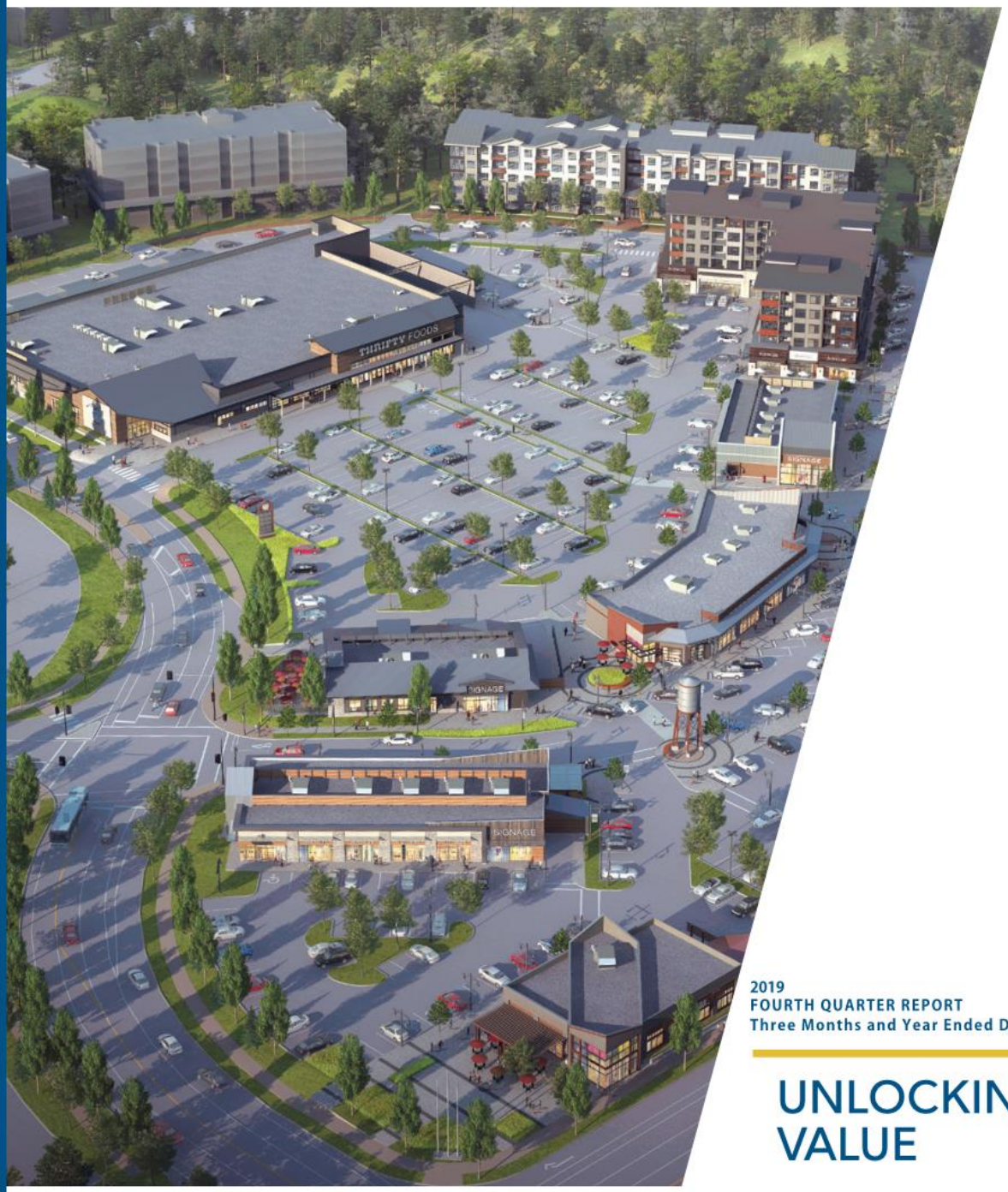
Crombie REIT




2019
FOURTH QUARTER REPORT
Three Months and Year Ended December 31

# UNLOCKING VALUE

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**Dear Fellow Unitholders:**

Crombie's commitment to creating value for unitholders, demonstrated by our innovative capital recycling program and disciplined capital allocation, led to the outperformance of Crombie's units and a favourable 35% Total Unitholder Return for 2019 and 11% Total Unitholder Return over the last decade. Our strong operating fundamentals in grocery-anchored real estate, enhanced strategic relationship with Empire Company Limited ("Empire"), an on-track development pipeline, and a dynamic team with a deep leadership bench contribute to a solid foundation on which we execute our strategy.

**Results and Fundamentals**
(in thousands of CAD dollars, except per unit amounts)

For the year ended December 31, 2019, operating income attributable to Unitholders increased 50.7% to $161,875, funds from operations (FFO*) per unit decreased from $1.22 to $1.16, while adjusted funds from operations (AFFO*) per unit decreased from $1.03 to $0.98. FFO and AFFO were impacted by significant dispositions in 2018 and 2019 and by our investment in major development projects that will commence income generation and fuel FFO/AFFO growth in the next 12 to 24 months. Same-asset cash NOI increased 3.5%, or 3.0% excluding the impact of IFRS 16 'Leases', for the year ended December 31, 2019. The increase in same-asset cash NOI is the result of new leasing activity, rent increases on existing leases, revenues from modernization investments, and land use intensification at certain properties.

Crombie's strong fundamentals were driven by a record high year end committed occupancy of 96.1%. New leases increased occupancy by 247,000 sqft at a weighted average first year rate of $20.68 psf. Additionally, 1,626,000 sqft was renewed at an average first year rate of $17.37 psf, a 3.9% increase over expiring rate. Our team remains dedicated to ensuring our underlying business and core portfolio remain solid.

**Empire**

Empire has disclosed a strategy that is focused on growth in its bricks and mortar retail business, including a strategy to invest in and modernize its store network across the country that will drive growth in grocery sales and profitability for years to come. They recognize a need to maintain and modernize their stores across the country, in addition to building Voilà, their grocery e-commerce platform. As their largest landlord, we continue to align our strategies and capitalize on a wide range of strategic and accretive transactions. During 2019, Crombie invested $33,400 in modernizations of Crombie owned assets within Empire's grocery network, enhancing portfolio quality and driving AFFO and Net Asset Value (NAV)* growth. The modernizations, major developments, land-use intensification projects, and FreshCo format conversions are strategic projects with Empire that enable us to unlock synergistic value creation in the short, medium and long term.

**Development**

Crombie is acutely focused on maximizing value creation through our development program. We have curated a 33-property development pipeline, all of which we anticipate to be completed or in progress within the next 15 years, representing $4,000,000 to $5,800,000 of investment in potential mixed-use development; 24 of these sites are in VECTOM** markets.

During 2019, the site for the future home of Voilà par IGA, in Montreal, Quebec, Empire's approximate 300,000 sqft Customer Fulfillment Centre, was acquired and became Crombie's sixth active major development. Building construction is expected to commence in spring 2020. In Vancouver, British Columbia, our Davie Street project has residential glazing installed up to the 18th floor of both towers with construction expected to be completed in summer 2020. The approximate 45,000 square foot Safeway store is expected to open spring 2020. Throughout 2019, committed occupancy at our Belmont property, in Langford, British Columbia, grew to 86.4%, with active pre-leasing occurring on the final portion of the project. The residential structure is completed up to the 12th floor at Le Duke in Montreal, Quebec and above grade concrete work is completed up to level 14 and level 5 on Buildings A and B, respectively at Bronte Village in Oakville, Ontario. We reached a milestone as the topping off ceremony for Building A of Bronte Village took place on February 7th. Avalon Mall, in St. John's, Newfoundland and Labrador, continued to demonstrate its market dominance in 2019 as development progressed and leases were executed on 69.3% of square footage in the newly redeveloped area. Notable deals in 2019 include a new and expanded Winners HomeSense, H&M, GAP/Banana Republic, and Old Navy. Subsequent to December 31, 2019, leases were executed with Tommy Hilfiger, SportChek, and Levi Strauss, bringing the redevelopment area to 88.8% leased. Advanced discussions with other potential national anchor and commercial retail unit tenants continue.

Throughout 2020, we expect Davie Street, Belmont Market and Avalon Mall to reach completion. These assets are expected to create significant NAV and AFFO growth, increase our presence in the country's top urban markets, and diversify and improve our overall portfolio quality and income stream.

**Funding**

The cornerstone of our financial strategy is to effectively allocate capital to support both NAV and AFFO per unit growth. Crombie is successfully executing on our strategy to secure multiple sources of equity financing through capital recycling, capital markets and joint ventures as well as multiple sources of debt financing that allows us to optimize our capital structure, minimize cost of capital, and de-risk our business.

2019 was a record year for capital recycling with gross proceeds of approximately $536,000 on sales of full or partial property interests. Crombie completed two innovative transactions in the second and fourth quarters with gross proceeds totaling $355,000, at values at or above IFRS fair value which speaks to the enduring quality and value of our portfolio and our ability to redirect capital to growth initiatives.

During the third quarter, Crombie successfully executed a seven-year $200,000 senior unsecured notes offering at a desirable interest rate of 3.677% and subsequently redeemed $125,000 of senior unsecured notes due in February 2020. In the fourth quarter, Crombie executed a seven and a half year $150,000 senior unsecured notes offering at an interest rate of 3.917%. Proceeds from the notes offering were ear-marked for the repayment of approximately $153,000 of secured mortgages maturing on February 1, 2020 at an interest rate of 5.63%. These transactions advanced several of Crombie's strategic priorities, increased our allocation to unsecured debt from secured debt, and provided advanced funding of debt maturing in 2020. Additionally, mortgage repayments of approximately $300,000 occurred during 2019, primarily as a result of capital recycling activity.

Crombie will continue to focus on our goals of increasing weighted average term to maturity of our debt while taking advantage of the current low interest rate environment, reducing our leverage over the medium term, and increasing our unencumbered asset pool.

**Closing**

A strong 2019 has set Crombie up for success in 2020 and beyond, as our relationship with Empire is taken to the next level to create significant value, development projects are executed on time and on budget, our fundamentals and balance sheet remain strong, and we have confidence in our ability to prudently allocate and creatively source capital. Our team remains committed to short, medium and long-term sustainable growth, through maintaining strategic relationships with the best retailers in Canada and enhancing our properties in the country's best markets through development. Thank you for your continued confidence and trust in our performance.

Sincerely,

Donald E. Clow, FCPA, ICD.D.

President and Chief Executive Officer

*FFO, AFFO, same-asset cash NOI and NAV 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 from operating activities or any other measure prescribed under IFRS. Please see the attached Management’s Discussion and Analysis of financial results for a discussion of these measures and how they are calculated.

** VECTOM: Vancouver, Edmonton, Calgary, Toronto, Ottawa-Gatineau, Montreal, as defined by Statistics Canada 2016 CMA/CA boundaries.

# Key performance indicators - Supplementary Information

The following highlights Crombie's performance against key financial and operational metrics as impacted by significant trends or events during the quarter and year.*

## Financial

(in thousands of CAD dollars, except per unit amounts)

| Operating income | | |
|---|---|---|
| Q4 2019 | **$44,149** | |
| Q4 2018 | $20,111 | +119.53% |

| Operating income | | |
|---|---|---|
| Year 2019 | **$161,875** | |
| Year 2018 | $107,407 | +50.71% |

The quarterly and annual increase in operating income attributable to Unitholders is primarily due to gains on disposal of investment properties. These disposals also resulted in lower depreciation and reduced finance costs from operations from the repayment of related mortgages and credit facilities, offset in part by reduced property revenue.

| Property Revenue | | |
|---|---|---|
| Q4 2019 | **$96,823** | |
| Q4 2018 | $104,296 | -7.17% |

| Property Revenue | | |
|---|---|---|
| Year 2019 | **$398,741** | |
| Year 2018 | $414,649 | -3.84% |

The decrease in property revenue in both the quarter and full year is due to property dispositions; the most significant being a 50% interest in seven properties sold in the first quarter of 2019, an 89% interest in 26 properties sold in the second quarter of 2019 and an 89% interest in 15 properties sold in the fourth quarter of 2019. This decrease is partially offset by leasing activity in the second quarter of 2019 in Halifax office and development properties, as well as modernizations in several properties in the third and fourth quarters.

| Same-asset cash NOI | | |
|---|---|---|
| Q4 2019 | **$59,760** | |
| Q4 2018 | $57,998 | +3.04% |

| Same-asset cash NOI | | |
|---|---|---|
| Year 2019 | **$236,565** | |
| Year 2018 | $228,582 | +3.49% |

The quarterly increase in same-asset cash NOI of $1,762 or 3.04% compared to the fourth quarter of 2018 is primarily due to rate increases on existing tenant leases, new leasing activity and revenues from modernizations and land use intensifications at certain properties. In addition, there was a favourable impact from the adoption of IFRS 16 'Leases' on January 1, 2019.

On an annual basis, the same factors account for the majority of the 3.49% increase in same-asset cash NOI, with the remaining increase a result of lease termination income.

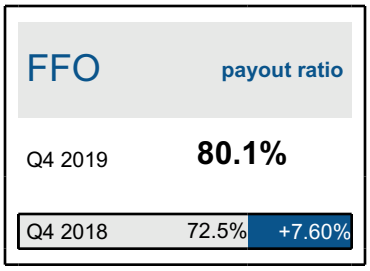
| FFO | per unit | |
|---|---|---|
| Q4 2019 | **$0.28** | |
| Q4 2018 | $0.31 | -9.68% |

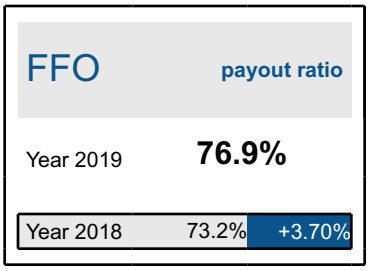
| FFO | per unit | |
|---|---|---|
| Year 2019 | **$1.16** | |
| Year 2018 | $1.22 | -4.92% |

The quarterly decrease in FFO is primarily due to property dispositions.

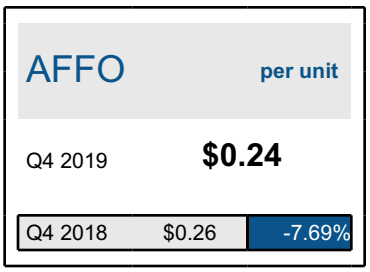
On an annual basis, the 4.92% decrease is due to the impact of dispositions in 2019 as well as the impact of dispositions in the second quarter of 2018 and increased general and administrative costs, the majority of which is related to the increase in unit price and its impact on unit-based compensation plans.

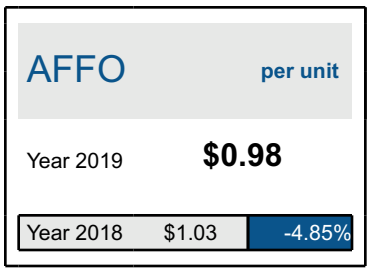
Dispositions are dilutive as the proceeds primarily fund development projects intended to drive FFO growth in the future.



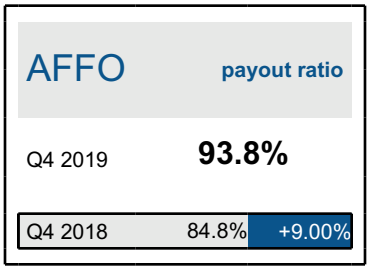



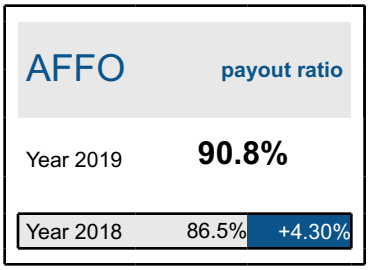

The quarterly and annual FFO payout ratios exclude Crombie's special distribution declared in the fourth quarter. The higher payout ratios are a direct result of the decreased FFO in the quarter and full year.



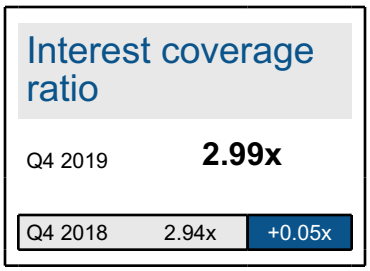



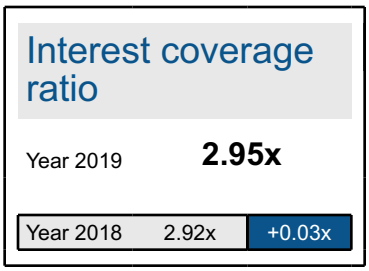

The quarterly and annual decreases in AFFO are due to the decreases in FFO, primarily driven by the dilutive impact of property dispositions.



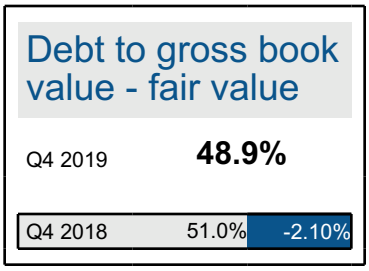



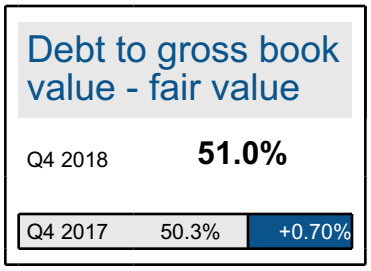

The quarterly and annual AFFO payout ratios exclude Crombie's special distribution declared in the fourth quarter. The higher payout ratios are a direct result of the decreased AFFO in the quarter and full year.



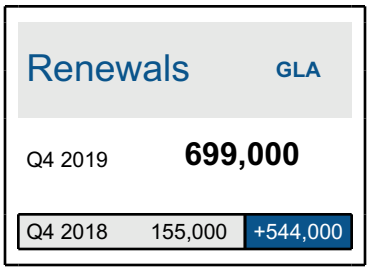

The quarterly and annual improvement in interest coverage ratio is due to the decline in finance costs, primarily resulting from the repayment of mortgages with lower cost unsecured debt.

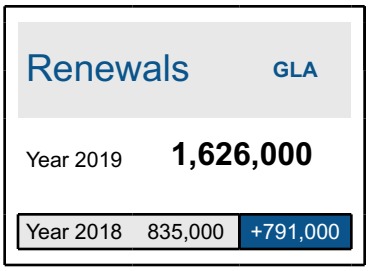



Debt reduction from property dispositions, combined with increased value in investment properties and joint ventures due to higher net assets from development progress, drove a decrease in debt to gross book value - fair value during the quarter.

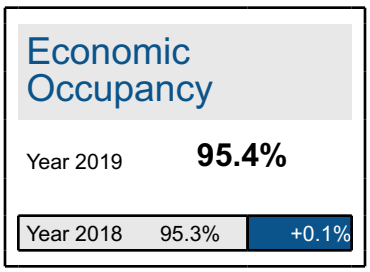
## Leasing

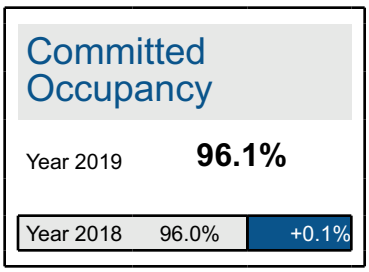



The increased quarterly renewals are primarily related to 377,000 square feet of Empire leases subject to modernization investment.

During 2019, 1,626,000 square feet was renewed at rents 3.9% over the expiring rate. Retail and commercial renewals of 1,375,000 square feet reflect an increase of 4.1% over expiring rent.




Economic occupancy was impacted by new leases of 247,000 square feet, primarily in the development properties of Belmont Market and Avalon Mall, partially offset by property dispositions during 2019.

Committed occupancy remained strong with new leases outpacing lease expiries by 166,000 square feet and 115,000 square feet of committed space at year end.

*Same-asset cash NOI, FFO, AFFO, interest coverage ratio and debt to gross book value - fair value 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 from operating activities or any other measure prescribed under IFRS. Please see the attached Management's Discussion and Analysis of financial results for a discussion of these measures and how they are calculated.

# Fourth quarter financial performance

(in thousands of CAD dollars, except per unit amounts)

## The following highlights Crombie's operating performance and investing and financing activities for the three months ended December 31, 2019.

### Operating performance

- Reported operating income attributable to Unitholders for the quarter of $44,149, impacted by property dispositions and impairments during the quarter.
- Reported FFO of $0.28 per unit, primarily impacted by the dispositions of investment properties.
- AFFO per unit of $0.24 per unit, reflecting a 93.8% payout ratio, excluding Crombie's special distribution in the quarter.
- Same-asset cash NOI of $59,760, an increase of 3.04% over the fourth quarter of 2018, resulting from rate increases on existing tenants, new leasing activity and revenue from modernizations.
- Committed occupancy at 96.1%, with new leasing in development properties, Belmont Market and Avalon Mall, during the quarter.
- Gain on disposal of investment properties of $30,198.
- Renewal activity totalled 699,000 square feet at an average rate of $17.36 per square feet, representing 3.9% renewal growth in the quarter, including significant renewed space for modernization investments.

### Investing and Financing

- Sale of investment properties for the quarter for total gross proceeds of $193,333.
- Acquisition of remaining 50% interest in Vaughan Distribution Centre from Empire for $95,900 before closing costs.
- Modernization investments at nine Empire properties for a total cost of $15,297.
- Mortgage repayments of $186,210 and $3,994 net advances on credit facilities.
- Debt to gross book value on a fair value basis of 48.9%.
- Issuance of $150,000 Series G unsecured notes at par with coupon of 3.917%, the proceeds of which will be used to repay upcoming secured mortgage maturities.

# Annual financial performance

(in thousands of CAD dollars, except per unit amounts)

## The following highlights Crombie's operating performance and investing and financing activities for the year ended December 31, 2019.

### Operating performance

- Reported operating income attributable to Unitholders for the year of $161,875, impacted by $81,803 of gains on property dispositions during the year, as well as an increase in general and administrative expenses, the majority of which is related to the increase in unit price and its impact on unit-based compensation plans.
- Reported FFO of $1.16 per unit, primarily impacted by NOI decline from dispositions of investment properties.
- AFFO per unit of $0.98 per unit, reflecting a 90.8% payout ratio, excluding Crombie's special distribution in the quarter.
- Same-asset cash NOI of $236,565, an increase of 3.49% over the year ended December 31, 2018, impacted by rate increases on existing tenants, new leasing activity, lease termination income and revenue from modernization investments.
- Renewal activity included 1,626,000 square feet at an average rate of $17.37 per square feet, representing 3.9% renewal growth in the year.

### Investing and Financing

- Sale of investment properties for the year for total gross proceeds of $536,471.
- Modernization investments at 16 Empire properties for a total cost of $33,446.
- Mortgage repayments of $346,735 and $124,535 net repayments on credit facilities.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2019

## INTRODUCTION

**(In thousands of CAD dollars, except per unit amounts and as otherwise noted)**

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 year and quarter ended December 31, 2019, with a comparison to the financial condition and results of operations for the comparable periods in 2018.

This MD&A should be read in conjunction with Crombie's audited consolidated financial statements and accompanying notes for the year ended December 31, 2019 and December 31, 2018, 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.

### Date of MD&A

The information contained in the MD&A, including forward-looking statements, is based on information available to management as of February 26, 2020, except as otherwise noted.

### 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 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 the following cautionary statements:

(i) accretive acquisition of properties, including the cost and timing of new properties under right of first offer ("ROFO") agreements, 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) disposition of properties and the anticipated reinvestment of net proceeds, which could be impacted by the availability of purchasers, the availability of accretive property acquisitions, the timing of property development activities or other accretive uses for net proceeds and real estate market conditions;

(iii) overall indebtedness levels and terms and expectations relating to refinancing, which could be impacted by the level of acquisition and disposition activity that Crombie is able to achieve, levels of indebtedness, Crombie's ability to maintain and strengthen its investment grade credit rating, future financing opportunities, future interest rates, creditworthiness of major tenants and joint arrangement partners, and market conditions;

(iv) statements in the letter to Unitholders and under the heading "Property Development/Redevelopment" including the locations identified, timing, cost, development size and nature and anticipated impact on portfolio quality and diversification, net asset value, cash flow growth, unitholder value or other financial measures, all of which may be impacted by real estate market cycles, future capitalization rates, the availability of financing opportunities and labour, actual development costs and general economic conditions and factors described under the "Property Development/Redevelopment" section and which assumes obtaining required municipal zoning and development approvals and successful agreements with existing tenants, and where applicable, successful execution of development activities undertaken by related parties not under the direct control of Crombie;

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

(vi) generating improved rental income and occupancy levels, including anticipated replacement of expiring tenancies, which could be impacted by changes in demand for Crombie's properties, tenant bankruptcies, the effects of general economic conditions, e-commerce and supply of competitive locations in proximity to Crombie locations;

(vii) 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;

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

(ix) pending acquisitions or dispositions, which remain subject to satisfaction of customary closing conditions;

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

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

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

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.

**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 cash NOI, operating income attributable to Unitholders, funds from operations ("FFO"), adjusted funds from operations ("AFFO"), adjusted cash flow from operations ("ACFO"), debt to gross book value, earnings before interest, taxes, depreciation and amortization ("EBITDA"), interest service coverage, debt service coverage, debt to EBITDA, unencumbered assets, estimated yield on cost and net asset value ("NAV"). Management includes these measures as they represent key performance indicators to management, and it believes certain investors use these measures as a means of assessing relative financial performance. These measures as computed by Crombie may differ from similar computations as reported by other entities and, accordingly, may not be comparable to other such entities.

**HIGHLIGHTS**

**FINANCIAL RESULTS**

Crombie's key financial metrics for the three months and year ended December 31, 2019 are as follows:

| | Three months ended December 31, | | | |
|---|---|---|---|---|
| (In thousands of CAD dollars, except per unit amounts and as otherwise noted) | **2019** | 2018 | Variance | Variance (%) |
| Property revenue | **$ 96,823** | $ 104,296 | $ (7,473) | (7.2)% |
| Property operating expenses | **29,852** | 30,817 | 965 | 3.1 % |
| Property NOI | **$ 66,971** | $ 73,479 | $ (6,508) | (8.9)% |
| NOI margin percentage | **69.2%** | 70.5% | (1.3)% | |
| Operating income attributable to Unitholders | **$ 44,149** | $ 20,111 | $ 24,038 | 119.5 % |
| Operating income per unit | **$ 0.29** | $ 0.13 | $ 0.16 | 123.1 % |
| Increase (decrease) in net assets attributable to Unitholders | **$ (4,857)** | $ (13,416) | $ 8,559 | 63.8 % |
| Same-asset property cash NOI | **$ 59,760** | $ 57,998 | $ 1,762 | 3.0 % |
| FFO | | | | |
| Basic | **$ 42,132** | $ 46,490 | $ (4,358) | (9.4)% |
| Per unit - Basic | **$ 0.28** | $ 0.31 | $ (0.03) | (9.7)% |
| Payout ratio, excluding special distribution (%) | **80.1%** | 72.5% | 7.6 % | |
| AFFO | | | | |
| Basic | **$ 36,006** | $ 39,771 | $ (3,765) | (9.5)% |
| Per unit - Basic | **$ 0.24** | $ 0.26 | $ (0.02) | (7.7)% |
| Payout ratio, excluding special distribution (%) | **93.8%** | 84.8% | 9.0 % | |

| | Year ended December 31, | | | |
|---|---|---|---|---|
| (In thousands of CAD dollars, except per unit amounts and as otherwise noted) | **2019** | 2018 | Variance | Variance (%) |
| Property revenue | **$ 398,741** | $ 414,649 | $ (15,908) | (3.8)% |
| Property operating expenses | **117,645** | 121,306 | 3,661 | 3.0 % |
| Property NOI | **$ 281,096** | $ 293,343 | $ (12,247) | (4.2)% |
| NOI margin percentage | **70.5%** | 70.7% | (0.2)% | |
| Operating income attributable to Unitholders | **$ 161,875** | $ 107,407 | $ 54,468 | 50.7 % |
| Operating income per unit | **$ 1.07** | $ 0.71 | $ 0.36 | 50.7 % |
| Increase (decrease) in net assets attributable to Unitholders | **$ 10,369** | $ (26,920) | $ 37,289 | 138.5 % |
| Same-asset property cash NOI | **$ 236,565** | $ 228,582 | $ 7,983 | 3.5 % |
| FFO | | | | |
| Basic | **$ 175,539** | $ 184,034 | $ (8,495) | (4.6)% |
| Per unit - Basic | **$ 1.16** | $ 1.22 | $ (0.06) | (4.9)% |
| Payout ratio, excluding special distribution (%) | **76.9%** | 73.2% | 3.7 % | |
| AFFO | | | | |
| Basic | **$ 148,632** | $ 155,794 | $ (7,162) | (4.6)% |
| Per unit - Basic | **$ 0.98** | $ 1.03 | $ (0.05) | (4.9)% |
| Payout ratio, excluding special distribution (%) | **90.8%** | 86.5% | 4.3 % | |

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

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Basic number of Units for all measures | **151,722,819** | 151,419,487 | **151,666,357** | 151,213,896 |

**OPERATING RESULTS**

| | December 31, 2019 | September 30, 2019 | June 30, 2019 | March 31, 2019 | December 31, 2018 |
|---|---|---|---|---|---|
| Number of investment properties [1] | 285 | 284 | 284 | 285 | 288 |
| Gross leaseable area [2] | 17,558,000 | 17,732,000 | 17,746,000 | 18,604,000 | 18,896,000 |
| Economic occupancy [3] | 95.4% | 95.6% | 95.2% | 95.0% | 95.3% |
| Committed occupancy [4] | 96.1% | 96.1% | 95.9% | 95.7% | 96.0% |

[1] This includes properties owned at full and partial interests.
[2] Gross leaseable area is adjusted to reflect Crombie's proportionate interest in partially-owned properties.
[3] Represents space currently occupied.
[4] Represents current economic occupancy plus lease contracts for future occupancy of currently vacant space.

| | December 31, 2019 | September 30, 2019 | June 30, 2019 | March 31, 2019 | December 31, 2018 |
|---|---|---|---|---|---|
| Investment properties, fair value | $ 4,605,000 | $ 4,626,000 | $ 4,592,000 | $ 4,755,000 | $ 4,776,000 |
| Unencumbered investment properties [1] | $ 1,223,452 | $ 960,275 | $ 953,738 | $ 1,012,707 | $ 998,523 |
| Available liquidity [2] | $ 449,016 | $ 450,967 | $ 413,087 | $ 346,347 | $ 312,459 |
| Debt to gross book value - fair value [3] | 48.9% | 48.9% | 49.2% | 50.3% | 51.0% |
| Weighted average interest rate [4] | 4.17% | 4.22% | 4.19% | 4.20% | 4.20% |
| Debt to trailing 12 months EBITDA [5] | 8.52x | 8.35x | 8.21x | 8.56x | 8.66x |
| Interest coverage ratio [5] | 2.99x | 2.90x | 3.00x | 2.93x | 2.94x |

[1] Represents fair value of unencumbered properties.
[2] Represents the undrawn portion on the credit facilities, excluding joint facilities with joint operation partners.
[3] See Debt to Gross Book Value - Fair Value Basis section.
[4] Weighted average interest rate is calculated based on interest rates for all outstanding fixed rate debt.
[5] See Coverage Ratios section.

