

CROMBIE REAL ESTATE INVESTMENT TRUST
Interim Condensed Consolidated Financial Statements
September 30, 2018

Contents

	<u>Page</u>
Interim Condensed Consolidated Balance Sheets	1
Interim Condensed Consolidated Statements of Comprehensive Income	2
Interim Condensed Consolidated Statements of Changes in Net Assets Attributable to Unitholders	3
Interim Condensed Consolidated Statements of Cash Flows	4
Notes to the Interim Condensed Consolidated Financial Statements	5 - 27

CROMBIE REAL ESTATE INVESTMENT TRUST
Unaudited Interim Condensed Consolidated Balance Sheets
(in thousands of CAD dollars)

	Note	September 30, 2018	December 31, 2017
Assets			
Non-current assets			
Investment properties	3	\$ 3,752,352	\$ 3,826,961
Investment in joint ventures	4	37,578	2,602
Other assets	5	248,011	225,908
		4,037,941	4,055,471
Current assets			
Other assets	5	30,112	31,383
Total Assets		4,068,053	4,086,854
Liabilities			
Non-current liabilities			
Fixed rate mortgages	6	1,540,100	1,632,431
Credit facilities	6	54,148	53,168
Senior unsecured notes	7	524,457	449,320
Convertible debentures	8	—	73,164
Employee future benefits obligation		9,049	8,849
Trade and other payables	9	10,965	9,558
		2,138,719	2,226,490
Current liabilities			
Fixed rate mortgages	6	69,054	118,665
Credit facilities	6	100,000	—
Senior unsecured notes	7	175,000	175,000
Employee future benefits obligation		282	282
Trade and other payables	9	127,770	109,162
		472,106	403,109
Total liabilities excluding net assets attributable to Unitholders		2,610,825	2,629,599
Net assets attributable to Unitholders		\$ 1,457,228	\$ 1,457,255
Net assets attributable to Unitholders represented by:			
Crombie REIT Unitholders		\$ 873,089	\$ 873,478
Special Voting Units and Class B Limited Partnership Unitholders		584,139	583,777
		\$ 1,457,228	\$ 1,457,255
Commitments, contingencies and guarantees	20		
Subsequent events	21		

See accompanying notes to the interim condensed consolidated financial statements.

CROMBIE REAL ESTATE INVESTMENT TRUST
Unaudited Interim Condensed Consolidated Statements of Comprehensive Income
(in thousands of CAD dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2018	2017	2018	2017
Property revenue	10	\$ 100,505	\$ 102,424	\$ 310,353	\$ 306,146
Property operating expenses		27,660	28,259	90,489	89,447
Net property income		72,845	74,165	219,864	216,699
Gain on disposal of investment properties	3	100	—	45,443	—
Impairment of investment properties	3	—	—	(8,000)	—
Depreciation of investment properties	3	(26,814)	(20,217)	(70,873)	(56,171)
Amortization of intangible assets	3	(1,697)	(1,579)	(5,013)	(4,948)
Amortization of deferred leasing costs	3	(175)	(170)	(531)	(469)
Depreciation of fixtures and computer equipment	5	(10)	—	(30)	—
General and administrative expenses	12	(4,925)	(4,675)	(14,042)	(14,831)
Finance costs - operations	13	(26,573)	(26,244)	(79,663)	(79,096)
Income from equity accounted investments	4	69	41	143	68
Operating income before taxes		12,820	21,321	87,298	61,252
Taxes - current	14	(2)	—	(2)	(4)
Taxes - deferred	14	—	—	—	75,400
Operating income attributable to Unitholders		12,818	21,321	87,296	136,648
Finance costs - other					
Distributions to Unitholders		(33,711)	(33,385)	(101,005)	(99,748)
Change in fair value of financial instruments	12	(40)	25	205	127
		(33,751)	(33,360)	(100,800)	(99,621)
Increase (decrease) in net assets attributable to Unitholders		(20,933)	(12,039)	(13,504)	37,027
Other comprehensive income					
Items that will be subsequently reclassified to Increase (decrease) in net assets attributable to Unitholders:					
Costs incurred on derivatives designated as cash flow hedges transferred to finance costs - operations		563	586	1,706	1,774
Net change in derivatives designated as cash flow hedges		1,210	2,291	2,128	2,872
Other comprehensive income		1,773	2,877	3,834	4,646
Comprehensive income (loss)		\$ (19,160)	\$ (9,162)	\$ (9,670)	\$ 41,673

See accompanying notes to the interim condensed consolidated financial statements.

CROMBIE REAL ESTATE INVESTMENT TRUST
Unaudited Interim Condensed Consolidated Statements of Changes in Net Assets Attributable to Unitholders
(In thousands of CAD dollars)

	REIT Units, Special Voting Units and Class B LP Units (Note 15)	Net Assets (Liabilities) Attributable to Unitholders	Accumulated Other Comprehensive Income (Loss)	Total	Attributable to	
					REIT Units	Class B LP Units
Balance, January 1, 2018	\$ 1,746,139	\$ (285,388)	\$ (3,496)	\$ 1,457,255	\$ 873,478	\$ 583,777
Adjustments related to EUPP	46	16	—	62	62	—
Statements of comprehensive income (loss)	—	(13,504)	3,834	(9,670)	(6,117)	(3,553)
Units issued under Distribution Reinvestment Plan ("DRIP")	9,423	—	—	9,423	5,508	3,915
Units issued under unit based compensation plan	158	—	—	158	158	—
Balance, September 30, 2018	\$ 1,755,766	\$ (298,876)	\$ 338	\$ 1,457,228	\$ 873,089	\$ 584,139

	REIT Units, Special Voting Units and Class B LP Units (Note 15)	Net Assets (Liabilities) Attributable to Unitholders	Accumulated Other Comprehensive Income (Loss)	Total	Attributable to	
					REIT Units	Class B LP Units
Balance, January 1, 2017	\$ 1,714,724	\$ (316,003)	\$ (8,575)	\$ 1,390,146	\$ 834,203	\$ 555,943
Adjustments related to EUPP	59	25	—	84	84	—
Statements of comprehensive income	—	37,027	4,646	41,673	24,450	17,223
Units issued under DRIP	24,785	—	—	24,785	14,495	10,290
Balance, September 30, 2017	\$ 1,739,568	\$ (278,951)	\$ (3,929)	\$ 1,456,688	\$ 873,232	\$ 583,456

See accompanying notes to the interim condensed consolidated financial statements.

CROMBIE REAL ESTATE INVESTMENT TRUST
Unaudited Interim Condensed Consolidated Statements of Cash Flows
(In thousands of CAD dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2018	2017	2018	2017
Cash flows provided by (used in)					
Operating Activities					
Increase (decrease) in net assets attributable to Unitholders		\$ (20,933)	\$ (12,039)	\$ (13,504)	\$ 37,027
Items not affecting operating cash	16	31,975	31,198	54,549	14,825
Change in other non-cash operating items	16	15,295	19,184	2,826	17,944
Income taxes paid		(2)	—	(2)	—
Cash provided by (used in) operating activities		<u>26,335</u>	<u>38,343</u>	<u>43,869</u>	<u>69,796</u>
Financing Activities					
Issue of mortgages		—	—	—	192,783
Deferred financing charges - investment property debt		(53)	(1,216)	(284)	(3,346)
Repayment of mortgages - principal		(13,033)	(13,078)	(40,037)	(38,818)
Repayment of mortgages - maturity		—	(11,573)	(64,713)	(50,379)
Advance (repayment) of floating rate credit facilities		21,727	158,433	100,981	(19,883)
Issue of senior unsecured notes		75,152	—	75,152	76,413
Deferred financing charges - senior unsecured notes		(210)	—	(328)	(347)
Redemption of convertible debentures		(74,400)	(60,000)	(74,400)	(60,000)
Amortization of fair value debt adjustment		(111)	(245)	(379)	(834)
Recognition of interest rate subsidy		(74)	(79)	(226)	(250)
Repayment of EUPP loans receivable		16	15	46	59
Collection of (advances on) long-term receivables		(4,853)	24	(4,941)	(445)
Cash provided by (used in) financing activities		<u>4,161</u>	<u>72,281</u>	<u>(9,129)</u>	<u>94,953</u>
Investing Activities					
Acquisition of investment properties and intangible assets		(3,759)	(93,533)	(108,554)	(119,357)
Additions to investment properties		(21,616)	(13,921)	(61,495)	(29,913)
Proceeds on disposal of investment properties	3	11,850	—	163,827	—
Acquisition of interest in joint ventures		(10,210)	—	(10,210)	(1,701)
Contributions to Joint Ventures		(1,902)	—	(2,015)	—
Additions to fixtures and computer equipment		(1,230)	(694)	(3,156)	(2,290)
Proceeds on disposal of marketable securities		—	—	1,252	1,220
Additions to tenant incentives		(3,370)	(2,190)	(13,632)	(11,801)
Additions to deferred leasing costs		(259)	(286)	(757)	(907)
Cash provided by (used in) investing activities		<u>(30,496)</u>	<u>(110,624)</u>	<u>(34,740)</u>	<u>(164,749)</u>
Net change in cash and cash equivalents		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents, beginning of period		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents, end of period		<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes to the interim condensed consolidated financial statements.

