERRED EXPENSES AND OTHER ASSETS

	2003 \$	2002 \$
Net of accumulated amortization		
Leasing costs	20,312	17,396
Other assets	1,228	1,083
	21,540	18,479

6. MORTGAGES PAYABLE

Mortgages payable are secured by income properties stated at a net book value of \$376,062. They bear interest at rates varying from 4.50% to 11.00% per annum (4.50% to 11.00% in 2002) representing a weighted average year-end rate of 6.31% (6.55% in 2002) and are renewable between May 2004 and January 2019.

Mortgage repayments are as follows:

	Principal repayments \$	Balance at maturity \$	Total \$
Years ending December 31,			
2004	8,583	14,430	23,013
2005	8,554	10,361	18,915
2006	8,527	31,664	40,191
2007	7,683	42,254	49,937
2008	2,036	115,070	117,106
2009 and thereafter	13,360	8,193	21,553
	48,743	221,972	270,715

Mortgages payable having fixed rates amount to \$247,208 (\$194,337 in 2002) and those having variable rates amount to \$23,507 (\$29,654 in 2002).

7. BANK INDEBTEDNESS

Cominar has a number of operating and acquisition lines of credit of up to \$35,865 (\$50,000 in 2002). These credit facilities, subject to annual renewal, bear interest at prime rate plus 0.50% (varying from 0.25% to 0.50% in 2002). Certain credit facilities of \$32,865 (\$47,000 in 2002) are secured by mortgages on income properties and charges on specific assets. As at December 31, 2003, the prime interest rate was 4.50% (4.50% in 2002).

As at December 31, 2002, the bank indebtedness consisted of the utilized portion of the credit facilities and outstanding cheques.

8. ISSUED AND OUTSTANDING UNITS

Ownership in Cominar is represented by a single class of units. The aggregate number of units which Cominar may issue is unlimited. 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.

NOTES TO CONSOLIDATED STATEMENTS

December 31, 2003 and 2002

(in thousands of dollars except per-unit amounts)

During the year, Cominar issued 5,546,872 units for net proceeds received of \$71,730 (697,084 units for net proceeds received of \$6,623 in 2002).

	2003	2002
Units issued and outstanding, beginning of year	26,121,419	25,424,335
Issued on November 13, 2003 (at \$13.80 per unit)	5,000,000	–
Issued from options exercised	451,367	656,467
Issued under distribution reinvestment plan	95,505	40,617
Units issued and outstanding, end of year	31,668,291	26,121,419

Unit option plan

Under a unit option plan, Cominar granted options to purchase units to the trustees and employees of Cominar. The maximum number of units reserved for issuance pursuant to the unit option plan is 3,160,000 units. The options are exercisable on a cumulative basis of 20% of the options after each of the five first anniversary dates of the grant (33 1/3% of the options after each of the three first anniversary dates of the grant for options granted before November 14, 2003). The exercise price of options equals the market price of Cominar's units on the date of the grant and the option maximum term is seven years.

	Options	Weighted-average exercise price \$	Options	Weighted-average exercise price \$
Outstanding, beginning of year	799,533	9.90	1,456,000	9.65
Exercised	(451,367)	9.66	(656,467)	9.34
Granted	2,710,000	14.00	–	–
Cancelled	(16,000)	11.00	–	–
Outstanding, end of year	3,042,166	13.58	799,533	9.90
Options exercisable, end of year	185,833	9.62	340,866	9.71

Date of grant	Maturity date	Exercise price \$	2003 Outstanding options	Options exercisable
May 21, 1999	May 21, 2004	9.25	91,000	91,000
January 14, 2000	January 14, 2005	8.55	38,000	38,000
March 27, 2001	March 27, 2006	10.20	22,333	6,000
August 9, 2001	August 9, 2008	11.00	180,833	50,833
November 14, 2003*	November 14, 2010	14.00	2,710,000	–
			3,042,166	185,833

* The November 14, 2003 grant is subject to Unitholders' approval.

Pro forma information on stock based compensation plan

Cominar has chosen not to recognize compensation expense when unit options are granted to trustees and employees with no cash settlement features. Had compensation cost for Cominar's plan been determined based on the fair value at the grant dates for awards under the plan consistent with the fair value based method of accounting for stock based compensation, Cominar's net income and net income per unit would have been reduced to the pro forma amounts shown below.

		2003 \$	2002 \$
Net income	As reported	31,022	29,432
	Pro forma	30,983	29,432
Net income per unit-basic	As reported	1.146	1.141
	Pro forma	1.145	1.141
Net income per unit-diluted	As reported	1.143	1.135
	Pro forma	1.141	1.135

The pro forma compensation expense associated with these options was calculated using the Black-Scholes Model for option valuation, assuming volatility of 11.7% on the underlying units, a fixed exercise price of \$14, a weighted average distribution yield of approximately 8.74% and a weighted average risk free interest rate of approximately 4.21%.

NOTES TO CONSOLIDATED STATEMENTS

December 31, 2003 and 2002

(in thousands of dollars except per-unit amounts)

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

Distribution reinvestment plan

Cominar adopted a distribution reinvestment plan pursuant to 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, 95,505 units (40,617 in 2002) were issued at a weighted average price of \$13.52 (\$10.02 in 2002) pursuant to the distribution reinvestment plan.