Available liquidity is the net amount available on Crombie's credit facilities, excluding joint facilities with joint operation partners, calculated as follows:

| | December 31, 2019 | September 30, 2019 | June 30, 2019 | March 31, 2019 | December 31, 2018 |
|---|---|---|---|---|---|
| Revolving credit facility | $ 400,000 | $ 400,000 | $ 398,555 | $ 400,000 | $ 400,000 |
| Amount drawn | (15,339) | (9,388) | (55,707) | (107,986) | (108,843) |
| Outstanding letters of credit | (5,645) | (5,645) | (5,761) | (5,667) | (8,698) |
| Available liquidity | 379,016 | 384,967 | 337,087 | 286,347 | 282,459 |
| Unsecured bilateral credit facility | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Amount drawn | (30,000) | (34,000) | (24,000) | (40,000) | (70,000) |
| Available liquidity | 70,000 | 66,000 | 76,000 | 60,000 | 30,000 |
| Total available liquidity | $ 449,016 | $ 450,967 | $ 413,087 | $ 346,347 | $ 312,459 |

**Business Overview**

Crombie Real Estate Investment Trust ("Crombie") is an unincorporated, open-ended real estate investment trust established under, and governed by, the laws of the Province of Ontario. Crombie is one of the country's leading national retail property landlords with a strategy to own, operate and develop a portfolio of high-quality grocery- and drugstore-anchored shopping centres, freestanding stores and mixed-use developments, primarily in Canada's top urban and suburban markets. At December 31, 2019, Crombie owned full and partial interests in a portfolio of 285 investment properties in 10 provinces, comprising approximately 17.6 million square feet of gross leaseable area (“GLA”). Empire Company Limited ("Empire"), through a subsidiary, holds a 41.5% economic and voting interest in Crombie at December 31, 2019. Crombie units trade on the Toronto Stock Exchange ("TSX") under the symbol "CRR.UN".

**Business Objectives and Strategy**

Crombie's objective is to generate Unitholder value by:

1. Driving consistent growth in FFO, AFFO and NAV per unit through strong operating performance from our grocery-anchored portfolio, creating value through our relationship with Empire, disciplined execution of our major development projects, and effective acquisition and other investments to enhance portfolio quality.

2. Funding Crombie's growth through smart and balanced capital allocation and lowering our cost of capital over time.

3. Attracting and retaining high-quality talent, resulting in a high-performance national team.

Balancing opportunities and related business risks should provide consistency and growth of cash flows (AFFO) and net asset value (NAV). Crombie's path to improved AFFO and NAV growth will be significantly focused on supporting Empire's growth opportunities and our major developments. Future developments will be in predominantly major markets, with a focus on NAV via maximizing our development yield spread over acquisition/ cap rates, and achieving strong AFFO growth via higher Net Operating Income (NOI) from attractive rental growth.

This strategy is supported by a balanced capital allocation approach. Aligning our strategy with Empire enables Crombie to capitalize on a wide range of strategic and accretive transactions such as modernizations, conversions to FreshCo, and land use intensifications. Our relationship also allows us to unlock major development opportunities, increase our presence in major markets, and diversify our portfolio with residential and retail-related industrial real estate, which improves our overall portfolio quality and income growth.

Crombie will continue to leverage its strong and diverse workforce to achieve strategic objectives ensuring our culture, brand and values are aligned to drive sustainable growth and innovation.

**Business Environment**

Canada's retail sector continues to be impacted by the growth of online shopping and consumers' changing needs and expectations. Not all retail is created equal. In urban areas, the competition for downtown retail space is fierce, as the increasing trend to live, work, shop and play in city centres continues to intensify. Closure of big-box and traditional department stores also continues, and other retail centres are being transformed into destinations that people visit for more than just shopping. Despite this challenging and competitive retail environment, the fundamentals of Crombie's needs-based retail real estate remain strong.

Online retailing has had a minimal effect on the grocery sector to date. Online sales penetration is estimated at approximately 1% of total spend, but evolving, with more emphasis being placed on centralized warehousing facilities and various click and collect shopping options.

Pension funds and private equity continue to increase capital allocation to real estate and infrastructure assets, actively pursuing high-quality, lower-risk assets for their income quality and/or development potential. This demand, alongside low interest rates, has driven capitalization rates down in urban markets.

REITs are broadening their strategic focus beyond their traditional asset classes in order to optimize property-specific NAV and drive financial performance. Increased population growth and immigration in urban areas is driving demand for mixed-use, high-density, residential property, including purpose-built rentals and condominiums. These opportunities are facing increased execution challenges as development costs continue to rise due to higher construction and labour costs, longer municipal approval cycles and increases in fees and levies. Nonetheless, it is becoming essential for those who own irreplaceable urban assets to assess and execute mixed-use development to unlock the value potential of their highest and best use.

The war for talent is a reality in the real estate sector. Companies must be nimble in creating a competitive position in the market to attract and retain qualified talent. Forward-thinking companies have already started to recruit local teams in key markets. Successful organizations are adapting their structures with cross-skilled employees capable of handling the new or unexpected and are selecting key strategic partners to fill specific talent gaps. An aging workforce demographic means increased competition for talent in all markets. Inclusion of diverse groups into the workforce and adjusting policies on how work is done, is a priority to attracting and retaining key talent.

**OVERVIEW OF THE PROPERTY PORTFOLIO**

**Property Acquisitions and Dispositions**

Prices are in thousands of CAD dollars and are stated before transaction and closing costs.

**Acquisitions**

| Date | Property | Location | Vendor | Strategy | Number of Investment Properties | Ownership Interest | Sq. ft. | Price |
|---|---|---|---|---|---|---|---|---|
| 2019 First Quarter | | | | | | | | |
| March 25, 2019 | Pointe-Claire, QC | Pointe-Claire, QC | Third Party | Development (PUD) | — | 100% | — | $ 32,000 |
| 2019 Third Quarter | | | | | | | | |
| August 1, 2019 | Broadview Avenue | Toronto, ON | Empire | Income-producing | 1 | 50% | 15,000 | 9,500 |
| 2019 Fourth Quarter | | | | | | | | |
| October 29, 2019 | Belmont - Ledcor Buildings [1] | Langford, BC | Third Party | Income-producing | — | 100% | 29,000 | 6,611 |
| November 28, 2019 | Marketway Lane | Halifax, NS | Empire | Income-producing | 1 | 100% | 40,000 | 12,422 |
| December 16, 2019 | Vaughan DC [2] | Vaughan, ON | Empire | Income-producing | — | 50% | 397,000 | 95,900 |
| | | | | | | | 466,000 | 114,933 |
| Total acquisitions at December 31, 2019 | | | | | 2 | | 481,000 | $156,433 |
| 2018 Second Quarter | | | | | | | | |
| Sobeys Portfolio | | | | | | | | |
| April 6, 2018 | Edson Sobeys | Edson, AB | Empire | Income-producing | 1 | 100% | 33,000 | $ 5,300 |
| April 6, 2018 | Strathmore Sobeys | Strathmore, AB | Empire | Income-producing | 1 | 100% | 35,000 | 10,200 |
| April 6, 2018 | Hollick Kenyon Sobeys | Edmonton, AB | Empire | Income-producing | 1 | 100% | 30,000 | 11,800 |
| April 6, 2018 | Thornbury Foodland | Thornbury, ON | Empire | Income-producing | 1 | 100% | 40,000 | 11,850 |
| April 6, 2018 | Gatineau IGA Extra | Gatineau, QC | Empire | Income-producing | 1 | 100% | 71,800 | 15,550 |
| April 6, 2018 | Rimouski IGA Extra | Rimouski, QC | Empire | Income-producing | 1 | 100% | 52,700 | 7,900 |
| April 6, 2018 | Baie St-Paul IGA | Baie St-Paul, QC | Empire | Income-producing | 1 | 100% | 64,600 | 8,300 |
| April 6, 2018 | Saint-Pie Tradition | Saint-Pie, QC | Empire | Income-producing | 1 | 100% | 13,800 | 2,600 |
| April 6, 2018 | Havre St-Pierre Tradition | Havre St-Pierre, QC | Empire | Income-producing | 1 | 100% | 26,400 | 5,000 |
| April 6, 2018 | Elmwood Alcool NB Liquor/Dollarama [1] | Moncton, NB | Empire | Income-producing | — | 100% | 20,800 | 5,170 |
| April 6, 2018 | Chateauguay Familiprix [1] | Chateauguay, QC | Empire | Income-producing | — | 100% | 32,900 | 4,440 |
| | Sobeys portfolio total | | | | 9 | | 421,000 | 88,110 |
| June 29, 2018 | Victoria Trail | Edmonton, AB | Empire | Income-producing | 1 | 100% | 37,000 | 12,500 |
| | | | | | | | 458,000 | 100,610 |
| 2018 Third Quarter | | | | | | | | |
| September 28, 2018 | Hemlock Square[1] | Halifax, NS | Empire | Income-producing | — | 100% | 10,000 | 3,735 |
| 2018 Fourth Quarter | | | | | | | | |
| December 5, 2018 | Sorel | Sorel, QC | Third Party | Income-producing | 1 | 100% | 40,000 | 9,300 |
| December 13, 2018 | Elbow Drive[3] | Calgary, AB | Third Party | Income-producing | — | 100% | 5,000 | 5,600 |
| | | | | | | | 45,000 | 14,900 |
| Total acquisitions for the year ended December 31, 2018 | | | | | 11 | | 513,000 | $119,245 |

[1] Relates to an acquisition of additional density on a pre-existing retail property

[2] Relates to an acquisition of additional density on a pre-existing retail-related industrial property

[3] Acquisition of an add-on parcel to an existing property

**Dispositions**

| Date | Property | Location | Number of properties | Ownership Interest | Sq. ft. | Price |
|---|---|---|---|---|---|---|
| 2019 First Quarter | | | | | | |
| January 7, 2019 | 1040 - 1070 Guillaume Couture Boulevard | Saint Romuald, QC | — | 100% | — | $ 821 |
| January 29, 2019 | Upper James Square | Hamilton, ON | 1 | 100% | 114,000 | 35,180 |
| Firm Capital Portfolio[1] | | | | | | |
| February 5, 2019 | 8118 & 8130 118 Avenue NW | Edmonton, AB | — | 50% | 22,000 | |
| February 5, 2019 | Forest Hills Parkway | Cole Harbour, NS | — | 50% | 22,000 | |
| February 5, 2019 | Russell Lake | Dartmouth, NS | — | 50% | 31,000 | |
| February 5, 2019 | 409 Bayfield Street | Barrie, ON | — | 50% | 24,000 | |
| February 5, 2019 | 1 Westminster Avenue North | Montreal, QC | — | 50% | 10,000 | |
| February 5, 2019 | 2915 & 2931 13th Avenue | Regina, SK | — | 50% | 20,000 | |
| February 5, 2019 | University Park | Regina, SK | — | 50% | 19,000 | |
| Firm Capital portfolio total | | | — | | 148,000 | 41,614 |
| February 8, 2019 | 1110 Gateway Avenue | Canmore, AB | 1 | 100% | 50,000 | 19,925 |
| February 14, 2019 | 1031 Avenue Victoria | St. Lambert, QC | 1 | 100% | 19,000 | 9,675 |
| | | | | | 331,000 | 107,215 |
| 2019 Second Quarter | | | | | | |
| Oak Street I Portfolio[2] | | | | | | |
| April 25, 2019 | Fairway Plaza | Lethbridge, AB | — | 89% | 57,000 | |
| April 25, 2019 | 410 and 610 Big Rock Lane | Okotoks, AB | — | 89% | 37,000 | |
| April 25, 2019 | Cariboo Mall | 100 Mile House, BC | — | 89% | 19,000 | |
| April 25, 2019 | 1721 Columbia Avenue | Castlegar, BC | — | 89% | 24,000 | |
| April 25, 2019 | 11200 8th Street | Dawson Creek, BC | — | 89% | 38,000 | |
| April 25, 2019 | 445 Reid Street | Quesnel, BC | — | 89% | 27,000 | |
| April 25, 2019 | 3156 Birds Hill Road E | East St. Paul, MB | — | 89% | 35,000 | |
| April 25, 2019 | 498 Mountain Avenue | Neepawa, MB | — | 89% | 16,000 | |
| April 25, 2019 | 107 Catherwood Street | Saint John, NB | — | 89% | 41,000 | |
| April 25, 2019 | 21 Cromer Avenue | Grand Falls, NL | — | 89% | 24,000 | |
| April 25, 2019 | 69 Blockhouse Road | Placentia, NL | — | 89% | 17,000 | |
| April 25, 2019 | 151 Church Street | Antigonish, NS | — | 89% | 46,000 | |
| April 25, 2019 | 75 Emerald Street | New Waterford, NS | — | 89% | 23,000 | |
| April 25, 2019 | 22579 Highway 7 | Sheet Harbour, NS | — | 89% | 8,000 | |
| April 25, 2019 | 215 Park Avenue W | Chatham, ON | — | 89% | 43,000 | |
| April 25, 2019 | 15 Lindsay Street | Fenelon Falls, ON | — | 89% | 31,000 | |
| April 25, 2019 | 32-38 Ottawa Street | Havelock, ON | — | 89% | 13,000 | |
| April 25, 2019 | 400 First Avenue S | Kenora, ON | — | 89% | 33,000 | |
| April 25, 2019 | 5931 Kalar Road | Niagara Falls, ON | — | 89% | 32,000 | |
| April 25, 2019 | 714 Boul Saint-Laurent O | Louiseville, QC | — | 89% | 21,000 | |
| April 25, 2019 | 515 Avenue du Phare E | Matane, QC | — | 89% | 27,000 | |
| April 25, 2019 | 395 Avenue Sirois | Rimouski, QC | — | 89% | 42,000 | |
| April 25, 2019 | 680 Avenue Chausse | Rouyn-Noranda, QC | — | 89% | 38,000 | |
| April 25, 2019 | 10505 Boul Saine-Anne | Sainte-Anne-de-Beaupre, QC | — | 89% | 34,000 | |
| April 25, 2019 | 8980 Boul Lacroix | Saint-Georges, QC | — | 89% | 39,000 | |
| April 25, 2019 | 50 Rue Bourgeois | Sherbrooke, QC | — | 89% | 20,000 | |
| Oak Street I portfolio total | | | — | | 785,000 | 161,589 |
| April 29, 2019 | 1780 Markham Road | Toronto, ON | 1 | 100% | 39,000 | 21,500 |
| June 3, 2019 | Belmont Market Land | Langford, BC | — | 100% | — | 3,275 |
| | | | | | 824,000 | 186,364 |
| 2019 Third Quarter | | | | | | |
| July 3, 2019 | 400 University Avenue | Charlottetown, PE | — | 89% | 44,000 | 9,750 |

| | | | | | | |
|---|---|---|---|---|---|---|
| July 4, 2019 | Grimsby Mews | Grimsby, ON | 1 | 100% | 36,000 | 12,255 |
| August 2, 2019 | Davie Street[3] | Vancouver, BC | — | 100% | — | 27,379 |
| September 25, 2019[4] | Charlotte Mall | St. Stephen, NB | — | 100% | 3,000 | 175 |
| | | | | | 83,000 | 49,559 |
| 2019 Fourth Quarter | | | | | | |
| Oak Street II Portfolio[5] | | | | | | |
| October 7, 2019 | Castleridge Safeway | Calgary, AB | — | 89% | 50,000 | |
| October 7, 2019 | Saddletowne Circle Safeway | Calgary, AB | — | 89% | 45,000 | |
| October 7, 2019 | Fort McMurray Safeway | Fort McMurray, AB | — | 89% | 36,000 | |
| October 7, 2019 | Spruce Grove Safeway | Spruce Grove, AB | — | 89% | 45,000 | |
| October 7, 2019 | Stony Plain Safeway | Stony Plain, AB | — | 89% | 40,000 | |
| October 7, 2019 | Chilliwack Safeway | Chilliwack, BC | — | 89% | 46,000 | |
| October 7, 2019 | Kamloops Safeway | Kamloops, BC | — | 89% | 44,000 | |
| October 7, 2019 | Smithers Safeway | Smithers, BC | — | 89% | 38,000 | |
| October 7, 2019 | Selkirk Safeway | Selkirk, MB | — | 89% | 38,000 | |
| October 7, 2019 | Ropewalk Lane | St. John's, NL | — | 89% | 45,000 | |
| October 7, 2019 | Panavista/West Royalty Sobeys | Dartmouth, NS | — | 89% | 43,000 | |
| October 7, 2019 | Bradford Sobeys | Bradford, ON | — | 89% | 31,000 | |
| October 7, 2019 | Orangeville Sobeys | Orangeville, ON | — | 89% | 41,000 | |
| October 7, 2019 | Lebourgneuf IGA Extra | Quebec, QC | — | 89% | 52,000 | |
| October 7, 2019 | Sherbrooke IGA Extra | Sherbrooke, QC | — | 89% | 47,000 | |
| Oak Street II Portfolio total | | | | | 641,000 | 193,333 |
| Total dispositions as at December 31, 2019 | | | 5 | | 1,879,000 | $ 536,471 |

[1] Represents disposition of 50% interest in a portfolio of seven retail properties. The square footage and price reflect the 50% amounts.

[2] Represents disposition of 89% interest in a portfolio of 26 retail properties. The square footage and price reflect the 89% amounts.

[3] Represents disposition of air rights to a joint venture in which Crombie holds 50% interest.

[4] Represents disposition of a portion of a PID at 225 King Street, St.Stephen, NB.

[5] Represents disposition of 89% interest in a portfolio of 15 retail properties. The square footage and price reflect the 89% amounts.

| | | | | | | |
|---|---|---|---|---|---|---|
| 2018 First Quarter | | | | | | |
| February 5, 2018 | Whitehorse Plaza | Simcoe, ON | 1 | 100% | 92,000 | $ 15,000 |
| February 20, 2018 | Perth Mews | Perth, ON | 1 | 100% | 103,000 | 20,627 |
| March 6, 2018 | Belmont Market land | Langford, BC | — | 100% | — | 5,725 |
| | | | | | 195,000 | 41,352 |
| 2018 Second Quarter | | | | | | |
| April 19, 2018 | Red Deer Cineplex | Red Deer, AB | 1 | 100% | 40,000 | 14,000 |
| May 11, 2018 | 10 Alkenbrack St | Napanee, ON | 1 | 100% | 25,000 | 9,000 |
| Northam Portfolio[6] | | | | | | |
| May 11, 2018 | 16th Ave Safeway | Calgary, AB | — | 50% | 21,000 | |
| May 11, 2018 | Ancaster Sobeys | Ancaster, ON | — | 50% | 33,000 | |
| May 11, 2018 | Brampton Plaza | Brampton, ON | — | 50% | 38,000 | |
| May 11, 2018 | Danforth | Scarborough, ON | — | 50% | 3,000 | |
| May 11, 2018 | Marpole Safeway | Vancouver, BC | — | 50% | 24,000 | |
| May 11, 2018 | McKenzie Town Dr Shoppers | Calgary, AB | — | 50% | 9,000 | |
| May 11, 2018 | Millwoods Common | Edmonton, AB | — | 50% | 29,000 | |
| May 11, 2018 | Nottingham | Sherwood Park, AB | — | 50% | 23,000 | |
| May 11, 2018 | Southbrook | Edmonton, AB | — | 50% | 23,000 | |
| Northam Portfolio total | | | — | | 203,000 | 77,929 |
| June 18, 2018 | Park Lane | Halifax, NS | 1 | 100% | 273,000 | 52,084 |
| | | | | | 541,000 | 153,013 |
| 2018 Third Quarter | | | | | | |
| August 16, 2018 | Bronte Village[7] | Oakville, ON | 1 | 100% | 30,000 | 39,682 |
| 2018 Fourth Quarter | | | | | | |
| December 18, 2018 | Southdale | London, ON | 1 | 100% | 17,000 | 5,400 |
| December 18, 2018 | Eglinton Ave | Toronto, ON | 1 | 100% | 17,000 | 15,500 |
| December 18, 2018 | Montrose Road | Niagara Falls, ON | 1 | 100% | 17,000 | 5,700 |
| | | | | | 51,000 | 26,600 |

| | | | |
|---|---|---|---|
| Total dispositions for the year ended December 31, 2018 | 9 | 817,000 | $ 260,647 |

(6) Represents disposition of 50% interest in a portfolio of nine retail properties. The square footage and price reflect the 50% amounts.

(7) Represents disposition of property to a joint venture in which Crombie holds 50% interest.

Crombie continues as property manager for the properties in which it retains a partial ownership interest.

**Overview of the Property Portfolio**

As at December 31, 2019, Crombie's property portfolio consisted of full and partial ownership interests in 285 investment properties that contain, at Crombie's share, approximately 17.6 million square feet of GLA in all 10 provinces.

As at December 31, 2019, the portfolio distribution of the GLA by province was as follows:

| | GLA (sq. ft.) | | | | | | |
|---|---|---|---|---|---|---|---|
| Province | January 1, 2019 | Acquisitions (Dispositions) | Other | December 31, 2019 (1) | Number of Investment Properties | % of GLA | % of Annual Minimum Rent |
| AB | 3,428,000 | (382,000) | (5,000) | 3,041,000 | 58 | 17.3% | 19.6% |
| BC | 1,829,000 | (207,000) | 33,000 | 1,655,000 | 42 | 9.4% | 12.8% |
| MB | 644,000 | (89,000) | 6,000 | 561,000 | 15 | 3.2% | 4.2% |
| NB | 1,570,000 | (44,000) | (2,000) | 1,524,000 | 20 | 8.7% | 6.4% |
| NL | 1,203,000 | (86,000) | 77,000 | 1,194,000 | 13 | 6.8% | 9.6% |
| NS | 5,006,000 | (133,000) | (67,000) | 4,806,000 | 42 | 27.4% | 21.4% |
| ON | 2,487,000 | (25,000) | 8,000 | 2,470,000 | 42 | 14.1% | 13.9% |
| PE | 124,000 | (44,000) | 10,000 | 90,000 | 2 | 0.5% | 0.6% |
| QC | 2,151,000 | (349,000) | — | 1,802,000 | 43 | 10.3% | 9.2% |
| SK | 454,000 | (39,000) | — | 415,000 | 8 | 2.3% | 2.3% |
| Total | 18,896,000 | (1,398,000) | 60,000 | 17,558,000 | 285 | 100.0% | 100.0% |

(1) Totals include Crombie's ownership of partial dispositions.

During the twelve months ended December 31, 2019, Crombie had a net decrease of 1,398,000 square feet of GLA from disposition activity consisting of:

- Alberta - disposition of 50% interest in one retail property representing 22,000 square feet, disposition of 89% interest in seven retail properties representing 310,000 square feet and 100% interest in one retail property totalling 50,000 square feet;
- British Columbia - disposition of 89% interest in seven retail properties totaling 236,000 square feet, offset in part by a 29,000 square foot addition to an existing retail property;
- Manitoba - disposition of 89% interest in three retail properties representing 89,000 square feet;
- New Brunswick - disposition of 89% interest in one retail property totalling 41,000 square feet and disposition of one PID in one retail property totalling 3,000 square feet;
- Newfoundland - disposition of 89% interest in three retail properties totalling 86,000 square feet;
- Nova Scotia - disposition of 50% interest in two retail properties totalling 53,000 square feet, disposition of 89% interest in four retail properties representing 120,000 square feet. This is partially offset by 100% acquisition in one retail property representing 40,000 square feet;
- Ontario - disposition of 50% interest in one retail property representing 24,000 square feet, disposition of 89% interest in seven retail properties representing 224,000 square feet, 100% interest in three retail properties totalling 189,000 square feet. This is partially offset by 50% acquisition in one retail property totalling 15,000 sf and a 50% addition to one retail-related industrial property totalling 397,000 square feet;
- Prince Edward Island - disposition of 89% interest in one retail property representing 44,000 square feet;
- Quebec - disposition of 50% interest in one retail property representing 10,000 square feet, disposition of 89% interest in nine retail properties totalling 320,000 square feet and 100% interest in one retail property totalling 19,000 square feet; and,
- Saskatchewan - disposition of 50% interest in two retail properties totalling 39,000 square feet.

Changes in GLA included in Other in the above table include increases for additions/expansions to GLA on existing properties and decreases primarily related to GLA removals in preparation for property redevelopment.

As at December 31, 2019, our allocation of annual minimum rent consists of: Atlantic Canada 38.0%; Central Canada 23.1%; and Western Canada 38.9%. Crombie believes this diversification adds stability to the portfolio while reducing vulnerability to economic fluctuations that may affect any particular region.

**Property Categorization**

As at December 31, 2019:

| | Crombie Owned Properties | | | | |
|---|---|---|---|---|---|
| | Investment Properties ("IP") | Properties Under Development ("PUD") | Sub-total | Additional Properties in Joint Ventures ("JV") | Total |
| Same-asset | 266 | — | 266 | — | 266 |
| Non Same-Asset | | | | | |
| Acquisitions - 2019 | 2 | — | 2 | — | 2 |
| Acquisitions - 2018 | 10 | — | 10 | — | 10 |
| Other [1] | 4 | 3 | 7 | 1 | 8 |
| Active Major Development [2] | 3 | 1 | 4 | 3 | 7 |
| Total Non Same-asset | 19 | 4 | 23 | 4 | 27 |
| **Total** | 285 | 4 | 289 | 4 | 293 |

[1] Other includes investment properties that have been designated for repositioning, land parcels included in PUD, or non-active major developments within a JV.
[2] Active Major Development includes:
Davie Street Retail (IP)
Avalon Mall Retail (IP)
Belmont Market Retail and Office (IP)
Pointe-Claire (PUD)
Davie Street Residential (JV)
Le Duke (JV)
Bronte Village (JV)

Davie Street is being developed as both a commercial (Crombie owned) and residential (Joint Venture owned) development. On August 2, 2019, Crombie transferred air rights to 1600 Davie Limited Partnership. Davie Street is treated as two properties, one Crombie owned Investment Property (retail) and a separate Active Major Development (residential rental property) within the 1600 Davie Limited Partnership Joint Venture (Additional Properties in Joint Ventures - Active Major Development).

**Portfolio Occupancy and Lease Activity**

The portfolio occupancy and committed activity for the twelve months ended December 31, 2019 was as follows:

| | Occupied space (sq. ft.) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Province | January 1, 2019 | Acquisitions (Dispositions) | New Leases[1] | Lease Expiries | Other Changes[2] | December 31, 2019 | Economic Occupancy % | Committed Space (sq. ft.)[3] | Total Committed Space (sq. ft.) | Committed Occupancy December 31, 2019 |
| AB | 3,418,000 | (382,000) | 6,000 | (5,000) | (3,000) | 3,034,000 | 99.8% | 3,000 | 3,037,000 | 99.9% |
| BC | 1,805,000 | (220,000) | 48,000 | — | (5,000) | 1,628,000 | 98.4% | 4,000 | 1,632,000 | 98.6% |
| MB | 640,000 | (89,000) | 6,000 | — | (1,000) | 556,000 | 99.1% | 1,000 | 557,000 | 99.3% |
| NB | 1,401,000 | (41,000) | 36,000 | (17,000) | (24,000) | 1,355,000 | 88.9% | 22,000 | 1,377,000 | 90.4% |
| NL | 1,159,000 | (86,000) | 64,000 | (28,000) | (7,000) | 1,102,000 | 92.3% | 44,000 | 1,146,000 | 96.0% |
| NS | 4,532,000 | (133,000) | 44,000 | (15,000) | 16,000 | 4,444,000 | 92.5% | 14,000 | 4,458,000 | 92.8% |
| ON | 2,383,000 | (24,000) | 29,000 | (8,000) | 5,000 | 2,385,000 | 96.6% | 27,000 | 2,412,000 | 97.7% |
| PE | 124,000 | (44,000) | 10,000 | — | — | 90,000 | 100.0% | — | 90,000 | 100.0% |
| QC | 2,117,000 | (349,000) | 4,000 | — | 1,000 | 1,773,000 | 98.4% | — | 1,773,000 | 98.4% |
| SK | 438,000 | (39,000) | — | (8,000) | (5,000) | 386,000 | 93.0% | — | 386,000 | 93.0% |
| Total | 18,017,000 | (1,407,000) | 247,000 | (81,000) | (23,000) | 16,753,000 | 95.4% | 115,000 | 16,868,000 | 96.1% |

[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 overall vacant space. Committed space decreased to 115,000 square feet at December 31, 2019, from 124,000 square feet at December 31, 2018.

Overall leased space (occupied plus committed) has increased from 96.0% at December 31, 2018 to 96.1% at December 31, 2019. During 2019, Crombie had a net decrease from dispositions of 1,407,000 square feet and had new leases outpace lease expiries by 166,000 square feet.

New leases and expansions increased occupancy by 247,000 square feet at December 31, 2019 at an average first year rate of $20.68 per square foot. New leases totaled 240,000 square feet at an average first year rate of $20.86 per square foot. Expansions totaled 7,000 square feet at an average first year rate of $14.42 per square foot. As at December 31, 2019, 115,000 square feet of space was committed at an average first year rate of $20.38 per square foot.

For 2019, renewal activity was as follows:

| | Three Months Ended December 31, 2019 | | | Year Ended December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Square Feet | Rate PSF | Growth % | Square Feet | Rate PSF | Growth % |
| 2019 Renewals | 140,000 | $ 11.42 | 5.5% | 788,000 | $ 15.39 | 3.5% |
| Future Year Renewals | 559,000 | 18.85 | 3.7% | 838,000 | 19.23 | 4.2% |
| Total | 699,000 | $ 17.36 | 3.9% | 1,626,000 | $ 17.37 | 3.9% |

Crombie's renewal activity for the year ended December 31, 2019 included retail and commercial renewals of 1,375,000 square feet with an increase of 4.1% over expiring rental rate. 2019 renewals were negatively impacted by renewals on two commercial leases at lower rents in the first quarter. 251,000 square feet of office renewals were completed with an increase of 2.6% over expiring rental rates. During the quarter, Crombie renewed 699,000 square feet with an increase of 3.9% over expiring rate.

**Market Class**

Portfolio diversification by market class is as follows:

| Market Class | GLA | Economic Occupancy | Committed Occupancy | Number of Investment Properties | % of GLA | % of Investment Properties |
|---|---|---|---|---|---|---|
| VECTOM [(1)] | 5,295,000 | 98.9% | 99.0% | 89 | 30.2% | 31.2% |
| Major Markets [(2)] | 4,597,000 | 96.3% | 96.7% | 60 | 26.1% | 21.1% |
| Rest of Canada (RoC) [(3)] | 7,666,000 | 92.5% | 93.7% | 136 | 43.7% | 47.7% |
| Total | 17,558,000 | 95.4% | 96.1% | 285 | 100.0% | 100.0% |

(1) VECTOM: Vancouver, Edmonton, Calgary, Toronto, Ottawa-Gatineau, Montreal, as defined by Statistics Canada 2016 CMA/CA boundaries.
(2) Major Markets consists of Abbotsford-Mission, Barrie, Chilliwack, Halifax, Hamilton, Kitchener-Cambridge-Waterloo, Oshawa, Quebec City, Regina, Saskatoon, Victoria, and Winnipeg, as defined by Statistics Canada 2016 CMA/CA boundaries.
(3) RoC includes all remaining geographies outside of VECTOM and Major Markets.

**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 December 31, 2019, the portfolio distribution of the GLA by asset type was as follows:

| Asset Type | Number of Investment Properties | GLA (sq. ft.) | % of GLA | % of Annual Minimum Rent | Committed Occupancy |
|---|---|---|---|---|---|
| Retail and Commercial[(1)] | 277 | 14,910,000 | 84.9% | 91.7% | 95.8% |
| Office | 5 | 965,000 | 5.5% | 4.2% | 93.1% |
| Retail-Related Industrial[(2)] | 3 | 1,683,000 | 9.6% | 4.1% | 100.0% |
| Total | 285 | 17,558,000 | 100.0% | 100.0% | 96.1% |

(1) Retail and Commercial includes our substantial retail portfolio with commercial reflecting certain few additional properties which comprise both retail and office space. These properties have been consistently included in our retail category.
(2) Retail-Related Industrial includes retail distribution centres owned in Toronto (100%), Montreal (50%) and Calgary (50%).

As at December 31, 2018, the portfolio distribution of the GLA by asset type was as follows:

| Asset Type | Number of Investment Properties | GLA (sq. ft.) | % of GLA | % of Annual Minimum Rent | Committed Occupancy |
|---|---|---|---|---|---|
| Retail and Commercial[1] | 280 | 16,609,000 | 87.9% | 93.6% | 96.2% |
| Office | 5 | 1,000,000 | 5.3% | 3.8% | 87.9% |
| Retail-Related Industrial[2] | 3 | 1,287,000 | 6.8% | 2.6% | 100.0% |
| Total | 288 | 18,896,000 | 100.0% | 100.0% | 96.0% |

[1] Retail and Commercial includes our substantial retail portfolio with commercial reflecting certain few additional properties which comprise both retail and office space. These properties have been consistently included in our retail category.
[2] Retail-Related Industrial includes retail distribution centres owned in Toronto (50%), Montreal (50%) and Calgary (50%).

