

CROMBIE REAL ESTATE INVESTMENT TRUST
Interim Condensed Consolidated Financial Statements
September 30, 2019

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

| | Note | September 30, 2019 | December 31, 2018 |
|--|------|---------------------|---------------------|
| Assets | | | |
| Non-current assets | | | |
| Investment properties | 3 | \$ 3,432,020 | \$ 3,759,643 |
| Investment in joint ventures | 4 | 45,160 | 39,485 |
| Other assets | 5 | 273,250 | 248,818 |
| | | 3,750,430 | 4,047,946 |
| Current assets | | | |
| Other assets | 5 | 30,137 | 23,128 |
| Investment properties held for sale | 6 | 149,217 | — |
| | | 179,354 | 23,128 |
| Total Assets | | 3,929,784 | 4,071,074 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Fixed rate mortgages | 7 | 1,081,895 | 1,421,062 |
| Credit facilities | 7 | 50,314 | 178,843 |
| Senior unsecured notes | 8 | 773,164 | 698,716 |
| Lease liabilities | | 28,638 | — |
| Employee future benefits obligation | | 9,022 | 8,824 |
| Trade and other payables | | 15,363 | 11,488 |
| | | 1,958,396 | 2,318,933 |
| Current liabilities | | | |
| Fixed rate mortgages | 7 | 385,756 | 180,522 |
| Employee future benefits obligation | | 296 | 296 |
| Trade and other payables | | 129,484 | 128,483 |
| | | 515,536 | 309,301 |
| Total liabilities excluding net assets attributable to Unitholders | | 2,473,932 | 2,628,234 |
| Net assets attributable to Unitholders | | \$ 1,455,852 | \$ 1,442,840 |
| Net assets attributable to Unitholders represented by: | | | |
| Crombie REIT Unitholders | | \$ 871,509 | \$ 864,779 |
| Special Voting Units and Class B Limited Partnership Unitholders | | 584,343 | 578,061 |
| | | \$ 1,455,852 | \$ 1,442,840 |
| Commitments, contingencies and guarantees | 18 | | |
| Subsequent events | 19 | | |

See accompanying notes to the interim condensed consolidated financial statements.

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

| | Note | Three months ended September 30, | | Nine months ended September 30, | |
|--|------|-------------------------------------|--------------------|------------------------------------|-------------------|
| | | 2019 | 2018 | 2019 | 2018 |
| Property revenue | 9 | \$ 97,346 | \$ 100,505 | \$ 301,918 | \$ 310,353 |
| Property operating expenses | | 27,205 | 27,660 | 87,793 | 90,489 |
| Net property income | | 70,141 | 72,845 | 214,125 | 219,864 |
| Gain on disposal of investment properties | 3 | 8,315 | 100 | 51,605 | 45,443 |
| Impairment of investment properties | | — | — | — | (8,000) |
| Depreciation and amortization | 3,5 | (17,908) | (28,696) | (55,966) | (76,447) |
| General and administrative expenses | 11 | (6,112) | (4,925) | (17,866) | (14,042) |
| Finance costs - operations | 12 | (24,504) | (26,573) | (74,506) | (79,663) |
| Income from equity accounted investments | 4 | 125 | 69 | 342 | 143 |
| Operating income before taxes | | 30,057 | 12,820 | 117,734 | 87,298 |
| Taxes - current | | (8) | (2) | (8) | (2) |
| Operating income attributable to Unitholders | | 30,049 | 12,818 | 117,726 | 87,296 |
| Finance costs - other | | | | | |
| Distributions to Unitholders | | (33,753) | (33,711) | (101,233) | (101,005) |
| Change in fair value of financial instruments | 11 | (264) | (40) | (1,267) | 205 |
| | | (34,017) | (33,751) | (102,500) | (100,800) |
| Increase (decrease) in net assets attributable to Unitholders | | (3,968) | (20,933) | 15,226 | (13,504) |
| 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 | | 685 | 563 | 1,780 | 1,706 |
| Net change in derivatives designated as cash flow hedges | | 113 | 1,210 | (3,724) | 2,128 |
| Other comprehensive income (loss) | | 798 | 1,773 | (1,944) | 3,834 |
| Comprehensive income (loss) | | \$ (3,170) | \$ (19,160) | \$ 13,282 | \$ (9,670) |

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 13) | Net Assets (Liabilities) Attributable to Unitholders | Accumulated Other Comprehensive Income (Loss) | Total | Attributable to | |
|--|--|--|---|---------------------|-------------------|-------------------|
| | | | | | REIT Units | Class B LP Units |
| Balance, January 1, 2019, as previously reported | \$ 1,756,458 | \$ (312,287) | \$ (1,331) | \$ 1,442,840 | \$ 864,779 | \$ 578,061 |
| Adjustments related to adoption of IFRS 16 ⁽¹⁾ | — | (2,505) | — | (2,505) | (1,501) | (1,004) |
| Adjustments related to EUPP | 410 | 11 | — | 421 | 421 | — |
| Statements of comprehensive income (loss) | — | 15,226 | (1,944) | 13,282 | 6,707 | 6,575 |
| Units issued under Distribution Reinvestment Plan ("DRIP") | 1,700 | — | — | 1,700 | 989 | 711 |
| Units issued under unit based compensation plan | 114 | — | — | 114 | 114 | — |
| Balance, September 30, 2019 | \$ 1,758,682 | \$ (299,555) | \$ (3,275) | \$ 1,455,852 | \$ 871,509 | \$ 584,343 |

(1) See IFRS 16 transition note (note 2(e))

| | REIT Units, Special Voting Units and Class B LP Units (Note 13) | 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 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 |

See accompanying notes to the interim condensed consolidated financial statements.

