Crombie REIT

2014
Second Quarter Report
Six Months Ended June 30

# ADVANCING OUR STRATEGY

# Quarterly Report to Unitholders

Crombie Real Estate Investment Trust (“Crombie") is an open-ended real estate investment trust established under, and governed by, the laws of the Province of Ontario. At August 8, 2014, Crombie owned a portfolio of 250 commercial properties across Canada, comprising approximately 17.6 million square feet, with a strategy to own and operate a portfolio of high quality grocery and drug store anchored shopping centres and freestanding stores primarily in Canada’s top 36 markets.

## Contents


- Letter to Unitholders ..... 2
- Management’s Discussion and Analysis ..... 4
- Consolidated Financial Statements
  - Consolidated Balance Sheets ..... 40
  - Consolidated Statements of Comprehensive Income (Loss) ..... 41
  - Consolidated Statements of Changes in Net Assets Attributable to Unitholders ..... 42
  - Consolidated Statements of Cash Flows ..... 43
  - Notes to Interim Consolidated Financial Statements ..... 44
- Unitholders’ Information ..... 63


Copies of this report are available on Crombie’s website www.crombiereit.com or by contacting Investor Relations at (902) 755- 8100. A copy has also been filed on SEDAR.

Crombie provided additional details concerning its second quarter results on a conference call held Friday, August 8, 2014. Replay of the call is available on Crombie’s website www.crombiereit.com for a period of approximately 90 days.

## Forward-looking Statements

*This quarterly report contains forward-looking statements that reflect the current expectations of management of Crombie about Crombie's future results, performance, achievements, prospects and opportunities. Wherever possible, words such as "may", "will", "estimate", "anticipate", "believe", "expect", "intend" and similar expressions have been used to identify these forward-looking statements. These statements reflect current beliefs and are based on information currently available to management of Crombie. Forward-looking statements necessarily involve known and unknown risks and uncertainties. A number of factors, including those discussed in the annual Management’s Discussion and Analysis under "Risk Management” in the 2013 Annual Report, could cause actual results, performance, achievements, prospects or opportunities to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and a reader should not place undue reliance on the forward-looking statements. There can be no assurance that the expectations of management of Crombie will prove to be correct.*

*Readers are cautioned that such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from these statements. Crombie can give no assurance that actual results will be consistent with these forward-looking statements.*

# Letter to Unitholders

Crombie Real Estate Investment Trust ("Crombie") (TSX:CRR.UN) is pleased to report its financial results for the three months and six months ended June 30, 2014.

**Second Quarter 2014 Highlights** (In thousands of CAD dollars, except per unit amounts and as otherwise noted).

- Portfolio fair value of $3.9 billion.
- Funds From Operations ("FFO"):
    - FFO for the six months ended June 30, 2014 increased 32.8% to $69,330; or $0.55 per unit Diluted, a decrease of $0.01 per unit from the same period in 2013.
    - FFO for the three months ended June 30, 2014 increased 31.5% to $34,836; or $0.27 per unit Diluted, a decrease of $0.01 per unit from the three months ended June 30, 2013.
    - FFO payout ratio of 80.5% for the six months ended June 30, 2014 compared to 78.4% for the same period in 2013.
    - FFO payout ratio of 81.8% for the three months ended June 30, 2014 compared to 77.3% for the three months ended June 30, 2013.
- Adjusted Funds From Operations ("AFFO"):
    - AFFO for the six months ended June 30, 2014 increased 31.1% to $57,741; or $0.46 per unit Diluted, a decrease of $0.02 per unit from the same period in 2013.
    - AFFO for the three months ended June 30, 2014 increased 29.1% to $28,972; or $0.23 per unit Diluted, a decrease of $0.01 per unit from the three months ended June 30, 2013.
    - AFFO payout ratio of 96.7% for the six months ended June 30, 2014 compared to 92.9% for the same period in 2013.
    - AFFO payout ratio of 98.3% for the three months ended June 30, 2014 compared to 91.3% for the same period in 2013.
- Same-asset Cash Net Operating Income ("NOI") for the six months ended June 30, 2014 showed solid growth of 1.9% compared to the same six months ended June 30, 2013. Increase in same-asset cash NOI of 1.3% for the three months ended June 30, 2014 compared to the same period in 2013.
- Property revenue for the six months ended June 30, 2014 of $179,921, an increase of $38,069 or 26.8% over the six months ended June 30, 2013. Property revenue of $89,008 for Q2 2014 increased $17,738 or 24.9% over Q2 2013.
- Occupancy, on a committed basis, was 93.3% at June 30, 2014, compared with 93.1% at March 31, 2014.
- Crombie completed leasing activity on a total of 531,000 square feet during the six months ended June 30, 2014, including:
    - Renewals on 237,000 square feet of 2014 expiring leases at an average rate of $17.50 per square foot, an increase of 10.0% over the expiring lease rate;
    - Renewals on 20,000 square feet of 2015 and later expiring leases at an average rate of $15.17 per square foot, an increase of 8.5% over the expiring lease rate; and
    - New leases on 274,000 square feet of space, at an average rate of $15.26 per square foot.
- Weighted average lease term of 12.0 years and weighted average mortgage term of 7.8 years; amongst the longest and most defensive in the REIT industry.
- Strong 2.54 times interest coverage. Weighted average interest rate on mortgages reduced to 4.78% from 4.79% at March 31, 2014 and 5.00% at June 30, 2013.
- Debt to Gross Book Value (fair value basis) of 51.6% compared to 53.1% at March 31, 2014.
- Completed $100,000 Units and Class B LP Units issuance on May 30, 2014; $60,000 of which is the first issuance under the $500,000 Short Form Shelf Prospectus filed on May 13, 2014.
- Closed $100,000 principal amount Series B Senior Unsecured Notes offering with an effective yield of 3.90% on March 5, 2014.

## Other Performance Measures

Crombie's key financial metrics for the three months and six months ended June 30, 2014 are as follows:

| *(In thousands of CAD dollars, except per unit amounts and as otherwise noted)* | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Property revenue | $ 89,008 | $ 71,270 | $ 179,921 | $ 141,852 |
| Operating income attributable to Unitholders | $ 17,000 | $ 12,581 | $ 32,900 | $ 25,540 |
| Operating income attributable to Unitholders per unit - basic | $ 0.14 | $ 0.14 | $ 0.27 | $ 0.28 |
| Operating income attributable to Unitholders per unit - diluted | $ 0.14 | $ 0.14 | $ 0.26 | $ 0.28 |
| | | | | |
| FFO | $ 34,836 | $ 26,490 | $ 69,330 | $ 52,211 |
| FFO per unit – basic | $ 0.28 | $ 0.29 | $ 0.56 | $ 0.57 |
| FFO per unit – diluted | $ 0.27 | $ 0.28 | $ 0.55 | $ 0.56 |
| FFO payout ratio (%) | 81.8% | 77.3% | 80.5% | 78.4% |
| AFFO | $ 28,972 | $ 22,433 | $ 57,741 | $ 44,039 |
| AFFO per unit – basic | $ 0.23 | $ 0.24 | $ 0.47 | $ 0.48 |
| AFFO per unit – diluted | $ 0.23 | $ 0.24 | $ 0.46 | $ 0.48 |
| Distributions | $ 0.22 | $ 0.22 | $ 0.45 | $ 0.45 |
| AFFO payout ratio (%) | 98.3% | 91.3% | 96.7% | 92.9% |

The increase in FFO and AFFO for the three months and six months ended June 30, 2014 was primarily due to the 70 property Sobey / Safeway acquisition during the fourth quarter of 2013 and completed development and land use intensification projects during 2013, resulting in significant growth in property NOI, offset in part by higher finance costs - operations.

## Financial Overview

Same-asset property revenue of $62,209 for the three months ended June 30, 2014 was 1.6% higher than the three months ended June 30, 2013 due to increased recoveries as a result of higher recoverable property expenses. Acquisitions, dispositions and development property revenue growth of $16,753 is primarily due to higher acquisition activity throughout 2013.

For the six months ended June 30, 2014 same-asset property revenue increased $3,419 or 2.8% due to increased base rent driven by lease renewal activity, land use intensifications at several properties and increased recoveries as a result of higher recoverable property expenses. Acquisitions, dispositions and development property revenue increased $34,650 compared to the same period in 2013 primarily due to the higher 2013 acquisition activity noted above.

Same-asset property expenses for the three months ended June 30, 2014 increased by $1,336 or 6.3% over the three months ended June 30, 2013 and increased by $3,276 or 7.5% for the six months ended June 30, 2014 as compared to the same period in 2013 due primarily to higher recoverable property expenses; primarily property taxes.

## Closing Remarks

Focus on our long term strategy of owning one of the best real estate portfolios in Canada, building a national platform and enhancing our financial condition is clear and unwavering. During the quarter we continued the integration and scoping of development opportunities in the new Safeway acquisitions as well as assessing other significant value creation projects in urban markets in the rest of Canada. In addition to retail development opportunities we are considering participating in mixed use components of these developments including Crombie developing up to 4,000 residential units over the next 10 to 15 years.

Donald E. Clow, FCA
President & Chief Executive Officer

August 8, 2014

**Crombie REIT Profile**

Crombie Real Estate Investment Trust (“Crombie”) (TSX: CRR.UN) is one of Canada's leading owners and managers of retail and office properties with a growth strategy focused primarily on the acquisition of grocery and drug store anchored retail properties in Canada's top 36 markets. Crombie owns a portfolio of 250 commercial properties in ten provinces, comprising approximately 17.6 million square feet of gross leaseable area.

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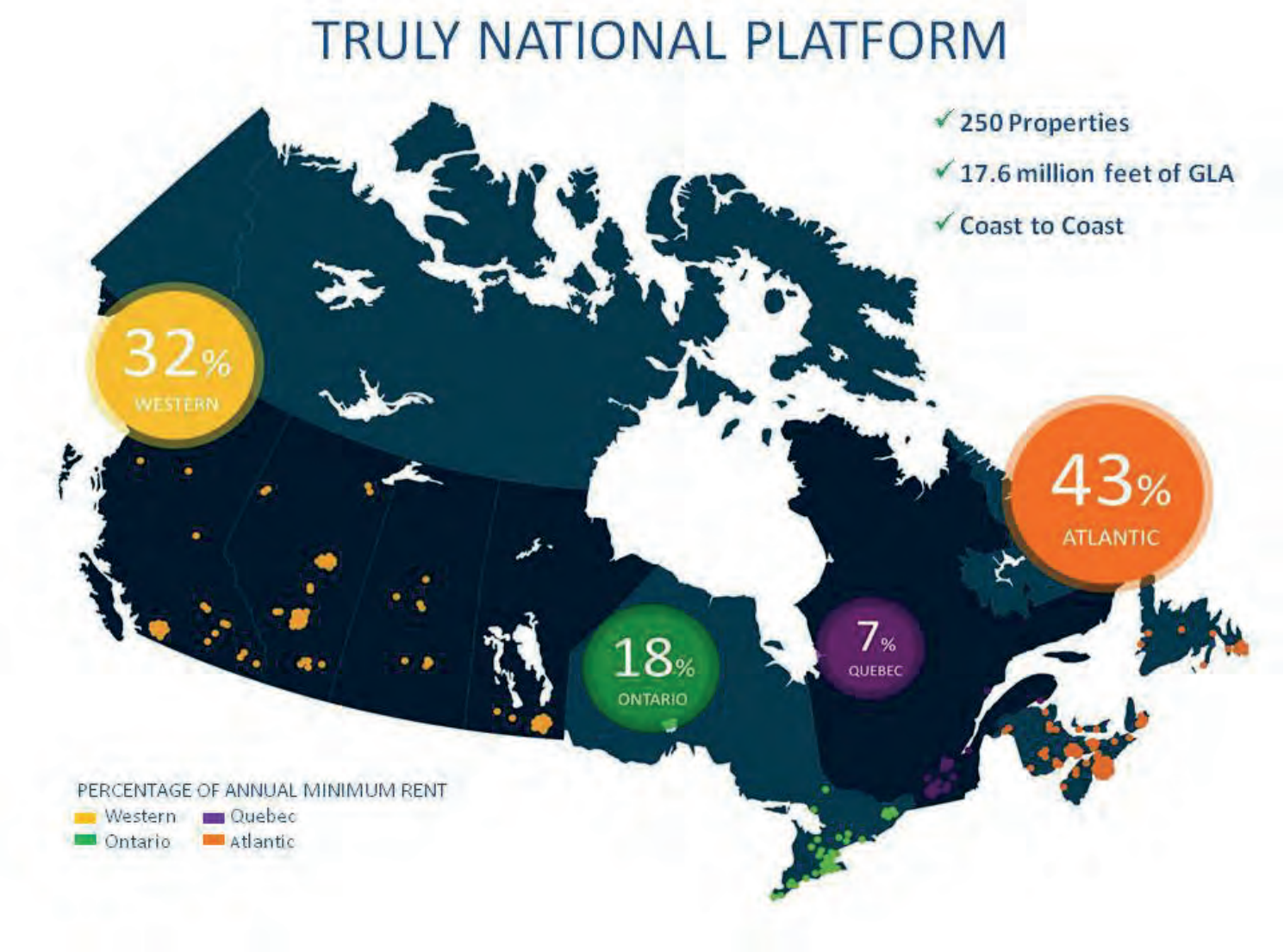

## Financial Highlights

**Financial Highlights for the six months ended June 30, 2014 and 2013 are as follows:**

| **AT JUNE 30** | | **2014** | | **2013** |
|---|---|---|---|---|
| Number of properties | | 250 | | 176 |
| Gross leaseable area (square feet) | | 17,587,000 | | 14,493,000 |
| Debt to gross book value - fair value basis | | 51.6% | | 49.6% |
| Diluted number of units for AFFO purposes | | 130,059,427 | | 96,435,426 |
| **SIX MONTHS ENDED JUNE 30** | | | | |
| (In thousands of CAD dollars, except per unit amounts and as otherwise noted) | | | | |
| Property revenue | $ | 179,921 | $ | 141,852 |
| Property net operating income | $ | 122,958 | $ | 89,338 |
| FFO | $ | 69,330 | $ | 52,211 |
| FFO per unit – diluted | $ | 0.55 | $ | 0.56 |
| FFO payout ratio (%) | | 80.5% | | 78.4% |
| AFFO | $ | 57,741 | $ | 44,039 |
| AFFO per unit – diluted | $ | 0.46 | $ | 0.48 |
| Distributions per unit | $ | 0.45 | $ | 0.45 |
| AFFO payout ratio (%)[(1)] | | 96.7% | | 92.9% |

(1) AFFO payout ratio is calculated using a per square foot charge of $0.87 (2013, $1.05) for maintenance expenditures (see “AFFO” section).

**2014 Highlights**

- FFO for the six months ended June 30, 2014 increased 32.8% to $69,330; or $0.55 per unit Diluted, a decrease of $0.01 per unit from the same period in 2013.
- FFO for the three months ended June 30, 2014 increased 31.5% to $34,836; or $0.27 per unit Diluted, a decrease of $0.01 per unit from the three months ended June 30, 2013.
- AFFO for the six months ended June 30, 2014 increased 31.1% to $57,741; or $0.46 per unit Diluted, a decrease of $0.02 per unit from the same period in 2013.
- AFFO for the three months ended June 30, 2014 increased 29.1% to $28,972; or $0.23 per unit Diluted, a decrease of $0.01 per unit from the three months ended June 30, 2013.
- FFO payout ratio of 80.5% for the six months ended June 30, 2014 compared to 78.4% for the same period in 2013. AFFO payout ratio of 96.7% for the six months ended June 30, 2014 compared to 92.9% for the same period in 2013. FFO payout ratio of 81.8% for the three months ended June 30, 2014 compared to 77.3% for the same period in 2013. AFFO payout ratio of 98.3% for the three months ended June 30, 2014 compared to 91.3% for the same period in 2013.
- 26.8% growth of property revenue for the six months ended June 30, 2014 ($179,921 versus $141,852 for the six months ended June 30, 2013). Second quarter property revenue of $89,008, increased $17,738 or 24.9% over second quarter 2013.
- Solid growth of same-asset property cash NOI for the six months ended June 30, 2014 of 1.9% ($82,323 compared to $80,805 for the six months ended June 30, 2013). Increase in same-asset property cash NOI of 1.3% for the three months ended June 30, 2014 compared to the same period in 2013.
- Committed occupancy was 93.3% at June 30, 2014 compared with 93.1% at March 31, 2014 and 91.8% at June 30, 2013.
- Crombie completed leasing activity on a total of 531,000 square feet during the six months ended June 30, 2014, including:
    - Renewals on 237,000 square feet of 2014 expiring leases at an average rate of $17.50 per square foot, an increase of 10.0% over the expiring lease rate;
    - Renewals on 20,000 square feet of 2015 and later expiring leases at an average rate of $15.17 per square foot, an increase of 8.5% over the expiring lease rate; and
    - New leases on 274,000 square feet of space, at an average rate of $15.26 per square foot.
- Debt to gross book value (fair value basis) was 51.6% at June 30, 2014, compared with 53.1% at March 31, 2014 and 49.6% at June 30, 2013.
- Crombie's interest service coverage for the six months ended June 30, 2014 was 2.54 times EBITDA and debt service coverage was 1.70 times EBITDA, compared to 2.77 times EBITDA and 1.80 times EBITDA, respectively, for the same period in 2013.
- Completed $100,000 Units and Class B LP Units issuance on May 30, 2014; $60,000 of which is the first issuance under the $500,000 Short Form Shelf Prospectus filed on May 13, 2014.
- Closed $100,000 principal amount Series B Senior Unsecured Notes offering with an effective yield of 3.9% on March 5, 2014.

## Management's Discussion and Analysis

**(In thousands of CAD dollars, except per unit amounts)**

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Crombie Real Estate Investment Trust ("Crombie") for the three months and six months ended June 30, 2014, with a comparison to the financial condition and results of operations for the comparable periods in 2013.

This MD&A should be read in conjunction with Crombie's interim condensed consolidated financial statements and accompanying notes for the period ended June 30, 2014, prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. This MD&A should also be read in conjunction with Crombie's audited consolidated financial statements and accompanying notes for the year ended December 31, 2013, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Information about Crombie can be found on SEDAR at www.sedar.com.

### NON-GAAP FINANCIAL MEASURES

There are financial measures included in this MD&A that do not have a standardized meaning under IFRS as prescribed by the IASB. These measures are property net operating income ("NOI"), same-asset property NOI and same-asset property cash NOI, operating income attributable to Unitholders, funds from operations ("FFO"), adjusted funds from operations ("AFFO"), debt to gross book value, and earnings before interest, taxes, depreciation and amortization ("EBITDA"). Management includes these measures because it believes certain investors use these measures as a means of assessing relative financial performance.

#### Introduction

#### Date of MD&A

The information contained in the MD&A, including forward-looking statements, is based on information available to management as of August 8, 2014, except as otherwise noted.

#### Financial and Operational Summary

| *(In thousands of CAD dollars, except per unit amounts and as otherwise noted)* | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Property revenue | **$ 89,008** | $ 71,270 | **$ 179,921** | $ 141,852 |
| Operating income attributable to Unitholders | **$ 17,000** | $ 12,581 | **$ 32,900** | $ 25,540 |
| Basic operating income attributable to Unitholders per unit | **$ 0.14** | $ 0.14 | **$ 0.27** | $ 0.28 |
| Diluted operating income attributable to Unitholders per unit | **$ 0.14** | $ 0.14 | **$ 0.26** | $ 0.28 |
| FFO | **$ 34,836** | $ 26,490 | **$ 69,330** | $ 52,211 |
| FFO per unit – basic | **$ 0.28** | $ 0.29 | **$ 0.56** | $ 0.57 |
| FFO per unit – diluted | **$ 0.27** | $ 0.28 | **$ 0.55** | $ 0.56 |
| FFO payout ratio (%) | **81.8%** | 77.3% | **80.5%** | 78.4% |
| AFFO | **$ 28,972** | $ 22,433 | **$ 57,741** | $ 44,039 |
| AFFO per unit – basic | **$ 0.23** | $ 0.24 | **$ 0.47** | $ 0.48 |
| AFFO per unit – diluted | **$ 0.23** | $ 0.24 | **$ 0.46** | $ 0.48 |
| Distributions per unit | **$ 0.22** | $ 0.22 | **$ 0.45** | $ 0.45 |
| AFFO payout ratio (%)[(1)] | **98.3%** | 91.3% | **96.7%** | 92.9% |

(1) AFFO payout ratio is calculated using a per square foot charge of $0.87 (2013, $1.05) for maintenance expenditures (see "AFFO" section).

**Overview of the Business and Recent Developments**

Crombie is an unincorporated, “open-ended” real estate investment trust established pursuant to the Declaration of Trust dated January 1, 2006, as amended and restated (the “Declaration of Trust”) under, and governed by, the laws of the Province of Ontario. The REIT Units of Crombie trade on the Toronto Stock Exchange (“TSX”) under the symbol “CRR.UN”.

Crombie invests in income-producing retail, office and mixed use properties in Canada, with a growth strategy focused primarily on the acquisition of grocery-anchored and drug store-anchored retail properties in Canada's top 36 markets. At June 30, 2014, Crombie owned a portfolio of 250 investment properties in ten provinces, comprising approximately 17.6 million square feet of gross leaseable area (“GLA”). Empire Company Limited (“Empire” or “ECL”), through a subsidiary, holds a 41.5% (fully diluted 39.3%) economic and voting interest in Crombie at June 30, 2014.

**Significant Developments during 2014 include:**

On May 30, 2014, Crombie closed a public offering, on a bought deal basis, of 4,530,000 Units, at a price of $13.25 per Unit for proceeds of $57,337, net of issue costs. Concurrently with the issuance of the REIT Units, in satisfaction of its pre-emptive right, ECL Developments Limited purchased 3,018,868 Class B LP Units and the attached Special Voting Units ("SVU") at a price of $13.25 per Class B LP Unit for proceeds of $39,810, net of issue costs, on a private placement basis.

On May 1, 2014 Crombie acquired a retail property from Sobeys Developments Limited Partnership ("SDLP") for $10,176 excluding closing and transaction costs. The property, located in Ontario, contains approximately 39,000 square feet of fully occupied space.

On March 31, 2014, Crombie exchanged properties in Canmore, Alberta with a subsidiary of Empire. Whereas these properties were determined to be economically equivalent, the acquired property was measured at the carrying value of the disposed property.

On March 5, 2014 Crombie issued, on a private placement basis, $100,000 Series B Notes (senior unsecured) with a maturity date of June 1, 2021 and an effective interest rate of 3.90%.

**Business Objectives and Outlook**

Crombie describes its business objectives and outlook in the MD&A for the year ended December 31, 2013.

**Business Environment**

Crombie describes its business environment in the MD&A for the year ended December 31, 2013.

**FORWARD-LOOKING INFORMATION**

This MD&A contains forward-looking statements about expected future events and the financial and operating performance of Crombie. These statements include, but are not limited to, statements made in “Overview of Business and Recent Developments”, “Property Profile”, “Liquidity and Capital Resources”, “Finance Costs - Operations”, and other statements concerning management’s beliefs, plans, estimates, intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical fact. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "estimate", "anticipate", "believe", "expect", "intend" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management’s current beliefs and are based on information currently available to management. All forward-looking information in this MD&A is qualified by these cautionary statements.