1) GENERAL INFORMATION AND NATURE OF OPERATIONS

Crombie Real Estate Investment Trust ("Crombie") is an unincorporated "open-ended" real estate investment trust created pursuant to the Declaration of Trust dated January 1, 2006, as amended. The principal business of Crombie is investing in income-producing retail, office and mixed use properties in Canada. Crombie is registered in Canada and the address of its registered office is 610 East River Road, Suite 200, New Glasgow, Nova Scotia, Canada, B2H 3S2. The interim condensed consolidated financial statements for the three and nine months ended September 30, 2018 and September 30, 2017 include the accounts of Crombie and all of its subsidiary entities. The units of Crombie are traded on the Toronto Stock Exchange ("TSX") under the symbol "CRR.UN".

The three and nine months ended September 30, 2018 interim condensed consolidated financial statements were authorized for issue by the Board of Trustees on November 7, 2018.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, and do not contain all of the information required by IAS 1, Presentation of Financial Statements. Therefore, they should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017.

(b) Basis of presentation

These interim condensed consolidated financial statements are presented in Canadian dollars ("CAD"); Crombie's functional and reporting currency, rounded to the nearest thousand. The interim condensed consolidated financial statements are prepared on a historical cost basis except for any financial assets and liabilities classified as fair value with changes in fair value either recognized as an Increase (decrease) in net assets attributable to Unitholders ("FVTPL" classification) or fair value through other comprehensive income ("FVOCI" classification).

(c) Presentation of financial statements

When Crombie: (i) applies an accounting policy retrospectively; (ii) makes a retrospective restatement of items in its financial statements; or (iii) reclassifies items on the balance sheet, it will present an additional balance sheet as at the beginning of the earliest comparative period.

(d) Basis of consolidation

(i) Subsidiaries

Crombie's financial statements consolidate those of Crombie and all of its subsidiary entities as at September 30, 2018. Subsidiaries are all entities over which Crombie has control. All subsidiaries have a reporting date of September 30, 2018.

All intercompany transactions, balances, income and expenses are eliminated in preparing the consolidated financial statements. Where unrealized losses on intercompany asset sales are reversed on consolidation, the underlying asset is also tested for impairment from an entity perspective.

Operating income (loss) and other comprehensive income (loss) of subsidiaries acquired or disposed of during the period are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

(ii) Joint arrangements

Joint arrangements are business arrangements whereby two or more parties have joint control. Joint control is based on the contractual sharing of control over the decisions related to the relevant activities. Joint arrangements are classified as either joint operations or joint ventures depending on the contractual arrangements related to the rights and obligations of the parties to the arrangement.

Joint operations

A joint operation is an arrangement wherein the parties to the arrangement have rights to the assets and obligations for the liabilities related to the arrangement. For joint operations, Crombie recognizes its proportionate share of the assets, liabilities, revenues and expenses of the joint operation in the relevant categories of Crombie's financial statements.

Joint ventures

A joint venture is an entity over which Crombie shares joint control with other parties and where the joint venture parties have rights to the net assets of the joint venture. Joint control exists where there is a contractual agreement for shared control and wherein decisions about the significant relevant activities of the arrangement require unanimous consent of the parties sharing control.

Investment in joint ventures is accounted for using the equity method. Under the equity method, the investment is initially recorded at cost with subsequent adjustments for Crombie's share of the results of operations and any change in net assets. Crombie's joint venture entities have the same reporting period as Crombie and adjustments, if any, are made to bring the accounting policies of joint venture entities in line with the policies of Crombie.

(e) Application of new IFRS

(i) IFRS 9 - Financial Instruments

IFRS 9 Financial Instruments: Classification and Measurement ("IFRS 9") issued on July 24, 2014, is the International Accounting Standard Board's (IASB's) replacement of IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). The Standard includes requirements for classification and measurement of financial instruments, impairment, derecognition and general hedge accounting, and introduces a forward-looking expected loss impairment model. Crombie adopted the standard on January 1, 2018. The adoption of this standard has not had a material impact on Crombie's financial statements.

Financial assets are classified and measured based on the business model used for management of them and the contractual cash flow characteristics of each financial asset. The classification categories for financial assets under IAS 39 are replaced in IFRS 9 with categories that reflect measurement; amortized cost, FVOCI and FVTPL. The IFRS 9 requirements for the classification and measurement of financial liabilities are substantially unchanged from IAS 39. IFRS 9 requires that when a financial liability measured at amortized cost is modified or exchanged, and such a modification or exchange does not result in derecognition, the adjustment to the amortized cost will be recognized in operating income at that time.

The following table summarizes the classification and measurement changes for each class of Crombie's financial assets and financial liabilities upon adoption at January 1, 2018:

Financial Asset/Liability	IAS 39		IFRS 9	
	Category	Measurement	Category	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost	Assets at amortized cost	Amortized cost
Trade receivables	Loans and receivables	Amortized cost	Assets at amortized cost	Amortized cost
Restricted cash	Loans and receivables	Amortized cost	Assets at amortized cost	Amortized cost
Long-term receivables	Loans and receivables	Amortized cost	Assets at amortized cost	Amortized cost
Marketable securities	FVTPL	Fair value	FVTPL	Fair value
Derivative financial assets and liabilities	FVTPL	Fair value	FVTPL	Fair value
Accounts payable and other liabilities (excluding convertible debentures embedded derivatives and interest rate swaps)	Other liabilities	Amortized cost	Financial liabilities at amortized cost	Amortized cost
Investment property debt	Other liabilities	Amortized cost	Financial liabilities at amortized cost	Amortized cost
Convertible debentures (excluding embedded derivatives)	Other liabilities	Amortized cost	Financial liabilities at amortized cost	Amortized cost
Senior unsecured notes	Other liabilities	Amortized cost	Financial liabilities at amortized cost	Amortized cost

Crombie has adopted the new general hedge accounting model in IFRS 9. The adoption of IFRS 9 did not result in any changes in the eligibility of existing hedge relationships, the accounting for derivative financial instruments designated as effective hedging instruments

or the line items in which they are included in the statement of financial position. In accordance with the transitional provisions of IFRS 9, changes to hedge accounting policies have been applied prospectively.

At each reporting date, Crombie assesses whether there is objective evidence that a financial asset carried at amortized cost is impaired. If such evidence exists, Crombie recognizes an impairment loss, as the difference between the carrying value of the instrument and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate or a discount rate based on the risk associated with the financial asset being tested. The carrying amount of the asset is reduced by this amount through a charge to the statement of comprehensive income.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively.

(ii) IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 11 Construction Contracts, IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. The new standard excludes contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. Crombie adopted the standard on January 1, 2018 and applied the requirements of the standard retrospectively. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at January 1, 2017. The implementation of IFRS 15 did not have a significant impact on the timing or amount of revenue recognized by Crombie in any year. The presentation of Crombie's property revenue disclosed in Note 10 has been modified to disclose amounts from revenue from contracts with customers separately from operating lease revenue.

(iii) IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 "Leases" which replaces IAS 17 and its associated interpretative guidance. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. Lessor accounting remains largely unchanged with the distinction between operating and finance leases retained.

Entities have the option of adopting a full retrospective approach or a modified retrospective approach on transition to IFRS 16. Crombie will apply the standard effective January 1, 2019 and plans to transition with the modified retrospective approach. On transition to the new standard Crombie will elect the practical expedient to not reassess prior conclusions related to contracts containing leases. In addition, Crombie will apply the recognition exemptions for all classes of assets under short term leases and all leases of low value assets on an ongoing basis.