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

| | Note | Three months ended September 30, | | Nine months ended September 30, | |
|---|------|-------------------------------------|-------------|------------------------------------|-------------|
| | | 2019 | 2018 | 2019 | 2018 |
| Cash flows provided by (used in) | | | | | |
| Operating Activities | | | | | |
| Increase (decrease) in net assets attributable to Unitholders | | \$ (3,968) | \$ (20,933) | \$ 15,226 | \$ (13,504) |
| Items not affecting operating cash | 14 | 12,061 | 31,975 | 12,235 | 54,549 |
| Change in other non-cash operating items | | 515 | 15,295 | (16,069) | 2,826 |
| Income taxes paid | | (8) | (2) | (8) | (2) |
| Cash provided by operating activities | | 8,600 | 26,335 | 11,384 | 43,869 |
| Financing Activities | | | | | |
| Issue of mortgages | | — | — | 25,288 | — |
| Financing - other | | (1,138) | (448) | (2,548) | (1,217) |
| Repayment of mortgages | | (22,349) | (13,033) | (80,070) | (104,750) |
| Advance (repayment) of floating rate credit facilities | | (36,320) | 21,727 | (135,455) | 100,981 |
| Advance of joint operation credit facilities | | 78 | — | 6,926 | — |
| Issue of senior unsecured notes | | 200,000 | 75,152 | 200,000 | 75,152 |
| Redemption of senior unsecured notes | | (125,000) | — | (125,000) | — |
| Redemption of convertible debentures | | — | (74,400) | — | (74,400) |
| Collection of EUPP loans receivable | | 72 | 16 | 410 | 46 |
| Payments of lease liabilities | | (166) | — | (490) | — |
| Advances on long-term receivables | | (259) | (4,853) | (1,731) | (4,941) |
| Cash (used in) provided by financing activities | | 14,918 | 4,161 | (112,670) | (9,129) |
| Investing Activities | | | | | |
| Acquisition of investment properties and intangible assets | | (9,924) | (3,759) | (42,363) | (108,554) |
| Additions to investment properties | | (19,785) | (21,875) | (58,748) | (62,252) |
| Proceeds on disposal of investment properties | 3 | 15,296 | 11,850 | 228,795 | 163,827 |
| Acquisition of interest in joint ventures | | — | (10,210) | — | (10,210) |
| Distributions from (contributions to) joint ventures | | 15,314 | (1,902) | 13,098 | (2,015) |
| Additions to other assets | | (24,419) | (4,600) | (39,496) | (16,788) |
| Proceeds on disposal of marketable securities | | — | — | — | 1,252 |
| Cash provided by (used in) investing activities | | (23,518) | (30,496) | 101,286 | (34,740) |
| Net change in cash and cash equivalents | | — | — | — | — |
| Cash and cash equivalents, beginning of period | | — | — | — | — |
| Cash and cash equivalents, end of period | | \$ — | \$ — | \$ — | \$ — |

See accompanying notes to 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, 2019 and September 30, 2018 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, 2019 interim condensed consolidated financial statements were authorized for issue by the Board of Trustees on November 6, 2019.

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, 2018.

(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) Leases

Crombie adopted IFRS 16 "Leases" on January 1, 2019. Refer to note 2(e) for impact of the adoption.

Crombie as lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Crombie has determined that all of its leases with its tenants are operating leases. Revenue is recorded in accordance with Crombie's revenue recognition policy.

Crombie as lessee

Crombie leases include land, office, equipment and vehicle leases. Crombie assesses whether a contract is or contains a lease at the inception of the contract.

Leases are recognized as a right of use asset with a corresponding liability at the date at which the leased asset is available for use by Crombie, except for short-term leases of 12 months or less or low value leases which are expensed in the consolidated income statement on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease; or if not determinable, the lessee's incremental borrowing rate, specific to the term of the lease. Lease payments can include fixed payments; variable payments based on an index or a rate known at the commencement date; and extension option payments or purchase options, if Crombie is reasonably certain to exercise. The lease liability is subsequently measured at amortized cost using the effective interest rate method and remeasured (with a corresponding adjustment to the related right of use asset) when there is a change in future lease payments in case of renegotiation, changes of an index or rate or in case of reassessment of options.

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2019

At inception of the lease, the right of use asset is measured at cost, comprising initial lease liability, initial direct costs and any future restoration or refurbishment costs, less any incentives granted by the lessors. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term of the underlying asset on a straight-line basis. The right of use asset is subject to testing for impairment if there is an indicator for impairment.

Right of use assets are included in Investment Property and Other Assets and the lease liability is presented separately.

Prior to adoption of IFRS 16, leases were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were recognized in income on a straight-line basis over the period of the lease.

(e) Application of new IFRS

(i) 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 and no adjustments were required, except for where Crombie has sub-leases. Under IFRS 16, Crombie reassessed the classifications of a sub-lease contract previously classified as operating leases under IAS 17. Certain land sub-leases were reassessed as finance leases under IFRS 16 and accordingly, a finance lease receivable of \$8,801 was recognized on January 1, 2019, included in other assets.

Crombie adopted the standard on January 1, 2019 using the modified retrospective approach, and accordingly, has not restated comparatives for the 2018 reporting period. The reclassifications and the adjustments arising from the new standard are recognized in the opening consolidated balance sheet on January 1, 2019.

