# CROMBIE REAL ESTATE INVESTMENT TRUST
## Consolidated Financial Statements
## September 30, 2011
**(Unaudited)**

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**CROMBIE REAL ESTATE INVESTMENT TRUST**
**Consolidated Balance Sheets**
(In thousands of CAD dollars)
(Unaudited)

| | Note | Sep. 30, 2011 | Dec. 31, 2010 | Sep. 30, 2010 | Jan. 1, 2010 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Investment properties | 3 | $1,556,428 | $1,487,992 | $1,458,845 | $1,329,196 |
| Intangible assets | 4 | 25,309 | 26,258 | 26,590 | 27,167 |
| Other assets | 5 | 47,288 | 42,500 | 38,924 | 36,504 |
| Notes receivable | 6 | 2,743 | 3,368 | 3,586 | 4,673 |
| Assets related to discontinued operations | 7 | 6,515 | 6,670 | 6,784 | 6,929 |
| | | 1,638,283 | 1,566,788 | 1,534,729 | 1,404,469 |
| **Current assets** | | | | | |
| Cash and cash equivalents | | - | 5,170 | 18,539 | - |
| Other assets | 5 | 21,040 | 16,303 | 20,205 | 17,641 |
| Notes receivable | 6 | 842 | 975 | 1,037 | 1,248 |
| | | 21,882 | 22,448 | 39,781 | 18,889 |
| **Total Assets** | | **1,660,165** | **1,589,236** | **1,574,510** | **1,423,358** |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Investment property debt | 8 | 849,768 | 698,539 | 677,454 | 581,989 |
| Convertible debentures | 9 | 124,332 | 148,433 | 152,895 | 110,858 |
| Deferred income tax | 10 | 83,000 | 82,700 | 83,000 | 83,700 |
| Employee future benefits obligation | 11 | 6,347 | 6,087 | 6,303 | 5,994 |
| Liabilities related to discontinued operations | 7 | 5,864 | 5,999 | 6,043 | 6,171 |
| | | 1,069,311 | 941,758 | 925,695 | 788,712 |
| **Current liabilities** | | | | | |
| Trade and other payables | 12 | 47,035 | 44,743 | 45,610 | 43,745 |
| Investment property debt | 8 | 29,427 | 100,588 | 101,834 | 124,380 |
| Liabilities related to discontinued operations | 7 | 179 | 172 | 169 | 163 |
| | | 76,641 | 145,503 | 147,613 | 168,288 |
| Total liabilities excluding net assets attributable to Unitholders | | **1,145,952** | **1,087,261** | **1,073,308** | **957,000** |
| Net assets attributable to Unitholders | | **$514,213** | **$501,975** | **$501,202** | **$466,358** |
| **Net assets attributable to Unitholders represented by** | | | | | |
| Crombie REIT Unitholders | | $286,407 | $268,201 | $265,588 | $243,846 |
| Special Voting Units and Class B Limited Partnership Unitholders | | 227,806 | 233,774 | 235,614 | 222,512 |
| | | **$514,213** | **$501,975** | **$501,202** | **$466,358** |
| Commitments and contingencies | 22 | | | | |
| Subsequent events | 23 | | | | |

*See accompanying notes to the interim consolidated financial statements.*

## CROMBIE REAL ESTATE INVESTMENT TRUST
## Consolidated Statements of Comprehensive Income (Loss)
(In thousands of CAD dollars)
(Unaudited)

| | Note | Three Months Ended Sep. 30, 2011 | Three Months Ended Sep. 30, 2010 | Nine Months Ended Sep. 30, 2011 | Nine Months Ended Sep. 30, 2010 |
|---|---|---|---|---|---|
| Property revenue | 13 | $54,781 | $51,450 | $167,456 | $153,744 |
| Property operating expenses | | 19,611 | 18,936 | 61,674 | 57,630 |
| **Net property income** | | **35,170** | **32,514** | **105,782** | **96,114** |
| Lease terminations | | - | 162 | 163 | 347 |
| Depreciation of investment properties | | (6,435) | (5,992) | (19,040) | (18,080) |
| Amortization of intangible assets | | (1,146) | (1,444) | (3,675) | (4,931) |
| Amortization of deferred leasing costs | | (137) | (100) | (370) | (286) |
| General and administrative expenses | | (2,487) | (2,627) | (7,848) | (8,153) |
| **Operating income before finance costs and income taxes** | | **24,965** | **22,513** | **75,012** | **65,011** |
| Finance costs - operations | 16 | (16,075) | (14,706) | (47,170) | (42,878) |
| **Operating income before income taxes** | | **8,890** | **7,807** | **27,842** | **22,133** |
| Income taxes - deferred | 10 | 200 | 300 | (300) | 700 |
| **Operating income attributable to Unitholders** | | **9,090** | **8,107** | **27,542** | **22,833** |
| Finance costs - distributions to Unitholders | | (15,132) | (14,251) | (44,753) | (41,388) |
| **Decrease in net assets attributable to Unitholders** | | **(6,042)** | **(6,144)** | **(17,211)** | **(18,555)** |
| **Other Comprehensive Income** | | | | | |
| Costs incurred on derivatives designated as cash flow hedges transferred to finance costs - operations | | 1,038 | 1,069 | 3,136 | 2,972 |
| Net change in derivatives designated as cash flow hedges | | 400 | (16) | 758 | 311 |
| Other comprehensive income | | **1,438** | **1,053** | **3,894** | **3,283** |
| **Comprehensive income (loss)** | | **$(4,604)** | **$(5,091)** | **$(13,317)** | **$(15,272)** |

*See accompanying notes to the interim consolidated financial statements.*

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

| | REIT Units, Special Voting Units and Class B LP Units | Operating Income | Finance Costs - Distributions | Accumulated Other Comprehensive Income (Loss) | Contributed Surplus | Total | Attributable To | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | REIT Units | Class B LP Units |
| | (Note 17) | | | | | | | |
| Balance, January 1, 2011 | $629,709 | $113,389 | $(212,001) | $(29,264) | $142 | $501,975 | $268,201 | $233,774 |
| Units issued under EUPP | 281 | - | - | - | - | 281 | 281 | - |
| Loans receivable under EUPP | (281) | - | - | - | - | (281) | (281) | - |
| EUPP compensation | - | - | - | - | 39 | 39 | 39 | - |
| Repayment of EUPP loans receivable | 217 | - | - | - | - | 217 | 217 | - |
| Conversion of debentures | 25,580 | - | - | - | - | 25,580 | 25,580 | - |
| Units acquired and cancelled under NCIB | (281) | - | - | - | - | (281) | (281) | - |
| Statements of comprehensive income (loss) | - | 27,542 | (44,753) | 3,894 | - | (13,317) | (7,349) | (5,968) |
| Balance, September 30, 2011 | **$655,225** | **$140,931** | **$(256,754)** | **$(25,370)** | **$181** | **$514,213** | **$286,407** | **$227,806** |

*See accompanying notes to the interim consolidated financial statements.*

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

| | REIT Units, Special Voting Units and Class B LP Units | Operating Income | Finance Costs - Distributions | Accumulated Other Comprehensive Income (Loss) | Contributed Surplus | Total | Attributable To | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | REIT Units | Class B LP Units |
| | (Note 17) | | | | | | | |
| Balance, January 1, 2010 | $574,608 | $81,323 | $(155,911) | $(33,735) | $73 | $466,358 | $243,846 | $222,512 |
| Units released under EUPP | 8 | - | - | - | (8) | - | - | - |
| Units issued under EUPP | 565 | - | - | - | - | 565 | 565 | - |
| Loans receivable under EUPP | (565) | - | - | - | - | (565) | (565) | - |
| EUPP compensation | - | - | - | - | 62 | 62 | 62 | - |
| Repayment of EUPP loans receivable | 395 | - | - | - | - | 395 | 395 | - |
| Conversion of debentures | 1,531 | - | - | - | - | 1,531 | 1,531 | - |
| Units acquired and cancelled under NCIB | (194) | - | - | - | - | (194) | (194) | - |
| Statements of comprehensive income (loss) | - | 22,833 | (41,388) | 3,283 | - | (15,272) | (8,081) | (7,191) |
| Unit issue proceeds, net of costs of $1,680 | 48,322 | - | - | - | - | 48,322 | 28,029 | 20,293 |
| Balance, September 30, 2010 | **$624,670** | **$104,156** | **$(197,299)** | **$(30,452)** | **$127** | **$501,202** | **$265,588** | **$235,614** |

*See accompanying notes to the interim consolidated financial statements.*

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

| | REIT Units, Special Voting Units and Class B LP Units | Operating Income | Finance Costs - Distributions | Accumulated Other Comprehensive Income (Loss) | Contributed Surplus | Total | Attributable To | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | REIT Units | Class B LP Units |
| | (Note 17) | | | | | | | |
| Balance, January 1, 2010 | $574,608 | $81,323 | $(155,911) | $(33,735) | $73 | $466,358 | $243,846 | $222,512 |
| Units released under EUPP | 8 | - | - | - | (8) | - | - | - |
| Units issued under EUPP | 565 | - | - | - | - | 565 | 565 | - |
| Loans receivable under EUPP | (565) | - | - | - | - | (565) | (565) | - |
| EUPP compensation | - | - | - | - | 77 | 77 | 77 | - |
| Repayment of EUPP loans receivable | 409 | - | - | - | - | 409 | 409 | - |
| Conversion of debentures | 6,752 | - | - | - | - | 6,752 | 6,752 | - |
| Units acquired and cancelled under NCIB | (604) | - | - | - | - | (604) | (604) | - |
| Statements of comprehensive income (loss) | - | 32,066 | (56,090) | 4,471 | - | (19,553) | (10,434) | (9,119) |
| Unit issue proceeds, net of costs of $1,466 | 48,536 | - | - | - | - | 48,536 | 28,155 | 20,381 |
| Balance, December 31, 2010 | **$629,709** | **$113,389** | **$(212,001)** | **$(29,264)** | **$142** | **$501,975** | **$268,201** | **$233,774** |

*See accompanying notes to the interim consolidated financial statements.*

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

| Cash flows provided by (used in) | Note | Three Months Ended Sep. 30, 2011 | Three Months Ended Sep. 30, 2010 | Nine Months Ended Sep. 30, 2011 | Nine Months Ended Sep. 30, 2010 |
|---|---|---|---|---|---|
| **Operating Activities** | | | | | |
| Decrease in net assets attributable to Unitholders | | $(6,042) | $(6,144) | $(17,211) | $(18,555) |
| Items not affecting operating cash | 18 | 10,125 | 9,350 | 30,261 | 28,128 |
| | | 4,083 | 3,206 | 13,050 | 9,573 |
| Change in other non-cash operating items | 18 | 6,371 | 9,953 | 454 | 7,890 |
| Cash provided by operating activities | | **10,454** | **13,159** | **13,504** | **17,463** |
| **Financing Activities** | | | | | |
| Issue of investment property debt | | 36,286 | 54,070 | 94,545 | 245,420 |
| Increase in deferred financing charges | | (324) | (203) | (1,172) | (2,340) |
| Issue of convertible debentures | | - | - | - | 45,000 |
| Issue costs of convertible debentures | | - | - | - | (2,287) |
| Units and Class B LP Units issued | | - | 50,002 | - | 50,002 |
| Units and Class B LP Units issue costs | | - | (1,680) | - | (1,680) |
| Repayment of investment property debt | | (14,416) | (7,802) | (26,520) | (179,410) |
| Settlement of effective interest rate swap agreement | | - | - | (1,731) | - |
| Decrease in liabilities related to discontinued operations | | (43) | (41) | (128) | (122) |
| Collection of notes receivable | | 221 | 325 | 758 | 1,298 |
| Units acquired and cancelled under NCIB | | - | - | (281) | (194) |
| Repayment of EUPP loans receivable | | 16 | 237 | 217 | 395 |
| Cash provided by financing activities | | **21,740** | **94,908** | **65,688** | **156,082** |
| **Investing Activities** | | | | | |
| Acquisition of investment properties | 3 | (25,419) | (85,091) | (64,570) | (136,701) |
| Additions to investment properties | | (4,213) | (2,514) | (12,266) | (11,843) |
| Additions to tenant incentives | | (2,351) | (3,167) | (7,085) | (6,183) |
| Additions to deferred leasing costs | | (233) | (144) | (596) | (424) |
| Decrease in assets related to discontinued operations | | 22 | 16 | 155 | 145 |
| Cash used in investing activities | | **(32,194)** | **(90,900)** | **(84,362)** | **(155,006)** |
| **Net change in cash and cash equivalents** | | **-** | **17,167** | **(5,170)** | **18,539** |
| **Cash and cash equivalents, beginning of period** | | **-** | **1,372** | **5,170** | **-** |
| **Cash and cash equivalents, end of period** | | **$Nil** | **$18,539** | **$Nil** | **$18,539** |

*See accompanying notes to the interim 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 the acquisition of retail and office space for purposes of leasing. Crombie is registered in Canada and the address of its registered office is 115 King Street, Stellarton, Nova Scotia, Canada, B0K 1S0. The interim consolidated financial statements for the nine months and three months ended September 30, 2011 and September 30, 2010 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 financial statements were authorized for issue by the Board of Trustees on November 8, 2011.

**2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Statement of compliance**

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. These financial statements reflect part of the period covered by Crombie's first International Financial Reporting Standards ("IFRS") financial statements for the year ending December 31, 2011 and are covered by IFRS 1, First-time Adoption of IFRS. These interim consolidated financial statements may not include all of the information required in annual financial statements in accordance with IFRS.

An explanation of how the transition to IFRS has affected the previously reported balance sheet, total comprehensive income and cash flows of Crombie is provided in Note 26.