Crombie anticipates the adoption of IFRS 16 will have a material impact on its balance sheet primarily due to the recognition of right of use assets relating to land leases and the corresponding lease liabilities. The impacts on the statement of comprehensive income will be an elimination of rental expense, currently recognized in property operating costs, which will be replaced by amortization of the right-of-use asset and interest costs on the lease liability. This will result in an increase in total expense in the early years of the lease terms. Crombie is continuing to assess the initial and annual impact.

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

3) INVESTMENT PROPERTIES

	September 30, 2018	December 31, 2017
Income properties	\$ 3,662,689	\$ 3,751,262
Properties under development	89,663	75,699
	\$ 3,752,352	\$ 3,826,961

Income properties

	Land	Buildings	Intangibles	Deferred Leasing Costs	Total
Cost					
Opening balance, January 1, 2018	\$ 1,208,424	\$ 2,942,538	\$ 120,650	\$ 8,821	\$ 4,280,433
Acquisitions	26,665	76,205	5,684	—	108,554
Additions	1,155	45,203	—	1,458	47,816
Dispositions	(77,290)	(112,627)	(4,674)	(681)	(195,272)
Write-off fully depreciated assets	—	(1,761)	(208)	(2,829)	(4,798)
Reclassification from properties under development	1,132	5,163	—	—	6,295
Balance, September 30, 2018	1,160,086	2,954,721	121,452	6,769	4,243,028

Accumulated depreciation and amortization and impairment

Opening balance, January 1, 2018	2,357	458,973	63,056	4,785	529,171
Depreciation and amortization	—	70,873	5,013	531	76,417
Dispositions	—	(24,937)	(3,063)	(451)	(28,451)
Impairment	—	8,000	—	—	8,000
Write-off fully depreciated assets	—	(1,761)	(208)	(2,829)	(4,798)
Balance, September 30, 2018	2,357	511,148	64,798	2,036	580,339
Net carrying value, September 30, 2018	\$ 1,157,729	\$ 2,443,573	\$ 56,654	\$ 4,733	\$ 3,662,689

During the nine months ended September 30, 2018, Crombie recorded impairments totalling \$8,000 on two retail properties. The impairments were the result of the fair value impact of tenant lease expiries and departures and slower than expected leasing activity. Impairment was measured on a per property basis and was determined as the amount by which carrying value, using the cost method, exceeded the recoverable amount for that property. The recoverable amount was determined to be each property's fair value which is the higher of the economic benefits of the continued use of the asset or the selling price less costs to sell.

During the nine months ended September 30, 2018, Crombie commenced redevelopment of three properties which included partial demolition of the existing structures. As a result, accelerated depreciation of \$17,353 related to the buildings was recognized.

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

	Land	Buildings	Intangibles	Deferred Leasing Costs	Total
Cost					
Opening balance, January 1, 2017	\$ 1,189,999	\$ 2,820,193	\$ 114,549	\$ 7,800	\$ 4,132,541
Acquisitions	20,981	93,298	6,832	—	121,111
Additions	1,966	39,219	—	1,021	42,206
Dispositions	(4,522)	(10,172)	(731)	—	(15,425)
Balance, December 31, 2017	1,208,424	2,942,538	120,650	8,821	4,280,433
Accumulated depreciation and amortization and impairment					
Opening balance, January 1, 2017	2,357	385,731	57,098	4,077	449,263
Depreciation and amortization	—	74,845	6,654	708	82,207
Dispositions	—	(1,603)	(696)	—	(2,299)
Balance, December 31, 2017	2,357	458,973	63,056	4,785	529,171
Net carrying value, December 31, 2017	\$ 1,206,067	\$ 2,483,565	\$ 57,594	\$ 4,036	\$ 3,751,262

Properties under development

	Land	Buildings	Deferred Leasing Costs	Total
Opening balance, January 1, 2018	\$ 68,725	\$ 6,858	\$ 116	\$ 75,699
Acquisitions	—	—	—	—
Additions	1,916	23,852	271	26,039
Dispositions	(5,780)	—	—	(5,780)
Reclassification to income producing properties	(1,132)	(5,163)	—	(6,295)
Balance, September 30, 2018	\$ 63,729	\$ 25,547	\$ 387	\$ 89,663

On March 6, 2018 Crombie disposed of 1.47 hectares of residential lands adjacent to a commercial development project in Langford, British Columbia. The transaction was completed with a third party.

	Land	Buildings	Deferred Leasing Costs	Total
Opening balance, January 1, 2017	\$ 33,442	\$ —	\$ —	\$ 33,442
Acquisitions	31,252	—	—	31,252
Additions	4,031	6,858	116	11,005
Balance, December 31, 2017	\$ 68,725	\$ 6,858	\$ 116	\$ 75,699

On May 4, 2017 Crombie acquired the remaining portion of a development property in Langford, British Columbia, from a subsidiary of Empire Company Limited ("Empire"), a related party.

Fair value

Crombie's total fair value of investment properties exceeds carrying value by \$812,706 at September 30, 2018 (December 31, 2017 - \$900,804). Crombie uses the cost method for accounting for investment properties, and increases in fair value over carrying value are not recognized until realized through disposition or derecognition of properties, while impairment is recognized at the time of impairment.

The estimated fair values of Crombie's investment properties are as follows:

	Fair Value	Carrying Value
September 30, 2018	\$ 4,786,000	\$ 3,973,294
December 31, 2017	\$ 4,944,000	\$ 4,043,196

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

Carrying value consists of the net carrying value of:

	Note	September 30, 2018	December 31, 2017
Income properties	3	\$ 3,662,689	\$ 3,751,262
Properties under development	3	89,663	75,699
Accrued straight-line rent receivable	5	79,518	72,743
Tenant incentives	5	141,424	143,492
Total carrying value		<u>\$ 3,973,294</u>	<u>\$ 4,043,196</u>

Crombie has utilized the following weighted average capitalization rates on its income properties. Related to the growth in properties under development, Crombie reports the weighted average capitalization rate excluding the value of properties under development with the comparative rates adjusted to reflect this change. Crombie has determined that an increase (decrease) in this applied capitalization rate of 0.25% would result in an increase (decrease) in the fair value of the investment properties as follows:

	Impact of a 0.25% Change in Capitalization Rate		
	Weighted Average Capitalization Rate	Increase in Rate	Decrease in Rate
September 30, 2018	6.06%	\$ (185,000)	\$ 202,000
December 31, 2017	5.93%	\$ (198,000)	\$ 217,000

Income Property Acquisitions and Dispositions

The operating results of acquired properties are included from the respective date of acquisition and for disposed properties up to the date of disposition.

2018

Transaction Date	Vendor/ Purchaser	Properties Acquired (Disposed)	Approximate Square Footage	Initial Acquisition (Disposition) Price	Assumed Mortgages
February 5, 2018	Third party	(1)	(92,000) \$	(15,000) \$	—
February 20, 2018	Third party	(1)	(103,000)	(20,627)	—
April 6, 2018 ⁽¹⁾	Related party	9	421,000	88,110	—
April 19, 2018	Third party	(1)	(40,000)	(14,000)	—
May 11, 2018	Third party	(1)	(25,000)	(9,000)	—
May 11, 2018 ⁽²⁾	Third party	(9)	(203,000)	(77,929)	—
June 18, 2018	Third party	(1)	(273,000)	(51,250)	—
June 29, 2018	Related party	1	37,000	12,500	—
August 16, 2018 ⁽³⁾	Joint venture	(1)	(30,000)	(39,682)	—
September 28, 2018 ⁽¹⁾	Related party	—	10,000	3,735	—
			<u>(298,000) \$</u>	<u>(123,143) \$</u>	<u>—</u>

⁽¹⁾ Includes additions to existing retail properties.

⁽²⁾ Represents disposition of 50% interest in a portfolio of properties.

⁽³⁾ Represents disposition of property to joint venture.

All the dispositions in 2018, excluding the August 16, 2018 transaction, were transacted with third parties. The property disposed on August 16, 2018 was sold to a joint venture Partnership in which Crombie is a 50% partner. The properties disposed of during the year had a total fair value of \$220,567 at the end of the quarter preceding the date of disposition resulting in a fair value gain of \$7,756 before closing and transaction costs. Acquisitions completed on April 6, 2018, June 29, 2018 and September 28, 2018 were transacted with Empire, a related party.

