CROMBIE REAL ESTATE INVESTMENT TRUST
Consolidated Financial Statements
December 31, 2017

February 21, 2018

Independent Auditor's Report

To the Board of Trustees of
Crombie Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Crombie Real Estate Investment Trust ("Crombie") and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 and the consolidated statements of comprehensive income, changes in net assets attributable to unitholders and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Crombie and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Professional Accountants, Licensed Public Accountants

PricewaterhouseCoopers LLP
1601 Lower Water Street, Halifax, Nova Scotia, Canada B3J 3P6
T: +1 902 491 7400, F: +1 902 422 1166, www.pwc.com/ca

Contents

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

	Note	December 31, 2017	December 31, 2016
Assets			
Non-current assets			
Investment properties	3	$ **3,826,961**	$ 3,716,720
Investment in joint ventures	4	**2,602**	815
Other assets	5	**225,908**	197,351
		4,055,471	3,914,886
Current assets			
Other assets	5	**31,383**	48,432
Total Assets		**4,086,854**	3,963,318
Liabilities			
Non-current liabilities			
Investment property debt	6	**1,685,599**	1,765,824
Senior unsecured notes	7	**449,320**	398,588
Convertible debentures	8	**73,164**	132,134
Deferred taxes	9	**—**	75,400
Employee future benefits obligation	10	**8,849**	8,110
Trade and other payables	11	**9,558**	8,493
		2,226,490	2,388,549
Current liabilities			
Investment property debt	6	**118,665**	99,653
Senior unsecured notes	7	**175,000**	—
Employee future benefits obligation	10	**282**	282
Trade and other payables	11	**109,162**	84,688
		403,109	184,623
Total liabilities excluding net assets attributable to Unitholders		**2,629,599**	2,573,172
Net assets attributable to Unitholders		$ **1,457,255**	$ 1,390,146
Net assets attributable to Unitholders represented by:			
Crombie REIT Unitholders		$ **873,478**	$ 834,203
Special Voting Units and Class B Limited Partnership Unitholders		**583,777**	555,943
		$ **1,457,255**	$ 1,390,146
Commitments and contingencies	21		
Subsequent events	22		

Approved on behalf of the Board of Trustees

signed [John Eby] | signed [J. Michael Knowlton]

John Eby | **J. Michael Knowlton**

Lead Trustee | Audit Committee Chair

See accompanying notes to the consolidated financial statements.

(In thousands of CAD dollars)

	Note	Year ended December 31, 2017	Year ended December 31, 2016
Property revenue	12	**$ 411,813**	$ 400,001
Property operating expenses		**121,069**	115,306
Net property income		**290,744**	284,695
Gain on disposal of investment properties	3	**2,474**	37,490
Impairment of investment properties	3	**—**	(6,000)
Depreciation of investment properties	3	**(74,845)**	(66,552)
Amortization of intangible assets	3	**(6,654)**	(6,170)
Amortization of deferred leasing costs	3	**(708)**	(610)
General and administrative expenses	14	**(19,077)**	(16,341)
Finance costs - operations	15	**(105,777)**	(100,156)
Income from equity accounted investments	4	**61**	—
Operating income before taxes		**86,218**	126,356
Taxes - current	9	**2,078**	(26)
Taxes - deferred	9	**75,400**	(1,200)
Operating income attributable to Unitholders		**163,696**	125,130
Finance costs - other			
Distributions to Unitholders		**(133,259)**	(125,737)
Change in fair value of financial instruments	11	**145**	312
		(133,114)	(125,425)
Increase (decrease) in net assets attributable to Unitholders		**30,582**	(295)
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		**2,354**	2,440
Net change in derivatives designated as cash flow hedges		**3,204**	—
Items that will not be subsequently reclassified to Increase (decrease) in net assets attributable to Unitholders:			
Unamortized actuarial gains (losses) in employee future benefit obligation		**(479)**	(110)
Other comprehensive income		**5,079**	2,330
Comprehensive income		**$ 35,661**	$ 2,035

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 Attributable to Unitholders	Accumulated Other Comprehensive Income (Loss)	Total	Attributable to REIT Units	Attributable to Class B LP Units
	(Note 16)					
Balance, January 1, 2017	$ 1,714,724	$ (316,003)	$ (8,575)	$ 1,390,146	$ 834,203	$ 555,943
Adjustments related to EUPP	62	33	—	95	95	—
Statements of comprehensive income	—	30,582	5,079	35,661	20,844	14,817
Units issued under Distribution Reinvestment Plan ("DRIP")	31,353	—	—	31,353	18,336	13,017
Balance, December 31, 2017	$ 1,746,139	$ (285,388)	$ (3,496)	$ 1,457,255	$ 873,478	$ 583,777

	REIT Units, Special Voting Units and Class B LP Units	Net Assets Attributable to Unitholders	Accumulated Other Comprehensive Income (Loss)	Total	Attributable to REIT Units	Attributable to Class B LP Units
	(Note 16)					
Balance, January 1, 2016	$ 1,473,885	$ (315,750)	$ (10,905)	$ 1,147,230	$ 694,484	$ 452,746
Adjustments related to EUPP	67	42	—	109	109	—
Statements of comprehensive income (loss)	—	(295)	2,330	2,035	973	1,062
Units issued under DRIP	21,661	—	—	21,661	12,666	8,995
Unit issue proceeds, net of costs of $5,889	219,111	—	—	219,111	125,971	93,140
Balance, December 31, 2016	$ 1,714,724	$ (316,003)	$ (8,575)	$ 1,390,146	$ 834,203	$ 555,943

See accompanying notes to the consolidated financial statements.