**(b) Basis of presentation**

The interim consolidated financial statements are presented in Canadian dollars ("CAD"); Crombie's reporting currency, rounded to the nearest thousand. The interim consolidated financial statements are prepared on an historical cost basis except for financial assets and liabilities classified as fair value through operating income ("FVTPL") or designated as available for sale, ("AFS") that have been measured at fair value. On transition from Canadian generally accepted accounting principles ("GAAP") to IFRS, effective January 1, 2010, certain investment properties, or components thereof, were re-measured to their fair value, and this fair value was used as the deemed cost of the property on that date.

**(c) Presentation of financial statements**

In accordance with IFRS 1, Crombie presents an opening balance sheet in its first IFRS financial statements as at the date of transition to IFRS (January 1, 2010). In subsequent periods, 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**

Crombie's financial statements consolidate those of Crombie and all of its subsidiary entities as at September 30, 2011. Subsidiaries are all entities over which Crombie has the power to control the financial and operating policies so as to benefit from its activities. All subsidiaries have a reporting date of September 30, 2011.

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.

**(e) Investment properties**

Investment properties are properties which are held to earn rental income. Investment properties include land, buildings and intangible assets. Investment properties are carried at cost less accumulated depreciation and are reviewed periodically for impairment as described in Note 2(w).

Depreciation of buildings is calculated using the straight-line method with reference to each property's cost, the estimated useful life of the building (not exceeding 40 years) and its components, significant parts and residual value.

Repair and maintenance improvements are expensed as incurred or, in the case of major items that constitute a capital asset, are capitalized to the building and amortized on a straight-line basis over the expected useful life of the improvement.

Upon acquisition, Crombie performs an assessment of investment properties being acquired to determine whether the acquisition is to be accounted for as an asset acquisition or a business combination. A transaction is considered to be a business combination if the acquired property meets the definition of a business; being an integrated set of activities and assets that are capable of being managed for the purpose of providing a return to the Unitholders.

For acquisitions, Crombie allocates the purchase price based on the following:

Land – The amount allocated to land is based on an appraisal estimate of its fair value.

Buildings – Buildings are recorded at the estimated fair value of the building and its components and significant parts.

Intangible Assets - Intangible assets are recorded for tenant relationships, based on estimated costs avoided should the respective tenants renew their leases at the end of the initial lease time, adjusted for the estimated probability of renewal.

Fair value of debt - Values ascribed to fair value of debt are determined based on the differential between contractual and market interest rates on long term liabilities assumed at acquisition.

**(f) Intangible assets**

Intangible assets include the value of tenant relationships.

Amortization of the value of tenant relationships is determined using the straight-line method over the terms of the tenant lease agreements and renewal periods where applicable and is recorded as amortization.

Intangible assets are reviewed for impairment as described in Note 2(w).

**(g) Cash and cash equivalents**

Cash and cash equivalents are defined as cash on hand and cash in bank and guaranteed investments with a maturity less than 90 days at date of acquisition.

**(h) Assets held for sale and discontinued operations**

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction. Crombie classifies properties that meet certain criteria as held for sale and separately discloses any operating income and gain (loss) on disposal for current and prior periods as discontinued operations. A property is classified as held for sale at the point in time when it is available for immediate sale, management has committed to a plan to sell the property and is actively locating a purchaser for the property at a sales price that is reasonable in relation to the current estimated fair value of the property, and the sale is expected to be completed within a one year period. Properties held for sale are carried at the lower of their carrying values and estimated fair value less costs to sell. In addition, assets held for sale are no longer depreciated and amortized. A property that is subsequently reclassified as held in use is measured at the lower of its carrying value amount before it was classified as held for sale, adjusted for any depreciation and amortization expense that would have been recognized had it been continuously classified as held and in use, and its estimated fair value at the date of the subsequent decision not to sell.

Assets that are classified as held for sale and that constitute a component of Crombie are presented as discontinued operations and are presented separately in the statement of comprehensive income (loss). A component of Crombie includes a property type or geographic area of operations.

**(i) Convertible debentures**

Debentures with conversion features are assessed at inception as to the value of both the conversion feature and the debt component. Crombie applies the residual method in determining the values of the conversion feature of the debt component and the debt component. Interest payments to debenture holders are presented as finance costs - operations. Issue costs on convertible debentures are netted against the convertible debentures and amortized over the original life of the convertible debentures using the effective interest method.

**(j) Employee future benefits obligation**

The cost of Crombie's pension benefits for defined contribution plans are expensed for employees in respect of the period in which they render the services. The cost of defined benefit pension plans and other benefit plans is accrued based on estimates, using actuarial techniques, of the amount of benefits employees have earned in return for their services in the current and prior periods. The present value of the defined benefit obligation and current service cost is determined by discounting the estimated benefits using the projected unit credit method to determine the fair value of the plan assets and total actuarial gains and losses and the proportion thereof which will be recognized. Other factors considered for other benefit plans include assumptions regarding salary escalation, retirement ages and expected growth rate of health care costs. The fair value of the plan assets is based on current market values. The present value of defined benefit obligation is based on the discount rate determined by reference to the yield of high quality corporate bonds of similar currency, having terms of maturity which align closely with the period of maturity of the obligation. The defined benefit plan and post-retirement benefit plan are unfunded.

The impact of changes in plan provisions will be recognized in benefit costs on a straight-line basis over a period not exceeding the average period until the benefit becomes vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to the plan, the past service cost will be recognized immediately.

In measuring its defined benefit liability, Crombie recognizes unamortized actuarial gains and losses directly to other comprehensive income (loss).

**(k) Employee unit purchase plan**

Crombie has a unit purchase plan for certain employees, which is described in Note 17. Loans granted to employees to purchase units under the plan are accounted for as a reduction to net assets attributable to Unitholders.

**(l) Revenue recognition**

Property revenue includes rents earned from tenants under lease agreements, percentage rent, realty tax and operating cost recoveries, and other incidental income. Certain leases have rental payments that change over their term due to changes in rates. Crombie records the rental revenue from leases on a straight-line basis over the term of the lease. Accordingly, an accrued rent receivable is recorded for the difference between the straight-line rent recorded as property revenue and the rent that is contractually due from the tenants. In addition, tenant incentives are amortized on a straight-line basis over the term of existing leases and the amortization is shown as a reduction in property revenue. Percentage rents are recognized when tenants are obligated to pay such rent under the terms of the related lease agreements. Realty tax and other operating cost recoveries, and other incidental income, are recognized on an accrual basis.

**(m) Leasing**

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.

**Operating leases**

i. Crombie as lessor

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 (Note 2(l)).

ii. Crombie as lessee

Operating leases consist mainly of land leases which are expensed to property operating costs as incurred. Crombie also has a small amount of equipment and vehicle leases that are expensed to general and administrative costs as incurred.

**(n) Deferred financing charges**

Amortization of deferred financing charges is calculated using the effective interest method over the terms of the related debt.

**(o) Finance costs - operations**

Finance costs - operations primarily comprise interest on Crombie's borrowings. Finance costs directly attributable to the acquisition, redevelopment, construction or production of a qualifying asset are capitalized as a component of the cost of the asset to which it is related. All other finance costs - operations are expensed in the period in which they are incurred. As of September 30, 2011, Crombie has not capitalized any borrowing costs.

**(p) Finance costs – distributions to Unitholders**

The determination to declare and make payable distributions from Crombie is at the discretion of the Board of Trustees and, until declared payable by the Board of Trustees, Crombie has no contractual requirement to pay cash distributions to Unitholders. During the nine months ended September 30, 2011, $44,753 (nine months ended September 30, 2010 - $41,388) in cash distributions were declared payable by the Board of Trustees to Crombie Unitholders and Crombie Limited Partnership Unitholders (the "Class B LP Units").

**(q) Income taxes**

Crombie is taxed as a "mutual fund trust" for income tax purposes. It is the intention of Crombie, subject to approval of the trustees, to make distributions not less than the amount necessary to ensure that Crombie will not be liable to pay income tax, except for the amounts incurred in its incorporated subsidiaries.

Deferred income tax assets and/or liabilities of Crombie relate to tax and accounting basis differences of all incorporated subsidiaries of Crombie. Income taxes are accounted for using the liability method. Under this method, deferred income taxes are recognized for the expected deferred tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Deferred income taxes are computed using substantively enacted corporate income tax rates for the years in which tax and accounting basis differences are expected to reverse.

Deferred income tax assets and/or liabilities are offset only when Crombie has a right and intention to set off tax assets and liabilities from the same taxation authority. Changes in deferred income tax assets or liabilities are recognized as a component of income or expense in operations, except where they relate to items that are recognized in other comprehensive income (loss) (such as the unrealized gains and losses on cash flow hedges) or directly in change in net assets, in which case the related deferred tax is also recognized in other comprehensive income (loss) or change in net assets, respectively.

**(r) Hedges**

Crombie may use cash flow hedges to manage exposures to increases in variable interest rates. Cash flow hedges are recognized on the balance sheet at fair value with the effective portion of the hedging relationship recognized in other comprehensive income (loss). Any ineffective portion of the cash flow hedge is recognized in operating income. Amounts recognized in accumulated other comprehensive income (loss) are reclassified to operating income in the same periods in which the hedged item is recognized in operating income. Fair value hedges and the related hedge items are recognized on the balance sheet at fair value with any changes in fair value recognized in operating income. To the extent the fair value hedge is effective; the changes in the fair value of the hedge and the hedged item will offset each other.

Crombie had a fixed interest rate swap agreement, which expired during the current period, designated as a cash flow hedge. Crombie had identified the hedge against increases in benchmark interest rates and had formally documented all relationships between the derivative financial instrument and hedged items, as well as the risk management strategy and objectives.

Crombie assesses on an ongoing basis whether any existing derivative financial instrument continues to be effective in offsetting changes in interest rates on the hedged items.

Crombie currently has no cash flow or fair value hedges outstanding.

**(s) Comprehensive income (loss)**

Comprehensive income (loss) is the change in net assets attributable to Unitholders' during a period from transactions and other events and circumstances from non-unitholder sources. Crombie reports a consolidated statement of comprehensive income (loss), comprising changes in net assets attributable to Unitholders and other comprehensive income (loss) for the period. Accumulated other comprehensive income (loss), has been included in the consolidated statements of changes in net assets attributable to Unitholders.

**(t) Provisions**

Provisions are recognized when Crombie has a present obligation (legal or constructive) as a result of a past event, it is probable that Crombie will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, where the time value of money is material. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. Provisions reflect Crombie's best estimate at the reporting date.

Environmental liabilities are recognized when Crombie has an obligation relating to site closure or rehabilitation. The extent of the work required and the associated costs are dependent on the requirements of the relevant authorities and Crombie's environmental policies. Provisions for the cost of each closure and rehabilitation program are recognized at the time that environmental disturbance occurs. Changes in the provision are recognized in the period of the change.

Employee future benefit obligation is Crombie's only material provision and is separately disclosed on the balance sheet. All other provisions are immaterial and are included in trade and other payables.

**(u) Financial instruments**

Crombie classifies financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purpose of ongoing measurements. Classification choices for financial assets include: a) fair value through operating income ("FVTPL") - measured at fair value with changes in fair value recorded in operating income for the period; b) held to maturity - recorded at amortized cost with gains and losses recognized in operating income in the period that the asset is derecognized or impaired; c) available-for-sale - measured at fair value with changes in fair value recognized in other comprehensive income (loss) for the current period until realized through disposal or impairment; and d) loans and receivables - recorded at amortized cost with gains and losses recognized in operating income in the period that the asset is no longer recognized or impaired. Classification choices for financial liabilities include: a) FVTPL - measured at fair value with changes in fair value recorded in operating income for the period; and b) other - measured at amortized cost with gains and losses recognized in operating income in the period that the liability is no longer recognized. Subsequent measurement for these assets and liabilities are based on either fair value or amortized cost using the effective interest method, depending upon their classification. Any financial asset or liability can be classified as FVTPL as long as its fair value is reliably determinable.

Crombie's financial assets and liabilities are generally classified and measured as follows:

| Asset/Liability | Classification | Measurement |
|---|---|---|
| Cash equivalents | Loans and receivables | Amortized cost |
| Trade receivables | Loans and receivables | Amortized cost |
| Tenant incentives | Loans and receivables | Amortized cost |
| Restricted cash | Loans and receivables | Amortized cost |
| Notes receivable | Loans and receivables | Amortized cost |
| Derivative financial assets and liabilities | Available-for-sale | Fair value |
| Bank indebtedness | Other liabilities | Amortized cost |
| Accounts payable and other liabilities | Other liabilities | Amortized cost |
| Investment property debt and liabilities related to discontinued operations | Other liabilities | Amortized cost |
| Convertible debentures | Other liabilities | Amortized cost |

Other balance sheet accounts, including, but not limited to, prepaid expenses, investment properties, intangible assets, deferred income taxes and employee future benefits obligation are not financial instruments.

Transaction costs, other than those related to financial instruments classified as fair value through operating income that are expensed as incurred, are added to the fair value of the financial asset or financial liability on initial recognition and amortized using the effective interest method.

Embedded derivatives are required to be separated and measured at fair values if certain criteria are met. Crombie does not currently have any embedded derivatives in its contracts that require separate accounting treatment.

The fair value of a financial instrument is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. To estimate the fair value of each type of financial instrument various market value data and other valuation techniques were used as appropriate. The fair value of any interest rate swap is estimated by discounting net cash flows of the swaps using forward interest rates for swaps of the same remaining maturities.

**(v) Net Assets Attributable to Unitholders**

(i) Balance Sheet presentation

In accordance with IAS 32 Financial Instruments: Presentation, puttable instruments are generally classified as financial liabilities. Crombie's REIT units and Class B LP units with attached Special Voting Units ("SVU") are both puttable instruments, meeting the definition of financial liabilities in IAS 32. There are exception tests within IAS 32 which could result in classification as equity; however, Crombie's units do not meet the exception requirements. Therefore, Crombie has no instrument qualifying for equity classification on its Balance Sheet pursuant to IFRS. The classification of all units as financial liabilities with presentation as net assets attributable to Unitholders does not alter the underlying economic interest of the Unitholders in the net assets and net operating results attributable to Unitholders.