Retail and commercial properties represent 84.9% of Crombie's GLA and 91.7% of annual minimum rent at December 31, 2019 compared to 87.9% of GLA and 93.6% of annual minimum rent at December 31, 2018.

Leased space in retail and commercial properties of 95.8% at December 31, 2019, decreased from 96.2% at December 31, 2018. Leased space in office properties of 93.1% increased from 87.9% at December 31, 2018. Leased space in retail-related industrial properties of 100.0% at December 31, 2019, remained constant from 100.0% at December 31, 2018.

**Lease Maturities**

The following table sets out, as of December 31, 2019, the number of leases maturing during the periods indicated, 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 [1] | Renewal Area (sq. ft.) | % of Total GLA | Average Rent per sq. ft. at Expiry |
|---|---|---|---|---|
| 2020 | 233 | 823,000 | 4.7% | $ 17.44 |
| 2021 | 172 | 801,000 | 4.6% | 17.82 |
| 2022 | 179 | 798,000 | 4.5% | 19.52 |
| 2023 | 139 | 689,000 | 3.9% | 18.81 |
| 2024 | 146 | 875,000 | 5.0% | 17.95 |
| 2025 | 83 | 897,000 | 5.1% | 15.07 |
| 2026 | 72 | 768,000 | 4.4% | 15.53 |
| 2027 | 77 | 801,000 | 4.6% | 18.88 |
| 2028 | 64 | 773,000 | 4.4% | 18.06 |
| 2029 | 91 | 1,062,000 | 6.0% | 20.18 |
| Thereafter | 270 | 8,581,000 | 48.9% | 19.06 |
| Total | 1,526 | 16,868,000 | 96.1% | $ 18.52 |

[1] Assuming tenants do not holdover on a month-to-month basis or exercise renewal options or termination rights.

**Largest Tenants**

The following table illustrates the 20 largest tenants in Crombie's portfolio of investment properties as measured by their percentage contribution to total annual minimum rent as at December 31, 2019.

| | Tenant | % of Annual Minimum Rent | Average Remaining Lease Term | DBRS Credit Rating |
|---|---|---|---|---|
| 1. | Empire Company Limited [(1)] | 54.2% | 13.4 years | BBB (low) |
| 2. | Shoppers Drug Mart | 4.1% | 9.0 years | BBB |
| 3. | Province of Nova Scotia | 1.5% | 7.8 years | A (high) |
| 4. | Dollarama | 1.4% | 6.0 years | BBB |
| 5. | Government of Canada | 1.2% | 4.1 years | AAA |
| 6. | CIBC | 1.2% | 11.6 years | AA |
| 7. | Bank of Nova Scotia | 1.1% | 2.9 years | AA |
| 8. | Cineplex | 1.1% | 9.5 years | |
| 9. | GoodLife Fitness | 1.1% | 8.1 years | |
| 10. | Bank of Montreal | 1.0% | 7.8 years | AA |
| 11. | Canadian Tire Corporation | 1.0% | 4.0 years | BBB (high) |
| 12. | Restaurant Brands International | 0.7% | 5.9 years | |
| 13. | Bell Canada | 0.6% | 5.3 years | BBB (high) |
| 14. | Metro | 0.6% | 7.6 years | BBB |
| 15. | Royal Bank of Canada | 0.6% | 3.4 years | AA (high) |
| 16. | TJX Canada [(2)] | 0.5% | 8.6 years | |
| 17 | SAQ/Province of Quebec | 0.5% | 5.2 years | AA (low) |
| 18. | Leon's Furniture | 0.5% | 6.1 years | |
| 19. | Giant Tiger | 0.5% | 4.6 years | |
| 20. | Staples | 0.5% | 2.6 years | |
| | Total | 73.9% | | |

(1) Includes Sobeys and all other subsidiaries under Empire Company Limited.

(2) TJX Canada's parent company, The TJX Companies, Inc., is rated A2 by Moody's.

Other than Empire which accounts for 54.2% of annual minimum rent and Shoppers Drug Mart which accounts for 4.1% of annual minimum rent, no other tenant accounts for more than 1.5% of Crombie's annual minimum rent.

For the twelve months ended December 31, 2019, Empire also represents 52.2% of total property revenue. Total property revenue includes annual minimum rent as well as operating and realty tax cost recovery income and percentage rent. These additional amounts can vary by property type, specific tenant leases and where tenants may directly incur and pay operating and realty tax costs.

The weighted average remaining term of all Crombie leases is approximately 10.2 years. This remaining lease term is influenced by the average Empire remaining lease term of 13.4 years.

**Property Development/Redevelopment ("Development")**

Property Development is a strategic priority for Crombie to improve net asset value ("NAV"), cash flow growth and Unitholder value. With urban intensification an important reality across the country, Crombie is focused on evaluating and undertaking major developments at certain properties, where incremental costs to develop are greater than $50,000 and where development may include a combination of commercial and/or residential uses (“Major Developments”).

Crombie has the potential to unlock significant value within its current pipeline of 33 Major Development properties (six Active Major Developments (December 31, 2018 - five) and 27 Potential Major Developments (December 31, 2018 - 18)) over the next decade or longer. Crombie benefits from having solid income (FFO and AFFO) generated by these properties while working through the various approvals, entitlements and advance preparations required before each Major Development can commence. In aggregate, Crombie currently achieves an in-place NOI yield of approximately 5.4% on existing asset cost for our development pipeline properties.

Crombie has a strategic relationship with Empire. The majority of our development properties have Empire as an anchor tenant and our strategic relationship should enable us to ensure a seamless transition from existing property/store operations to construction/development of each of these sites on mutually agreeable terms.

Our Major Developments will be planned and executed either alone or with partners to complete development of mixed-use properties with a focus on grocery-anchored retail and, wherever practical, primarily purpose built residential rental accommodations that provide both revenue,

diversification and growth to Crombie. We view this approach as the optimal way to drive both NAV and AFFO growth. In certain cases, residential condominium uses may also be considered, as will certain other uses, to satisfy municipal requirements and/or market opportunities. Crombie may also have the option, if desired, to monetize our density value by selling certain air rights, or purpose built rental properties to third parties in lieu of, or after, development.

Our range of options enables us, on a case by case basis, to make choices that optimize Unitholder value. In today's environment where NOI yield on cost for Major Development projects are projected to be in the 5% - 6% range and where exit capitalization rates in markets like Vancouver, Toronto and Montreal (where Crombie has 19 Major Development properties) (December 31, 2018 - 12) are in a current approximate range of 3% - 4% for comparable developments, NAV creation through development can be substantial.

In the sections that follow (Active Major Developments and Potential Major Developments), Crombie has identified 33 Major Development projects as at December 31, 2019 (December 31, 2018 - 23), with a total projected cost to develop these properties of $4,000,000 to $5,800,000 (December 31, 2018 - $3,000,000 to $4,500,000). Crombie may enter joint venture or other partnership arrangements for these properties to share cost, revenue, risk and development expertise depending upon the nature of each project. Each project remains subject to normal development approvals, achieving required economic hurdles including financial accretion and NAV analysis and Board of Trustees approval.

| ***(Costs in billions of CAD $)*** | **# of Projects** | **Total Projected Cost Range** | **Commercial GLA on Completion [(1)]** | **Commercial Incremental GLA [(1)]** | **Residential Incremental GLA [(1)]** | **Residential # of Units [(1)]** |
|---|---|---|---|---|---|---|
| Active Major Development | 6 | $ 0.6 | 759,000 | 560,000 | 961,000 | 1,200 |
| Potential Major Development | 27 | 3.4 - 5.2 | 1,447,000 | 786,000 | 8,802,000 | 10,000 |
| **Total Developments** | **33** | **$ 4.0 - 5.8** | **2,206,000** | **1,346,000** | **9,763,000** | **11,200** |

[(1)] GLA and Units reflective of upper range of costs.

*Active Major Developments*

The below table provides additional detail into Crombie's Active Major Developments by property type.

| | | | | | | | At Crombie's Share ($ in millions) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Property** | **CMA[1]** | **Use** | **Commercial GLA on Completion** | **Residential GLA on Completion** | **Residential Units** | **Estimated Final Completion Date** | **Estimated Annual NOI** | **Estimated Total Cost[2]** | **Estimated Yield on Cost [2]** | **Estimated Cost to Complete** |
| **Investment Properties ("IP") - Major Development** | | | | | | | | | | |
| Davie Street[3] | Vancouver | Retail | 54,000 | — | — | Q1 2020 | $ 1.8-1.9 | $ 28.6 | 6.2%-6.8% | $ 5.2 |
| Belmont Market [6] | Victoria | Retail, Office | 160,000 | — | — | Q4 2020[5] | 5.4-5.7 | 93.0 | 5.8%-6.1% | 8.8 |
| Avalon Mall - Phase I | St. John's | Retail | — | — | — | Q3 2020 | — | 54.5 | — | 9.8 |
| Avalon Mall - Phase II [4] | St. John's | Retail | 165,000 | — | — | Q3 2020 | 5.8-6.2 | 56.8 | 10.3%-11.0% | 24.5 |
| **Subtotal IP - Major Development** | | | **379,000** | **—** | **—** | | **$13.0-13.8** | **$ 232.9** | **5.6%-6.0%** | **$ 48.3** |
| **Properties Under Development ("PUD")** | | | | | | | | | | |
| Pointe-Claire | Montreal | Retail-Related Industrial | 300,000 | — | — | 2021 | 6.1-6.4 | 100.0 | 6.1%-6.4% | 56.8 |
| **Subtotal PUD** | | | **300,000** | **—** | **—** | | **$6.1-6.4** | **$ 100.0** | **6.1%-6.4%** | **$ 56.8** |
| **Total Investment Properties** | | | **679,000** | **—** | **—** | | **$19.1-20.2** | **$ 332.9** | **5.7%-6.1%** | **$ 105.1** |
| **Properties Held in Joint Ventures** | | | | | | | | | | |
| Davie Street[3] | Vancouver | Residential | — | 254,000 | 330 | Q3 2020 | $ 4.0-4.4 | $ 78.5 | 5.1%-5.6% | $ 22.5 |
| Le Duke[7] | Montreal | Retail, Residential | 26,000 | 241,000 | 390 | Q2 2021 | 3.2-3.4 | 59.1 | 5.4%-5.8% | 37.5 |
| Bronte Village[7] | Toronto | Retail, Residential | 54,000 | 466,000 | 480 | Q3 2021 | 7.5-8.3 | 138.7 | 5.4%-6.0% | 70.3 |
| **Total Properties Held in Joint Ventures** | | | **80,000** | **961,000** | **1,200** | | **$14.7-16.1** | **$ 276.3** | **5.3%-5.8%** | **$ 130.3** |
| **Total Active Major Developments** | | | **759,000** | **961,000** | **1,200** | | **$33.8-36.3** | **$ 609.2** | **5.5%-6.0%** | **$ 235.4** |

[1] CMA: Census Metropolitan Area
[2] Estimated Total Cost and Estimated Yield on Cost includes all costs associated with the development, including but not limited to, estimated land value, pre-development costs, construction costs, tenant costs and financing costs.
[3] Crombie will own 100% of the retail with an estimated total project cost of $28.6 million. Safeway will continue lease payments through the development period to retain the rights under their existing lease. Incremental NOI for the commercial component is estimated to be $0.6 million. Crombie has entered into a JV partnership and will own 50% of the residential with an estimated total project cost of $157.0 million.
[4] Avalon Mall total GLA is expected to be 593,000 square feet when Phase II is complete. 165,000 square feet relates to the expected square footage of the redeveloped portion of the mall.
[5] Costs related to completed Belmont Market phases have been transferred out of Properties under Development and into Investment Properties in Q4 2018 and Q2 2019. Full project cost estimates are shown in chart above.
[6] Rents from certain leases in Phase I of Belmont Market development commenced in Q4 2018 with many tenants opening for business in 2019. New revenue will continue to come on-line in 2020 with timing dependent on leasing activity.
[7] The development agreement with our our partner was executed in April 2018. Under this agreement, Crombie has sold a 50% interest in the Bronte Village development and acquired a 50% interest in the Le Duke development. Title transfer closed in August 2018.

*1641 Davie Street, Vancouver, British Columbia*

Davie Street is currently under active development and is being constructed in conjunction with our partner, as an approximate 308,000 square foot mixed-use property. Construction of the retail podium and tower concrete is complete with residential glazing now installed up to the 18th floor of both towers. This development includes a new Safeway store at approximately 45,000 square feet with almost 9,000 square feet of ancillary retail space, expected to open in spring 2020. Rental residential space totalling 254,000 square feet (330 rental units) in two residential towers are expected to open in Q3 2020. Estimated total project cost is $185,600, $107,100 at Crombie's share. Crombie owns 100% of the commercial component and 50% of the rental residential component. The residential component is fully funded within the joint venture partnership with in-place mortgage financing. Crombie also has in-place mortgage financing on the commercial component.

*Avalon Mall - Phase I & II, St. John's, Newfoundland and Labrador*

Avalon Mall is the only regional shopping mall in Newfoundland and Labrador and is located in St. John's. Crombie is in its final year of a three year capital investment program to enhance Avalon Mall's position as the dominant regional mall in the province. The Phase I investment program began in 2017 and included construction of a four-level 875 space parkade, redesign and phased renovation of the mall's interior common areas, and the redesign and realignment of the main mall vehicular access with a combined capital investment of $54,500 over three years. The parkade was completed in 2018. The redesign and renovation of the common areas began in January 2018 and continues in phases through 2019 and 2020.

Crombie obtained possession of the 129,000 square foot space formerly occupied by Sears effective February 2018, enabling the redevelopment of this section of the mall. This $56,800 Phase II redevelopment involves demolition of approximately 50,000 square feet of the Sears space, renovation of the remaining portion into new retail units, and an expansion of the existing shopping centre toward Kenmount Road. The redevelopment provides an opportunity to replace the former Sears space with new and/or completely renovated modern tenant spaces, common areas, and mall exterior. This phase of the redevelopment commenced in March 2018 with the start of the Sears demolition, and occupancy of the new retail units began in Q3 2019. Construction of the expansion area will continue through Q2 2020 with occupancy expected in Q3 and Q4 2020. Avalon Mall continues its market dominance with occupancy at December 31, 2019 at 97.6%. Leasing activity to date for the redevelopment area includes a new and expanded Winners HomeSense, H&M, GAP/Banana Republic and Old Navy. Including this leasing activity, 69.3% of the leaseable square footage in this redevelopment has been executed to date. Subsequent to December 31, 2019, leases have been executed with Tommy Hilfiger, SportChek, and Levi Strauss, bringing the total to 88.8%. Advanced discussions with other potential national anchor and commercial retail unit tenants continue.

*Belmont Market, Langford (Victoria), British Columbia*

Belmont Market is being developed as a grocery-anchored retail centre in Langford. Crombie is developing and owns 100% of the 160,000 square foot retail component currently under active development. The retail development is expected to cost approximately $93,000 and includes a 53,000 square foot Thrifty Foods store and approximately 107,000 square feet of additional retail and office space on 13 acres of land. The Thrifty Foods grocery store opened in May 2019 and is driving additional traffic to the centre. A third-party completed construction of 29,000 square feet of ground floor retail space located along High Street in late 2019 on Crombie’s behalf, which was purchased by Crombie in November 2019. Tenants are now open in these new buildings with others scheduled to open imminently. As at December 31, 2019 committed occupancy is 86.4%.

The final portion of the development totalling 23,000 square feet in three buildings is in active pre-leasing and deals pending on approximately 6,000 square feet of the available retail space. Construction is likely to commence on the first building in early 2020, with the remaining two buildings slated for 2021 construction.

Crombie previously completed the sale of 5.55 acres of land to a third-party, who are under construction on over half of the anticipated 437 residential units including condominiums and rental buildings. Residents in the two rental buildings have taken possession of their units and are adding vibrancy to the overall development.

*Le Duke, 297 Rue Duke, Montreal, Quebec*

Le Duke is located near the new Bonaventure Greenway in Old Montreal. The development has total project costs estimated at $118,100 ($59,100 at Crombie’s share), and includes a 25 storey mixed-use tower with 241,000 square feet and 390 residential rental units, a 25,000 square foot IGA grocery store, 1,000 square feet of retail space, and 200 underground parking stalls. Development of Le Duke began late in 2017 with demolition of the existing structure. The residential structure is completed up to the 12th floor. This development is expected to be complete in Q2 2021.

The partnership agreement was executed in April 2018. Under this agreement, Crombie sold a 50% interest in the Bronte Village development in South Oakville and acquired a 50% interest in Le Duke. Title transfer closed in August 2018.

*Bronte Village, 2441 Lakeshore Road West, Oakville (Toronto), Ontario*

Bronte Village is located in South Oakville at the intersection of Lakeshore and Bronte Road. The 5.66 acre property is being redeveloped from a single storey, retail mall, to a mixed-use residential property in conjunction with our partner. This development includes the existing 30,000 square foot grocery store while adding 24,000 square feet of retail and two luxury residential towers totalling 466,000 square feet of residential rental space in up to 480 units. The existing Sobeys grocery store remains operational during the development. Demolition of the existing mall was completed in June 2018. Site plan approval and building permits have been obtained for the development. The below grade parking structure is complete. Above grade concrete work is completed up to level 14 on building A (west) and has reached level 5 on building B (east). Total project cost is estimated at $277,200, $138,700 at Crombie's share. This development is expected to be completed in Q3 2021.

*Pointe-Claire, (Montreal), Quebec*

The property is a 20.25 acre retail-related industrial site situated in Pointe-Claire, three kilometers from Montreal's P. E. Trudeau International Airport. The property was acquired in the first quarter of 2019. Crombie has executed an agreement with Empire to develop a new 300,000 square foot state-of-the-art Customer Fulfillment Centre ("CFC"). Crombie's approximately $100,000 project investment, including land, will be powered by Ocado's world-leading online grocery platform, and will become Empire's e-commerce distribution hub for major cities in Quebec and the Ottawa area. Crombie is the owner and developer of the CFC and will work collaboratively with Empire to develop the CFC. The site is currently zoned for its intended use. Empire will lease the location from Crombie and Crombie will build the site to Empire's specifications. The launch of Voilà par IGA, the grocery e-commerce service for Quebec and the Ottawa area is expected in 2021. Building construction to commence in spring 2020.

*Potential Major Developments*

In addition to Active Major Developments in the previous section, Crombie's current Potential Major Developments have the potential to add up to 786,000 square feet (December 31, 2018 - 540,000 square feet) of commercial GLA and up to 8,802,000 square feet (up to 10,000 units) (December 31, 2018 - 7,500,000 square feet and 9,000 units) of residential GLA (which may include a combination of rental or condominium units).

Based on Crombie's current estimates, total costs to develop these properties could reach $3,400,000 to $5,200,000 ($4,000,000 to $5,800,000 including Active Major Developments). Crombie may develop independently or may enter joint venture or other partnership arrangements for these properties to share cost, revenue, risk and development expertise depending upon the nature of each project. Each project remains subject to normal development approvals, achieving required economic hurdles including financial NAV and accretion analysis and Board of Trustees approval.

As at December 31, 2019, Crombie has identified the following 27 Potential Major Development locations as having potential to become Active Major Developments. Development of each property is subject to management completing full due diligence on the opportunity, including commercial and residential components, as well as seeking all necessary Board, municipal/provincial and tenant approvals prior to proceeding. The precise timing of each project is not determinable at present. The time horizon of these projects may change, project scope may change, and/or Crombie may choose to not proceed with development on some properties after further review and completion of financial projections.

| | Existing Property | CMA[1] | Site Size (acres) | Transit Oriented | Existing Tenants | Potential Commercial Expansion | Potential Residential Expansion | Status |
|---|---|---|---|---|---|---|---|---|
| **1** | **Park West** | **Halifax** | **6.44** | **No** | **Retail** | **Yes** | **Yes** | **Pre-planning** |
| **2** | **Penhorn Lands** | **Halifax** | **26.12** | **No** | **Land** | **Yes** | **Yes** | **Pre-planning** |
| **3** | **Scotia Square Residential[2]** | **Halifax** | **0.46[3]** | **Yes** | **n/a** | **Yes** | **Yes** | **Pre-planning** |
| **4** | **10355 King George Boulevard** | **Vancouver** | **5.07** | **Yes** | **Safeway** | **Yes** | **Yes** | **Pre-planning** |
| **5** | **1780 East Broadway (Broadway and Commercial)** | **Vancouver** | **2.43** | **Yes** | **Safeway** | **Yes** | **Yes** | **Pre-planning** |
| **6** | **5235 Kingsway (Royal Oak)** | **Vancouver** | **2.76** | **Yes** | **Safeway** | **Yes** | **Yes** | **Pre-planning** |
| **7** | **Belmont Market - Phase II** | **Victoria** | **1.70** | **No** | **Land** | **Yes** | **Yes** | **Pre-planning** |
| 8 | 1818 Centre Street | Calgary | 2.18 | Yes | Safeway | Yes | Yes | TBD[4] |
| 9 | 410 10 Street NW (Kensington) | Calgary | 1.73 | Yes | Safeway | Yes | Yes | TBD |
| 10 | 524 Elbow Drive SW (Mission) | Calgary | 1.60 | No | Safeway | Yes | Yes | TBD |
| 11 | 813 11 Avenue SW (Beltline) | Calgary | 2.59 | Yes | Safeway | Yes | Yes | TBD |
| 12 | 10930 82 Avenue (Whyte Ave) | Edmonton | 2.44 | No | Safeway/Other tenants | Yes | Yes | TBD |
| 13 | Brunswick Place | Halifax | 0.75[5] | Yes | n/a | Yes | Yes | TBD |
| 14 | Triangle Lands | Halifax | 0.68 | No | Land | Yes | Yes | TBD |
| 15 | Centennial Parkway | Hamilton | 2.75 | No | Retail | Yes | Yes | TBD |
| 16 | 3130 Danforth | Toronto | 0.79 | Yes | The Beer Store | Yes | Yes | TBD |
| 17 | Brampton Mall | Toronto | 8.74 | No | Office/Retail | Yes | Yes | TBD |
| 18 | McCowan & Ellesmere | Toronto | 4.48 | Yes | FreshCo/Other tenants | Yes | Yes | TBD |
| 19 | 1170 East 27 Street (Lynn Valley) | Vancouver | 2.82 | No | Safeway | Yes | Yes | TBD |
| 20 | 2733 West Broadway | Vancouver | 1.95 | Yes | Safeway | Yes | Yes | TBD |
| 21 | 3410 Kingsway (Kingsway +Tyne) | Vancouver | 3.74 | Yes | Safeway/Other tenants | Yes | Yes | TBD |
| 22 | 990 West 25 Avenue (King Edward) | Vancouver | 1.80 | No | Safeway | Yes | Yes | TBD |
| 23 | East Hastings | Vancouver | 3.30 | No | Safeway/Other tenants | Yes | Yes | TBD |
| 24 | Fleetwood | Vancouver | 4.45 | Yes | Safeway | Yes | Yes | TBD |
| 25 | New Westminister | Vancouver | 2.82 | No | Safeway | Yes | Yes | TBD |
| 26 | Port Coquitlum | Vancouver | 5.31 | No | Safeway | Yes | Yes | TBD |
| 27 | Robson Street | Vancouver | 1.15 | No | Safeway | Yes | Yes | TBD |

[1] CMA: Census Metropolitan Area
[2] Scotia Square Residential was formerly called Westhill
[3] Scotia Square Residential can be developed through densification on 0.46 acres of the existing 9.05 acre Scotia Square site
[4] TBD: to be determined
[5] Brunswick Place can be developed through densification on the existing 0.75 acre Brunswick Place Parkade

These are projects owned by Crombie where future development is a possibility. Projects described as having a “pre-planning” status include projects where Crombie has undertaken potential development planning, which could include seeking municipal approvals for zoning, developing image renderings, seeking potential commercial and/or residential development partners, evaluation of financing options and other activities required to determine viability of the opportunity.

*Properties in the Pre-Planning Phase*

*Park West, Halifax, Nova Scotia*

Park West is located in Halifax, Nova Scotia in a prime location abutting adjacent retail and residential on Lacewood Drive and Dunbrack Street. The 6.44 acre site (which formally was the home to a Canadian Tire Store) abuts Crombie-owned Park West Centre; home of Sobeys, Lawtons, RBC plus additional retail and services. Crombie is currently exploring mixed-use development options. Rezoning of this property is required prior to proceeding with any development.

*Penhorn Lands, Dartmouth (Halifax), Nova Scotia*

The Penhorn Lands is a development site located at the intersection of Highway 111 and Portland Street in Dartmouth (Halifax), Nova Scotia. Crombie has initiated pre-planning activity for future mixed residential development on 26 acres of this development site located adjacent to a Crombie owned grocery-anchored property, Penhorn Plaza.

*Scotia Square Residential, Halifax, Nova Scotia*

Scotia Square Residential is a potential multi-unit rental building addition to Crombie’s existing Scotia Square commercial complex, located at a prime location in Downtown Halifax. The approximately 0.46 acre site is situated within the Downtown Halifax Plan Area, which enables approximately 17 storeys of residential development. Site plan approval is required in order to proceed with any future development and preliminary development analysis is currently underway.

*1780 East Broadway (Broadway and Commercial), Vancouver, British Columbia*

1780 East Broadway is a 2.43 acre site located at the intersection of Commercial Drive and East Broadway in Vancouver, British Columbia. The single storey 38,000 square foot Safeway grocery store is situated at one of the busiest transit nodes in Western Canada. Crombie is currently working through the rezoning process to capitalize on the Official Community Plan, which permits a total density of 5.7 floor to space ratio (FSR) including 4.5 FSR for residential and 1.2 FSR for commercial.

*10355 King George Boulevard, Surrey (Vancouver), British Columbia*

King George is located in Surrey, British Columbia, in a prime location within Surrey City Centre and immediately adjacent the King George SkyTrain stop. The approximate 5 acre site is within the City of Surrey Official Community Plan and the Surrey City Centre Plan, which both designate the site for high-density development up to 7.5 FSR. Rezoning of the site is required in order to proceed with any future redevelopment, and preliminary development analysis is currently underway.

*5235 Kingsway (Royal Oak), Burnaby (Vancouver), British Columbia*

The Royal Oak site is located in close proximity to Metrotown in Burnaby, British Columbia - an area experiencing significant redevelopment as a result of a recently adopted Metrotown Downtown Plan in 2017. The high profile, 2.76 acre site has the potential for redevelopment to occur in the near future. Initial planning has commenced, and a comprehensive rezoning plan is being developed to facilitate discussions with the City of Burnaby.

*Belmont Market - Phase II, Langford (Victoria), British Columbia*

Belmont Market Phase II is currently contemplated as the final piece of the larger shopping centre development with a potential to add 140,000 square feet of residential and/or commercial space on the remaining 1.70 acres of land.

## FINANCIAL RESULTS

### Comparison to Previous Year

| *(In thousands of CAD dollars, except per unit amounts and as otherwise noted)* | As At | | |
|---|---|---|---|
| | **December 31, 2019** | December 31, 2018 | December 31, 2017 |
| Total assets | **$ 3,921,214** | $ 4,071,074 | $ 4,086,854 |
| Total investment property debt and unsecured debt | **$ 2,279,297** | $ 2,479,143 | $ 2,501,748 |

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

Compared to December 31, 2018, the balance sheet changes are primarily attributable to:

- investment property dispositions totalling $450,501, which include the sale of a 50% interest in seven properties in the first quarter of 2019, sale of an 89% interest in 26 properties in the second quarter of 2019, and sale of an 89% interest in 15 properties in the fourth quarter of 2019.
- repayment or disposition of $346,735 in fixed rate mortgages and net repayment of $124,535 of the credit facilities with proceeds from disposition of properties during 2019.
- issuance of $350,000 senior unsecured notes, proceeds from which were used to fund the early repayment of $125,000 of notes, repayment of bank indebtedness and future repayment of upcoming secured mortgage maturities.

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | Variance | **2019** | 2018 | Variance |
| Property revenue | **$ 96,823** | $ 104,296 | $ (7,473) | **$ 398,741** | $ 414,649 | $ (15,908) |
| Property operating expenses | **29,852** | 30,817 | 965 | **117,645** | 121,306 | 3,661 |
| Property NOI | **66,971** | 73,479 | (6,508) | **281,096** | 293,343 | (12,247) |
| NOI margin percentage | **69.2%** | 70.5% | (1.3)% | **70.5%** | 70.7% | (0.2)% |
| Other items: | | | | | | |
| Gain on disposal of investment properties | **30,198** | 4,580 | 25,618 | **81,803** | 50,023 | 31,780 |
| Impairment of investment properties | **(6,000)** | (7,000) | 1,000 | **(6,000)** | (15,000) | 9,000 |
| Depreciation and amortization | **(18,347)** | (19,906) | 1,559 | **(74,313)** | (96,353) | 22,040 |
| General and administrative expenses | **(5,855)** | (5,184) | (671) | **(23,721)** | (19,226) | (4,495) |
| Finance costs - operations | **(22,810)** | (25,968) | 3,158 | **(97,316)** | (105,631) | 8,315 |
| Income from equity accounted investments | **(8)** | 111 | (119) | **334** | 254 | 80 |
| Operating income before taxes | **44,149** | 20,112 | 24,037 | **161,883** | 107,410 | 54,473 |
| Taxes - current | **—** | (1) | 1 | **(8)** | (3) | (5) |
| Operating income attributable to Unitholders | **44,149** | 20,111 | 24,038 | **161,875** | 107,407 | 54,468 |
| Finance costs - distributions to Unitholders | **(48,936)** | (33,724) | (15,212) | **(150,169)** | (134,729) | (15,440) |
| Finance (costs) income - change in fair value of financial instruments | **(70)** | 197 | (267) | **(1,337)** | 402 | (1,739) |
| Increase (decrease) in net assets attributable to Unitholders | **$ (4,857)** | $ (13,416) | $ 8,559 | **$ 10,369** | $ (26,920) | $ 37,289 |
| Operating income attributable to Unitholders per Unit, Basic | **$ 0.29** | $ 0.13 | | **$ 1.07** | $ 0.71 | |
| Basic weighted average Units outstanding (in 000's) | **151,723** | 151,419 | | **151,666** | 151,214 | |
| Distributions per Unit to Unitholders, excluding special distribution | **$ 0.22** | $ 0.22 | | **$ 0.89** | $ 0.89 | |

Operating Results

Three months

Operating income attributable to Unitholders increased by $24,038 or 119.5% compared to the fourth quarter of 2018 primarily due to the disposition of investment properties, resulting in a $6,508 decrease in property NOI, offset by an increase of $25,618 in the gain on disposal of investment

properties and a decrease of $3,158 in finance costs from operations due to repayments of debt. In addition, depreciation and amortization was lower by $1,559 compared to the fourth quarter of 2018 as a result of dispositions of investment properties. In the fourth quarter of 2019, an impairment of $6,000 was recognized on three retail properties, $1,000 lower than the impairment related to an office property in the fourth quarter of 2018.

### Year

Operating income attributable to Unitholders increased by $54,468. In addition to factors noted above, contributing to the increase was an impairment of $15,000 recognized on two retail properties in the second quarter of 2018 and an office property in the fourth quarter of 2018.

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 increase (decrease) in net assets attributable to Unitholders from the Statement of Comprehensive Income (Loss). The reconciliation is as follows:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| *(In thousands of CAD dollars)* | **2019** | 2018 | **2019** | 2018 |
| Operating income attributable to Unitholders | **$ 44,149** | $ 20,111 | **$ 161,875** | $ 107,407 |
| Finance costs - distributions to Unitholders | **(48,936)** | (33,724) | **(150,169)** | (134,729) |
| Finance (costs) income - change in fair value of financial instruments | **(70)** | 197 | **(1,337)** | 402 |
| Increase (decrease) in net assets attributable to Unitholders | **$ (4,857)** | $ (13,416) | **$ 10,369** | $ (26,920) |

**Property NOI**

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

Same-asset properties are properties owned and operated by Crombie throughout the current and comparative reporting periods, excluding any property that was designated for redevelopment during either the current or comparative period. Same-asset property NOI reflects Crombie's proportionate ownership of jointly operated properties.