(In thousands of CAD dollars)

	Note	Year ended December 31, 2017	Year ended December 31, 2016
Cash flows provided by (used in)			
Operating Activities			
Increase (decrease) in net assets attributable to Unitholders		**$ 30,582**	$ (295)
Items not affecting operating cash	17	**39,159**	68,901
Change in other non-cash operating items	17	**19,335**	(1,686)
Income taxes recovered		**2,069**	—
Cash provided by (used in) operating activities		**91,145**	66,920
Financing Activities			
Issue of mortgages		**192,783**	193,401
Deferred financing charges - investment property debt		**(3,802)**	(2,967)
Repayment of mortgages		**(104,182)**	(98,566)
Advance (repayment) of floating rate credit facilities		**(167,206)**	90,374
Issue of senior unsecured notes		**226,413**	—
Deferred financing charges - senior unsecured notes		**(999)**	—
Redemption of convertible debentures		**(60,000)**	—
REIT Units and Class B LP Units issued		**—**	225,000
REIT Units and Class B LP Units issue costs		**—**	(5,889)
Repayment of EUPP loans receivable		**62**	67
Collection of (advances on) long-term receivables		**(421)**	(6,036)
Cash provided by (used in) financing activities		**82,648**	395,384
Investing Activities			
Acquisition of investment properties and intangible assets		**(119,357)**	(550,863)
Additions to investment properties		**(46,800)**	(29,928)
Proceeds on disposal of investment properties		**15,645**	192,549
Acquisition of interest in joint ventures		**(1,701)**	—
Additions to fixtures and computer equipment		**(3,140)**	—
Proceeds on disposal of marketable securities		**1,220**	—
Additions to tenant incentives		**(18,381)**	(74,071)
Additions to deferred leasing costs		**(1,279)**	(1,048)
Cash provided by (used in) investing activities		**(173,793)**	(463,361)
Net change in cash and cash equivalents		**—**	(1,057)
Cash and cash equivalents, beginning of year		**—**	1,057
Cash and cash equivalents, end of year		**$ —**	$ —

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 years ended December 31, 2017 and December 31, 2016 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 21, 2018.

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

The 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 recognized in Increase (decrease) in net assets attributable to Unitholders ("FVTPL" classification) or designated as available for sale ("AFS") that have been measured at fair value.

(c) Presentation of financial statements

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

(d) Basis of consolidation

(i) Subsidiaries

Crombie's financial statements consolidate those of Crombie and all of its subsidiary entities as at December 31, 2017. Subsidiaries are all entities over which Crombie has control. All subsidiaries have a reporting date of December 31, 2017.

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

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

(ii) **Joint arrangements**

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

Joint operations

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

Joint ventures

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

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

(e) 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(w).

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

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) Convertible debentures

Convertible debentures issued by Crombie are convertible into a fixed number of REIT Units (a liability) at the option of the holder and are redeemable by the issuer under certain conditions (Note 8).

Upon issuance, convertible debentures are separated into their debt component and embedded derivative features. The debt component of the convertible debentures is recognized initially at the fair value of a similar debt instrument without the embedded derivative features. Subsequent to initial recognition, the debt component is measured at amortized cost using the effective interest method.

The embedded derivative features include a holder conversion option at any time and an issuer redemption option under certain conditions. The multiple embedded derivative features are treated as a single compound embedded derivative liability and initially recognized at fair value. Subsequent to initial recognition, changes in fair value are recognized in the Consolidated Statements of Comprehensive Income (Loss).

Upon issuance, any directly attributable costs are allocated to the debt component and embedded derivative liability in proportion to their initial carrying amounts. For the debt component, the transaction costs are reflected in the determination of the effective interest rate. For the embedded derivative liability, the transaction costs are immediately expensed in the Consolidated Statements of Comprehensive Income (Loss).

Upon conversion, the carrying amount of the debt component and the related fair value of the derivative liability as of the date of conversion are transferred to Net assets attributable to Unitholders in the Consolidated Balance Sheets. Upon redemption, the redemption proceeds are compared to the carrying amount of the debt component and the related fair value of the embedded derivative extinguished as of the date of redemption, and any gain or loss on redemption is recognized in the Consolidated Statements of Comprehensive Income (Loss).

(i) 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 immediately following the introduction of, or changes to, the plan, the past service cost will be recognized immediately.

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

(j) 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. 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 at the balance sheet date with changes in fair value recognized in the Consolidated Statements of Comprehensive Income (Loss).

(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. On the vesting date, each eligible RU 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 (as defined in the RU Plan) on the vesting date. No REIT Units or other securities of Crombie will be issued from treasury. Alternatively, an RU Participant may elect to convert their RUs to DUs under Crombie’s DU 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 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. On the vesting date, each eligible PU Participant shall be entitled to receive a cash amount (net of any applicable withholding taxes) equal to the number of vested PUs held by the PU Participant multiplied by the market value (as defined in the PU Plan) on the vesting date. No REIT Units or other securities of Crombie will be issued from treasury. Alternatively, a PU Participant may elect to convert their PUs to DUs under Crombie’s DU Plan.

(k) Distribution reinvestment plan ("DRIP")

Crombie has a DRIP which is described in Note 16.

(l) Revenue recognition

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

(m) Leasing

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

Operating leases

(i) Crombie as lessor

Crombie has determined that all of its leases with its tenants are operating leases. Revenue is recorded in accordance with Crombie's revenue recognition policy (Note 2(l)).

(ii) Crombie as lessee

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

(n) 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.

(o) Finance costs - operations

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

(p) Finance costs - distributions to Unitholders

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

(q) Income taxes

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

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

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

(r) Hedges

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

(s) Comprehensive income (loss)

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

(t) Provisions

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

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

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

(u) Financial instruments

Crombie classifies financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purpose of ongoing measurement. Classification choices for financial assets include: a) FVTPL - measured at fair value with changes in fair value recognized in increase (decrease) in net assets attributable to Unitholders for the period; b) held to maturity - 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; c) available-for-sale - measured at fair value with changes in fair value recognized in other comprehensive income (loss) for the current period until realized through disposal or impairment; and, d) loans and receivables - recorded at amortized cost with gains and losses recognized in increase (decrease) in net assets attributable to Unitholders in the period that the asset is no longer recognized or impaired. Classification choices for financial liabilities include: a) FVTPL - measured at fair value with changes in fair value recognized in increase (decrease) in net assets attributable to Unitholders for the period; and, b) other - measured at amortized cost with gains and losses recognized in comprehensive income (loss) in the period that the liability is no longer recognized. 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:

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

Other balance sheet accounts, including, but not limited to, prepaid expenses, accrued straight-line rent receivable, tenant incentives, investment properties, deferred taxes 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.