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

2017

Transaction Date	Vendor/ Purchaser	Properties Acquired (Disposed)	Approximate Square Footage	Initial Acquisition (Disposition) Price	Assumed Mortgages
March 16, 2017	Related party	1	50,000	\$ 8,320	\$ —
July 5, 2017	Third party	1	64,000	14,100	—
July 6, 2017	Third party	1	61,000	42,000	—
August 14, 2017	Third party	1	52,000	13,207	8,741
August 25, 2017	Third party	1	44,000	14,950	9,656
September 5, 2017	Third party	2	79,000	16,000	—
September 29, 2017 ⁽¹⁾	Related party	—	31,000	7,671	—
			381,000	\$ 116,248	\$ 18,397

⁽¹⁾ Relates to an acquisition of additional development on a pre-existing retail property.

The acquisitions on March 16, 2017 and September 29, 2017 were transacted with Empire, a related party.

The initial acquisition (disposition) prices stated above exclude closing and transaction costs.

The allocation of the total cost of the acquisitions (including closing and transaction costs) is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Income property acquired, net:				
Land	\$ 218	\$ 20,981	\$ 26,665	\$ 20,981
Buildings	3,207	85,439	76,205	93,298
Intangibles	334	6,357	5,684	6,832
Fair value debt adjustment on assumed mortgages	—	(436)	—	(436)
Net purchase price	3,759	112,341	108,554	120,675
Assumed mortgages	—	(18,397)	—	(18,397)
	\$ 3,759	\$ 93,944	\$ 108,554	\$ 102,278

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Investment property disposed:				
Gross proceeds	\$ 39,682	\$ —	\$ 234,047	\$ —
Selling costs	—	—	(3,417)	—
	39,682	—	230,630	—
Carrying values derecognized				
Land	(33,417)	—	(83,070)	—
Buildings	(64)	—	(87,690)	—
Intangibles	(117)	—	(1,611)	—
Deferred leasing costs	—	—	(230)	—
Tenant Incentives	(2,966)	—	(7,760)	—
Accrued straight-line rent	(227)	—	(1,836)	—
Development costs	(2,561)	—	(2,561)	—
Provisions	(230)	—	(429)	—
Gain on disposal	\$ 100	\$ —	\$ 45,443	\$ —

On disposition of the 50% interest in a portfolio of properties, the joint partner assumed \$38,971 of the related mortgages:

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Proceeds per above	\$ 39,682	\$ —	\$ 230,630	\$ —
Mortgages assumed	—	—	(38,971)	—
Non-cash consideration, acquisition of investment in joint venture	(27,832)	—	(27,832)	—
Cash proceeds	<u>\$ 11,850</u>	<u>\$ —</u>	<u>\$ 163,827</u>	<u>\$ —</u>

4) INVESTMENT IN JOINT VENTURES

The following represents Crombie's interest in its equity accounted investments:

	September 30, 2018	December 31, 2017
1600 Davie Limited Partnership	50.0%	50.0%
140 CPN Limited	50.0%	50.0%
Bronte Village Limited Partnership	50.0%	—%
The Duke Limited Partnership	50.0%	—%

On April 3, 2018 Crombie entered into a joint venture Partnership with Montreal-based Prince Developments ("Prince Dev"). As a result of the partnerships, Crombie became 50% partner in the new Le Duke mixed use development at 297 Rue Duke in Montreal, Quebec and PrinceDev became a 50% partner in Crombie's Oakville, Ontario Bronte Village mixed use development. The transfers of title occurred on August 16, 2018.

The following table represents 100% of the financial results of the equity accounted entities:

	September 30, 2018	December 31, 2017
Non-current assets	\$ 101,781	\$ 18,743
Current assets	22,990	16,782
Non-current liabilities	57,053	26,982
Current liabilities	6,498	3,339
Net assets	<u>\$ 61,220</u>	<u>\$ 5,204</u>
Crombie's investment in joint ventures	<u>\$ 37,578</u>	<u>\$ 2,602</u>

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenue	\$ 212	\$ 152	\$ 544	\$ 256
Property operating expenses	(52)	(36)	(169)	(58)
General and administrative expenses	4	(6)	(15)	(12)
Depreciation of investment properties	(15)	—	(45)	—
Finance costs - operations	(12)	(28)	(28)	(50)
Net income	<u>\$ 138</u>	<u>\$ 82</u>	<u>\$ 287</u>	<u>\$ 136</u>
Crombie's income from equity accounted investments	<u>\$ 69</u>	<u>\$ 41</u>	<u>\$ 143</u>	<u>\$ 68</u>

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

5) OTHER ASSETS

	September 30, 2018			December 31, 2017		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	\$ 8,414	\$ —	\$ 8,414	\$ 8,741	\$ —	\$ 8,741
Provision for doubtful accounts	(338)	—	(338)	(194)	—	(194)
Net trade receivables	8,076	—	8,076	8,547	—	8,547
Prepaid expenses and deposits	15,683	—	15,683	18,177	—	18,177
Fair value of interest rate swap agreements	5,331	—	5,331	3,204	—	3,204
Marketable securities	—	—	—	1,285	—	1,285
Fixtures and computer equipment ⁽¹⁾	—	6,292	6,292	—	3,140	3,140
Restricted cash	—	—	—	75	—	75
Accrued straight-line rent receivable	—	79,518	79,518	—	72,743	72,743
Tenant incentives	—	141,424	141,424	—	143,492	143,492
Capital expenditure program	—	105	105	—	105	105
Interest rate subsidy	95	226	321	95	297	392
Amounts receivable from related parties	927	20,446	21,373	—	6,131	6,131
	\$ 30,112	\$ 248,011	\$ 278,123	\$ 31,383	\$ 225,908	\$ 257,291

⁽¹⁾ For the nine months ended September 30, 2018, depreciation of fixtures and computer equipment was \$30 (December 31, 2017 - nil).

Amounts due from related parties include \$13,910 in 6% Subordinated Notes Receivable due from Bronte Village Limited Partnership and The Duke Limited Partnership.

Tenant Incentives	Cost	Accumulated Amortization	Net Carrying Value
Balance, January 1, 2018	\$ 211,394	\$ 67,902	\$ 143,492
Additions	15,116	—	15,116
Amortization	—	9,424	(9,424)
Disposition	(12,739)	(4,979)	(7,760)
Write-off fully depreciated assets	(8,420)	(8,420)	—
Balance, September 30, 2018	\$ 205,351	\$ 63,927	\$ 141,424
Balance, January 1, 2017	\$ 187,162	\$ 55,140	\$ 132,022
Additions	24,239	—	24,239
Amortization	—	12,768	(12,768)
Disposition	(7)	(6)	(1)
Balance, December 31, 2017	\$ 211,394	\$ 67,902	\$ 143,492

See Note 18(a) for fair value information.

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

6) INVESTMENT PROPERTY DEBT

	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	September 30, 2018	December 31, 2017
Fixed rate mortgages	2.35 - 6.90%	4.30%	4.8 years	\$ 1,618,489	\$ 1,762,815
Floating rate revolving credit facility			2.8 years	54,148	8,168
Unsecured bilateral credit facility			0.6 years	100,000	45,000
Deferred financing charges				(9,335)	(11,719)
				<u>\$ 1,763,302</u>	<u>\$ 1,804,264</u>
Mortgages					
Non-current				\$ 1,540,100	\$ 1,632,431
Current				69,054	118,665
Credit facilities					
Non-current				54,148	53,168
Current				100,000	—
				<u>\$ 1,763,302</u>	<u>\$ 1,804,264</u>

As at September 30, 2018, mortgage retirements on a calendar year basis are:

	Weighted average interest rates on maturing mortgages	Maturities	Principal payments	Total
Remainder of 2018	—%	\$ —	\$ 13,188	\$ 13,188
December 31, 2019	4.46%	126,978	53,345	180,323
December 31, 2020	4.96%	225,241	46,706	271,947
December 31, 2021	3.91%	89,182	45,037	134,219
December 31, 2022	3.92%	194,868	38,609	233,477
Thereafter	4.25%	681,418	101,691	783,109
		<u>\$ 1,317,687</u>	<u>\$ 298,576</u>	1,616,263
Deferred financing charges				(9,335)
Unamortized fair value debt adjustment				2,226
				<u>\$ 1,609,154</u>

Specific investment properties with a carrying value of \$2,982,486 as at September 30, 2018 (December 31, 2017 - \$3,145,224) are currently pledged as security for mortgages or provided as security for the floating rate revolving credit facility. Carrying value includes investment properties, as well as accrued straight-line rent receivable and tenant incentives which are included in other assets.