(ii) Balance Sheet measurement

REIT units and Class B LP units with attached SVUs are carried on the Balance Sheet at net asset value. Although puttable instruments classified as financial liabilities are generally required to be remeasured to fair value at each reporting period, the alternative presentation as net assets attributable to Unitholders reflects that, in total, the interests of the Unitholders is limited to the net assets of Crombie.

(iii) Statement of Comprehensive Income (Loss) presentation

As a result of the classification of all units as financial liabilities, the statement of comprehensive income (loss) recognizes distributions to Unitholders as a finance cost. In addition, terminology such as Net income has been replaced by Increase (decrease) in net assets attributable to Unitholders to reflect the absence of an equity component on the Balance Sheet.

(iv) Presentation of Per Unit Measures

As a result of the classification of all units as financial liabilities, Crombie has no equity instrument; therefore, in accordance with IAS 33 Earnings per Share, there is no denominator for purposes of calculation of per unit measures.

(v) Allocation of Comprehensive Income (Loss)

The components of Comprehensive income (loss) are allocated between REIT Units and Class B LP Units as follows:

- Operating income – based on the weighted average number of units outstanding during the reporting period
- Finance costs – distributions – based on the actual distributions paid to each separate unit class

Accumulated Other Comprehensive Income (Loss) – increases in accumulated comprehensive income (loss) are allocated based on the weighted average number of units outstanding during the reporting period, decreases in previously accumulated amounts are drawn down based on the average accumulation allocation rate.

**(w) Use of estimates and judgments**

The preparation of consolidated financial statements, in conformity with IAS 34, requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Significant items include impairment, employee future benefits, income taxes, investment properties, purchase price allocations and fair value of financial instruments. These estimates are based on historical experience and management's best knowledge of current events and actions that Crombie may undertake in the future. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revisions affect only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the preparation of these financial statements that have significant effect and estimates with a significant risk of material adjustment to the carrying amount of assets and liabilities are as follows:

Impairment of long-lived tangible and definite life intangible assets

Long-lived tangible and definite life intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss (if any). The recoverable amount is the higher of fair value less costs to sell and value in use. Where the asset does not generate cash flows that are independent from other assets, Crombie estimates the recoverable amount of the cash generating unit(s) to which the asset belongs. When the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to the recoverable amount. An impairment loss is recognized as an expense immediately in operating income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate, but is limited to the carrying amount that would have been determined if no impairment loss had been recognized in prior years. A reversal of impairment loss is recognized immediately in operating income.

Defined benefit liability

Management estimates the defined benefit liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of Crombie's defined benefit liability is based on standard rates of inflation, medical cost trends and mortality. It also takes into account Crombie's specific anticipation of future salary increases. Discount factors are determined each reporting period by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Estimation uncertainties exist particularly with regard to medical cost trends, which may vary significantly in future appraisals of Crombie's defined benefit obligations.

Investment property valuation

External, independent valuation companies, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, values Crombie's investment property portfolio on a rotating basis over a period of a maximum of four years. The fair values, based on the date of the valuation, represent an estimate of the price that would be agreed upon between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Internal quarterly revaluations are performed using internally generated valuation models prepared by considering the aggregate cash flows received from leasing the property. A yield obtained from an independent valuation company, which reflects the specific risks inherent in the net cash flows, is then applied to the net annual cash flows to arrive at the property valuation.

Deferred income taxes

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on Crombie's latest budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be used without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties are assessed individually by management based on the specific facts and circumstances.

Crombie recognizes expected liabilities for tax based on an estimation of the likely taxes due, which requires significant judgment as to the ultimate tax determination of certain items. Where the actual liability arising from these issues differs from these estimates, such differences will have an impact on the income tax and deferred tax balances in the period when such determination is made.

Purchase price allocation

Investment properties are properties which are held to earn rental income. Investment properties include land, buildings and intangible assets. Upon acquisition, management allocates the purchase price of the acquisition as described in Note 2(e). This allocation contains a number of estimates and underlying assumptions including, but not limited to, estimated cash flows, discount rates, lease-up rates, inflation rates, renewal rates and leasing costs.

Fair value of financial instruments

The fair value of marketable financial instruments is the estimated amount for which an instrument could be exchanged, or a liability settled, by Crombie and a knowledgeable, willing party in an arm's length transaction.

The fair value of other financial instruments is based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts Crombie might pay or receive in actual market transactions.

**(x) Changes in accounting policies**

**(i) IFRS 9 - Financial instruments**

IFRS 9 Financial Instruments is the first of a multi-phase project to replace IAS 39 Financial Instruments: Recognition and Measurement. It addresses the classification, measurement and derecognition of financial assets and financial liabilities.

IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications – those measured at amortized cost and those measured at fair value. Classification is made at the time the financial asset is initially recognized when the entity becomes a party to the contractual provisions of the instrument. The transition guidance is complex and mainly requires retrospective application. Most of the requirements in IAS 39 for the classification and measurement of financial liabilities have been carried forward, unchanged to IFRS 9. Where an entity chooses to measure its own debt at fair value, IFRS 9 now requires the amount of the change in fair value due to changes in the issuing entity's own credit risk to be presented in other comprehensive income (loss). An exception to the new approach is made where the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in operating income, in which case all gains or losses on that liability are to be presented in operating income.

This policy is effective for fiscal years after January 1, 2013; however, earlier adoption is permitted. Crombie is currently evaluating the impact of this policy.

**(ii) IAS 12 - Deferred Tax: Recovery of Underlying Assets**

The International Accounting Standards Board ("IASB") has published some limited scope amendments to IAS 12 Income Taxes, which are relevant only when an entity elects to use the fair value model for measurement in IAS 40 Investment Property. Under IAS 12, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. To provide a practical approach in such cases, the amendment introduces a presumption that an investment property is recovered entirely through sale.

SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16 Property, Plant and Equipment. This guidance has been incorporated into IAS 12 as part of the amendments.

This policy is effective for fiscal years after January 1, 2012; however, earlier adoption is permitted. Crombie does not currently use the fair value model for measurement in IAS 40; therefore there is no anticipated impact from the policy.

**(iii) IFRS 7 - Financial Instruments: Disclosures**

IFRS 7 was issued by the IASB on October 7, 2010 and contains amendments to the existing IFRS 7. The amendments to IFRS 7 enhance disclosure requirements with respect to transfers of financial assets. The amendments of IFRS 7 are effective for fiscal years beginning on or after July 1, 2011. Crombie is currently evaluating the impact of this policy.

**(iv) IFRS 10 - Consolidated Financial Statements**

IFRS 10 was issued by the IASB on May 12, 2011 and will replace the current IAS 27 Consolidated and Separate Financial Statements. The new standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. This new standard is effective for fiscal years beginning January 1, 2013. Crombie is currently evaluating the impact of this policy.

**(v) IFRS 11 - Joint Arrangements**

IFRS 11 was issued by the IASB on May 12, 2011 and will replace the current IAS 31 Interests in Joint Ventures. IFRS 11 classifies joint arrangements as either joint ventures or joint operations. Interests in joint ventures will be accounted for using equity accounting, eliminating the proportionate consolidation option currently available under IAS 31. The new standard is not expected to have any impact on Crombie. This new standard is effective for fiscal years beginning January 1, 2013.

**(vi) IFRS 12 - Disclosure of Interests in Other Entities**

IFRS 12 was issued by the IASB on May 12, 2011 and establishes disclosure requirements for interests in other entities, including joint arrangements, associates, special purpose vehicles, and other off balance sheet vehicles. This new standard is effective for fiscal years beginning January 1, 2013. Crombie is currently evaluating the impact of this policy.

**(vii) IFRS 13 - Fair Value Measurement**

IFRS 13 was issued by the IASB on May 12, 2011 and is a comprehensive standard for fair value measurement and disclosure of fair value measurements across various IFRS standards. IFRS 13 provides a definition of fair value, sets out a single IFRS framework for measuring fair value, and outlines requirements for disclosures of fair value measurements. The new standard is effective for fiscal years beginning January 1, 2013. Crombie is currently evaluating the impact of this policy.

**3) INVESTMENT PROPERTIES**

| | Land | Buildings | Deferred Leasing Costs | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Opening balance, January 1, 2011 | $418,426 | $1,161,508 | $3,276 | $1,583,210 |
| Acquisitions | 22,789 | 58,438 | - | 81,227 |
| Additions | 7 | 13,379 | 399 | 13,785 |
| Derecognition | (966) | (6,725) | - | (7,691) |
| Balance, September 30, 2011 | **440,256** | **1,226,600** | **3,675** | **1,670,531** |
| **Accumulated depreciation and amortization** | | | | |
| Opening balance, January 1, 2011 | - | 94,077 | 1,141 | 95,218 |
| Depreciation and amortization | - | 19,040 | 370 | 19,410 |
| Derecognition | - | (525) | - | (525) |
| Balance, September 30, 2011 | **-** | **112,592** | **1,511** | **114,103** |
| **Net carrying value, September 30, 2011** | **$440,256** | **$1,114,008** | **$2,164** | **$1,556,428** |

| | Land | Buildings | Deferred Leasing Costs | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Opening balance, January 1, 2010 | $368,037 | $1,028,934 | $2,781 | $1,399,752 |
| Acquisitions | 50,319 | 118,012 | - | 168,331 |
| Additions | 70 | 14,562 | 644 | 15,276 |
| Derecognition | - | - | (149) | (149) |
| Balance, December 31, 2010 | **418,426** | **1,161,508** | **3,276** | **1,583,210** |
| **Accumulated depreciation and amortization** | | | | |
| Opening balance, January 1, 2010 | - | 69,719 | 837 | 70,556 |
| Depreciation and amortization | - | 24,358 | 453 | 24,811 |
| Derecognition | - | - | (149) | (149) |
| Balance, December 31, 2010 | **-** | **94,077** | **1,141** | **95,218** |
| **Net carrying value, December 31, 2010** | **$418,426** | **$1,067,431** | **$2,135** | **$1,487,992** |
| **Net carrying value, January 1, 2010** | **$368,037** | **$959,215** | **$1,944** | **$1,329,196** |

| | Land | Buildings | Deferred Leasing Costs | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Opening balance, January 1, 2010 | $368,037 | $1,028,934 | $2,781 | $1,399,752 |
| Acquisitions | 42,781 | 97,924 | - | 140,705 |
| Additions | 70 | 6,924 | 316 | 7,310 |
| Derecognition | - | - | (149) | (149) |
| Balance, September 30, 2010 | **410,888** | **1,133,782** | **2,948** | **1,547,618** |
| **Accumulated depreciation and amortization** | | | | |
| Opening balance, January 1, 2010 | - | 69,719 | 837 | 70,556 |
| Depreciation and amortization | **-** | 18,080 | 286 | 18,366 |
| Derecognition | - | - | (149) | (149) |
| Balance, September 30, 2010 | **-** | **87,799** | **974** | **88,773** |
| **Net carrying value, September 30, 2010** | **$410,888** | **$1,045,983** | **$1,974** | **$1,458,845** |

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

| | Fair Value | Carrying Value |
|---|---|---|
| September 30, 2011 | $1,842,000 | $1,634,103 |
| December 31, 2010 | $1,739,000 | $1,561,992 |
| September 30, 2010 | $1,685,000 | $1,529,321 |
| January 1, 2010 | $1,457,000 | $1,397,356 |

Carrying value includes investment properties, intangible assets, and accrued straight-line rent and tenant incentives which are included in other assets. Fair value represents the amount at which the properties could be exchanged between a knowledgeable and willing buyer and a knowledgeable and willing seller in an arm's length transaction at the date of valuation.

Investment properties have been fair valued using the following methods and key assumptions:

(i) The capitalized net operating income method - Under this method, capitalization rates are applied to net operating income (property revenue less property operating expenses). The key assumption is the capitalization rates for each specific property. Crombie receives quarterly capitalization rate reports from external knowledgeable property valuators. The capitalization rate reports provide a range of rates for various geographic regions and for various types and qualities of properties within each region. Management selects the appropriate rate for each property from the range provided. Crombie generally employs this method to determine fair value.

(ii) The discounted cash flow method - Under this method, discount rates are applied to the forecasted cash flows reflecting the initial terms of the lease or leases for that specific property and assumptions as to renewal and new leasing activity. The key assumption is the discount rate applied over the initial term of the lease. Crombie employs this method when the capitalized net operating income method indicates a risk of impairment, or when a property is or will be undergoing redevelopment.

(iii) External appraisals - External independent appraisals were completed on all properties acquired during 2010 and 2011. In addition to the investment properties purchased, three investment properties have been externally appraised since January 1, 2011.

Crombie utilizes capitalization and discount rates within the ranges provided by external valuations. To the extent that the externally provided capitalization rate ranges change from one reporting period to the next; or should another rate within the provided ranges be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly.

Crombie has utilized the following weighted average capitalization rates and has determined that an increase (decrease) in the applied capitalization rate or discount 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 Rate | Increase in rate | Decrease in rate |
| September 30, 2011 | 7.53% | $(60,000) | $64,000 |
| December 31, 2010 | 7.70% | $(55,000) | $59,000 |
| September 30, 2010 | 7.77% | $(50,000) | $53,000 |
| January 1, 2010 | 8.24% | $(42,000) | $45,000 |

**Investment Property Acquisitions**

The operating results of acquired properties are included from the respective date of acquisition.