Specifically, this document includes, but is not limited to, forward-looking statements regarding:

(i) the accretive acquisition of properties and the anticipated extent of the accretion of any acquisitions, which could be impacted by demand for properties and the effect that demand has on acquisition capitalization rates and changes in interest rates;

(ii) asset growth and reinvesting to develop or otherwise make improvements to existing properties, which could be impacted by the availability of labour, capital resource allocation decisions and actual development costs;

(iii) the cost and timing of new properties under development and right of first offer agreements, which development activities are primarily undertaken by related parties and thus are not under the direct control of Crombie and whose activities could be impacted by real estate market cycles, the availability of labour and general economic conditions;

(iv) the disposition of properties and the anticipated reinvestment of net proceeds, which could be impacted by the availability of accretive property acquisitions;

(v) generating improved rental income and occupancy levels, which could be impacted by changes in demand for Crombie’s properties, tenant bankruptcies, the effects of general economic conditions and supply of competitive locations in proximity to Crombie locations;

(vi) the anticipated rate of general and administrative expenses as a percentage of property revenue, which could be impacted by changes in property revenue and/or changes in general and administrative expenses;

(vii) overall indebtedness levels and terms and expectations relating to refinancing, which could be impacted by the level of acquisition activity that Crombie is able to achieve, future financing opportunities, future interest rates and market conditions;

(viii) the estimated payments on derivative and non-derivative financial liabilities, which could be impacted by interest rate subsidy payments, conversions of convertible debentures, interest rates on floating rate debt and fluctuations in the settlement value and settlement timing of any derivative financial liabilities;

(ix) tax exempt status, which can be impacted by regulatory changes enacted by governmental authorities;

(x) anticipated subsidy payments from ECL Developments Limited ("ECLD"), which are dependent on tenant leasing and construction activity;

(xi) anticipated distributions, distribution growth and payout ratios, which could be impacted by results of operations and capital resource allocation decisions;

(xii) the effect that any contingencies would have on Crombie's financial statements which could be impacted by their eventual outcome;

(xiii) anticipated replacement of expiring tenancies, which could be impacted by the effects of general economic conditions and the supply of competitive locations; and

(xiv) availability and sources of financing for future growth, including the expected completion and method of financing for agreed additional acquisitions, which may be impacted by due diligence matters and debt and equity market conditions.

These forward looking-statements are presented for the purpose of assisting Crombie's Unitholders and financial analysts in understanding Crombie's operating environment, and may or may not be appropriate for other purposes. These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on Crombie's current estimates and assumptions. Crombie can give no assurance that actual results will be consistent with these forward-looking statements. A number of factors, including those discussed under "Risk Management" could cause actual results, performance, achievements, prospects or opportunities to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and a reader should not place undue reliance on the forward-looking statements.

These forward looking statements are made as at the date of the MD&A and Crombie assumes no obligation to update or revise them to reflect new or current events or circumstances unless otherwise required by applicable securities legislation.

## OVERVIEW OF THE PROPERTY PORTFOLIO

### Property Profile

At June 30, 2014, Crombie's property portfolio consisted of 250 investment properties that contain approximately 17.6 million square feet of GLA in all ten provinces.

As at June 30, 2014, the portfolio distribution of the GLA by province was as follows:

| | GLA (sq. ft.) | | | | | | |
|---|---|---|---|---|---|---|---|
| Province | January 1, 2014 | Acquisitions (Dispositions) | Other | June 30, 2014 | Number of Properties | % of GLA | % of Annual Minimum Rent |
| AB | 2,015,000 | — | — | 2,015,000 | 40 | 11.5% | 16.8% |
| BC | 1,275,000 | — | — | 1,275,000 | 30 | 7.2% | 8.7% |
| MB | 492,000 | — | — | 492,000 | 13 | 2.8% | 3.4% |
| NB | 1,733,000 | — | 5,000 | 1,738,000 | 22 | 9.9% | 7.0% |
| NL | 1,657,000 | — | — | 1,657,000 | 14 | 9.4% | 11.2% |
| NS | 5,543,000 | (18,000) | 2,000 | 5,527,000 | 47 | 31.4% | 23.9% |
| ON | 2,914,000 | 39,000 | 1,000 | 2,954,000 | 52 | 16.8% | 18.0% |
| PE | 261,000 | — | (3,000) | 258,000 | 2 | 1.5% | 1.2% |
| QC | 1,214,000 | — | 3,000 | 1,217,000 | 22 | 6.9% | 7.1% |
| SK | 454,000 | — | — | 454,000 | 8 | 2.6% | 2.7% |
| Total | 17,558,000 | 21,000 | 8,000 | 17,587,000 | 250 | 100.0% | 100.0% |

Since January 1, 2014, Crombie GLA has a net increase of 21,000 square feet of GLA from acquisition and disposition activity consisting of:

- acquisition of one property in Ontario with 39,000 square feet of GLA and acquisition of additional development of 7,000 square feet on an exisiting property in Nova Scotia;
- disposition of a portion of an existing property in Nova Scotia resulting in a 25,000 square foot reduction in GLA; and
- exchanged one Alberta property for another Alberta property resulting in no net change in GLA.

Crombie continues to diversify its geographic concentration from its Atlantic Canadian roots through growth and divestiture opportunities. Currently our GLA (with % of Annual Minimum Rent in brackets) consists of: Atlantic Canada 52.2% (43.3%), Central Canada 23.7% (25.1%); and Western Canada 24.1% (31.6%). Crombie believes this diversification adds stability to the portfolio while reducing vulnerability to economic fluctuations that may affect any particular region.

**DEVELOPMENT**

On a regular basis, Crombie will complete development work on properties to enhance the economic viability of a location when the environment in which it operates warrants. As at June 30, 2014, Crombie properties currently under development include: Downsview Plaza and Downsview Mall in Halifax, Nova Scotia, Aberdeen Business Centre in New Glasgow, Nova Scotia, and Amherst Centre in Amherst, Nova Scotia are being reconfigured to accommodate new tenancies. County Fair Mall in New Minas, Nova Scotia has been designated for development and remains in the planning stage of development and has not yet commenced.

Properties under development are excluded from same-asset results until the development is complete and the operating results from the development property are available for the current and comparative reporting years.

Aberdeen Business Centre and Amherst Centre are undergoing development to accommodate new tenant leasing requirements and initial work for future tenants. Planning and design work is currently underway and is subject to management review and approval.

County Fair Mall - New Minas has been designated for development. Initial planning and design work is currently underway and is subject to management review and approval.

Development work is currently underway on Phase III of Downsview Plaza to accommodate the requirements of new tenants and initial work for future tenants. Downsview Mall, an adjacent property, has also been designated for development, subject to management review and approval of planning and design work.

**Largest Tenants**

The following table illustrates the ten largest tenants in Crombie's portfolio of income-producing properties as measured by their percentage contribution to total annual minimum base rent as at June 30, 2014

| Tenant | % of Annual Minimum Rent | Average Remaining Lease Term |
|---|---|---|
| Sobeys [(1)] | 49.1% | 15.4 years |
| Shoppers Drug Mart | 5.9% | 12.7 years |
| Cineplex | 1.8% | 11.0 years |
| Province of Nova Scotia | 1.4% | 4.3 years |
| CIBC | 1.2% | 15.8 years |
| Lawtons/Sobeys Pharmacy | 1.1% | 12.1 years |
| GoodLife Fitness | 1.1% | 12.5 years |
| Best Buy Canada Ltd. | 1.0% | 7.1 years |
| Dollarama | 0.9% | 5.0 years |
| Bank of Nova Scotia | 0.9% | 4.0 years |
| Total | 64.4% | |

(1) Excludes Lawtons/Sobeys Pharmacy.

Crombie's portfolio is leased to a wide variety of tenants. Other than Sobeys which accounts for 49.1% of annual minimum rent and Shoppers Drug Mart which accounts for 5.9% of annual minimum rent, no other tenant accounts for more than 1.8% of Crombie's annual minimum rent.

**Lease Maturities**

The following table sets out as of June 30, 2014, the number of leases maturing during the periods indicated (assuming tenants do not holdover on a month-to-month basis or exercise renewal options or termination rights), the renewal area, the percentage of the total GLA of the properties represented by such maturities and the estimated average rent per square foot at the time of expiry.

| Year | Number of Leases | Renewal Area (sq. ft.) | % of Total GLA | Average Rent per sq. ft. at Expiry |
|---|---|---|---|---|
| Remainder of 2014 | 131 | 391,000 | 2.2% | $ 15.70 |
| 2015 | 183 | 794,000 | 4.5% | 13.97 |
| 2016 | 188 | 861,000 | 4.9% | 14.22 |
| 2017 | 182 | 863,000 | 4.9% | 17.96 |
| 2018 | 165 | 720,000 | 4.1% | 18.67 |
| Thereafter | 732 | 12,778,000 | 72.7% | 17.57 |
| Total | 1,581 | 16,407,000 | 93.3% | $ 17.25 |

The weighted average remaining term of all Crombie leases is approximately 12.0 years. This lengthy remaining lease term is influenced by the average Sobeys and Shoppers Drug Mart remaining lease terms of 15.4 years and 12.7 years, respectively.

During the six months ended June 30, 2014, Crombie's lease renewals were completed at an average rate of $17.32 per square foot; while new leasing activity was completed at an average rate of $15.26 per square foot. The lease renewal rate compares favourably with the average rent per square foot on full year 2014 lease maturities of $15.90 per square foot. The rate applicable to new leasing activity is impacted by a lower rate per square foot on space leased in office and for retail space in some secondary markets.

**2014 Portfolio Occupancy and Committed Activity**

The portfolio occupancy and committed activity for the six months ended June 30, 2014 were as follows:

| | Occupied space (sq. ft.) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Province | January 1, 2014 | Acquisitions (Dispositions) | New Leases[1] | Lease Expiries | Other Changes[2] | June 30, 2014 | Committed Space (sq. ft.)[3] | Total Leased Space (sq. ft.) | Leased June 30, 2014 |
| AB | 2,005,000 | — | — | — | — | 2,005,000 | 3,000 | 2,008,000 | 99.7% |
| BC | 1,275,000 | — | — | — | — | 1,275,000 | — | 1,275,000 | 100.0% |
| MB | 492,000 | — | — | — | — | 492,000 | — | 492,000 | 100.0% |
| NB | 1,477,000 | — | 22,000 | (26,000) | (22,000) | 1,451,000 | 33,000 | 1,484,000 | 85.4% |
| NL | 1,545,000 | — | — | (9,000) | (1,000) | 1,535,000 | 1,000 | 1,536,000 | 92.7% |
| NS | 4,888,000 | (18,000) | 79,000 | (56,000) | 6,000 | 4,899,000 | 41,000 | 4,940,000 | 89.4% |
| ON | 2,717,000 | 39,000 | 32,000 | (22,000) | (3,000) | 2,763,000 | 23,000 | 2,786,000 | 94.4% |
| PE | 194,000 | — | 37,000 | — | — | 231,000 | 3,000 | 234,000 | 90.7% |
| QC | 1,208,000 | — | 1,000 | (6,000) | 1,000 | 1,204,000 | — | 1,204,000 | 98.9% |
| SK | 439,000 | — | 9,000 | — | — | 448,000 | — | 448,000 | 98.7% |
| Total | 16,240,000 | 21,000 | 180,000 | (119,000) | (19,000) | 16,303,000 | 104,000 | 16,407,000 | 93.3% |

(1) New leases include: new leases and expansions to existing properties.
(2) Other changes include: amendments to existing leases; lease terminations and surrenders; bankruptcies; and space certifications.
(3) Committed space represents lease contracts for future occupancy of currently vacant space. Management believes such reporting, along with reported lease maturities, provides more balanced reporting of potential pending overall vacant space. Committed space decreased from 130,000 square feet at December 31, 2013 to 104,000 square feet at June 30, 2014.

Overall leased space (occupied plus committed) increased from 93.2% at December 31, 2013 to 93.3% at June 30, 2014. During the first half of the year, Crombie had a net increase from acquisitions and dispositions of 21,000 square feet of fully leased space; had leases exceed expiries by 61,000 square feet; and, had a reduction in committed space of 37,000 square feet related to the increase in new leases.

**SECTOR INFORMATION**

While Crombie does not distinguish or group its operations on a geographical or other basis, the following sector information is provided as supplemental disclosure.

As at June 30, 2014, the portfolio distribution of the GLA by asset type was as follows:

| Asset Type | Number of Properties | GLA (sq. ft.) | % of GLA | % of Annual Minimum Rent | Leased[1] |
|---|---|---|---|---|---|
| Retail Enclosed | 10 | 2,124,000 | 12.1% | 12.1% | 82.0% |
| Retail Freestanding | 119 | 4,584,000 | 26.1% | 29.6% | 100.0% |
| Retail Plazas | 107 | 7,965,000 | 45.3% | 46.8% | 94.6% |
| Portfolio sub-totals for retail | 236 | 14,673,000 | 83.5% | 88.5% | 94.4% |
| Mixed Use | 9 | 1,855,000 | 10.5% | 7.2% | 89.2% |
| Office | 5 | 1,059,000 | 6.0% | 4.3% | 84.5% |
| Total | 250 | 17,587,000 | 100.0% | 100.0% | 93.3% |

(1) For purposes of calculating leased percentage, Crombie considers GLA covered by head lease agreements as occupied.

As at June 30, 2013, the portfolio distribution of the GLA by asset type was as follows:

| Asset Type | Number of Properties | GLA (sq. ft.) | % of GLA | % of Annual Minimum Rent | Leased[1] |
|---|---|---|---|---|---|
| Retail Enclosed | 11 | 2,245,000 | 15.5% | 15.9% | 80.3% |
| Retail Freestanding | 66 | 2,456,000 | 16.9% | 18.5% | 100.0% |
| Retail Plazas | 85 | 6,883,000 | 47.5% | 49.9% | 93.9% |
| Portfolio sub-totals for retail | 162 | 11,584,000 | 79.9% | 84.3% | 92.5% |
| Mixed Use | 9 | 1,856,000 | 12.8% | 9.7% | 91.1% |
| Office | 5 | 1,053,000 | 7.3% | 6.0% | 84.7% |
| Total | 176 | 14,493,000 | 100.0% | 100.0% | 91.8% |

(1) For purposes of calculating leased percentage, Crombie considers GLA covered by head lease agreements as occupied.

Retail properties represent 83.5% of Crombie's GLA and 88.5% of annual minimum rent at June 30, 2014 compared to 79.9% of GLA and 84.3% of annual minimum rent at June 30, 2013 reflecting Crombie's strategy to focus growth primarily on retail properties including the impact of a 70 property acquisition during the fourth quarter of 2013.

Leased space in retail properties of 94.4% at June 30, 2014, has remained stable from 92.5% at June 30, 2013.

The following table sets out as of June 30, 2014, the square feet under lease subject to lease maturities during the periods indicated.

| Year | Retail Enclosed | | Retail Freestanding | | Retail Plazas | |
|---|---|---|---|---|---|---|
| | (sq. ft.) | (%) | (sq. ft.) | (%) | (sq. ft.) | (%) |
| 2014 | 91,000 | 4.3% | — | 0.0% | 160,000 | 2.0% |
| 2015 | 118,000 | 5.5% | 5,000 | 0.1% | 298,000 | 3.8% |
| 2016 | 192,000 | 9.0% | 3,000 | 0.1% | 416,000 | 5.2% |
| 2017 | 264,000 | 12.4% | 5,000 | 0.1% | 287,000 | 3.6% |
| 2018 | 148,000 | 7.0% | 10,000 | 0.2% | 426,000 | 5.4% |
| Thereafter | 928,000 | 43.8% | 4,561,000 | 99.5% | 5,945,000 | 74.6% |
| Total | 1,741,000 | 82.0% | 4,584,000 | 100.0% | 7,532,000 | 94.6% |

| Year | Mixed Use | | Office | | Total | |
|---|---|---|---|---|---|---|
| | (sq. ft.) | (%) | (sq. ft.) | (%) | (sq. ft.) | (%) |
| 2014 | 96,000 | 5.2% | 44,000 | 4.2% | 391,000 | 2.2% |
| 2015 | 304,000 | 16.4% | 69,000 | 6.5% | 794,000 | 4.5% |
| 2016 | 181,000 | 9.8% | 69,000 | 6.5% | 861,000 | 4.9% |
| 2017 | 173,000 | 9.3% | 134,000 | 12.6% | 863,000 | 4.9% |
| 2018 | 81,000 | 4.3% | 55,000 | 5.2% | 720,000 | 4.1% |
| Thereafter | 820,000 | 44.2% | 524,000 | 49.5% | 12,778,000 | 72.7% |
| Total | 1,655,000 | 89.2% | 895,000 | 84.5% | 16,407,000 | 93.3% |

Of the 13,857,000 square feet of retail properties under lease, 11,434,000 square feet, or 82.5% is scheduled for maturity after 2018. This long-term stability in lease maturities is primarily driven by the longer term nature of the Sobeys and Shoppers Drug Mart leases.

In the office and mixed use properties, lease maturities after 2018 represents 52.7% of the leased square footage for these sectors.

The following table sets out the average rent per square foot expiring during the periods indicated:

| Year | Retail Enclosed | Retail Freestanding | Retail Plazas | Mixed Use | Office | Total |
|---|---|---|---|---|---|---|
| 2014 | $ 21.99 | $ — | $ 15.35 | $ 11.70 | $ 12.69 | $ 15.70 |
| 2015 | $ 24.47 | $ 16.47 | $ 15.07 | $ 9.45 | $ 12.07 | $ 13.97 |
| 2016 | $ 17.98 | $ 29.00 | $ 15.29 | $ 7.88 | $ 13.20 | $ 14.22 |
| 2017 | $ 18.57 | $ 26.00 | $ 19.76 | $ 13.38 | $ 18.53 | $ 17.96 |
| 2018 | $ 24.03 | $ 15.45 | $ 18.38 | $ 14.48 | $ 13.17 | $ 18.67 |
| Thereafter | $ 16.92 | $ 19.37 | $ 17.47 | $ 12.78 | $ 11.66 | $ 17.57 |
| June 30, 2014 Total | $ 18.66 | $ 19.37 | $ 17.35 | $ 11.72 | $ 12.98 | $ 17.25 |
| June 30, 2013 Total | $ 17.79 | $ 15.68 | $ 15.85 | $ 11.66 | $ 13.04 | $ 15.36 |
| December 31, 2013 Total | $ 18.46 | $ 19.31 | $ 17.23 | $ 11.66 | $ 13.06 | $ 17.16 |

**FINANCIAL RESULTS**

**Comparison to Previous Year**

| *(In thousands of CAD dollars, except per unit amounts and as otherwise noted)* | As At | | |
|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
| Total assets | $ 3,354,557 | $ 3,345,165 | $ 2,327,688 |
| Total investment property debt and unsecured debt | $ 1,994,218 | $ 2,043,066 | $ 1,387,327 |
| Debt to gross book value - fair value basis[(1)] | 51.6% | 53.0% | 49.6% |

(1) See "Debt to Gross Book Value – Fair Value Basis" for detailed calculation.

| *(In thousands of CAD dollars, except per unit amounts and as otherwise noted)* | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| Property revenue | $ 89,008 | $ 71,270 | $ 17,738 | $179,921 | $141,852 | $ 38,069 |
| Property operating expenses | 27,409 | 25,696 | (1,713) | 56,963 | 52,514 | (4,449) |
| Property NOI | 61,599 | 45,574 | 16,025 | 122,958 | 89,338 | 33,620 |
| NOI margin percentage | 69.2% | 63.9% | 5.3% | 68.3% | 63.0% | 5.3% |
| Other items: | | | | | | |
| Gain (loss) on derecognition of investment properties | (3) | 6 | (9) | (160) | 436 | (596) |
| Depreciation and amortization | (15,943) | (11,985) | (3,958) | (32,468) | (23,107) | (9,361) |
| General and administrative expenses | (4,083) | (3,366) | (717) | (7,839) | (6,572) | (1,267) |
| Operating income before finance costs and taxes | 41,570 | 30,229 | 11,341 | 82,491 | 60,095 | 22,396 |
| Finance costs – operations | (25,070) | (17,648) | (7,422) | (50,316) | (34,455) | (15,861) |
| Operating income before taxes | 16,500 | 12,581 | 3,919 | 32,175 | 25,640 | 6,535 |
| Taxes – deferred | 500 | — | 500 | 725 | (100) | 825 |
| Operating income attributable to Unitholders | 17,000 | 12,581 | 4,419 | 32,900 | 25,540 | 7,360 |
| Finance costs – distributions to Unitholders | (28,480) | (20,480) | (8,000) | (55,835) | (40,918) | (14,917) |
| Finance income (costs) – change in fair value of financial instruments | 130 | 1,585 | (1,455) | 185 | 2,202 | (2,017) |
| Decrease in net assets attributable to Unitholders | $(11,350) | $ (6,314) | $ (5,036) | $ (22,750) | $ (13,176) | $ (9,574) |
| Operating income attributable to Unitholders per Unit, Basic | $ 0.14 | $ 0.14 | | $ 0.27 | $ 0.28 | |
| Operating income attributable to Unitholders per Unit, Diluted | $ 0.14 | $ 0.14 | | $ 0.26 | $ 0.28 | |
| Basic weighted average Units outstanding (in 000's) | 125,427 | 91,821 | | 124,082 | 91,725 | |
| Diluted weighted average Units outstanding (in 000's) | 125,614 | 92,010 | | 124,267 | 91,913 | |
| Distributions per Unit to Unitholders | $ 0.22 | $ 0.22 | | $ 0.45 | $ 0.45 | |

Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's consolidated financial presentation.

Operating Results

Operating income attributable to Unitholders for the three months ended June 30, 2014 of $17,000 increased by $4,419 or 35.1% from $12,581 for the three months ended June 30, 2013. The increase was primarily due to:

- higher property revenue primarily from acquisitions, including the 70 property portfolio acquisition completed in the fourth quarter of 2013; and
- higher property NOI resulting from increased average rental rates, improved expense recovery rates and the impact of property acquisitions during the fourth quarter of 2013 wherein the tenant is directly responsible for all property operating expenses.

Offset in part by:

- higher depreciation and amortization expense and finance costs in 2014 primarily related to property acquisitions; and
- higher general and administrative expenses including costs associated with hiring of additional staff related to continued growth.

Operating income attributable to Unitholders for the six months ended June 30, 2014 of $32,900 increased by $7,360 or 28.8% from the six months ended June 30, 2013. The increase was primarily due to the factors noted above.

**Property Revenue and Property Operating Expenses**

Same-asset properties are properties owned and operated by Crombie throughout the current and comparative reporting periods, excluding any property that is classified as held for sale or that was designated for development during either the current or comparative period.

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| Same-asset property revenue | $ 62,209 | $ 61,224 | $ 985 | $ 126,932 | $ 123,513 | $ 3,419 |
| Acquisitions, dispositions and development property revenue | 26,799 | 10,046 | 16,753 | 52,989 | 18,339 | 34,650 |
| Property revenue | $ 89,008 | $ 71,270 | $ 17,738 | $ 179,921 | $ 141,852 | $ 38,069 |

Same-asset property revenue of $62,209 for the three months ended June 30, 2014 was 1.6% higher than the three months ended June 30, 2013 due to increased recoveries as a result of higher recoverable property expenses. Acquisitions, dispositions and development property revenue growth of $16,753 is primarily due to higher acquisition activity throughout 2013.