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

Mortgage Activity

For the nine months ended:	Type	Number of Mortgages	Weighted Average			Proceeds (Repayments)
			Rates	Terms in Years	Amortization Period in Years	
September 30, 2018	Repaid	11	4.98%	—	—	\$ (64,713)
	Disposition ⁽¹⁾	9	4.27%			(38,971)
						<u>\$ (103,684)</u>

⁽¹⁾ Represents disposition of 50% interest in mortgages related to partial disposition of a portfolio of properties.

For the nine months ended:	Type	Number of Mortgages	Weighted Average			Proceeds (Repayments)
			Rates	Terms in Years	Amortization Period in Years	
September 30, 2017	New	6	3.43%	8.1	25.0	\$ 192,783
	Assumed	3	3.81%	6.8	25.0	18,397
	Repaid	8	5.14%	—	—	(50,379)
						<u>\$ 160,801</u>

Floating Rate Revolving Credit Facility

The floating rate revolving credit facility has a maximum principal amount of \$400,000 (December 31, 2017 - \$400,000) and matures June 30, 2021. Subsequent to September 30, 2018, Crombie renewed the revolving credit facility, extending the maturity date to June 30, 2022. The facility is used by Crombie for working capital purposes and to provide temporary financing for acquisitions and development activity. It is secured by a pool of first and second mortgages on certain properties and the maximum principal amount is subject to available borrowing base (September 30, 2018 – borrowing base of \$400,000). Borrowings under the revolving credit facility can be by way of Bankers Acceptance or Prime Rate Advance and the Floating interest rate is contingent on the type of advance plus the applicable spread or margin. The respective spread or margin may change depending on Crombie's unsecured bond rating with DBRS and whether the facility remains secured or migrates to an unsecured status.

Unsecured Bilateral Credit Facility

The unsecured bilateral credit facility has a maximum principal amount of \$100,000 and matures May 16, 2019. Subsequent to September 30, 2018, Crombie renewed the unsecured bilateral credit facility, extending the maturity date to May 16, 2020. The facility is used by Crombie for working capital purposes and to provide temporary financing for acquisitions and development activity. Borrowings under the bilateral credit facility can be by way of Bankers Acceptance or Prime Rate Advance and the Floating interest rate is contingent on the type of advance plus the applicable spread or margin. The respective spread or margin may change depending on Crombie's unsecured bond rating with DBRS.

See Note 18(a) for fair value information.

7) SENIOR UNSECURED NOTES

	Maturity Date	Interest Rate	September 30, 2018	December 31, 2017
Series A	October 31, 2018	3.986% \$	175,000	\$ 175,000
Series B	June 1, 2021	3.962%	250,000	175,000
Series C	February 10, 2020	2.775%	125,000	125,000
Series D	November 21, 2022	4.066%	150,000	150,000
Unamortized Series B issue premium			1,180	1,323
Deferred financing charges			(1,723)	(2,003)
			<u>\$ 699,457</u>	<u>\$ 624,320</u>

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

12 Months Ending	Series A	Series B	Series C	Series D	Total
September 30, 2019	\$ 175,000	\$ —	\$ —	\$ —	175,000
September 30, 2020	—	—	125,000	—	125,000
September 30, 2021	—	250,000	—	—	250,000
September 30, 2022	—	—	—	—	—
September 30, 2023	—	—	—	150,000	150,000
	<u>\$ 175,000</u>	<u>\$ 250,000</u>	<u>\$ 125,000</u>	<u>\$ 150,000</u>	<u>700,000</u>
Unamortized Series B issue premium					1,180
Deferred financing charges					(1,723)
					<u>\$ 699,457</u>

On August 31, 2018 Crombie issued, on a private placement basis, an additional \$75,000 Series B Notes (senior unsecured) maturing June 1, 2021. The proceeds were used to fund the redemption of the Series E Convertible Debentures. The Additional Notes were priced with an effective yield to maturity of 3.882% and sold at a price of \$1,002.02 per \$1,000.00 principal amount plus accrued interest. Interest is payable in equal semi-annual installments in arrears on June 1 and December 1.

See Note 18(a) for fair value information.

8) CONVERTIBLE DEBENTURES

	Conversion Price	Maturity Date	Interest Rate	September 30, 2018	December 31, 2017
Series E (CRR.DB.E)	\$ 17.15	August 31, 2018	5.25%	—	74,400
Deferred financing charges				—	(1,236)
				<u>\$ —</u>	<u>\$ 73,164</u>

On August 31, 2018, Crombie exercised its right to redeem its 5.25% Series E Extendible Convertible Unsecured Subordinated Debentures originally maturing on March 31, 2021 (the "Debentures") in accordance with the terms of the supplemental trust indenture dated August 14, 2013. Upon redemption, Crombie paid to the holders of Debentures the redemption price equal to the outstanding principal amount of the Debentures redeemed, together with all accrued and unpaid interest thereon, for a total of \$1,022.01 per \$1,000 principal amount of Debentures, less any taxes required to be deducted or withheld.

See Note 18(a) for fair value information.

9) TRADE AND OTHER PAYABLES

	September 30, 2018			December 31, 2017		
	Current	Non-current	Total	Current	Non-current	Total
Tenant incentives and capital expenditures	\$ 52,883	\$ —	\$ 52,883	\$ 40,317	\$ —	\$ 40,317
Property operating costs	32,004	—	32,004	38,300	—	38,300
Prepaid rents	7,373	—	7,373	7,205	—	7,205
Finance costs on investment property debt, notes and debentures	14,246	—	14,246	10,629	—	10,629
Amounts payable to related party	8,425	—	8,425	—	—	—
Distributions payable	11,239	—	11,239	11,182	—	11,182
Unit based compensation plans	1,454	6,534	7,988	1,351	4,978	6,329
Deferred revenue	146	4,431	4,577	178	4,580	4,758
	<u>\$ 127,770</u>	<u>\$ 10,965</u>	<u>\$ 138,735</u>	<u>\$ 109,162</u>	<u>\$ 9,558</u>	<u>\$ 118,720</u>

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

10) PROPERTY REVENUE

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Operating lease revenue				
Rental revenue contractually due from tenants ⁽¹⁾	\$ 88,554	\$ 88,939	\$ 271,632	\$ 267,303
Contingent rental revenue	620	431	1,545	1,302
Straight-line rent recognition	3,221	3,479	8,611	10,262
Tenant incentive amortization	(3,334)	(2,759)	(9,424)	(9,261)
Lease termination income	—	660	180	909
Revenue from Contracts with Customers				
Common area cost recoveries	9,195	8,938	33,737	31,034
Parking revenue	2,249	2,736	4,072	4,597
	\$ 100,505	\$ 102,424	\$ 310,353	\$ 306,146

⁽¹⁾ Includes reimbursement of Crombie's property tax expense.