Embedded derivatives are required to be separated and measured at fair values if certain criteria are met. The holder conversion option and issuer redemption options in Crombie's convertible debentures are considered to be embedded derivatives. Crombie's accounting policies relating to convertible debentures are described in Note 2(h).

(v) 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.

(w) 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.

(x) 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.

(y) 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) Leases

Crombie makes judgments in determining whether certain leases, in particular long-term ground leases where Crombie is the lessee and the property meets the definition of investment property, are operating or finance leases. Crombie determined that all long-term ground leases where Crombie is the lessee are operating leases. All tenant leases where Crombie is a lessor have been determined to be operating leases.

(iv) Classifications of Units as liabilities

Crombie's accounting policies relating to the classification of Units as liabilities are described in Note 2(x). 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.

(z) 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. Such fair value estimates are not necessarily indicative of the amounts Crombie might pay or receive in actual market transactions. The significant methods and assumptions used in estimating fair value are set out in Notes 2(j), 3 and 19.

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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 net property income received from leasing the property. A yield obtained from an independent valuation company, which reflects the specific risks inherent in the net property income, is then applied to the net annual property income to arrive at the property valuation.

(vi) 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.

(vii) 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.

(aa) Future changes in accounting standards

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

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

IFRS 9 Financial Instruments: Classification and Measurement(“IFRS 9”) issued, on July 24, 2014 is the International Accounting Standard Board’s (IASB’s) replacement of IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). The Standard includes requirements for classification and measurement of financial instruments, impairment, derecognition and general hedge accounting.

(a) Classification and measurement

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

(b) Impairment

IFRS 9 requires impairment of financial assets based on an expected credit loss model and also has additional disclosure requirements regarding expected credit losses and credit risk. Crombie expects to apply the simplified approach to providing expected credit losses for trade and other short-term receivables, which requires the use of the lifetime expected loss provision.

(c) Derecognition

The principles from IAS 39 for derecognition of financial asset and liabilities are carried forward to IFRS 9. IFRS 9 explicitly states that write-offs constitute a derecognition event.

(d) Hedge accounting

IFRS 9 is intended to simplify the application of hedge accounting by more closely aligning hedging with actual risk management activities. Crombie has determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9.

IFRS 9 is effective for periods beginning on or after January 1, 2018 and Crombie intends to adopt the new standard on the effective date. The standard will be applied on a retrospective basis using the available transition provisions which will result in no restatement of the 2017 comparative period and a cumulative transitional adjustment to the opening net assets attributable to unitholders as at January 1, 2018. Crombie has performed an assessment of IFRS 9 and does not expect any significant impact from the adoption of the standard.

(In thousands of CAD dollars)

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

In May 2014, the IASB issued IFRS 15 which replaces IAS 11 Construction Contracts, IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. To assess the application and impact of this new standard, Crombie completed a review of all revenue streams and the impact of IFRS 15 on Crombie's Consolidated Financial Statements. Based on the analysis completed, Crombie does not anticipate adoption of the new standard will have a material impact on reported financial results. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and Crombie intends to adopt the new standard on the effective date.

(iii) **IFRS 16 - Leases**

In January 2016, the IASB issued IFRS 16 which replaces IAS 17, "Leases" and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. Management is not planning to early adopt this standard and expects to complete the assessment of the impact of IFRS 16 on Crombie's consolidated financial statements in time for reporting for the period ending September 30, 2018.

3) INVESTMENT PROPERTIES

	December 31, 2017	December 31, 2016
Income properties	**$ 3,751,262**	$ 3,683,278
Properties under development	**75,699**	33,442
	$ 3,826,961	$ 3,716,720

Income properties

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

(In thousands of CAD dollars)

	Land	Buildings	Intangibles	Deferred Leasing Costs	Total
Cost					
Opening balance, January 1, 2016	$ 973,378	$ 2,500,700	$ 98,136	$ 6,780	$ 3,578,994
Acquisitions	229,662	312,684	18,285	—	560,631
Additions	626	30,849	—	1,185	32,660
Dispositions	(13,503)	(23,572)	(1,846)	(165)	(39,086)
Transfer to investment properties held for sale	(164)	(468)	(26)	—	(658)
Balance, December 31, 2016	1,189,999	2,820,193	114,549	7,800	4,132,541
Accumulated depreciation and amortization and impairment					
Opening balance, January 1, 2016	—	322,625	52,529	3,578	378,732
Depreciation and amortization	—	66,552	6,170	610	73,332
Dispositions	—	(7,020)	(1,591)	(111)	(8,722)
Impairment	2,357	3,643	—	—	6,000
Transfer to investment properties held for sale	—	(69)	(10)	—	(79)
Balance, December 31, 2016	2,357	385,731	57,098	4,077	449,263
Net carrying value, December 31, 2016	$ 1,187,642	$ 2,434,462	$ 57,451	$ 3,723	$ 3,683,278

During the year ended December 31, 2016, Crombie recorded an impairment of $6,000 on two retail properties. The impairments were the result of the fair value impact of tenant departures during the year; lower occupancy rates; and slower than expected leasing activity. Impairment was measured on a per property basis and was determined as the amount by which carrying value, using the cost method, exceeded the recoverable amount for that property. The recoverable amount was determined to be each property's fair value which is the higher of the economic benefits of the continued use of the asset or the selling price less costs to sell.

Properties under development

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

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

	Land	Buildings	Deferred Leasing Costs	Total
Opening balance, January 1, 2016	$ 2,624	$ —	$ —	$ 2,624
Acquisitions	30,134	—	—	30,134
Additions	684	—	—	684
Balance, December 31, 2016	$ 33,442	$ —	$ —	$ 33,442

On June 29, 2016 Crombie acquired two parcels of development land adjacent to existing Crombie properties, with an initial acquisition price of $9,975 from Empire.

On June 23, 2016 Crombie acquired a vacant building which has since been demolished as part of a redevelopment plan for the property. The initial acquisition price was $14,150. On July 8, 2016, Crombie acquired a 50% interest in a development property with an initial acquisition price of $5,250. Both the June 23 and July 8 acquisitions were transacted with third parties.