**2011**

| Acquisition Date | Properties Acquired | Approximate Square Footage | Initial Purchase Price | Assumed Mortgages | Mortgages |
|---|---|---|---|---|---|
| May 2, 2011 | 1 | 74,000 | $21,850 | $10,708 | $1,000 |
| May 10, 2011 | 2 | 137,000 | 27,490 | - | 20,100 |
| May 20, 2011 | 1 | 48,000 | 7,400 | - | - |
| September 15, 2011 | 1 | 60,000 | 13,040 | - | 9,130 |
| September 28, 2011 | 2 | 71,000 | 11,780 | - | - |
| | | **390,000** | **81,560** | **10,708** | **30,230** |
| May 20, 2011 | (1) | (54,000) | (7,400) | - | - |
| | | **336,000** | **$74,160** | **$10,708** | **$30,230** |

All of the above properties, excluding the property acquired on May 2, 2011, were acquired or exchanged with subsidiaries of Empire Company Limited, a related party. The initial purchase price for the acquired properties stated above excludes closing and transaction costs. The purchase price of the acquired property and the disposal price of the derecognized property on May 20, 2011, were based on the carrying value of the derecognized property, which approximated their respective fair values. No gain or loss on disposal was realized. The balance of the acquisitions, after deducting assumed and new mortgage proceeds, was funded through Crombie's floating rate revolving credit facility.

**2010**

| Acquisition Date | Properties Acquired | Approximate Square Footage | Initial Purchase Price | Assumed Mortgages | Mortgages |
|---|---|---|---|---|---|
| February 22, 2010 | 5 | 186,000 | $31,530 | $8,358 | $- |
| March 24, 2010 | 3 | 147,000 | 27,746 | - | 19,000 |
| September 28, 2010 | 9 | 400,000 | 84,297 | - | 59,770 |
| October 28, 2010 | 1 | 47,000 | 11,250 | - | 7,700 |
| November 22, 2010 | 2 | 87,000 | 17,000 | - | 11,900 |
| | | **867,000** | **$171,823** | **$8,358** | **$98,370** |

All of the above properties, excluding the properties acquired on November 22, 2010, were acquired from subsidiaries of Empire Company Limited, a related party. The two retail properties acquired on November 22, 2010 were acquired from a joint venture of which a subsidiary of Empire Company Limited was a partner. The initial purchase price stated above excludes closing and transaction costs. The balance of the February and March 2010 acquisitions, after deducting assumed and new mortgage proceeds, was funded through Crombie's floating rate revolving credit facility. The September 28, 2010 acquisition was financed with new mortgage proceeds and the balance was funded with proceeds from the August 4, 2010 $50,000 REIT and Class B LP units offering. The balance of the October and November 2010 acquisitions, after deducting new mortgage proceeds, was funded with proceeds from the August 4, 2010 $50,000 REIT and Class B LP units offering.

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

| Investment property acquired, net: | Three Months Ended Sep. 30, 2011 | Three Months Ended Sep. 30, 2010 | Nine Months Ended Sep. 30, 2011 | Nine Months Ended Sep. 30, 2010 | Year Ended Dec. 31, 2010 |
|---|---|---|---|---|---|
| Land | $8,172 | $32,861 | $22,789 | $42,781 | $50,319 |
| Buildings | 16,100 | 49,665 | 58,438 | 97,924 | 118,012 |
| Intangible assets | 1,147 | 2,565 | 2,901 | 4,354 | 5,421 |
| Fair value debt adjustment on assumed mortgage | - | - | (1,506) | - | - |
| Net purchase price | 25,419 | 85,091 | 82,622 | 145,059 | 173,752 |
| Assumed mortgages | - | - | (10,708) | (8,358) | (8,358) |
| | $25,419 | $85,091 | $71,914 | $136,701 | $165,394 |
| **Consideration, at acquisition date, funded by:** | | | | | |
| Revolving credit facility | $16,289 | $- | $41,684 | $51,610 | $51,610 |
| Mortgage financing | 9,130 | 51,570 | 30,230 | 51,570 | 71,170 |
| Cash from REIT unit offering | - | 33,521 | - | 33,521 | 42,614 |
| Total consideration paid | $25,419 | $85,091 | $71,914 | $136,701 | $165,394 |

**4) INTANGIBLE ASSETS**

| Tenant Relationships | Cost | Accumulated amortization | Net carrying value |
|---|---|---|---|
| Balance, January 1, 2011 | $55,776 | $29,518 | $26,258 |
| Acquisitions | 2,901 | - | 2,901 |
| Amortization | - | 3,675 | (3,675) |
| Derecognition | (239) | (64) | (175) |
| Balance, September 30, 2011 | **$58,438** | **$33,129** | **$25,309** |
| | | | |
| Balance, January 1, 2010 | $50,355 | $23,188 | $27,167 |
| Acquisitions | 5,421 | - | 5,421 |
| Amortization | - | 6,330 | (6,330) |
| Balance, December 31, 2010 | **$55,776** | **$29,518** | **$26,258** |
| | | | |
| Balance, January 1, 2010 | $50,355 | $23,188 | $27,167 |
| Acquisitions | 4,354 | - | 4,354 |
| Amortization | - | 4,931 | (4,931) |
| Balance, September 30, 2010 | **$54,709** | **$28,119** | **$26,590** |

**5) OTHER ASSETS**

| | Sep. 30, 2011 | Dec. 31, 2010 | Sep. 30, 2010 | Jan. 1, 2010 |
|---|---|---|---|---|
| Trade receivables | $8,428 | $5,965 | $7,552 | $7,732 |
| Provision for doubtful accounts | (492) | (699) | (493) | (326) |
| Net trade receivables | 7,936 | 5,266 | 7,059 | 7,406 |
| Accrued straight-line rent receivable | 16,846 | 14,294 | 13,560 | 10,948 |
| Tenant incentives | 35,520 | 33,448 | 30,326 | 30,045 |
| Prepaid expenses | 8,026 | 5,568 | 8,154 | 5,531 |
| Restricted cash | - | 227 | 30 | 215 |
| | **$68,328** | **$58,803** | **$59,129** | **$54,145** |

| Tenant incentives | Cost | Accumulated amortization | Net carrying value |
|---|---|---|---|
| Balance, January 1, 2011 | $46,798 | $13,350 | $33,448 |
| Additions | 5,910 | - | 5,910 |
| Amortization | - | 3,836 | (3,836) |
| Derecognition | (3) | (1) | (2) |
| Balance, September 30, 2011 | **$52,705** | **$17,185** | **$35,520** |
| Balance, January 1, 2010 | $40,006 | $9,961 | $30,045 |
| Additions | 8,189 | - | 8,189 |
| Amortization | - | 4,786 | (4,786) |
| Derecognition | (1,397) | (1,397) | - |
| Balance, December 31, 2010 | **$46,798** | **$13,350** | **$33,448** |
| Balance, January 1, 2010 | $40,006 | $9,961 | $30,045 |
| Additions | 3,644 | - | 3,644 |
| Amortization | - | 3,363 | (3,363) |
| Derecognition | (1,397) | (1,397) | - |
| Balance, September 30, 2010 | **$42,253** | **$11,927** | **$30,326** |

**6) NOTES RECEIVABLE**

On March 23, 2006, Crombie acquired 44 properties from Empire Company Limited's subsidiary, ECL Properties Limited ("ECL") and certain affiliates, resulting in ECL Developments Limited issuing two demand non-interest bearing promissory notes in the amounts of $39,600 and $20,564. Payments on the first note of $39,600 are being received as funding is required for a capital expenditure program relating to eight commercial properties. Payments on the second note of $20,564 are being received on a monthly basis to reduce the effective interest rate to 5.54% on certain assumed mortgages with terms to maturity to April 2022. The interest rate subsidy is carried at present value.

The balance of each note is as follows:

| | Sep. 30, 2011 | Dec. 31, 2010 | Sep. 30, 2010 | Jan. 1, 2010 |
|---|---|---|---|---|
| Capital expenditure program | $105 | $105 | $105 | $436 |
| Interest rate subsidy | 3,480 | 4,238 | 4,518 | 5,485 |
| | **$3,585** | **$4,343** | **$4,623** | **$5,921** |

**7) ASSETS AND LIABILITIES RELATED TO DISCONTINUED OPERATIONS**

During the fourth quarter of 2008, Crombie defeased the mortgage associated with a property classified as discontinued operations. The transaction did not qualify for defeasance accounting, therefore the defeased loan and related asset have not been removed from the balance sheet. The defeased loan is payable in monthly payments of $42 and bears interest at 5.46%, was originally amortized over 25 years and is due April 1, 2014. Crombie purchased Government of Canada bonds and treasury bills and Canada mortgage bonds and pledged them as security to the mortgage company. The bonds have maturity dates to September 15, 2013, have a weighted average interest rate of 3.62% and have been placed in escrow. The assets and liabilities related to discontinued operations are measured at amortized cost using the effective interest method, until April 1, 2014 at which time they will be extinguished.

**8) INVESTMENT PROPERTY DEBT**

| | Range | Weighted average interest rate | Weighted average term to maturity | Sep. 30, 2011 |
|---|---|---|---|---|
| Fixed rate mortgages | 4.23-7.30% | 5.73% | 7.6 years | $786,188 |
| Floating rate revolving credit facility | | 3.20% | 2.8 years | 99,716 |
| Deferred financing charges | | | | (6,709) |
| | | | | **$879,195** |

| | Range | Weighted average interest rate | Weighted average term to maturity | Dec. 31, 2010 |
|---|---|---|---|---|
| Fixed rate mortgages | 4.53-7.30% | 5.77% | 7.4 years | $755,665 |
| Floating rate revolving credit facility | | 2.32% | 0.5 years | 50,000 |
| Deferred financing charges | | | | (6,538) |
| | | | | **$799,127** |

| | Range | Weighted average interest rate | Weighted average term to maturity | Sep. 30, 2010 |
|---|---|---|---|---|
| Fixed rate mortgages | 4.80-7.30% | 5.81% | 7.5 years | $733,520 |
| Floating rate revolving credit facility | | 2.31% | 0.8 years | 52,000 |
| Deferred financing charges | | | | (6,232) |
| | | | | **$779,288** |

| | Range | Weighted average interest rate | Weighted average term to maturity | Jan. 1, 2010 |
|---|---|---|---|---|
| Fixed rate mortgages | 4.82-8.00% | 5.66% | 5.8 years | $604,992 |
| Floating rate revolving credit facility | | 1.53% | 1.5 years | 106,160 |
| Deferred financing charges | | | | (4,783) |
| | | | | **$706,369** |

As at September 30, 2011, debt retirements for the next 5 years are:

| 12 Months ending | Fixed Rate Principal Payments | Fixed Rate Maturities | Floating Rate Maturities | Total |
|---|---|---|---|---|
| September 30, 2012 | $24,868 | $3,228 | $- | $28,096 |
| September 30, 2013 | 26,451 | 3,897 | - | 30,348 |
| September 30, 2014 | 25,110 | 93,803 | 99,716 | 218,629 |
| September 30, 2015 | 23,974 | 38,813 | - | 62,787 |
| September 30, 2016 | 22,268 | 47,940 | - | 70,208 |
| Thereafter | 101,320 | 367,802 | - | 469,122 |
| | $223,991 | $555,483 | $99,716 | 879,190 |
| Deferred financing charges | | | | (6,709) |
| Unamortized fair value debt adjustment | | | | 6,714 |
| | | | | **$879,195** |

Specific investment properties with a carrying value of $1,536,890 as at September 30, 2011 (December 31, 2010 – $1,463,705; September 30, 2010 - $1,430,884) are currently pledged as security for mortgages or provided as security for the floating rate revolving credit facility. Carrying value includes Investment properties, Intangible assets, and Accrued straight-line rent and Tenant incentives which are included in other assets.

**Mortgage activity during 2011**

| Date | | Number of mortgages | Rates | Terms in years | Amortization periods in years | Proceeds (repayments) |
|---|---|---|---|---|---|---|
| May 2, 2011 | Assumed | 1 | 6.66% | 8 | 25 | $10,708 |
| May 2, 2011 | New | 1 | 5.78% | 8 | 25 | 1,000 |
| May 10, 2011 | Refinancing | 1 | 5.36% | 15 | 20 | 15,283 |
| May 10, 2011 | Refinancing | (1) | 5.35% | 3 | 23 | (15,283) |
| June 29, 2011 | New | 1 | 5.06% | 20 | 25 | 7,100 |
| July 4, 2011 | Matured | (1) | 7.85% | - | - | (8,204) |
| July 29, 2011 | New | 1 | 5.04% | 20 | 25 | 13,000 |
| August 24, 2011 | New | 1 | 5.18% | 20 | 25 | 7,600 |
| September 15, 2011 | New | 1 | 4.23% | 10 | 25 | 9,130 |
| September 29, 2011 | New | 1 | 4.46% | 15 | 20 | 7,000 |
| | | | | | | $47,334 |

The floating rate revolving credit facility has a maximum principal amount of $150,000 and is used by Crombie for working capital purposes and to provide financing for future acquisitions. It is secured by a pool of first and second mortgages on certain properties. The floating interest rate is based on bankers' acceptance rates or specific margins over prime rate. The specified margin increases as Crombie's overall debt leverage increases beyond specific thresholds. During the second quarter of 2011, the floating rate revolving credit facility was extended and matures June 30, 2014.

See Note 20(a) for fair value information.