For the six months ended June 30, 2014 same-asset property revenue increased $3,419 or 2.8% due to increased base rent driven by lease renewal activity, land use intensifications at several properties and increased recoveries as a result of higher recoverable property expenses. Acquisitions, dispositions and development property revenue increased $34,650 compared to the same period in 2013 primarily due to the higher 2013 acquisition activity noted above.

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| Same-asset property operating expenses | $ 22,534 | $ 21,198 | $ 1,336 | $ 47,083 | $ 43,807 | $ 3,276 |
| Acquisitions, dispositions and development property operating expenses | 4,875 | 4,498 | 377 | 9,880 | 8,707 | 1,173 |
| Property operating expenses | $ 27,409 | $ 25,696 | $ 1,713 | $ 56,963 | $ 52,514 | $ 4,449 |

Same-asset property expenses for the three months ended June 30, 2014 increased by $1,336 or 6.3% over the three months ended June 30, 2013 and increased by $3,276 or 7.5% for the six months ended June 30, 2014 as compared to the same period in 2013 due primarily to higher recoverable property expenses; primarily property taxes.

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| Same-asset property NOI | $ 39,675 | $ 40,026 | $ (351) | $ 79,849 | $ 79,706 | $ 143 |
| Acquisitions, dispositions and development property NOI | 21,924 | 5,548 | 16,376 | 43,109 | 9,632 | 33,477 |
| Property NOI | $ 61,599 | $ 45,574 | $ 16,025 | $ 122,958 | $ 89,338 | $ 33,620 |

Property NOI is calculated as property revenue less property operating expenses. Property NOI for the three months ended June 30, 2014 increased by $16,025 or 35.2% from the three months ended June 30, 2013 due primarily to acquisitions and completed development activity during the fourth quarter of 2013.

Property NOI for the six months ended June 30, 2014 increased by $33,620 or 37.6% from the six months ended June 30, 2013 primarily due to the same factors noted above.

Property NOI on a cash basis is as follows:

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| Property NOI | $ 61,599 | $ 45,574 | $ 16,025 | $ 122,958 | $ 89,338 | $ 33,620 |
| Non-cash straight-line rent | (2,706) | (1,208) | (1,498) | (5,460) | (2,567) | (2,893) |
| Non-cash tenant incentive amortization | 2,390 | 1,930 | 460 | 4,527 | 3,900 | 627 |
| Property cash NOI | 61,283 | 46,296 | 14,987 | 122,025 | 90,671 | 31,354 |
| Acquisitions, dispositions and development property cash NOI | 20,161 | 5,691 | 14,470 | 39,702 | 9,866 | 29,836 |
| Same-asset property cash NOI | $ 41,122 | $ 40,605 | $ 517 | $ 82,323 | $ 80,805 | $ 1,518 |

Property NOI, on a cash basis, excludes non-cash straight-line rent recognition and amortization of tenant incentive amounts. The $517 or 1.3% increase in same-asset cash NOI for the three months ended June 30, 2014 over the same period in 2013 is primarily the result of increased average rent per square foot from leasing activity and rental rate increases in existing leases as well as improved recovery rates and revenues from land use intensifications at several properties. Acquisitions, dispositions and development property cash NOI increased $14,470 for the three months ended June 30, 2014 over the same period in 2013 primarily due to acquisitions and development activity completed during the fourth quarter of 2013.

For the six months ended June 30, 2014 same-asset cash NOI increased by $1,518 or 1.9% and acquisitions, dispositions and development property cash NOI increased by $29,836 from the same period in 2013 primarily due to the factors noted above.

Management emphasizes property NOI on a cash basis as it reflects the cash generated by the properties period-over-period.

Same-asset property cash NOI is as follows:

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | Percent | 2014 | 2013 | Variance | Percent |
| Retail Enclosed | $ 6,075 | $ 5,985 | $ 90 | 1.5% | $ 12,567 | $ 12,046 | $ 521 | 4.3% |
| Retail Freestanding | 8,487 | 8,183 | 304 | 3.7% | 17,020 | 16,364 | 656 | 4.0% |
| Retail Plaza | 20,492 | 20,086 | 406 | 2.0% | 40,537 | 39,968 | 569 | 1.4% |
| Retail total | 35,054 | 34,254 | 800 | 2.3% | 70,124 | 68,378 | 1,746 | 2.6% |
| Mixed Use | 3,341 | 3,243 | 98 | 3.0% | 6,496 | 6,409 | 87 | 1.4% |
| Office | 2,727 | 3,108 | (381) | (12.3)% | 5,703 | 6,018 | (315) | (5.2)% |
| Same-asset property cash NOI | $ 41,122 | $ 40,605 | $ 517 | 1.3% | $ 82,323 | $ 80,805 | $ 1,518 | 1.9% |

Same-asset property cash NOI in the office sector for the three months ended June 30, 2014 decreased $381 or 12.3% compared to the same period in 2013 as a result of lease expiries resulting in lower rental revenues and related recoveries.

Acquisitions, dispositions and development property cash NOI is as follows:

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| Acquisitions and dispositions property cash NOI | $ 18,956 | $ 4,912 | $ 14,044 | $ 36,954 | $ 6,838 | $ 30,116 |
| Development property cash NOI | 1,205 | 779 | 426 | 2,748 | 3,028 | (280) |
| Total acquisitions, dispositions and development property cash NOI | $ 20,161 | $ 5,691 | $ 14,470 | $ 39,702 | $ 9,866 | $ 29,836 |

The significant growth in acquisitions and dispositions property cash NOI reflects the level of property acquisitions throughout 2013, primarily in the fourth quarter of 2013.

Change in cash NOI from development properties period-over-period is impacted by the timing of commencement and completion of each development project. The nature and extent of development projects results in operations being impacted minimally in some instances and a significant disruption in others. Consequently, comparison of period-over-period development operating results may not be meaningful. For the three months ended June 30, 2014, leasing activity at development properties delivered improved property cash NOI results.

Crombie undertakes development of properties to position them for long-term sustainability and growth in cash NOI resulting in improvement in value.

Property NOI for the three months ended June 30, 2014 by province was as follows:

| | 2014 | | | 2013 | |
|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | Property Revenue | Property Expenses | Property NOI | Property NOI | Variance |
| AB | $ 12,666 | $ 1,169 | $ 11,497 | $ 3,969 | $ 7,528 |
| BC | 6,085 | — | 6,085 | — | 6,085 |
| MB | 2,396 | 3 | 2,393 | 159 | 2,234 |
| NB | 6,719 | 3,082 | 3,637 | 3,999 | (362) |
| NL | 10,259 | 3,809 | 6,450 | 6,477 | (27) |
| NS | 25,708 | 11,908 | 13,800 | 14,498 | (698) |
| ON | 15,805 | 4,913 | 10,892 | 10,932 | (40) |
| PE | 1,070 | 351 | 719 | 578 | 141 |
| QC | 6,171 | 1,850 | 4,321 | 4,119 | 202 |
| SK | 2,129 | 324 | 1,805 | 843 | 962 |
| Total | $ 89,008 | $ 27,409 | $ 61,599 | $ 45,574 | $ 16,025 |

The variances in property NOI for the three months ended June 30, 2014 compared to the same period in 2013 primarily relate to:

- Property acquisitions during 2013, in particular the acquisition of 70 properties in Western Canada during the fourth quarter of 2013 which significantly impacted property NOI in the four western provinces;
- Property dispositions during 2013 and 2014 in New Brunswick and Nova Scotia;
- Ongoing status of various development properties in New Brunswick, Nova Scotia and Prince Edward Island;
- Land use intensification projects; and
- Increased base rent due to lease renewal activity.

Property NOI for the six months ended June 30, 2014 by province was as follows:

| | 2014 | | | 2013 | |
|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | Property Revenue | Property Expenses | Property NOI | Property NOI | Variance |
| AB | $ 25,579 | $ 2,679 | $ 22,900 | $ 6,724 | $ 16,176 |
| BC | 12,170 | — | 12,170 | — | 12,170 |
| MB | 4,791 | 7 | 4,784 | 323 | 4,461 |
| NB | 13,424 | 6,249 | 7,175 | 7,801 | (626) |
| NL | 21,581 | 8,209 | 13,372 | 13,014 | 358 |
| NS | 51,623 | 24,301 | 27,322 | 28,532 | (1,210) |
| ON | 31,837 | 10,048 | 21,789 | 21,717 | 72 |
| PE | 1,941 | 750 | 1,191 | 1,298 | (107) |
| QC | 12,643 | 3,931 | 8,712 | 8,168 | 544 |
| SK | 4,332 | 789 | 3,543 | 1,761 | 1,782 |
| Total | $ 179,921 | $ 56,963 | $ 122,958 | $ 89,338 | $ 33,620 |

The variances in property NOI from 2013 to 2014 primarily relate to the factors noted above.

**Depreciation and Amortization**

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| Same-asset depreciation and amortization | $ 9,708 | $ 10,274 | $ 566 | $ 19,694 | $ 20,463 | $ 769 |
| Acquisitions, dispositions and development depreciation/amortization | 6,235 | 1,711 | (4,524) | 12,774 | 2,644 | (10,130) |
| Depreciation and amortization | $ 15,943 | $ 11,985 | $ (3,958) | $ 32,468 | $ 23,107 | $ (9,361) |

Depreciation and amortization increased by $3,958 for the three months ended June 30, 2014 and $9,361 for the six months ended June 30, 2014 compared to the same periods in 2013. The increase in depreciation is primarily related to Crombie's increased acquisition and development activity in the fourth quarter of 2013.

Depreciation and amortization consists of:

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| Depreciation of investment properties | $ 14,567 | $ 9,958 | $ (4,609) | $ 29,015 | $ 19,240 | $ (9,775) |
| Amortization of intangible assets | 1,229 | 1,885 | 656 | 3,175 | 3,589 | 414 |
| Amortization of deferred leasing costs | 147 | 142 | (5) | 278 | 278 | — |
| Depreciation and amortization | $ 15,943 | $ 11,985 | $ (3,958) | $ 32,468 | $ 23,107 | $ (9,361) |

Crombie's total fair value of investment properties exceeds carrying value by $558,873 at June 30, 2014 (June 30, 2013 - $523,543). Crombie uses the cost method for accounting for investment properties, and such change in fair value over carrying value is not recognized until realized through disposition or derecognition of properties, while impairment, if any, is recognized on a property by property basis when circumstances indicate that fair value is less than carrying value.

**General and Administrative Expenses**

The following table outlines the major categories of general and administrative expenses:

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| Salaries and benefits | $ 2,347 | $ 1,623 | $ (724) | $ 4,751 | $ 3,372 | $ (1,379) |
| Professional fees | 518 | 588 | 70 | 804 | 960 | 156 |
| Public company costs | 594 | 377 | (217) | 989 | 801 | (188) |
| Rent and occupancy | 199 | 206 | 7 | 515 | 488 | (27) |
| Other | 425 | 572 | 147 | 780 | 951 | 171 |
| General and administrative expenses | $ 4,083 | $ 3,366 | $ (717) | $ 7,839 | $ 6,572 | $ (1,267) |
| As a percentage of property revenue | 4.6% | 4.7% | 0.1% | 4.4% | 4.6% | 0.2% |

General and administrative expenses, as a percentage of property revenue, decreased by 0.1% for the three months ended June 30, 2014 compared to the same period in 2013 with expenses increasing $717 or 21.3% and property revenue increasing 24.9%. For the six months ended June 30, 2014 general and administrative expenses, as a percentage of property revenue, decreased by 0.2% compared to the six months ended June 30, 2013 with expenses increasing $1,267 or 19.3% and property revenue increasing by 26.8%. Salaries and benefits increased due to the hiring of additional staff related to continued growth as well as higher incentive payments.

**Finance Costs - Operations**

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| Same-asset finance costs | $ 13,205 | $ 14,171 | $ 966 | $ 26,733 | $ 28,205 | $ 1,472 |
| Acquisitions, dispositions and development finance costs | 10,321 | 1,906 | (8,415) | 20,436 | 3,226 | (17,210) |
| Amortization of effective swaps and deferred financing charges | 1,544 | 1,571 | 27 | 3,147 | 3,124 | (23) |
| Finance costs – operations | $ 25,070 | $ 17,648 | $ (7,422) | $ 50,316 | $ 34,555 | $ (15,761) |

Same-asset finance costs for the three months and six months ended June 30, 2014 decreased compared to the same periods in 2013 primarily due to lower interest rates on refinancing of maturing debt.

Acquisitions, dispositions and development finance costs for the three months and six months ended June 30, 2014 increased by $8,415 and $17,210 respectively compared to the same periods in 2013 primarily due to the significant acquisition activity during the fourth quarter of 2013. Development finance costs are impacted by the timing of the commencement and completion of development projects.

**Income Taxes**

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 that would otherwise apply to trusts classified as specified investment flow-through entities (“SIFTs”).

Crombie has organized its assets and operations to satisfy the criteria contained in the Income Tax Act (Canada) in regard to the definition of a REIT. Crombie’s management and its advisors have completed an extensive review of Crombie’s organizational structure and operations to support Crombie’s assertion that it met the REIT criteria throughout 2013 and continues to do so. 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 tax liability of $80,100 represents the future tax provision for Crombie’s wholly-owned corporate subsidiaries which are subject to corporate income taxes.

**SECTOR INFORMATION**

While Crombie does not distinguish or group its operations on a geographical or other basis, Crombie provides the following sector information as supplemental disclosure.

Non-cash adjustments in the tables below remove the impact of non-cash straight-line rent and amortization of tenant incentive amounts.

**Retail Enclosed Properties**

| | Three months ended June 30, 2014 | | | Three months ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars, except as otherwise noted)* | Same-asset | Acquisitions, Dispositions & Developments | Total | Same-asset | Acquisitions, Dispositions & Developments | Total |
| Property NOI | $ 5,690 | $ 779 | $ 6,469 | $ 5,786 | $ 979 | $ 6,765 |
| Non-cash adjustments | 385 | 33 | 418 | 199 | 163 | 362 |
| Property Cash NOI | $ 6,075 | $ 812 | $ 6,887 | $ 5,985 | $ 1,142 | $ 7,127 |
| NOI Margin % | 59.6% | 40.9% | 56.5% | 60.6% | 43.9% | 57.5% |
| Actual occupancy % | 89.8% | 64.8% | 81.2% | 90.3% | 60.4% | 79.0% |

Same-asset property cash NOI increased $90 or 1.5% over 2013 primarily due to increased rental rates offset in part by slightly lower occupancy rates which decreased the NOI Margin %. Acquisitions, dispositions and development cash NOI results decreased primarily due a property disposition in the fourth quarter of 2013 as well the early termination of a Zellers lease in New Minas, Nova Scotia.

| | Six months ended June 30, 2014 | | | Six months ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars, except as otherwise noted)* | Same-asset | Acquisitions, Dispositions & Developments | Total | Same-asset | Acquisitions, Dispositions & Developments | Total |
| Property NOI | $ 11,835 | $ 1,402 | $ 13,237 | $ 11,464 | $ 2,336 | $ 13,800 |
| Non-cash adjustments | 732 | 85 | 817 | 582 | 177 | 759 |
| Property Cash NOI | $ 12,567 | $ 1,487 | $ 14,054 | $ 12,046 | $ 2,513 | $ 14,559 |
| NOI Margin % | 59.3% | 38.3% | 56.0% | 59.7% | 48.1% | 57.4% |
| Actual occupancy % | 89.8% | 64.8% | 81.2% | 90.3% | 60.4% | 79.0% |

Same-asset property cash NOI increased $521 or 4.3% primarily due to rental rate increases, higher miscellaneous rents, and land use intensification development. Acquisitions, dispositions and development cash NOI results decreased primarily due to the factors noted above.

**Retail Freestanding Properties**

| | Three months ended June 30, 2014 | | | Three months ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars, except as otherwise noted)* | Same-asset | Acquisitions, Dispositions & Developments | Total | Same-asset | Acquisitions, Dispositions & Developments | Total |
| Property NOI | $ 8,700 | $ 11,189 | $ 19,889 | $ 8,584 | $ 257 | $ 8,841 |
| Non-cash adjustments | (213) | (1,231) | (1,444) | (401) | (20) | (421) |
| Property Cash NOI | $ 8,487 | $ 9,958 | $ 18,445 | $ 8,183 | $ 237 | $ 8,420 |
| NOI Margin % | 80.8% | 98.9% | 90.1% | 81.6% | 100.0% | 82.1% |
| Actual occupancy % | 100.0% | 100.0% | 100.0% | 99.9% | 100.0% | 99.9% |

Same-asset property cash NOI increased $304 or 3.7% primarily due to step rent increases in several Sobeys leases during the second quarter of 2013. Same-asset NOI Margin % decreased as a result of higher recoverable and non-recoverable property operating expenses. Acquisitions, dispositions and redevelopment results increased significantly from 2013 primarily due to the acquisition of 54 freestanding properties in 2013.

| (In thousands of CAD dollars, except as otherwise noted) | Six months ended June 30, 2014 | | | Six months ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Same-asset | Acquisitions, Dispositions & Developments | Total | Same-asset | Acquisitions, Dispositions & Developments | Total |
| Property NOI | $ 17,464 | $ 22,378 | $ 39,842 | $ 17,227 | $ 270 | $ 17,497 |
| Non-cash adjustments | (444) | (2,461) | (2,905) | (863) | (20) | (883) |
| Property Cash NOI | $ 17,020 | $ 19,917 | $ 36,937 | $ 16,364 | $ 250 | $ 16,614 |
| NOI Margin % | 80.0% | 99.4% | 89.9% | 81.3% | 100.0% | 81.5% |
| Actual occupancy % | 100.0% | 100.0% | 100.0% | 99.9% | 100.0% | 99.9% |

Same-asset property cash NOI increased $656 or 4.0% and acquisitions, dispositions and development property cash NOI increased $19,667 for the six months ended June 30, 2014 compared to the same period in 2013 primarily due to factors noted above.

**Retail Plaza Properties**

| (In thousands of CAD dollars, except as otherwise noted) | Three months ended June 30, 2014 | | | Three months ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Same-asset | Acquisitions, Dispositions & Developments | Total | Same-asset | Acquisitions, Dispositions & Developments | Total |
| Property NOI | $ 19,999 | $ 8,935 | $ 28,934 | $ 20,103 | $ 2,972 | $ 23,075 |
| Non-cash adjustments | 493 | (666) | (173) | (17) | (155) | (172) |
| Property Cash NOI | $ 20,492 | $ 8,269 | $ 28,761 | $ 20,086 | $ 2,817 | $ 22,903 |
| NOI Margin % | 65.8% | 85.3% | 70.8% | 67.4% | 68.9% | 67.6% |
| Actual occupancy % | 94.2% | 93.8% | 94.1% | 94.5% | 84.6% | 93.3% |

Same-asset property cash NOI increased $406 or 2.0% over 2013 as a result of increased rental rates offset in part by higher non-recoverable costs. Acquisitions, dispositions and development results increases significantly from 2013 primarily due to the acquisition completed in the fourth quarter of 2013.

| (In thousands of CAD dollars, except as otherwise noted) | Six months ended June 30, 2014 | | | Six months ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Same-asset | Acquisitions, Dispositions & Developments | Total | Same-asset | Acquisitions, Dispositions & Developments | Total |
| Property NOI | $ 39,844 | $ 17,720 | $ 57,564 | $ 40,073 | $ 4,485 | $ 44,558 |
| Non-cash adjustments | 693 | (1,313) | (620) | (105) | (239) | (344) |
| Property Cash NOI | $ 40,537 | $ 16,407 | $ 56,944 | $ 39,968 | $ 4,246 | $ 44,214 |
| NOI Margin % | 64.5% | 85.7% | 69.3% | 67.0% | 74.2% | 65.8% |
| Actual occupancy % | 94.2% | 93.8% | 94.1% | 94.5% | 84.6% | 93.3% |

Same-asset property cash NOI increased $569 or 1.4% as a result of increased rental rates offset in part by higher non-recoverable costs. Acquisitions, dispositions and development results increased primarily due to the factors noted above.

**Mixed Use Properties**

| (In thousands of CAD dollars, except as otherwise noted) | Three months ended June 30, 2014 | | | Three months ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Same-asset | Acquisitions, Dispositions & Developments | Total | Same-asset | Acquisitions, Dispositions & Developments | Total |
| Property NOI | $ 3,131 | $ 1,314 | $ 4,445 | $ 3,046 | $ 1,529 | $ 4,575 |
| Non-cash adjustments | 210 | 77 | 287 | 197 | 130 | 327 |
| Property Cash NOI | $ 3,341 | $ 1,391 | $ 4,732 | $ 3,243 | $ 1,659 | $ 4,902 |
| NOI Margin % | 47.4% | 41.0% | 45.4% | 46.4% | 49.1% | 47.2% |
| Actual occupancy % | 89.0% | 89.3% | 89.1% | 89.7% | 87.6% | 88.9% |

Same-asset property cash NOI increased $98 or 3.0% attributed mainly to higher guaranteed rentals and improved recoveries. Acquisitions, dispositions and development property cash NOI decreased by $268, or 16.2% compared to the same period in 2013 due to temporary vacancies during the period.

| (In thousands of CAD dollars, except as otherwise noted) | Six months ended June 30, 2014 | | | Six months ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Same-asset | Acquisitions, Dispositions & Developments | Total | Same-asset | Acquisitions, Dispositions & Developments | Total |
| Property NOI | $ 6,185 | $ 2,147 | $ 8,332 | $ 6,107 | $ 2,883 | $ 8,990 |
| Non-cash adjustments | 311 | 239 | 550 | 302 | 259 | 561 |
| Property Cash NOI | $ 6,496 | $ 2,386 | $ 8,882 | $ 6,409 | $ 3,142 | $ 9,551 |
| NOI Margin % | 46.1% | 37.7% | 43.7% | 46.9% | 48.2% | 47.3% |
| Actual occupancy % | 89.0% | 89.3% | 89.1% | 89.7% | 87.6% | 88.9% |

Same-asset property cash NOI increased $87 or 1.4% and acquisitions, dispositions and development property cash NOI decreased by $756, or 24.1% compared to the same period in 2013 primarily due to the factors noted above.