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

(In thousands of CAD dollars)

Fair value

Crombie's total fair value of investment properties exceeds carrying value by $900,804 at December 31, 2017 (December 31, 2016 - $844,033). 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, 2017	**$**	**4,944,000**	**$**	**4,043,196**
December 31, 2016	$	4,752,000	$	3,907,967

Carrying value consists of the net carrying value of:

	Note		December 31, 2017		December 31, 2016
Income properties	3	**$**	**3,751,262**	$	3,683,278
Properties under development	3		**75,699**		33,442
Accrued straight-line rent receivable	5		**72,743**		59,225
Tenant incentives	5		**143,492**		132,022
Total carrying value		**$**	**4,043,196**	$	3,907,967

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, 2017 and 2016, respectively, based on each property's current use as a revenue generating investment property. Crombie owns several properties where the highest and best use as a development property would result in higher fair values.

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

(ii) The discounted cash flow method - Under this method, discount rates are applied to the forecasted cash flows reflecting the initial terms of the lease or leases for that specific property and assumptions as to renewal and new leasing activity. The key 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 period of not more than four years.

As at December 31, 2017, all properties have been subjected to external, independent appraisal over the past four years.

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

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

(In thousands of CAD dollars)

		Impact of a 0.25% Change in Capitalization Rate			
	Weighted Average Capitalization Rate		**Increase in Rate**		**Decrease in Rate**
December 31, 2017	**5.80%**	**$**	**(198,000)**	**$**	**217,000**
December 31, 2016	5.88%	$	(191,000)	$	208,000

Income Property Acquisitions and Dispositions

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

2017

Transaction Date	Vendor/ Purchaser	Properties Acquired (Disposed)	Approximate Square Footage		Initial Acquisition (Disposition) Price		Assumed Mortgages
March 16, 2017	Empire	1	50,000	$	8,320	$	—
July 5, 2017	Third party	1	64,000		14,100		—
July 6, 2017	Third party	1	61,000		42,000		—
August 14, 2017	Third party	1	52,000		13,207		8,741
August 25, 2017	Third party	1	44,000		14,950		9,656
September 5, 2017	Third party	2	79,000		16,000		—
September 29, 2017 [1]	Empire	—	31,000		7,671		—
December 12, 2017	Third party	(1)	(67,000)		(15,600)		—
			314,000	**$**	**100,648**	**$**	**18,397**

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

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

(In thousands of CAD dollars)

2016

Transaction Date	**Vendor/ Purchaser**	Properties Acquired (Disposed)	Approximate Square Footage		Initial Acquisition (Disposition) Price		Assumed Mortgages
February 5, 2016	Third party	1	21,000	$	5,500	$	—
March 10, 2016	Third party	(10)	(791,000)		(143,400)		—
April 8, 2016	Third party	1	58,000		15,700		—
April 15, 2016	Third party	(1)	(8,000)		(793)		—
April 28, 2016	Third party	(1)	(47,000)		(7,500)		—
May 3, 2016	Third party	2	117,000		46,200		8,041
May 16, 2016	Third party	9	94,000		32,272		—
June 1, 2016	Third party	1	37,000		7,000		3,751
June 9, 2016	Third party	1	84,000		29,000		12,017
June 29, 2016	Empire	22	2,090,000		348,386		—
July 15, 2016	Empire	(1)	(21,000)		(9,057)		—
July 29, 2016	Empire	1	62,000		26,400		—
August 15, 2016	Third party	(1)	(48,000)		(2,300)		—
November 14, 2016	Third party	1	29,000		29,000		16,093
November 30, 2016	Third party	1	6,000		5,000		—
December 8, 2016	Third party	(1)	(80,000)		(10,750)		—
December 13, 2016	Third party	(4)	(215,000)		(21,750)		—
			1,388,000	$	348,908	$	39,902

The disposition on July 15 and the acquisitions on June 29, 2016 and July 29, 2016 were transacted with Empire, a related party. The June 29, 2016 acquisition included 19 retail properties and a 50% interest in three distribution centres.

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

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

	Year ended			
Income property acquired, net:		**December 31, 2017**		December 31, 2016
Land	**$**	**20,981**	$	229,662
Buildings		**93,298**		312,684
Intangibles		**6,832**		18,285
Fair value debt adjustment on assumed mortgages		**(436)**		(1,072)
Net purchase price		**120,675**		559,559
Assumed mortgages		**(18,397)**		(39,902)
	$	**102,278**	$	519,657

(In thousands of CAD dollars)

	Year ended	
Investment property disposed:	**December 31, 2017**	December 31, 2016
Gross proceeds	**$ 16,077**	$ 195,621
Selling costs	**(432)**	(3,072)
	15,645	192,549
Carrying values derecognized		
Land	**(4,522)**	(45,288)
Buildings	**(8,569)**	(101,842)
Intangibles	**(35)**	(747)
Deferred leasing costs	**—**	(173)
Tenant Incentives	**(1)**	(3,434)
Accrued straight-line rent	**(24)**	(3,701)
Provisions	**(20)**	126
Gain on disposal	**$ 2,474**	$ 37,490

4) INVESTMENT IN JOINT VENTURES

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

	December 31, 2017	December 31, 2016
1600 Davie Limited Partnership	**50.0%**	50.0%
140 Centennial Parkway North	**50.0%**	—

1600 Davie Limited Partnership was created on January 19, 2016 and is engaged in the development of a mixed use (retail and residential) property located at Davie Street, Vancouver, BC. For the year ended December 31, 2017, the partnership incurred development management fees and administrative costs totalling $291 (December 31, 2016, $9) payable to a company associated with Crombie's partner.

140 Centennial Parkway North was created as a joint venture on April 7, 2017 and acquired a retail property in Hamilton, Ontario on April 21, 2017. Crombie's share of the operating results are reported as Income from equity accounted investments on the Statement of Comprehensive Income. For the period ended December 31, 2017, the joint venture incurred management fees of $14 payable to a company associated with Crombie's partner.