**9) CONVERTIBLE DEBENTURES**

| | Conversion Price | Maturity Date | Interest Rate | Sep. 30, 2011 | Dec. 31, 2010 | Sep. 30, 2010 | Jan. 1, 2010 |
|---|---|---|---|---|---|---|---|
| Series A (CRR.DB) | $13.00 | Mar. 20, 2013 | 7.00% | $29,985 | $29,985 | $30,000 | $30,000 |
| Series B (CRR.DB.B) | $11.00 | Jun. 30, 2015 | 6.25% | 52,683 | 78,263 | 83,469 | 85,000 |
| Series C (CRR.DB.C) | $15.30 | Jun. 30, 2017 | 5.75% | 45,000 | 45,000 | 45,000 | - |
| Deferred financing charges | | | | (3,336) | (4,815) | (5,574) | (4,142) |
| | | | | **$124,332** | **$148,433** | **$152,895** | **$110,858** |

**Debenture Conversions**

| | Conversion Price | Nine Months Ended Sep. 30, 2011 | Year Ended Dec. 31, 2010 | Nine Months Ended Sep. 30, 2010 | To Jan. 1, 2010 |
|---|---|---|---|---|---|
| Series A (CRR.DB) | $13.00 | $- | $15 | $- | $- |
| Series B (CRR.DB.B) | $11.00 | 25,580 | 6,737 | 1,531 | - |
| | | **$25,580** | **$6,752** | **$1,531** | **$-** |
| REIT Units Issued | | 2,325,438 | 613,601 | 139,180 | - |

As at September 30, 2011, debenture retirements for the next 5 years are:

| 12 Months ending | Series A | Series B | Series C | Total |
|---|---|---|---|---|
| September 30, 2012 | $- | $- | $- | $- |
| September 30, 2013 | 29,985 | - | - | 29,985 |
| September 30, 2014 | - | - | - | - |
| September 30, 2015 | - | 52,683 | - | 52,683 |
| September 30, 2016 | - | - | - | - |
| Thereafter | - | - | 45,000 | 45,000 |
| | $29,985 | $52,683 | $45,000 | 127,668 |
| Deferred financing charges | | | | (3,336) |
| | | | | $124,332 |

The Series A, Series B, and Series C Convertible Debentures, (collectively the "Debentures") pay interest semi-annually on June 30 and December 31 of each year and Crombie has the option to pay interest on any interest payment date by selling REIT units and applying the proceeds to satisfy its interest obligation.

The Debentures are convertible into REIT Units at the option of the debenture holder at any time up to the maturity date, at the conversion price indicated in the table above, being a conversion rate of approximately 76.9231 REIT Units per one thousand principal amount of Series A Convertible Debentures, 90.9091 REIT Units per one thousand principal amount of Series B Convertible Debentures and 65.3595 REIT Units per one thousand principal amount of Series C Convertible Debentures. If all conversion rights attaching to the Series A Convertible Debentures, the Series B Convertible Debentures and the Series C Convertible Debentures were exercised, as at September 30, 2011, Crombie would be required to issue approximately 2,306,538 REIT Units, 4,789,363 REIT Units, and 2,941,176 REIT Units, respectively, subject to anti-dilution adjustments.

For the first three years from the date of issue, there is no ability to redeem the Debentures, after which, each series of Debentures has a period, lasting one year, during which the Debentures may be redeemed, in whole or in part, on not more than 60 days' and not less than 30 days' prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the REIT Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice on redemption is given exceeds 125% of the conversion price. After the end of the fourth year, and to the maturity date, the Debentures may be redeemed, in whole or in part, at anytime at the redemption price equal to the principal amount thereof plus accrued and unpaid interest. Provided that there is not a current event of default, Crombie will have the option to satisfy its obligation to pay the principal amount of the Debentures at maturity or upon redemption, in whole or in part, by issuing the number of REIT units equal to the principal amount of the Debentures then outstanding divided by 95% of the volume-weighted average trading price of the REIT units for a stipulated period prior to the date of redemption or maturity, as applicable. Upon change of control of Crombie, Debenture holders have the right to put the Debentures to Crombie at a price equal to 101% of the principal amount plus accrued and unpaid interest.

Based on management's assessment, Crombie has determined to date that no amount should be attributed to the conversion feature. Transaction costs related to the Debentures have been deferred and are being amortized into finance costs over the term of the Debentures using the effective interest method.

See 20(a) for fair value information.

**10) INCOME TAXES**

On September 22, 2007, tax legislation Bill C-52, the Budget Implementation Act, 2007 (the "Act") was passed into law. The Act related to the federal income taxation of publicly traded income trusts and partnerships. The Act subjects all existing income trusts, or specified investment flow-through entities ("SIFTs"), to corporate tax beginning in 2011, subject to an exemption for real estate investment trusts ("REITs"). A trust that satisfies the criteria of a REIT throughout its taxation year will not be subject to income tax in respect of distributions to its Unitholders or be subject to the restrictions on its growth that would apply to SIFTs.

Crombie's management and their advisors have completed an extensive review of Crombie's organizational structure and operations to support Crombie's assertion that it meets the REIT technical tests contained in the Act. The relevant tests apply throughout the taxation year of Crombie and, as such, the actual status of Crombie for any particular taxation year can only be ascertained at the end of the year.

The deferred income tax liability of the wholly-owned corporate subsidiary which is subject to income taxes consists of the following:

| | Sep. 30, 2011 | Dec. 31, 2010 | Sep. 30, 2010 | Jan. 1, 2010 |
|---|---|---|---|---|
| Tax liabilities relating to difference in tax and book value | $94,066 | $92,592 | $92,261 | $91,389 |
| Tax asset relating to non-capital loss carry-forward | (11,066) | (9,892) | (9,261) | (7,689) |
| Deferred income tax liability | **$83,000** | **$82,700** | **$83,000** | **$83,700** |

The income tax expense (recovery) consists of the following:

| | Three Months Ended Sep. 30, 2011 | Three Months Ended Sep. 30, 2010 | Nine Months Ended Sep. 30, 2011 | Nine Months Ended Sep. 30, 2010 |
|---|---|---|---|---|
| Provision for income taxes at the expected rate | $(2,778) | $(2,568) | $(8,700) | $(7,279) |
| Tax effect of income attribution to Crombie's Unitholders | 2,978 | 2,868 | 9,200 | 6,079 |
| Decreased income tax resulting from a change in the expected rate | - | - | (800) | 1,900 |
| Income taxes - deferred | **$200** | **$300** | **$(300)** | **$700** |

Components of other comprehensive income are not tax valued as there are no tax implications to Crombie.

**11) EMPLOYEE FUTURE BENEFITS**

Crombie has a number of defined benefit and defined contribution plans providing pension and other retirement benefits to most of its employees.

**Defined contribution pension plans**

The contributions required by the employee and the employer are specified. The employee's pension depends on what level of retirement income (for example, annuity purchase) that can be achieved with the combined total of employee and employer contributions and investment income over the period of plan membership, and the annuity purchase rates at the time of the employee's retirement.

**Defined benefit pension plans**

The ultimate retirement benefit is defined by a formula that provides a unit of benefit for each year of service. Employee contributions, if required, pay for part of the cost of the benefit, and the employer contributions fund the balance. The employer contributions are not specified or defined within the plan text; they are based on the result of actuarial valuations which determine the level of funding required to meet the total obligation as estimated at the time of the valuation. Crombie's defined benefit plans are unfunded.

Crombie uses December 31 as a measurement date for accounting purposes for its defined benefit pension plans.

The net defined contribution pension plans expense for the three months and nine months ended September 30, 2011 were $119 and $454 (three months and nine months ended September 30, 2010 - $76 and $293 respectively).

**12) TRADE AND OTHER PAYABLES**

| | Sep. 30, 2011 | Dec. 31, 2010 | Sep. 30, 2010 | Jan. 1, 2010 |
|---|---|---|---|---|
| Tenant incentives and capital expenditures | $18,812 | $19,063 | $12,712 | $20,209 |
| Property operating costs | 14,058 | 12,967 | 16,236 | 10,575 |
| Advance rents | 3,457 | 1,862 | 2,860 | 2,069 |
| Finance costs on investment property debt and debentures | 5,632 | 3,460 | 5,707 | 2,836 |
| Distributions payable | 5,076 | 4,903 | 4,871 | 4,522 |
| Fair value of interest rate swap agreements | - | 2,488 | 3,224 | 3,534 |
| | **$47,035** | **$44,743** | **$45,610** | **$43,745** |

## 13) PROPERTY REVENUE

| | Three Months Ended Sep. 30, 2011 | Three Months Ended Sep. 30, 2010 | Nine Months Ended Sep. 30, 2011 | Nine Months Ended Sep. 30, 2010 |
|---|---|---|---|---|
| Rental revenue contractually due from tenants | $54,882 | $51,359 | $166,811 | $152,538 |
| Contingent rental revenue | 468 | 503 | 1,866 | 1,957 |
| Straight-line rent recognition | 800 | 829 | 2,615 | 2,612 |
| Tenant incentive amortization | (1,369) | (1,241) | (3,836) | (3,363) |
| | **$54,781** | **$51,450** | **$167,456** | **$153,744** |

The following tables set out tenants that contribute in excess of 10% of total property revenue:

| | Three Months Ended Sep. 30, 2011 | | Three Months Ended Sep. 30, 2010 | | Nine Months Ended Sep. 30, 2011 | | Nine Months Ended Sep. 30, 2010 | |
|---|---|---|---|---|---|---|---|---|
| | Revenue | Percentage | Revenue | Percentage | Revenue | Percentage | Revenue | Percentage |
| Sobeys | $17,726 | 32.4% | $15,318 | 29.8% | $54,371 | 32.5% | $46,058 | 30.0% |

## 14) OPERATING LEASES

### Crombie as a Lessor

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

| | Remaining | Year Ending December 31, | | | | | |
|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter | Total |
| Future minimum rental income | $37,111 | $138,969 | $130,185 | $120,413 | $111,503 | $942,061 | $1,480,242 |

### 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 14 to 73 years including renewal options:

| | Remaining | Year Ending December 31, | | | | | |
|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter | Total |
| Future minimum lease payments | $294 | $1,191 | $1,209 | $1,210 | $1,211 | $47,207 | $52,322 |

## 15) EMPLOYEE BENEFIT EXPENSE

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

| | Three Months Ended Sep. 30, 2011 | Three Months Ended Sep. 30, 2010 | Nine Months Ended Sep. 30, 2011 | Nine Months Ended Sep. 30, 2010 |
|---|---|---|---|---|
| Wages and salaries | $3,697 | $3,479 | $12,436 | $11,678 |
| Post employment benefits | 119 | 76 | 454 | 293 |
| | $3,816 | $3,555 | $12,890 | $11,971 |

**16) FINANCE COSTS – OPERATIONS**

| | Three Months Ended Sep. 30, 2011 | Three Months Ended Sep. 30, 2010 | Nine Months Ended Sep. 30, 2011 | Nine Months Ended Sep. 30, 2010 |
|---|---|---|---|---|
| Fixed rate mortgages | $12,802 | $11,534 | $37,678 | $33,449 |
| Floating rate term, revolving and demand facilities | 1,112 | 683 | 2,696 | 2,235 |
| Convertible debentures | 2,161 | 2,489 | 6,796 | 7,194 |
| **Finance costs - operations** | **16,075** | **14,706** | **47,170** | **42,878** |
| Amortization of fair value debt adjustment and accretion income | 426 | 405 | 1,290 | 1,495 |
| Change in accrued finance costs | (2,122) | (2,495) | (2,172) | (2,871) |
| Amortization of effective swap agreements | (1,038) | (1,069) | (3,136) | (2,972) |
| Amortization of deferred financing charges | (990) | (597) | (2,480) | (1,746) |
| **Finance costs - operations, paid** | **$12,351** | **$10,950** | **$40,672** | **$36,784** |

**17) 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, 2011 | 35,327,900 | $335,068 | 30,780,730 | $294,641 | 66,108,630 | $629,709 |
| Units issued under EUPP | 21,417 | 281 | - | - | 21,417 | 281 |
| Net change in EUPP loans receivable | - | (64) | - | - | - | (64) |
| Conversion of debentures | 2,325,438 | 25,580 | - | - | 2,325,438 | 25,580 |
| Units acquired and cancelled under NCIB | (21,417) | (281) | - | - | (21,417) | (281) |
| Balance, September 30, 2011 | **37,653,338** | **$360,584** | **30,780,730** | **$294,641** | **68,434,068** | **$655,225** |

| | 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, 2010 | 32,044,299 | $300,348 | 28,925,730 | $274,260 | 60,970,029 | $574,608 |
| Units issued (proceeds are net of issue costs) | 2,670,000 | 28,155 | 1,855,000 | 20,381 | 4,525,000 | 48,536 |
| Units issued under EUPP | 50,547 | 565 | - | - | 50,547 | 565 |
| Units released under EUPP | - | 8 | - | - | - | 8 |
| Net change in EUPP loans receivable | - | (156) | - | - | - | (156) |
| Conversion of debentures | 613,601 | 6,752 | - | - | 613,601 | 6,752 |
| Units acquired and cancelled under NCIB | (50,547) | (604) | - | - | (50,547) | (604) |
| Balance, December 31, 2010 | **35,327,900** | **$335,068** | **30,780,730** | **$294,641** | **66,108,630** | **$629,709** |

| | 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, 2010 | 32,044,299 | $300,348 | 28,925,730 | $274,260 | 60,970,029 | $574,608 |
| Units issued (proceeds are net of issue costs) | 2,670,000 | 28,029 | 1,855,000 | 20,293 | 4,525,000 | 48,322 |
| Units issued under EUPP | 50,547 | 565 | - | - | 50,547 | 565 |
| Units released under EUPP | - | 8 | - | - | - | 8 |
| Net change in EUPP loans receivable | - | (170) | - | - | - | (170) |
| Conversion of debentures | 139,180 | 1,531 | - | - | 139,180 | 1,531 |
| Units acquired and cancelled under NCIB | (17,157) | (194) | - | - | (17,157) | (194) |
| Balance, September 30, 2010 | **34,886,869** | **$330,117** | **30,780,730** | **$294,553** | **65,667,599** | **$624,670** |

**Crombie REIT Units**

Crombie is authorized to issue an unlimited number of REIT units and an unlimited number of SVU and Class B LP Units. Issued and outstanding REIT units may be subdivided or consolidated from time to time by the Trustees without the approval of the Unitholders. REIT units are redeemable at any time on demand by the holders at a price per REIT unit equal to the lesser of: (i) 90% of the weighted average price per Crombie REIT unit during the period of the last ten days during which Crombie's REIT units traded; and (ii) an amount equal to the price of Crombie's REIT units on the date of redemption, as defined in the Declaration of Trust.