The following table sets out tenants that contributed in excess of 10% of total property revenue:

	Three months ended September 30,				Nine months ended September 30,			
	2018		2017		2018		2017	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
Sobeys Inc.	\$ 52,139	51.9%	\$ 49,532	48.4%	\$ 159,766	51.5%	\$ 153,478	50.1%

11) OPERATING LEASES

Crombie as a Lessor

Crombie's operations include leasing commercial real estate. Future minimum rental income under non-cancellable tenant leases as at September 30, 2018, is as follows:

	Remaining	Year Ending December 31,					Thereafter	Total
	2018	2019	2020	2021	2022			
Future minimum rental income	\$ 73,219	\$ 284,658	\$ 273,234	\$ 260,882	\$ 248,739	\$ 2,108,866	\$ 3,249,598	

Crombie as a Lessee

Operating lease payments primarily represent rentals payable by Crombie for all of its land leases. These land leases have varying terms ranging from seven to 71 years including renewal options:

	Remaining	Year Ending December 31,					Thereafter	Total
	2018	2019	2020	2021	2022			
Future minimum lease payments	\$ 481	\$ 1,939	\$ 2,001	\$ 2,021	\$ 2,058	\$ 140,857	\$ 149,357	

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

12) CORPORATE EXPENSES AND CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) General and administrative expenses

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Salaries and benefits	\$ 3,562	\$ 3,022	\$ 9,600	\$ 8,599
Professional and public company costs	717	875	2,376	3,679
Occupancy and other	646	778	2,066	2,553
	\$ 4,925	\$ 4,675	\$ 14,042	\$ 14,831

(b) Employee benefit expense

Crombie's payroll expenses are included in property operating expenses and in general and administrative expenses.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Wages and salaries	\$ 5,571	\$ 5,504	\$ 20,335	\$ 19,650
Post-employment benefits	234	215	672	606
	\$ 5,805	\$ 5,719	\$ 21,007	\$ 20,256

(c) Change in fair value of financial instruments

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Deferred Unit ("DU") Plan	\$ (40)	\$ 36	\$ 205	\$ (11)
Marketable securities	—	(11)	—	138
Total change in fair value of financial instruments	\$ (40)	\$ 25	\$ 205	\$ 127

13) FINANCE COSTS – OPERATIONS

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Fixed rate mortgages	\$ 18,462	\$ 20,092	\$ 57,103	\$ 59,451
Floating rate term, revolving and demand facilities	1,235	1,382	3,517	3,059
Capitalized interest	(1,113)	(796)	(2,980)	(1,563)
Senior unsecured notes	6,280	4,458	18,181	12,768
Convertible debentures	1,709	1,108	3,842	5,381
Finance costs - operations, expense	26,573	26,244	79,663	79,096
Amortization of fair value debt adjustment and accretion income	192	333	626	1,119
Change in accrued finance costs	(4,165)	(914)	(3,617)	(1,249)
Amortization of effective swap agreements	(563)	(586)	(1,706)	(1,774)
Capitalized interest ⁽¹⁾	1,113	796	2,980	1,563
Amortization of issue premium on senior unsecured notes	102	98	293	233
Amortization of deferred financing charges	(2,019)	(1,010)	(4,228)	(3,478)
Finance costs - operations, paid	\$ 21,233	\$ 24,961	\$ 74,011	\$ 75,510

⁽¹⁾ For the three months ended September 30, 2018, interest was capitalized to qualifying development projects based on a weighted average interest rate of 3.63% (September 30, 2017 - 3.61%).

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

14) INCOME TAXES

The tax recovery (expense) consists of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Taxes - current				
Taxes - operating income earned in corporate subsidiaries	\$ (2)	\$ —	\$ (2)	\$ (4)
Total current taxes	<u>\$ (2)</u>	<u>\$ —</u>	<u>\$ (2)</u>	<u>\$ (4)</u>
Taxes - deferred				
Provision for income taxes at the expected rate	\$ —	\$ —	\$ —	\$ (6,067)
Tax effect of income attribution to Crombie's Unitholders	—	—	—	5,067
Impact of tax reorganization	—	—	—	76,400
Total deferred taxes	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 75,400</u>

On June 30, 2017, Crombie completed a tax reorganization, as approved by unitholders, resulting in, amongst other structural changes, the winding up of its most significant, wholly-owned corporate subsidiary. Through the tax reorganization, all property within the corporate entity was transferred to a limited partnership resulting in the elimination of Crombie's obligation for deferred income taxes related to this corporate subsidiary.

15) UNITS OUTSTANDING

	Crombie REIT Units		Class B LP Units and attached Special Voting Units		Total	
	Number of Units	Amount	Number of Units	Amount	Number of Units	Amount
Balance, January 1, 2018	89,115,328	\$ 1,034,683	61,646,953	\$ 711,456	150,762,281	\$ 1,746,139
Net change in EUPP loans receivable	—	46	—	—	—	46
Units issued under DRIP	439,069	5,508	311,374	3,915	750,443	9,423
Units issued under unit based compensation plan	12,627	158	—	—	12,627	158
Balance, September 30, 2018	89,567,024	\$ 1,040,395	61,958,327	\$ 715,371	151,525,351	\$ 1,755,766

	Crombie REIT Units		Class B LP Units and attached Special Voting Units		Total	
	Number of Units	Amount	Number of Units	Amount	Number of Units	Amount
Balance, January 1, 2017	87,737,709	\$ 1,016,285	60,669,944	\$ 698,439	148,407,653	\$ 1,714,724
Net change in EUPP loans receivable	—	59	—	—	—	59
Units issued under DRIP	1,088,522	14,495	771,981	10,290	1,860,503	24,785
Balance, September 30, 2017	<u>88,826,231</u>	<u>\$ 1,030,839</u>	<u>61,441,925</u>	<u>\$ 708,729</u>	<u>150,268,156</u>	<u>\$ 1,739,568</u>

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

16) SUPPLEMENTARY CASH FLOW INFORMATION

a) Items not affecting operating cash

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Items not affecting operating cash:				
Straight-line rent recognition	\$ (3,221)	\$ (3,479)	\$ (8,611)	\$ (10,262)
Amortization of tenant incentives	3,334	2,759	9,424	9,261
Gain on disposal of investment properties	(100)	—	(45,443)	—
Impairment of investment properties	—	—	8,000	—
Depreciation of investment properties	26,814	20,217	70,873	56,171
Amortization of intangible assets	1,697	1,579	5,013	4,948
Amortization of deferred leasing costs	175	170	531	469
Depreciation of fixtures and computer equipment	10	—	30	—
Unit based compensation	5	7	16	25
Amortization of effective swap agreements	563	586	1,706	1,774
Amortization of deferred financing charges	2,019	1,010	4,228	3,478
Amortization of issue premium on senior unsecured notes	(102)	(98)	(293)	(233)
Income from equity accounted investments	(69)	(41)	(143)	(68)
Non-cash distributions to Unitholders in the form of DRIP Units	810	8,513	9,423	24,785
Taxes - deferred	—	—	—	(75,400)
Income tax expense	2	—	2	4
Change in fair value of financial instruments	40	(25)	(205)	(127)
	\$ 31,975	\$ 31,198	\$ 54,549	\$ 14,825

b) Change in other non-cash operating items

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Cash provided by (used in):				
Trade receivables	\$ 7,614	\$ 5,215	\$ 471	\$ 48
Prepaid expenses and deposits and other assets	5,117	12,668	(3,181)	5,683
Payables and other liabilities	2,564	1,301	5,536	12,213
	\$ 15,295	\$ 19,184	\$ 2,826	\$ 17,944

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

c) Reconciliation between the opening and closing balances for liabilities from financing activities

	Mortgages		Floating rate credit facilities		Senior unsecured notes			Convertible debentures	
	Face value	Deferred financing costs	Face value	Deferred financing costs	Face value	Premium on debt issue	Deferred financing costs	Face value	Deferred financing costs
Balance, January 1, 2018	\$ 1,762,815	\$ 10,288	\$ 53,168	\$ 1,431	\$ 625,000	\$ 1,323	\$ 2,003	\$ 74,400	\$ 1,236
Repayment of mortgages	(104,750)	—	—	—	—	—	—	—	—
Issue of floating credit facilities	—	—	100,980	—	—	—	—	—	—
Issue of senior unsecured notes	—	—	—	—	75,000	152	—	—	—
Redemption of convertible debentures	—	—	—	—	—	—	—	(74,400)	—
Additions to deferred financing costs	—	259	—	25	—	—	328	—	—
Total financing cash flow activities	1,658,065	10,547	154,148	1,456	700,000	1,475	2,331	—	1,236
Assumed by joint operation partner	(38,971)	—	—	—	—	—	—	—	—
Amortization of issue premium	—	—	—	—	—	(295)	—	—	—
Amortization of deferred financing charges	—	(1,603)	—	(781)	—	—	(608)	—	(254)
Write-off deferred financing charges	—	(284)	—	—	—	—	—	—	(982)
Amortization of fair value debt adjustment	(379)	—	—	—	—	—	—	—	—
Recognition of interest rate subsidy	(226)	—	—	—	—	—	—	—	—
Total financing non-cash activities	(39,576)	(1,887)	—	(781)	—	(295)	(608)	—	(1,236)
Balance, September 30, 2018	\$ 1,618,489	\$ 8,660	\$ 154,148	\$ 675	\$ 700,000	\$ 1,180	\$ 1,723	\$ —	\$ —