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

	December 31, 2017	December 31, 2016
Non-current assets	**$ 18,743**	$ 1,849
Current assets	**16,782**	573
Non-current liabilities	**26,982**	—
Current liabilities	**3,339**	793
Net assets	**$ 5,204**	$ 1,629
Crombie's investment in joint ventures	**$ 2,602**	$ 815

	Year ended	
	December 31, 2017	December 31, 2016
Revenue	**$ 394**	$ —
Property operating expenses	**(135)**	—
General and administrative expenses	**(54)**	—
Finance costs - operations	**(83)**	—
Net income	**$ 122**	$ —
Crombie's income from equity accounted investments	**$ 61**	$ —

(In thousands of CAD dollars)

5) OTHER ASSETS

	December 31, 2017			December 31, 2016		
	Current	**Non-current**	**Total**	Current	Non-current	Total
Trade receivables	**$ 8,741**	**$ —**	**$ 8,741**	$ 11,625	$ —	$ 11,625
Provision for doubtful accounts	**(194)**	**—**	**(194)**	(127)	—	(127)
Net trade receivables	**8,547**	**—**	**8,547**	11,498	—	11,498
Marketable securities	**1,285**	**—**	**1,285**	2,290	—	2,290
Prepaid expenses and deposits	**18,177**	**—**	**18,177**	12,104	—	12,104
Fixtures and computer equipment	**—**	**3,140**	**3,140**	—		—
Restricted cash	**75**	**—**	**75**	8,675	—	8,675
Accrued straight-line rent receivable	**—**	**72,743**	**72,743**	—	59,225	59,225
Tenant incentives	**—**	**143,492**	**143,492**	—	132,022	132,022
Capital expenditure program	**—**	**105**	**105**	—	105	105
Interest rate subsidy	**95**	**297**	**392**	103	392	495
Fair value of interest rate swap agreements	**3,204**	**—**	**3,204**	—	—	—
Amount receivable from related party	**—**	**—**	**—**	13,762	—	13,762
Amount receivable from third parties	**—**	**6,131**	**6,131**	—	5,607	5,607
	$ 31,383	**$ 225,908**	**$ 257,291**	$ 48,432	$ 197,351	$ 245,783

Tenant Incentives	**Cost**	**Accumulated Amortization**	**Net Carrying Value**
Balance, January 1, 2017	**$ 187,162**	**$ 55,140**	**$ 132,022**
Additions	**24,239**	**—**	**24,239**
Amortization	**—**	**12,768**	**(12,768)**
Disposition	**(7)**	**(6)**	**(1)**
Balance, December 31, 2017	**$ 211,394**	**$ 67,902**	**$ 143,492**
Balance, January 1, 2016	$ 107,122	$ 45,455	$ 61,667
Additions	83,092	—	83,092
Amortization	—	11,622	(11,622)
Disposition	(3,049)	(1,936)	(1,113)
Transfer to investment properties held for sale	(3)	(1)	(2)
Balance, December 31, 2016	$ 187,162	$ 55,140	$ 132,022

See Note 19(a) for fair value information.

(In thousands of CAD dollars)

6) INVESTMENT PROPERTY DEBT

	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31, 2017
Fixed rate mortgages	**2.35 - 6.90%**	**4.33%**	**5.4 years**	**$ 1,762,815**
Floating rate revolving credit facility			**3.5 years**	**8,168**
Unsecured bilateral credit facility			**1.4 years**	**45,000**
Deferred financing charges				**(11,719)**
				$ 1,804,264

	Range	Weighted Average Interest Rate	Weighted Average Term to Maturity	December 31, 2016
Fixed rate mortgages	2.35 - 6.90%	4.46%	5.9 years	$ 1,655,817
Floating rate revolving credit facility			2.5 years	120,374
Unsecured bilateral credit facility			1.4 years	100,000
Deferred financing charges				(10,714)
				$ 1,865,477

As at December 31, 2017, debt retirements for the next five years are:

12 Months Ending	Fixed Rate Principal Payments	Fixed Rate Maturities	Floating Rate Maturities	Total
December 31, 2018	$ 53,999	$ 64,666	$ —	$ 118,665
December 31, 2019	54,579	126,978	45,000	226,557
December 31, 2020	47,994	225,241	—	273,235
December 31, 2021	46,382	89,182	8,168	143,732
December 31, 2022	39,883	200,884	—	240,767
Thereafter	107,044	703,152	—	810,196
	$ 349,881	$ 1,410,103	$ 53,168	1,813,152
Deferred financing charges				(11,719)
Unamortized fair value debt adjustment				2,831
				$ 1,804,264

Specific investment properties with a carrying value of $3,145,224 as at December 31, 2017 (December 31, 2016 - $2,974,237) are currently pledged as security for mortgages or provided as security for the floating rate revolving credit facility. Carrying value includes investment properties, investment properties held for sale, as well as accrued straight-line rent receivable and tenant incentives which are included in other assets.

Mortgage Activity

			Weighted Average			
For the year ended:	**Type**	**Number of Mortgages**	**Rates**	**Terms in Years**	**Amortization Period in Years**	**Proceeds (Repayments)**
December 31, 2017	New	6	3.43%	8.1	25.0	$ 192,783
	Assumed	3	3.81%	6.8	25.0	18,397
	Repaid	8	5.14%	—	—	(50,379)
						$ 160,801

(In thousands of CAD dollars)

			Weighted Average				
For the year ended:	Type	Number of Mortgages	Rates	Terms in Years	Amortization Period in Years		Proceeds (Repayments)
December 31, 2016	New	11	3.48%	6.7	24.9	$	193,402
	Assumed	4	4.02%	3.5	21.3		39,902
	Repaid	10	4.81%	—	—		(49,774)
						$	183,530

Floating Rate Revolving Credit Facility

The floating rate revolving credit facility has a maximum principal amount of $400,000 (December 31, 2016 - $400,000) and matures June 30, 2021. 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, 2017 – borrowing base of $396,227). Borrowings under the revolving credit facility can be by way of Bankers Acceptance or Prime Rate Advance and the Floating interest rate is contingent on the type of advance plus the applicable spread or margin. The respective spread or margin may change depending on Crombie's unsecured bond rating with DBRS and whether the facility remains secured or migrates to an unsecured status.

Unsecured Bilateral Credit Facility

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

See Note 19(a) for fair value information.