Crombie elected to retain the previous determination of whether a contract is a lease for existing contracts. On initial application, Crombie used the following practical expedients permitted by the standard:

- Reliance on previous assessments on whether leases are onerous;
- Accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- Exclusion of low-value asset leases;
- Exclusion of initial direct costs for the measurement of the right of use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

On adoption of IFRS 16, Crombie recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17, consisting primarily of land and vehicle leases. These liabilities were measured at the present value of the remaining lease payments, discounted using Crombie's incremental borrowing rate as of January 1, 2019.

The following table presents the reconciliation of lease liabilities as of January 1, 2019:

| | | |
|---|-----------|---------------|
| Minimum lease payments under operating leases as of December 31, 2018 | \$ | 150,550 |
| Effect from discounting at the incremental borrowing rate as of January 1, 2019 | | (120,810) |
| Lease liabilities recognized at January 1, 2019 | <u>\$</u> | <u>29,740</u> |

The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.28%.

The associated right of use assets were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right of use assets at the date of initial acquisition.

CROMBIE REAL ESTATE INVESTMENT TRUST
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands of CAD dollars)
September 30, 2019

The recognized right of use assets as of January 1, 2019 relate to the following:

| | | |
|---------------------------|-----------|---------------|
| Land | \$ | 16,812 |
| Office | | 232 |
| Fleet | | 1,390 |
| Total right of use assets | <u>\$</u> | <u>18,434</u> |

The change in accounting policy affected the following items on the consolidated balance sheet on January 1, 2019:

| | December 31, 2018 as reported | Impact of IFRS 16 adoption | January 1, 2019 |
|--|----------------------------------|-------------------------------|-----------------|
| Investment properties | \$ 3,759,643 | \$ 16,812 | \$ 3,776,455 |
| Other assets | \$ 271,946 | \$ 10,422 | \$ 282,368 |
| Lease liabilities | \$ — | \$ 29,740 | \$ 29,740 |
| Net assets attributable to Unitholders represented by: | | | |
| Crombie REIT unitholders | \$ 864,779 | \$ (1,501) | \$ 863,278 |
| Special Voting Units and Class B Limited Partnership Unitholders | \$ 578,061 | \$ (1,004) | \$ 577,057 |

3) INVESTMENT PROPERTIES

| | September 30, 2019 | December 31, 2018 |
|------------------------------|---------------------|---------------------|
| Income properties | \$ 3,343,666 | \$ 3,693,464 |
| Properties under development | 88,354 | 66,179 |
| | <u>\$ 3,432,020</u> | <u>\$ 3,759,643</u> |

Income properties

| | Land | Buildings | Intangibles | Deferred Leasing Costs | Total |
|---|---------------------|---------------------|------------------|------------------------------|---------------------|
| September 30, 2019 | | | | | |
| Cost | | | | | |
| Opening balance, January 1, 2019 | \$ 1,176,745 | \$ 2,968,216 | \$ 121,181 | \$ 7,010 | \$ 4,273,152 |
| Impact of adoption of IFRS 16 (note 2(e)) | 16,812 | — | — | — | 16,812 |
| Acquisitions | 1,766 | 7,928 | 230 | — | 9,924 |
| Additions | 2,791 | 46,582 | — | 1,285 | 50,658 |
| Dispositions | (69,672) | (185,484) | (7,847) | (34) | (263,037) |
| Transfer to investment properties held for sale (note 6) | (54,693) | (124,993) | (4,159) | — | (183,845) |
| Reclassification from properties under development | 5,943 | 12,851 | — | 122 | 18,916 |
| Balance, September 30, 2019 | <u>1,079,692</u> | <u>2,725,100</u> | <u>109,405</u> | <u>8,383</u> | <u>3,922,580</u> |
| Accumulated depreciation and amortization and impairment | | | | | |
| Opening balance, January 1, 2019 | 2,357 | 509,304 | 65,777 | 2,250 | 579,688 |
| Depreciation and amortization | 241 | 49,837 | 4,423 | 596 | 55,097 |
| Dispositions | (4) | (30,514) | (3,311) | (9) | (33,838) |
| Transfer to investment properties held for sale (note 6) | — | (20,412) | (1,621) | — | (22,033) |
| Balance, September 30, 2019 | 2,594 | 508,215 | 65,268 | 2,837 | 578,914 |
| Net carrying value, September 30, 2019 | <u>\$ 1,077,098</u> | <u>\$ 2,216,885</u> | <u>\$ 44,137</u> | <u>\$ 5,546</u> | <u>\$ 3,343,666</u> |

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(In thousands of CAD dollars)
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Included in land are right of use assets of \$16,484 net of accumulated depreciation of \$241 for land held under lease.

Properties under development

| | Land | Buildings | Deferred Leasing Costs | Total |
|---|------------------|------------------|------------------------|------------------|
| Opening balance, January 1, 2019 | \$ 49,967 | \$ 16,095 | \$ 117 | \$ 66,179 |
| Acquisitions | 32,439 | — | — | 32,439 |
| Additions | 2,531 | 9,774 | 20 | 12,325 |
| Dispositions | (3,673) | — | — | (3,673) |
| Reclassification to income-producing properties | (5,943) | (12,851) | (122) | (18,916) |
| Balance, September 30, 2019 | \$ 75,321 | \$ 13,018 | \$ 15 | \$ 88,354 |

Fair value

Crombie's total fair value of investment properties exceeds carrying value by \$819,388 at September 30, 2019 (December 31, 2018 - \$797,088). 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, 2019 | \$ 4,626,000 | \$ 3,806,612 |
| December 31, 2018 | 4,776,000 | 3,978,912 |