Property NOI on a cash basis, which excludes non-cash straight-line rent recognition and amortization of tenant incentive amounts, is as follows:

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | **2019** | 2018 | Variance | **2019** | 2018 | Variance |
| Property NOI | **$ 66,971** | $ 73,479 | $ (6,508) | **$ 281,096** | $ 293,343 | $(12,247) |
| Non-cash straight-line rent | **(2,080)** | (2,429) | 349 | **(10,287)** | (11,040) | 753 |
| Non-cash tenant incentive amortization | **3,598** | 3,451 | 147 | **14,139** | 12,875 | 1,264 |
| Property cash NOI | **68,489** | 74,501 | (6,012) | **284,948** | 295,178 | (10,230) |
| Acquisitions, dispositions and development property cash NOI | **8,729** | 16,503 | (7,774) | **48,383** | 66,596 | (18,213) |
| Same-asset property cash NOI | **$ 59,760** | $ 57,998 | $ 1,762 | **$ 236,565** | $ 228,582 | $ 7,983 |

### Three months

Same-asset property cash NOI increased by $1,762 or 3.0% compared to the fourth quarter of 2018 primarily due to rate increases on existing tenant leases, new leasing activity and revenues from modernization investments and land use intensifications at certain properties. These items make up $1,471 (or 2.5%) of the increase, with the remaining increase due to the favourable impact from the adoption of IFRS 16 'Leases' on January 1, 2019.

### Year

On an annual basis, same-asset cash NOI increased 3.5% with rate increases on existing tenant leases, new leasing activity, lease termination income and revenues from modernization investments and land use intensifications accounting for approximately $6,821 (or 3.0%) of the increase, with the remaining increase due to the favourable impact from the adoption of IFRS 16.

Same-asset property cash NOI is as follows:

| | Three months ended December 31, | | | | Year ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | **2019** | 2018 | Variance | Percent | **2019** | 2018 | Variance | Percent |
| Retail and Commercial[1] | **$ 54,496** | $ 53,344 | $ 1,152 | 2.2% | **$ 216,380** | $ 210,780 | $ 5,600 | 2.7% |
| Office | **3,165** | 2,749 | 416 | 15.1% | **12,353** | 10,220 | 2,133 | 20.9% |
| Retail-Related Industrial[2] | **2,099** | 1,905 | 194 | 10.2% | **7,832** | 7,582 | 250 | 3.3% |
| Same-asset property cash NOI | **$ 59,760** | $ 57,998 | $ 1,762 | 3.0% | **$ 236,565** | $ 228,582 | $ 7,983 | 3.5% |

[1] Commercial includes certain properties which comprise both retail and office space. These properties have been consistently included in our retail category.
[2] Retail-Related Industrial includes retail distribution centres owned in Toronto, Montreal and Calgary.

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

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | **2019** | 2018 | Variance | **2019** | 2018 | Variance |
| Acquisitions and dispositions property cash NOI | **$ 1,714** | $ 9,614 | $ (7,900) | **$ 20,461** | $ 41,332 | $ (20,871) |
| Development property cash NOI | **7,015** | 6,889 | 126 | **27,922** | 25,264 | 2,658 |
| Total acquisitions, dispositions and development property cash NOI | **$ 8,729** | $ 16,503 | $ (7,774) | **$ 48,383** | $ 66,596 | $ (18,213) |

Development properties include properties earning cash NOI that are: currently being developed; have recently completed development; and, properties scheduled for development. 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 with significant disruption in others. Consequently, comparison of period-over-period development operating results may not be meaningful.

Property NOI for the three months and year ended December 31, 2019 by province was as follows:

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | | **2019** | 2018 | |
| *(In thousands of CAD dollars)* | **Property NOI** | Property NOI | Variance | **Property NOI** | Property NOI | Variance |
| AB | **$ 14,279** | $ 16,145 | $ (1,866) | **$ 61,646** | $ 64,960 | $ (3,314) |
| BC | **9,210** | 9,797 | (587) | **38,358** | 37,168 | 1,190 |
| MB | **3,023** | 3,341 | (318) | **12,711** | 13,446 | (735) |
| NB | **3,639** | 3,623 | 16 | **14,990** | 14,315 | 675 |
| NL | **6,161** | 7,081 | (920) | **25,676** | 26,767 | (1,091) |
| NS | **13,911** | 13,385 | 526 | **56,576** | 56,715 | (139) |
| ON | **8,649** | 10,522 | (1,873) | **36,665** | 42,809 | (6,144) |
| PE | **288** | 425 | (137) | **1,420** | 1,702 | (282) |
| QC | **6,178** | 7,332 | (1,154) | **26,478** | 28,226 | (1,748) |
| SK | **1,633** | 1,828 | (195) | **6,576** | 7,235 | (659) |
| Total | **$ 66,971** | $ 73,479 | $ (6,508) | **$ 281,096** | $ 293,343 | $ (12,247) |

**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 from operating activities or any other measure prescribed under IFRS. Management uses FFO as 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 earnings amount is a measure of Crombie's ability to generate cash from earnings. FFO and AFFO as computed by Crombie may differ from similar computations as reported by other REITs 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") (February 2019 white paper) 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 disposal of investment properties and related income tax;
- Impairment charges and recoveries;
- Depreciation and amortization expense of investment properties, including amortization of tenant incentives charged against property revenue;
- Adjustments for equity accounted entities;
- Operational expenses from right of use assets;
- Incremental internal leasing expenses;
- 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 and Crombie considers these costs comparable to other capital costs incurred to earn property revenue. As a result, where depreciation and amortization of other capital costs is added back in the calculation of FFO as recommended by REALPAC, Crombie also adds back the amortization of tenant incentives ("TI"). 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 months and year ended December 31, 2019 and 2018 is as follows:

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| (In thousands of CAD dollars) | **2019** | 2018 | Variance | **2019** | 2018 | Variance |
| Increase (decrease) in net assets attributable to Unitholders | **$ (4,857)** | $ (13,416) | $ 8,559 | **$ 10,369** | $ (26,920) | $ 37,289 |
| Add (deduct): | | | | | | |
| Amortization of tenant incentives | **3,598** | 3,451 | 147 | **14,139** | 12,875 | 1,264 |
| Gain on disposal of investment properties | **(30,198)** | (4,580) | (25,618) | **(81,803)** | (50,023) | (31,780) |
| Impairment of investment properties | **6,000** | 7,000 | (1,000) | **6,000** | 15,000 | (9,000) |
| Depreciation and amortization of investment properties | **18,041** | 19,894 | (1,853) | **73,138** | 96,311 | (23,173) |
| Depreciation of investment properties included in Income from equity accounted investments | **41** | 5 | 36 | **102** | 28 | 74 |
| Principal payments on right of use assets | **(24)** | — | (24) | **(96)** | — | (96) |
| Internal leasing costs | **525** | 609 | (84) | **2,184** | 2,436 | (252) |
| Finance costs - distributions to Unitholders | **48,936** | 33,724 | 15,212 | **150,169** | 134,729 | 15,440 |
| Finance costs (income) - change in fair value of financial instruments | **70** | (197) | 267 | **1,337** | (402) | 1,739 |
| FFO as calculated based on REALPAC recommendations | **$ 42,132** | $ 46,490 | $ (4,358) | **$ 175,539** | $ 184,034 | $ (8,495) |

Three months and year

The decrease in FFO is primarily due to the reduced property NOI (a decrease of $6,508 for the quarter and $12,247 for the year) resulting from the disposition of properties in the current and prior quarters as well as increased general and administrative costs of $671 for the quarter and $4,495 for the year, the annual increase primarily related to the impact of increased unit price on unit-based compensation expense.

**Adjusted Funds from Operations (AFFO)**

Crombie follows the recommendations of REALPAC's February 2019 white paper in calculating AFFO and has applied these recommendations to the AFFO amounts included in this MD&A. Crombie considers AFFO to be a useful measure in evaluating the recurring economic performance of its operating results which will be used to support future distribution payments. AFFO reflects earnings after the adjustments in arriving at FFO (excluding internal leasing costs) and the provision for non-cash straight-line rent included in revenue, amortization of effective swap agreements, maintenance capital expenditures, maintenance tenant incentives and leasing costs and any settlement of effective interest rate swap agreements.

The calculation of AFFO for the three months and year ended December 31, 2019 and 2018 is as follows:

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | **2019** | 2018 | Variance | **2019** | 2018 | Variance |
| FFO as calculated based on REALPAC recommendations | **$ 42,132** | $ 46,490 | $ (4,358) | **$ 175,539** | $ 184,034 | $ (8,495) |
| Add (deduct): | | | | | | |
| Amortization of effective swap agreements | **356** | 557 | (201) | **1,677** | 2,263 | (586) |
| Straight-line rent adjustment | **(2,080)** | (2,429) | 349 | **(10,287)** | (11,040) | 753 |
| Internal leasing costs | **(525)** | (609) | 84 | **(2,184)** | (2,436) | 252 |
| Maintenance expenditures on a square footage basis | **(3,877)** | (4,238) | 361 | **(16,113)** | (17,027) | 914 |
| AFFO as calculated based on REALPAC recommendations | **$ 36,006** | $ 39,771 | $ (3,765) | **$ 148,632** | $ 155,794 | $ (7,162) |

Three months and year

The decline in AFFO is primarily due to the disposition of properties in the current and prior quarters impacting FFO as described above, partially offset by the resulting decrease in maintenance expenditures on a square footage basis (a decrease of $361 for the fourth quarter of 2019 and $914 for the year ended December 31, 2019 compared to the respective periods in 2018).

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

Maintenance expenditures represent costs incurred in sustaining and maintaining existing space and exclude expenditures that are revenue enhancing. Crombie considers revenue enhancing expenditures to be costs that expand the GLA of a property, increase the property NOI by a minimum threshold, or otherwise enhance the property's overall value.

Crombie's policy is to charge AFFO and ACFO with maintenance expenditures based on a normalized rate per square foot applied to the weighted average GLA, as these expenditures are not generally incurred on a consistent basis during the year, or from year to year. Crombie also discloses actual maintenance expenditures for comparative purposes. The rate per square foot 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. For 2019, Crombie has maintained the normalized rate of $0.90 per square foot of weighted average GLA that was charged in 2018 based on the actual spend for 2018 and 2017 and estimated spend for 2019. Additionally, Crombie combines maintenance capital expenditures with maintenance TI and deferred leasing costs in arriving at the normalized per square foot charge to AFFO based on the fact that in years where TI and leasing expenditures are reduced, spending on maintenance capital expenditures may be accelerated and vice versa.

**Maintenance Expenditures - Actual**

| | Year ended | Three months ended | | | | Year ended | Three months ended | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | **Dec. 31, 2019** | **Dec. 31, 2019** | **Sep. 30, 2019** | **Jun. 30, 2019** | **Mar. 31, 2019** | Dec. 31, 2018 | Dec. 31, 2018 | Sep. 30, 2018 | Jun. 30, 2018 | Mar. 31, 2018 |
| Total additions to investment properties | **$ 94,769** | **$ 37,799** | **$ 19,149** | **$ 20,602** | **$ 17,219** | $ 91,211 | $ 29,716 | $ 21,616 | $ 16,877 | $ 23,002 |
| Less: revenue enhancing expenditures | **(86,807)** | **(34,322)** | **(17,195)** | **(19,951)** | **(15,339)** | (82,647) | (26,488) | (19,982) | (15,316) | (20,861) |
| Maintenance capital expenditures | **7,962** | **3,477** | **1,954** | **651** | **1,880** | 8,564 | 3,228 | 1,634 | 1,561 | 2,141 |
| Total additions to TI and deferred leasing costs | **61,035** | **21,238** | **24,853** | **11,336** | **3,608** | 17,488 | 3,099 | 3,629 | 2,779 | 7,981 |
| Less: revenue enhancing expenditures | **(53,564)** | **(17,879)** | **(23,992)** | **(9,612)** | **(2,081)** | (10,936) | (2,295) | (940) | (1,267) | (6,434) |
| Maintenance TI and deferred leasing costs | **7,471** | **3,359** | **861** | **1,724** | **1,527** | 6,552 | 804 | 2,689 | 1,512 | 1,547 |
| Total maintenance expenditures - actual | **$ 15,433** | **$ 6,836** | **$ 2,815** | **$ 2,375** | **$ 3,407** | $ 15,116 | $ 4,032 | $ 4,323 | $ 3,073 | $ 3,688 |
| Reserve amount charged against AFFO and ACFO | **$ 16,113** | **$ 3,877** | **$ 3,982** | **$ 4,045** | **$ 4,209** | $ 17,027 | $ 4,238 | $ 4,221 | $ 4,288 | $ 4,280 |

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.

Maintenance TI and deferred leasing costs are the result of both lease renewals and new leases and are reflective of the leasing activity during 2019 and 2018.

Revenue enhancing expenditures are capitalized and depreciated or charged against revenue over their useful lives, but not deducted when calculating AFFO or ACFO. Revenue enhancing expenditures during the year ended December 31, 2019 consisted primarily of development work, modernization investments and GLA expansions.

**Depreciation, Amortization and Impairment**

Crombie's total fair value of investment properties exceeds carrying value by $808,674 at December 31, 2019 (December 31, 2018 - $797,088). Crombie uses the cost method for accounting for investment properties, and increases in fair value over carrying value are not recognized until realized through disposition or derecognition of properties, while impairment, if any, is recognized on a property by property basis when circumstances indicate that fair value is less than carrying value.

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | **2019** | 2018 | Variance | **2019** | 2018 | Variance |
| Same-asset depreciation and amortization | **$ 15,958** | $ 15,603 | $ (355) | **$ 63,215** | $ 62,091 | $ (1,124) |
| Acquisitions, dispositions and development depreciation/amortization | **2,389** | 4,303 | 1,914 | **11,098** | 34,262 | 23,164 |
| Depreciation and amortization | **$ 18,347** | $ 19,906 | $ 1,559 | **$ 74,313** | $ 96,353 | $ 22,040 |
| Impairment | **$ 6,000** | $ 7,000 | $ 1,000 | **$ 6,000** | $ 15,000 | $ 9,000 |

Three months and year

The decrease in depreciation and amortization is due to the dispositions of properties in 2019 and in the third quarter of 2018, accelerated depreciation in the first and third quarters of 2018, as well as classification of investment properties as assets held for sale in the second quarter of 2019, for which depreciation is not recorded.

During the year ended December 31, 2019, Crombie recorded impairments totalling $6,000 on three properties. The impairments were the result of the fair value impact of tenant lease expiries and slower than expected leasing activity in secondary markets. Impairment was measured on a per property basis and was determined as the amount by which carrying value, using the cost method, exceeded the recoverable amount for that property. The recoverable amount was determined to be each property's fair value defined as the higher of the economic benefit of the continued use of the asset or the selling price less costs to sell.

**General and Administrative Expenses**

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

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | **2019** | 2018 | Variance | **2019** | 2018 | Variance |
| Salaries and benefits | **$ 4,604** | $ 3,511 | $ (1,093) | **$ 16,874** | $ 13,111 | $ (3,763) |
| Professional fees | **351** | 97 | (254) | **1,336** | 924 | (412) |
| Public company costs | **408** | 612 | 204 | **2,196** | 2,161 | (35) |
| Rent and occupancy | **159** | 206 | 47 | **612** | 728 | 116 |
| Other | **333** | 758 | 425 | **2,703** | 2,302 | (401) |
| General and administrative expenses | **$ 5,855** | $ 5,184 | $ (671) | **$ 23,721** | $ 19,226 | $ (4,495) |
| As a percentage of property revenue | **6.0%** | 5.0% | (1.0)% | **5.9%** | 4.6% | (1.3)% |

Three months

The increase in expenses in the quarter is primarily due to higher salaries and benefits costs of $1,093.

Year

On an annual basis, the increase is primarily due to higher salaries and benefits costs of $3,763, the majority of which is due to the increase in Crombie's unit price and its impact on unit-based compensation plans.

General and administrative expenses as a percentage of property revenue has increased in part due to the decline in property revenue as a result of the property dispositions.

**Finance Costs - Operations**

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | **2019** | 2018 | Variance | **2019** | 2018 | Variance |
| Finance costs | **$ 21,627** | $ 24,481 | $ 2,854 | **$ 92,065** | $ 98,210 | $ 6,145 |
| Amortization of effective swaps and deferred financing charges | **1,183** | 1,487 | 304 | **5,251** | 7,421 | 2,170 |
| Finance costs - operations | **$ 22,810** | $ 25,968 | $ 3,158 | **$ 97,316** | $ 105,631 | $ 8,315 |

Three months and year

Finance costs decreased by $2,854 and $6,145 respectively primarily due to repayments and dispositions of mortgages to joint operations during 2019.

**Finance Costs - Distributions**

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 announced a special distribution of $0.56 per unit, to all Unitholders as of December 31, 2019. The distribution arises from the increase in income generated by capital recycling transactions completed during the twelve-month period ended December 31, 2019. Crombie is making the special distribution payable partially in cash ($0.10) and partially in units ($0.46), in order to provide Unitholders with cash to help fund any additional tax that may arise associated with the special distribution. Immediately following the unit portion of the special distribution, the outstanding units of Crombie were consolidated such that each Unitholder held, after the consolidation, the same number of units as before the special distribution. The remaining cash portion of the special distribution was paid on January 15, 2020. Given that Crombie's Units, in accordance with IAS 32, are accounted for as financial liabilities (as discussed in Note 2(w)(i) to Crombie's audited consolidated financial statements for the year ended December 31, 2019 and December 31, 2018), the impact of the unit portion had no impact on our financial results ending December 31, 2019.

Details of distributions to Unitholders are as follows:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| *(In thousands of CAD dollars, except as otherwise noted)* | **2019** | 2018 | **2019** | 2018 |
| Distributions to Unitholders | **$ 28,927** | $ 19,934 | **$ 88,766** | $ 79,638 |
| Distributions to Special Voting Unitholders [(1)] | **20,009** | 13,790 | **61,403** | 55,091 |
| Total distributions | **$ 48,936** | $ 33,724 | **$ 150,169** | $ 134,729 |
| FFO payout ratio | **116.1%** | 72.5% | **85.5%** | 73.2% |
| AFFO payout ratio | **135.9%** | 84.8% | **101.0%** | 86.5% |
| ACFO payout ratio | **131.9%** | 85.7% | **100.5%** | 85.7% |
| FFO payout ratio, excluding special distribution | **80.1%** | 72.5% | **76.9%** | 73.2% |
| AFFO payout ratio, excluding special distribution | **93.8%** | 84.8% | **90.8%** | 86.5% |
| ACFO payout ratio, excluding special distribution | **91.0%** | 85.7% | **90.3%** | 85.7% |

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

**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 2019 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.

**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 | Dividend Income | Capital Gains |
|---|---|---|---|---|
| 2018 per $ of distribution | 19.6% | 62.8% | 0.0% | 17.6% |
| 2017 per $ of distribution | 51.8% | 48.0% | 0.0% | 0.2% |
| 2016 per $ of distribution | 24.9% | 54.5% | 0.0% | 20.6% |
| 2015 per $ of distribution | 56.3% | 28.8% | 13.4% | 1.5% |
| 2014 per $ of distribution | 64.4% | 18.1% | 0.0% | 17.5% |

**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, reinvestment in the portfolio through capital expenditures, as well as funding tenant incentive costs and distributions to Unitholders.

Crombie expects to refinance debt obligations as they mature and has the following sources of financing available:

(i) secured short-term financing through an authorized revolving credit facility, maturing June 30, 2023, of up to $400,000, subject to available borrowing base, of which $15,339 ($20,984 including outstanding letters of credit) was drawn at December 31, 2019;

(ii) unsecured short-term financing through an authorized floating rate revolving credit facility, maturing May 14, 2021, of up to $100,000, of which $30,000 was drawn at December 31, 2019;

(iii) recycling capital through the disposition of select investment properties;

(iv) secured mortgage and term debt on unencumbered properties, Crombie currently has $1,223,452 of fair value in unencumbered properties, which is defined as those properties that are free and clear of any encumbrances, including mortgages and pledging as security for floating rate revolving credit facility;

(v) the issuance of additional senior unsecured notes; and,

(vi) the issuance of new units.

In addition to the above, Crombie has a number of active major developments and potential major developments as discussed under the Property Development/Redevelopment ("Development") section of this MD&A. Financing for these Development projects is expected to include specific project/construction financing in place before significant incurrence of project expenditures as well as financing from the various above-noted sources.

Capital Structure

| *(In thousands of CAD dollars)* | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| Fixed rate mortgages | $ 1,302,510 | 34.6% | $ 1,601,584 | 40.8% |
| Credit facilities | 54,308 | 1.5% | 178,843 | 4.6% |
| Senior unsecured notes | 922,479 | 24.5% | 698,716 | 17.8% |
| Crombie REIT Unitholders | 870,792 | 23.1% | 864,779 | 22.1% |
| Special Voting Units and Class B Limited Partnership Unitholders | 584,251 | 15.5% | 578,061 | 14.7% |
| Lease liabilities | 29,419 | 0.8% | — | 0.0% |
| | $ 3,763,759 | 100.0% | $ 3,921,983 | 100.0% |

**Liquidity and Financing Sources**

Revolving credit facility

Crombie has in place an authorized floating rate revolving credit facility of up to $400,000 (the “revolving credit facility”), with a maturity date of June 30, 2023, of which $15,339 ($20,984 including outstanding letters of credit) was drawn as at December 31, 2019. The revolving credit facility is secured by a pool of first and second mortgages on certain properties. Borrowings under the revolving credit facility can be by way of Bankers Acceptance or Prime Rate Advances and the floating interest rate is contingent on the type of advance plus the applicable spread or margin. The respective spread or margin may change depending on Crombie’s unsecured bond rating with DBRS and whether the facility remains secured or migrates to an unsecured status. 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 December 31, 2019, Crombie had sufficient Borrowing Base to permit $400,000 of funds to be drawn pursuant to the revolving credit facility, subject to certain other financial covenants. See “Borrowing Capacity and Debt Covenants”.

Joint Operation Credit Facility

In conjunction with the 89% sale of a portfolio of assets in the second quarter of 2019, Crombie and its co-owner entered into a credit agreement with a Canadian Chartered Bank for a $62,250 term loan facility and a $5,800 revolving credit facility. Both facilities are secured by first mortgages on select properties and have a term of five years maturing on April 25, 2024. Borrowings under both facilities can be by way of Bankers Acceptance or Prime Rate Advance and the floating interest rate is contingent on the type of advance plus the applicable spread or margin. Concurrent with entering into these facilities, Crombie and its co-owner entered into a fixed for floating interest rate swap effectively fixing the interest rate on both facilities at 3.58%. At December 31, 2019, Crombie‘s portion of the term and revolving credit facilities was $6,848 and $130, respectively.

In conjunction with the 89% sale of a portfolio of assets in the fourth quarter of 2019, Crombie and its co-owner entered into a credit agreement with a Canadian Chartered Bank for a $16,500 term loan facility and a $15,500 revolving credit facility. Both facilities are secured by first and second mortgages on select properties and have a term of five years maturing on October 7, 2024. Borrowings under both facilities can be by way of Bankers Acceptance or Prime Rate Advance and the floating interest rate is contingent on the type of advance plus the applicable spread or margin. Concurrent with entering into these facilities, Crombie and its co-owner entered into a fixed for floating interest rate swap effectively fixing the interest rate on both facilities at 3.27%. At December 31, 2019, Crombie's portion of the term and revolving credit facilities was $1,815 and $176 respectively.

Unsecured Bilateral Credit Facility

The unsecured bilateral credit facility has a maximum principal amount of $100,000, of which $30,000 was drawn as at December 31, 2019, and was renewed for an additional year in the second quarter of 2019 and now matures May 14, 2021. The facility is used by Crombie for working capital purposes and to provide temporary financing for acquisitions and development activity. Borrowings under the bilateral credit facility can be by way of Bankers Acceptance or Prime Rate Advance and the floating interest rate is contingent on the type of advance plus the applicable spread or margin. The respective spread or margin may change depending on Crombie’s unsecured bond rating with DBRS.

Mortgage debt and credit facilities

Crombie had fixed rate mortgages outstanding consisting of:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Fixed rate mortgages | $ 1,308,147 | $ 1,608,749 |
| Unamortized fair value debt adjustment and interest rate subsidy | 930 | 1,891 |
| | 1,309,077 | 1,610,640 |
| Deferred financing charges on fixed rate mortgages | (6,567) | (9,056) |
| Total mortgage debt | $ 1,302,510 | $ 1,601,584 |

The mortgages carry a weighted average interest rate of 4.25% (after giving effect to the interest rate subsidy from Empire under an omnibus subsidy agreement) and a weighted average term to maturity of 3.9 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 interest rate swap agreements in place on $115,149 of floating rate debt.

During the quarter, Crombie recognized a mortgage payable of $20,401 in settlement of an amount payable to 1600 Davie Limited Partnership. This mortgage, bearing interest at 3.22%, relates to the commercial component of the Davie Street development, 100% of which is included in Crombie's financial statements.

During the second, third and fourth quarters of 2019, Crombie disposed of $129,200 in mortgages as part of the disposition of an 89% interest in 42 properties. For the year ended December 31, 2019, $161,472 in mortgages were disposed in total.

Principal repayments of the fixed rate mortgages and credit facilities are scheduled as follows:

| *(In thousands of CAD dollars)* | Maturing Debt Balances | | | | | | |
|---|---|---|---|---|---|---|---|
| 12 Months Ending | Mortgages | Credit Facilities | Total | % of Total | Payments of Principal | Total Required Payments | % of Total |
| December 31, 2020 | $ 216,024 | $ — | $ 216,024 | 18.8% | $ 41,471 | $ 257,495 | 18.9% |
| December 31, 2021 | 83,856 | 30,000 | 113,856 | 9.9% | 40,337 | 154,193 | 11.3% |
| December 31, 2022 | 159,451 | — | 159,451 | 13.8% | 34,889 | 194,340 | 14.2% |
| December 31, 2023 | 238,384 | 15,339 | 253,723 | 22.0% | 28,159 | 281,882 | 20.7% |
| December 30, 2024 | 226,268 | 8,969 | 235,237 | 20.4% | 16,194 | 251,431 | 18.5% |
| Thereafter | 173,827 | — | 173,827 | 15.1% | 49,287 | 223,114 | 16.4% |
| Total [(1)] | $ 1,097,810 | $ 54,308 | $ 1,152,118 | 100.0% | $ 210,337 | $ 1,362,455 | 100.0% |

(1) Excludes fair value debt adjustment and deferred financing charges.

Of the maturing debt balances, 41.8% of mortgages and 42.5% of total maturing debt balances mature over the next three years.

Senior unsecured notes

| | Maturity Date | Interest Rate | December 31, 2019 | December 31, 2018 |
|---|---|---|---|---|
| Series B | June 1, 2021 | 3.962% | $ 250,000 | $ 250,000 |
| Series C | February 10, 2020 | 2.775% | — | 125,000 |
| Series D | November 21, 2022 | 4.066% | 150,000 | 150,000 |
| Series E | January 31, 2025 | 4.802% | 175,000 | 175,000 |
| Series F | August 26, 2026 | 3.677% | 200,000 | — |
| Series G | June 21, 2027 | 3.917% | 150,000 | — |
| Unamortized Series B issue premium | | | 627 | 1,068 |
| Deferred financing charges | | | (3,148) | (2,352) |
| | | | $ 922,479 | $ 698,716 |

2019

On December 20, 2019, Crombie issued on a private placement basis, $150,000 Series G notes (senior unsecured) maturing June 21, 2027. The proceeds will be used to fund the repayment of upcoming secured mortgage maturities. The notes were priced with an effective yield to maturity of 3.917% and sold at a price of $1,000.00 per $1,000.00 principal amount. Interest is payable in equal semi-annual installments on June 21 and December 21.

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

2018

On October 31, 2018, Crombie issued, on a private placement basis, $175,000 Series E notes (senior unsecured) maturing January 31, 2025. The proceeds were used to fund the repayment of the Series A notes. The notes were priced with an effective yield to maturity of 4.802% and sold at a price of $999.96 per $1,000.00 principal amount. Interest is payable in equal semi-annual installments on January 31 and July 31.

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

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

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

For the year ended December 31, 2019, Crombie issued 92,685 REIT Units and 65,721 Class B LP Units under its DRIP. Units issued under the DRIP are issued at a price equal to 100% of the volume-weighted average trading price of the REIT Units on the TSX for the five trading days immediately preceding the relevant distribution payment date.

Total units outstanding at January 31, 2020, were as follows:

| | |
|---|---|
| Units | 89,680,252 |
| Special Voting Units [(1)] | 62,033,415 |

[(1)] Crombie Limited Partnership, a subsidiary of Crombie, has also issued 62,033,415 Class B LP Units. These Class B LP Units accompany the Special Voting Units, are the economic equivalent of a Unit, and are exchangeable for Units on a one-for-one basis.

**Sources and Uses of Funds**

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | 2019 | 2018 | Variance | 2019 | 2018 | Variance |
| Cash provided by (used in): | | | | | | |
| Operating activities | **$ (9,236)** | $ 7,528 | $ (16,764) | **$ (35,869)** | $ 37,765 | $ (73,634) |
| Financing activities | **47,452** | 9,967 | 37,485 | **(63,487)** | 5,778 | (69,265) |
| Investing activities | **(38,216)** | (17,495) | (20,721) | **99,356** | (43,543) | 142,899 |
| Net change during the period | **$ —** | $ — | $ — | **$ —** | $ — | $ — |

Operating Activities

Three months

The decrease from the prior year on a quarterly basis is primarily due to modernizations of $15,297 and reduced property NOI of $6,508 as a result of property dispositions, offset in part by a $2,854 reduction in finance costs as a result of the repayment of mortgages related to the disposition of investment properties and the special distribution payable of $15,174.

Year

The decrease from the prior year is largely due to reduced property NOI of $12,247 as a result of property dispositions, a reduction in distributions reinvested through the DRIP of $7,770 and a decrease in operating items related to modernizations of $33,446, all of which was partially offset by the increase in net assets attributable to Unitholders of $37,289 in 2019.

Pursuant to the requirement of National Policy 41-201, Income Trusts and Other Indirect Offerings, the table below outlines the differences between cash flow from operating activities and cash distributions as well as the differences between operating income attributable to Unitholders and cash distributions, in accordance with the policy guidelines.

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| *(In thousands of CAD dollars, except as otherwise noted)* | **2019** | 2018 | **2019** | 2018 |
| Operating income attributable to Unitholders | **$ 44,149** | $ 20,111 | **$ 161,875** | $ 107,407 |
| Monthly distributions paid and payable | **(33,762)** | (33,724) | **(134,995)** | (134,729) |
| Special distribution payable in cash | **(15,174)** | — | **(15,174)** | — |
| Cash flows from operating activities shortfall of distributions paid and payable | **$ (4,787)** | $ (13,613) | **$ 11,706** | $ (27,322) |

Monthly distributions paid for the three months and years ended December 31, 2019 and 2018 were funded with cash flows from operating activities and borrowing on the revolving credit facility. The special distribution payable in cash on January 15, 2020 was funded from the revolving credit facility.

Financing Activities

Three months

Cash provided by financing activities is primarily generated from the issuance of $150,000 unsecured notes. The increase in 2019 over 2018 is due to the redemption of $175,000 Series A senior unsecured notes in the fourth quarter of 2018, offset in part by the $105,193 repayment of mortgages with the proceeds from the disposition of investment properties in 2019.

Year

The increase in cash used in financing activities is due to repayment of mortgages of $185,263 and credit facilities of $124,535 with the proceeds from the disposition of properties, offset in part by the $350,000 issue of senior unsecured notes.