**Office Properties**

| *(In thousands of CAD dollars, except as otherwise noted)* | Three months ended June 30, 2014 | | | Three months ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Same-asset | Acquisitions, Dispositions & Developments | Total | Same-asset | Acquisitions, Dispositions & Developments | Total |
| Property NOI | $ 2,155 | $ (293 ) | $ 1,862 | $ 2,507 | $ (189 ) | $ 2,318 |
| Non-cash adjustments | 572 | 24 | 596 | 601 | 25 | 626 |
| Property Cash NOI | $ 2,727 | $ (269 ) | $ 2,458 | $ 3,108 | $ (164) | $ 2,944 |
| NOI Margin % | 43.8% | (110.7)% | 35.9% | 44.9% | (64.2)% | 39.0% |
| Actual occupancy % | 91.6% | 32.0 % | 80.0% | 93.9% | 39.7 % | 83.5% |

Same-asset property cash NOI decreased $381 or 12.3% attributed to lower occupancy from lease expiries and related lower recoveries. Acquisitions, dispositions and development property cash NOI decreased by $105, or 64.0% compared to the same period in 2013 due primarily to low occupancy and related non-recoverable property operating expenses on the recently completed development of 1234 Main Street in Moncton, New Brunswick.

| *(In thousands of CAD dollars, except as otherwise noted)* | Six months ended June 30, 2014 | | | Six months ended June 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Same-asset | Acquisitions, Dispositions & Developments | Total | Same-asset | Acquisitions, Dispositions & Developments | Total |
| Property NOI | $ 4,521 | $ (538 ) | $ 3,983 | $ 4,835 | $ (342 ) | $ 4,493 |
| Non-cash adjustments | 1,182 | 43 | 1,225 | 1,183 | 57 | 1,240 |
| Property Cash NOI | $ 5,703 | $ (495 ) | $ 5,208 | $ 6,018 | $ (285) | $ 5,733 |
| NOI Margin % | 43.9% | (88.5)% | 36.5% | 46.4% | (56.4)% | 40.6% |
| Actual occupancy % | 91.6% | 32.0 % | 80.0% | 93.9% | 39.7 % | 83.5% |

Same-asset property cash NOI decreased $315 or 5.2% and acquisitions, dispositions and development Property Cash NOI decreased by $210, or 73.7% compared to the same period in 2013 due to the occupancy factors noted above.

**OTHER 2014 PERFORMANCE MEASURES**

**Per Unit Measures**

In order to provide a comparative measure of operating results on a per unit basis, Crombie is providing the following non-GAAP measures:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(In thousands of CAD dollars, except as otherwise noted)* | 2014 | 2013 | 2014 | 2013 |
| Operating income attributable to Unitholders | $ 17,000 | $ 12,581 | $ 32,900 | $ 25,540 |
| Operating income attributable to Unitholders per unit – Basic | $ 0.14 | $ 0.14 | $ 0.27 | $ 0.28 |
| Operating income attributable to Unitholders per unit – Diluted | $ 0.14 | $ 0.14 | $ 0.26 | $ 0.28 |
| FFO – Basic | $ 34,836 | $ 26,490 | $ 69,330 | $ 52,211 |
| FFO – Diluted | $ 37,221 | $ 28,151 | $ 73,368 | $ 55,530 |
| FFO per Unit – Basic | $ 0.28 | $ 0.29 | $ 0.56 | $ 0.57 |
| FFO per Unit – Diluted | $ 0.27 | $ 0.28 | $ 0.55 | $ 0.56 |
| AFFO – Basic | $ 28,972 | $ 22,433 | $ 57,741 | $ 44,039 |
| AFFO – Diluted | $ 30,610 | $ 23,346 | $ 60,288 | $ 45,867 |
| AFFO per Unit – Basic | $ 0.23 | $ 0.24 | $ 0.47 | $ 0.48 |
| AFFO per Unit – Diluted | $ 0.23 | $ 0.24 | $ 0.46 | $ 0.48 |

Operating income attributable to Unitholders is determined before finance costs associated with distributions to Unitholders and change in fair value of financial instruments.

The diluted FFO and AFFO are calculated by adding back the finance costs on any convertible debenture series that is dilutive for the reporting period for that specific calculation.

Weighted average number of Units outstanding for per unit measures calculations:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Basic number of Units for all measures | 125,426,991 | 91,820,838 | 124,082,270 | 91,725,319 |
| Diluted for operating income attributable to Unitholders purposes | 125,613,523 | 92,010,405 | 124,267,229 | 91,913,130 |
| Diluted for FFO purposes | 135,912,952 | 99,321,213 | 133,044,502 | 99,420,501 |
| Diluted for AFFO purposes | 132,927,877 | 96,336,138 | 130,059,427 | 96,435,426 |

The diluted weighted average number of Units outstanding does not include the impact of any series of convertible debentures that would be anti-dilutive for that calculation. For operating income attributable to Unitholders, all series of convertible debentures are anti-dilutive. For FFO purposes, all series of convertible debentures are dilutive. For AFFO purposes, all series of convertible debentures are dilutive excluding Series D Debentures.

Pursuant to CSA Staff Notice 52-306 “(Revised) Non-GAAP Financial Measures”, non-GAAP measures should be reconciled to the most directly comparable GAAP measure, which, in the case of Operating income attributable to Unitholders, is Decrease in net assets attributable to Unitholders from the Statement of Comprehensive Income (Loss). The reconciliation is as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | 2014 | 2013 |
| Operating income attributable to Unitholders | $ 17,000 | $ 12,581 | $ 32,900 | $ 25,540 |
| Finance costs – distributions to Unitholders | (28,480) | (20,480) | (55,835) | (40,918) |
| Finance income (costs) – change in fair value of financial instruments | 130 | 1,585 | 185 | 2,202 |
| Decrease in net assets attributable to Unitholders | $ (11,350) | $ (6,314) | $ (22,750) | $ (13,176) |

**FFO AND AFFO**

FFO and AFFO are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. As such, these non-GAAP financial measures should not be considered as an alternative to cash provided by operating activities or any other measure prescribed under IFRS. FFO represents a supplemental non-GAAP industry-wide financial measure of a real estate organization's operating performance. AFFO is presented in this MD&A because management believes this non-GAAP measure is relevant to the ability of Crombie to earn and distribute returns to Unitholders. FFO and AFFO as computed by Crombie may differ from similar computations as reported by other REIT's and, accordingly, may not be comparable to other such issuers.

**Funds from Operations (FFO)**

Crombie follows the recommendations of the Real Property Association of Canada ("REALpac") in calculating FFO and defines FFO as increase (decrease) in net assets attributable to Unitholders (computed in accordance with IFRS), adjusted for the following applicable amounts:

- Gain or loss on derecognition of investment properties and related tax ;
- Impairment charges and recoveries;
- Depreciation and amortization expense, including amortization of tenant incentives charged against property revenue;
- Deferred taxes;
- Finance costs - distributions on Crombie's REIT and Class B LP Units classified as financial liabilities; and
- Change in fair value of financial instruments;

REALpac provides for other adjustments in determining FFO which are currently not applicable to Crombie, therefore not included in the above list. Crombie's expenditures on tenant incentives are capital in nature. Crombie considers these costs comparable to other capital costs incurred to earn property revenue. Whereas the depreciation and amortization of other capital costs is added back in the calculation of FFO, Crombie also adds back the amortization of tenant incentives. Crombie's method of calculating FFO may differ from other issuers' methods and accordingly may not be directly comparable to FFO reported by other issuers. The calculation of FFO for the three and six months ended June 30, 2014 and 2013 is as follows:

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| Decrease in net assets attributable to Unitholders | $ (11,350) | $ (6,314) | $ (5,036) | $ (22,750) | $ (13,176) | $ (9,574) |
| Add (deduct): | | | | | | |
| Finance costs – distributions to Unitholders | 28,480 | 20,480 | 8,000 | 55,835 | 40,918 | 14,917 |
| Finance (income) costs – change in fair value of financial instruments | (130) | (1,585) | 1,455 | (185) | (2,202) | 2,017 |
| Amortization of tenant incentives | 2,390 | 1,930 | 460 | 4,527 | 3,900 | 627 |
| Depreciation of investment properties | 14,567 | 9,958 | 4,609 | 29,015 | 19,240 | 9,775 |
| Amortization of intangible assets | 1,229 | 1,885 | (656) | 3,175 | 3,589 | (414) |
| Amortization of deferred leasing costs | 147 | 142 | 5 | 278 | 278 | — |
| (Gain) loss on derecognition of investment property | 3 | (6) | 9 | 160 | (436) | 596 |
| Taxes – deferred | (500) | — | (500) | (725) | 100 | (825) |
| FFO | $ 34,836 | $ 26,490 | $ 8,346 | $ 69,330 | $ 52,211 | $ 17,119 |

The $8,346 and $17,119 increase in FFO for the three months and six months ended June 30, 2014 was primarily due to acquisitions and completed development activity during 2013, resulting in significant growth in property NOI offset in part by higher finance costs - operations.

**Adjusted Funds from Operations (AFFO)**

Crombie considers AFFO to be a useful measure in evaluating the recurring economic performance of its operating activities which will be used to support future distribution payments. AFFO reflects cash available for distributions after the provision for non-cash adjustments to revenue, amortization of effective swap agreements, maintenance capital expenditures, maintenance tenant incentives ("TI") and leasing costs and any settlement of effective interest rate swap agreements.

**Maintenance Capital Expenditures, Maintenance Tenant Incentives and Leasing Costs ("Maintenance Expenditures")**

Crombie's policy is to charge AFFO with a normalized rate per square foot for these maintenance expenditures. Crombie uses an annual rate of $0.87 (2013 - $1.05) per square foot as a charge against AFFO. The significant rate decrease in 2014 relates to the 70 property acquisition in the fourth quarter of 2013 adding 3,105,000 square feet for which Sobeys, as Crombie's tenant, is responsible for all maintenance capital expenditures, maintenance TI and leasing costs; thus lowering Crombie's cost per square foot. The rate will be reviewed periodically and adjusted if required. The rate is a proxy for actual historic costs, anticipated future costs and any significant changes in the nature and age of the properties in the portfolio as it evolves over time. Crombie continues to track and report actual expenditures and the productive capacity enhancement of those expenditures for comparative purposes. This per

square foot charge removes volatility in reported AFFO results from quarter to quarter as costs are not generally incurred on a consistent basis during the year, or from year to year.

The calculation of AFFO for the three months and six months ended June 30, 2014 and 2013 is as follows:

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| FFO | $ 34,836 | $ 26,490 | $ 8,346 | $ 69,330 | $ 52,211 | $ 17,119 |
| Add (deduct): | | | | | | |
| Amortization of effective swap agreements | 666 | 959 | (293) | 1,508 | 1,924 | (416) |
| Straight-line rent adjustment | (2,706) | (1,208) | (1,498) | (5,460) | (2,567) | (2,893) |
| Maintenance expenditures on a square footage basis | (3,824) | (3,808) | (16) | (7,637) | (7,529) | (108) |
| AFFO | $ 28,972 | $ 22,433 | $ 6,539 | $ 57,741 | $ 44,039 | $ 13,702 |

AFFO for the three months ended June 30, 2014 was $28,972, an increase of $6,539 or 29.1% over the same period in 2013 and $57,741 for the six months ended June 30, 2014 an increase of $13,702 or 31.1% over the same period in 2013. The increases were primarily due to the improved FFO results as previously discussed.

Pursuant to CSA Staff Notice 52-306 “(Revised) Non-GAAP Financial Measures”, non-GAAP measures such as AFFO should be reconciled to the most directly comparable IFRS measure, which is interpreted to be the cash flow from operating activities. The reconciliation is as follows:

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| Cash provided by (used in) operating activities | $ (15,338 ) | $ (5,007 ) | $ (10,331 ) | $ (7,177 ) | $ 988 | $ (8,165 ) |
| Add back (deduct): | | | | | | |
| Finance costs – distributions to Unitholders | 28,480 | 20,480 | 8,000 | 55,835 | 40,918 | 14,917 |
| Change in other non-cash operating items | 20,542 | 11,391 | 9,151 | 18,379 | 10,881 | 7,498 |
| Unit-based compensation expense | (10) | (11) | 1 | (20) | (19) | (1) |
| Amortization of deferred financing charges | (878) | (612) | (266) | (1,639) | (1,200) | (439) |
| Maintenance expenditures on a square footage basis | (3,824) | (3,808) | (16) | (7,637) | (7,529) | (108) |
| AFFO | $ 28,972 | $ 22,433 | $ 6,539 | $ 57,741 | $ 44,039 | $ 13,702 |

**LIQUIDITY AND CAPITAL RESOURCES**

The real estate industry is highly capital intensive.

Cash flow generated from operating the property portfolio represents the primary source of liquidity used to fund the finance costs on debt, general and administrative expenses, reinvest in the portfolio through capital expenditures, as well as fund TI costs and distributions to Unitholders.

Crombie expects to refinance debt obligations as they mature.

Crombie has the following sources of financing available to fund future growth:

(i) secured short-term financing through an authorized three year revolving credit facility, maturing June 30, 2017, of up to $300,000, subject to available borrowing base, of which $28,785 ($31,320 including outstanding letters of credit) was drawn at June 30, 2014;

(ii) mortgage and term debt on unencumbered assets;

(iii) senior unsecured notes;

(iv) unsecured convertible debentures; and,

(v) the issue of new units.

On May 13, 2014 Crombie filed a Short Form Shelf Prospectus allowing for the issuance, from time to time, of Units and debt securities, or any combination thereof, having an aggregate offering price of up to $500,000. This document is valid for a 25 month period. On May 30, 2014 Crombie issued 4,530,000 Units at a price of $13.25 per Unit under this Base Shelf Prospectus.

During 2013, Crombie achieved an investment grade credit rating which has further expanded available sources of financing; particularly senior unsecured notes. On October 31, 2013, DBRS Limited ("DBRS") assigned the 3.986% Series A Notes (senior unsecured) (the "Series A Notes") a rating of "BBB (low)", with a "Stable" trend. On March 4, 2014, DBRS assigned the 3.962% Series B Notes (senior unsecured) (the "Series B Notes") a rating of "BBB (low)", with a "Stable" trend. The Series A Notes and Series B Notes are collectively referred to as "Notes". The requests for such credit ratings were initiated by Crombie.

DBRS provides credit ratings of debt securities for commercial entities and the following description has been sourced from information made publicly available by DBRS. DBRS ratings are opinions that reflect the creditworthiness of an issuer, a security, or an obligation. They are opinions based on forward-looking measurements that assess an issuer's ability and willingness to make timely payments on outstanding obligations (whether principal, interest, dividend, or distributions) with respect to the terms of an obligation. Ratings are opinions based on the quantitative and qualitative analysis of information sourced and received by DBRS, which information is not audited or verified by DBRS. DBRS cautions that no two issuers possess exactly the same characteristics, nor are they likely to have the same future opportunities. Consequently, two issuers with the same rating should not be considered to be of exactly the same credit quality. The DBRS long-term rating scale provides an opinion on the risk of default, that is, the risk that an issuer will fail to satisfy its financial obligations in accordance with the terms under which an obligation has been issued.

The BBB (low), with a Stable trend, rating assigned to Crombie and the Notes by DBRS is the fourth highest rating of DBRS' ten rating categories, which range from AAA to D. With the exception of the AAA and D categories, DBRS uses high or low designations to indicate the relative standing of the securities being rated within a particular rating category, and the absence of either a high or low designation indicates the rating is in the middle of the category. Under the DBRS rating system, debt securities rated BBB are of adequate credit quality and the capacity for payment of financial obligations is considered acceptable, but the entity may be vulnerable to future events.

DBRS uses "rating trends" for its ratings in, among other areas, the real estate investment trust sector. DBRS' rating trends provide guidance in respect of DBRS' opinion regarding the outlook for the rating in question, with rating trends falling into one of three categories: "Positive", "Stable" or "Negative". The rating trend indicates the direction in which DBRS considers the rating is headed should present tendencies continue or, in some cases, unless challenges are addressed. In general, DBRS' view is based primarily on an evaluation of the issuer, but may also include consideration of the outlook for the industry or industries in which the issuer operates. A "Positive" or "Negative" trend assigned by DBRS is not an indication that a rating change is imminent, but represents an indication that there is a greater likelihood that the rating could change in the future than would be the case if a "Stable" trend was assigned.

The credit rating assigned to Crombie and the Notes by DBRS is not a recommendation to buy, hold or sell securities of Crombie. A rating is not a comment on the market price of a security nor is it an assessment of ownership given various investment objectives. There is no assurance that any rating will remain in effect for any given period of time and ratings may be upgraded, downgraded, placed under review, confirmed and discontinued. Non-credit risks that can meaningfully impact the value of the securities issued include market risk, trading liquidity risk and covenant risk. DBRS uses rating symbols as a simple and concise method of expressing its opinion to the market, although DBRS ratings usually consist of broader contextual information regarding the security provided by DBRS in rating reports, which generally set out the full rationale for the chosen rating symbol, and in other releases.

Crombie paid to DBRS the customary fee in connection with the ratings assigned to Crombie and the Notes and will continue to make payments to DBRS from time to time in connection with the confirmation of such ratings for purposes of securities offerings, if any, from time to time.

Capital Structure

| *(In thousands of CAD dollars)* | June 30, 2014 | | December 31, 2013 | | June 30, 2013 | |
|---|---|---|---|---|---|---|
| Investment property debt | $ 1,545,407 | 48.4% | $ 1,694,200 | 53.3% | $ 1,269,204 | 58.7% |
| Senior unsecured notes | 273,463 | 8.6% | 173,937 | 5.5% | — | —% |
| Convertible debentures | 175,348 | 5.5% | 174,929 | 5.5% | 118,123 | 5.5% |
| Crombie REIT Unitholders | 726,346 | 22.7% | 680,935 | 21.6% | 467,846 | 21.6% |
| Special Voting Units and Class B Limited Partnership Unitholders | 474,639 | 14.8% | 443,363 | 14.1% | 306,710 | 14.2% |
| | $ 3,195,203 | 100.0% | $ 3,167,364 | 100.0% | $ 2,161,883 | 100.0% |

**Bank Credit Facilities and Investment Property Debt**

Revolving credit facility

Crombie has in place an authorized floating rate revolving credit facility of up to $300,000 (the "revolving credit facility"), of which $28,785 ($31,320 including outstanding letters of credit) was drawn as at June 30, 2014. The revolving credit facility is secured by a pool of first and second mortgages on certain properties. The floating interest rate is based on bankers' acceptance rates plus a spread or specified margins over prime rate. The spread or specified margin increases as Crombie's overall debt leverage increases beyond specific thresholds. Funds available for drawdown pursuant to the revolving credit facility are determined with reference to the value of the Borrowing Base (as defined under "Borrowing Capacity and Debt Covenants") relative to certain financial covenants of Crombie. As at June 30, 2014, Crombie had sufficient Borrowing Base to permit $300,000 of funds to be drawn pursuant to the revolving credit facility, subject to certain other financial covenants. See "Borrowing Capacity and Debt Covenants".

Mortgage debt

As of June 30, 2014, Crombie had fixed rate mortgages outstanding of $1,522,356 ($1,527,904 after including the fair value debt adjustment of $5,548), carrying a weighted average interest rate of 4.78% (after giving effect to the interest rate subsidy from ECLD under an omnibus subsidy agreement) and a weighted average term to maturity of 7.8 years.

From time to time, Crombie has entered into interest rate swap agreements to manage the interest rate profile of its current or future debts without an exchange of the underlying principal amount (see "Risk Management"). Crombie currently has no outstanding interest rate swap agreements.

Principal repayments of the debt are scheduled as follows:

| *(In thousands of CAD dollars)* | Maturing Debt Balances | | | | | | |
|---|---|---|---|---|---|---|---|
| 12 Months Ending | Fixed Rate | Floating Rate | Total | % of Total | Payments of Principal | Total Required Payments | % of Total |
| June 30, 2015 | $ 66,957 | $ — | $ 66,957 | 5.9% | $ 46,040 | $ 112,997 | 7.3% |
| June 30, 2016 | 54,594 | — | 54,594 | 4.8% | 46,093 | 100,687 | 6.5% |
| June 30, 2017 | 53,565 | 28,785 | 82,350 | 7.2% | 41,412 | 123,762 | 8.0% |
| June 30, 2018 | 46,205 | — | 46,205 | 4.0% | 40,952 | 87,157 | 5.6% |
| June 30, 2019 | 10,832 | — | 10,832 | 1.0% | 41,074 | 51,906 | 3.3% |
| Thereafter | 880,000 | — | 880,000 | 77.1% | 194,632 | 1,074,632 | 69.3% |
| Total [(1)] | $ 1,112,153 | $ 28,785 | $ 1,140,938 | 100.0% | $ 410,203 | $ 1,551,141 | 100.0% |

(1) Excludes fair value debt adjustment of $5,548 and deferred financing charges of $11,282.

Of the maturing debt balances, only 15.7% of fixed rate debt, and 17.9% of total maturing debt balances mature over the next three years.

Senior unsecured notes

| | Maturity Date | Effective Interest Rate | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|---|---|
| Series A senior unsecured notes | October 31, 2018 | 3.986% | $ 175,000 | $ 175,000 | $ — |
| Series B senior unsecured notes | June 1, 2021 | 3.900% | 100,000 | — | — |
| Unamortized Series B issue premium | | | 376 | — | — |
| Deferred financing charges | | | (1,913) | (1,063) | — |
| | | | $ 273,463 | $ 173,937 | $ — |

On March 5, 2014, Crombie issued, on a private placement basis, $100,000 Series B Notes maturing June 1, 2021 with an annual interest rate of 3.962%. The Series B Notes were issued at $100,393, resulting in an effective interest rate of 3.90%. Interest is payable in equal semi-annual installments in arrears on June 1 and December 1. The first semi-annual interest payment date was June 1, 2014.

Crombie also has outstanding $175,000 Series A Notes maturing October 31, 2018 with an annual interest rate of 3.986%. Interest is payable in equal semi-annual installments in arrears on April 30 and October 31.

There are no required principal payments with the full face value of the Notes due on their respective maturity dates.

Convertible debentures

| *(In thousands of CAD dollars, except per unit amounts)* | Series C | Series D | Series E |
|---|---|---|---|
| Issue value | $ 45,000 | $ 60,000 | $ 75,000 |
| Outstanding amount as at June 30, 2014 | $ 45,000 | $ 60,000 | $ 75,000 |
| Annual interest rate (payable semi-annually) | 5.75% | 5.00% | 5.25% |
| Conversion price per Unit | $ 15.30 | $ 20.10 | $ 17.15 |
| REIT Units issuable per one thousand dollars principal | 65.3595 | 49.7512 | 58.3090 |
| Maximum REIT Units issuable at June 30, 2014 | 2,941,176 | 2,985,074 | 4,373,177 |
| Issue date | February 8, 2010 | July 3, 2012 | August 14, 2013 |
| Maturity date | June 30, 2017 | September 30, 2019 | March 31, 2021 |
| Trading symbol | CRR.DB.C | CRR.DB.D | CRR.DB.E |

The Series C Debentures pay interest semi-annually on June 30 and December 31 of each year; the Series D Debentures and the Series E Debentures pay interest semi-annually on March 31 and September 30 of each year and Crombie has the option to pay interest on any interest payment date by issuing REIT Units and applying the proceeds to satisfy its interest obligation.

There were no debenture conversions or redemptions during the first half of 2014. For the first three years from the date of issue, there is no ability to redeem the convertible debentures, after which, each series of convertible debentures has a period, lasting two years during which the convertible 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 of redemption is given exceeds 125% of the conversion price. After the end of the five year period from the date of issue, and to the maturity date, the convertible 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.

REIT Units and Class B LP Units and the attached Special Voting Units

On May 30, 2014, Crombie closed a public offering, on a bought deal basis, of 4,530,000 Units, at a price of $13.25 per Unit for proceeds of $57,337. Concurrently with the issuance of the REIT Units, in satisfaction of its pre-emptive right, ECL Developments Limited purchased 3,018,868 Class B LP Units and the attached SVUs at a price of $13.25 per Class B LP Unit, for proceeds of $39,810 net of issue costs, on a private placement basis.