7) SENIOR UNSECURED NOTES

	Maturity Date	Interest Rate		**December 31, 2017**		December 31, 2016
Series A	October 31, 2018	3.986%	**$**	**175,000**	$	175,000
Series B	June 1, 2021	3.962%		**175,000**		100,000
Series C	February 10, 2020	2.775%		**125,000**		125,000
Series D	November 21, 2022	4.066%		**150,000**		—
Unamortized Series B issue premium				**1,323**		240
Deferred financing charges				**(2,003)**		(1,652)
			$	**624,320**	$	398,588

On March 3, 2017, Crombie issued an additional $75,000 aggregate principal amount of 3.962% Series B Notes (senior unsecured) (the "Additional Notes") maturing June 1, 2021. The Additional Notes were priced with an effective yield to maturity of 3.48% and sold at a price of $1,018.84 per $1,000 principal amount plus accrued interest.

On November 20, 2017, Crombie issued $150,000 aggregate principal amount of 4.066% Series D Notes (senior unsecured) (the "Notes") at par, with a maturity date of November 21, 2022. The Notes pay interest semi-annually on May 21 and November 21 each year.

(In thousands of CAD dollars)

12 Months Ending	Series A	Series B	Series C	Series D	Total
December 31, 2018	$ 175,000	$ —	$ —	$ —	$ 175,000
December 31, 2019	—	—	—	—	—
December 31, 2020	—	—	125,000	—	125,000
December 31, 2021	—	175,000	—	—	175,000
December 31, 2022	—	—	—	150,000	150,000
	$ 175,000	$ 175,000	$ 125,000	$ 150,000	625,000
Unamortized Series B issue premium					1,323
Deferred financing charges					(2,003)
					$ 624,320

See Note 19(a) for fair value information.

8) CONVERTIBLE DEBENTURES

	Conversion Price	Maturity Date	Interest Rate	December 31, 2017	December 31, 2016
Series D	$ 20.10	July 4, 2017	5.00%	**$ —**	$ 60,000
Series E (CRR.DB.E)	$ 17.15	March 31, 2021	5.25%	**74,400**	74,400
Deferred financing charges				**(1,236)**	(2,266)
				$ 73,164	$ 132,134

On July 4, 2017, Crombie redeemed the 5.00% Series D Convertible Unsecured Subordinated Debentures originally scheduled to mature on September 30, 2019 (the “Series D Debentures”) in accordance with the terms of the supplemental trust indenture. Upon redemption, Crombie paid the holders of Series D Debentures $1,013.01 per $1,000 principal amount of Debentures, representing the principal amount plus accrued and unpaid interest.

The Series E Debentures (issued August 14, 2013) pay interest semi-annually on March 31 and September 30 each year. Crombie has the option to pay interest on any interest payment date by issuing REIT units and applying the proceeds to satisfy its interest obligation. The Series E Convertible Debentures (the "Debentures") are convertible into REIT Units at the option of the debenture holder at any time up to the maturity date, at the conversion price indicated in the table above, being a conversion rate per one thousand dollars of principal amount of approximately 58.3090 REIT Units for Series E Convertible Debentures. If all conversion rights attaching to the Series E Convertible Debentures were exercised, as at December 31, 2017, Crombie would be required to issue approximately 4,338,192 REIT Units, subject to anti-dilution adjustments.

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

See Note 19(a) for fair value information.

9) INCOME TAXES

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

(In thousands of CAD dollars)

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

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

	December 31, 2017	December 31, 2016
Tax liabilities relating to difference in tax and book value	**$ —**	$ 82,486
Tax asset relating to non-capital loss carry-forward	**—**	(7,086)
Deferred tax liability	**$ —**	$ 75,400

The tax recovery (expense) consists of the following:

	Year ended	
	December 31, 2017	December 31, 2016
Taxes - current		
Taxes - operating income earned in corporate subsidiaries	**$ 9**	$ (26)
Recovery of taxes previously paid on dispositions of investment properties	**2,069**	—
Total current taxes	**$ 2,078**	$ (26)
Taxes - deferred		
Provision for income taxes at the expected rate	**$ (6,067)**	$ (38,339)
Tax effect of income attribution to Crombie's Unitholders	**5,067**	37,139
Impact of tax reorganization	**76,400**	—
Total deferred taxes	**$ 75,400**	$ (1,200)

On June 30, 2017, Crombie completed a tax reorganization, as approved by unitholders, resulting in, amongst other structural changes, the winding up of its most significant, wholly-owned corporate subsidiary. Through the tax reorganization, all property within the corporate entity was transferred to a limited partnership resulting in the elimination of Crombie's obligation for deferred income taxes related to this corporate subsidiary. The deferred tax liability of $76,400 at the time of the tax reorganization has been reduced to $NIL and the decrease has been recognized as an income tax recovery on Crombie's Consolidated Statement of Comprehensive Income. Professional fees of $1,059 associated with the tax reorganization have been recorded as general and administrative expenses for the year ended December 31, 2017.

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

10) 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 earnings multiplied by years of credited service (to a maximum of 30 years) over the estimated retirement income provided under the defined contribution pension plan and deferred profit sharing plan. The final average earnings are12 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.

(In thousands of CAD dollars)

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, 2017 was $541 (year ended December 31, 2016 - $546).

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, 2017	December 31, 2018
Post-Employment Benefit Plans	January 1, 2016	December 31, 2018

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

	December 31, 2017		December 31, 2016	
	Senior Management Pension Plan	**Post-Employment Benefit Plans**	Senior Management Pension Plan	Post-Employment Benefit Plans
Discount rate - accrued benefit obligation	**3.40%**	**3.40%**	3.75%	3.75%
Rate of compensation increase	**3.00%**	**N/A**	3.50%	N/A

For measurement purposes, a 5.50% (2016 - 5.75%) annual rate increase in the per capita cost of covered health care benefits was assumed. The cumulative rate is expected to decrease 0.25% annually to 5.00% in 2020.

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.