Investing Activities

Three months

The increase in cash used in investing activities is due to the acquisition of investment properties of $110,144, offset in part by proceeds from disposition of properties of $110,596 before closing and transaction costs.

Year

The increase in cash provided by investing activities is due to the proceeds from disposition of properties of $339,391, offset in part by the acquisition of properties during 2019 of $152,507.

**Adjusted Cash Flow from Operations (ACFO)**

Crombie considers ACFO to be a useful measure in evaluating its ability to generate sustainable, economic cash flows from operating activities to fund distributions to unitholders. ACFO is not a measure recognized under IFRS and does not have a standardized meaning prescribed by IFRS. As such, this non-GAAP financial measure should not be considered as an alternative to cash provided from operating activities or any other measure prescribed under IFRS. ACFO as computed by Crombie may differ from similar computations as reported by other REITs and, accordingly, may not be comparable to other such issuers. Crombie follows the recommendations of REALPAC's February 2019 white paper in calculating ACFO and defines ACFO as cash flow from operations (computed in accordance with IFRS), adjusted for the following applicable amounts:

- Distributions to Unitholders included in cash flow from operations;
- Non-cash DRIP amounts included in distributions;
- Change in working capital;
- Capital expenditures;
- Operational revenue and expenses from right of use assets; and,
- Deferred financing charges.

REALPAC provides for other adjustments in determining ACFO which are currently not applicable to Crombie, therefore not included in the above list. The calculation of ACFO for the three months and year ended December 31, 2019 and 2018 is as follows:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| *(In thousands of CAD dollars)* | **2019** | 2018 | **2019** | 2018 |
| Cash flow from operations | **$ (9,236)** | $ 7,528 | **$ (35,869)** | $ 37,765 |
| Add (deduct): | | | | |
| Distributions to Unitholders included in cash flow from operations | **48,936** | 33,724 | **150,169** | 134,729 |
| Non-cash DRIP amount included in above distributions | **(630)** | (677) | **(2,330)** | (10,100) |
| Non-cash accrued special distribution to Unitholders | **(15,174)** | — | **(15,174)** | — |
| Change in non-cash working capital balances not indicative of sustainable cash flows | **(2,964)** | 1,070 | **13,494** | 541 |
| Reserve for maintenance capital expenditures | **(3,877)** | (4,238) | **(16,113)** | (17,027) |
| Tenant improvements | **20,902** | 2,873 | **58,919** | 16,505 |
| Principal payments on right of use assets | **(24)** | — | **(96)** | — |
| Amortization of deferred financing charges | **(827)** | (930) | **(3,574)** | (5,158) |
| ACFO as calculated based on REALPAC recommendations | **37,106** | 39,350 | **149,426** | 157,255 |
| Total distributions declared during the period | **48,936** | 33,724 | **150,169** | 134,729 |
| Excess of ACFO over total distributions | **$ (11,830)** | $ 5,626 | **$ (743)** | $ 22,526 |
| ACFO payout ratio, excluding special distribution | **91.0%** | 85.7% | **90.3%** | 85.7% |

**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 Borrowing Base”, which is based on a modified calculation of the Borrowing Base, as defined in the revolving credit facility.

At December 31, 2019, the remaining amount available under the revolving credit facility was approximately $385,000 (prior to reduction for standby letters of credit outstanding of $5,645) and was not limited by the Aggregate Borrowing Base. At December 31, 2019, 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 is, 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 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 the carrying value included in Crombie's financial statements. Crombie's methodology for determining fair value includes capitalization of net operating income using biannual capitalization rates from external property valuators. All investment properties are also subject to external, independent appraisals on a rotational basis over a period of not more than four years. The valuation techniques are more fully described in Crombie's year end audited financial statements.

The fair value included in this calculation reflects the fair value of the properties as at December 31, 2019 and 2018, respectively, based on each property's current use as a revenue generating investment property.

The debt to gross book value on a fair value basis was 48.9% at December 31, 2019 compared to 51.0% at December 31, 2018. This leverage ratio is 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 reasonable overall indebtedness so as to maintain and strengthen its investment grade rating.

During the year ended December 31, 2019, Crombie's weighted average cap rate used in the determination of the fair value of its investment properties decreased 0.11% to 5.99%.

| *(In thousands of CAD dollars, except as otherwise noted)* | As at | | | | |
|---|---|---|---|---|---|
| | **Dec. 31, 2019** | **Sep. 30, 2019** | **Jun. 30, 2019** | **Mar. 31, 2019** | Dec. 31, 2018 |
| Fixed rate mortgages | **$ 1,309,077** | **$ 1,474,996** | **$ 1,504,095** | **$ 1,572,402** | $ 1,610,640 |
| Senior unsecured notes | **925,000** | **775,000** | **700,000** | **700,000** | 700,000 |
| Revolving credit facility | **15,339** | **9,388** | **55,707** | **107,986** | 108,843 |
| Joint operation credit facility | **8,969** | **6,926** | **6,848** | **—** | — |
| Bilateral credit facility | **30,000** | **34,000** | **24,000** | **40,000** | 70,000 |
| Lease liabilities | **29,419** | **29,336** | **29,436** | **29,689** | — |
| Total debt outstanding | **2,317,804** | **2,329,646** | **2,320,086** | **2,450,077** | 2,489,483 |
| Less: Applicable fair value debt adjustment | **(539)** | **(607)** | **(676)** | **(746)** | (818) |
| Debt | **$ 2,317,265** | **$ 2,329,039** | **$ 2,319,410** | **$ 2,449,331** | $ 2,488,665 |
| | | | | | |
| Investment properties, at fair value | **$ 4,605,000** | **$ 4,626,000** | **$ 4,592,000** | **$ 4,755,000** | $ 4,776,000 |
| Other assets, cost [1] | **80,982** | **78,923** | **75,629** | **59,077** | 52,677 |
| Deferred financing charges | **9,715** | **9,920** | **9,878** | **10,379** | 11,408 |
| Investment in joint ventures | **45,123** | **45,160** | **41,913** | **41,807** | 39,485 |
| Interest rate subsidy | **(539)** | **(607)** | **(676)** | **(746)** | (818) |
| Gross book value - fair value basis | **$ 4,740,281** | **$ 4,759,396** | **$ 4,718,744** | **$ 4,865,517** | $ 4,878,752 |
| Debt to gross book value - fair value basis | **48.9%** | **48.9%** | **49.2%** | **50.3%** | 51.0% |

[1] Other assets exclude Tenant incentives and Accrued straight-line rent receivable.

Crombie's management believes that through the issuance of notes, convertible debentures, mortgage financings, refinancing and bank debt, Crombie continues to maintain leverage at an appropriate level while staying conservatively within its maximum borrowing capacity.

**Coverage Ratios**

EBITDA is a non-GAAP measure and 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. Crombie believes EBITDA 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.

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Dec. 31, 2019** | **Sep. 30, 2019** | **Jun. 30, 2019** | **Mar. 31, 2019** | Dec. 31, 2018 | Sep. 30, 2018 | Jun. 30, 2018 | Mar. 31, 2018 |
| Property revenue | **$ 96,823** | **$ 97,346** | **$ 99,332** | **$ 105,240** | $ 104,296 | $ 100,505 | $ 104,143 | $ 105,705 |
| Amortization of tenant incentives | **3,598** | **3,515** | **3,411** | **3,615** | 3,451 | 3,334 | 2,468 | 3,622 |
| Adjusted property revenue | **100,421** | **100,861** | **102,743** | **108,855** | 107,747 | 103,839 | 106,611 | 109,327 |
| Property operating expenses | **(29,852)** | **(27,205)** | **(28,222)** | **(32,366)** | (30,817) | (27,660) | (29,925) | (32,904) |
| General and administrative expenses | **(5,855)** | **(6,112)** | **(5,970)** | **(5,784)** | (5,184) | (4,925) | (4,626) | (4,491) |
| Income (loss) from equity accounted investments | **(8)** | **125** | **123** | **94** | 111 | 69 | 39 | 35 |
| EBITDA (1) | **$ 64,706** | **$ 67,669** | **$ 68,674** | **$ 70,799** | $ 71,857 | $ 71,323 | $ 72,099 | $ 71,967 |
| Trailing 12 months EBITDA (4) | **$ 271,848** | **$ 278,999** | **$ 282,653** | **$ 286,078** | $ 287,246 | $ 288,688 | $ 289,655 | $ 287,181 |
| Finance costs - operations | **$ 22,810** | **$ 24,504** | **$ 24,335** | **$ 25,667** | $ 25,968 | $ 26,573 | $ 26,381 | $ 26,709 |
| Amortization of deferred financing charges | **(827)** | **(922)** | **(913)** | **(912)** | (930) | (2,019) | (1,093) | (1,116) |
| Amortization of effective swap agreements | **(356)** | **(226)** | **(544)** | **(551)** | (557) | (563) | (568) | (575) |
| Adjusted interest expense (2) | **$ 21,627** | **$ 23,356** | **$ 22,878** | **$ 24,204** | $ 24,481 | $ 23,991 | $ 24,720 | $ 25,018 |
| Debt principal repayments (3) | **$ 12,167** | **$ 12,773** | **$ 12,917** | **$ 13,647** | $ 13,108 | $ 13,033 | $ 13,124 | $ 13,880 |
| Debt outstanding (see Debt to Gross Book Value) (5) [1] | **$ 2,317,265** | **$ 2,329,039** | **$ 2,319,410** | **$ 2,449,331** | $ 2,488,665 | $ 2,471,746 | $ 2,462,564 | $ 2,478,325 |
| Interest service coverage ratio {(1)/(2)} | **2.99x** | **2.90x** | **3.00x** | **2.93x** | 2.94x | 2.97x | 2.92x | 2.88x |
| Debt service coverage ratio {(1)/((2)+(3))} | **1.91x** | **1.87x** | **1.92x** | **1.87x** | 1.91x | 1.93x | 1.91x | 1.85x |
| Debt to trailing 12 months EBITDA {(5)/(4)} | **8.52x** | **8.35x** | **8.21x** | **8.56x** | 8.66x | 8.56x | 8.50x | 8.63x |

[1] Outstanding debt previously calculated as part of the Debt to Gross Book Value - Fair Value Basis calculation.

**ACCOUNTING**

**Related Party Transactions**

As at December 31, 2019, Empire, through its wholly-owned subsidiary ECLD, holds a 41.5% indirect interest in Crombie. Related party transactions primarily include transactions with entities associated with Crombie through Empire's indirect interest. Related party transactions also include transactions with joint venture entities in which Crombie has a 50% interest, as well as transactions with key management personnel and post-employment benefit plans.

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

Crombie's transactions with related parties are as follows:

| *(In thousands of CAD dollars)* | | Three months ended December 31, 2019 | Three months ended December 31, 2018 | Year ended December 31, 2019 | Year ended December 31, 2018 |
|---|---|---|---|---|---|
| **Property revenue** | | | | | |
| Property revenue | (a) | $ 51,032 | $ 51,241 | $ 207,948 | $ 214,565 |
| Head lease income | (b) | $ 178 | $ 254 | $ 856 | $ 730 |
| Lease termination income | | $ 33 | $ — | $ 521 | $ — |
| **Property operating expenses** | (c) | $ (19) | $ (18) | $ (60) | $ (58) |
| **General and administrative expenses** | | | | | |
| Property management services recovered | (d) | $ 177 | $ 189 | $ 602 | $ 611 |
| Other general and administrative expenses | | $ (59) | $ (53) | $ (240) | $ (203) |
| **Finance costs - operations** | | | | | |
| Interest rate subsidy | (b) | $ 68 | $ 73 | $ 279 | $ 299 |
| **Finance costs - distributions to Unitholders** | | $ (20,302) | $ (13,992) | $ (62,303) | $ (55,900) |

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

(b) For various periods, ECLD 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 ECLD. 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 subsidiaries of Empire on a cost sharing basis pursuant to a Management Agreement effective January 1, 2016.

(d) Crombie provides property management, leasing services and environmental management to specific properties owned by certain subsidiaries of Empire on a fee for service basis pursuant to a Management Agreement. Revenue generated from the Management Agreement is being recognized as a reduction of General and administrative expenses.

Included in the above, during the year ended December 31, 2019, Crombie issued 65,721 (December 31, 2018 - 333,058) Class B LP Units to ECLD under the DRIP.

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

On August 2, 2019, Crombie transferred air rights at its Davie Street Property to 1600 Davie Limited Partnership. This transfer, as agreed upon in the 2016 joint venture arrangement, was completed for gross proceeds of $27,379.

On November 28, 2019, Crombie purchased a property from a subsidiary of Empire for a total purchase price of $12,422 before transaction costs.

On December 16, 2019, Crombie purchased the remaining 50% interest in a property from a subsidiary of Empire for a total purchase price of $95,900 before transaction costs.

During the year ended December 31, 2019, Crombie invested $33,446 in the modernizations and conversions of 16 existing properties anchored by subsidiaries of Empire. The amounts are included in tenant incentive additions and are being amortized over the amended lease terms.

During the quarter, Crombie recognized a mortgage payable of $20,401 in settlement of an amount payable to 1600 Davie Limited Partnership. This mortgage, bearing interest at 3.22%, relates to the commercial component of the Davie Street development, 100% of which is included in Crombie's financial statements.

Amounts due from related parties include $15,533 (December 31, 2018 - $14,636) in 6% subordinated notes receivable due from Bronte Village Limited Partnership and The Duke Limited Partnership.

**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, Chief Operating Officer and the two other highest compensated executives.

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

| | Year ended December 31, | |
|---|---|---|
| *(In thousands of CAD dollars)* | **2019** | 2018 |
| Salary, bonus and other short-term employee benefits | **$ 5,899** | $ 4,805 |
| Other long-term benefits | **109** | 92 |
| | **$ 6,008** | $ 4,897 |

**Use of Estimates and Judgments**

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

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

**Critical Accounting Estimates and Assumptions**

Investment property acquisitions

Upon acquisition, Crombie performs an assessment of investment properties being acquired to determine whether the acquisition is to be accounted for as an asset acquisition or a business combination. A transaction is considered to be a business combination if the acquired property meets the definition of a business; being an integrated set of activities and assets that are capable of being managed for the purpose of providing a return to the Unitholders. Crombie performs an assessment of the fair value of the properties' related tangible and intangible assets and liabilities and allocates the purchase price to the acquired assets and liabilities. Crombie assesses and considers fair value based on cash flow projections that take into account relevant discount and capitalization rates and any other relevant sources of market information available. Estimates of future cash flow are based on factors that include historical operating results, if available, and anticipated trends, local markets and underlying economic conditions.

Crombie allocates the purchase price based on the following:

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

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

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

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

Investment properties

Investment properties are properties which are held to earn rental income.

Investment properties include land, buildings and intangible assets. Investment properties are carried at cost less accumulated depreciation and are reviewed periodically for impairment.

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

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

Change in useful life of investment properties

The estimated useful lives of significant investment properties are reviewed whenever events or circumstances indicate a change in useful life. Estimated useful lives of significant investment properties are based on management's best estimate and the actual useful lives may be different. Revisions to the estimated useful lives of investment properties constitute a change in accounting estimate and are accounted for prospectively by amortizing the cumulative changes over the remaining estimated useful life of the related assets.

Revenue recognition

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

**Critical Judgments**

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

Impairment of long-lived tangible and definite life intangible assets

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

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

Defined benefit liability

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

Investment property valuation

External, independent valuation companies, having appropriate recognized professional qualifications and recent experience in the location and category of properties being valued, value Crombie's investment property portfolio on a rotating basis over a maximum period of four years. The fair values, based on the date of the valuation, represent an estimate of the price that would be agreed upon between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Internal quarterly revaluations are performed using internally generated valuation models prepared by considering the aggregate cash flows received from leasing the property, that is stabilized for any major tenant movement. A biannual yield obtained from an independent valuation company, which reflects the specific risks inherent in the net cash flows, is then applied to the net annual cash flows to arrive at property valuations. Net annual cash flows are primarily determined using the trailing 12 months actual results.

Purchase price allocation

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

Fair value of financial instruments

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

The fair value of other financial instruments is based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

**Application of new IFRS**

In January 2016, the IASB issued IFRS 16 “Leases” which replaces IAS 17 and its associated interpretative guidance. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. A lessee is required to recognize a right of use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. Lessor accounting remains largely unchanged with the distinction between operating and finance leases retained and no adjustments were required, except for where Crombie has sub-leases. Under IFRS 16, Crombie reassessed the classifications of sub-lease contracts previously classified as operating leases under IAS 17. Certain land sub-leases were reassessed as finance leases under IFRS 16 and accordingly, a finance lease receivable was recognized on January 1, 2019, included in other assets.

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

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

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

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

**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.

There were no transfers between levels of the fair value hierarchy during the year ended December 31, 2019.

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

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

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:

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| *(In thousands of CAD dollars)* | **Fair Value** | **Carrying Value** | Fair Value | Carrying Value |
| **Financial assets** | | | | |
| Long-term receivables[(1)] | **$ 23,911** | **$ 24,120** | $ 21,885 | $ 21,882 |
| **Financial liabilities** | | | | |
| Investment property debt | **$ 1,400,821** | **$ 1,363,385** | $ 1,829,772 | $ 1,789,483 |
| Senior unsecured notes | **946,700** | **925,000** | 702,893 | 700,000 |
| Total other financial liabilities | **$ 2,347,521** | **$ 2,288,385** | $ 2,532,665 | $ 2,489,483 |

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

The fair value of the long-term receivables, investment property debt and senior unsecured notes are Level 2 measurements.

**Commitments, Contingencies and Guarantees**

There are various claims and litigation which Crombie is involved with arising out of the ordinary course of business operations. In the opinion of management, any liability that would arise from such contingencies 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 obtains letters of credit to support its obligations with respect to construction work on its investment properties and satisfying mortgage financing requirements. As at December 31, 2019, Crombie has a total of $5,645 in outstanding letters of credit related to:

| *(In thousands of CAD dollars)* | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Construction work being performed on investment properties | **$ 3,805** | $ 3,858 |
| Mortgage lenders primarily to satisfy mortgage financings on redevelopment properties | **1,840** | 4,840 |
| Total outstanding letters of credit | **$ 5,645** | $ 8,698 |

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

As at December 31, 2019, Crombie had signed construction contracts totalling $293,603 of which $171,790 has been paid. This includes contracts signed within joint ventures at Crombie's ownership percentage.

Crombie has 100% guarantees on mortgages related to properties in which it has less than a 100% interest. The mortgages payable related to these guarantees are secured by specific charges against the properties. As at December 31, 2019, Crombie has provided guarantees of approximately $145,713 (December 31, 2018 - $38,245) on mortgages in excess of their ownership interest in the properties. Responsibility for ongoing payments of principal and interest on these mortgages remains with the joint owners of the properties. The mortgages have a weighted average term to maturity of 4.9 years.

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

## RISK MANAGEMENT

In the normal course of business, Crombie is exposed to a number of financial risks that can affect its operating performance. The more significant risks, and the action taken to manage them, are as follows:

Real Property Ownership and Tenant Risks

All real property investments are subject to elements of risk. The value of real property and any improvements thereto depend on the credit and financial stability of tenants and upon the vacancy rates of the properties. In addition, certain significant expenditures, including property taxes, ground rent, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether a property is producing any income. Cash available for distribution will be adversely affected if a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of available space in the properties becomes vacant and cannot be leased on economically favourable lease terms.

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to Crombie than those of an existing lease. The ability to rent unleased space in the properties in which Crombie has an interest will be affected by many factors, including general economic conditions, local real estate markets, changing demographics, supply and demand for leased premises, competition from other available premises and various other factors. Management utilizes staggered lease maturities so that Crombie is not required to lease unusually large amounts of space in any given year. In addition, the diversification of our property portfolio by geographic location, tenant mix and asset type also help to mitigate this risk.

### 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.

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

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

- Crombie's largest tenant, Empire (including Sobeys and all other subsidiaries of Empire), represents 54.2% of annual minimum rent; no other tenant accounts for more than 4.1% of Crombie's total minimum rent, and;
- Total property revenue includes operating and realty tax cost recovery income and percentage rent. These amounts can vary by property type, specific tenant leases and where tenants may directly incur and pay operating and realty tax costs. Crombie earned total property revenue of $51,032 and $207,948 respectively for the three months and year ended December 31, 2019 (three months and year ended December 31, 2018 - $51,241 and $214,565 respectively) from Sobeys Inc. and other subsidiaries of Empire.

Over the next five years, leases representing no more than 5.0% of the gross leaseable area of Crombie will expire in any one year.

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.

Crombie determines the expected credit loss in accordance with IFRS 9's simplified approach for amounts receivable where its loss allowance is measured at initial recognition and throughout the life of the receivable. Trade receivables are written off when there is no reasonable expectation of recovery.

Crombie manages its residual risk in its investment properties through an active capital expenditure program and actively leasing any vacant spaces. The residual risk throughout Crombie's portfolio is not considered significant.

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

There have been no significant changes to Crombie's credit risk since December 31, 2018.

**Competition**

The real estate business is competitive. Numerous other developers, managers and owners of properties compete with Crombie in seeking tenants. Some of the properties located in the same markets as Crombie's properties are newer, better located, less levered or have stronger anchor tenants than Crombie's properties. Some property owners with properties located in the same markets as Crombie's properties may be better capitalized and may be stronger financially and hence better able to withstand an economic downturn. Competitive pressures in such markets could have a negative effect on Crombie's ability to lease space in its properties and on the rents charged or concessions granted.

**Risk Factors Related to the Business of Crombie**

Development Risk

Crombie owns a number of investment properties at varying stages of development as well as a significant pipeline of potential future development properties.

Development risk associated with development projects underway include: construction delays and their impact on financing and related costs as well as commitments from tenants for occupancy; cost overruns which could impact the profitability and/or financial viability of a project; and, the inability to meet revenue projections upon completion, which could be impacted by unmet leasing assumptions on timing of tenant occupancy or rent per square foot. Management strives to mitigate these risks by undertaking certain projects with partners (see Joint Arrangement Risk); entering into fixed cost construction contracts with reputable contractors; entering into long-term financing at the most appropriate stage possible; and, entering into long-term leases with reputable commercial tenants prior to construction wherever possible.

Development risks associated with potential future development properties include all of the above risks as well as the risks associated with the ability to develop the property at all. This may include waiting for all current leases to expire or negotiating favourable terms with current tenants which could include costs associated with lease interruptions to permit development; and, inability to receive various required municipal / provincial approvals for site plan, development, zoning, construction, etc.

Joint Arrangement Risk

Crombie has entered into joint arrangements or partnerships with other third party entities. Risks associated with these arrangements include risk of default by a partner on financing obligations or non-performance of a partner's obligations on a project, which may include development, construction, management or leasing. Crombie attempts to mitigate these risks by entering into arrangements with financially stable, reputable partners with a proven track record and by negotiating contractual rights in the event of a default.

Significant Relationship

Crombie's anchor tenants are concentrated in a relatively small number of retail operators. Specifically, 54.2% of the annual minimum rent and 52.2% of total property revenue generated from Crombie's properties is derived from anchor tenants that are owned and/or operated by Empire (including Sobeys and all other subsidiaries of Empire). Therefore, Crombie is reliant on the sustainable operation by Empire in these locations.

Potential Conflicts of Interest

The trustees will, from time to time, in their individual capacities, deal with parties with whom Crombie may be dealing, or may be seeking investments similar to those desired by Crombie. The interests of these persons could conflict with those of Crombie. The Declaration of Trust contains conflict of interest provisions requiring the trustees to disclose their interests in certain contracts and transactions and to refrain from voting on those matters. In addition, certain decisions regarding matters that may give rise to a conflict of interest must be made by a majority of independent elected trustees only.

Conflicts may exist due to the fact that certain trustees, senior officers and employees of Crombie are directors and/or senior officers of Empire and/or its affiliates or will provide management or other services to Empire and its affiliates. Empire and its affiliates are engaged in a wide variety of real estate and other business activities. Crombie may become involved in transactions that conflict with the interests of the foregoing. The interests of these persons could conflict with those of Crombie. To mitigate these potential conflicts, Crombie and Empire have entered into a number of agreements to outline how potential conflicts of interest will be dealt with, including a Non-Competition Agreement, Management Agreement and Development Agreement. As well, the Declaration of Trust contains a number of provisions to manage potential conflicts of interest including setting limits to the number of Empire appointees to the Board, "conflict of interest" guidelines, as well as outlining which matters require the approval of a majority of the independent elected trustees such as any property acquisitions or dispositions between Crombie and Empire or another related party.

Reliance on Key Personnel

The management of Crombie depends on the services of certain key personnel. The loss of the services of any key personnel could have an adverse effect on Crombie and adversely impact Crombie's financial condition. Crombie does not have key-man insurance on any of its key employees.

Retail and Geographic Concentration

Crombie's portfolio of properties is heavily weighted in retail properties. Consequently, changes in the retail environment and general consumer spending, including the growing trend in e-commerce, could adversely impact Crombie's financial condition. Crombie's portfolio of properties was historically heavily concentrated in Atlantic Canada. Through property acquisitions and dispositions over the last seven years, Crombie has reduced its geographic concentration in Atlantic Canada, and reduced the adverse impact an economic downturn any one specific geographic region in Canada could have on Crombie's financial condition. The geographic breakdown of properties and percentage of annual minimum rent of Crombie's properties as at December 31, 2019 is detailed under the Property Portfolio section.

Crombie's growth strategy of expansion outside of Atlantic Canada has been predicated on reducing the geographic concentration risk. The percentage of annual minimum rent to be earned in Atlantic Canada has decreased from 43.4% at December 31, 2013 to 38.0% at December 31, 2019.

Cyber Security Risk

A cyber security incident includes any material adverse event that threatens the confidentiality, integrity and/or availability of Crombie's information resources. Such events, intentional or unintentional, could include malicious software attacks, unauthorized access to confidential data or information systems or security breaches and could lead to a disruption of operations or unauthorized access to, and release of, confidential information. The results could be reputational damage with tenants and suppliers as well as financial costs or a disruption to Crombie's business. Crombie has implemented processes, procedures and controls to help mitigate these risks, but these measures, as well as its increased awareness of a risk of a cyber incident, do not guarantee that its financial results will not be negatively impacted by the occurrence of any such event.

**Interest Rate Risk**

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

As at December 31, 2019:

- Crombie's weighted average term to maturity of its fixed rate mortgages is 3.9 years;
- Crombie has a floating rate revolving credit facility available to a maximum of $400,000, subject to available Borrowing Base, with a balance of $15,339 at December 31, 2019;
- Crombie has a floating rate bilateral credit facility available to a maximum of $100,000 with a balance of $30,000 at December 31, 2019;
- Crombie has an 11% interest in a $62,250 and a $16,500 floating rate term loan credit facility which are both fully utilized as of December 31, 2019 (Crombie's portion - $6,848 and $1,815, respectively);
- Crombie has an 11% interest in a $5,800 floating rate revolving credit facility (as of December 31, 2019, Crombie's portion - $130) and a $15,500 floating rate revolving credit facility (as of December 31, 2019, Crombie's portion - $176); and,
- Crombie has interest rate swap agreements in place on $115,149 of floating rate debt.

Crombie estimates that $451 of accumulated other comprehensive income (loss) will be reclassified to finance costs during the year ended December 31, 2020, based on all settled swap agreements as of December 31, 2019.

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 revolving credit facility | Decrease in rate | Increase in rate |
| **Twelve months ended December 31, 2019** | **$ 359** | **$ (359)** |
| Twelve months ended December 31, 2018 | $ 611 | $ (611) |

There have been no significant changes to Crombie's interest rate risk since December 31, 2018.

**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.

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 and recycling capital from property dispositions.

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 by the amount utilized under the facility and 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 December 31, | | | | | |
|---|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars)* | Contractual Cash Flows[1] | 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter |
| Fixed rate mortgages[2] | $ 1,492,525 | $ 304,017 | $ 165,813 | $ 227,366 | $ 292,179 | $ 255,628 | $ 247,522 |
| Senior unsecured notes | 1,092,182 | 37,634 | 281,856 | 177,053 | 21,630 | 21,630 | 552,379 |
| Lease Liabilities | 149,218 | 2,580 | 2,432 | 2,281 | 2,181 | 2,060 | 137,684 |
| | 2,733,925 | 344,231 | 450,101 | 406,700 | 315,990 | 279,318 | 937,585 |
| Credit facilities | 59,152 | 1,989 | 31,281 | 856 | 15,925 | 9,101 | — |
| **Total** | $ 2,793,077 | $ 346,220 | $ 481,382 | $ 407,556 | $ 331,915 | $ 288,419 | $ 937,585 |

[1] Contractual cash flows include principal and interest and ignore extension options.
[2] Reduced by the interest rate subsidy payments to be received from Empire.

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

**Environmental Matters**

Environmental legislation and regulations have become increasingly important in recent years. As an owner of interests in real property in Canada, Crombie is subject to various Canadian federal, provincial and municipal laws relating to environmental matters.

Such laws provide that Crombie could become liable for environmental harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under its properties. The failure to remove or otherwise address such substances, if any, may adversely affect Crombie's ability to sell such property, realize the full value of such property or borrow using such property as collateral security, and could potentially result in claims against Crombie by public or private parties by way of civil action.

Crombie's operating policy is to obtain a Phase I environmental site assessment, conducted by an independent and experienced environmental consultant, prior to acquiring a property and to have Phase II environmental site assessment work completed where recommended in a Phase I environmental site assessment.

Crombie is not aware of any material non-compliance with environmental laws at any of its properties, and is not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties. Crombie has implemented policies and procedures to assess, manage and monitor environmental conditions at its properties to manage exposure to liability.

Reliance on Empire, Sobeys and Other Empire Affiliates

Empire has agreed to support Crombie under an omnibus subsidy agreement and to pay ongoing rent pursuant to a head lease and a ground lease. In addition, a significant portion of Crombie's rental income will be received from tenants that are affiliates of Empire. Finally, Empire has obligations to indemnify Crombie in respect to the cost of environmental remediation of certain properties acquired by Crombie from Empire to a maximum permitted amount under an omnibus environmental indemnity agreement entered into as part of the closing of the acquisition of the applicable properties. There is no certainty that Empire will be able to perform its obligations to Crombie in connection with these agreements. Empire and specific subsidiaries have not provided any security to guarantee these obligations. If Empire, Sobeys or such affiliates are unable or otherwise fail to fulfill their obligations to Crombie, such failure could adversely impact Crombie's financial condition.

**Risk Factors Related to the Units**

Cash Distributions Are Not Guaranteed

There can be no assurance regarding the amount of income to be generated by Crombie's properties. The ability of Crombie to make cash distributions and the actual amount distributed are entirely dependent on the operations and assets of Crombie and its subsidiaries, and are subject to various factors including financial performance, obligations under applicable credit facilities, the sustainability of income derived from anchor tenants and capital expenditure requirements. Cash available to Crombie to fund distributions may be limited from time to time because of items such as principal repayments, tenant allowances, leasing commissions, capital expenditures and redemptions of Units, if any. Crombie may be required to use part of its debt capacity or to reduce distributions in order to accommodate such items. The market value of the Units will deteriorate if Crombie is unable to maintain its distribution in the future, and that deterioration may be significant. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors.

Restrictions on Redemptions

It is anticipated that the redemption of Units will not be the primary mechanism for holders of Units to liquidate their investments. The entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the following limitations: (i) the total amount payable by Crombie in respect of such Units and all other Units tendered for redemption in the same calendar month must not exceed $50 (provided that such limitation may be waived at the discretion of the Trustees); (ii) at the time such Units are tendered for redemption, the outstanding Units must be listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, provides fair market value prices for the Units; and, (iii) the trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the redemption date for more than five trading days during the 10-day trading period commencing immediately after the redemption date.

Potential Volatility of Unit Prices

One of the factors that may influence the market price of the Units is the annual yield on the Units. An increase in market interest rates may lead purchasers of Units to demand a higher annual yield, which accordingly could adversely affect the market price of the Units. In addition, the market price of the Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of Crombie.