Carrying value consists of the net carrying value of:

| | Note | September 30, 2019 | December 31, 2018 |
|---------------------------------------|------|---------------------|---------------------|
| Income properties | 3 | \$ 3,343,666 | \$ 3,693,464 |
| Properties under development | 3 | 88,354 | 66,179 |
| Accrued straight-line rent receivable | 5 | 84,151 | 81,689 |
| Tenant incentives | 5 | 141,224 | 137,580 |
| Investment properties held for sale | 6 | 149,217 | — |
| Total carrying value | | \$ 3,806,612 | \$ 3,978,912 |

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, 2019 | 6.05% | \$ (180,000) | \$ 197,000 |
| December 31, 2018 | 6.10% | \$ (186,000) | \$ 203,000 |

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.

CROMBIE REAL ESTATE INVESTMENT TRUST
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(In thousands of CAD dollars)
September 30, 2019

September 30, 2019

| Transaction Date | Vendor/Purchaser | Properties Acquired (Disposed) | Approximate Square Footage | Initial Acquisition (Disposition) Price |
|-----------------------------------|------------------|--------------------------------|----------------------------|---|
| January 29, 2019 | Third Party | (1) | (114,000) \$ | (35,180) |
| February 5, 2019 ⁽¹⁾ | Third Party | (7) | (148,000) | (41,614) |
| February 8, 2019 | Third Party | (1) | (50,000) | (19,925) |
| February 14, 2019 | Third Party | (1) | (19,000) | (9,675) |
| April 24, 2019 ⁽²⁾ | Third Party | (26) | (785,000) | (161,589) |
| April 29, 2019 | Third Party | (1) | (39,000) | (21,500) |
| July 3, 2019 ⁽³⁾ | Third Party | (1) | (44,000) | (9,750) |
| July 4, 2019 | Third Party | (1) | (36,000) | (12,255) |
| August 1, 2019 ⁽⁴⁾ | Empire | 1 | 15,000 | 9,500 |
| August 2, 2019 ⁽⁵⁾ | Joint Venture | (1) | — | (27,379) |
| September 25, 2019 ⁽⁶⁾ | Third Party | (1) | (3,000) | (175) |
| | | | (1,223,000) \$ | (329,542) |

⁽¹⁾ Disposal of 50% interest in seven retail properties to a third party.

⁽²⁾ Disposal of an 89% interest in 26 retail properties to a third party.

⁽³⁾ Disposal of an 89% interest in one retail property to a third party.

⁽⁴⁾ Acquired a 50% interest in one retail property from a related party.

⁽⁵⁾ Disposal of air rights to a joint venture.

⁽⁶⁾ Disposal of a freestanding building adjacent to a retail property.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|-------------------------------|----------------------------------|-----------|---------------------------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Investment property disposed: | | | | |
| Gross proceeds | \$ 49,559 | \$ 39,682 | \$ 343,138 | \$ 234,047 |
| Selling costs | (259) | — | (6,509) | (3,417) |
| | 49,300 | 39,682 | 336,629 | 230,630 |
| Carrying values derecognized | | | | |
| Land | (16,123) | (33,417) | (76,881) | (83,070) |
| Buildings | (16,032) | (64) | (170,859) | (87,690) |
| Intangibles | (356) | (117) | (4,894) | (1,611) |
| Deferred leasing costs | — | — | (25) | (230) |
| Tenant Incentives | (608) | (2,966) | (18,546) | (7,760) |
| Accrued straight-line rent | (331) | (227) | (5,736) | (1,836) |
| Development costs | — | (2,561) | — | (2,561) |
| Provisions | (7,535) | (230) | (8,083) | (429) |
| Gain on disposal | \$ 8,315 | \$ 100 | \$ 51,605 | \$ 45,443 |

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|-----------|---------------------------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Proceeds | \$ 49,300 | \$ 39,682 | \$ 336,629 | \$ 230,630 |
| Mortgages assumed by buyer | (6,625) | — | (80,455) | (38,971) |
| Non-cash consideration, addition to investment in joint venture | (27,379) | — | (27,379) | — |
| Non-cash consideration, acquisition of investment in joint venture | — | (27,832) | — | (27,832) |
| Cash proceeds | \$ 15,296 | \$ 11,850 | \$ 228,795 | \$ 163,827 |

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(In thousands of CAD dollars)
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4) INVESTMENT IN JOINT VENTURES

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

| | September 30, 2019 | December 31, 2018 |
|------------------------------------|--------------------|-------------------|
| 1600 Davie Limited Partnership | 50.0% | 50.0% |
| Bronte Village Limited Partnership | 50.0% | 50.0% |
| The Duke Limited Partnership | 50.0% | 50.0% |
| 140 CPN Limited | 50.0% | 50.0% |

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

| | September 30, 2019 | December 31, 2018 |
|--|--------------------|-------------------|
| Non-current assets | \$ 262,695 | \$ 112,581 |
| Current assets | 24,085 | 30,043 |
| Non-current liabilities | (174,902) | (68,166) |
| Current liabilities | (22,220) | (10,125) |
| Net assets | \$ 89,658 | \$ 64,333 |
| Crombie's investment in joint ventures | \$ 45,160 | \$ 39,485 |