The aggregate redemption price payable by Crombie in respect of any REIT Units surrendered for redemption during any calendar month will be satisfied by way of a cash payment in Canadian dollars within 30 days after the end of the calendar month in which the REIT Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their REIT Units is subject to the limitation that:

i. the total amount payable by Crombie in respect of such REIT Units and all other REIT Units tendered for redemption, in the same calendar month must not exceed $50 (provided that such limitation may be waived at the discretion of the Trustees);

ii. at the time such REIT Units are tendered for redemption, the outstanding REIT Units must be listed for trading on the TSX or traded or quoted on any other stock exchange or market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the REIT Units;

iii. the normal trading of REIT Units is not suspended or halted on any stock exchange on which the REIT Units are listed (or if not listed on a stock exchange, in any market where the REIT Units are quoted for trading) on the Redemption Date or for more than five trading days during the ten-day trading period commencing immediately after the Redemption Date.

On March 31, 2011, Crombie announced a normal course issuer bid ("NCIB") where Crombie may purchase for cancellation up to 100,000 of its REIT units, which represents approximately 0.28% of the outstanding REIT units, during the period April 4, 2011 to April 3, 2012. The purchases have to be made through the facilities of the TSX. The price that Crombie will pay for any such REIT units will be the market price at the time of acquisition. Under the TSX policies, Crombie is entitled to purchase a maximum of 14,387 REIT units per trading day. Crombie had a previous NCIB which expired March 25, 2011. Under that NCIB, Crombie acquired a total of 50,547 REIT units. During the period ended September 30, 2011, Crombie acquired 21,417 REIT units under the NCIB which expires April 3, 2012.

During the first nine months of 2011, $25,580 in Series B Convertible Debentures was converted to a total of 2,325,438 REIT Units at the conversion price of $11.00 per Unit.

On August 4, 2010, Crombie closed a public offering, on a bought deal basis, of 2,670,000 REIT Units to the public at a price of $11.05 per REIT Unit for proceeds of $28,155 net of issue costs.

**Crombie REIT SVU and Class B LP Units**

The Declaration of Trust and the Exchange Agreement provide for the issuance of SVUs to the holders of Class B LP Units used solely for providing voting rights proportionate to the votes of Crombie's REIT Units. The SVUs are not transferable separately from the Class B LP Units to which they are attached and will be automatically transferred upon the transfer of such Class B LP Unit. If the Class B LP Units are exchanged in accordance with the Exchange Agreement, a like number of SVUs will be redeemed and cancelled for no consideration by Crombie.

The Class B LP Units issued by a subsidiary of Crombie to ECL Developments Limited are indirectly exchangeable on a one-for-one basis for Crombie's REIT Units at the option of the holder, under the terms of the Exchange Agreement.

Each Class B LP Unit entitles the holder to receive distributions from Crombie, pro rata with distributions made by Crombie on REIT Units.

On August 4, 2010, concurrently with the issuance of the REIT Units, in satisfaction of its pre-emptive right, ECL Developments Limited purchased 1,855,000 Class B LP Units and the attached SVUs at a price of $11.05 per Class B LP Unit for proceeds of $20,381 net of issue costs, on a private placement basis.

**Employee Unit Purchase Plan ("EUPP")**

Crombie provides for REIT unit purchase entitlements under the EUPP for certain senior executives. Awards made under the EUPP will allow executives to purchase REIT units from treasury at the average daily high and low board lot trading prices per REIT unit on the TSX for the five trading days preceding the issuance. Executives are provided non-recourse loans at 3% annual interest by Crombie for the purpose of acquiring REIT Units from treasury and the REIT Units purchased are held as collateral for the loan. The loan is repaid through the application of the after-tax amounts of all distributions received on the REIT Units, as well as the after-tax portion of any Long-Term Incentive Plan ("LTIP") cash awards received, as payments on interest and principal. As at September 30, 2011, there are loans receivable from executives of $1,666 under Crombie's EUPP, representing 181,140 REIT Units, which are classified as a reduction to net assets attributable to Unitholders. Loan repayments will result in a corresponding increase to net assets attributable to Unitholders. Market value of the REIT Units held as collateral at September 30, 2011 was $2,319.

The compensation expense related to the EUPP for the three months ended and nine months ended September 30, 2011 were $10 and $39 (three months ended and nine months ended September 30, 2010 - $36 and $62 respectively).

**18) SUPPLEMENTRY CASH FLOW INFORMATION**

**a) Items not affecting operating cash**

| | Three Months Ended Sep. 30, 2011 | Three Months Ended Sep. 30, 2010 | Nine Months Ended Sep. 30, 2011 | Nine Months Ended Sep. 30, 2010 |
|---|---|---|---|---|
| Items not affecting operating cash: | | | | |
| Accrued straight-line rent | $(800) | $(829) | $(2,615) | $ (2,612) |
| Amortization of tenant incentives | 1,369 | 1,241 | 3,836 | 3,363 |
| Depreciation of investment properties | 6,435 | 5,992 | 19,040 | 18,080 |
| Amortization of intangible assets | 1,146 | 1,444 | 3,675 | 4,931 |
| Amortization of deferred leasing costs | 137 | 100 | 370 | 286 |
| Unit based compensation | 10 | 36 | 39 | 62 |
| Amortization of effective swap agreements | 1,038 | 1,069 | 3,136 | 2,972 |
| Amortization of deferred financing charges | 990 | 597 | 2,480 | 1,746 |
| Income taxes – deferred | (200) | (300) | 300 | (700) |
| | **$10,125** | **$9,350** | **$30,261** | **$28,128** |

**b) Change in other non-cash operating items**

| | Three Months Ended Sep. 30, 2011 | Three Months Ended Sep. 30, 2010 | Nine Months Ended Sep. 30, 2011 | Nine Months Ended Sep. 30, 2010 |
|---|---|---|---|---|
| Cash provided by (used in): | | | | |
| Trade receivables | $568 | $1,827 | $(2,670) | $347 |
| Prepaid expenses and other assets | 3,289 | 1,528 | (2,167) | (2,438) |
| Payables and other liabilities | 2,514 | 6,598 | 5,291 | 9,981 |
| | **$6,371** | **$9,953** | **$454** | **$7,890** |

**19) RELATED PARTY TRANSACTIONS**

Related party transactions are transactions with associates, post employment benefit plans, and key management personnel. Transactions between Crombie and its subsidiaries have been eliminated on consolidation and as such, are not disclosed in this note. Crombie uses the exchange amount as the measurement basis for related party transactions.

As at September 30, 2011, Empire Company Limited, through its wholly-owned subsidiary ECL Developments Limited, holds a 45.0% (fully diluted 40.4%) indirect interest in Crombie.

Crombie's transactions with related parties are as follows:

| | Note | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | | **2011** | **2010** | **2011** | **2010** |
| Property revenue | (a) | $19,344 | $17,007 | $ 59,716 | $50,742 |
| Head lease income | (b) | $90 | $141 | $446 | $462 |
| Management support services provided | (c) | $163 | $226 | $690 | $694 |
| Property management services | (d) | $136 | $224 | $697 | $764 |
| Rental expense | (e) | $47 | $46 | $141 | $140 |
| Interest rate subsidy | (b) | $292 | $373 | $984 | $1,261 |
| Finance costs - operations | (f) | $207 | $235 | $671 | $706 |
| Finance costs - distributions to Unitholders | | $6,849 | $6,712 | $20,547 | $19,584 |

(a) Crombie earned property revenue from Sobeys Inc., Empire Theatres and other subsidiaries of Empire Company Limited.

(b) For various periods, ECL Developments Limited has an obligation to provide rental income and interest rate subsidies pursuant to an Omnibus Subsidy Agreement dated March 23, 2006 between Crombie Developments Limited, Crombie Limited Partnership and ECL Developments Limited. The rental income is included in Property revenue and the interest rate subsidy is netted against Finance costs – operations.

(c) Certain executive management individuals and other employees of Crombie provide general management, financial, leasing, administrative, and other administration support services to certain real estate subsidiaries of Empire Company Limited on a cost sharing basis pursuant to a Management Cost Sharing Agreement, dated March 23, 2006, between Crombie Developments Limited, a subsidiary of Crombie, and ECL Developments Limited, a subsidiary of Empire Company Limited.

(d) Certain on-site maintenance and management employees of Crombie provide property management services to certain real estate subsidiaries of Empire Company Limited on a cost sharing basis pursuant to the Management Cost Sharing Agreement. The costs assumed by Empire Company Limited pursuant to the Agreement were netted against property expenses.

(e) Crombie leases its head office space from ECL Developments Limited. The lease expires December 2027.

(f) As of September 30, 2011, Crombie had $5,622 fixed rate second mortgage financings outstanding with Empire Company Limited. The mortgages have a weighted average interest rate of 5.38% and a maturity date of March 2014. In addition, $10,000 of Series B Convertible Debentures with an annual interest rate of 6.25% is held by a subsidiary of Empire Company Limited.

In the addition to the above:

- During the third quarter of 2011, Crombie acquired three retail properties for a purchase price of $24,820, excluding closing and transaction costs. The properties, containing approximately 131,000 square feet, were acquired from subsidiaries of Empire Company Limited.

- During the second quarter of 2011, Crombie acquired two retail properties for a purchase price of $27,490, excluding closing and transaction costs. The properties, containing approximately 137,000 square feet, were acquired from subsidiaries of Empire Company Limited. In addition, Crombie exchanged a property with subsidiaries of Empire Company Limited. The purchase price of the acquired property and the disposal price of the derecognized property were based on the carrying value of the derecognized property, which approximated their respective fair values.

- During fiscal 2010, Crombie acquired 18 retail properties for a purchase price of $154,823, excluding closing and transaction costs. The properties, containing approximately 780,000 square feet, were acquired from subsidiaries of Empire Company Limited. In addition to the above acquisitions, on November 22, 2010, Crombie acquired two retail properties for a purchase price of $17,000, excluding closing and transaction costs. The properties, containing approximately 87,000 square feet, were acquired from a joint venture of which a subsidiary of Empire Company Limited was a 50% partner.

- On February 22, 2010 Crombie repaid $3,471 to ECL General Partner Limited to retire a loan as required under the terms of the agreement.

- On August 4, 2010, concurrently with a public offering of units, in satisfaction of its pre-emptive right, ECL Developments Limited purchased 1,855,000 Class B LP Units and the attached SVUs at a price of $11.05 per Class B LP Unit for proceeds of $20,381 net of issue costs, on a private placement basis.

**Key management personnel compensation**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Crombie. The following are considered to be Crombie's key management personnel: the Chief Executive Officer, Chief Financial Officer and the three other highest compensated executives.

The remuneration of members of key management during the period was approximately as follows:

| | Three Months Ended Sep. 30, 2011 | Three Months Ended Sep. 30, 2010 | Nine Months Ended Sep. 30, 2011 | Nine Months Ended Sep. 30, 2010 |
|---|---|---|---|---|
| Salary, bonus and other short-term employee benefits | $514 | $351 | $1,537 | $1,583 |
| Other long-term benefits | 21 | 5 | 126 | 74 |
| | **$535** | **$356** | **$1,663** | **$1,657** |

**20) FINANCIAL INSTRUMENTS**

**a) Fair value of financial instruments**

The fair value of a financial instrument is the estimated amount that Crombie would receive or pay to settle the financial assets and financial liabilities as at the reporting date.

Crombie has classified its financial instruments in the following categories:

i. Held to maturity investments – assets related to discontinued operations

ii. Loans and receivables - restricted cash, cash and cash equivalents, notes receivable and trade receivables

iii. Other financial liabilities - investment property debt, liabilities related to discontinued operations, convertible debentures, tenant improvements and capital expenditures payable, property operating costs payable and finance costs payable

iv. Available for sale – derivative instruments.

Due to their short-term nature, the carrying value of cash and cash equivalents, restricted cash, trade receivables and trade and other payables approximate fair values at the balance sheet date.

The fair value of other financial instruments is based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts Crombie might pay or receive in actual market transactions.

The following table summarizes the carrying value (excluding deferred financing charges) and fair value of those financial instruments which have a fair value different from their carrying value at the balance sheet date.

| | Sep. 30, 2011 | | Dec. 31, 2010 | | Sep. 30, 2010 | | Jan. 1, 2010 | |
|---|---|---|---|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Assets related to discontinued operations | $6,515 | $6,707 | $6,670 | $6,815 | $6,784 | $7,008 | $6,929 | $7,066 |
| Investment property debt | $885,904 | $979,702 | $805,665 | $845,052 | $785,520 | $845,978 | $711,152 | $708,401 |
| Convertible debentures | $127,668 | $138,047 | $153,248 | $166,553 | $158,469 | $173,444 | $115,000 | $120,200 |
| Liabilities related to discontinued operations | $6,043 | $6,336 | $6,171 | $6,437 | $6,212 | $6,582 | $6,334 | $6,270 |

Crombie uses various methods in estimating the fair value of a financial instrument. The methods used comprise the following inputs:

Level 1 - quoted prices in active markets

Level 2 - inputs other than quoted prices in active markets that are observable for the asset or liability either directly or indirectly

Level 3 - inputs are not based on observable market data (unobservable inputs)

The following categorizes and summarizes the significant methods and assumptions used in estimating the fair values of the financial instruments reflected in the above table:

Level 1:

Convertible debentures: The fair value of the convertible debentures is estimated based on the market trading prices, at the reporting date, of the convertible debentures.

Assets related to discontinued operations: The fair value of the bonds and treasury bills are based on market trading prices at the reporting date.

Level 3:

Investment property debt and liabilities related to discontinued operations: The fair value of Crombie's investment property debt and liabilities related to discontinued operations is estimated based on the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying debt, plus an estimated credit spread at the reporting date.