	Mortgages		Floating rate credit facilities		Senior unsecured notes			Convertible debentures	
	Face value	Deferred financing costs	Face value	Deferred financing costs	Face value	Premium on debt issue	Deferred financing costs	Face value	Deferred financing costs
Balance, January 1, 2017	\$ 1,655,817	\$ 9,859	\$ 220,374	\$ 855	\$ 400,000	\$ 240	\$ 1,652	\$ 134,400	\$ 2,266
Issue of mortgages	192,783	—	—	—	—	—	—	—	—
Repayment of mortgages	(89,197)	—	—	—	—	—	—	—	—
Repayment of floating credit facilities	—	—	(19,883)	—	—	—	—	—	—
Issue of senior unsecured notes	—	—	—	—	75,000	1,413	—	—	—
Redemption of convertible debentures	—	—	—	—	—	—	—	(60,000)	—
Additions to deferred financing costs	—	2,577	—	768	—	—	348	—	—
Total financing cash flow activities	1,759,403	12,436	200,491	1,623	475,000	1,653	2,000	74,400	2,266
Assumed mortgages	18,397	—	—	—	—	—	—	—	—
Amortization of issue premium	—	—	—	—	—	(232)	—	—	—
Amortization of deferred financing charges	—	(1,672)	—	(401)	—	—	(470)	—	(935)
Amortization of fair value debt adjustment	(834)	—	—	—	—	—	—	—	—
Recognition of interest rate subsidy	(250)	—	—	—	—	—	—	—	—
Total financing non-cash activities	17,313	(1,672)	—	(401)	—	(232)	(470)	—	(935)
Balance, September 30, 2017	\$ 1,776,716	\$ 10,764	\$ 200,491	\$ 1,222	\$ 475,000	\$ 1,421	\$ 1,530	\$ 74,400	\$ 1,331

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

17) RELATED PARTY TRANSACTIONS

As at September 30, 2018, Empire, through its wholly-owned subsidiary ECLD, holds a 41.5% indirect interest in Crombie. Related party transactions primarily include transactions with entities associated with Crombie through Empire's indirect interest. Related party transactions also include transactions with key management personnel and post-employment benefit plans.

Related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Crombie's revenue (expense) transactions with related parties are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Property revenue				
Property revenue	\$ 53,335	\$ 50,787	\$ 163,324	\$ 157,317
Head lease income	\$ 136	\$ 170	\$ 476	\$ 532
Lease termination income	\$ —	\$ 61	\$ —	\$ 102
Property operating expenses	\$ (16)	\$ (16)	\$ (40)	\$ (29)
General and administrative expenses				
Property management services recovered	\$ 139	\$ 165	\$ 422	\$ 484
Other general and administrative expenses	\$ (57)	\$ (67)	\$ (150)	\$ (204)
Finance costs - operations				
Interest on convertible debentures	\$ —	\$ (13)	\$ —	\$ (608)
Interest rate subsidy	\$ 74	\$ 79	\$ 226	\$ 258
Finance costs - distributions to Unitholders	\$ (13,987)	\$ (13,853)	\$ (41,908)	\$ (41,388)

Crombie provides property management, leasing services and environmental management to specific properties owned by certain subsidiaries of Empire on a fee for service basis pursuant to a Management Agreement effective January 1, 2016. Revenue generated from the Management Agreement is being recognized as a reduction of General and administrative expenses. This Agreement replaces the previous cost sharing arrangement covered by a Management Cost Sharing Agreement.

In addition to the above:

During the nine months ended September 30, 2018, Crombie issued 311,374 (September 30, 2017 - 771,981) Class B LP Units to ECLD under the DRIP (Note 15).

On April 6, 2018, Crombie acquired nine retail properties and two additions to existing retail properties from Sobey's. The properties, totalling 421,000 square feet, were acquired for \$88,110, excluding closing and transaction costs.

On June 29, 2018 Crombie acquired one retail property from Sobey's. The property, totalling 37,000 square feet, was acquired for \$12,500, excluding closing and transaction costs.

On September 28, 2018, Crombie acquired an addition to an existing retail property from Sobey's. The property, totalling 10,000 square feet, were acquired for \$3,735, excluding closing and transaction costs.

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

18) FINANCIAL INSTRUMENTS

a) Fair value of financial instruments

The fair value of a financial instrument is the estimated amount that Crombie would receive to sell a financial asset or pay to transfer a financial liability in an orderly transaction between market participants at the measurement date.

Fair value determination is classified within a three-level hierarchy, based on observability of significant inputs, as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - unobservable inputs for the asset or liability.

The following table provides information on financial assets and liabilities measured at fair value as at September 30, 2018:

Financial assets	Level	September 30, 2018		December 31, 2017	
Marketable securities	1	\$	—	\$	1,285
Total financial assets measured at fair value		\$	—	\$	1,285

There were no transfers between levels of the fair value hierarchy during the period ended September 30, 2018. During the three months ended March 31, 2018, Crombie sold the marketable securities.

The fair value of other financial instruments is based on discounted cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. The following table summarizes the estimated fair value of other financial instruments which have a fair value different from their carrying value:

	September 30, 2018		December 31, 2017	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets				
Long-term receivables ⁽¹⁾	\$ 20,876	\$ 21,799	\$ 6,642	\$ 6,628
Total other financial assets	\$ 20,876	\$ 21,799	\$ 6,642	\$ 6,628
Financial liabilities				
Investment property debt	\$ 1,799,397	\$ 1,772,637	\$ 1,846,029	\$ 1,815,983
Senior unsecured notes	699,330	700,000	627,120	625,000
Convertible debentures	—	—	76,818	74,400
Total other financial liabilities	\$ 2,498,727	\$ 2,472,637	\$ 2,549,967	\$ 2,515,383

⁽¹⁾ Long-term receivables include amounts in other assets for capital expenditure program, interest rate subsidy and receivable from related parties and third parties.

The fair value of convertible debentures is a Level 1 measurement and the long-term receivables, investment property debt and senior unsecured notes are Level 2.

Due to their short-term nature, the carrying value of the following financial instruments approximates their fair value at the balance sheet date:

- Cash and cash equivalents
- Trade receivables
- Restricted cash
- Trade and other payables (excluding any embedded derivatives).

b) Risk Management

In the normal course of business, Crombie is exposed to a number of financial risks that can affect its operating performance. There has been no significant change in Crombie's risk management during the nine months ended September 30, 2018. The more significant risks, and the actions taken to manage them, are as follows:

Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. A provision for doubtful accounts is taken for all anticipated collectability risks (Note 5).

Crombie mitigates credit risk by geographical diversification, diversifying both its tenant mix and asset mix and conducting credit assessments for new and renewing tenants.

In measuring tenant concentration, Crombie considers both the annual minimum rent and total property revenue of major tenants:

- Crombie's largest tenant, Sobeys, represents 54.8% of annual minimum rent; excluding Sobeys, no other tenant accounts for more than 4.9% of Crombie's minimum rent.
- Total property revenue includes operating and realty tax cost recovery income and percentage rent. These amounts can vary by property type, specific tenant leases and where tenants may directly incur and pay operating and realty tax costs. For the three months ended September 30, 2018, Sobeys represents 51.9% of total property revenue. Excluding Sobeys, no other tenant accounts for more than 4.7% of Crombie's total property revenue.
- Over the next five years, no more than 4.4% of the gross leaseable area of Crombie will expire in any one year.

There have been no significant changes to Crombie's credit risk since December 31, 2017.

Interest rate risk

Interest rate risk is the potential for financial loss arising from increases in interest rates. Crombie mitigates this risk by utilizing staggered debt maturities and limiting the use of permanent floating rate debt and, on occasion, utilizing interest rate swap agreements. Crombie does not enter into interest rate swaps on a speculative basis.

A fluctuation in interest rates would have had an impact on Crombie's operating income related to the use of floating rate debt. Based on recent years' rate changes, a 0.5% interest rate change would reasonably be considered possible. The changes would have had the following impact:

Impact on operating income attributable to Unitholders of interest rate changes on the floating rate revolving credit facility and unsecured bilateral credit facility	Impact of a 0.5% interest rate change	
	Decrease in rate	Increase in rate
Three months ended September 30, 2018	\$ 164	\$ (164)
Three months ended September 30, 2017	\$ 216	\$ (216)
Nine months ended September 30, 2018	\$ 397	\$ (397)
Nine months ended September 30, 2017	\$ 344	\$ (344)

There have been no significant changes to Crombie's interest rate risk since December 31, 2017.