Tax-Related Risk Factors

Crombie intends to make distributions not less than the amount necessary to eliminate Crombie's liability for tax under Part I of the Income Tax Act (Canada). Where the amount of net income and net realized capital gains of Crombie in a taxation year exceeds the cash available for distribution in the year, such excess net income and net realized capital gains will be distributed to Unitholders and such additional distributions may be in the form of cash and/or additional Units. Unitholders will generally be required to include an amount equal to the fair market value of any additional Units in their taxable income, notwithstanding that they do not directly receive a cash distribution.

Certain properties have been acquired by Crombie LP on a tax deferred basis, whereby the tax cost of these properties is less than their fair market value. Accordingly if one or more of such properties are disposed of, the gain for tax purposes recognized by Crombie LP will be in excess of that which it would have been if it had acquired the properties at a tax cost equal to their fair market values.

Publicly traded income trusts, or specified investment flow-through entities ("SIFTs"), are subject to income taxation at corporate tax rates, subject to an exemption for real estate investment trusts ("REITs"). The exemption for REITs was provided to "recognize the unique history and role of

collective real estate investment vehicles," which are well-established structures throughout the world. A trust that satisfies the criteria of a REIT throughout its taxation year will not be subject to income tax in respect of distributions to its unitholders or be subject to the restrictions on its growth that would apply to SIFTs.

While REITs were exempted from the SIFT taxation, a number of technical tests apply to determine which entities would qualify as a REIT. These technical tests did not fully accommodate the business structures used by many Canadian REITs.

Crombie and its advisors underwent an extensive review of Crombie's organizational structure and operations to support Crombie's assertion that it meets the REIT technical tests contained in the Act throughout the 2008 through 2019 fiscal years. 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.

Notwithstanding that Crombie may meet the criteria for a REIT and thus be exempt from the distribution tax, there can be no assurance that the Department of Finance (Canada) or other governmental authority will not undertake initiatives which have an adverse impact on Crombie or its Unitholders.

Indirect Ownership of Units by Empire

Empire holds a 41.5% economic interest in Crombie through the ownership of REIT and Class B LP Units. Pursuant to the Exchange Agreement, each Class B LP Unit will be exchangeable at the option of the holder for one Unit of Crombie and will be attached to a Special Voting Unit of Crombie, providing for voting rights in Crombie. Furthermore, pursuant to the Declaration of Trust, Empire is entitled to appoint a certain number of Trustees based on the percentage of Units held by it. Thus, Empire is in a position to exercise a certain influence with respect to the affairs of Crombie. If Empire sells substantial amounts of its Class B LP Units or exchanges such units for Units and sells these Units in the public market, the market price of the Units could fall. The perception among the public that these sales will occur could also produce such effect.

Ownership of Senior Unsecured Notes ("Notes")

There is no public market through which the notes may be sold. Crombie does not intend to list the notes on any securities exchange or include the notes in any automated quotation system.

Therefore, an active market for the notes may not develop or be maintained, which would adversely affect the market price and liquidity of the notes. In such case, the holders of the notes may not be able to sell their notes at a particular time or at a favourable price. If a public trading market were to develop, future trading prices of the notes may be volatile and will depend on many factors, including:

- the number of holders of notes;
- prevailing interest rates;
- Crombie's operating performance and financial condition;
- Crombie's credit rating;
- the interest of securities dealers in making a market for them; and,
- the market for similar securities.

Even if an active trading market for the notes does develop, there is no guarantee that it will continue. The notes may trade at a discount from their initial offering price, depending upon prevailing interest rates, the market for similar notes, Crombie's performance and other factors.

**SUBSEQUENT EVENTS**

(a) On January 15, 2020, the $0.10 per unit cash portion of the special distribution announced on December 12, 2019 was paid to Unitholders of record as of December 31, 2019.

(b) On January 21, 2020, Crombie declared distributions of 7.417 cents per Unit for the period from January 1, 2020 to and including, January 31, 2020. The distributions were paid on February 14, 2020, to Unitholders of record as of January 31, 2020.

(c) On February 1, 2020, mortgages totalling $153,000, bearing interest of 5.63%, were fully paid, primarily with the proceeds from the 3.917% Series G notes issued in December 2019 as further described in the Liquidity and Financing Sources section.

(d) On February 11, 2020, Crombie closed on an offering, on a bought deal basis, of $58,512 of Units at a price of $16.00 per Unit to a syndicate of underwriters co-led by CIBC Capital Markets and BMO Capital Markets. In addition, a subsidiary of Empire purchased, on a private placement basis, $41,500 of Class B LP Units of a subsidiary of Crombie, together with the attached Special Voting Units of Crombie, at a price of $16.00 per Class B Unit. After the closing of the public offering and the private placement, Empire continues to hold a 41.5% economic and voting interest in Crombie.

(e) On February 18, 2020, Crombie declared distributions of 7.417 cents per Unit for the period from February 1, 2020 to and including, February 29, 2020. The distributions will be paid on March 13, 2020, to Unitholders of record as of February 29, 2020.

**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 is accumulated and communicated to Crombie's management, including its President and Chief Executive Officer ("CEO") and Executive Vice President, Chief Financial Officer and Secretary ("CFO"), as appropriate, to allow timely decisions regarding disclosure. Our CEO and CFO have evaluated the design and effectiveness of our disclosure controls and procedures as of December 31, 2019. They have concluded that our current disclosure controls and procedures are effective.

In addition, our CEO and CFO 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 (2013)* issued by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). Further, our CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the design and operation of ICFR as at December 31, 2019, and have concluded that our current ICFR was effective based on that evaluation. There have been no material changes to Crombie's internal controls during the year.

The appropriate changes to ICFR in relation to Crombie's migration to the new ERP system have been made in order to continue to maintain appropriate internal controls over financial reporting. Other than these changes, there were no changes to Crombie's ICFR that occurred during the year ended December 31, 2019 that have materially affected or are reasonably likely to materially affect Crombie's ICFR.

**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)* | **Dec. 31 2019** | **Sep. 30 2019** | **Jun. 30 2019** | **Mar. 31 2019** | Dec. 31 2018 | Sep. 30 2018 | Jun. 30 2018 | Mar. 31 2018 |
| Property revenue | **$ 96,823** | **$ 97,346** | **$ 99,332** | **$ 105,240** | $ 104,296 | $ 100,505 | $ 104,143 | $ 105,705 |
| Property operating expenses | **29,852** | **27,205** | **28,222** | **32,366** | 30,817 | 27,660 | 29,925 | 32,904 |
| Property net operating income | **66,971** | **70,141** | **71,110** | **72,874** | 73,479 | 72,845 | 74,218 | 72,801 |
| Gain on disposal | **30,198** | **8,315** | **16,661** | **26,629** | 4,580 | 100 | 33,502 | 11,841 |
| Expenses: | | | | | | | | |
| General and administrative | **(5,855)** | **(6,112)** | **(5,970)** | **(5,784)** | (5,184) | (4,925) | (4,626) | (4,491) |
| Finance costs - operations | **(22,810)** | **(24,504)** | **(24,335)** | **(25,667)** | (25,968) | (26,573) | (26,381) | (26,709) |
| Income (loss) from equity accounted investments | **(8)** | **125** | **123** | **94** | 111 | 69 | 39 | 35 |
| Depreciation and amortization | **(18,347)** | **(17,908)** | **(18,140)** | **(19,918)** | (19,906) | (28,696) | (19,719) | (28,032) |
| Impairment | **(6,000)** | **—** | **—** | **—** | (7,000) | — | (8,000) | — |
| Operating income before taxes | **44,149** | **30,057** | **39,449** | **48,228** | 20,112 | 12,820 | 49,033 | 25,445 |
| Taxes - current | **—** | **(8)** | **—** | **—** | (1) | (2) | — | — |
| Operating income | **44,149** | **30,049** | **39,449** | **48,228** | 20,111 | 12,818 | 49,033 | 25,445 |
| Finance costs - distributions to Unitholders | **(48,936)** | **(33,753)** | **(33,744)** | **(33,736)** | (33,724) | (33,711) | (33,688) | (33,606) |
| Finance income (costs) - change in fair value of financial instruments | **(70)** | **(264)** | **(332)** | **(671)** | 197 | (40) | (50) | 295 |
| Increase (decrease) in net assets attributable to Unitholders | **$ (4,857)** | **$ (3,968)** | **$ 5,373** | **$ 13,821** | $ (13,416) | $ (20,933) | $ 15,295 | $ (7,866) |
| Operating income per unit - Basic | **$ 0.29** | **$ 0.20** | **$ 0.26** | **$ 0.32** | $ 0.13 | $ 0.08 | $ 0.32 | $ 0.17 |

| | Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(In thousands of CAD dollars, except per unit amounts)* | **Dec. 31 2019** | **Sep. 30 2019** | **Jun. 30, 2019** | **Mar. 31 2019** | Dec. 31 2018 | Sep. 30 2018 | Jun. 30 2018 | Mar. 31 2018 |
| Distributions | | | | | | | | |
| Distributions | **$ 48,936** | **$ 33,753** | **$ 33,744** | **$ 33,736** | $ 33,724 | $ 33,711 | $ 33,688 | $ 33,606 |
| Per unit | **$ 0.22** | **$ 0.22** | **$ 0.22** | **$ 0.22** | $ 0.22 | $ 0.22 | $ 0.22 | $ 0.22 |
| AFFO | | | | | | | | |
| Basic | **$ 36,006** | **$ 36,417** | **$ 37,549** | **$ 38,660** | $ 39,771 | $ 37,867 | $ 39,492 | $ 38,664 |
| Per unit - Basic | **$ 0.24** | **$ 0.24** | **$ 0.25** | **$ 0.26** | $ 0.26 | $ 0.25 | $ 0.26 | $ 0.26 |
| Payout ratio [1] | **93.8%** | **92.7%** | **89.9%** | **87.3%** | 84.8% | 89.0% | 85.3% | 86.9% |
| FFO | | | | | | | | |
| Basic | **$ 42,132** | **$ 43,380** | **$ 44,567** | **$ 45,460** | $ 46,490 | $ 45,355 | $ 46,325 | $ 45,864 |
| Per unit - Basic | **$ 0.28** | **$ 0.29** | **$ 0.29** | **$ 0.30** | $ 0.31 | $ 0.30 | $ 0.31 | $ 0.30 |
| Payout ratio [2] | **80.1%** | **77.8%** | **75.7%** | **74.2%** | 72.5% | 74.3% | 72.7% | 73.3% |

[1] Excludes special distribution December 31, 2019. Payout ratio including total distributions is 135.4%.
[2] Excludes special distribution December 31, 2019. Payout ratio including total distributions is 115.8%.

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

- Property acquisitions and dispositions (gross proceeds excluding closing and transaction costs) for each of the above three month periods were:
    - December 31, 2019 - acquisition of one retail property and additions to one existing retail property and one existing retail-related industrial property for a total purchase price of $114,933 and disposition of an 89% interest in 15 retail properties for proceeds of $193,333.
    - September 30, 2019 - acquisition of a 50% interest in one retail property for a total purchase price of $9,500, disposition of an 89% interest in one retail property for proceeds of $9,750, disposition of 100% of one retail property for proceeds of $12,255, disposition of air rights to a joint venture for proceeds of $27,379 and disposition of a freestanding building adjacent to a retail property for proceeds of $175.
    - June 30, 2019 - disposition of one retail property for proceeds of $21,500, disposition of residential lands adjacent to a development property for proceeds of $3,275 and disposition of an 89% interest in 26 retail properties for proceeds of $161,589;
    - March 31, 2019 - acquisition of one development property for a total purchase price of $32,000, disposition of three retail properties for proceeds of $64,780, disposition of a parcel of land adjacent to a retail property for proceeds of $821 and disposition of a 50% interest in seven retail properties for proceeds of $41,614;
    - December 31, 2018 - acquisition of one retail property and an addition to an existing retail property for a total purchase price of $14,900 and disposition of three retail properties for proceeds of $26,600;
    - September 30, 2018 - acquisition of an addition to an existing retail property for a total purchase price of $3,735 and disposition of one retail property for proceeds of $39,682;
    - June 30, 2018 - acquisition of 10 retail properties and additions to two existing retail properties for a total purchase price of $100,610, disposition of two retail properties and one commercial property for proceeds of $75,084 and disposition of a 50% interest in nine retail properties for proceeds of $77,929; and,
    - March 31, 2018 - disposition of two retail properties for proceeds of $35,627 and the disposition of residential lands adjacent to a development property for proceeds of $5,725.
- Property revenue and property operating expenses - Crombie's business is subject to seasonal fluctuations. 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.

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

Dated: February 26, 2020

New Glasgow, Nova Scotia, Canada

# CONSOLIDATED FINANCIAL STATEMENTS

# FOR THE YEAR ENDED

# DECEMBER 31, 2019

# Management's Statement of Responsibility for Financial Reporting

The management of Crombie Real Estate Investment Trust ("Crombie") is responsible for the preparation and fair presentation of the accompanying annual consolidated financial statements and Management's Discussion and Analysis ("MD&A"). The annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The annual consolidated financial statements and information in the MD&A include amounts based on best estimates and judgments by management of the expected effects of current events and transactions. In preparing this financial information, we make determinations about the relevancy of information to be included, and estimates and assumptions that affect the reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may vary materially from our present assessment of this information as future events and circumstances may not occur as expected.

In meeting our responsibility for the fair presentation of the annual consolidated financial statements and MD&A and for the accounting systems from which they are derived, management has established internal controls designed to ensure that our financial records are reliable for preparing consolidated financial statements and other financial information, transactions are properly authorized and recorded, and assets are safeguarded against unauthorized use or disposition.

As at December 31, 2019, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision, the design and operation of our internal controls over financial reporting and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

The Board of Trustees oversees management's responsibility for financial reporting through an Audit Committee. This committee reviews Crombie's annual consolidated financial statements and MD&A with both management and the independent auditor before such statements are approved by the Board of Trustees. The Audit Committee also recommends the appointment of independent external auditors to the Unitholders. The Audit Committee meets regularly with senior management and the independent auditor to discuss internal controls, audit activities and financial reporting results. The independent auditor has full and free access to, and meets regularly with, the Audit Committee to discuss their audits and related matters.

*signed [Donald E. Clow]*
Donald E. Clow, FCPA, FCA
President and
Chief Executive Officer
February 26, 2020

*signed [Clinton D. Keay]*
Clinton D. Keay, CPA, CA
Chief Financial Officer and
Secretary
February 26, 2020

# *Independent auditor's report*

To the Unitholders of Crombie Real Estate Investment Trust

## *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Crombie Real Estate Investment Trust and its subsidiaries (together, the Trust) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

**What we have audited**
The Trust's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in net assets attributable to unitholders for the years then ended;
- the consolidated statements of cash flow for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

## *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**
We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

## *Other information*

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date. Our opinion on the consolidated

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of management and those charged with governance for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

## *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Trust to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Donald M. Flinn.

(signed) *"PricewaterhouseCoopers LLP"*

**Chartered Professional Accountants**
Halifax, Nova Scotia
February 26, 2020

| | Note | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investment properties | 3 | $ 3,557,572 | $ 3,759,643 |
| Investment in joint ventures | 4 | 45,123 | 39,485 |
| Other assets | 5 | 286,947 | 248,818 |
| | | 3,889,642 | 4,047,946 |
| **Current assets** | | | |
| Other assets | 5 | 31,572 | 23,128 |
| **Total Assets** | | 3,921,214 | 4,071,074 |
| | | | |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Fixed rate mortgages | 7 | 1,045,015 | 1,421,062 |
| Credit facilities | 7 | 54,308 | 178,843 |
| Senior unsecured notes | 8 | 922,479 | 698,716 |
| Employee future benefits obligation | 9 | 8,122 | 8,824 |
| Trade and other payables | 10 | 14,613 | 11,488 |
| Lease liabilities | 20 | 28,675 | — |
| | | 2,073,212 | 2,318,933 |
| **Current liabilities** | | | |
| Fixed rate mortgages | 7 | 257,495 | 180,522 |
| Employee future benefits obligation | 9 | 289 | 296 |
| Trade and other payables | 10 | 134,431 | 128,483 |
| Lease Liabilities | 20 | 744 | — |
| | | 392,959 | 309,301 |
| Total liabilities excluding net assets attributable to Unitholders | | 2,466,171 | 2,628,234 |
| Net assets attributable to Unitholders | | $ 1,455,043 | $ 1,442,840 |
| | | | |
| **Net assets attributable to Unitholders represented by:** | | | |
| Crombie REIT Unitholders | | $ 870,792 | $ 864,779 |
| Special Voting Units and Class B Limited Partnership Unitholders | | 584,251 | 578,061 |
| | | $ 1,455,043 | $ 1,442,840 |
| | | | |
| Commitments, contingencies and guarantees | 21 | | |
| Subsequent events | 22 | | |

Approved on behalf of the Board of Trustees

| | |
|---|---|
| signed (Michael Knowlton) | signed (Paul Beesley) |
| **Michael Knowlton** | **Paul Beesley** |
| Chair | Audit Committee Chair |

*See accompanying notes to the consolidated financial statements.*

| | Note | Year ended December 31, 2019 | Year ended December 31, 2018 |
|---|---|---|---|
| Property revenue | 11 | $ 398,741 | $ 414,649 |
| Property operating expenses | | 117,645 | 121,306 |
| **Net property income** | | 281,096 | 293,343 |
| Gain on disposal of investment properties | 3 | 81,803 | 50,023 |
| Impairment of investment properties | 3 | (6,000) | (15,000) |
| Depreciation and amortization | 3,5 | (74,313) | (96,353) |
| General and administrative expenses | 13 | (23,721) | (19,226) |
| Finance costs - operations | 14 | (97,316) | (105,631) |
| Income from equity accounted investments | 4 | 334 | 254 |
| **Operating income before taxes** | | 161,883 | 107,410 |
| Taxes - current | | (8) | (3) |
| **Operating income attributable to Unitholders** | | 161,875 | 107,407 |
| **Finance costs - other** | | | |
| Distributions to Unitholders | | (150,169) | (134,729) |
| Change in fair value of financial instruments | 13 | (1,337) | 402 |
| | | (151,506) | (134,327) |
| **Increase (decrease) in net assets attributable to Unitholders** | | 10,369 | (26,920) |
| **Other comprehensive income** | | | |
| Items that will be subsequently reclassified to Increase (decrease) in net assets attributable to Unitholders: | | | |
| Costs incurred on derivatives designated as cash flow hedges transferred to finance costs - operations | | 2,136 | 2,263 |
| Net change in derivatives designated as cash flow hedges | | (1,893) | (364) |
| Items that will not be subsequently reclassified to Increase (decrease) in net assets attributable to Unitholders: | | | |
| Unamortized actuarial gains in employee future benefits obligation | | 1,219 | 266 |
| Other comprehensive income | | 1,462 | 2,165 |
| **Comprehensive income (loss)** | | $ 11,831 | $ (24,755) |

*See accompanying notes to the consolidated financial statements.*

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

| | REIT Units, Special Voting Units and Class B LP Units | Net Assets (Liabilities) Attributable to Unitholders | Accumulated Other Comprehensive Income (Loss) | Total | Attributable to | |
|---|---|---|---|---|---|---|
| | | | | | REIT Units | Class B LP Units |
| | (Note 15) | | | | | |
| Balance, January 1, 2019, as previously reported | $ 1,756,458 | $ (312,287) | $ (1,331) | $ 1,442,840 | $ 864,779 | $ 578,061 |
| Adjustments related to adoption of IFRS 16 [1] | — | (2,505) | — | (2,505) | (1,501) | (1,004) |
| Adjustments related to EUPP | 422 | 11 | — | 433 | 433 | — |
| Statements of comprehensive income (loss) | — | 10,369 | 1,462 | 11,831 | 5,611 | 6,220 |
| Units issued under Distribution Reinvestment Plan ("DRIP") | 2,330 | — | — | 2,330 | 1,356 | 974 |
| Units issued under unit based compensation plan | 114 | — | — | 114 | 114 | — |
| **Balance, December 31, 2019** | $ 1,759,324 | $ (304,412) | $ 131 | $ 1,455,043 | $ 870,792 | $ 584,251 |

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

| | REIT Units, Special Voting Units and Class B LP Units | Net Assets (Liabilities) Attributable to Unitholders | Accumulated Other Comprehensive Income (Loss) | Total | Attributable to | |
|---|---|---|---|---|---|---|
| | | | | | REIT Units | Class B LP Units |
| | (Note 15) | | | | | |
| Balance, January 1, 2018 | $ 1,746,139 | $ (285,388) | $ (3,496) | $ 1,457,255 | $ 873,478 | $ 583,777 |
| Adjustments related to EUPP | 61 | 21 | — | 82 | 82 | — |
| Statements of comprehensive income (loss) | — | (26,920) | 2,165 | (24,755) | (14,841) | (9,914) |
| Units issued under DRIP | 10,100 | — | — | 10,100 | 5,902 | 4,198 |
| Units Issued under unit based compensation plan | 158 | — | — | 158 | 158 | — |
| **Balance, December 31, 2018** | $ 1,756,458 | $ (312,287) | $ (1,331) | $ 1,442,840 | $ 864,779 | $ 578,061 |

*See accompanying notes to the consolidated financial statements.*

| | Note | Year ended December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| **Cash flows provided by (used in)** | | | |
| **Operating Activities** | | | |
| Increase (decrease) in net assets attributable to Unitholders | | $ 10,369 | $ (26,920) |
| Additions to tenant incentives | | (58,919) | (16,505) |
| Items not affecting operating cash | 16 | 24,789 | 79,647 |
| Change in other non-cash operating items | 16 | (12,100) | 1,546 |
| Income taxes paid | | (8) | (3) |
| Cash provided by operating activities | | (35,869) | 37,765 |
| **Financing Activities** | | | |
| Issue of mortgages | 7 | 25,288 | — |
| Financing - other | | (3,730) | (2,852) |
| Repayment of mortgages - principal | | (51,504) | (53,145) |
| Repayment of mortgages - maturity | 7 | (133,759) | (64,713) |
| Advance (repayment) of floating rate credit facilities | | (133,504) | 125,675 |
| Advance of joint operation credit facilities | 7 | 8,969 | — |
| Issue of senior unsecured notes | 8 | 350,000 | 250,152 |
| Redemption of senior unsecured notes | 8 | (125,000) | (175,000) |
| Redemption of convertible debentures | | — | (74,400) |
| Collection of EUPP loans receivable | | 422 | 61 |
| Payments of lease liabilities | | (669) | — |
| Cash (used in) provided by financing activities | | (63,487) | 5,778 |
| **Investing Activities** | | | |
| Acquisition of investment properties and intangible assets | | (152,507) | (118,184) |
| Additions to investment properties | | (94,769) | (91,211) |
| Proceeds on disposal of investment properties | 3 | 339,391 | 190,013 |
| Acquisition of interest in joint ventures | | — | (10,210) |
| Distributions from (contributions to) joint ventures | | 13,115 | (4,020) |
| Additions to fixtures and computer equipment | | (1,520) | (4,248) |
| Proceeds on disposal of marketable securities | | — | 1,252 |
| Additions to deferred leasing costs | | (2,116) | (983) |
| Advances on long-term receivables | | (2,238) | (5,952) |
| Cash provided by (used in) investing activities | | 99,356 | (43,543) |
| **Net change in cash and cash equivalents** | | — | — |
| **Cash and cash equivalents, beginning of period** | | — | — |
| **Cash and cash equivalents, end of period** | | $ — | $ — |

*See accompanying notes to the consolidated financial statements.*

## 1) GENERAL INFORMATION AND NATURE OF OPERATIONS

Crombie Real Estate Investment Trust (“Crombie”) is an unincorporated “open-ended” real estate investment trust created pursuant to the Declaration of Trust dated January 1, 2006, as amended. The principal business of Crombie is investing in income-producing retail, office and mixed-use properties in Canada. Crombie is registered in Canada and the address of its registered office is 610 East River Road, Suite 200, New Glasgow, Nova Scotia, Canada, B2H 3S2. The consolidated financial statements for the year ended December 31, 2019 and December 31, 2018 include the accounts of Crombie and all of its subsidiary entities. The units of Crombie are traded on the Toronto Stock Exchange (“TSX”) under the symbol “CRR.UN”.

The consolidated financial statements were authorized for issue by the Board of Trustees on February 26, 2020.

## 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

### (b) Basis of presentation

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

### (c) Presentation of financial statements

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

### (d) Basis of consolidation

#### (i) Subsidiaries

Crombie's financial statements consolidate those of Crombie and all of its subsidiary entities at December 31, 2019. Subsidiaries are all entities over which Crombie has control. All subsidiaries have a reporting date of December 31, 2019.

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

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

#### (ii) Joint arrangements

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

Joint operations

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

Joint ventures

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

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

**(e) Investment properties**

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

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

Amortization of intangible assets is calculated using the straight-line method over the term of the tenant lease.

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

Upon acquisition, Crombie performs an assessment of investment properties being acquired to determine whether the acquisition is to be accounted for as an asset acquisition or a business combination. A transaction is considered to be a business combination if the acquired property meets the definition of a business under IFRS 3 - "Business Combinations"; being an integrated set of activities and assets that are capable of being managed for the purpose of providing a return to the Unitholders.

For asset acquisitions, the total cost is allocated to the identifiable assets and liabilities on the basis of their relative fair values on the acquisition date. Asset acquisitions do not give rise to goodwill. Fair value of such assets and liabilities is determined based on the following:

**Land** - the amount allocated to land is based on an appraisal estimate of its fair value.

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

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

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

For business combinations, the acquisition method is used wherein the components of the business combination (assets acquired, liabilities assumed, consideration transferred and any goodwill or bargain purchase) are recognized and measured. The assets acquired and liabilities assumed from the acquiree are measured at their fair value on the acquisition date.

**Change in useful life of investment properties**

The estimated useful lives of significant investment properties are reviewed whenever events or circumstances indicate a change in useful life. Estimated useful lives of significant investment properties are based on management's best estimate and the actual useful lives may be different. Revisions to the estimated useful lives of investment properties constitute a change in accounting estimate and are accounted for prospectively by amortizing the cumulative changes over the remaining estimated useful life of the related assets.

**(f) Cash and cash equivalents**

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

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

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continuing use. A property is classified as held for sale at the point in time when it is available for immediate sale, management has committed to a plan to sell the property and is actively locating a purchaser for the property at a sales price that is reasonable in relation to the current estimated fair value of the property, and the sale is expected to be completed within a one year period. Properties held for sale are carried at the lower of their carrying values and estimated fair value less costs to sell. In addition, assets classified as held for sale are not depreciated and amortized. A property that is subsequently reclassified as held and in use is measured at the lower of its carrying value amount before it was classified as held for sale, adjusted for any depreciation and amortization expense that would have been recognized had it been continuously classified as held and in use, and its estimated fair value at the date of the subsequent decision not to sell.

Assets that are classified as held for sale and that constitute a component of Crombie are presented as discontinued operations and their operating results are presented separately in the Consolidated Statements of Comprehensive Income (Loss). A component of Crombie includes a property type or geographic area of operations.

**(h) Employee future benefits obligation**

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

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

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

**(i) Unit based compensation plans**

**(i) Deferred Unit Plan (“DU Plan”)**

Crombie provides a voluntary DU Plan whereby eligible trustees, officers and employees (the "Participants") may elect to receive all or a portion of their eligible compensation in deferred units ("DUs"). The Board (or its designated Committee) may determine that special compensation will be provided in the form of DUs. Unless otherwise determined by the Board (or its designated Committee), DUs are fully vested at the time they are allocated, with the value of the award recorded as a liability and expensed as general and administrative expenses. DUs are not Crombie REIT Units and do not entitle a Participant to any Unitholder rights, including voting rights, distribution entitlements (other than those noted below) or rights on liquidation. During the time that a Participant has outstanding DUs, whenever cash distributions are paid on REIT Units, additional DUs will be credited to the Participant's DU account, determined by multiplying the number of DUs in the Participant's DU account on the REIT distribution record date by the distribution paid per REIT Unit, and dividing the result by the market value of a Unit as determined in accordance with the DU Plan. Additional DUs issued as a result of distributions vest on the same basis as noted above and the value of the additional DUs credited is expensed to general and administrative expenses on allocation. A Participant may redeem their vested DUs in whole or in part by filing a written notice of redemption; redemption will also occur as the result of specific events such as the retirement of a Participant. Upon redemption, a Participant will receive the net value of the vested DUs being redeemed, with the net value determined by multiplying the number of DUs redeemed by the REIT Unit's market price on redemption date, less applicable withholding taxes. The Participant may elect to receive this net amount as a cash payment or instead receive Crombie REIT Units for redeemed DU’s after deducting applicable withholding taxes. For fair value measurement purposes, each DU is measured based on the market value of a REIT Unit.

**(ii) Restricted Unit Plan (“RU Plan”)**

Crombie has a RU Plan for certain eligible executives and employees ("RU Participants"), whereby the RU Participants will receive all or a portion of their annual long-term incentive plan awards in restricted units ("RUs"). The RUs are accounted for under IAS 19 “Employee benefits” and the liability and expense are recognized over the service period which ends on the vesting date The RUs are

subject to vesting conditions including continuing employment. The number of RUs which fully vest is determined by: (a) the dollar amount of the award divided by the market value of a REIT Unit on the award grant date, plus (b) deemed distributions on RUs during the vesting period at a rate equivalent to the number of REIT Units that would have been issued had the vested RUs been treated as a REIT Unit. The value of these additional RUs from deemed distributions are expensed to general and administrative expenses at the time of allocation. On the vesting date, each participant shall be entitled to receive a cash amount (net of any applicable withholding taxes) equal to the number of vested RUs held by the RU Participant multiplied by the market value on the vesting date, as determined by the market value of a REIT Unit. Alternatively, a RU Participant who is an eligible employee on the vesting date may elect to convert their vested RUs to DUs under Crombie's DU Plan. No REIT Units or other securities of Crombie will be issued from treasury as settlement of any obligation under the RU Plan.

**(iii) Performance Unit Plan ("PU Plan")**

Crombie has a PU Plan for certain eligible executives and employees ("PU Participants"), whereby the PU Participants may elect each year to participate in the PU Plan and receive all or a portion of their eligible remuneration in the form of an allocation of performance units ("PUs"). The PUs are accounted for under IAS 19 "Employee benefits" and the liability and expense are recognized over the service period which ends on the vesting date. The PUs are subject to vesting conditions including continuing employment. The number of PUs which vest for each participant shall be determined by (a) multiplying the number of PUs granted under the award by an adjustment factor applicable to the performance level achieved, and (b) adding the number of PUs or fractions thereof that would be credited to such participant upon the payment of distributions by Crombie on the REIT Units, based on the number of additional REIT Units a participant would have received had the vested PUs been treated as REIT Units under a distribution reinvestment plan during the PU Term. Alternatively, a PU Participant who is an eligible employee on the vesting date may elect to convert their vested PUs to DUs under Crombie's DU Plan. A PU is not considered to be a REIT Unit or entitle any participant to exercise voting rights or any other rights or entitlements associated with a REIT Unit.

**(j) Distribution reinvestment plan ("DRIP")**

Crombie has a DRIP which is described in Note 15.

**(k) Revenue recognition**

**(i) Lease revenue**

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

**(ii) Revenue from contracts with customers**

Crombie recognizes revenue in accordance with IFRS 15 "Revenue from Contracts with Customers". Crombie recognises revenue to customers that reflects the consideration to which it expects to be exchanged for. This involves identifying the contract with its customers, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract and recognizing revenue when the entity satisfies its performance obligations.

Where a contract contains elements of variable consideration, Crombie estimates the amount of variable consideration to which it will be entitled under the contract. Variable consideration can arise from discounts, refunds, credits and price concessions. This consideration is allocated to all performance obligations in a contract based on their relative standalone selling prices.

**(l) Leases**

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

**Crombie as lessor**

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

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

**Crombie as lessee**

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

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

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

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

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

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

**(m) Deferred financing charges**

Deferred financing charges consist of costs directly attributable to the issuance of debt. These charges are amortized in finance costs - operations using the effective interest method, over the term of the related debt.