**b) Risk management**

In the normal course of business, Crombie is exposed to a number of financial risks that can affect its operating performance. These risks, and the action 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. Crombie's credit risk is limited to the recorded amount of tenant receivables. A provision for doubtful accounts is taken for all anticipated collectability risks (Note 5).

Crombie mitigates credit risk by geographical diversification, utilizing staggered lease maturities, diversifying both its tenant mix and asset mix and conducting credit assessments for new and renewing tenants. As at September 30, 2011:

- Excluding Sobeys (which accounts for 36.9% of Crombie's minimum rent), no other tenant accounts for more than 1.9% of Crombie's minimum rent, and;
- Over the next five years, no more than 8.5% of the gross leasable area of Crombie will expire in any one year.

As outlined in Note 19, Crombie earned property revenue of $19,344 for the three months ended September 30, 2011 and $59,716 for the nine months ended September 30, 2011 (three months ended and nine months ended September 30, 2010 - $17,007 and $50,742) from Sobeys Inc., Empire Theatres and other subsidiaries of Empire Company Limited.

Receivables are substantially comprised of current balances due from tenants. The balance of accounts receivable past due is not significant. Generally, rents are due the first of each month and other tenant billings are due 30 days after invoiced, and in general balances over 30 days are considered past due. None of the receivable balances are considered impaired.

The provision for doubtful accounts is reviewed at each balance sheet date. A provision is taken on accounts receivable from independent accounts and is recorded as a reduction to its respective receivable account on the balance sheet. Crombie updates its estimate of provision for doubtful accounts based on past due balances on accounts receivable. Current and long-term accounts receivable are reviewed on a regular basis and are provided for when collection is considered uncertain.

There have been no significant changes to Crombie's credit risk.

| | Nine Months Ended Sep. 30, 2011 | Year Ended Dec. 31, 2010 | Nine Months Ended Sep. 30, 2010 |
|---|---|---|---|
| Provision for doubtful accounts, beginning of period | $699 | $326 | $326 |
| Additional provision | 293 | 624 | 366 |
| Recoveries | (242) | (86) | (76) |
| Write-offs | (258) | (165) | (123) |
| Provision for doubtful accounts, end of period | **$492** | **$699** | **$493** |

**Interest rate risk**

Interest rate risk is the potential for financial loss arising from increases in interest rates. Crombie mitigates interest rate risk by utilizing staggered debt maturities, limiting the use of permanent floating rate debt and utilizing interest rate swap agreements. As at September 30, 2011:

- Crombie's weighted average term to maturity of the fixed rate mortgages was 7.6 years, and
- Crombie has a floating rate revolving credit facility available to a maximum of $150,000, with a balance of $99,716 at September 30, 2011. Crombie's exposure to floating rate debt was reduced by a fixed interest rate swap agreement discussed below. Crombie did not renew or replace the fixed interest rate swap agreement expiring July 4, 2011.

Crombie had entered into an interest rate swap agreement to manage the interest rate profile of its current or future debts without an exchange of the underlying principal amount. The unfavourable mark-to-market exposure was included in payables and the change in the mark-to-market adjustment has been recognized in other comprehensive income (loss). The mark-to-market amount of the fixed interest rate swap reduced to $Nil upon maturity of the swap on July 4, 2011.

Crombie estimates that $1,072 of accumulated other comprehensive income (loss) will be reclassified to finance costs during the remaining quarter of 2011 based on all settled swap agreements.

A fluctuation in interest rates would have had an impact on Crombie's operating income. Based on the previous year's rate changes, a 0.5% interest rate change would reasonably be considered possible. The changes would have had the following impact:

| | Impact of a 0.5% interest rate change | |
|---|---|---|
| Impact on operating income attributable to Unitholders of interest rate changes on the floating rate revolving credit facility | **Decrease in rate** | **Increase in rate** |
| **Three Months Ended September 30, 2011** | $186 | $(186) |
| **Three Months Ended September 30, 2010** | $128 | $(128) |
| **Nine Months Ended September 30, 2011** | $482 | $(482) |
| **Nine Months Ended September 30, 2010** | $399 | $(399) |

| | Impact of a 0.5% interest rate change | |
|---|---|---|
| Impact on other comprehensive income due to changes in fair value of derivatives designated as a cash flow hedge | **Decrease in rate** | **Increase in rate** |
| **September 30, 2011** | $Nil | $Nil |
| **September 30, 2010** | $(561) | $541 |

Crombie does not enter into interest rate swap transactions on a speculative basis. Crombie is prohibited by its Declaration of Trust in purchasing, selling or trading in interest rate future contracts other than for hedging purposes**.**

There have been no significant changes to Crombie's interest rate risk.

**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 and/or refinance debt obligations as they mature.

Cash flow generated from operating the property portfolio represents the primary source of liquidity used to service the interest on debt, fund general and administrative expenses, reinvest in the portfolio through capital expenditures, as well as fund tenant incentive costs and make distributions to Unitholders. Debt repayment requirements are primarily funded from refinancing Crombie's maturing debt obligations. Property acquisition funding requirements are funded through a combination of accessing the debt and equity capital markets.

There is a risk that the debt capital markets may not refinance maturing debt on terms and conditions acceptable to Crombie or at any terms at all. Crombie seeks to mitigate this risk by staggering its debt maturity dates. There is also a risk that the equity capital markets may not be receptive to a REIT unit offering issue from Crombie with financial terms acceptable to Crombie. As discussed in Note 21, Crombie mitigates its exposure to liquidity risk utilizing a conservative approach to capital management.

Access to the revolving credit facility is limited by the amount utilized under the facility, the amount of any outstanding letters of credit, plus any unfavourable mark-to-market position on any interest rate swap agreements, and cannot exceed the security provided by Crombie. Any deterioration in the mark-to-market position may reduce Crombie's available credit under the revolving credit facility.

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

| | | Twelve months ending Sep. 30, | | | | | |
|---|---|---|---|---|---|---|---|
| | **Contractual Cash Flows[1]** | **2012** | **2013** | **2014** | **2015** | **2016** | **Thereafter** |
| Fixed rate mortgages[2] | $1,034,250 | $71,281 | $72,136 | $156,048 | $95,784 | $99,034 | $539,967 |
| Convertible debentures | 157,980 | 7,980 | 36,849 | 5,881 | 57,741 | 2,588 | 46,941 |
| | 1,192,230 | 79,261 | 108,985 | 161,929 | 153,525 | 101,622 | 586,908 |
| Floating rate revolving credit | 108,491 | 3,191 | 3,191 | 102,109 | - | - | - |
| **Total** | **$1,300,721** | **$82,452** | **$112,176** | **$264,038** | **$153,525** | **$101,622** | **$586,908** |

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

**(2) Reduced by the interest rate subsidy payments to be received from ECL Developments Limited**

**21) CAPITAL MANAGEMENT**

Crombie's objective when managing capital on a long-term basis is to maintain overall indebtedness, including convertible debentures, in the range of 50% to 60% of gross book value, 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:

| | **Sep. 30, 2011** | **Dec. 31, 2010** | **Sep. 30, 2010** | **Jan. 1, 2010** |
|---|---|---|---|---|
| Investment property debt | $879,195 | $799,127 | $779,288 | $706,369 |
| Convertible debentures | 124,332 | 148,433 | 152,895 | 110,858 |
| Crombie REIT Unitholders | 286,407 | 268,201 | 265,588 | 243,846 |
| SVU and Class B LP Unitholders | 227,806 | 233,774 | 235,614 | 222,512 |
| | $1,517,740 | $1,449,535 | $1,433,385 | $1,283,585 |

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 the 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 does not include 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, in total debt for purposes of its debt to gross book value calculation. Crombie's debt to gross book value as defined in Crombie's Declaration of Trust is as follows:

| | Sep. 30, 2011 | Dec. 31, 2010 | Sep. 30, 2010 | Jan. 1, 2010 |
|---|---|---|---|---|
| Fixed rate mortgages | $786,188 | $755,665 | $733,520 | $604,992 |
| Convertible debentures | 127,668 | 153,248 | 158,469 | 115,000 |
| Revolving credit facility | 99,716 | 50,000 | 52,000 | 106,160 |
| Total debt outstanding | 1,013,572 | 958,913 | 943,989 | 826,152 |
| Less: Applicable fair value debt adjustment | (5,121) | (6,106) | (6,472) | (7,733) |
| Debt | $1,008,451 | $952,807 | $937,517 | $818,419 |
| | | | | |
| Investment properties, cost | $1,670,531 | $1,583,210 | $1,547,618 | $1,399,752 |
| Intangible assets, cost | 58,438 | 55,776 | 54,709 | 50,355 |
| Notes receivable | 3,585 | 4,343 | 4,623 | 5,921 |
| Other assets, cost (see below) | 85,513 | 72,153 | 71,056 | 64,106 |
| Cash and cash equivalents | - | 5,170 | 18,539 | - |
| Deferred financing charges | 10,045 | 11,353 | 11,806 | 8,925 |
| Interest rate subsidy | (5,121) | (6,106) | (6,472) | (7,733) |
| Fair value adjustment to deferred taxes | (39,245) | (39,245) | (39,245) | (39,245) |
| | $1,783,746 | $1,686,654 | $1,662,634 | $1,482,081 |
| Debt to gross book value | 56.5% | 56.5% | 56.4% | 55.2% |

Other assets are calculated as follows:

| | Sep. 30, 2011 | Dec. 31, 2010 | Sep. 30, 2010 | Jan. 1, 2010 |
|---|---|---|---|---|
| Other assets per Note 5 | $68,328 | $58,803 | $59,129 | $54,145 |
| Add back: | | | | |
| Tenant incentive accumulated amortization | 17,185 | 13,350 | 11,927 | 9,961 |
| Other assets, cost | **$85,513** | **$72,153** | **$71,056** | **$64,106** |

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, the amount of any outstanding letters of credit, and any negative mark-to-market position on any interest rate swap agreements, not to exceed the 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, 2011, Crombie is in compliance with all externally imposed capital requirements and all covenants relating to its debt facilities.

**22) COMMITMENTS AND CONTINGENCIES**

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 would not have a significant adverse effect on these financial statements.

Crombie has entered into a management cost sharing agreement with a subsidiary of Empire Company Limited. Details of this agreement are disclosed in "Related Party Transactions" (Note 19).

Crombie obtains letters of credit to support its obligations with respect to construction work on its Investment properties, defeasing Investment property debt and satisfying mortgage financing requirements. Crombie has $408 in standby letters of credit for construction work that is being performed on its Investment properties. In connection with the defeasance of the discontinued operations Investment property debt, Crombie has issued a standby letter of credit in the amount of $1,715 in favour of the mortgage lender. In addition, to satisfy the requirements of mortgage financings, Crombie has issued standby letters of credit in the amount of $7,200 in favour of mortgage lenders. 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 14 to 73 years including renewal options. For the three and nine months ended September 30, 2011, Crombie paid $294 and $882 in land lease payments to third party landlords (three months and nine months ended September 30, 2010 - $243 and $730 respectively). Crombie's commitments under the land leases are disclosed in Note 14.

As at September 30, 2011, Crombie has signed construction contracts totaling $6,113 of which $4,418 has been paid.

**23) SUBSEQUENT EVENTS**

(a) On October 20, 2011, Crombie closed a public offering, on a bought deal basis, of 3,510,000 Units, at a price of $12.85 per Unit for gross proceeds of $45,104. Concurrently with the issuance of the Units, in satisfaction of its pre-emptive right, ECL Developments Limited subscribed for 2,334,630 Class B LP Units and the attached Special Voting Units at a price of $12.85 per Class B LP Unit for gross proceeds of $30,000 on a private placement basis.

(b) On October 20, 2011, Crombie declared distributions of 7.417 cents per unit, for the period from October 1, 2011 to, and including, October 31, 2011. The distribution of $5,509 will be payable on November 15, 2011 to Unitholders of record as at October 31, 2011.

(c) On October 31, 2011, Crombie completed the disposition of a 49,300 square foot freestanding retail property in Riverview, New Brunswick, to a subsidiary of Empire Company Limited, a related party. The disposition price was $7,000, which approximated the carrying value of the property. Crombie paid out the first mortgage on the property of $2,449 and the second mortgage of $513 on disposition. The second mortgage was held by a subsidiary of Empire Company Ltd. Crombie also paid out another $5,109 in additional second mortgage financings with a weighted average interest rate of 5.38% held by a subsidiary of Empire Company Limited.

(d) Crombie has entered into asset purchase agreements related to the acquisition of three retail properties from subsidiaries of Empire Company Limited, a related party. The properties contain approximately 260,000 square feet and two are located in Nova Scotia and one in Ontario. The total price of the three acquisitions is approximately $67,278, excluding closing and transaction costs, and represents an effective capitalization rate of 7.1%. Crombie expects the transactions to close in the fourth quarter of 2011, subject to normal due diligence.

**24) 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 for disclosure purposes.

**25) INDEMNITIES**

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.

**26) EXPLANATION OF TRANSITION TO IFRS**

The 2011 fiscal year represents the first year that Crombie is issuing its financial statements under IFRS. These financial statements have been presented as if Crombie had always reported under IFRS. The accounting policies set out in Note 2 have been applied in preparing the financial statements for the nine months ended September 30, 2011; the comparative information presented in these financial statements for the nine months ended September 30, 2010; the opening IFRS Balance Sheet as at January 1, 2010 (Crombie's date of transition to IFRS), and the comparative balance sheets as at September 30, 2010 and December 31, 2010. An explanation of how the transition from Canadian GAAP to IFRS has affected Crombie's balance sheet as at September 30, 2010, financial performance and cash flows for the three months and nine months ended September 30, 2010 is set out in the following tables and the accompanying notes.

An explanation of how the transition from Canadian GAAP to IFRS has affected Crombie's balance sheets as at December 31, 2010 and January 1, 2010 (Crombie's date of transition to IFRS), as well as its financial performance and cash flows for the year ended December 31, 2010 was provided in the interim consolidated financial statement for March 31, 2011.