In March 2014 there were 55,467 REIT Units awarded as part of the Employee Unit Purchase Plan (March 2013 – 43,522 REIT Units).

For the six months ended June 30, 2014, no debentures were converted to REIT Units. For the six months ended June 30, 2013, a total of $2,763 of 6.25% Series B Debentures were converted for a total of 251,173 REIT Units. For the year ended December 31, 2013, a total of $17,115 of 6.25% Series B Debentures were converted for a total of 1,555,887 REIT Units.

Total units outstanding at July 31, 2014, including debenture conversions since June 30, 2014, were as follows:

| | |
|---|---|
| Units | 77,282,715 |
| Special Voting Units [(1)] | 53,260,113 |

(1) Crombie Limited Partnership, a subsidiary of Crombie, has also issued 53,260,113 Class B LP Units. These Class B LP Units accompany the Special Voting Units, are the economic equivalent of a Unit, and are convertible into Units on a one-for-one basis.

In addition to the total units outstanding at July 31, 2014, Crombie has convertible debentures which could result in a total of 10,264,445 REIT Units being issued should all outstanding debentures be converted.

Crombie's sources and uses of funds are summarized as follows:

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| Cash provided by (used in): | | | | | | |
| Operating activities | $ (15,338) | $ (5,007) | $ (10,331) | $ (7,177) | $ 988 | $ (8,165) |
| Financing activities | 32,404 | 33,984 | (1,580) | 29,852 | 192,480 | (162,628) |
| Investing activities | $ (18,185) | $ (29,363) | $ 11,178 | $ (29,842) | $ (193,468) | $ 163,626 |

**Operating Activities**

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| Cash provided by (used in): | | | | | | |
| Net assets attributable to Unitholders and non-cash items | $ 5,204 | $ 6,384 | $ (1,180) | $ 11,202 | $ 11,869 | $ (667) |
| Non-cash operating items | (20,542) | (11,391) | (9,151) | (18,379) | (10,881) | (7,498) |
| Cash provided by (used in) operating activities | $ (15,338) | $ (5,007) | $ (10,331) | $ (7,177) | $ 988 | $ (8,165) |

The decrease in non-cash operating items was primarily influenced by the change in non-cash working capital which can be affected by the timing of receipts and payments.

**Financing Activities**

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| Cash provided by (used in): | | | | | | |
| Net issue (repayment) of mortgage loans and borrowings | $ (59,302) | $ 33,832 | $ (93,134) | $ (149,819) | $ 191,795 | $ (341,614) |
| Net issue of senior unsecured notes | (108) | — | (108) | 99,376 | — | 99,376 |
| Net issue of units | 97,147 | — | 97,147 | 97,147 | — | 97,147 |
| Other items (net) | (5,333) | 152 | (5,485) | (16,852) | 685 | (17,537) |
| Cash provided by (used in) financing activities | $ 32,404 | $ 33,984 | $ (1,580) | $ 29,852 | $ 192,480 | $ (162,628) |

Cash from financing activities decreased by $1,580 for the three months ended June 30, 2014 and by $162,628 for the six months ended June 30, 2014 over the same periods in 2013. During the three months ended June 30, 2014, Crombie raised cash through the issuance of REIT Units and Class B LP Units. During the six months ended June 30, 2014, in addition to the issuance of REIT Units and Class B LP Units, Crombie raised cash through the issuance of Series B Notes. Funds raised from both issuances were used to repay maturing mortgages and reduce the revolving credit facility. In the first quarter of 2014, Crombie entered into a $11,856 loan agreement with SDLP to partially finance SDLP's acquisition of development lands in Langford, British Columbia.

**Investing Activities**

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| Cash provided by (used in): | | | | | | |
| Acquisition of investment properties and intangible assets | $ (10,388) | $ (20,951) | $ 10,563 | $ (11,893) | $ (175,502) | $ 163,609 |
| Additions to investment properties | (5,756) | (4,936) | (820) | (13,483) | (8,756) | (4,727) |
| Proceeds on disposal of investment properties | — | — | — | 1,200 | 1,700 | (500) |
| Additions to tenant incentives | (7,423) | (3,381) | (4,042) | (11,101) | (10,694) | (407) |
| Additions to deferred leasing costs | (326) | (218) | (108) | (395) | (362) | (33) |
| Other items (net) | 5,708 | 123 | 5,585 | 5,830 | 146 | 5,684 |
| Cash provided by (used in) investing activities | $ (18,185) | $ (29,363) | $ 11,178 | $ (29,842) | $ (193,468) | $ 163,626 |

Cash used in investing activities was $18,185 for the three months ended June 30, 2014 and $29,842 for the six months ended June 30, 2014. The decrease of $11,178 and $163,626 for the three months and six months ended June 30, 2014 is reflective of a decrease in cash required to fund investment property acquisitions in the first three and six months of 2014 as compared to the same periods in 2013.

Tenant Incentives ("TI") and Capital Expenditures

There are two types of TI and capital expenditures:

- maintenance TI and leasing costs and maintenance capital expenditures that maintain existing productive capacity; and
- productive capacity enhancement expenditures.

Maintenance TI and leasing costs and maintenance capital expenditures are reinvestments in the portfolio to maintain the productive capacity of the existing assets. These costs are capitalized and depreciated or charged against revenue over their useful lives and deducted when calculating AFFO.

Productive capacity enhancement expenditures are costs incurred that increase the property NOI, or expand the GLA of a property by a minimum threshold, or otherwise enhance the property's overall value. Productive capacity enhancement expenditures are capitalized and depreciated or charged against revenue over their useful lives, but not deducted when calculating AFFO.

Obligations for expenditures for TI's occur when renewing existing tenant leases or for new tenants occupying a space. Typically, leasing costs for existing tenants are lower on a per square foot basis than for new tenants. However, new tenants may provide more overall cash flow to Crombie through higher rents or improved traffic to a property. The timing of such expenditures fluctuates depending on the satisfaction of contractual terms contained in the leases.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | 2014 | 2013 |
| Total additions to investment properties | $ 5,756 | $ 4,936 | $ 13,483 | $ 8,756 |
| Less: productive capacity enhancements and recoverable amounts | (6,022) | (4,412) | (10,516) | (6,791) |
| Maintenance capital expenditures | $ (266) | $ 524 | $ 2,967 | $ 1,965 |

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | 2014 | 2013 |
| Total additions to TI and deferred leasing costs | $ 7,749 | $ 3,599 | $ 11,496 | $ 11,056 |
| Less: productive capacity enhancements | (5,608) | (2,325) | (7,134) | (8,157) |
| Maintenance TI and deferred leasing costs | $ 2,141 | $ 1,274 | $ 4,362 | $ 2,899 |

As maintenance TI and capital expenditures are not incurred or paid for evenly throughout the fiscal year, there can be comparative volatility from period-to-period.

Maintenance capital expenditures for the six months ended June 30, 2014, are primarily payments for costs associated with building interior and exterior maintenance, roof repairs and ongoing parking deck and structural maintenance.

Maintenance TI and deferred leasing costs are the result of both lease renewals and new leases and is reflective of the leasing activity during 2013 and 2014.

Productive capacity enhancements during the six months ended June 30, 2014, consisted primarily of development work and GLA expansions at Millwoods Common, Edmonton, Alberta, Woodstock Plaza, Woodstock, Ontario, Paspebiac Plaza, Paspebiac, Quebec and Spryfield, Halifax, Nova Scotia; and development work at Amherst Centre, Amherst, Nova Scotia, Barrington Place, Halifax, Nova Scotia, County Fair Mall, Summerside, Prince Edward Island, Tantallon Plaza, Tantallon, Nova Scotia and 1234 Main Street (Terminal Centres), Moncton, New Brunswick.

**Borrowing Capacity and Debt Covenants**

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 of fair market value over first mortgage financing of assets subject to a second security position or a negative pledge (the "Borrowing Base"). The revolving credit facility provides Crombie with flexibility to add or remove properties from the Borrowing Base, subject to compliance with certain conditions. The terms of the revolving credit facility also require that Crombie must maintain certain covenants:

- annualized NOI for the prescribed properties must be a minimum of 1.4 times the coverage of the related annualized debt service requirements;
- annualized NOI on all properties must be a minimum of 1.4 times the coverage of all annualized debt service requirements; and
- distributions to Unitholders are limited to 100% of distributable income as defined in the revolving credit facility.

The revolving credit facility also contains a covenant limiting the amount which may be utilized under the revolving credit facility at any time. This covenant provides that the aggregate of amounts drawn under the revolving credit facility plus any outstanding letters of credit, may not exceed the "Aggregate Coverage Amount", which is based on a modified calculation of the Borrowing Base, as defined in the revolving credit facility.

At June 30, 2014, the remaining amount available under the revolving credit facility was $271,215 (prior to reduction for standby letters of credit outstanding of $2,535) and was not limited by the Aggregate Coverage Amount.

At June 30, 2014, Crombie remained in compliance with all debt covenants.

**Debt to Gross Book Value - Fair Value Basis**

When calculating debt to gross book value, debt is defined under the terms of the Declaration of Trust as obligations for borrowed money including obligations incurred in connection with acquisitions, excluding specific deferred taxes payable, trade payables and accruals in the ordinary course of business and distributions payable. Gross book value means, at any time, the book value of the assets of Crombie and its consolidated subsidiaries plus deferred financing charges, accumulated depreciation and amortization in respect of Crombie's properties (and related intangible assets) and cost of any below-market component of properties less (i) the amount of any receivable reflecting interest rate subsidies on any debt assumed by Crombie and (ii) the amount of deferred tax liability arising out of the fair value adjustment in respect of the indirect acquisitions of certain properties. If approved by a majority of the independent trustees, the appraised value of the assets of Crombie and its consolidated subsidiaries may be used instead of book value.

Debt to gross book value on a fair value basis includes investment properties measured at fair value with all other components of gross book value measured at cost.

The debt to gross book value on a fair value basis was 51.6% and 49.6% at June 30, 2014 and June 30, 2013, respectively. These leverage ratios are below the maximum 60%, or 65% including convertible debentures, as permitted by Crombie's Declaration of Trust. On a long-term basis, Crombie intends to maintain overall indebtedness, including convertible debentures, in the range of 50% to 55% of gross book value, depending upon Crombie's future acquisitions and financing opportunities.

| *(In thousands of CAD dollars, except as otherwise noted)* | As at | | | | |
|---|---|---|---|---|---|
| | Jun. 30, 2014 | Mar. 31, 2014 | Dec. 31, 2013 | Sep. 30, 2013 | Jun. 30, 2013 |
| Fixed rate mortgages | $ 1,527,904 | $ 1,565,873 | $ 1,585,960 | $ 1,170,801 | $ 1,163,195 |
| Senior unsecured notes | 275,000 | 275,000 | 175,000 | — | — |
| Convertible debentures | 180,000 | 180,000 | 180,000 | 188,563 | 120,916 |
| Revolving credit facility payable | 28,785 | 50,000 | 120,000 | 81,134 | 115,146 |
| Total debt outstanding | 2,011,689 | 2,070,873 | 2,060,960 | 1,440,498 | 1,399,257 |
| Less: Applicable fair value debt adjustment | (2,526) | (2,709) | (2,903) | (3,109) | (3,326) |
| Debt | $ 2,009,163 | $ 2,068,164 | $ 2,058,057 | $ 1,437,389 | $ 1,395,931 |
| | | | | | |
| Investment properties, at fair value | $ 3,864,000 | $ 3,877,000 | $ 3,877,000 | $ 2,884,000 | $ 2,814,000 |
| Long term receivables | 13,547 | 13,532 | 1,821 | 1,991 | 2,169 |
| Other assets, cost [1] | 35,883 | 24,158 | 21,327 | 25,783 | 29,088 |
| Cash and cash equivalents | — | 1,119 | 7,167 | — | — |
| Deferred financing costs | 17,847 | 18,472 | 17,894 | 14,811 | 11,930 |
| Interest rate subsidy | (2,526) | (2,709) | (2,903) | (3,109) | (3,326) |
| FV adjustment to deferred taxes | (38,545) | (38,545) | (38,585) | (39,045) | (39,045) |
| Gross book value - fair value basis | $ 3,890,206 | $ 3,893,027 | $ 3,883,721 | $ 2,884,431 | $ 2,814,816 |
| Debt to gross book value - fair value basis | 51.6% | 53.1% | 53.0% | 49.8% | 49.6% |

(1) Other assets exclude Tenant incentives, Accrued straight-line rent receivable and Assets related to derecognized property.

Crombie, through the issuance of Notes, convertible debentures, mortgage financings, refinancings and bank debt continues to maintain leverage at an appropriate level while staying conservatively within its maximum borrowing capacity.

**Debt and Interest Service Coverage**

Crombie's interest and debt service coverage ratios for the six months ended June 30, 2014 were 2.54 times EBITDA and 1.70 times EBITDA. This compares to 2.77 times EBITDA and 1.80 times EBITDA respectively for the six months ended June 30, 2013. EBITDA should not be considered an alternative to operating income attributable to Unitholders, cash provided by operating activities or any other measure of operations as prescribed by IFRS. EBITDA is not an IFRS financial measure; however, Crombie believes it is an indicative measure of its ability to service debt requirements, fund capital projects and acquire properties. Crombie's measurement of EBITDA may not be comparable to that used by other entities.

| | Six months ended June 30, | |
|---|---|---|
| *(In thousands of CAD dollars, except as otherwise noted)* | 2014 | 2013 |
| Property revenue | $ 179,921 | $ 141,852 |
| Amortization of tenant incentives | 4,527 | 3,900 |
| Adjusted property revenue | 184,448 | 145,752 |
| Property operating expenses | (56,963) | (52,514) |
| General and administrative expenses | (7,839) | (6,572) |
| EBITDA (1) | $ 119,646 | $ 86,666 |
| | | |
| Finance costs – operations | $ 50,316 | $ 34,455 |
| Amortization of deferred financing charges | (1,639) | (1,200) |
| Amortization of effective swap agreements | (1,508) | (1,924) |
| Adjusted interest expense (2) | $ 47,169 | $ 31,331 |
| | | |
| Debt repayments | $ 189,885 | $ 147,680 |
| Amortization of fair value debt premium | (667) | (1,173) |
| Payments relating to interest rate subsidy | (377) | (465) |
| Payments relating to credit facilities | (91,215) | (122,549) |
| Lump sum payments on mortgages | (74,352) | (6,794) |
| Adjusted debt repayments (3) | $ 23,274 | $ 16,699 |
| Interest service coverage ratio {(1)/(2)} | 2.54 | 2.77 |
| Debt service coverage ratio {(1)/((2)+(3))} | 1.70 | 1.80 |

**Distributions and Distribution Payout Ratios**

Distribution Policy

Pursuant to Crombie's Declaration of Trust, cash distributions are to be determined by the Trustees at their discretion. Crombie intends, subject to approval of the Board of Trustees, to make distributions to Unitholders of not less than the amount equal to the net income and net realized capital gains of Crombie, to ensure that Crombie will not be liable for income taxes. Crombie, subject to the discretion of the Board of Trustees, targets to make annual cash distributions to Unitholders equal to approximately 95% of its AFFO on an annual basis.

Details of distributions to Unitholders are as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(In thousands of CAD dollars, except as otherwise noted)* | 2014 | 2013 | 2014 | 2013 |
| Distributions to Unitholders | $ 16,853 | $ 11,929 | $ 33,029 | $ 23,816 |
| Distributions to Special Voting Unitholders | 11,627 | 8,551 | 22,806 | 17,102 |
| Total distributions | $ 28,480 | $ 20,480 | $ 55,835 | $ 40,918 |
| FFO payout ratio | 81.8% | 77.3% | 80.5% | 78.4% |
| AFFO payout ratio (target ratio = 95%) | 98.3% | 91.3% | 96.7% | 92.9% |

**Taxation of Distributions**

Crombie, through its subsidiaries, has a large asset base that is depreciable for Canadian income tax purposes. Consequently, certain of the distributions from Crombie are treated as returns of capital and are not taxable to Canadian resident Unitholders for Canadian income tax purposes. The composition for tax purposes of distributions from Crombie may change from year to year, thus affecting the after-tax return to Unitholders.

The following table summarizes the last five years of the taxation of distributions from Crombie:

| Taxation Year | Return of Capital | Investment Income | Capital Gains |
|---|---|---|---|
| 2013 per $ of distribution | 90.2% | 9.8% | 0.0% |
| 2012 per $ of distribution | 67.1% | 32.9% | 0.0% |
| 2011 per $ of distribution | 62.5% | 37.5% | 0.0% |
| 2010 per $ of distribution | 64.7% | 35.3% | 0.0% |
| 2009 per $ of distribution | 51.0% | 49.0% | 0.0% |

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

As at June 30, 2014, Empire, through its wholly-owned subsidiary ECLD, holds a 41.5% (fully diluted 39.3%) indirect interest in Crombie.

Crombie's transactions with related parties are as follows:

| | Note | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|---|
| *(In thousands of CAD dollars, except as otherwise noted)* | | 2014 | 2013 | 2014 | 2013 |
| Property revenue | (a) | $ 41,974 | $ 29,137 | $ 78,244 | $ 50,143 |
| Head lease income | (b) | $ 214 | $ 150 | $ 487 | $ 353 |
| Management support services provided | (c) | $ 95 | $ 87 | $ 201 | $ 205 |
| Property management services | (d) | $ 129 | $ 48 | $ 264 | $ 108 |
| Rental expense | (e) | $ 47 | $ 47 | $ 94 | $ 94 |
| Property operating expenses | | $ 32 | $ — | $ 55 | $ — |
| Interest rate subsidy | (b) | $ 182 | $ 227 | $ 377 | $ 465 |
| Finance costs – operations | (f) | $ 299 | $ 299 | $ 595 | $ 595 |
| Finance costs – distributions to Unitholders | | $ 11,830 | $ 8,754 | $ 23,211 | $ 17,507 |

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

(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 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.

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

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

(f) Empire holds $24,000 of Series D Convertible Debentures with an annual interest rate of 5.00%.

In addition to the above:

- On May 30, 3014 ECL Developments Limited purchased 3,018,868 Class B LP Units and the attached SVUs at a price of $13.25 per Class B LP Unit for proceeds of $39,810, net of issue costs, on a private placement basis.

- During the second quarter of 2014 Crombie acquired a retail property from SDLP for $10,176 excluding closing and transaction costs. The property, located in Ontario, contains approximately 39,000 square feet of fully occupied space.

- During the first quarter of 2014 Crombie exchanged properties with a subsidiary of Empire by acquiring 1200 Railway Avenue in Canmore, Alberta in exchange for disposing of 555 Main Street in Canmore, Alberta. Crombie also acquired additional development space from Empire on a pre-existing retail property for $1,490 excluding closing and transaction costs.

- During the first quarter of 2014, Crombie entered into a loan agreement with SDLP to partially finance SDLP's acquisition of development lands in Langford, British Columbia. The $11,856 loan bears interest at a rate of 6% per annum and has no principal repayments until maturity on October 1, 2016.

- During the fourth quarter of 2013, Crombie acquired 70 properties (the "Acquisition Properties") from a wholly-owned subsidiary of Sobeys Inc. ("Sobeys") for an aggregate purchase price of $991,300, excluding closing and transition costs (the “Acquisition”). As part of the closing of the Acquisition, Sobeys and Sobeys West Inc. (“Sobeys West”) entered into an omnibus environmental indemnity agreement with Crombie LP, Snowcat Properties Holdings Limited and Crombie providing for an unlimited indemnity by Sobeys and Sobeys West for any issues related to the presence of hazardous materials on the applicable Acquisition Properties identified in the course of Crombie’s environmental due diligence and for which any additional work as required or recommended by an independent professional consulting engineering firm retained by Crombie for matters identified up to 90 days after the closing of the acquisition of the Acquisition Properties (the “Omnibus Environmental Indemnity”).

- On November 4, 2013 contemporaneously with the closing of the acquisition of 70 properties, a subsidiary of Empire purchased 11,811,024 Class B LP Units and the attached Special Voting Units at a price of $12.70 per Class B LP Unit for proceeds of $149,905, net of issue costs, on a private placement basis.

- During the second quarter of 2013, Crombie acquired one property from a subsidiary of Empire for a total purchase price of $20,875, excluding closing and transaction costs.

- During the first quarter of 2013, Crombie acquired two properties and acquired one development addition to an existing retail property from subsidiaries of Empire for a total purchase price of $32,555 excluding closing and transaction costs.

**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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 | 2014 | 2013 |
| Salary, bonus and other short-term employee benefits | $ 1,058 | $ 878 | $ 2,089 | $ 1,674 |
| Other long-term benefits | 26 | 25 | 52 | 50 |
| | $ 1,084 | $ 903 | $ 2,141 | $ 1,724 |

**Critical Accounting Estimates**

Critical accounting estimates are discussed under the section “Critical Accounting Estimates” in the 2013 Annual MD&A.

**Financial Instruments**

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

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

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 - unobservable inputs for the asset or liability.

The following table provides information on financial assets and liabilities measured at fair value as at June 30, 2014:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Marketable securities | $ — | $ — | $ 1,108 | $ 1,108 |
| Total financial assets measured at fair value | $ — | $ — | $ 1,108 | $ 1,108 |
| **Financial liabilities** | | | | |
| Interest rate swaps | $ — | $ — | $ — | $ — |
| Embedded derivatives in convertible debentures | — | — | — | — |
| Total financial liabilities measured at fair value | $ — | $ — | $ — | $ — |

There were no transfers between Level 1 and Level 2 during the six months ended June 30, 2014.

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

- Cash and cash equivalents
- Trade receivables
- Restricted cash
- Trade and other payables (excluding interest rate swaps, embedded derivatives and liabilities related to derecognized property)

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

| | June 30, 2014 | | December 31, 2013 | | June 30, 2013 | |
|---|---|---|---|---|---|---|
| | Fair Value | Carrying Value | Fair Value | Carrying Value | Fair Value | Carrying Value |
| **Financial assets** | | | | | | |
| Assets related to derecognized property | $ — | $ — | $ 5,733 | $ 5,830 | $ 5,900 | $ 5,974 |
| Long term receivables | 13,537 | 13,547 | 1,901 | 1,821 | 2,369 | 2,169 |
| Total other financial assets | $ 13,537 | $ 13,547 | $ 7,634 | $ 7,651 | $ 8,269 | $ 8,143 |
| **Financial liabilities** | | | | | | |
| Investment property debt | $ 1,619,297 | $ 1,556,689 | $ 1,725,981 | $ 1,705,960 | $ 1,318,039 | $ 1,278,341 |
| Senior unsecured notes | 284,053 | 275,000 | 175,035 | 175,000 | — | — |
| Convertible debentures | 186,420 | 180,000 | 183,863 | 180,000 | 125,682 | 120,916 |
| Liabilities related to derecognized property | — | — | 5,676 | 5,627 | 5,835 | 5,724 |
| Total other financial liabilities | $ 2,089,770 | $ 2,011,689 | $ 2,090,555 | $ 2,066,587 | $ 1,449,556 | $ 1,404,981 |

**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 operating results.

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

Crombie has entered into a management cost sharing agreement with a subsidiary of Empire.