9. 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 at December 31, 2003 exceeds the tax basis by approximately \$52,813 (\$39,149 as at December 31, 2002).

10. 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.

	2003	2002
	\$	\$
Weighted average number of units outstanding – basic	27,063,868	25,799,025
Effect of dilutive unit options	82,944	141,937
Weighted average number of units outstanding – diluted	27,146,812	25,940,962

Dilution relating to unit options excludes 2,710,000 unit options granted on November 14, 2003 because they are anti-dilutive.

11. DISTRIBUTABLE INCOME PER UNIT

Cominar is governed by a Contract of Trust that requires it to distribute to unitholders 85% or more of its distributable income. The distributable income generally means the net income determined in accordance with Canadian generally accepted accounting principles including adding back the depreciation of income properties.

Distributable income is not an indicator of an enterprise performance in accordance with Canadian generally accepted accounting principles and is not an alternative to net earnings determined in accordance with Canadian generally accepted accounting principles to assess Cominar's performance. Cominar's method of calculating distributable income may differ from other trusts and accordingly comparisons may be inappropriate.

Distributable income has been calculated pursuant to the Contract of Trust as follows:

	2003	2002
	\$	\$
Net income for the year	31,022	29,432
Add		
Depreciation of income properties	4,240	3,506
Distributable income for the year	35,262	32,938
Retention of distributable income	(3,860)	(4,281)
Distributions to Unitholders	31,402	28,657
Distributable income per weighted average unit	1.303	1.277
Distributions per unit	1.152	1.101
Payout ratio	88.4%	86.7%

NOTES TO CONSOLIDATED STATEMENTS

December 31, 2003 and 2002

(in thousands of dollars except per-unit amounts)

12. SUPPLEMENTAL CASH FLOWS INFORMATION

Cash and cash-equivalents include the followings:

	2003	2002
	\$	\$
Bank balances (including \$10,795 bearing interest at 2.50%)	12,673	–
Short term investments, 2.65% and 2.68%, maturing in January 2004	20,987	–
	33,660	–

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

	2003	2002
	\$	\$
Prepaid expenses	(330)	(298)
Accounts receivable	(1,076)	(963)
Accounts payable and accrued liabilities	5,167	1,467
	3,761	206

Additional information

Interest paid	16,342	12,926
Unpaid leasing costs	495	652
Acquisitions of income properties and properties under development by assumption of mortgages payable	11,134	4,113
Unpaid acquisitions of income properties and properties under development	1,585	1,447
Acquisition of an income property through cancellation of a mortgage receivable	–	9,000
Properties under development transferred to income properties	1,098	21,675

13. RELATED PARTY TRANSACTIONS

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

	2003	2002
	\$	\$
Property rental revenue	1,542	1,480
Other income	698	784
Income properties and properties under development	21,214	14,442
Deferred expenses and other assets	7,503	6,759
Accounts receivable	605	522
Accounts payable and accrued liabilities	2,484	1,973

14. FINANCIAL INSTRUMENTS

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

Interest rate risk

Accounts receivable and accounts payable and accrued liabilities bear no interest.

The interest rates on mortgages payable and bank indebtedness are described in notes 6 and 7 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 by sharing its portfolio between property types and ensuring that its tenant mix is diversified.

Fair value

The fair value of the majority of Cominar's financial assets and liabilities, representing net working capital, approximates the carrying value as at December 31, 2003 due to their short-term nature.

As at December 31, 2003 the fair value of mortgages payable exceeded the carrying value by approximately \$4,800 (\$2,800 as at December 31, 2002) 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.

NOTES TO CONSOLIDATED STATEMENTS

December 31, 2003 and 2002

(in thousands of dollars except per-unit amounts)

15. SEGMENTED INFORMATION

Cominar's activities include three property types located entirely in the Province of Quebec. The accounting policies followed by each property type are the same as those disclosed in the significant accounting policies. The following table indicates the financial information related to these property types:

	2003			Total \$
	Office properties \$	Retail properties \$	Industrial and mixed-use properties \$	
Property rental revenue	30,914	35,637	30,026	96,577
Interest on mortgages payable and bank indebtedness	6,738	5,141	5,019	16,898
Depreciation of income properties	1,476	1,602	1,162	4,240
Net operating income (1)	18,362	20,641	19,082	58,085
Income properties	162,965	202,608	153,197	518,770
Acquisitions of income properties	12,581	9,251	15,483	37,315

	2002			Total \$
	Office properties \$	Retail properties \$	Industrial and mixed-use properties \$	
Property rental revenue	26,218	31,887	23,820	81,925
Interest on mortgages payable and bank indebtedness	5,026	5,118	3,704	13,848
Depreciation of income properties	1,222	1,408	876	3,506
Net operating income (1)	14,991	18,752	16,931	50,674
Income properties	151,860	194,959	138,876	485,695
Acquisitions of income properties	15,428	30,174	37,612	83,214

The segment disclosure has been modified to present the net operating income instead of the operating income from real estate assets. Management considers this change enhances the performance analysis of Cominar.

(1) Net operating income is the operating income before interest, depreciation and amortization.

INFORMATION

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