Liquidity risk

The real estate industry is highly capital intensive. Liquidity risk is the risk that Crombie may not have access to sufficient debt and equity capital to fund its growth program, refinance debt obligations as they mature or meet its ongoing obligations as they arise.

The estimated payments, including principal and interest, on non-derivative financial liabilities to maturity date are as follows:

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

Twelve months ending September 30,

	Contractual Cash Flows⁽¹⁾	2019	2020	2021	2022	2023	Thereafter
Fixed rate mortgages ⁽²⁾	\$ 1,902,375	\$ 136,622	\$ 386,849	\$ 155,721	\$ 327,409	\$ 260,659	\$ 635,115
Senior unsecured notes	756,960	195,054	142,256	262,702	6,099	150,849	—
	<u>2,659,335</u>	<u>331,676</u>	<u>529,105</u>	<u>418,423</u>	<u>333,508</u>	<u>411,508</u>	<u>635,115</u>
Floating rate credit facilities	161,704	104,152	1,945	55,607	—	—	—
Total	<u>\$ 2,821,039</u>	<u>\$ 435,828</u>	<u>\$ 531,050</u>	<u>\$ 474,030</u>	<u>\$ 333,508</u>	<u>\$ 411,508</u>	<u>\$ 635,115</u>

⁽¹⁾ Contractual cash flows include principal and interest and ignore extension options.

⁽²⁾ Reduced by the interest rate subsidy payments to be received from Empire.

There have been no significant changes to Crombie's liquidity risk since December 31, 2017.

19) CAPITAL MANAGEMENT

Crombie's objective when managing capital on a long-term basis is to maintain overall indebtedness, including convertible debentures, at reasonable levels, utilize staggered debt maturities, minimize long-term exposure to excessive levels of floating rate debt and maintain conservative payout ratios.

Crombie's capital structure consists of the following:

	September 30, 2018	December 31, 2017
Fixed rate mortgages	\$ 1,609,154	\$ 1,751,096
Credit facilities	154,148	53,168
Senior unsecured notes	699,457	624,320
Convertible debentures	—	73,164
Crombie REIT Unitholders	873,089	873,478
SVU and Class B LP Unitholders	584,139	583,777
	<u>\$ 3,919,987</u>	<u>\$ 3,959,003</u>

At a minimum, Crombie's capital structure is managed to ensure that it complies with the limitations pursuant to Crombie's Declaration of Trust, the criteria contained in the Income Tax Act (Canada) in regard to the definition of a REIT and existing debt covenants. Some of the restrictions pursuant to Crombie's Declaration of Trust would include, among other items:

- A restriction that Crombie shall not incur indebtedness (other than by the assumption of existing indebtedness) where the indebtedness would exceed 75% of the market value of an individual property; and,
- A restriction that Crombie shall not incur indebtedness of more than 60% of gross book value (65% including any convertible debentures).

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2018

For debt to gross book value calculation, Crombie does not include in total debt the financial liabilities to REIT Unitholders and to holders of Class B LP Units, as shown on the balance sheet as Net assets attributable to Unitholders. Crombie's debt to gross book value as defined in Crombie's Declaration of Trust is as follows:

	September 30, 2018		December 31, 2017
Fixed rate mortgages	\$ 1,618,489	\$	1,762,815
Senior unsecured notes	700,000		625,000
Convertible debentures	—		74,400
Revolving credit facility	54,148		8,168
Bilateral credit facility	100,000		45,000
Total debt outstanding	2,472,637		2,515,383
Less: Applicable fair value debt adjustment	(891)		(1,117)
Debt	\$ 2,471,746	\$	2,514,266
Income properties, cost	\$ 4,243,028	\$	4,280,433
Properties under development, cost	89,663		75,699
Below-market lease component, cost ⁽¹⁾	66,572		86,885
Investment in joint ventures	37,578		2,602
Other assets, cost (see below)	342,051		325,193
Deferred financing charges	11,058		14,958
Interest rate subsidy	(891)		(1,117)
Gross book value	\$ 4,789,059	\$	4,784,653
Debt to gross book value - cost basis	51.6%		52.5%

⁽¹⁾ Below-market lease component is included in the carrying value of investment properties.

Other assets are calculated as follows:

	September 30, 2018		December 31, 2017
Other assets per Note 5	\$ 278,123	\$	257,291
Add:			
Tenant incentive accumulated amortization	63,927		67,902
Other assets, cost	\$ 342,051	\$	325,193

Under the amended terms governing the revolving credit facility, Crombie is entitled to borrow a maximum of 70% of the fair market value of assets subject to a first security position and 60% of the excess fair market value over first mortgage financing of assets subject to a second security position or a negative pledge. The terms of the revolving credit facility also require that Crombie must maintain certain covenants:

- annualized net operating income for the prescribed properties must be a minimum of 1.4 times the coverage of the related annualized debt service requirements;
- annualized net operating income on all properties must be a minimum of 1.4 times the coverage of all annualized debt service requirements;
- access to the revolving credit facility is limited by the amount utilized under the facility and the amount of any outstanding letters of credit not to exceed the borrowing base security provided by Crombie; and,
- distributions to Unitholders are limited to 100% of distributable income as defined in the revolving credit facility.

As at September 30, 2018, Crombie is in compliance with all externally imposed capital requirements and all covenants relating to its debt facilities.

20) COMMITMENTS, CONTINGENCIES, and GUARANTEES

There are various claims and litigation which Crombie is involved with arising out of the ordinary course of business operations. In the opinion of management, any liability that would arise from such contingencies in excess of existing accruals would not have a significant adverse effect on these financial statements.

Crombie has agreed to indemnify its trustees and officers, and particular employees, in accordance with Crombie's policies. Crombie maintains insurance policies that may provide coverage against certain claims.

Crombie obtains letters of credit to support its obligations with respect to construction work on its investment properties and satisfying mortgage financing requirements. As at September 30, 2018, Crombie has a total of \$8,698 in outstanding letters of credit related to:

	September 30, 2018	December 31, 2017
Construction work being performed on investment properties	\$ 3,858	\$ 3,879
Mortgage lenders primarily to satisfy mortgage financings on redevelopment properties	4,840	4,840
Total outstanding letters of credit	<u>\$ 8,698</u>	<u>\$ 8,719</u>

Crombie does not believe that any of these standby letters of credit are likely to be drawn upon.

Land leases have varying terms ranging from seven to 71 years including renewal options. For the three and nine months ended September 30, 2018 Crombie paid \$466 and \$1,399 respectively in land lease payments to third party landlords (three and nine months ended September 30, 2017 - \$463 and \$1,240 respectively). Crombie's commitments under the land leases are disclosed in Note 11.

As at September 30, 2018, Crombie had signed construction contracts totalling \$226,369 of which \$136,510 has been paid.

Crombie has 100% guarantees on mortgages related to properties in which it has less than a 100% interest. The mortgages payable related to these guarantees are secured by specific charges against the properties. As at September 30, 2018, Crombie has provided guarantees of approximately \$38,546 (September 30, 2017 - \$NIL) on mortgages in excess of their ownership interest in the properties. The mortgages have a weighted average term to maturity of 6.1 years.

21) SUBSEQUENT EVENTS

- (a) On October 19, 2018, Crombie declared distributions of 7.417 cents per Unit for the period from October 1, 2018 to and including, October 31, 2018. The distributions will be paid on November 15, 2018, to Unitholders of record as of October 31, 2018.
- (b) On October 31, 2018, Crombie issued \$175,000 of 4.8% Series E Senior Unsecured Notes maturing January 31, 2025. The Notes were priced at \$999.96 per \$1,000.00 of principal amount, resulting in an effective yield to maturity of 4.802%. The net proceeds were used to fund the \$175,000 of 3.986% Series A Senior Unsecured Notes which matured on October 31, 2018.

22) SEGMENT DISCLOSURE

Crombie owns and operates primarily retail and office real estate assets located in Canada. Management, in measuring Crombie's performance or making operating decisions, does not distinguish or group its operations on a geographical or other basis. Accordingly, Crombie has a single reportable segment.