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. As at June 30, 2014, Crombie has a total of $2,535 in outstanding letters of credit related to:

| | Six months ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Construction work being performed on investment properties | $ 835 | $ 714 |
| Mortgage lender primarily to satisfy defeasance of derecognized property | — | 1,715 |
| Mortgage lenders primarily to satisfy mortgage financings on redevelopment properties | 1,700 | 8,900 |
| Total outstanding letters of credit | $ 2,535 | $ 11,329 |

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 11 to 76 years including renewal options. For the three months and six months ended June 30, 2014, Crombie paid $308 and $616 respectively in land lease payments to third party landlords (three months and six months ended June 30, 2013 – $309 and $618, respectively ).

As at June 30, 2014, Crombie had signed construction contracts totaling $22,337 of which $18,401 has been paid.

**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 are discussed more fully under the section “Risk Management” in the 2013 Annual MD&A. There has been no significant change in Crombie’s risk management since that time other than the following updates:

**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.

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 June 30, 2014:

- Excluding Sobeys and Shoppers Drug Mart (which accounts for 49.1% and 5.9%, respectively of Crombie’s minimum rent), no other tenant accounts for more than 1.8% of Crombie’s minimum rent; and
- Over the next five years, leases on no more than 4.9% of the GLA area of Crombie will expire in any one year.

Crombie earned property revenue for the three months and six months ended June 30, 2014 of $41,974 and $78,244 respectively ( three months and six months ended June 30, 2013 - $29,137 and $50,143, respectively) from subsidiaries of Empire.

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.

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 since December 31, 2013.

| | Six months ended June 30, | |
|---|---|---|
| *(In thousands of CAD dollars)* | 2014 | 2013 |
| Provision for doubtful accounts, beginning of period | $ 47 | $ 439 |
| Additional provision | (27) | 77 |
| Recoveries | (23) | (68) |
| Write-offs | 42 | (46) |
| Provision for doubtful accounts, end of period | $ 39 | $ 402 |

**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 and limiting the use of permanent floating rate debt. As at June 30, 2014:

- Crombie’s weighted average term to maturity of its fixed rate mortgages was 7.8 years;
- Crombie had a floating rate revolving credit facility available to a maximum of $300,000, subject to available borrowing base of $300,000, with a balance of $28,785.

Crombie estimates that $1,288 of accumulated other comprehensive income (loss) will be reclassified to finance costs during the remaining two quarters of 2014, based on all settled swap agreements to June 30, 2014.

A fluctuation in interest rates would have had an impact on Crombie's operating income related to the use of floating rate debt. Based on 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:

| *(In thousands of CAD dollars)* | Impact of a 0.5% interest rate change | |
|---|---|---|
| Impact on operating income attributable to Unitholders of interest rate changes on the floating rate credit facilities | Decrease in rate | Increase in rate |
| **Three months ended June 30, 2014** | $ 75 | $ (75) |
| Three months ended June 30, 2013 | $ 148 | $ (148) |
| **Six months ended June 30, 2014** | $ 188 | $ (188) |
| Six months ended June 30, 2013 | $ 361 | $ (361) |

Crombie does not enter into interest rate swap transactions on a speculative basis. Crombie currently has no outstanding interest rate swap agreements. 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 since December 31, 2013.

**Liquidity Risk**

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

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 fixed rate and floating rate 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. Crombie mitigates its exposure to liquidity risk utilizing a conservative approach to capital management.

Access to the revolving credit facility is limited to the amount utilized under the facility plus the amount of any outstanding letters of credit and cannot exceed the borrowing base security provided by Crombie.

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

| | | Twelve months ending June 30, | | | | | |
|---|---|---|---|---|---|---|---|
| (In thousands of CAD dollars) | **Contractual Cash Flows[1]** | **2015** | **2016** | **2017** | **2018** | **2019** | **Thereafter** |
| Fixed rate mortgages[2] | $ 1,993,706 | $ 182,204 | $ 164,789 | $ 154,853 | $ 142,883 | $ 103,898 | $ 1,245,079 |
| Senior unsecured notes | 332,633 | 10,938 | 10,938 | 10,938 | 10,938 | 181,287 | 107,594 |
| Convertible debentures | 230,095 | 9,526 | 9,526 | 54,526 | 6,938 | 6,938 | 142,641 |
| | 2,556,434 | 202,668 | 185,253 | 220,317 | 160,759 | 292,123 | 1,495,314 |
| Floating rate revolving credit facility | 31,377 | 864 | 864 | 29,649 | — | — | — |
| **Total** | $ 2,587,811 | $ 203,532 | $ 186,117 | $ 249,966 | $ 160,759 | $ 292,123 | $ 1,495,314 |

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

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

**SUBSEQUENT EVENTS**

(a) On July 22, 2014, Crombie declared distributions of 7.417 cents per unit for the period from July 1, 2014 to and including, July 31, 2014. The distribution will be paid on August 15, 2014, to Unitholders of record as of July 31, 2014.

**CONTROLS AND PROCEDURES**

Crombie maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by Crombie in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by Crombie in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to Crombie's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. Our Chief Executive Officer and Chief Financial Officer have evaluated the design and effectiveness of our disclosure controls and procedures as of June 30, 2014. They have concluded that our current disclosure controls and procedures are effective.

In addition, our Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes as defined in National Instrument 52-109. The control framework management used to design and assess the effectiveness of ICFR is "Internal Control-Integrated Framework" published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO),1992. Further, our Chief Executive Officer and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the effectiveness of the design and operation of ICFR at the financial quarter end and have concluded that our current ICFR was effective at the financial quarter end based on that evaluation. There have been no material changes to Crombie's internal controls during the quarter.

**QUARTERLY INFORMATION**

The following table shows information for revenues, expenses, increase (decrease) in net assets attributable to Unitholders, AFFO, FFO, distributions and per unit amounts for the eight most recently completed quarters.

| | Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars, except per unit amounts)* | Jun. 30, 2014 | Mar. 31, 2014 | Dec. 31, 2013 | Sep. 30, 2013 | Jun. 30, 2013 | Mar. 31, 2013 | Dec. 31, 2012 | Sep. 30, 2012 |
| | | | | | | | | (As Restated) |
| Property revenue | $ 89,008 | $ 90,913 | $ 84,030 | $ 71,161 | $ 71,270 | $ 70,582 | $ 71,928 | $ 64,732 |
| Property operating expenses | 27,409 | 29,554 | 28,563 | 25,596 | 25,696 | 26,818 | 25,804 | 22,181 |
| Property net operating income | 61,599 | 61,359 | 55,467 | 45,565 | 45,574 | 43,764 | 46,124 | 42,551 |
| Gain (loss) on derecognition | (3) | (157) | 2,422 | — | 6 | 430 | — | — |
| Expenses: | | | | | | | | |
| General and administrative | (4,083) | (3,756) | (4,243) | (2,851) | (3,366) | (3,206) | (3,667) | (2,655) |
| Finance costs - operations | (25,070) | (25,246) | (29,098) | (18,834) | (17,648) | (16,807) | (16,639) | (20,285) |
| Depreciation and amortization | (15,943) | (16,525) | (15,045) | (11,876) | (11,985) | (11,122) | (12,493) | (12,200) |
| Impairment | — | — | (12,270) | — | — | — | — | — |
| Operating income before taxes | 16,500 | 15,675 | (2,767) | 12,004 | 12,581 | 13,059 | 13,325 | 7,411 |
| Taxes - deferred | 500 | 225 | 2,275 | (500) | — | (100) | (1,500) | 500 |
| Operating income | 17,000 | 15,900 | (492) | 11,504 | 12,581 | 12,959 | 11,825 | 7,911 |
| Finance costs - distributions to Unitholders | (28,480) | (27,355) | (25,157) | (20,545) | (20,480) | (20,438) | (19,809) | (19,343) |
| Finance income (costs) - change in fair value of financial instruments | 130 | 55 | 422 | (151) | 1,585 | 617 | 3,984 | (4,047) |
| Increase (decrease) in net assets attributable to Unitholders | $ (11,350) | $ (11,400) | $ (25,227) | $ (9,192) | $ (6,314) | $ (6,862) | $ (4,000) | $ (15,479) |
| Operating income per unit - Basic | $ 0.14 | $ 0.13 | $ — | $ 0.13 | $ 0.14 | $ 0.14 | $ 0.13 | $ 0.09 |
| Operating income per unit - Diluted | $ 0.14 | $ 0.13 | $ — | $ 0.12 | $ 0.14 | $ 0.14 | $ 0.13 | $ 0.09 |

| | Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars, except per unit amounts)* | Jun. 30, 2014 | Mar. 31, 2014 | Dec. 31, 2013 (as adjusted)[2] | Sep. 30, 2013 | Jun. 30, 2013 | Mar. 31, 2013 | Dec. 31, 2012 | Sep. 30, 2012 |
| AFFO | $ 28,972 | $ 28,769 | $ 25,493 | $ 21,993 | $ 22,433 | $ 21,606 | $ 23,407 | $ 18,237 |
| FFO | $ 34,836 | $ 34,494 | $ 30,324 | $ 25,841 | $ 26,490 | $ 25,721 | $ 27,351 | $ 21,338 |
| Distributions | $ 28,480 | $ 27,355 | $ 25,157 | $ 20,545 | $ 20,480 | $ 20,438 | $ 19,809 | $ 19,343 |
| AFFO per unit - basic | $ 0.23 | $ 0.23 | $ 0.23 | $ 0.24 | $ 0.24 | $ 0.24 | $ 0.27 | $ 0.21 |
| AFFO per unit - diluted[1] | $ 0.23 | $ 0.23 | $ 0.23 | $ 0.24 | $ 0.24 | $ 0.23 | $ 0.26 | $ 0.21 |
| FFO per unit - basic | $ 0.28 | $ 0.28 | $ 0.27 | $ 0.28 | $ 0.28 | $ 0.28 | $ 0.31 | $ 0.25 |
| FFO per unit - diluted[1] | $ 0.27 | $ 0.28 | $ 0.27 | $ 0.28 | $ 0.28 | $ 0.28 | $ 0.30 | $ 0.24 |
| Distributions per unit | $ 0.22 | $ 0.22 | $ 0.22 | $ 0.22 | $ 0.22 | $ 0.22 | $ 0.22 | $ 0.22 |

(1) FFO and AFFO per unit are calculated on a diluted basis. The diluted weighted average number of total Units and Special Voting Units included the conversion of all series of convertible debentures outstanding during the period, excluding any series that is anti-dilutive. Distributions per unit for each period are based on the total distributions per unit declared during the specific period.
(2) FFO and AFFO results for the three months ended December 31, 2013 were as adjusted to add back $6,033 of finance costs related to the arranging of financing for the 70 property acquisition.

Variations in quarterly results over the past eight quarters have been influenced by the following specific transactions and ongoing events:

- Property acquisitions (excluding closing and transaction costs) for each of the above three month periods were:
    - June 30, 2014 - one retail property for a total purchase price of $10,176;
    - December 31, 2013 - 70 retail properties for a total purchase price of $991,300;
    - September 30, 2013 - four retail properties for a total purchase price of $44,370;
    - June 30, 2013 - one retail property for a total purchase price of $20,875;
    - March 31, 2013 - six retail properties and one development addition to an existing retail property for a total purchase price of $164,445;
    - December 31, 2012 - two retail plazas for a total purchase price of $43,705; and
    - September 30, 2012 - one retail property and one mixed use property for a total purchase price of $29,600.

- Property revenue and property operating expenses - Crombie's business is not subject to significant seasonal fluctuations. However, property operating expenses during winter months include particular expenses such as snow removal, which is a recoverable expense, thus increasing property revenue during these same periods. Property operating expenses during the summer and fall periods include particular expenses such as paving and roof repairs.

- Per unit amounts for FFO and AFFO are influenced by operating results as detailed above and by the timing of the issuance of REIT Units and Class B LP Units. Crombie had issuances, net of issue costs of: $97,147 in the quarter ended June 30, 2014; $365,621 in the quarter ended December 31, 2013; and of $58,256 in the quarter ended December 31, 2012.

Additional information relating to Crombie, including its latest Annual Information Form, can be found on the SEDAR web site for Canadian regulatory filings at www.sedar.com.

Dated: August 8, 2014
Stellarton, Nova Scotia, Canada

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

| | Note | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Investment properties | 3 | **$ 3,126,234** | $ 3,168,097 | $ 2,169,082 |
| Intangible assets | 4 | **46,567** | 49,237 | 35,387 |
| Other assets | 5 | **89,406** | 77,365 | 77,801 |
| Long term receivables | 6 | **12,754** | 1,127 | 1,401 |
| | | **3,274,961** | 3,295,826 | 2,283,671 |
| **Current assets** | | | | |
| Cash and cash equivalents | | **—** | 7,167 | — |
| Other assets | 5 | **45,150** | 41,478 | 43,249 |
| Long term receivables | 6 | **793** | 694 | 768 |
| Investment properties held for sale | 7 | **33,653** | — | — |
| | | **79,596** | 49,339 | 44,017 |
| **Total Assets** | | **3,354,557** | 3,345,165 | 2,327,688 |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Investment property debt | 8 | **1,430,653** | 1,553,297 | 1,142,942 |
| Senior unsecured notes | 9 | **273,463** | 173,937 | — |
| Convertible debentures | 10 | **175,348** | 174,929 | 118,123 |
| Deferred taxes | 11 | **80,100** | 80,825 | 82,600 |
| Employee future benefits obligation | | **7,081** | 6,945 | 7,057 |
| Trade and other payables | 12 | **—** | — | 2,249 |
| | | **1,966,645** | 1,989,933 | 1,352,971 |
| **Current liabilities** | | | | |
| Investment property debt | 8 | **114,754** | 140,903 | 126,262 |
| Employee future benefits obligation | | **233** | 233 | 225 |
| Trade and other payables | 12 | **71,940** | 89,798 | 73,674 |
| | | **186,927** | 230,934 | 200,161 |
| Total liabilities excluding net assets attributable to Unitholders | | **2,153,572** | 2,220,867 | 1,553,132 |
| Net assets attributable to Unitholders | | **$ 1,200,985** | $ 1,124,298 | $ 774,556 |
| **Net assets attributable to Unitholders represented by:** | | | | |
| Crombie REIT Unitholders | | **$ 726,346** | $ 680,935 | $ 467,846 |
| Special Voting Units and Class B Limited Partnership Unitholders | | **474,639** | 443,363 | 306,710 |
| | | **$ 1,200,985** | $ 1,124,298 | $ 774,556 |
| Commitments and contingencies | 22 | | | |
| Subsequent events | 23 | | | |

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

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

| | Note | Three months ended June 30, 2014 | Three months ended June 30, 2013 | Six months ended June 30, 2014 | Six months ended June 30, 2013 |
|---|---|---|---|---|---|
| Property revenue | 13 | **$ 89,008** | $ 71,270 | **$ 179,921** | $ 141,852 |
| Property operating expenses | | **27,409** | 25,696 | **56,963** | 52,514 |
| **Net property income** | | **61,599** | 45,574 | **122,958** | 89,338 |
| Gain (loss) on derecognition of investment properties | | **(3)** | 6 | **(160)** | 436 |
| Depreciation of investment properties | 3 | **(14,567)** | (9,958) | **(29,015)** | (19,240) |
| Amortization of deferred leasing costs | 3 | **(147)** | (142) | **(278)** | (278) |
| Amortization of intangible assets | 4 | **(1,229)** | (1,885) | **(3,175)** | (3,589) |
| General and administrative expenses | | **(4,083)** | (3,366) | **(7,839)** | (6,572) |
| **Operating income before finance costs and taxes** | | **41,570** | 30,229 | **82,491** | 60,095 |
| Finance costs - operations | 16 | **(25,070)** | (17,648) | **(50,316)** | (34,455) |
| **Operating income before taxes** | | **16,500** | 12,581 | **32,175** | 25,640 |
| Taxes - deferred | 11 | **500** | — | **725** | (100) |
| **Operating income attributable to Unitholders** | | **17,000** | 12,581 | **32,900** | 25,540 |
| **Finance costs - other** | | | | | |
| Distributions to Unitholders | | **(28,480)** | (20,480) | **(55,835)** | (40,918) |
| Change in fair value of financial instruments | 12 | **130** | 1,585 | **185** | 2,202 |
| | | **(28,350)** | (18,895) | **(55,650)** | (38,716) |
| **Decrease in net assets attributable to Unitholders** | | **(11,350)** | (6,314) | **(22,750)** | (13,176) |
| **Other comprehensive income** | | | | | |
| Items that will be subsequently reclassified to Decrease in net assets attributable to Unitholders: | | | | | |
| Costs incurred on derivatives designated as cash flow hedges transferred to finance costs - operations | | **666** | 959 | **1,508** | 1,924 |
| Net change in derivatives designated as cash flow hedges | | **1** | 8 | **7** | 10 |
| Other comprehensive income | | **667** | 967 | **1,515** | 1,934 |
| **Comprehensive income (loss)** | | **$ (10,683 )** | $ (5,347 ) | **$ (21,235 )** | $ (11,242 ) |

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

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

| | Note | REIT Units, Special Voting Units and Class B LP Units | Net Assets Attributable to Unitholders | Accumulated Other Comprehensive Income (Loss) | Total | Attributable to | |
|---|---|---|---|---|---|---|---|
| | | | | | | REIT Units | Class B LP Units |
| | | (Note 17) | | | | | |
| Balance, January 1, 2014 | 17 | $ 1,363,025 | $ (222,728) | $ (15,999) | $ 1,124,298 | $ 680,935 | $ 443,363 |
| Adjustments related to EUPP | | 818 | (43) | — | 775 | 775 | — |
| Statements of comprehensive income (loss) | | — | (22,750) | 1,515 | (21,235) | (12,701) | (8,534) |
| Unit issue proceeds, net of costs of $2,876 | | 97,147 | — | — | 97,147 | 57,337 | 39,810 |
| **Balance, June 30, 2014** | | $ 1,460,990 | $ (245,521) | $ (14,484) | $ 1,200,985 | $ 726,346 | $ 474,639 |

| | Note | REIT Units, Special Voting Units and Class B LP Units | Net Assets Attributable to Unitholders | Accumulated Other Comprehensive Income (Loss) | Total | Attributable to | |
|---|---|---|---|---|---|---|---|
| | | | | | | REIT Units | Class B LP Units |
| | | (Note 17) | | | | | |
| Balance, January 1, 2013 | | $ 977,112 | $ (175,124) | $ (19,987) | $ 782,001 | $ 470,747 | $ 311,254 |
| Adjustments related to EUPP | | 453 | (30) | — | 423 | 423 | — |
| Conversion of debentures | | 2,763 | — | — | 2,763 | 2,763 | — |
| Conversion feature of debentures | 12 | 611 | — | — | 611 | 611 | — |
| Statements of comprehensive income (loss) | | — | (13,176) | 1,934 | (11,242) | (6,698) | (4,544) |
| **Balance, June 30, 2013** | | $ 980,939 | $ (188,330) | $ (18,053) | $ 774,556 | $ 467,846 | $ 306,710 |

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

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

| Cash flows provided by (used in) | Note | Three months ended June 30, 2014 | Three months ended June 30, 2013 | Six months ended June 30, 2014 | Six months ended June 30, 2013 |
|---|---|---|---|---|---|
| **Operating Activities** | | | | | |
| Decrease in net assets attributable to Unitholders | | **$ (11,350)** | $ (6,314) | **$ (22,750)** | $ (13,176) |
| Items not affecting operating cash | 18 | **16,554** | 12,698 | **33,952** | 25,045 |
| Change in other non-cash operating items | 18 | **(20,542)** | (11,391) | **(18,379)** | (10,881) |
| Cash provided by (used in) operating activities | | **(15,338)** | (5,007) | **(7,177)** | 988 |
| **Financing Activities** | | | | | |
| Issue of investment property debt | | **—** | 79,800 | **40,616** | 342,195 |
| Deferred financing charges - investment property debt | | **(120)** | (1,345) | **(550)** | (2,720) |
| Repayment of investment property debt | | **(59,182)** | (44,623) | **(189,885)** | (147,680) |
| Issue of senior unsecured notes | | **—** | — | **100,393** | — |
| Deferred financing charges - senior unsecured notes | | **(108)** | — | **(1,017)** | — |
| REIT Units and Class B LP Units issued | | **100,023** | — | **100,023** | — |
| REIT Units and Class B LP Units issue costs | | **(2,876)** | — | **(2,876)** | — |
| Repayment of EUPP loans receivable | | **250** | 14 | **484** | 403 |
| Decrease in liabilities related to derecognized property | | **(5,578)** | (47) | **(5,627)** | (94) |
| Issue of long term receivables | | **10** | — | **(11,856)** | — |
| Collection of long term receivables | | **(15)** | 185 | **147** | 376 |
| Cash provided by (used in) financing activities | | **32,404** | 33,984 | **29,852** | 192,480 |
| **Investing Activities** | | | | | |
| Acquisition of investment properties and intangible assets | | **(10,388)** | (20,951) | **(11,893)** | (175,502) |
| Additions to investment properties | | **(5,756)** | (4,936) | **(13,483)** | (8,756) |
| Proceeds on derecognition of investment properties | | **—** | — | **1,200** | 1,700 |
| Additions to tenant incentives | | **(7,423)** | (3,381) | **(11,101)** | (10,694) |
| Additions to deferred leasing costs | | **(326)** | (218) | **(395)** | (362) |
| Decrease in assets related to derecognized property | | **5,708** | 123 | **5,830** | 146 |
| Cash provided by (used in) investing activities | | **(18,185)** | (29,363) | **(29,842)** | (193,468) |
| **Net change in cash and cash equivalents** | | **(1,119)** | (386) | **(7,167)** | — |
| **Cash and cash equivalents, beginning of period** | | **1,119** | 386 | **7,167** | — |
| **Cash and cash equivalents, end of period** | | **$ —** | $ — | **$ —** | $ — |

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

**1) GENERAL INFORMATION AND NATURE OF OPERATIONS**

Crombie Real Estate Investment Trust ("Crombie") is an unincorporated "open-ended" real estate investment trust created pursuant to the Declaration of Trust dated January 1, 2006, as amended. The principal business of Crombie is the acquisition of retail and office properties 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 condensed consolidated financial statements for the six months ended June 30, 2014 and June 30, 2013 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 interim condensed consolidated financial statements were authorized for issue by the Board of Trustees on August 8, 2014.

**2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Statement of compliance**

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, and do not contain all of the information required by IAS 1, Presentation of Financial Statements. Therefore, they should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013.

**(b) Basis of presentation**

The interim condensed consolidated financial statements are presented in Canadian dollars ("CAD"); Crombie's functional and reporting currency, rounded to the nearest thousand. The interim condensed consolidated financial statements are prepared on a historical cost basis except for any financial assets and liabilities classified as fair value with changes in fair value recognized in Decrease in net assets attributable to Unitholders ("FVTPL" classification) or designated as available for sale ("AFS") that have been measured at fair value.

**(c) Presentation of financial statements**

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

**(d) Basis of consolidation**

Crombie's financial statements consolidate those of Crombie and all of its subsidiary entities as at June 30, 2014. Subsidiaries are all entities over which Crombie has control. All subsidiaries have a reporting date of June 30, 2014.

All intercompany transactions, balances, income and expenses are eliminated in preparing the interim condensed 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) Significant accounting policies**

The Company describes its significant accounting policies in its audited consolidated financial statements for the year ended December 31, 2013.