(In thousands of CAD dollars)

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

		December 31, 2017			December 31, 2016	
		Senior Management Pension Plan	**Post-Employment Benefit Plans**		Senior Management Pension Plan	Post-Employment Benefit Plans
Accrued benefit obligation						
Balance, beginning of year	$	**4,533**	$ **3,859**	$	4,258	$ 3,724
Current service cost		**191**	**33**		179	44
Interest cost		**173**	**144**		173	150
Actuarial losses (gains)		**134**	**345**		123	(13)
Benefits paid		**(200)**	**(82)**		(200)	(46)
Balance, end of year		**4,831**	**4,299**		4,533	3,859
Plan Assets						
Fair value, beginning of year		**—**	**—**		—	—
Employer contributions		**200**	**82**		200	46
Benefits paid		**(200)**	**(82)**		(200)	(46)
Fair value, end of year		**—**	**—**		—	—
Funded status - deficit		**4,831**	**4,299**		4,533	3,859
Current portion		**200**	**82**		200	82
Non-current portion		**4,631**	**4,218**		4,333	3,777
Accrued benefit obligation recorded as a liability	$	**4,831**	$ **4,300**	$	4,533	$ 3,859
Net expense						
Current service cost	$	**191**	$ **33**	$	179	$ 44
Interest cost		**173**	**144**		173	150
Net expense	$	**364**	$ **177**	$	352	$ 194

The table below outlines the sensitivity of the fiscal 2017 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		3.40%	3.40%	3.40%	3.40%
Impact of:	1% increase	$ (564)	$ (9)	$ (588)	$ 10
	1% decrease	$ 689	$ 9	$ 728	$ (17)
Growth rate of health costs[2]				5.50%	5.50%
Impact of:	1% increase			$ 632	$ 29
	1% decrease			$ (520)	$ (24)

(1) Reflects the impact on the current service costs, the interest cost and the expected return on assets.
(2) Gradually decreasing to 5.0% in 2020 and remaining at that level thereafter.

For the year ended December 31, 2017, the net defined contribution pension plans expense was $800 (year ended December 31, 2016 - $756).

(In thousands of CAD dollars)

11) TRADE AND OTHER PAYABLES

	December 31, 2017			December 31, 2016		
	Current	**Non-current**	**Total**	Current	Non-current	Total
Tenant incentives and capital expenditures	**$ 40,317**	**$ —**	**$ 40,317**	$ 28,894	$ —	$ 28,894
Property operating costs	**38,300**	**—**	**38,300**	29,457	—	29,457
Prepaid rents	**7,205**	**—**	**7,205**	4,827	—	4,827
Finance costs on investment property debt, notes and debentures	**10,629**	**—**	**10,629**	10,385	—	10,385
Distributions payable	**11,182**	**—**	**11,182**	11,007	—	11,007
Unit based compensation plans	**1,351**	**4,978**	**6,329**	—	3,846	3,846
Deferred revenue	**178**	**4,580**	**4,758**	118	4,647	4,765
	$ 109,162	**$ 9,558**	**$ 118,720**	$ 84,688	$ 8,493	$ 93,181

Unit based compensation plans

(i) **Deferred Unit Plan**

Crombie has a DU Plan available to eligible Participants, which is designed to promote a greater alignment of interests between the Trustees, officers and employees of Crombie and its Unitholders. Participation in the DU Plan is voluntary unless Crombie's Board of Trustees (the "Board") or Human Resources Committee ("HRC") decides that special compensation is to be provided in the form of DUs. Unless otherwise determined by the Board or HRC, DUs granted under the DU Plan are fully vested at the time they are awarded. 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. 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 one Crombie REIT Unit issued for each DU redeemed after deducting applicable withholding taxes.

(ii) **Restricted Unit Plan**

Crombie has an RU Plan available to eligible RU Participants, which is designed to: promote a greater alignment of interests between the specific employees of Crombie and its Unitholders; and assist Crombie in attracting, retaining and rewarding specific employees. RU Participants will receive their long-term incentive plan awards in RUs. The RUs vest over a period of not more than three years, ending on the final day of the third quarter of the third calendar year of the RUs term. 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) **Preferred Unit Plan**

Crombie introduced a PU Plan in 2017. The PU Plan, in conjunction with the RU Plan, is designed to: promote a greater alignment of interests between the executives and employees of Crombie and/or its subsidiaries and the holders of REIT Units; and assist Crombie in attracting, retaining and rewarding key executives. Eligible employees may elect each calendar year to participate in the PU Plan and receive all, or if permitted by the HRC a portion at the participation level of their choice, of their eligible remuneration in the form of an allocation of PUs. The PUs vest over a period of not more than three years, ending on the final day of the third quarter of the third calendar year of the PUs term. 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 entitles any participant to exercise voting rights or any other rights or entitlements associated with a REIT Unit.

(In thousands of CAD dollars)

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 will be 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 will be recognized as a reduction in property operating expenses over the term of the land lease.

Change in fair value of financial instruments:

	Year ended	
	December 31, 2017	December 31, 2016
Deferred Unit ("DU") Plan	**$ (54)**	$ (13)
Marketable securities	**199**	325
Total change in fair value of financial instruments	**$ 145**	$ 312

12) PROPERTY REVENUE

	Year ended	
	December 31, 2017	December 31, 2016
Rental revenue contractually due from tenants	**$ 408,031**	$ 382,428
Contingent rental revenue	**1,750**	1,735
Straight-line rent recognition	**13,542**	12,876
Tenant incentive amortization	**(12,768)**	(11,622)
Lease terminations	**1,258**	14,584
	$ 411,813	$ 400,001

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

	Year ended			
	December 31, 2017		December 31, 2016	
	Revenue	**Percentage**	Revenue	Percentage
Sobeys Inc.	**$ 202,593**	**49.2%**	$ 179,166	44.8%

13) 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, 2017, is as follows:

	Year Ending December 31,						
	2017	**2018**	**2019**	**2020**	**2021**	**Thereafter**	**Total**
Future minimum rental income	$ 286,690	$ 275,115	$ 263,908	$ 250,830	$ 238,045	$ 2,057,197	$ 3,371,785

(In thousands of CAD dollars)

Crombie as a Lessee

Operating lease payments primarily represent rentals payable by Crombie for all of its land leases. These land leases have varying terms ranging from seven to 72 years including renewal options:

	Year Ending December 31,						
	2018	**2019**	**2020**	**2021**	**2022**	**Thereafter**	**Total**
Future minimum lease payments	$ 1,932	$ 1,946	$ 2,008	$ 2,027	$ 2,065	$ 141,081	$ 151,059