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|--------|---------------------------------|--------|
| | 2019 | 2018 | 2019 | 2018 |
| Revenue | \$ 510 | \$ 212 | \$ 1,239 | \$ 544 |
| Property operating expenses | (112) | (52) | (300) | (169) |
| General and administrative expenses | — | 4 | (2) | (15) |
| Depreciation of investment properties | (41) | (15) | (122) | (45) |
| Finance costs - operations | (108) | (12) | (131) | (28) |
| Net income | \$ 249 | \$ 138 | \$ 684 | \$ 287 |
| Crombie's income from equity accounted investments | \$ 125 | \$ 69 | \$ 342 | \$ 143 |

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5) OTHER ASSETS

| | September 30, 2019 | | | December 31, 2018 | | |
|---|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Current | Non-current | Total | Current | Non-current | Total |
| Net trade receivables | \$ 11,212 | \$ 6,041 | \$ 17,253 | \$ 8,337 | \$ — | \$ 8,337 |
| Prepaid expenses and deposits | 19,369 | — | 19,369 | 11,857 | — | 11,857 |
| Fair value of interest rate swap agreements | (884) | — | (884) | 2,840 | — | 2,840 |
| Other fixed assets ^{(1) (2)} | — | 10,094 | 10,094 | — | 7,761 | 7,761 |
| Finance lease receivable | 347 | 8,220 | 8,567 | — | — | — |
| Accrued straight-line rent receivable | — | 84,151 | 84,151 | — | 81,689 | 81,689 |
| Tenant incentives | — | 141,224 | 141,224 | — | 137,580 | 137,580 |
| Capital expenditure program | — | 105 | 105 | — | 105 | 105 |
| Interest rate subsidy | 93 | 135 | 228 | 94 | 203 | 297 |
| Amounts receivable from related parties | — | 23,280 | 23,280 | — | 21,480 | 21,480 |
| | \$ 30,137 | \$ 273,250 | \$ 303,387 | \$ 23,128 | \$ 248,818 | \$ 271,946 |

⁽¹⁾ For the nine months ended September 30, 2019, depreciation of other fixed assets was \$869 (December 31, 2018 - \$42).

⁽²⁾ Other fixed assets include right of use assets of \$1,388 (December 31, 2018 - \$nil) net of accumulated depreciation of \$427 relating to office and vehicle leases.

| Tenant Incentives | Cost | Accumulated Amortization | Net Carrying Value |
|---|-------------------|--------------------------|--------------------|
| Balance, January 1, 2019 | \$ 204,250 | \$ 66,670 | \$ 137,580 |
| Additions | 39,691 | — | 39,691 |
| Amortization | — | 10,541 | (10,541) |
| Disposition | (20,086) | (1,977) | (18,109) |
| Transfer to investment properties held for sale | (8,644) | (1,247) | (7,397) |
| Balance, September 30, 2019 | \$ 215,211 | \$ 73,987 | \$ 141,224 |

See Note 16(a) for fair value information.

6) INVESTMENT PROPERTIES HELD FOR SALE

| | Land | Buildings | Intangibles | Tenant Incentives | Total |
|--|------------------|------------------|-----------------|-------------------|-------------------|
| Assets transferred to held for sale | \$ 54,693 | \$ 104,581 | \$ 2,538 | \$ 7,397 | \$ 169,209 |
| Additions to assets held for sale | — | — | — | 445 | 445 |
| Derecognition through disposition | (3,540) | (15,929) | (359) | (609) | (20,437) |
| Net carrying value, September 30, 2019 | \$ 51,153 | \$ 88,652 | \$ 2,179 | \$ 7,233 | \$ 149,217 |

Crombie has determined that 15 of its investment properties meet the criteria for classification as held for sale as at September 30, 2019 based on the current status of the sales process. Included in the above is 89% of the carrying value of 15 properties that Crombie has agreed to sell to a third party.

Prior to the classification as held for sale, the properties were assessed for impairment, which, at that time, is the amount by which the carrying amount exceeds its recoverable amount, if any. No depreciation or amortization will be recorded while the properties are classified as held for sale. Crombie completed the sale of these properties on October 7, 2019.

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7) INVESTMENT PROPERTY DEBT

| | Range | Weighted Average Interest Rate | Weighted Average Term to Maturity | September 30, 2019 | December 31, 2018 |
|---|--------------|--------------------------------------|---|---------------------|---------------------|
| Fixed rate mortgages | 2.35 - 6.90% | 4.29% | 4.0 years | \$ 1,474,996 | \$ 1,610,640 |
| Floating rate revolving credit facility | | | 2.8 years | 9,388 | 108,843 |
| Joint operation credit facilities | | | 4.6 years | 6,926 | — |
| Unsecured bilateral credit facility | | | 1.6 years | 34,000 | 70,000 |
| Deferred financing charges | | | | (7,345) | (9,056) |
| | | | | <u>\$ 1,517,965</u> | <u>\$ 1,780,427</u> |
| Mortgages | | | | | |
| Non-current | | | | \$ 1,081,895 | \$ 1,421,062 |
| Current | | | | 385,756 | 180,522 |
| Credit facilities | | | | | |
| Non-current | | | | 50,314 | 178,843 |
| Current | | | | — | — |
| | | | | <u>\$ 1,517,965</u> | <u>\$ 1,780,427</u> |

Specific investment properties with a carrying value of \$2,884,630 as at September 30, 2019 (December 31, 2018 - \$3,002,822) 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. Debt associated with the investment properties held for sale and that which will be assumed by the purchaser as part of the sale of the investment properties has been presented as current as the amounts owing will be settled or transferred within the next twelve months.