**New standards adopted**

There has been no change in the Company's significant accounting policies since December 31, 2013, except for the the application of the following standards effective January 1, 2014:

**(i) IAS 32 - Financial Instruments Presentation**

Amendments were made to IAS 32 to clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of off-set' and 'simultaneous realization and settlement'. The amended standard did not have an impact on Crombie.

**(ii) International Financial Reporting Standards Interpretations Committee Interpretation 21- Levies ("IFRIC 21")**

In May 2013, IFRIC 21 was issued. IFRIC 21 addresses various accounting issues relating to levies imposed by a government. Crombie has assessed the applicability of IFRIC 21 and has determined there is no impact on the interim condensed consolidated financial statements.

**Future changes in accounting standards**

The International Accounting Standard Board ("IASB") have issued a number of standards and interpretations with an effective date after the date of these financial statements. Set out below are only those standards that may have a material impact on the interim condensed consolidated financial statements in future periods. Management is currently evaluating the impact of these future policies on its interim condensed consolidated financial statements.

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

IFRS 9, Financial Instruments will replace International Accounting Standard ("IAS") 39 Financial Instruments: Recognition and Measurement. The new standard includes guidance on recognition and derecognition of financial assets and financial liabilities, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

**(ii) IFRS 15 Revenue from Contracts with Customers**

IFRS 15 replaces IAS 11Construction Contracts, IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, with early adoption permitted and is to be applied retrospectively.

**(f) Comparative figures**

Certain comparative figures have been reclassified to conform to the current year's consolidated financial statement presentation. The reclassifications did not impact the condensed consolidated balance sheets, condensed consolidated statements of changes in net assets attributable to Unitholders or the condensed consolidated statements of cash flows.

**3) INVESTMENT PROPERTIES**

| | Land | Buildings | Deferred Leasing Costs | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Opening balance, January 1, 2014 | **$ 956,672** | **$ 2,417,780** | **$ 5,621** | **$ 3,380,073** |
| Acquisitions | **6,176** | **17,066** | **—** | **23,242** |
| Additions | **257** | **7,567** | **473** | **8,297** |
| Dispositions | **(5,406)** | **(8,873)** | **—** | **(14,279)** |
| Transfer to investment properties held for sale (Note 7) | **(7,139)** | **(28,288)** | **(454)** | **(35,881)** |
| **Balance, June 30, 2014** | **950,560** | **2,405,252** | **5,640** | **3,361,452** |
| **Accumulated depreciation and amortization and impairment** | | | | |
| Opening balance, January 1, 2014 | **—** | **209,218** | **2,758** | **211,976** |
| Depreciation and amortization | **—** | **29,015** | **278** | **29,293** |
| Dispositions | **—** | **(1,247)** | **—** | **(1,247)** |
| Transfer to investment properties held for sale (Note 7) | **—** | **(4,572)** | **(232)** | **(4,804)** |
| Balance, June 30, 2014 | **—** | **232,414** | **2,804** | **235,218** |
| **Net carrying value, June 30, 2014** | **$ 950,560** | **$ 2,172,838** | **$ 2,836** | **$ 3,126,234** |

| | Land | Buildings | Deferred Leasing Costs | Total |
|---|---|---|---|---|
| Cost | | | | |
| Opening balance, January 1, 2013 | $ 545,337 | $ 1,608,276 | $ 4,861 | $ 2,158,474 |
| Acquisitions | 414,666 | 790,572 | — | 1,205,238 |
| Additions | 195 | 28,029 | 829 | 29,053 |
| Dispositions | (3,526) | (9,097) | (69) | (12,692) |
| Balance, December 31, 2013 | 956,672 | 2,417,780 | 5,621 | 3,380,073 |
| Accumulated depreciation and amortization and impairment | | | | |
| Opening balance, January 1, 2013 | — | 157,009 | 2,240 | 159,249 |
| Depreciation and amortization | — | 42,101 | 544 | 42,645 |
| Dispositions | — | (2,162) | (26) | (2,188) |
| Impairment | — | 12,270 | — | 12,270 |
| Balance, December 31, 2013 | — | 209,218 | 2,758 | 211,976 |
| Net carrying value, December 31, 2013 | $ 956,672 | $ 2,208,562 | $ 2,863 | $ 3,168,097 |

| | Land | Buildings | Deferred Leasing Costs | Total |
|---|---|---|---|---|
| Cost | | | | |
| Opening balance, January 1, 2013 | $ 545,337 | $ 1,608,276 | $ 4,861 | $ 2,158,474 |
| Acquisitions | 47,085 | 134,121 | — | 181,206 |
| Additions | 40 | 9,028 | 388 | 9,456 |
| Dispositions | (806) | (1,573) | — | (2,379) |
| Balance, June 30, 2013 | 591,656 | 1,749,852 | 5,249 | 2,346,757 |
| Accumulated depreciation and amortization | | | | |
| Opening balance, January 1, 2013 | — | 157,009 | 2,240 | 159,249 |
| Depreciation and amortization | — | 19,240 | 278 | 19,518 |
| Dispositions | — | (1,092) | — | (1,092) |
| Balance, June 30, 2013 | — | 175,157 | 2,518 | 177,675 |
| Net carrying value, June 30, 2013 | $ 591,656 | $ 1,574,695 | $ 2,731 | $ 2,169,082 |

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

| | Fair Value | Carrying Value |
|---|---|---|
| **June 30, 2014** | **$ 3,864,000** | **$ 3,305,127** |
| December 31, 2013 | $ 3,877,000 | $ 3,309,020 |
| June 30, 2013 | $ 2,814,000 | $ 2,290,457 |

Carrying value consists of the net carrying value of:

| | Note | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|---|
| Investment properties | 3 | **$ 3,126,234** | $ 3,168,097 | $ 2,169,082 |
| Intangible assets | 4 | **46,567** | 49,237 | 35,387 |
| Accrued straight-line rent receivable | 5 | **33,512** | 28,052 | 25,161 |
| Tenant incentives | 5 | **65,161** | 63,634 | 60,827 |
| Investment properties held for sale | 7 | **33,653** | — | — |
| Total carrying value | | **$ 3,305,127** | $ 3,309,020 | $ 2,290,457 |

The fair value of investment properties is a Level 3 fair value measurement. The fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Crombie has utilized the following weighted average capitalization rates and has determined that an increase (decrease) in this applied capitalization rate of 0.25% would result in an increase (decrease) in the fair value of the investment properties as follows:

| | | Impact of a 0.25% Change in Capitalization Rate | |
|---|---|---|---|
| | Weighted Average Capitalization Rate | Increase in Rate | Decrease in Rate |
| **June 30, 2014** | **6.21%** | **$ (151,000)** | **$ 164,000** |
| December 31, 2013 | 6.18% | $ (152,000) | $ 165,000 |
| June 30, 2013 | 6.42% | $ (105,000) | $ 114,000 |

**Investment Property Acquisitions and Dispositions**

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

**2014**

| Acquisition/Disposition Date | Properties Acquired (Disposed) | Approximate Square Footage | Initial Acquisition (Disposition) Price | Assumed Mortgages |
|---|---|---|---|---|
| January 31, 2014[1] | — | 6,700 | $ 1,490 | $ — |
| March 31, 2014[3] | 1 | 53,000 | 12,127 | — |
| May 1, 2014 | 1 | 39,400 | 10,176 | |
| | | **99,100** | **23,793** | **—** |
| January 16, 2014[2] | — | (25,000) | (1,200) | — |
| March 31, 2014[3] | (1) | (53,000) | (12,127) | — |
| | | **21,100** | **$ 10,466** | **$ —** |

[1] Relates to an acquisition of additional development on a pre-existing retail property.
[2] Relates to the partial disposition of a property.
[3] Relates to an exchange of properties in Canmore, Alberta.

The partial disposition on January 16, 2014 was transacted with a third party. The other property transactions in 2014 have been transacted with subsidiaries of Empire Company Limited ("Empire"), a related party. The initial purchase prices stated above exclude closing and transaction costs. On March 31, 2014, Crombie exchanged properties in Canmore, Alberta with Empire. The acquired property is measured at the carrying value of the disposed property, resulting in no gain or loss on exchange.

**2013**

| Acquisition/Disposition Date | Properties Acquired (Disposed) | Approximate Square Footage | Initial Acquisition (Disposition) Price | Assumed Mortgages |
|---|---|---|---|---|
| February 22, 2013 | 4 | 311,000 | $ 131,890 | $ 10,744 |
| March 22, 2013 | 1 | 66,000 | 14,650 | — |
| March 27, 2013 | 1 | 45,000 | 15,450 | — |
| March 28, 2013[(1)] | — | 9,000 | 2,455 | — |
| April 30, 2013 | 1 | 59,000 | 20,875 | — |
| | | 490,000 | 185,320 | 10,744 |
| February 4, 2013 | (1) | (31,000) | (1,700) | — |
| | | 459,000 | $ 183,620 | $ 10,744 |

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

All of the above properties acquired and disposed in February were transacted with third parties. The March and April acquisitions were acquired from subsidiaries of Empire. The initial purchase prices stated above exclude closing and transaction costs. The disposal price of the derecognized property on February 4, 2013 approximated its carrying value, resulting in a small gain. The balance of the acquisitions, after deducting assumed and new mortgage proceeds, were funded through Crombie's floating rate revolving credit facility.

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

| | Three months ended June 30, | | Six months ended June 30, | | Year Ended |
|---|---|---|---|---|---|
| Investment property acquired, net: | **2014** | 2013 | **2014** | 2013 | December 31, 2013 |
| Land | **$ 1,882** | $ 3,920 | **$ 6,176** | $ 47,085 | $ 414,666 |
| Buildings | **8,074** | 16,562 | **17,066** | 134,121 | 790,572 |
| Intangible assets | **432** | 469 | **779** | 5,452 | 23,107 |
| Fair value debt adjustment on assumed mortgages | **—** | — | **—** | (412) | (412) |
| Net purchase price | **10,388** | 20,951 | **24,021** | 186,246 | 1,227,933 |
| Assumed mortgages | **—** | — | **—** | (10,744) | (10,744) |
| | **$ 10,388** | $ 20,951 | **$ 24,021** | $ 175,502 | $ 1,217,189 |

**4) INTANGIBLE ASSETS**

| **Tenant Relationships** | **Cost** | **Accumulated Amortization** | **Net Carrying Value** |
|---|---|---|---|
| Balance, January 1, 2014 | **$ 96,397** | **$ 47,160** | **$ 49,237** |
| Acquisitions | **779** | **—** | **779** |
| Dispositions | **(404)** | **(130)** | **(274)** |
| Amortization | **—** | **3,175** | **(3,175)** |
| Transfer to investment properties held for sale (Note 7) | **(92)** | **(92)** | **—** |
| **Balance, June 30, 2014** | **$ 96,680** | **$ 50,113** | **$ 46,567** |
| | | | |
| Balance, January 1, 2013 | $ 73,853 | $ 40,304 | $ 33,549 |
| Acquisitions | 5,452 | — | 5,452 |
| Dispositions | (283) | (258) | (25) |
| Amortization | — | 3,589 | (3,589) |
| Balance, June 30, 2013 | $ 79,022 | $ 43,635 | $ 35,387 |

**5) OTHER ASSETS**

| | **June 30, 2014** | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Trade receivables | **$ 13,223** | $ 6,389 | $ 12,341 |
| Provision for doubtful accounts | **(39)** | (47) | (402) |
| Net trade receivables | **13,184** | 6,342 | 11,939 |
| Assets related to derecognized property | **—** | 5,830 | 5,974 |
| Marketable securities | **1,108** | 986 | — |
| Prepaid expenses and deposits | **17,939** | 8,356 | 16,401 |
| Restricted cash | **3,652** | 5,643 | 748 |
| Accrued straight-line rent receivable | **33,512** | 28,052 | 25,161 |
| Tenant incentives | **65,161** | 63,634 | 60,827 |
| | **$ 134,556** | $ 118,843 | $ 121,050 |

| **Tenant Incentives** | **Cost** | **Accumulated Amortization** | **Net Carrying Value** |
|---|---|---|---|
| Balance, January 1, 2014 | **$ 96,213** | **$ 32,579** | **$ 63,634** |
| Additions | **8,630** | **—** | **8,630** |
| Amortization | **—** | **4,527** | **(4,527)** |
| Transfer to investment properties held for sale (Note 7) | **(4,483)** | **(1,907)** | **(2,576)** |
| **Balance, June 30, 2014** | **$ 100,360** | **$ 35,199** | **$ 65,161** |
| | | | |
| Balance, January 1, 2013 | $ 76,762 | $ 24,850 | $ 51,912 |
| Additions | 12,815 | — | 12,815 |
| Amortization | — | 3,900 | (3,900) |
| Balance, June 30, 2013 | $ 89,577 | $ 28,750 | $ 60,827 |

**6) LONG TERM RECEIVABLES**

| | **June 30, 2014** | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Capital expenditure program | **$ 105** | $ 105 | $ 105 |
| Interest rate subsidy | **1,401** | 1,716 | 2,064 |
| Amount receivable from related party | **12,041** | — | — |
| | **$ 13,547** | $ 1,821 | $ 2,169 |

During March 2014, Crombie advanced $11,856 to a subsidiary of Empire to partially finance their acquisition of development lands. The loan is repayable October 1, 2016 and bears interest at a rate of 6% per annum.

See Note 20(a) for fair value information.

**7) INVESTMENT PROPERTIES HELD FOR SALE**

Investment properties held for sale consist of:

| | Note | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|---|---|---|---|
| Land | **3** | **$ 7,139** | $ — | $ — |
| Buildings | **3** | **23,716** | — | — |
| Deferred leasing costs | **3** | **222** | — | — |
| Intangible assets | **4** | **—** | — | — |
| Tenant incentives | **5** | **2,576** | — | — |
| | | **$ 33,653** | $ — | $ — |

In March 2014, Crombie determined that an investment property listed for sale met the criteria for classification as held for sale. The property is carried at its carrying value at the time of classification as held for sale; representing the lesser of carrying value and fair value less costs to sell. No depreciation or amortization will be recorded while the property is classified as held for sale. Crombie expects to complete the sale of the property during the 12 months subsequent to classification as held for sale.

**8) INVESTMENT PROPERTY DEBT**

| | Range | Weighted Average Interest Rate | Weighted Average Term to Maturity | June 30, 2014 |
|---|---|---|---|---|
| Fixed rate mortgages | **3.12 - 6.90%** | **4.78%** | **7.8 years** | **$ 1,527,904** |
| Floating rate revolving credit facility | | **3.00%** | **3.0 years** | **28,785** |
| Deferred financing charges | | | | **(11,282)** |
| | | | | **$ 1,545,407** |

| | Range | Weighted Average Interest Rate | Weighted Average Term to Maturity | December 31, 2013 |
|---|---|---|---|---|
| Fixed rate mortgages | 3.12 - 6.90% | 4.82% | 8.0 years | $ 1,585,960 |
| Floating rate revolving credit facility | | 2.97% | 2.5 years | 120,000 |
| Deferred financing charges | | | | (11,760) |
| | | | | $ 1,694,200 |

| | Range | Weighted Average Interest Rate | Weighted Average Term to Maturity | June 30, 2013 |
|---|---|---|---|---|
| Fixed rate mortgages | 3.12 - 6.90% | 5.00% | 7.7 years | $ 1,163,195 |
| Floating rate revolving credit facility | | 3.07% | 2.0 years | 115,146 |
| Deferred financing charges | | | | (9,137) |
| | | | | $ 1,269,204 |

As at June 30, 2014, debt retirements for the next five years are:

| 12 Months Ending | Fixed Rate Principal Payments | Fixed Rate Maturities | Floating Rate Maturities | Total |
|---|---|---|---|---|
| June 30, 2015 | $ 46,040 | $ 66,957 | $ — | $ 112,997 |
| June 30, 2016 | 46,093 | 54,594 | — | 100,687 |
| June 30, 2017 | 41,412 | 53,565 | 28,785 | 123,762 |
| June 30, 2018 | 40,952 | 46,205 | — | 87,157 |
| June 30, 2019 | 41,074 | 10,832 | — | 51,906 |
| Thereafter | 194,632 | 880,000 | — | 1,074,632 |
| | $ 410,203 | $ 1,112,153 | $ 28,785 | 1,551,141 |
| Deferred financing charges | | | | (11,282) |
| Unamortized fair value debt adjustment | | | | 5,548 |
| | | | | **$ 1,545,407** |

Specific investment properties with a carrying value of $2,743,326 as at June 30, 2014 (December 31, 2013 - $2,832,554; June 30, 2013 - $2,159,565) are currently pledged as security for mortgages or provided as security for the floating rate revolving credit facility. Carrying value includes investment properties, investment properties held for sale, intangible assets, as well as accrued straight-line rent and tenant incentives which are included in other assets.

**Mortgage Activity During 2014**

| New mortgages for the six months ended: | Type | Number of Mortgages | Weighted Average Rates | Weighted Average Terms in Years | Weighted Average Amortization Period in Years | Proceeds (Repayments) |
|---|---|---|---|---|---|---|
| June 30, 2014 | New | 4 | 4.23% | 8.8 | 25.0 | $ 40,616 |
| **Other mortgage activity:** | | | | | | |
| January 2, 2014 | Repayment | 1 | 5.47% | — | — | (3,446) |
| January 6, 2014 | Repayment | 2 | 5.15% | — | — | (16,924) |
| January 31, 2014 | Repayment | 1 | 5.73% | — | — | (3,828) |
| March 3, 2014 | Repayment | 7 | 4.89% | — | — | (24,297) |
| April 1, 2014 | Repayment | 4 | 5.48% | — | — | (22,052) |
| April 7, 2014 | Repayment | 1 | 4.77% | — | — | (3,804) |
| | | | | | | $ (33,735 ) |

**Floating Rate Revolving Credit Facility**

The floating rate revolving credit facility has a maximum principal amount of $300,000 (December 31, 2013 - $285,000; June 30, 2013 - $285,000) and matures June 30, 2017. The facility is used by Crombie for working capital purposes and to provide temporary financing for acquisitions and development activity. It is secured by a pool of first and second mortgages on certain properties and the maximum principal amount is subject to available borrowing base (June 30, 2014 – borrowing base of $300,000). The floating interest rate is based on bankers' acceptance rates plus a spread or specific margin over prime rate. The specified spread or margin increases as Crombie's overall debt leverage increases beyond specific thresholds.

See Note 20(a) for fair value information.

**9) SENIOR UNSECURED NOTES**

| | Maturity Date | Interest Rate | **June 30, 2014** | December 31, 2013 | June 30, 2013 |
|---|---|---|---|---|---|
| Series A senior unsecured notes | October 31, 2018 | 3.986% | **$ 175,000** | $ 175,000 | $ — |
| Series B senior unsecured notes | June 1, 2021 | 3.962% | **100,000** | — | — |
| Unamortized Series B issue premium | | | **376** | — | — |
| Deferred financing charges | | | **(1,913)** | (1,063) | — |
| | | | **$ 273,463** | $ 173,937 | $ — |

As at June 30, 2014, senior unsecured note retirements for the next five years are:

| 12 Months Ending | **Series A** | **Series B** | **Total** |
|---|---|---|---|
| June 30, 2015 | $ — | $ — | $ — |
| June 30, 2016 | — | — | — |
| June 30, 2017 | — | — | — |
| June 30, 2018 | — | — | — |
| June 30, 2019 | 175,000 | — | 175,000 |
| Thereafter | — | 100,000 | 100,000 |
| | $ 175,000 | $ 100,000 | 275,000 |
| Unamortized Series B issue premium | | | 376 |
| Deferred financing charges | | | (1,913) |
| | | | $ 273,463 |

See Note 20(a) for fair value information.

**10) CONVERTIBLE DEBENTURES**

| | **Conversion Price** | **Maturity Date** | **Interest Rate** | **June 30, 2014** | December 31, 2013 | June 30, 2013 |
|---|---|---|---|---|---|---|
| Series B (CRR.DB.B) | $ 11.00 | October 11, 2013 | 6.25% | **$ —** | $ — | $ 15,916 |
| Series C (CRR.DB.C) | $ 15.30 | June 30, 2017 | 5.75% | **45,000** | 45,000 | 45,000 |
| Series D (CRR.DB.D) | $ 20.10 | September 30, 2019 | 5.00% | **60,000** | 60,000 | 60,000 |
| Series E (CRR.DB.E) | $ 17.15 | March 31, 2021 | 5.25% | **75,000** | 75,000 | — |
| Deferred financing charges | | | | **(4,652)** | (5,071) | (2,793) |
| | | | | **$ 175,348** | $ 174,929 | $ 118,123 |

| **Debenture Conversions** | **Conversion Price** | **Six months ended June 30, 2014** | Year Ended December 31, 2013 | Six months ended June 30, 2013 |
|---|---|---|---|---|
| Series B | $ 11.00 | **$ —** | $ 17,115 | $ 2,763 |
| | | **$ —** | $ 17,115 | $ 2,763 |
| REIT Units Issued | | **—** | 1,555,887 | 251,173 |

As at June 30, 2014, debenture retirements for the next five years are:

| 12 Months Ending | Series C | Series D | Series E | Total |
|---|---|---|---|---|
| June 30, 2015 | $ — | $ — | $ — | $ — |
| June 30, 2016 | — | — | — | — |
| June 30, 2017 | 45,000 | — | — | 45,000 |
| June 30, 2018 | — | — | — | — |
| June 30, 2019 | — | — | — | — |
| Thereafter | — | 60,000 | 75,000 | 135,000 |
| | $ 45,000 | $ 60,000 | $ 75,000 | 180,000 |
| Deferred financing charges | | | | (4,652) |
| | | | | **$ 175,348** |

See Note 20(a) for fair value information.

**11) INCOME TAXES**

The deferred tax liability of the wholly-owned corporate subsidiaries which are subject to income taxes consist of the following:

| | **June 30, 2014** | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Tax liabilities relating to difference in tax and book value | **$ 91,869** | $ 91,906 | $ 95,239 |
| Tax asset relating to non-capital loss carry-forward | **(11,769)** | (11,081) | (12,639) |
| Deferred tax liability | **$ 80,100** | $ 80,825 | $ 82,600 |

The tax recovery (expense) consists of the following:

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Provision for income taxes at the expected rate | **$ (4,796)** | $ (3,740) | **$ (9,643)** | $ (7,622) |
| Tax effect of income attribution to Crombie's Unitholders | **5,296** | 3,740 | **10,368** | 7,522 |
| Taxes - deferred | **$ 500** | $ — | **$ 725** | $ (100) |

There are no corporate tax implications to Crombie from any of the components of accumulated other comprehensive income.