**(n) Finance costs - operations**

Finance costs - operations primarily comprise interest on Crombie's borrowings. Finance costs directly attributable to the acquisition, redevelopment, construction or production of a qualifying asset are capitalized as a component of the cost of the asset to which it is related. All other finance costs - operations are expensed in the period in which they are incurred using the effective interest rate method.

**(o) Finance costs - distributions to Unitholders**

The determination to declare and make payable distributions from Crombie is at the discretion of the Board of Trustees and, until declared payable by the trustees, Crombie has no contractual obligation to pay cash distributions to Unitholders.

**(p) Income taxes**

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

**(q) Hedges**

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

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

**(r) Comprehensive income (loss)**

Comprehensive income (loss) is the change in net assets attributable to Unitholders during a period from transactions and other events and circumstances from non-Unitholder sources. Crombie reports a consolidated statement of comprehensive income (loss), comprising changes in net assets attributable to Unitholders and other comprehensive income (loss) for the year. Accumulated other comprehensive income (loss), has been included in the Consolidated Statements of Changes in Net Assets Attributable to Unitholders.

**(s) Provisions**

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

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

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

Crombie's provisions are immaterial and are included in trade and other payables.

**(t) Financial instruments**

Crombie classifies financial assets and liabilities according to their characteristics and management’s choices and intentions related thereto for the purpose of ongoing measurement. Classification choices for financial assets include: a) Amortized cost - recorded at amortized cost with gains and losses recognized in increase (decrease) in net assets attributable to Unitholders in the period that the asset is derecognized or impaired; b) Fair value, with two options; (i) FVTOCI - measured at fair value with changes in fair value recognized in other comprehensive income (loss) for the current period until realized through disposal or impairment; and, (ii) FVTPL - measured at fair value with changes in fair value recognized in increase (decrease) in net assets attributable to Unitholders for the period. Classification choices for financial liabilities include: a) Amortized cost - recorded at amortized cost with gains and losses recognized in increase (decrease) in net assets attributable to Unitholders in the period that the asset is derecognized or impaired; and b) FVTPL - measured at fair value with changes in fair value recognized in increase (decrease) in net assets attributable to Unitholders for the period. Subsequent measurement for these assets and liabilities is based on either fair value or amortized cost using the effective interest method, depending upon their classification.

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

| Financial Asset/Liability | Category | Measurement |
|---|---|---|
| Cash and cash equivalents | Assets at amortized cost | Amortized cost |
| Trade receivables | Assets at amortized cost | Amortized cost |
| Restricted cash | Assets at amortized cost | Amortized cost |
| Long-term receivables | Assets at amortized cost | Amortized cost |
| Marketable securities | FVTPL | Fair value |
| Derivative financial assets and liabilities | FVTPL | Fair value |
| Accounts payable and other liabilities (excluding interest rate swaps) | Financial liabilities at amortized cost | Amortized cost |
| Investment property debt | Financial liabilities at amortized cost | Amortized cost |
| Senior unsecured notes | Financial liabilities at amortized cost | Amortized cost |

Other balance sheet accounts, including, but not limited to, prepaid expenses, accrued straight-line rent receivable, tenant incentives, investment properties and employee future benefits obligation are not financial instruments.

Transaction costs, other than those related to financial instruments classified as FVTPL that are expensed as incurred, are added to the fair value of the financial asset or financial liability on initial recognition and amortized using the effective interest method. Financing costs incurred to establish revolving credit facilities are deferred and amortized on a straight-line basis over the term of the facilities. In the event any debt is extinguished, the associated unamortized financing costs are expensed immediately.

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

Crombie determines the expected credit loss in accordance with IFRS 9's simplified approach for amounts receivable where its loss allowance is measured at initial recognition and throughout the life of the receivable. Trade receivables are written off when there is no reasonable expectation of recovery.

**(u) Fair value measurement**

The fair value of financial instruments 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by Crombie.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Crombie uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. The fair value of any interest rate swap is estimated by discounting net cash flows of the swaps using forward interest rates for swaps of the same remaining maturities.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When determining the highest and best use of non-financial assets Crombie takes into account the following:

- use of the asset that is physically possible - Crombie assesses the physical characteristics of the asset that market participants would take into account when pricing the asset;
- use that is legally permissible - Crombie assesses any legal restrictions on the use of the asset that market participants would take into account when pricing the asset; and

- use that is financially feasible - Crombie assesses whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows to produce an investment return that market participants would require from an investment in that asset put to that use.

**(v) Impairment of long-lived tangible and definite life intangible assets**

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

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

**(w) Net assets attributable to Unitholders**

**(i) Balance Sheet presentation**

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

**(ii) Balance Sheet measurement**

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

**(iii) Statement of Comprehensive Income (Loss) presentation**

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

**(iv) Presentation of per unit measures**

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

**(v) Allocation of Comprehensive income (loss)**

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

- Operating income - based on the weighted average number of units outstanding during the reporting period.
- Distributions to Unitholders - based on the actual distributions paid to each separate unit class.
- Accumulated other comprehensive income (loss) - increases are allocated based on the weighted average number of units outstanding during the reporting period, decreases in previously accumulated amounts are drawn down based on the average accumulation allocation rate.

**(x) Critical judgments in applying accounting policies**

The following are the critical judgments that have been made in applying Crombie's accounting policies and that have the most significant effect on the consolidated financial statements:

**(i) Investment properties**

Crombie's accounting policies relating to investment properties are described in Note 2(e). In applying these policies, judgment is applied in determining whether certain costs are additions to the carrying amount of an investment property and whether properties acquired are considered to be asset acquisitions or business combinations. Crombie has determined that all properties acquired to date are asset acquisitions.

**(ii) Investment in joint ventures**

Crombie makes judgments in determining the appropriate accounting for investments in other entities. Such judgments include: determining the significant relevant activities and assessing the level of influence Crombie has over such activities through agreements and contractual arrangements.

**(iii) Classifications of Units as liabilities**

Crombie's accounting policies relating to the classification of Units as liabilities are described in Note 2(w). The critical judgments inherent in this policy relate to applying the criteria set out in IAS 32, "Financial Instruments: Presentation", relating to the puttable instrument exception.

**(iv) Investment in joint arrangements**

Crombie makes judgments in determining the appropriate accounting for investments in other entities. Such judgments include: determining the significant relevant activities and assessing the level of control or influence Crombie has over such activities through agreements and contractual arrangements; and, determining whether Crombie's rights and obligations are directly related to the assets and liabilities of the arrangement or to the net assets of the joint arrangement.

**(y) Critical accounting estimates and assumptions**

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The estimates and assumptions that are critical to the determination of the amounts reported in the consolidated financial statements relate to the following:

**(i) Fair value measurement**

A number of assets and liabilities included in Crombie's consolidated financial statements require measurement at, and/or disclosure of, fair value.

In estimating the fair value of an asset or a liability, Crombie uses market-observable data to the extent it is available. Where Level 1 inputs are not available, Crombie estimates the fair value based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. The significant methods and assumptions used in estimating fair value are set out in Notes 2(i), 3 and 18.

**(ii) Investment properties**

Investment properties are carried at cost less accumulated depreciation. Crombie estimates the residual value and useful lives of investment properties and the significant components thereof to calculate depreciation and amortization.

**(iii) Impairment of long-lived tangible and definite life intangible assets**

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

generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to the recoverable amount. An impairment loss is recognized as an expense immediately in operating income.

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

**(iv) Investment property valuation**

External, independent valuation companies, having appropriate recognized professional qualifications and recent experience in the location and category of properties being valued, value Crombie's investment property portfolio on a rotating basis over a maximum period of four years. The fair values, based on the measurement date, represent 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. Internal quarterly valuations are performed using internally generated valuation models prepared by considering the aggregate trailing net property income received from leasing the property, that is stabilized for any major tenant movement. Biannual yields are obtained from an independent valuation company, which reflects the specific risks inherent in the net property income, to arrive at property valuations.

**(v) Defined benefit liability**

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

**(vi) Purchase price allocation**

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

**(z) Application of new IFRS**

**(i) IFRS 16 - Leases**

In January 2016, the IASB issued IFRS 16 “Leases” which replaces IAS 17 and its associated interpretative guidance. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. A lessee is required to recognize a right of use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. Lessor accounting remains largely unchanged with the distinction between operating and finance leases retained and no adjustments were required, except for where Crombie has sub-leases. Under IFRS 16, Crombie reassessed the classifications of a sub-lease contract previously classified as operating leases under IAS 17. Certain land sub-leases were reassessed as finance leases under IFRS 16 and accordingly, a finance lease receivable of $8,801 was recognized on January 1, 2019, included in other assets.

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

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

- Reliance on previous assessments on whether leases are onerous;
- Accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;

- Exclusion of low-value asset leases;
- Exclusion of initial direct costs for the measurement of the right of use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

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

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

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

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

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

| | | |
|---|---|---|
| Land | $ | 16,812 |
| Office | | 232 |
| Fleet | | 1,390 |
| Total right of use assets | $ | 18,434 |

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

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

## 3) INVESTMENT PROPERTIES

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Income properties | $ 3,461,359 | $ 3,693,464 |
| Properties under development | 96,213 | 66,179 |
| | $ 3,557,572 | $ 3,759,643 |

**Income properties**

| | Land | Buildings | Intangibles | Deferred Leasing Costs | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Opening balance, January 1, 2019 | $ 1,176,745 | $ 2,968,216 | $ 121,181 | $ 7,010 | $ 4,273,152 |
| Impact of adoption of IFRS 16 (Note 2(z)) | 16,812 | — | — | — | 16,812 |
| Acquisitions | 39,408 | 84,685 | 3,138 | — | 127,231 |
| Additions | 3,158 | 70,118 | — | 1,740 | 75,016 |
| Dispositions | (69,672) | (185,430) | (7,847) | (34) | (262,983) |
| Transfer to investment properties held for sale (Note 6) | (54,693) | (124,993) | (4,159) | — | (183,845) |
| Reclassification from properties under development | 5,943 | 12,851 | — | 137 | 18,931 |
| **Balance, December 31, 2019** | 1,117,701 | 2,825,447 | 112,313 | 8,853 | 4,064,314 |
| **Accumulated depreciation and amortization and impairment** | | | | | |
| Opening balance, January 1, 2019 | 2,357 | 509,304 | 65,777 | 2,250 | 579,688 |
| Depreciation and amortization | 320 | 66,198 | 5,812 | 808 | 73,138 |
| Dispositions | (4) | (30,514) | (3,311) | (9) | (33,838) |
| Impairment | — | 6,000 | — | — | 6,000 |
| Transfer to investment properties held for sale (Note 6) | — | (20,412) | (1,621) | — | (22,033) |
| Balance, December 31, 2019 | 2,673 | 530,576 | 66,657 | 3,049 | 602,955 |
| **Net carrying value, December 31, 2019** | $ 1,115,028 | $ 2,294,871 | $ 45,656 | $ 5,804 | $ 3,461,359 |

Included in land are right of use assets of $16,405 net of accumulated depreciation of $320 for land held under lease.

During the year ended December 31, 2019, Crombie recorded impairments totaling $6,000 on three properties. The impairments were the result of the fair value impact of tenant lease expiries and slower than expected leasing activity. Impairment was measured on a per property basis and was determined as the amount by which carrying value, using the cost method, exceeded the recoverable amount for that property. The recoverable amount was determined to be each property's fair value defined as the higher of the economic benefit of the continued use of the asset or the selling price less costs to sell.

| | Land | Buildings | Intangibles | Deferred Leasing Costs | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| Opening balance, January 1, 2018 | $ 1,208,424 | $ 2,942,538 | $ 120,650 | $ 8,821 | $ 4,280,433 |
| Acquisitions | 33,192 | 84,167 | 6,420 | — | 123,779 |
| Additions | 1,361 | 78,917 | — | 1,545 | 81,823 |
| Dispositions | (82,191) | (132,704) | (5,681) | (681) | (221,257) |
| Write-off fully depreciated assets | — | (24,637) | (208) | (2,876) | (27,721) |
| Reclassification from properties under development | 15,959 | 19,935 | — | 201 | 36,095 |
| Balance, December 31, 2018 | 1,176,745 | 2,968,216 | 121,181 | 7,010 | 4,273,152 |
| Accumulated depreciation and amortization and impairment | | | | | |
| Opening balance, January 1, 2018 | 2,357 | 458,973 | 63,056 | 4,785 | 529,171 |
| Depreciation and amortization | — | 88,818 | 6,701 | 792 | 96,311 |
| Dispositions | — | (28,850) | (3,772) | (451) | (33,073) |
| Impairment | — | 15,000 | — | — | 15,000 |
| Write-off fully depreciated assets | — | (24,637) | (208) | (2,876) | (27,721) |
| Balance, December 31, 2018 | 2,357 | 509,304 | 65,777 | 2,250 | 579,688 |
| Net carrying value, December 31, 2018 | $ 1,174,388 | $ 2,458,912 | $ 55,404 | $ 4,760 | $ 3,693,464 |

**Properties under development**

| | Land | Buildings | Deferred Leasing Costs | Total |
|---|---|---|---|---|
| Opening balance, January 1, 2019 | **$ 49,967** | **$ 16,095** | **$ 117** | **$ 66,179** |
| Acquisitions | **32,439** | **—** | **—** | **32,439** |
| Additions | **3,314** | **16,865** | **20** | **20,199** |
| Dispositions | **(3,673)** | **—** | **—** | **(3,673)** |
| Reclassification to income-producing properties | **(5,943)** | **(12,851)** | **(137)** | **(18,931)** |
| **Balance, December 31, 2019** | **$ 76,104** | **$ 20,109** | **$ —** | **$ 96,213** |

| | Land | Buildings | Deferred Leasing Costs | Total |
|---|---|---|---|---|
| Opening balance, January 1, 2018 | $ 68,725 | $ 6,858 | $ 116 | $ 75,699 |
| Additions | 2,981 | 29,172 | 202 | 32,355 |
| Dispositions | (5,780) | — | — | (5,780) |
| Reclassification to income producing properties | (15,959) | (19,935) | (201) | (36,095) |
| Balance, December 31, 2018 | $ 49,967 | $ 16,095 | $ 117 | $ 66,179 |

**Fair value**

Crombie's total fair value of investment properties exceeds carrying value by $808,674 at December 31, 2019 (December 31, 2018 - $797,088). Crombie uses the cost method for accounting for investment properties and increases in fair value over carrying value are not recognized until realized through disposition or derecognition of properties, while impairment is recognized at the time of impairment.

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

| | | Fair Value | | Carrying Value |
|---|---|---|---|---|
| **December 31, 2019** | **$** | **4,605,000** | **$** | **3,796,326** |
| December 31, 2018 | $ | 4,776,000 | $ | 3,978,912 |

Carrying value consists of the net carrying value of:

| | Note | | December 31, 2019 | | December 31, 2018 |
|---|---|---|---|---|---|
| Income properties | 3 | **$** | **3,461,359** | $ | 3,693,464 |
| Properties under development | 3 | | **96,213** | | 66,179 |
| Accrued straight-line rent receivable | 5 | | **80,268** | | 81,689 |
| Tenant incentives | 5 | | **158,486** | | 137,580 |
| Total carrying value | | **$** | **3,796,326** | $ | 3,978,912 |

The fair value of investment properties is a Level 3 fair value measurement. The fair value represents the estimated 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.

The fair value included in this summary reflects the fair value of the properties as at December 31, 2019 and 2018, respectively, based on each property's current use as a revenue generating investment property.

The valuation techniques and significant unobservable inputs used in determining the fair value of investment properties are set out below:

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

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

(iii) External appraisals - Crombie has external, independent appraisals performed on all properties on a rotational basis over a maximum period of four years.

As at December 31, 2019, all properties have been subjected to external, independent appraisal over the past four years.

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

| | | Impact of a 0.25% Change in Capitalization Rate | | |
|---|---|---|---|---|
| | Weighted Average Capitalization Rate | | Increase in Rate | | Decrease in Rate |
| **December 31, 2019** | **5.99%** | **$** | **(189,000)** | **$** | **192,000** |
| December 31, 2018 | 6.10% | $ | (186,000) | $ | 203,000 |

**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.

**2019**

| Transaction Date | Vendor/Purchaser | Properties Acquired (Disposed) | Approximate Square Footage | Initial Acquisition (Disposition) Price |
|---|---|---|---|---|
| January 7, 2019 | Third Party | — | — | $ (821) |
| January 29, 2019 | Third Party | (1) | (114,000) | (35,180) |
| February 5, 2019 [1] | Third Party | (7) | (148,000) | (41,614) |
| February 8, 2019 | Third Party | (1) | (50,000) | (19,925) |
| February 14, 2019 | Third Party | (1) | (19,000) | (9,675) |
| March 25, 2019 | Third Party | 1 | — | 32,000 |
| April 25, 2019 [2] | Third Party | (26) | (785,000) | (161,589) |
| April 29, 2019 | Third Party | (1) | (39,000) | (21,500) |
| June 3, 2019 | Third Party | — | — | (3,275) |
| July 3, 2019 [3] | Third Party | (1) | (44,000) | (9,750) |
| July 4, 2019 | Third Party | (1) | (36,000) | (12,255) |
| August 1, 2019 [4] | Empire | 1 | 15,000 | 9,500 |
| August 2, 2019 [5] | Joint Venture | (1) | — | (27,379) |
| September 25, 2019 [6] | Third Party | — | (3,000) | (175) |
| October 7, 2019 [7] | Third Party | (15) | (641,000) | (193,333) |
| October 29, 2019 [8] | Third Party | — | 29,000 | 6,611 |
| November 28, 2019 | Empire | 1 | 40,000 | 12,422 |
| December 16, 2019 [9] | Empire | — | 397,000 | 95,900 |
| | | | **(1,398,000)** | **$ (380,038)** |

[1] Disposal of 50% interest in seven retail properties to a third party.
[2] Disposal of an 89% interest in 26 retail properties to a third party.
[3] Disposal of an 89% interest in one retail property to a third party.
[4] Acquisition of a 50% interest in one retail property from a related party.
[5] Disposal of air rights to a joint venture.
[6] Disposal of a freestanding building adjacent to a retail property.
[7] Disposal of an 89% interest in 15 properties to a third party.
[8] Additions to an existing property.
[9] Acquisition of the remaining 50% interest in one retail-related industrial property from a related party.

2018

| Transaction Date | Vendor/ Purchaser | Properties Acquired (Disposed) | Approximate Square Footage | Initial Acquisition (Disposition) Price | Assumed Mortgages |
|---|---|---|---|---|---|
| February 5, 2018 | Third party | (1) | (92,000) | $ (15,000) | $ — |
| February 20, 2018 | Third party | (1) | (103,000) | (20,627) | — |
| March 6, 2018 | Third Party | — | — | (5,725) | — |
| April 6, 2018 [1] | Related party | 9 | 421,000 | 88,110 | — |
| April 19, 2018 | Third party | (1) | (40,000) | (14,000) | — |
| May 11, 2018 | Third party | (1) | (25,000) | (9,000) | — |
| May 11, 2018 [2] | Third party | (9) | (203,000) | (77,929) | — |
| June 18, 2018 | Third party | (1) | (273,000) | (52,084) | — |
| June 29, 2018 | Related party | 1 | 37,000 | 12,500 | — |
| August 16, 2018 [3] | Joint venture | (1) | (30,000) | (39,682) | — |
| September 28, 2018 [1] | Related party | — | 10,000 | 3,735 | — |
| December 5, 2018 | Third party | 1 | 40,000 | 9,300 | 5,595 |
| December 13, 2018 [1] | Third party | — | 5,000 | 5,600 | — |
| December 18, 2018 | Third parties | (3) | (51,000) | (26,600) | — |
| | | | (304,000) | $ (141,402) | $ 5,595 |

[1] Includes additions to existing retail properties.
[2] Represents disposition of 50% interest in a portfolio of properties.
[3] Represents dispositions of property to a joint venture.

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

| | Year ended December 31, | |
|---|---|---|
| **Investment property disposed** | **2019** | 2018 |
| Gross proceeds | **$ 536,471** | $ 260,647 |
| Selling costs | **(8,229)** | (3,831) |
| | **528,242** | 256,816 |
| Carrying values derecognized | | |
| Land | **(128,034)** | (87,971) |
| Buildings | **(259,496)** | (103,854) |
| Intangibles | **(7,073)** | (1,909) |
| Deferred leasing costs | **(25)** | (230) |
| Tenant Incentives | **(31,565)** | (7,760) |
| Accrued straight-line rent | **(11,706)** | (2,094) |
| Development costs | **—** | (2,561) |
| Provisions | **(8,540)** | (414) |
| Gain on disposal | **$ 81,803** | $ 50,023 |

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Proceeds | $ 528,242 | $ 256,816 |
| Mortgages assumed by buyer | (161,472) | (38,971) |
| Non-cash consideration, addition to investment in joint venture | (27,379) | — |
| Non-cash consideration, acquisition of investment in joint venture | — | (27,832) |
| Cash proceeds | $ 339,391 | $ 190,013 |

**4) INVESTMENT IN JOINT VENTURES**

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

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

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

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Non-current assets | $ 297,598 | $ 112,581 |
| Current assets | 31,287 | 30,043 |
| Non-current liabilities | (111,845) | (53,005) |
| Current liabilities | (127,444) | (25,286) |
| Net assets | $ 89,596 | $ 64,333 |
| Crombie's investment in joint ventures | $ 45,123 | $ 39,485 |

| | Year ended | |
|---|---|---|
| | December 31, 2019 | December 31, 2018 |
| Revenue | $ 1,708 | $ 1,184 |
| Property operating expenses | (434) | (507) |
| General and administrative expenses | (2) | (75) |
| Depreciation of investment properties | (203) | (55) |
| Finance costs - operations | (401) | (39) |
| Net income | $ 668 | $ 508 |
| Crombie's income from equity accounted investments | $ 334 | $ 254 |

The following table shows the changes in the total carrying value of Crombie's investment in joint ventures for the year ended:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Opening Balance | $ 39,485 | $ 2,602 |
| Contributions | 28,111 | 36,698 |
| Distributions | (15,366) | (69) |
| Deferred gain | (7,441) | — |
| Share of income | 334 | 254 |
| Closing Balance | $ 45,123 | $ 39,485 |

## 5) OTHER ASSETS

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Current | Non-current | Total | Current | Non-current | Total |
| Net trade receivables | $ 14,636 | $ 6,041 | $ 20,677 | $ 8,337 | $ — | $ 8,337 |
| Prepaid expenses and deposits | 15,533 | — | 15,533 | 11,857 | — | 11,857 |
| Fair value of interest rate swap agreements | 947 | — | 947 | 2,840 | — | 2,840 |
| Other fixed assets [1] [2] | — | 10,000 | 10,000 | — | 7,761 | 7,761 |
| Finance lease receivable | 363 | 8,125 | 8,488 | — | — | — |
| Accrued straight-line rent receivable | — | 80,268 | 80,268 | — | 81,689 | 81,689 |
| Tenant incentives | — | 158,486 | 158,486 | — | 137,580 | 137,580 |
| Capital expenditure program | — | 105 | 105 | — | 105 | 105 |
| Interest rate subsidy | 93 | 110 | 203 | 94 | 203 | 297 |
| Amounts receivable from related parties | — | 23,812 | 23,812 | — | 21,480 | 21,480 |
| | $ 31,572 | $ 286,947 | $ 318,519 | $ 23,128 | $ 248,818 | $ 271,946 |

[1] For the year ended December 31, 2019, depreciation of other fixed assets was $1,175 (December 31, 2018 - $42).
[2] Other fixed assets include right of use assets of $1,493 (December 31, 2018 - $nil) net of accumulated depreciation of $574 relating to office and vehicle leases.

| **Tenant Incentives** | Cost | Accumulated Amortization | Net Carrying Value |
|---|---|---|---|
| Balance, January 1, 2019 | $ 204,250 | $ 66,670 | $ 137,580 |
| Additions | 60,379 | — | 60,379 |
| Amortization | — | 14,139 | (14,139) |
| Disposition | (19,914) | (1,977) | (17,937) |
| Transfer to investment properties held for sale | (8,644) | (1,247) | (7,397) |
| **Balance, December 31, 2019** | $ 236,071 | $ 77,585 | $ 158,486 |
| | | | |
| Balance, January 1, 2018 | $ 211,394 | $ 67,902 | $ 143,492 |
| Additions | 14,723 | — | 14,723 |
| Amortization | — | 12,875 | (12,875) |
| Disposition | (12,739) | (4,979) | (7,760) |
| Write-off fully depreciated assets | (9,128) | (9,128) | — |
| Balance, December 31, 2018 | $ 204,250 | $ 66,670 | $ 137,580 |

## 6) INVESTMENT PROPERTIES HELD FOR SALE

**2019**

| | Land | Buildings | Intangibles | Tenant Incentives | Total |
|---|---|---|---|---|---|
| Assets transferred to held for sale | $ 54,693 | $ 104,581 | $ 2,538 | $ 7,397 | $ 169,209 |
| Additions to assets held for sale | — | — | — | 6,230 | 6,230 |
| Derecognition through disposition | (54,693) | (104,581) | (2,538) | (13,627) | (175,439) |
| Net carrying value, December 31, 2019 | $ — | $ — | $ — | $ — | $ — |

2018

| | Land | Buildings | Intangibles | Tenant Incentives | Total |
|---|---|---|---|---|---|
| Assets transferred to held for sale | $ — | $ — | $ — | $ — | $ — |
| Additions to assets held for sale | — | — | — | — | — |
| Derecognition through disposition | — | — | — | — | — |
| Net carrying value, December 31, 2018 | $ — | $ — | $ — | $ — | $ — |

## 7) INVESTMENT PROPERTY DEBT

| | Range | Weighted Average Interest Rate | Weighted Average Term to Maturity | December 31, 2019 | December 31, 2018 |
|---|---|---|---|---|---|
| Fixed rate mortgages | 2.35 - 6.80% | 4.25% | 3.9 years | $ 1,309,077 | $ 1,610,640 |
| Floating rate revolving credit facility | | | 3.5 years | 15,339 | 108,843 |
| Joint operation credit facility I | | | 4.3 years | 6,978 | — |
| Joint operation credit facility II | | | 4.8 years | 1,991 | — |
| Unsecured bilateral credit facility | | | 1.4 years | 30,000 | 70,000 |
| Deferred financing charges on fixed rate mortgages | | | | (6,567) | (9,056) |
| | | | | $ 1,356,818 | $ 1,780,427 |
| **Mortgages** | | | | | |
| Non-current | | | | $ 1,045,015 | $ 1,421,062 |
| Current | | | | 257,495 | 180,522 |
| **Credit facilities** | | | | | |
| Non-current | | | | 54,308 | 178,843 |
| Current | | | | — | — |
| | | | | $ 1,356,818 | $ 1,780,427 |

Specific investment properties with a carrying value of $2,705,625 as at December 31, 2019 (December 31, 2018 - $3,002,822) are currently pledged as security for mortgages or provided as security for the floating rate revolving credit facility. Carrying value includes investment properties, as well as accrued straight-line rent receivable and tenant incentives which are included in other assets.

**Mortgage Activity**

| For the year ended: | Type | Number of Mortgages | Weighted Average Rates | Weighted Average Terms in Years | Weighted Average Amortization Period in Years | Proceeds (Repayments) |
|---|---|---|---|---|---|---|
| December 31, 2019 | New [1] | 7 | 3.43% | 6.2 | 31.7 | $ 45,689 |
| | Repaid | 17 | 4.43% | | | (133,759) |
| | Disposition [2] | 27 | 4.33% | | | (161,472) |
| | | | | | | $ (249,542) |

[1] During the quarter, Crombie recognized a mortgage payable of $20,401 in settlement of an amount payable to 1600 Davie Limited Partnership. This mortgage, bearing interest at 3.22%, relates to the commercial component of the Davie Street development, 100% which is included in Crombie's financial statements.

[2] Represents disposition of interests in mortgages related to partial dispositions of a portfolio of properties.

| For the year ended: | Type | Number of Mortgages | Weighted Average Rates | Weighted Average Terms in Years | Weighted Average Amortization Period in Years | Proceeds (Repayments) |
|---|---|---|---|---|---|---|
| December 31, 2018 | New | 1 | 3.52% | 6.3 | 25.0 | $ 5,595 |
| | Repaid | 11 | 4.98% | | | (64,713) |
| | Disposition [1] | 9 | 4.27% | | | (38,971) |
| | | | | | | $ (98,089) |

[1] Represents disposition of interests in mortgages related to partial dispositions of a portfolio of properties.

**Floating Rate Revolving Credit Facility**

The floating rate revolving credit facility has a maximum principal amount of $400,000 (December 31, 2018 - $400,000) and matures June 30, 2023. 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 (December 31, 2019 - borrowing base of $400,000). Borrowings under the revolving credit facility can be by way of Bankers Acceptance or Prime Rate Advance and the Floating interest rate is contingent on the type of advance plus the applicable spread or margin. The respective spread or margin may change depending on Crombie's unsecured bond rating with DBRS and whether the facility remains secured or migrates to an unsecured status.

**Joint Operation Credit Facilities**

In conjunction with the 89% sale of a portfolio of assets in Q2 2019, Crombie and its co-owner entered into a credit agreement with a Canadian Chartered Bank for a $62,250 term loan facility and a $5,800 revolving credit facility. Both facilities are secured by first mortgages on select properties and have a term of five years maturing on April 25, 2024. Borrowings under both facilities can be by way of Bankers Acceptance or Prime Rate Advance and the floating interest rate is contingent on the type of advance plus the applicable spread or margin. Concurrent with entering into these facilities, Crombie and its co-owner entered into a fixed for floating interest rate swap effectively fixing the interest rate on both facilities at 3.58%. At year end December 31, 2019, Crombie's portion of the term and revolving credit facilities was $6,848 and $130 respectively.

In conjunction with the 89% sale of a portfolio of assets in Q4 2019, Crombie and its co-owner entered into a credit agreement with a Canadian Chartered Bank for a $16,500 term loan facility and a $15,500 revolving credit facility. Both facilities are secured by first and second mortgages on select properties and have a term of five years maturing on October 7, 2024. Borrowings under both facilities can be by way of Bankers Acceptance or Prime Rate Advance and the floating interest rate is contingent on the type of advance plus the applicable spread or margin. Concurrent with entering into these facilities, Crombie and its co-owner entered into a fixed for floating interest rate swap effectively fixing the interest rate on both facilities at 3.27%. At year end December 31, 2019, Crombie's portion of the term and revolving credit facilities was $1,815 and $176 respectively.

**Unsecured Bilateral Credit Facility**

The unsecured bilateral credit facility agreement was renewed for an additional year in the second quarter of 2019. The unsecured bilateral credit facility has a maximum principal amount of $100,000 and matures May 14, 2021. The facility is used by Crombie for working capital purposes and to provide temporary financing for acquisitions and development activity. Borrowings under the bilateral credit facility can be by way of Bankers Acceptance or Prime Rate Advance and the floating interest rate is contingent on the type of advance plus the applicable spread or margin. The respective spread or margin may change depending on Crombie's unsecured bond rating with DBRS.

## 8) SENIOR UNSECURED NOTES

| | Maturity Date | Interest Rate | December 31, 2019 | December 31, 2018 |
|---|---|---|---|---|
| Series B | June 1, 2021 | 3.962% | $ 250,000 | $ 250,000 |
| Series C | February 10, 2020 | 2.775% | — | 125,000 |
| Series D | November 21, 2022 | 4.066% | 150,000 | 150,000 |
| Series E | January 31, 2025 | 4.800% | 175,000 | 175,000 |
| Series F | August 26, 2026 | 3.677% | 200,000 | — |
| Series G | June 21, 2027 | 3.917% | 150,000 | — |
| Unamortized Series B issue premium | | | 627 | 1,068 |
| Deferred financing charges | | | (3,148) | (2,352) |
| | | | $ 922,479 | $ 698,716 |

**2019**

On December 20, 2019, Crombie issued on a private placement basis, $150,000 Series G notes (senior unsecured) maturing June 21, 2027. The proceeds will be used to fund the repayment of upcoming secured mortgage maturities. The notes were priced with an effective yield to maturity of 3.917% and sold at a price of $1,000.00 per $1,000.00 principal amount. Interest is payable in equal semi-annual installments on June 21 and December 21.