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, 2019 | New | 6 | 3.60% | 5.0 | 25.0 | \$ 25,288 |
| | Repaid | 11 | 4.27% | | | (70,033) |
| | Disposition ⁽¹⁾ | 12 | 4.16% | | | (51,155) |
| | | | | | | <u>\$ (95,900)</u> |

⁽¹⁾ Represents disposition of interests in mortgages related to partial dispositions of a portfolio of properties.

Joint Operation Credit Facilities

In conjunction with the 89% sale of a portfolio of assets in Q2 2019, Crombie and its co-owner entered into a credit agreement with a Canadian Chartered Bank for a \$62,250 term loan facility and a \$5,800 revolving credit facility. Both facilities are secured and have a term of five years maturing on April 25, 2024. Borrowings under both facilities 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. Concurrent with entering into these facilities, Crombie and its co-owner entered into a fixed for floating interest rate swap effectively fixing the interest rate on both facilities at 3.58%. At the end of Q3 2019, Crombie's portion of the term and revolving credit facilities was \$6,848 and \$78, respectively.

Unsecured Bilateral Credit Facility

The unsecured bilateral credit facility agreement was renewed for an additional year in the second quarter of 2019. The unsecured bilateral credit facility has a maximum principal amount of \$100,000 and matures May 14, 2021. 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 16(a) for fair value information.

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8) SENIOR UNSECURED NOTES

| | Maturity Date | Interest Rate | September 30, 2019 | December 31, 2018 |
|------------------------------------|-------------------|---------------|--------------------|-------------------|
| Series B | June 1, 2021 | 3.962% | \$ 250,000 | \$ 250,000 |
| Series C | February 10, 2020 | 2.775% | — | 125,000 |
| Series D | November 21, 2022 | 4.066% | 150,000 | 150,000 |
| Series E | January 31, 2025 | 4.800% | 175,000 | 175,000 |
| Series F | August 26, 2026 | 3.677% | 200,000 | — |
| Unamortized Series B issue premium | | | 739 | 1,068 |
| Deferred financing charges | | | (2,575) | (2,352) |
| | | | <u>\$ 773,164</u> | <u>\$ 698,716</u> |

On August 26, 2019, Crombie issued, on a private placement basis, \$200,000 Series F Notes (senior unsecured) maturing August 26, 2026. The proceeds were used to fund the early repayment of the Series C Notes and repay bank indebtedness. The notes were priced with an effective yield to maturity of 3.677% and sold at a price of \$1,000.00 per \$1,000.00 principal amount. Interest is payable in equal semi-annual installments on February 26 and August 26.

See Note 16(a) for fair value information.

9) PROPERTY REVENUE

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|-------------------|---------------------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Operating lease revenue | | | | |
| Rental revenue contractually due from tenants ⁽¹⁾ | \$ 85,545 | \$ 89,042 | \$ 261,387 | \$ 269,809 |
| Other operating lease revenue | 468 | 507 | 672 | 912 |
| Revenue from contracts with customers | | | | |
| Common area cost recoveries | 9,956 | 9,801 | 35,787 | 35,560 |
| Parking revenue | 1,377 | 1,155 | 4,072 | 4,072 |
| | <u>\$ 97,346</u> | <u>\$ 100,505</u> | <u>\$ 301,918</u> | <u>\$ 310,353</u> |

⁽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, | |
|---------------------------------------|----------------------------------|-------|---------------------------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| Empire Company Limited ⁽¹⁾ | \$ 47,451 | 48.7% | \$ 53,335 | 53.1% |
| | \$ 156,916 | 52.0% | \$ 163,324 | 52.6% |

⁽¹⁾ Includes Sobeys and other subsidiaries of Empire Company Limited

10) 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, 2019, is as follows:

| | Year Ending December 31, | | | | | | |
|------------------------------|--------------------------|------------|------------|------------|------------|--------------|--------------|
| | Remaining 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter | Total |
| Future minimum rental income | \$ 68,679 | \$ 272,215 | \$ 260,623 | \$ 249,986 | \$ 237,112 | \$ 1,840,338 | \$ 2,928,953 |

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11) 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, | |
|---------------------------------------|----------------------------------|-----------------|---------------------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Salaries and benefits | \$ 4,245 | \$ 3,562 | \$ 12,270 | \$ 9,600 |
| Professional and public company costs | 1,040 | 717 | 2,773 | 2,376 |
| Occupancy and other | 827 | 646 | 2,823 | 2,066 |
| | \$ 6,112 | \$ 4,925 | \$ 17,866 | \$ 14,042 |

(b) Change in fair value of financial instruments

| | Three months ended September 30, | | Nine months ended September 30, | |
|---------------------------|----------------------------------|---------|---------------------------------|--------|
| | 2019 | 2018 | 2019 | 2018 |
| Deferred Unit ("DU") Plan | \$ (264) | \$ (40) | \$ (1,267) | \$ 205 |

12) FINANCE COSTS - OPERATIONS

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|------------------|---------------------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Fixed rate mortgages | \$ 16,482 | \$ 18,462 | \$ 51,478 | \$ 57,103 |
| Floating rate term, revolving and demand facilities | 904 | 1,235 | 3,355 | 3,517 |
| Capitalized interest | (1,199) | (1,113) | (3,394) | (2,980) |
| Senior unsecured notes | 7,952 | 6,280 | 21,979 | 18,181 |
| Convertible debentures | — | 1,709 | — | 3,842 |
| Interest income on finance lease receivable | (100) | — | (302) | — |
| Interest on lease liability | 465 | — | 1,390 | — |
| Finance costs - operations, expense | 24,504 | 26,573 | 74,506 | 79,663 |
| Amortization of fair value debt adjustment and accretion income | 128 | 192 | 420 | 626 |
| Change in accrued finance costs | (7,528) | (4,165) | (2,870) | (3,617) |
| Amortization of effective swap agreements | (226) | (563) | (1,321) | (1,706) |
| Capitalized interest ⁽¹⁾ | 1,199 | 1,113 | 3,394 | 2,980 |
| Amortization of issue premium on senior unsecured notes | 111 | 102 | 330 | 293 |
| Amortization of deferred financing charges | (922) | (2,019) | (2,747) | (4,228) |
| Finance costs - operations, paid | \$ 17,266 | \$ 21,233 | \$ 71,712 | \$ 74,011 |