**12) TRADE AND OTHER PAYABLES**

| | **June 30, 2014** | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Tenant incentives and capital expenditures | **$ 22,295** | $ 30,417 | $ 25,159 |
| Property operating costs | **26,251** | 27,444 | 25,670 |
| Prepaid rents | **4,692** | 8,514 | 5,039 |
| Finance costs on investment property debt, notes and debentures | **9,022** | 8,659 | 5,220 |
| Distributions payable | **9,680** | 9,116 | 6,829 |
| Fair value of interest rate swap agreements | **—** | 21 | 33 |
| Fair value of embedded derivatives in convertible debentures | **—** | — | 2,249 |
| Liabilities related to derecognized property | **—** | 5,627 | 5,724 |
| | **$ 71,940** | $ 89,798 | $ 75,923 |

Fair value of embedded derivatives in convertible debentures:

| | **June 30, 2014** | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Balance, beginning of period | **$ —** | $ 5,062 | $ 5,062 |
| Change in fair value of financial instruments | **—** | (2,368) | (2,202) |
| Impact of debentures converted | **—** | (2,694) | (611) |
| Balance, end of period | **$ —** | $ — | $ 2,249 |

Change in fair value of financial instruments:

| | **Note** | **June 30, 2014** | December 31, 2013 | June 30, 2013 |
|---|---|---|---|---|
| Change in fair value of embedded derivatives in convertible debentures | 12 | **$ —** | $ 2,368 | $ 2,202 |
| Change in fair value of marketable securities | 5 | **185** | 105 | — |
| Change in fair value of financial instruments | | **$ 185** | $ 2,473 | $ 2,202 |

**13) PROPERTY REVENUE**

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Rental revenue contractually due from tenants | **$ 88,022** | $ 71,350 | **$ 177,618** | $ 141,840 |
| Contingent rental revenue | **507** | 554 | **1,155** | 1,251 |
| Straight-line rent recognition | **2,706** | 1,208 | **5,460** | 2,567 |
| Tenant incentive amortization | **(2,390)** | (1,930) | **(4,527)** | (3,900) |
| Lease terminations | **163** | 88 | **215** | 94 |
| | **$ 89,008** | $ 71,270 | **$ 179,921** | $ 141,852 |

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

| | **Three months ended June 30,** | | | | **Six months ended June 30,** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2014** | | 2013 | | **2014** | | 2013 | |
| | **Revenue** | **Percentage** | Revenue | Percentage | **Revenue** | **Percentage** | Revenue | Percentage |
| Sobeys Inc. | **$ 40,631** | **45.6%** | $ 26,394 | 37.0% | **$ 75,728** | **42.1%** | $ 45,485 | 32.1% |

**14) OPERATING LEASES**

**Crombie as a Lessor**

Crombie's operations include leasing commercial real estate. Future minimum rental income under non-cancellable tenant leases as at June 30, 2014, is as follows:

| | **Remaining** | **Year Ending December 31,** | | | | | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **Thereafter** | **Total** |
| Future minimum rental income | $ 123,891 | $ 240,674 | $ 230,939 | $ 219,630 | $ 208,562 | $ 2,096,703 | $ 3,120,399 |

**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 11 to 76 years including renewal options:

| | Remaining | Year Ending December 31, | | | | | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **Thereafter** | **Total** |
| Future minimum lease payments | $ 646 | $ 1,236 | $ 1,238 | $ 1,292 | $ 1,320 | $ 44,859 | $ 50,591 |

**15) EMPLOYEE BENEFIT EXPENSE**

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Wages and salaries | **$ 5,135** | $ 4,777 | **$ 14,033** | $ 12,007 |
| Post-employment benefits | **182** | 154 | **355** | 319 |
| | **$ 5,317** | $ 4,931 | **$ 14,388** | $ 12,326 |

**16) FINANCE COSTS – OPERATIONS**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Fixed rate mortgages | **$ 19,332** | $ 14,860 | **$ 39,407** | $ 28,588 |
| Floating rate term, revolving and demand facilities | **611** | 1,128 | **1,455** | 2,548 |
| Senior unsecured notes | **2,742** | — | **4,721** | — |
| Convertible debentures | **2,385** | 1,660 | **4,733** | 3,319 |
| **Finance costs - operations** | **25,070** | 17,648 | **50,316** | 34,455 |
| Amortization of fair value debt adjustment and accretion income | **535** | 997 | **1,105** | 1,727 |
| Change in accrued finance costs | **819** | (76) | **(363)** | 1,298 |
| Amortization of effective swap agreements | **(666)** | (959) | **(1,508)** | (1,924) |
| Amortization of deferred financing charges | **(878)** | (612) | **(1,639)** | (1,200) |
| **Finance costs - operations, paid** | **$ 24,880** | $ 16,998 | **$ 47,911** | $ 34,356 |

**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, 2014** | **72,662,264** | **$ 811,514** | **50,241,245** | **$ 551,511** | **122,903,509** | **$ 1,363,025** |
| Units issued (proceeds are net of issue costs) | **4,530,000** | **57,337** | **3,018,868** | **39,810** | **7,548,868** | **97,147** |
| Units issued under EUPP | **55,467** | **738** | **—** | **—** | **55,467** | **738** |
| Units released under EUPP | **—** | **64** | **—** | **—** | **—** | **64** |
| Net change in EUPP loans receivable | **—** | **16** | **—** | **—** | **—** | **16** |
| **Balance, June 30, 2014** | **77,247,731** | **$ 869,669** | **53,260,113** | **$ 591,321** | **130,507,844** | **$ 1,460,990** |

| | 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, 2013 | 53,342,855 | $ 575,506 | 38,430,221 | $ 401,606 | 91,773,076 | $ 977,112 |
| Units issued under EUPP | 43,522 | 634 | — | — | 43,522 | 634 |
| Units released under EUPP | — | 49 | — | — | — | 49 |
| Net change in EUPP loans receivable | — | (230) | — | — | — | (230) |
| Conversion of debentures | 251,173 | 2,763 | — | — | 251,173 | 2,763 |
| Conversion feature of debentures | — | 611 | — | — | — | 611 |
| Balance, June 30, 2013 | 53,637,550 | $ 579,333 | 38,430,221 | $ 401,606 | 92,067,771 | $ 980,939 |

**Crombie REIT Units**

On May 30, 2014, Crombie closed a public offering, on a bought deal basis, of 4,530,000 Units, at a price of $13.25 per Unit for proceeds of $57,337 net of issue costs.

**Crombie REIT Special Voting Units ("SVU") and Class B LP Units**

On May 30, 2014, concurrently with the issuance of the REIT Units, in satisfaction of its pre-emptive right, ECL Developments Limited purchased 3,018,868 Class B LP Units and the attached SVUs at a price of $13.25 per Class B LP Unit for proceeds of $39,810 net of issue costs, on a private placement basis.

**18) SUPPLEMENTARY CASH FLOW INFORMATION**

**a) Items not affecting operating cash**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Items not affecting operating cash: | | | | |
| Accrued straight-line rent | **$ (2,706)** | $ (1,208) | **$ (5,460)** | $ (2,567) |
| Amortization of tenant incentives | **2,390** | 1,930 | **4,527** | 3,900 |
| Loss (gain) on derecognition of investment property | **3** | (6) | **160** | (436) |
| Depreciation of investment properties | **14,567** | 9,958 | **29,015** | 19,240 |
| Amortization of deferred leasing costs | **147** | 142 | **278** | 278 |
| Amortization of intangible assets | **1,229** | 1,885 | **3,175** | 3,589 |
| Unit based compensation | **10** | 11 | **20** | 19 |
| Amortization of effective swap agreements | **666** | 959 | **1,508** | 1,924 |
| Amortization of deferred financing charges | **878** | 612 | **1,639** | 1,200 |
| Taxes - deferred | **(500)** | — | **(725)** | 100 |
| Change in fair value of financial instruments | **(130)** | (1,585) | **(185)** | (2,202) |
| | **$ 16,554** | $ 12,698 | **$ 33,952** | $ 25,045 |

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Cash provided by (used in): | | | | |
| Trade receivables | **$ (4,414)** | $ (856) | **$ (6,842)** | $ (1,840) |
| Prepaid expenses and deposits and other assets | **(7,212)** | (7,122) | **(7,599)** | (7,573) |
| Payables and other liabilities | **(8,916)** | (3,413) | **(3,938)** | (1,468) |
| | **$ (20,542)** | $ (11,391) | **$ (18,379)** | $ (10,881) |

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

As at June 30, 2014, Empire, through its wholly-owned subsidiary ECL Developments Limited, holds a 41.5% (fully diluted 39.3%) indirect interest in Crombie.

Crombie's transactions with related parties are as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Property revenue | **$ 41,974** | $ 29,137 | **$ 78,244** | $ 50,143 |
| Head lease income | **$ 214** | $ 150 | **$ 487** | $ 353 |
| Management support services provided | **$ 95** | $ 87 | **$ 201** | $ 205 |
| Property management services | **$ 129** | $ 48 | **$ 264** | $ 108 |
| Rental expense | **$ 47** | $ 47 | **$ 94** | $ 94 |
| Property operating expenses | **$ 32** | $ — | **$ 55** | $ — |
| Interest rate subsidy | **$ 182** | $ 227 | **$ 377** | $ 465 |
| Finance costs - operations | **$ 299** | $ 299 | **$ 595** | $ 595 |
| Finance costs - distributions to Unitholders | **$ 11,830** | $ 8,754 | **$ 23,211** | $ 17,507 |

In addition to the above:

- On May 30, 3014 ECL Developments Limited purchased 3,018,868 Class B LP Units and the attached SVUs at a price of $13.25 per Class B LP Unit for proceeds of $39,810, net of issue costs, on a private placement basis.
- During the second quarter of 2014 Crombie acquired a retail property from Sobeys Developments Limited Partnership ("SDLP") for $10,176 excluding closing adjustments and transactions cost. The property, located in Ontario, contains approximately 39,000 square feet of fully occupied space.
- During the first quarter of 2014 Crombie exchanged properties with a subsidiary of Empire by acquiring 1200 Railway Avenue in Canmore, Alberta in exchange for disposing of 555 Main Street in Canmore, Alberta. Crombie also acquired additional development space from Empire on a pre-existing retail property for $1,490 excluding closing and transaction costs.
- During the first quarter of 2014, Crombie entered into a loan agreement with SDLP to partially finance SDLP's acquisition of development lands in Langford, British Columbia. The $11,856 loan bears interest at a rate of 6% per annum and has no principal repayments until maturity on October 1, 2016.
- During the second quarter of 2013, Crombie acquired one property from a subsidiary of Empire for a total purchase price of $20,875 excluding closing and transactions costs.

- During the first quarter of 2013, Crombie acquired two properties and acquired one development addition to an existing property from subsidiaries of Empire for a total purchase price of $32,555 excluding closing and transaction costs.

**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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | **2013** |
| Salary, bonus and other short-term employee benefits | **$ 1,058** | $ 878 | **$ 2,089** | $ 1,674 |
| Other long-term benefits | **26** | 25 | **52** | 50 |
| | **$ 1,084** | $ 903 | **$ 2,141** | $ 1,724 |

**20) FINANCIAL INSTRUMENTS**

**a) Fair value of financial instruments**

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

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

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

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

Level 3 - unobservable inputs for the asset or liability.

The following table provides information on financial assets and liabilities measured at fair value as at June 30, 2014:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Marketable securities | $ — | $ — | $ 1,108 | $ 1,108 |
| Total financial assets measured at fair value | $ — | $ — | $ 1,108 | $ 1,108 |
| **Financial liabilities** | | | | |
| Interest rate swaps | $ — | $ — | $ — | $ — |
| Embedded derivatives in convertible debentures | — | — | — | — |
| Total financial liabilities measured at fair value | $ — | $ — | $ — | $ — |

There were no transfers between Level 1 and Level 2 during the six months ended June 30, 2014.

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

| | **June 30, 2014** | | December 31, 2013 | | June 30, 2013 | |
|---|---|---|---|---|---|---|
| | **Fair Value** | **Carrying Value** | Fair Value | Carrying Value | Fair Value | Carrying Value |
| **Financial assets** | | | | | | |
| Assets related to derecognized property | **$ —** | **$ —** | $ 5,733 | $ 5,830 | $ 5,900 | $ 5,974 |
| Long term receivables | **13,537** | **13,547** | 1,901 | 1,821 | 2,369 | 2,169 |
| Total other financial assets | **$ 13,537** | **$ 13,547** | $ 7,634 | $ 7,651 | $ 8,269 | $ 8,143 |
| **Financial liabilities** | | | | | | |
| Investment property debt | **$ 1,619,297** | **$ 1,556,689** | $ 1,725,981 | $ 1,705,960 | $ 1,318,039 | $ 1,278,341 |
| Senior unsecured notes | **284,053** | **275,000** | 175,035 | 175,000 | — | — |
| Convertible debentures | **186,420** | **180,000** | 183,863 | 180,000 | 125,682 | 120,916 |
| Liabilities related to derecognized property | **—** | **—** | 5,676 | 5,627 | 5,835 | 5,724 |
| Total other financial liabilities | **$ 2,089,770** | **$ 2,011,689** | $ 2,090,555 | $ 2,066,587 | $ 1,449,556 | $ 1,404,981 |

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

- Cash and cash equivalents
- Trade receivables
- Restricted cash
- Trade and other payables (excluding interest rate swaps, embedded derivatives and liabilities related to derecognized property)

**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. 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.

There have been no significant changes to Crombie's credit risk since December 31, 2013.

**Interest rate risk**

Interest rate risk is the potential for financial loss arising from increases in interest rates. Crombie mitigates this risk by utilizing staggered debt maturities and limiting the use of permanent floating rate debt and, on occasion, utilizing interest rate swap agreements.

A fluctuation in interest rates would have had an impact on Crombie's operating income related to the use of floating rate debt. Based on 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 June 30, 2014** | **$ 75** | **$ (75)** |
| Three months ended June 30, 2013 | $ 148 | $ (148) |
| **Six months ended June 30, 2014** | **$ 188** | **$ (188)** |
| Six months ended June 30, 2013 | $ 361 | $ (361) |

There have been no significant changes to Crombie's interest rate risk since December 31, 2013.

**Liquidity risk**

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

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

| | | Twelve months ending June 30, | | | | | |
|---|---|---|---|---|---|---|---|
| | **Contractual Cash Flows[1]** | **2015** | **2016** | **2017** | **2018** | **2019** | **Thereafter** |
| Fixed rate mortgages[2] | $ 1,993,706 | $ 182,204 | $ 164,789 | $ 154,853 | $ 142,883 | $ 103,898 | $ 1,245,079 |
| Senior unsecured notes | 332,633 | 10,938 | 10,938 | 10,938 | 10,938 | 181,287 | 107,594 |
| Convertible debentures | 230,095 | 9,526 | 9,526 | 54,526 | 6,938 | 6,938 | 142,641 |
| | 2,556,434 | 202,668 | 185,253 | 220,317 | 160,759 | 292,123 | 1,495,314 |
| Floating rate revolving credit facility | 31,377 | 864 | 864 | 29,649 | — | — | — |
| **Total** | $ 2,587,811 | $ 203,532 | $ 186,117 | $ 249,966 | $ 160,759 | $ 292,123 | $ 1,495,314 |

(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.

There have been no significant changes to Crombie's liquidity risk since December 31, 2013.

**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 55% 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:

| | **June 30, 2014** | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Investment property debt | **$ 1,545,407** | $ 1,694,200 | $ 1,269,204 |
| Senior unsecured notes | **273,463** | 173,937 | — |
| Convertible debentures | **175,348** | 174,929 | 118,123 |
| Crombie REIT Unitholders | **726,346** | 680,935 | 467,846 |
| SVU and Class B LP Unitholders | **474,639** | 443,363 | 306,710 |
| | **$ 3,195,203** | $ 3,167,364 | $ 2,161,883 |

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

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

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

| | **June 30, 2014** | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Fixed rate mortgages | **$ 1,527,904** | $ 1,585,960 | $ 1,163,195 |
| Senior unsecured notes | **275,000** | 175,000 | — |
| Convertible debentures | **180,000** | 180,000 | 120,916 |
| Revolving credit facility | **28,785** | 120,000 | 115,146 |
| Total debt outstanding | **2,011,689** | 2,060,960 | 1,399,257 |
| Less: Applicable fair value debt adjustment | **(2,526)** | (2,903) | (3,326) |
| Debt | **$ 2,009,163** | $ 2,058,057 | $ 1,395,931 |
| | | | |
| Investment properties, cost | **$ 3,361,452** | $ 3,380,073 | $ 2,346,757 |
| Below-market lease component, cost [(1)] | **72,209** | 71,173 | 70,916 |
| Intangible assets, cost | **96,680** | 96,397 | 79,022 |
| Long term receivables | **13,547** | 1,821 | 2,169 |
| Other assets, cost (see below) | **169,755** | 145,592 | 143,826 |
| Cash and cash equivalents | **—** | 7,167 | — |
| Deferred financing charges | **17,847** | 17,894 | 11,930 |
| Investment properties held for sale | **33,653** | — | — |
| Interest rate subsidy | **(2,526)** | (2,903) | (3,326) |
| Fair value adjustment to deferred taxes | **(38,545)** | (38,585) | (39,045) |
| Gross book value | **$ 3,724,072** | $ 3,678,629 | $ 2,612,249 |
| Debt to gross book value | **54.0%** | 55.9% | 53.4% |

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

Other assets are calculated as follows:

| | **June 30, 2014** | December 31, 2013 | June 30, 2013 |
|---|---|---|---|
| Other assets per Note 5 | **$ 134,556** | $ 118,843 | $ 121,050 |
| Add back (deduct): | | | |
| Tenant incentive accumulated amortization | **35,199** | 32,579 | 28,750 |
| Assets related to derecognized property | **—** | (5,830 ) | (5,974) |
| Other assets, cost | **$ 169,755** | $ 145,592 | $ 143,826 |

As at June 30, 2014, 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 agreed to indemnify its trustees and officers, and particular employees, in accordance with Crombie's policies. Crombie maintains insurance policies that may provide coverage against certain claims.

Crombie has entered into a management cost sharing agreement with a subsidiary of Empire.

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. As at June 30, 2014, Crombie has a total of $2,535 in outstanding letters of credit related to:

| | Six months ended June 30, | |
|---|---|---|
| | **2014** | 2013 |
| Construction work being performed on investment properties | **$ 835** | $ 714 |
| Mortgage lender primarily to satisfy defeasance of derecognized property | **—** | 1,715 |
| Mortgage lenders primarily to satisfy mortgage financings on redevelopment properties | **1,700** | 8,900 |
| Total outstanding letters of credit | **$ 2,535** | $ 11,329 |

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 11 to 76 years including renewal options. For the three months and six months ended June 30, 2014, Crombie paid $308 and $616 respectively in land lease payments to third party landlords (three months and six months ended June 30, 2013 - $309 and $618 respectively). Crombie's commitments under the land leases are disclosed in Note 14.

As at June 30, 2014, Crombie had signed construction contracts totaling $22,337 of which $18,401 has been paid.

**23) SUBSEQUENT EVENTS**

(a) On July 22, 2014, Crombie declared distributions of 7.417 cents per unit for the period from July 1, 2014 to and including, July 31, 2014. The distribution will be paid on August 15, 2014, to Unitholders of record as of July 31, 2014.

**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.

# UNITHOLDERS' INFORMATION

## BOARD OF TRUSTEES

**Donald E. Clow**
Trustee, President and Chief Executive Officer

**Frank C. Sobey**
Trustee and Chairman

**Paul D. Sobey**
Trustee

**David Leslie**
Independent Trustee

**J. Michael Knowlton**
Independent Trustee

**E. John Latimer**
Independent Trustee

**John Eby**
Independent Trustee and Lead Trustee

**Elisabeth Stroback**
Independent Trustee

**Barbara Palk**
Independent Trustee

**Francois Vimard**
Trustee

**Kent R. Sobey**
Independent Trustee

**Brian A. Johnson**
Independent Trustee

## OFFICERS

**Frank C. Sobey**
Chairman

**Donald E. Clow**
President and Chief Executive Officer

**Glenn R. Hynes**
Executive Vice President, Chief Financial Officer and Secretary

**Patrick G. Martin**
Executive Vice President, Operations

**Trevor Lee**
Regional Vice President Western Canada

**Scott R. MacLean**
Regional Vice President Atlantic Canada

## CROMBIE REIT

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Telephone: (902) 755-8100
Fax (902) 755-6477
Internet: www.crombiereit.com

## UNIT SYMBOL

REIT Trust Units – CRR.UN

## STOCK EXCHANGE LISTING

Toronto Stock Exchange

## DISTRIBUTION RECORD AND PAYMENT DATES FOR FISCAL 2014

| Record Date | Payment Date |
|---|---|
| January 31, 2014 | February 17, 2014 |
| February 28, 2014 | March 17, 2014 |
| March 31, 2014 | April 15, 2014 |
| April 30, 2014 | May 15, 2014 |
| May 31, 2014 | June 16, 2014 |
| June 30, 2014 | July 15, 2014 |
| July 31, 2014 | August 15, 2014 |

## COUNSEL

Stewart McKelvey
Halifax, Nova Scotia

## AUDITORS

Grant Thornton, LLP
New Glasgow, Nova Scotia

## INVESTOR RELATIONS AND INQUIRIES

Unitholders, analysts, and investors should direct their financial inquiries or request to:
Glenn R. Hynes, F.C.A.
Executive Vice President, Chief Financial Officer and Secretary
Email: investing@crombie.ca

Communication regarding investor records, including changes of address or ownership, lost certificates or tax forms, should be directed to the company's transfer agent and registrar, CST Trust Company.

## TRANSFER AGENT

CST Trust Company
1660 Hollis Street
Central Building, 4th Floor
Halifax, Nova Scotia, B3J 1V7
Telephone: (800) 387-0825
Email: inquiries@canstock.com

Website: www.canstockta.com

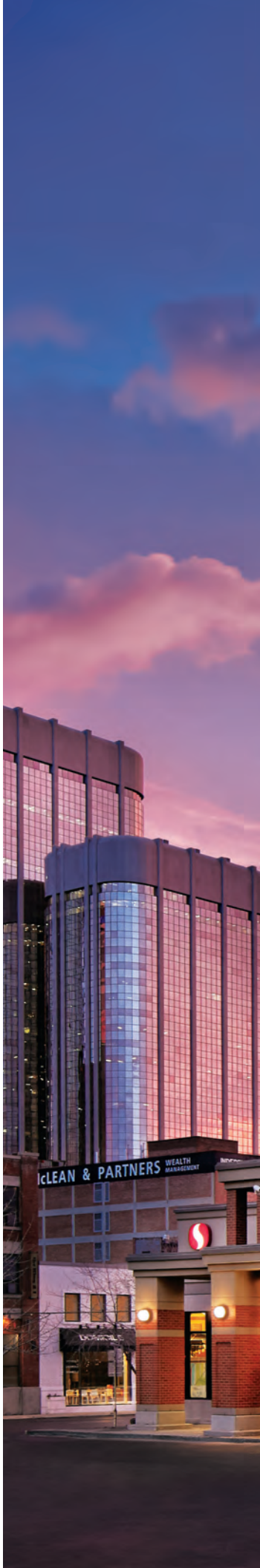
## MULTIPLE MAILINGS

If you have more than one account, you may receive a separate mailing for each.

If this occurs, please contact CST Trust Company at (800) 387-0825 or (416) 682-3860 to eliminate multiple mailings.

# ADVANCING OUR STRATEGY

Crombie significantly advanced its strategy of retail property growth in Canada's top 36 metropolitan markets in 2013 with $1.2 billion in focused acquisitions. Today:

- 71% of annual minimum rent is produced by grocery- and drugstore-anchored plazas and freestanding stores;
- 57% of annual minimum rent is generated outside Atlantic Canada; and
- 63% of annual minimum rent comes from investment-grade tenants.

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