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

2018

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

On October 31, 2018 Crombie issued, on a private placement basis, $175,000 Series E notes (senior unsecured) maturing January 31, 2025. The proceeds were used to fund the repayment of the Series A notes. The notes were priced with an effective yield to maturity of 4.802% and sold at a price of $999.96 per $1,000.00 principal amount. Interest is payable in equal semi-annual installments on January 31 and July 31.

## 9) EMPLOYEE FUTURE BENEFITS

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

**Defined contribution pension plans**

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

**Defined benefit plans**

The retirement benefit provides pension benefits to members designated in writing by the Board of Trustees based on a formula recognizing length of service and final average earnings. The annual pension payable at age 65 is equal to 2% of the final average base earnings multiplied by years of credited service (to a maximum of 30 years), offset by the deemed retirement income provided under the defined contribution pension plan and deferred profit sharing plan. For the purpose of calculating the deemed retirement income provided under the defined contribution pension plan and deferred profit sharing plan, the assumptions stipulated in the SERP plan text are used, including an assumed annuity conversion discount rate of 7.0%. The final average earnings are 12 times the average of the 60 highest months of eligible earnings. Employee contributions, if required, pay for part of the cost of the benefit, and the employer contributions fund the balance. The employer contributions are not specified

or defined within the plan text; they are based on the result of actuarial valuations which determine the level of funding required to meet the total obligation as estimated at the time of the valuation. Crombie's defined benefit plans are unfunded.

Once participants attain age 55 and 5 years of continuous service, they can retire. The total pension payable is reduced by 5/12% for each month by which the early retirement precedes age 60 (62 for a member who was designated as a member on or after June 25, 2009). The normal form of pension payment is a 60% joint and survivor pension.

The post-employment benefits program offered to Crombie employees and retirees in Canada is an open plan that provides life and medical benefits for grandfathered employees and employees retired prior to May 1, 2011 as well as critical illness coverage for other employees. Full-time employees must be over age 55 to be eligible for the post-employment benefits program.

The total defined benefit cost related to pension plans and post-employment benefit plans for the year ended December 31, 2019 was $816 (year ended December 31, 2018 - $551).

The plan typically exposes Crombie to actuarial risks such as: interest rate risk, mortality risk and salary risk.

(i) Interest rate risk - The present value of the defined benefit liability is calculated using discount rates that reflect the average yield, as at the measurement date, on high quality corporate bonds of similar duration to the plans' liabilities. A decrease in the market yield on high quality corporate bonds will increase Crombie's defined benefit liability.

(ii) Mortality risk - The present value of the defined benefit plan is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

(iii) Salary risk - The present value of the defined benefit plan liability is calculated by reference to the anticipated future salary of the plan participants. As such, an increase in the salary of plan participants over that anticipated will increase the plan's liability.

| | Most recent valuation date | Next required valuation date |
|---|---|---|
| Senior Management Pension Plan | December 31, 2019 | December 31, 2020 |
| Post-Employment Benefit Plans | January 1, 2019 | December 31, 2020 |

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations and pension costs are as follows:

| | **December 31, 2019** | | December 31, 2018 | |
|---|---|---|---|---|
| | **Senior Management Pension Plan** | **Post-Employment Benefit Plans** | Senior Management Pension Plan | Post-Employment Benefit Plans |
| Discount rate - accrued benefit obligation | **3.00%** | **3.00%** | 3.60% | 3.70% |
| Rate of compensation increase | **3.00%** | **N/A** | 3.00% | N/A |

For measurement purposes, a 5.00% (2018 - 5.25%) annual rate increase in the per capita cost of covered health care benefits was assumed.

These assumptions were developed by management with the assistance of independent actuaries. Discount factors are determined close to year-end by reference to market yields of high quality corporate bonds that have a maturity approximating the terms of the related pension obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

The projected unit credit method is used to determine the present value of the defined benefit obligation and the related current service cost for all active members.

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

Information about Crombie's defined benefit plans are as follows:

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Senior Management Pension Plan | Post-Employment Benefit Plans | Senior Management Pension Plan | Post-Employment Benefit Plans |
| **Accrued benefit obligation** | | | | |
| Balance, beginning of year | $ 4,918 | $ 4,202 | $ 4,831 | $ 4,299 |
| Current service cost | 211 | 37 | 200 | 38 |
| Past service cost | 235 | — | — | — |
| Interest cost | 178 | 155 | 168 | 146 |
| Actuarial losses (gains) | 304 | (1,523) | (81) | (185) |
| Benefits paid | (200) | (106) | (200) | (96) |
| Balance, end of year | 5,646 | 2,765 | 4,918 | 4,202 |
| **Plan Assets** | | | | |
| Fair value, beginning of year | — | — | — | — |
| Employer contributions | 200 | 106 | 200 | 96 |
| Benefits paid | (200) | (106) | (200) | (96) |
| Fair value, end of year | — | — | — | — |
| Funded status - deficit | 5,646 | 2,765 | 4,918 | 4,202 |
| Current portion | 200 | 89 | 200 | 96 |
| Non-current portion | 5,446 | 2,676 | 4,718 | 4,106 |
| Accrued benefit obligation recorded as a liability | $ 5,646 | $ 2,765 | $ 4,918 | $ 4,202 |
| Net expense | | | | |
| Current service cost | $ 211 | $ 37 | $ 200 | $ 38 |
| Interest cost | 178 | 155 | 168 | 146 |
| Net expense | $ 389 | $ 192 | $ 368 | $ 184 |

The table below outlines the sensitivity of the fiscal 2019 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of Crombie's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce the impact on the accrued benefit obligation or benefit plan expenses. There was no change to the method and assumptions used in preparing the sensitivity analysis from prior years.

| | | Senior Management Pension Plan | | Post-Employment Benefit Plans | |
|---|---|---|---|---|---|
| | | Benefit Obligations | Benefit Cost[1] | Benefit Obligations | Benefit Cost[1] |
| Discount Rate | | 3.00% | 3.00% | 3.00% | 3.00% |
| Impact of: | 1% increase | (659) | — | (330) | 11 |
| | 1% decrease | 805 | (3) | 401 | (15) |
| Growth rate of health costs | | | | 5.00% | 5.00% |
| Impact of: | 1% increase | | | 203 | 6 |
| | 1% decrease | | | (174) | (5) |

[1] Reflects the impact of the current service costs, the interest cost and the expected return on assets.

For the year ended December 31, 2019, the net defined contribution pension plans expense was $975 (year ended December 31, 2018 - $873).

## 10) TRADE AND OTHER PAYABLES

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Current | Non-current | Total | Current | Non-current | Total |
| Tenant incentives and capital expenditures | $ 51,751 | $ — | $ 51,751 | $ 60,549 | $ — | $ 60,549 |
| Property operating costs | 29,932 | — | 29,932 | 30,872 | — | 30,872 |
| Prepaid rents | 9,665 | — | 9,665 | 8,555 | — | 8,555 |
| Finance costs on investment property debt, notes and debentures | 11,913 | — | 11,913 | 9,561 | — | 9,561 |
| Amounts payable to related party | — | — | — | 6,217 | — | 6,217 |
| Distributions payable | 26,429 | — | 26,429 | 11,243 | — | 11,243 |
| Unit-based compensation plans | 4,671 | 9,793 | 14,464 | 1,355 | 7,056 | 8,411 |
| Deferred revenue | 70 | 4,820 | 4,890 | 131 | 4,432 | 4,563 |
| | $ 134,431 | $ 14,613 | $ 149,044 | $ 128,483 | $ 11,488 | $ 139,971 |

### Deferred Revenue

During 2014, Crombie completed a sale-leaseback of the land component of an investment property. The proceeds received in excess of fair value of the land have been deferred and is being recognized as a reduction in property operating expenses over the term of the land lease. In addition, Crombie received a prepayment, from a related party, of their future obligation under a land sub-lease. This prepayment has also been deferred and is being recognized as a reduction in property operating expenses over the term of the land lease.

## 11) PROPERTY REVENUE

| | Year ended | |
|---|---|---|
| | December 31, 2019 | December 31, 2018 |
| **Operating lease revenue** | | |
| Rental revenue contractually due from tenants [1] | $ 344,803 | $ 359,878 |
| Contingent rental revenue | 1,843 | 2,064 |
| Straight-line rent recognition | 10,287 | 11,040 |
| Tenant incentive amortization | (14,139) | (12,875) |
| Lease termination income | 1,670 | 710 |
| **Revenue from contracts with customers** | | |
| Common area cost recoveries | 48,722 | 48,425 |
| Parking revenue | 5,555 | 5,407 |
| | $ 398,741 | $ 414,649 |

[1] Includes reimbursement of Crombie's property tax expense.

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

| | Year ended | | | |
|---|---|---|---|---|
| | December 31, 2019 | | December 31, 2018 | |
| Empire Company Limited[1] | $ 207,948 | 52.2% | $ 214,565 | 51.7% |

[1] Includes Sobeys and other subsidiaries of Empire Company Limited

## 12) 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 December 31, 2019, is as follows:

| | Year Ending December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter | Total |
| Future minimum rental income | $ 263,167 | $ 252,491 | $ 242,814 | $ 230,353 | $ 218,660 | $ 1,553,422 | $ 2,760,907 |

Crombie manages its residual risk in its investment properties through an active capital expenditure program and actively leasing any vacant spaces. The residual risk throughout Crombie's portfolio is not considered significant.

## 13) CORPORATE EXPENSES AND CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

### (a) General and administrative expenses

| | Year ended | |
|---|---|---|
| | December 31, 2019 | December 31, 2018 |
| Salaries and benefits | $ 16,874 | $ 13,111 |
| Professional and public company costs | 3,532 | 3,085 |
| Occupancy and other | 3,315 | 3,030 |
| | $ 23,721 | $ 19,226 |

### (b) Change in fair value of financial instruments

| | Year ended | |
|---|---|---|
| | December 31, 2019 | December 31, 2018 |
| Deferred Unit ("DU") Plan | $ (1,337) | $ 402 |

## 14) FINANCE COSTS - OPERATIONS

| | Year ended | |
|---|---|---|
| | December 31, 2019 | December 31, 2018 |
| Fixed rate mortgages | $ 66,458 | $ 75,454 |
| Floating rate term, revolving and demand facilities | 3,950 | 5,316 |
| Capitalized interest | (4,759) | (4,104) |
| Senior unsecured notes | 30,216 | 25,119 |
| Convertible debentures | — | 3,846 |
| Interest income on finance lease receivable | (401) | — |
| Interest on lease liability | 1,852 | — |
| **Finance costs - operations, expense** | 97,316 | 105,631 |
| Amortization of fair value debt adjustment and accretion income | 534 | 808 |
| Change in accrued finance costs | (2,352) | 1,068 |
| Amortization of effective swap agreements | (1,677) | (2,263) |
| Capitalized interest [1] | 4,759 | 4,104 |
| Amortization of issue premium on senior unsecured notes | 442 | 407 |
| Amortization of deferred financing charges | (3,574) | (5,158) |
| **Finance costs - operations, paid** | $ 95,448 | $ 104,597 |

[1] As at December 31, 2019, interest was capitalized to qualifying development projects based on a weighted average interest rate of 3.88% (December 31, 2018 - 3.72%).

## 15) UNITS OUTSTANDING

| | Crombie REIT Units | | Class B LP Units and attached Special Voting Units | | Total | |
|---|---|---|---|---|---|---|
| | Number of Units | Amount | Number of Units | Amount | Number of Units | Amount |
| **Balance, January 1, 2019** | **89,597,604** | **$ 1,040,804** | **61,980,011** | **$ 715,654** | **151,577,615** | **$ 1,756,458** |
| Net change in EUPP loans receivable | **—** | **422** | **—** | **—** | **—** | **422** |
| Units issued under DRIP | **92,685** | **1,356** | **65,721** | **974** | **158,406** | **2,330** |
| Units issued under unit based compensation plan | **7,334** | **114** | **—** | **—** | **7,334** | **114** |
| **Balance, December 31, 2019** | **89,697,623** | **$ 1,042,696** | **62,045,732** | **$ 716,628** | **151,743,355** | **$ 1,759,324** |

| | Crombie REIT Units | | Class B LP Units and attached Special Voting Units | | Total | |
|---|---|---|---|---|---|---|
| | Number of Units | Amount | Number of Units | Amount | Number of Units | Amount |
| Balance, January 1, 2018 | 89,115,328 | $ 1,034,683 | 61,646,953 | $ 711,456 | 150,762,281 | $ 1,746,139 |
| Net change in EUPP loans receivable | — | 61 | — | — | — | 61 |
| Units issued under DRIP | 439,649 | 5,902 | 333,058 | 4,198 | 802,707 | 10,100 |
| Units issued under unit based compensation plan | 12,627 | 158 | — | — | 12,627 | 158 |
| Balance, December 31, 2018 | 89,567,604 | $ 1,040,804 | 61,980,011 | $ 715,654 | 151,577,615 | $ 1,756,458 |

**Crombie REIT Units**

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

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

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

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

(iii) the normal trading of REIT Units is not suspended or halted on any stock exchange on which the REIT Units are listed (or if not listed on a stock exchange, in any market where the REIT Units are quoted for trading) on the Redemption Date or for more than five trading days during the 10 day trading period commencing immediately after the Redemption Date.

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

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

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

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

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

Crombie previously provided for REIT Unit purchase entitlements under the EUPP for certain senior executives. As at December 31, 2014, the EUPP was replaced with an RU Plan with a specific vesting period and no employee loans.

As at December 31, 2019, there are loans receivable from executives of $1,245 under Crombie's EUPP, representing 115,230 REIT Units, which are classified as a reduction to net assets attributable to Unitholders. The loans are being repaid through the application of the after-tax amounts of all distributions received on the REIT Units, as payments on interest and principal. The loans are required to be repaid by December 31, 2023. Loan repayments will result in a corresponding increase to net assets attributable to Unitholders. Market value of the REIT Units held as collateral at December 31, 2019 was $1,837.

The compensation expense related to the EUPP for the year ended December 31, 2019 was $11 (year ended December 31, 2018 - $21).

**Distribution Reinvestment Plan ("DRIP")**

Crombie has a DRIP whereby Canadian resident REIT Unitholders may elect to automatically have their distributions reinvested in additional REIT units. Units issued under the DRIP will be issued directly from the treasury of Crombie REIT at a price equal to the volume-weighted average trading price of the REIT units on the TSX for the five trading days immediately preceding the relevant distribution payment date, which is typically on or about the 15th day of the month following the declaration. Crombie recognizes the net proceeds in Net assets attributable to Unitholders

**Special Distribution**

Crombie announced a special distribution of $0.56 per unit, to all Unitholders as of December 31, 2019. The distribution arises from the increase in income generated by capital recycling transactions completed during the twelve-month period ended December 31, 2019. Crombie is making the special distribution payable partially in cash ($0.10) and partially in units ($0.46), in order to provide Unitholders with cash to help fund any additional tax that may arise associated with the special distribution. Immediately following the special distribution, the outstanding units of Crombie will be consolidated such that each Unitholder will hold, after the consolidation, the same number of units held before the special distribution. The remaining cash portion of the special distribution is payable on January 15, 2020. Given that Crombie’s Units in accordance with IAS 32 are accounted for as financial liabilities as discussed in Note 2(w)(i), the impact of the unit portion had no impact on our financial results ending December 31, 2019.

## 16) SUPPLEMENTARY CASH FLOW INFORMATION

### a) Items not affecting operating cash

| | Year ended | |
|---|---|---|
| | December 31, 2019 | December 31, 2018 |
| Items not affecting operating cash: | | |
| Straight-line rent recognition | $ (10,287) | $ (11,040) |
| Amortization of tenant incentives | 14,139 | 12,875 |
| Gain on disposal of investment properties | (81,803) | (50,023) |
| Impairment of investment properties | 6,000 | 15,000 |
| Depreciation and amortization | 74,313 | 96,353 |
| Unit-based compensation | 11 | 21 |
| Amortization of effective swap agreements, financing charges and other | 4,809 | 7,014 |
| Income from equity accounted investments | (334) | (254) |
| Non-cash distributions to Unitholders in the form of DRIP Units | 2,330 | 10,100 |
| Non-cash accrued special distribution to Unitholders | 15,174 | — |
| Income tax expense | 8 | 3 |
| Non-cash lease termination income | (908) | — |
| Change in fair value of financial instruments | 1,337 | (402) |
| | $ 24,789 | $ 79,647 |

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

| | Year ended | |
|---|---|---|
| | December 31, 2019 | December 31, 2018 |
| Cash provided by (used in): | | |
| Trade receivables | $ (12,340) | $ 211 |
| Prepaid expenses and deposits and other assets | (3,756) | 725 |
| Payables and other liabilities | 3,996 | 610 |
| | $ (12,100) | $ 1,546 |

## 17) RELATED PARTY TRANSACTIONS

As at December 31, 2019 Empire, through its wholly-owned subsidiary ECLD, holds a 41.5% indirect interest in Crombie. Related party transactions primarily include transactions with entities associated with Crombie through Empire's indirect interest. Related party transactions also include transactions with joint venture entities in which Crombie has a 50% interest, as well as transactions with key management personnel and post-employment benefit plans.

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

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

| | Year ended | |
|---|---|---|
| | December 31, 2019 | December 31, 2018 |
| **Property revenue** | | |
| Property revenue | $ 207,948 | $ 214,565 |
| Head lease income | $ 856 | $ 730 |
| Lease termination income | $ 521 | $ — |
| **Property operating expenses** | $ (60) | $ (58) |
| **General and administrative expenses** | | |
| Property management services recovered | $ 602 | $ 611 |
| Other general and administrative expenses | $ (240) | $ (203) |
| **Finance costs - operations** | | |
| Interest rate subsidy | $ 279 | $ 299 |
| **Finance costs - distributions to Unitholders** | $ (62,303) | $ (55,900) |

Crombie provides property management, leasing services and environmental management to specific properties owned by certain subsidiaries of Empire on a fee for service basis pursuant to a management agreement. Revenue generated from the management agreement is being recognized as a reduction of general and administrative expenses.

During the year ended December 31, 2019, Crombie issued 65,721 (December 31, 2018 - 333,058) Class B LP Units to ECLD under the DRIP (Note 15).

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

On August 2, 2019, Crombie transferred air rights at its Davie Street Property to 1600 Davie Limited Partnership. This transfer, as agreed upon in the 2016 joint venture arrangement, was completed for gross proceeds of approximately $27,379.

On November 28, 2019, Crombie purchased a property from a subsidiary of Empire for a total purchase price of $12,422 before transaction costs.

On December 16, 2019, Crombie purchased the remaining 50% interest in a property from a subsidiary of Empire for a total purchase price of $95,900 before transaction costs.

During the year ended December 31, 2019, Crombie invested $33,446 in the modernizations and conversions of 16 existing properties anchored by subsidiaries of Empire. The amounts are included in tenant incentive additions and are being amortized over the amended lease terms.

During the quarter, Crombie recognized a mortgage payable of $20,401 in settlement of an amount payable to 1600 Davie Limited Partnership. This mortgage, bearing interest at 3.22%, relates to the commercial component of the Davie Street development, 100% of which is included in Crombie's financial statements.

Amounts due from related parties include $15,533 (December 31, 2018 - $14,636) in 6% subordinated notes receivable due from Bronte Village Limited Partnership and The Duke Limited Partnership.

**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, Chief Operating Officer and the two other highest compensated executives.

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

| | Year ended | |
|---|---|---|
| | December 31, 2019 | December 31, 2018 |
| Salary, bonus and other short-term employee benefits | $ 5,899 | $ 4,805 |
| Other long-term benefits | 109 | 92 |
| | $ 6,008 | $ 4,897 |

## 18) FINANCIAL INSTRUMENTS

**a) Fair value of financial instruments**

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

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

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

There were no transfers between levels of the fair value hierarchy during the period ended December 31, 2019.

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

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Fair Value | Carrying Value | Fair Value | Carrying Value |
| **Financial assets** | | | | |
| Long-term receivables[(1)] | $ 23,911 | $ 24,120 | $ 21,885 | $ 21,882 |
| **Financial liabilities** | | | | |
| Investment property debt | $ 1,400,821 | $ 1,363,385 | $ 1,829,772 | $ 1,789,483 |
| Senior unsecured notes | 946,700 | 925,000 | 702,893 | 700,000 |
| Total other financial liabilities | $ 2,347,521 | $ 2,288,385 | $ 2,532,665 | $ 2,489,483 |

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

The fair value of the long-term receivables, investment property debt and senior unsecured notes are Level 2.

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

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

**b) Risk Management**

In the normal course of business, Crombie is exposed to a number of financial risks that can affect its operating performance. There has been no significant change in Crombie's risk management during the year ended December 31, 2019. The more significant risks, and the actions taken to manage them, are as follows:

**Credit risk**

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

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

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

- Crombie's largest tenant, Empire (including Sobeys and all other subsidiaries of Empire), represents 54.2% of annual minimum rent; no other tenant accounts for more than 4.1% of Crombie's minimum rent.
- Total property revenue includes operating and realty tax cost recovery income and percentage rent. These amounts can vary by property type, specific tenant leases and where tenants may directly incur and pay operating and realty tax costs. For the year ended December 31, 2019, Empire (including Sobeys and all other subsidiaries of Empire) represents 52.2% of total property revenue. Excluding these tenants, no other tenant accounts for more than 4.0% of Crombie's total property revenue.
- Over the next five years, leases on no more than 5.0% of the gross leaseable area of Crombie will expire in any one year.

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. The total provision for doubtful accounts is reviewed at each balance sheet date and current and long-term accounts receivable are reviewed on a regular basis.

| | Year ended | |
|---|---|---|
| | December 31, 2019 | December 31, 2018 |
| Provision for doubtful accounts, beginning of year | $ 345 | $ 194 |
| Additional provision | 284 | 399 |
| Recoveries | (62) | (85) |
| Write-offs | (227) | (163) |
| Provision for doubtful accounts, end of year | $ 340 | $ 345 |

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

**Interest rate risk**

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

As at December 31, 2019

- Crombie's weighted average term to maturity of its fixed rate mortgages was 3.9 years.
- Crombie has a floating rate revolving credit facility available to a maximum of $400,000 subject to available borrowing base, with a balance of $15,339 at December 31, 2019;
- Crombie has an unsecured bilateral credit facility available to a maximum of $100,000 with a balance of $30,000 at December 31, 2019; and,

Crombie has interest rate swap agreements in place on $115,149 of floating rate mortgage debt.

Crombie estimates that $451 of accumulated other comprehensive income (loss) will be reclassified to finance costs during the year ending December 31, 2020, based on all settled swap agreements as of December 31, 2019.

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

| | Impact 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 and unsecured bilateral credit facility | Decrease in rate | Increase in rate |
| **Twelve months ended December 31, 2019** | **$ 359** | **$ (359)** |
| Twelve months ended December 31, 2018 | $ 611 | $ (611) |

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

**Liquidity risk**

The real estate industry is highly capital intensive. Liquidity risk is the risk that Crombie may not have access to sufficient debt and equity capital to fund its growth program, refinance 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 and recycling capital from property dispositions.

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. As discussed in Note 19, Crombie mitigates its exposure to liquidity risk utilizing a conservative approach to capital management.

Access to the revolving credit facility is limited by the amount utilized under the facility and 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 December 31, | | | | | |
|---|---|---|---|---|---|---|---|
| | Contractual Cash Flows[1] | 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter |
| Fixed rate mortgages[2] | $ 1,492,525 | $ 304,017 | $ 165,813 | $ 227,366 | $ 292,179 | $ 255,628 | $ 247,522 |
| Senior unsecured notes | 1,092,182 | 37,634 | 281,856 | 177,053 | 21,630 | 21,630 | 552,379 |
| Lease Liabilities | 149,218 | 2,580 | 2,432 | 2,281 | 2,181 | 2,060 | 137,684 |
| | 2,733,925 | 344,231 | 450,101 | 406,700 | 315,990 | 279,318 | 937,585 |
| Credit facilities | 59,152 | 1,989 | 31,281 | 856 | 15,925 | 9,101 | — |
| **Total** | $ 2,793,077 | $ 346,220 | $ 481,382 | $ 407,556 | $ 331,915 | $ 288,419 | $ 937,585 |

[1] Contractual cash flows include principal and interest and ignore extension options.
[2] Reduced by the interest rate subsidy payments to be received from Empire.

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

**19) CAPITAL MANAGEMENT**

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

Crombie's capital structure consists of the following:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Fixed rate mortgages | $ 1,302,510 | $ 1,601,584 |
| Credit facilities | 54,308 | 178,843 |
| Senior unsecured notes | 922,479 | 698,716 |
| Crombie REIT Unitholders | 870,792 | 864,779 |
| SVU and Class B LP Unitholders | 584,251 | 578,061 |
| Lease liabilities | 29,419 | — |
| | $ 3,763,759 | $ 3,921,983 |

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

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

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

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Fixed rate mortgages | $ 1,309,077 | $ 1,610,640 |
| Senior unsecured notes | 925,000 | 700,000 |
| Revolving credit facility | 15,339 | 108,843 |
| Joint operation credit facilities | 8,969 | — |
| Bilateral credit facility | 30,000 | 70,000 |
| Lease liabilities | 29,419 | — |
| Total debt outstanding | 2,317,804 | 2,489,483 |
| Less: Applicable fair value debt adjustment | (539) | (818) |
| Debt | $ 2,317,265 | $ 2,488,665 |
| | | |
| Income properties, cost | 4,061,957 | 4,270,795 |
| Properties under development, cost | 96,213 | 66,179 |
| Below-market lease component, cost [(1)] | 64,754 | 66,319 |
| Investment in joint ventures | 45,123 | 39,485 |
| Other assets, cost | 397,321 | 338,616 |
| Deferred financing charges | 9,715 | 11,408 |
| Interest rate subsidy | (539) | (818) |
| Gross book value | $ 4,674,544 | $ 4,791,984 |
| Debt to gross book value - cost basis | 49.6% | 51.9% |

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

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

- annualized net operating income for the prescribed properties must be a minimum of 1.4 times the coverage of the related annualized debt service requirements;

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

As at December 31, 2019, Crombie is in compliance with all externally imposed capital requirements and all covenants relating to its debt facilities.

## 20) LEASE LIABILITIES

Crombie's future minimum lease payments as a lessee are as follows:

| | | Twelve months ending December 31, | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter |
| Future minimum lease payments | $ 149,218 | $ 2,580 | $ 2,432 | $ 2,281 | $ 2,181 | $ 2,060 | $ 137,684 |
| Finance charges | (119,799) | (1,836) | (1,817) | (1,802) | (1,795) | (1,791) | (110,758) |
| Present value of lease payments | $ 29,419 | $ 744 | $ 615 | $ 479 | $ 386 | $ 269 | $ 26,926 |

Lease liabilities are presented in the consolidated balance sheet as follows:

| | |
|---|---|
| Current | $ 744 |
| Non-Current | 28,675 |
| Total | $ 29,419 |

Some of Crombie's lease agreements contain contingent rent clauses. Contingent rental payments are recognized in the consolidated statements of comprehensive income as required when contingent criteria are met. The lease agreements contain renewal options and purchase options. For the year ended December 31, 2019, minimum lease payments of $2,521 were paid by Crombie.

## 21) COMMITMENTS, CONTINGENCIES, and GUARANTEES

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

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

Crombie obtains letters of credit to support its obligations with respect to construction work on its investment properties and satisfying mortgage financing requirements. As at December 31, 2019, Crombie has a total of $5,645 in outstanding letters of credit related to:

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

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

As at December 31, 2019, Crombie had signed construction contracts totalling $293,603 of which $171,790 has been paid, this includes contracts signed within joint ventures at Crombie's ownership percentage.

Crombie has 100% guarantees on mortgages related to properties in which it has less than a 100% interest. The mortgages payable related to these guarantees are secured by specific charges against the properties. As at December 31, 2019, Crombie has provided guarantees of approximately $145,713 (December 31, 2018 - $38,245) on mortgages in excess of their ownership interest in the properties. Responsibility for

ongoing payments of principal and interest on these mortgages remains with the joint owners of the properties. The mortgages have a weighted average term to maturity of 4.9 years.

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

## 22) SUBSEQUENT EVENTS

(a) On January 15, 2020, the $0.10 per unit cash portion of the special distribution announced on December 12, 2019 was paid to Unitholders of record as of December 31, 2019.

(b) On January 21, 2020, Crombie declared distributions of 7.417 cents per Unit for the period from January 1, 2020 to and including, January 31, 2020. The distributions were paid on February 14, 2020, to Unitholders of record as of January 31, 2020.

(c) On February 1, 2020, mortgages totalling $153,000, bearing interest of 5.63%, were fully paid, primarily with the proceeds from the 3.917% Series G notes issued in December, 2019 as further described in Note 8.

(d) On February 11, 2020, Crombie closed on an offering, on a bought deal basis, of $58,512 of Units at a price of $16.00 per Unit to a syndicate of underwriters co-led by CIBC Capital Markets and BMO Capital Markets. In addition, a subsidiary of Empire purchased, on a private placement basis, $41,500 of Class B LP Units of a subsidiary of Crombie, together with the attached Special Voting Units of Crombie, at a price of $16.00 per Class B Unit. After the closing of the public offering and the private placement, Empire continues to hold a 41.5% economic and voting interest in Crombie.

(e) On February 18, 2020, Crombie declared distributions of 7.417 cents per Unit for the period from February 1, 2020 to and including, February 29, 2020. The distributions will be paid on March 13, 2020, to Unitholders of record as of February 29, 2020.

## 23) 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.

## 24) INDEMNITIES

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

# UNITHOLDERS' INFORMATION

## BOARD OF TRUSTEES

**J. Michael Knowlton**
Independent Trustee and Chairman

**John Eby**
Independent Trustee

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

**Paul V. Beesley**
Independent Trustee

**James M. Dickson**
Independent Trustee

**Barbara Palk**
Independent Trustee

**Jason P. Shannon**
Independent Trustee

**Jana Sobey**
Independent Trustee

**Paul D. Sobey**
Independent Trustee

**Elisabeth Stroback**
Independent Trustee

## OFFICERS

**J. Michael Knowlton**
Chairman

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

**Clinton D. Keay**
Chief Financial Officer and Secretary

**Glenn R. Hynes**
Executive Vice President and Chief Operating Officer

**Cheryl Fraser**
Chief Talent Officer and Vice President Communications

**John Barnoski**
Senior Vice President Corporate Development

**Trevor Lee**
Senior Vice President Construction and Development

**Arie Bitton**
Senior Vice President Leasing and Operations

**Fred Santini**
General Counsel

## CROMBIE REIT

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Fax (902) 755-6477
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## INVESTOR RELATIONS AND INQUIRIES

Unitholders, analysts, and investors
should direct their financial inquiries or request to:

**Clinton D. Keay, CPA, CA**
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, AST Trust Company (Canada).

## UNIT SYMBOL

REIT Trust Units – CRR.UN

## STOCK EXCHANGE LISTING

Toronto Stock Exchange

## TRANSFER AGENT

AST Trust Company (Canada)
Investor Correspondence
P.O. Box 700
Montreal, Quebec, H3B 3K3

Telephone: (800) 387-0825
Email: inquiries@astfinancial.com
Website: www.astfinancial.com/ca

## COUNSEL

Stewart McKelvey
Halifax, Nova Scotia

## AUDITORS

PricewaterhouseCoopers, LLP
Halifax, Nova Scotia

## MULTIPLE MAILINGS

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

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

## WHY CROMBIE?

High-quality, everyday-needs oriented portfolio with steady net operating income and cash flow growth

Materially accretive development pipeline focused on Canada's top urban markets with the expectation to create $1-2 of NAV/unit over the next one to two years

Experienced management team with strong expertise in real estate portfolio management, ownership and development

Strong capital structure with moderate leverage and ample liquidity

Total return on investment superior to S&P/TSX Capped REIT Index and S&P/TSX Composite Index since March 2006 IPO