⁽¹⁾ For the three months ended September 30, 2019, interest was capitalized to qualifying development projects based on a weighted average interest rate of 3.723% (September 30, 2018 - 3.63%).

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13) 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, 2019 | 89,597,604 | \$ 1,040,804 | 61,980,011 | \$ 715,654 | 151,577,615 | \$ 1,756,458 |
| Net change in EUPP loans receivable | — | 410 | — | — | — | 410 |
| Units issued under DRIP | 69,393 | 989 | 49,206 | 711 | 118,599 | 1,700 |
| Units issued under unit based compensation plan | 7,334 | 114 | — | — | 7,334 | 114 |
| Balance, September 30, 2019 | 89,674,331 | \$ 1,042,317 | 62,029,217 | \$ 716,365 | 151,703,548 | \$ 1,758,682 |

| | 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 |

14) SUPPLEMENTARY CASH FLOW INFORMATION

Items not affecting operating cash

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|------------------|---------------------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Items not affecting operating cash: | | | | |
| Straight-line rent recognition | \$ (2,682) | \$ (3,223) | \$ (8,207) | \$ (8,613) |
| Amortization of tenant incentives | 3,515 | 3,334 | 10,541 | 9,424 |
| Gain on disposal of investment properties | (8,315) | (100) | (51,605) | (45,443) |
| Impairment of investment properties | — | — | — | 8,000 |
| Depreciation and amortization | 17,908 | 28,696 | 55,966 | 76,447 |
| Unit-based compensation | 5 | 5 | 11 | 16 |
| Amortization of effective swap agreements, financing charges and other | 1,037 | 2,480 | 3,739 | 5,641 |
| Income from equity accounted investments | (125) | (69) | (342) | (143) |
| Non-cash distributions to Unitholders in the form of DRIP Units | 480 | 810 | 1,700 | 9,423 |
| Income tax expense | 8 | 2 | 8 | 2 |
| Non-cash lease termination income | (34) | — | (843) | — |
| Change in fair value of financial instruments | 264 | 40 | 1,267 | (205) |
| | \$ 12,061 | \$ 31,975 | \$ 12,235 | \$ 54,549 |

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15) RELATED PARTY TRANSACTIONS

As at September 30, 2019, 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 joint venture entities in which Crombie has a 50% interest, as well as 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, | |
|---|---|-------------|--|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| Property revenue | | | | |
| Property revenue | \$ 47,451 | \$ 53,335 | \$ 156,916 | \$ 163,324 |
| Head lease income | \$ 269 | \$ 136 | \$ 678 | \$ 476 |
| Lease termination income | \$ 34 | \$ — | \$ 488 | \$ — |
| Property operating expenses | \$ (17) | \$ (16) | \$ (41) | \$ (40) |
| General and administrative expenses | | | | |
| Property management services recovered | \$ 147 | \$ 139 | \$ 425 | \$ 422 |
| Other general and administrative expenses | \$ (59) | \$ (57) | \$ (181) | \$ (150) |
| Finance costs - operations | | | | |
| Interest rate subsidy | \$ 69 | \$ 74 | \$ 211 | \$ 226 |
| Finance costs - distributions to Unitholders | \$ (14,004) | \$ (13,987) | \$ (42,001) | \$ (41,908) |

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. Revenue generated from the management agreement is being recognized as a reduction of general and administrative expenses.

During the nine months ended September 30, 2019, Crombie issued 49,206 (September 30, 2018 - 311,374) Class B LP Units to ECLD under the DRIP (Note 13).

On August 1, 2019, Crombie purchased a 50% interest in a property from a subsidiary of Empire for a total purchase price of \$9,500 before transaction costs.

On August 2, 2019, Crombie transferred air rights at its Davie Street Property to 1600 Davie Limited Partnership. This transfer, as agreed upon in the 2016 joint venture arrangement, was completed for gross proceeds of approximately \$27,000.

During the three months ending September 30, 2019, Crombie invested \$18,149 in the modernizations and conversions of seven existing Sobeys anchored properties. The amounts are included in tenant incentive additions and are being amortized over the amended lease terms.

Amounts due from related parties include \$15,546 (December 31, 2018 - \$14,636) in 6% Subordinated Notes Receivable due from Bronte Village Limited Partnership and The Duke Limited Partnership.

16) 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:

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- 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.

There were no transfers between levels of the fair value hierarchy during the period ended September 30, 2019.

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, 2019 | | December 31, 2018 | |
|--------------------------------------|--------------------|----------------|-------------------|----------------|
| | Fair Value | Carrying Value | Fair Value | Carrying Value |
| Financial assets | | | | |
| Long-term receivables ⁽¹⁾ | \$ 23,640 | \$ 23,613 | \$ 21,885 | \$ 21,882 |
| Financial liabilities | | | | |
| Investment property debt | \$ 1,585,866 | \$ 1,525,310 | \$ 1,829,772 | \$ 1,789,483 |
| Senior unsecured notes | 796,107 | 775,000 | 702,893 | 700,000 |
| Total other financial liabilities | \$ 2,381,973 | \$ 2,300,310 | \$ 2,532,665 | \$ 2,489,483 |

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

The fair value of 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
- 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, 2019. The more significant risks, and the actions taken to manage them, are discussed in our annual report.