IFRS 1 First-time Adoption of IFRS

IFRS 1 applies when an entity first adopts IFRS. The general provisions in IFRS 1 require retrospective application of IFRS to the first reporting period. However, the standard provides certain mandatory exceptions and allows specific exemptions from this general retrospective application.

The significant options selected by Crombie are as follows:

1. Investment properties – Crombie has chosen to apply the fair value as deemed cost exemption as at the transaction date and the cost model for subsequent accounting for its investment properties. Crombie has determined the fair value of its investment properties, on a property-by-property basis, as at the transition date, and has elected to adjust the carrying value of certain specific properties, or components thereof, to this fair value as the deemed cost at transition. Any adjustment to the carrying value at the transition date is reflected as an increase or decrease in investment properties, and an offsetting increase or decrease in net assets attributable to Unitholders at that date. The impact of this election was to increase the carrying value of certain specific properties by approximately $87,500, and to decrease the carrying value of other specific properties by approximately $87,500; for a net overall impact on net assets attributable to Unitholders of $NIL.

2. Business combinations – Crombie has elected to apply the business combination accounting standard prospectively to all subsequent business acquisitions.

3. Leases – Crombie has elected to use facts and circumstances existing at the date of transition to determine whether an arrangement contains a lease.

4. Employee benefits – Crombie has elected to recognize all cumulative actuarial gains and losses for its defined benefit plans at the date of transition. Crombie has elected to use the exemption not to disclose defined benefit plan surplus/deficit and experience adjustments before the date of transition.

5. Borrowing costs – Crombie has elected to apply the revisions in 2007 for IAS 23 Borrowing Costs prospectively to borrowing costs that occurred before the date of transition.

**6.** Estimates – Crombie has used estimates under IFRS that are consistent with those applied under Canadian GAAP, with adjustment for accounting policy differences.

**(a) Reconciliation of Consolidated Balance Sheet at September 30, 2010**

| | Note | Canadian GAAP | Effect of changes to Opening Balance Sheet | Impact of transition to IFRS | IFRS |
|---|---|---|---|---|---|
| Investment properties | (i) | $1,440,415 | $14,585 | $3,845 | $1,458,845 |
| Intangible assets | (i) | 99,316 | (76,190) | 3,464 | 26,590 |
| Other assets | (i) | 28,803 | 30,045 | 281 | 59,129 |
| Notes receivable | (ii) | 6,577 | (2,248) | 294 | 4,623 |
| Asset related to discontinued operations | | 6,784 | - | - | 6,784 |
| Cash and cash equivalents | | 18,539 | - | - | 18,539 |
| **Total assets** | | **1,600,434** | **(33,808)** | **7,884** | **1,574,510** |
| | | | | | |
| Investment property debt | | 779,288 | - | - | 779,288 |
| Convertible debentures | | 152,895 | - | - | 152,895 |
| Deferred income tax | (iii) | 78,000 | 4,000 | 1,000 | 83,000 |
| Trade and other payables | | 40,381 | 4,522 | 707 | 45,610 |
| Intangible liabilities | (i) | 28,004 | (31,558) | 3,554 | - |
| Employee future benefits obligation | | 6,569 | (266) | - | 6,303 |
| Liabilities related to discontinued operations | | 6,212 | - | - | 6,212 |
| Distributions payable | | 4,871 | (4,522) | (349) | - |
| **Total liabilities excluding net assets attributable to Unitholders** | | **1,096,220** | **(27,824)** | **4,912** | **1,073,308** |
| | | | | | |
| Non-controlling interest | (iv) | 237,060 | (237,060) | - | - |
| Unitholders' equity | (iv) | 267,154 | (267,154) | - | - |
| | | **504,214** | **(504,214)** | **-** | **-** |
| **Total liabilities, non-controlling interest and Unitholders' equity** | | **$1,600,434** | | | |
| **Net assets attributable to Unitholders** | (iv) | | **$498,230** | **$2,972** | **$501,202** |
| **Net assets attributable to Unitholders represented by** | | | | | |
| Crombie REIT Unitholders | (iv) | | $264,025 | $1,563 | $265,588 |
| SVUs and Class B LP Unitholders | (iv) | | 234,205 | 1,409 | 235,614 |
| | | | **$498,230** | **$2,972** | **$501,202** |

(i) Investment properties, Intangible assets, Other assets and Intangible liabilities – The impact of transition to IFRS on Investment properties as at September 30, 2010 has been the change in depreciation expense recognized resulting from the changed cost base and the reclassification of additions during the nine months ended 2010 which were included in Intangible assets and Intangible liabilities under Canadian GAAP. The impact on both Intangible assets and Intangible liabilities as at September 30, 2010 has been the reclassification of additions during the nine months ended 2010 to Investment properties. Other assets have been impacted by the reclassification of Tenant incentives to a receivable asset.

(ii) Notes receivable – Long-term Notes receivable, which were present valued on transition to IFRS, are being accreted.

(iii) Deferred income tax – The determination of the liability is impacted by the changes made to the carrying value of specific Investment properties and components of those properties on transition to IFRS.

(iv) Non-controlling interest and Unitholders' equity – Crombie's SVUs and Class B LP Units, accounted for as Non-controlling interest and Unitholders' equity respectively under Canadian GAAP, are accounted for as financial liabilities under IFRS. These financial liabilities are presented as net assets attributable to Unitholders.

**(b) Reconciliation of Consolidated Statement of Comprehensive Income (Loss) for the three months ended September 30, 2010**

| | Note | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|---|
| Property revenue | (i) | $53,418 | $(1,968) | $51,450 |
| Property operating expenses | | 18,936 | - | 18,936 |
| **Net property income** | | **34,482** | **(1,968)** | **32,514** |
| Lease terminations | | 162 | - | 162 |
| Depreciation of investment properties | (ii) | (5,083) | (909) | (5,992) |
| Amortization of intangible assets | (ii) | (3,827) | 2,383 | (1,444) |
| Amortization of deferred leasing costs | (iii) | (1,310) | 1,210 | (100) |
| Depreciation of recoverable capital expenditures | (ii) | (343) | 343 | - |
| General and administrative costs | | (2,627) | **-** | (2,627) |
| **Operating income before finance costs and income taxes** | | **21,454** | **1,059** | **22,513** |
| Finance costs - operations | | (14,801) | 95 | (14,706) |
| **Operating income before income taxes** | | **6,653** | **1,154** | **7,807** |
| Income taxes - deferred | | 200 | 100 | 300 |
| **Operating income attributable to Unitholders** | | **6,853** | **1,254** | **8,107** |
| Finance costs – distributions to Unitholders | (iv) | - | (14,251) | (14,251) |
| **Increase (decrease) in net assets attributable to Unitholders (Canadian GAAP – Income before non-controlling interest)** | | **6,853** | **(12,997)** | **(6,144)** |
| Costs incurred on derivatives designated as cash flow hedges transferred to finance costs-operations | | 1,069 | - | 1,069 |
| Net change in derivatives designated as cash flow hedges | | (16) | - | (16) |
| **Other comprehensive income** | (v) | **1,053** | **-** | **1,053** |
| **Comprehensive income (loss)** | | **$7,906** | **$(12,997)** | **$(5,091)** |

(i) Property revenue – Property revenue is impacted by the removal of amortization of above-market and below-market leases as well as the reclassification of amortization of tenant incentives to Property revenue.

(ii) Depreciation and amortization – As previously discussed, on transition to IFRS, various properties and components of properties were reclassified and adjusted to fair value as deemed cost, impacting the previously reported amounts of depreciation and amortization.

(iii) Amortization of deferred leasing costs – This expense included amortization of tenant incentives, which is now included as an offset to Property revenue.

(iv) Finance costs – distributions to Unitholders – With the reclassification of Crombie's REIT Units and Class B LP Units to financial liabilities, the distributions payable on those units is treated as a finance cost under IFRS.

(v) Other comprehensive income – The amounts shown above under Canadian GAAP have been adjusted to include the amounts previously shown as part of Non-controlling interest.

**(c) Reconciliation of Consolidated Statement of Comprehensive Income (Loss) for the nine months ended September 30, 2010**

| | Note | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|---|
| Property revenue | (i) | $159,450 | $(5,706) | $153,744 |
| Property operating expenses | | 57,630 | - | 57,630 |
| **Net property income** | | **101,820** | **(5,706)** | **96,114** |
| Lease terminations | | 347 | - | 347 |
| Depreciation of investment properties | (ii) | (14,887) | (3,193) | (18,080) |
| Amortization of intangible assets | (ii) | (13,068) | 8,137 | (4,931) |
| Amortization of deferred leasing costs | (iii) | (3,794) | 3,508 | (286) |
| Depreciation of recoverable capital expenditures | (ii) | (931) | 931 | - |
| General and administrative costs | | (8,153) | - | (8,153) |
| **Operating income before finance costs and income taxes** | | **61,334** | **3,677** | **65,011** |
| Finance costs - operations | | (43,173) | 295 | (42,878) |
| **Operating income before income taxes** | | **18,161** | **3,972** | **22,133** |
| Income taxes - deferred | | 1,700 | (1,000) | 700 |
| **Operating income attributable to Unitholders** | | **19,861** | **2,972** | **22,833** |
| Finance costs – distributions to Unitholders | (iv) | - | (41,388) | (41,388) |
| **Increase (decrease) in net assets attributable to Unitholders (Canadian GAAP – Income before non-controlling interest)** | (v) | **19,861** | **(38,416)** | **(18,555)** |
| Costs incurred on derivatives designated as cash flow hedges transferred to finance costs-operations | | 2,972 | - | 2,972 |
| Net change in derivatives designated as cash flow hedges | | 311 | - | 311 |
| **Other comprehensive income** | (vi) | **3,283** | **-** | **3,283** |
| **Comprehensive income (loss)** | | **$23,144** | **$(38,416)** | **$(15,272)** |

(i) Property revenue – Property revenue is impacted by the removal of amortization of above-market and below-market leases as well as the reclassification of amortization of tenant incentives to Property revenue.

(ii) Depreciation and amortization – As previously discussed, on transition to IFRS, various properties and components of properties were reclassified and adjusted to fair value as deemed cost, impacting the previously reported amounts of depreciation and amortization.

(iii) Amortization of deferred leasing costs – This expense included amortization of tenant incentives, which is now included as an offset to Property revenue.

(iv) Finance costs – distributions to Unitholders – With the reclassification of Crombie's REIT Units and Class B LP Units to financial liabilities, the distributions payable on those units is treated as a finance cost under IFRS.

(v) Increase (decrease) in net assets attributable to Unitholders

| | |
|---|---|
| Effect of transition to IFRS per above | $(38,416) |
| Finance Costs – distribution to Unitholders per above | 41,388 |
| Impact of transition to IFRS on September 30, 2010 Consolidated Balance Sheet | $2,972 |

The reclassification of distributions to Unitholders as a finance cost under IFRS does not impact the consolidated Balance Sheet on transition to IFRS as these distributions directly impacted non-controlling interest and Unitholders equity under Canadian GAAP.

(vi) Other comprehensive income – The amounts shown above under Canadian GAAP have been adjusted to include the amounts previously shown as part of Non-controlling interest.

**(d) Impact on Statements of Cash Flows**

As a result of the transition to IFRS, certain items on the statements of cash flows have been impacted as follows:

- Distributions to Unitholders previously recognized in financing activities are now recognized as finance costs on the statements of comprehensive income (loss) and flow through operating activities.
- Additions to tenant incentives and deferred leasing costs previously recognized in operating activities are now recognized in investing activities.

**Notes to the reconciliations:**

a) Investment properties

Assets previously disclosed as commercial properties under Canadian GAAP have been disclosed as investment properties under IFRS. All of Crombie's properties qualify as investment properties. Crombie has adopted the cost model for investment properties, meaning that the properties are carried at cost and are subject to depreciation and amortization charges over their estimated useful lives less any residual values. IFRS 1 allows for properties and components of properties to be re-measured to fair value at the transition date, with this re-measured value to represent the deemed cost of the property at the date of transition. Crombie has applied this election on a property-by-property basis as at January 1, 2010. As a result, some of the carrying values of specific properties have adjusted upward and/or downward; as have specific components of individual properties. There were also changes in the carrying value of intangible assets and intangible liabilities, and classification of amounts from intangible assets and intangible liabilities to investment properties. There was no overall net change in the total carrying value on the transition date.

b) Intangible assets and intangible liabilities

Under IFRS, the only separately recognized intangible for Crombie is for tenant relationships. Other previously recognized intangibles may be included as a component of investment properties and depreciated as part of depreciation of investment properties.

c) Deferred tax assets and liabilities

Under Canadian GAAP, all future tax assets (liabilities) were classified based on the asset (liability) to which it is related to. Under IAS 12, *Income Taxes*, these are referred to as deferred tax assets (liabilities) and are always classified as non-current.

d) Depreciation and amortization expenses

(i) As a result of the reclassification of above-market and below-market leases to components of Investments properties, these amounts are no longer amortized into property revenue but are depreciated, and the depreciation is included in Depreciation of investment properties.
(ii) Amortization of tenant incentives, previously reported as a separate expense on the statements of income under Canadian GAAP, is now included in the calculation of property revenue under IFRS.
(iii) Recoverable capital expenditures were previously recognized as a separate item of commercial properties under Canadian GAAP. These amounts are now included as part of the buildings component of investment properties under IFRS. As a result, the related Depreciation is included in depreciation of investment properties.

e) Employer future benefits obligation

Under Canadian GAAP, actuarial gains and losses were amortized on a straight-line basis over the expected average remaining service lifetime of the active members ("EARSL"). Upon adoption of IFRS, Crombie has elected to record the unamortized actuarial gains and losses in accumulated other comprehensive income (loss) upon transition to IFRS.