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

| | Twelve months ending September 30, | | | | | | |
|-------------------------------------|---------------------------------------|------------|------------|------------|------------|------------|------------|
| | Contractual Cash Flows ⁽¹⁾ | 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter |
| Fixed rate mortgages ⁽²⁾ | \$ 1,698,735 | \$ 360,883 | \$ 145,269 | \$ 291,219 | \$ 252,110 | \$ 323,151 | \$ 326,103 |
| Senior unsecured notes | 906,215 | 31,758 | 278,456 | 21,853 | 166,603 | 15,754 | 391,791 |
| Lease Liabilities | 149,649 | 2,556 | 2,474 | 2,264 | 2,148 | 2,041 | 138,166 |
| | 2,754,599 | 395,197 | 426,199 | 315,336 | 420,861 | 340,946 | 856,060 |
| Credit facilities | 54,512 | 1,910 | 35,407 | 9,876 | 248 | 7,071 | — |
| Total | \$ 2,809,111 | \$ 397,107 | \$ 461,606 | \$ 325,212 | \$ 421,109 | \$ 348,017 | \$ 856,060 |

⁽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, 2018.

17) CAPITAL MANAGEMENT

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

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Crombie's capital structure consists of the following:

| | September 30, 2019 | | December 31, 2018 |
|--------------------------------|---------------------|----|-------------------|
| Fixed rate mortgages | \$ 1,467,651 | \$ | 1,601,584 |
| Credit facilities | 50,314 | | 178,843 |
| Senior unsecured notes | 773,164 | | 698,716 |
| Crombie REIT Unitholders | 871,509 | | 864,779 |
| SVU and Class B LP Unitholders | 584,343 | | 578,061 |
| Lease liabilities | 29,336 | | — |
| | \$ 3,776,317 | \$ | 3,921,983 |

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.

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, 2019 | | December 31, 2018 |
|---|---------------------|----|-------------------|
| Fixed rate mortgages | \$ 1,474,996 | \$ | 1,610,640 |
| Senior unsecured notes | 775,000 | | 700,000 |
| Revolving credit facility | 9,388 | | 108,843 |
| Joint operation credit facilities | 6,926 | | — |
| Bilateral credit facility | 34,000 | | 70,000 |
| Lease liabilities | 29,336 | | — |
| Total debt outstanding | 2,329,646 | | 2,489,483 |
| Less: Applicable fair value debt adjustment | (607) | | (818) |
| Debt | \$ 2,329,039 | \$ | 2,488,665 |
| Income properties, cost | \$ 3,922,580 | | 4,273,152 |
| Properties under development, cost | 88,354 | | 66,179 |
| Below-market lease component, cost ⁽¹⁾ | 63,050 | | 66,319 |
| Investment in joint ventures | 45,160 | | 39,485 |
| Other assets, cost | 378,285 | | 338,616 |
| Deferred financing charges | 9,920 | | 11,408 |
| Investment properties held for sale, cost | 169,468 | | — |
| Interest rate subsidy | (607) | | (818) |
| Gross book value | \$ 4,676,210 | \$ | 4,794,341 |
| Debt to gross book value - cost basis | 49.8% | | 51.9% |

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

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;

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- 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, 2019, Crombie is in compliance with all externally imposed capital requirements and all covenants relating to its debt facilities.

18) 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, 2019, Crombie has a total of \$5,645 in outstanding letters of credit related to:

| | September 30, 2019 | December 31, 2018 |
|---|--------------------|-------------------|
| Construction work being performed on investment properties | \$ 3,805 | \$ 3,858 |
| Mortgage lenders primarily to satisfy mortgage financings on redevelopment properties | 1,840 | 4,840 |
| Total outstanding letters of credit | <u>\$ 5,645</u> | <u>\$ 8,698</u> |

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

As at September 30, 2019, Crombie had signed construction contracts totalling \$177,579 of which \$123,696 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, 2019, Crombie has provided guarantees of approximately \$75,310 (December 31, 2018 - \$38,245) on mortgages in excess of their ownership interest in the properties. Responsibility for ongoing payments of principal and interest on these mortgages remains with the joint owners of the properties. The mortgages have a weighted average term to maturity of 4.6 years.

Under the terms of head leases with certain of Crombie's joint operation partners, Crombie guarantees its joint operation partners their portion of any uncollected rent receivable from the sub-tenant.

19) SUBSEQUENT EVENTS

- (a) On October 7, 2019, Crombie disposed of an 89% interest in 15 retail properties totaling 721,000 square feet of gross leaseable area. Total proceeds, before closing adjustments and transaction costs, were approximately \$193,300. As a result of this transaction, Crombie expects to recognize a gain of approximately \$30,000 in the fourth quarter of 2019.
- (b) On October 22, 2019, Crombie declared distributions of 7.417 cents per Unit for the period from October 1, 2019 to and including, October 31, 2019. The distributions will be paid on November 15, 2019, to Unitholders of record as of October 31, 2019.
- (c) On October 29, 2019, Crombie acquired a 100% interest in the retail component of a mixed-use development totalling 29,000 square feet for \$6,611, excluding closing and transaction costs.

20) 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.