14) CORPORATE EXPENSES

(a) General and administrative expenses

	Year ended	
	December 31, 2017	December 31, 2016
Salaries and benefits	**$ 11,175**	$ 10,120
Professional and public company costs	**4,472**	3,145
Occupancy and other	**3,430**	3,076
	$ 19,077	$ 16,341

(b) Employee benefit expense

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

	Year ended	
	December 31, 2017	December 31, 2016
Wages and salaries	**$ 25,369**	$ 24,003
Post-employment benefits	**800**	756
	$ 26,169	$ 24,759

15) FINANCE COSTS – OPERATIONS

	Year ended	
	December 31, 2017	December 31, 2016
Fixed rate mortgages	**$ 79,484**	$ 72,289
Floating rate term, revolving and demand facilities	**1,957**	4,816
Senior unsecured notes	**17,876**	14,915
Convertible debentures	**6,460**	7,523
Subscription receipts payment	**—**	613
Finance costs - operations	**105,777**	100,156
Amortization of fair value debt adjustment and accretion income	**1,366**	1,349
Change in accrued finance costs	**(244)**	(222)
Amortization of effective swap agreements	**(2,354)**	(2,440)
Capitalized interest [1]	**2,388**	501
Amortization of issue premium on senior unsecured notes	**330**	54
Amortization of deferred financing charges	**(4,474)**	(3,310)
Finance costs - operations, paid	**$ 102,789**	$ 96,088

[1] For the three months ended December 31, 2017, interest was capitalized to qualifying development projects based on a weighted average interest rate of 3.45% (December 31 2016 - 3.09%).

(In thousands of CAD dollars)

16) 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, 2017	**87,737,709**	**$ 1,016,285**	**60,669,944**	**$ 698,439**	**148,407,653**	**$ 1,714,724**
Net change in EUPP loans receivable	**—**	**62**	**—**	**—**	**—**	**62**
Units issued under DRIP	**1,377,619**	**18,336**	**977,009**	**13,017**	**2,354,628**	**31,353**
Balance, December 31, 2017	**89,115,328**	**$ 1,034,683**	**61,646,953**	**$ 711,456**	**150,762,281**	**$ 1,746,139**

	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, 2016	77,857,608	$ 877,581	53,658,302	$ 596,304	131,515,910	$ 1,473,885
Net change in EUPP loans receivable	—	67	—	—	—	67
Units issued under DRIP	927,701	12,666	657,901	8,995	1,585,602	21,661
Units issued (proceeds are net of issue costs)	8,952,400	125,971	6,353,741	93,140	15,306,141	219,111
Balance, December 31, 2016	87,737,709	$ 1,016,285	60,669,944	$ 698,439	148,407,653	$ 1,714,724

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.

On May 31, 2016, Crombie closed a public offering, on a bought deal basis, of 8,952,400 Subscription Receipts, at a price of $14.70 per Subscription Receipt, for gross proceeds of $131,600. On June 29, 2016, in conjunction with the closing of property acquisitions from Empire, each of the 8,952,400 outstanding Subscription Receipts were automatically exchanged for one Crombie REIT Unit.

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.

(In thousands of CAD dollars)

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

On June 29, 2016, concurrently with the REIT Units issued on exchange for Subscription Receipts, subsidiaries of Empire received 6,353,741 Class B LP Units and the attached SVUs at a price of $14.70 per Class B LP Unit for gross proceeds of $93,400 which formed part of the consideration for property acquisitions completed on that same date.

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, 2017, there are loans receivable from executives of $1,728 under Crombie's EUPP, representing 131,417 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, 2017 was $1,814.

The compensation expense related to the EUPP for the year ended December 31, 2017 was $33 (year ended December 31, 2016 - $42).

Distribution Reinvestment Plan

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 97% 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, 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.

17) SUPPLEMENTARY CASH FLOW INFORMATION

a) Items not affecting operating cash

	Year ended	
	December 31, 2017	December 31, 2016
Items not affecting operating cash:		
Straight-line rent recognition	**$ (13,542)**	$ (12,876)
Amortization of tenant incentives	**12,768**	11,622
Gain on disposal of investment properties	**(2,474)**	(37,490)
Impairment of investment properties	**—**	6,000
Depreciation of investment properties	**74,845**	66,552
Amortization of intangible assets	**6,654**	6,170
Amortization of deferred leasing costs	**708**	610
Unit based compensation	**33**	42
Amortization of effective swap agreements	**2,354**	2,440
Amortization of deferred financing charges	**4,474**	3,310
Amortization of issue premium on senior unsecured notes	**(330)**	(54)
Income from equity accounted investments	**(61)**	—
Non-cash distributions to Unitholders in the form of DRIP Units	**31,353**	21,661
Taxes - deferred	**(75,400)**	1,200
Income tax expense	**(2,078)**	26
Change in fair value of financial instruments	**(145)**	(312)
	$ 39,159	$ 68,901

(In thousands of CAD dollars)

b) Change in other non-cash operating items

	Year ended	
	December 31, 2017	December 31, 2016
Cash provided by (used in):		
Trade receivables	**$ 1,669**	$ (934)
Prepaid expenses and deposits and other assets	**2,608**	(10,156)
Payables and other liabilities	**15,058**	9,404
	$ 19,335	$ (1,686)

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

	Mortgages		Floating rate credit facilities		Senior unsecured notes			Convertible debentures	
	Face value	Deferred financing costs	Face value	Deferred financing costs	Face value	Premium on debt issue	Deferred financing costs	Face value	Deferred financing costs
Balance, beginning of year	$ 1,655,817	$ 9,859	$ 220,374	$ 855	$ 400,000	$ 240	$ 1,652	$ 134,400	$ 2,266
Issue of mortgages	192,783	—	—	—	—	—	—	—	—
Repayment of mortgages	(104,182)	—	—	—	—	—	—	—	—
Repayment of floating credit facilities	—	—	(167,206)	—	—	—	—	—	—
Issue of senior unsecured notes	—	—	—	—	225,000	1,413	—	—	—
Redemption of convertible debentures	—	—	—	—	—	—	—	(60,000)	—
Additions to deferred financing costs	—	2,674	—	1,128	—	—	999	—	—
Total financing cash flow activities	1,744,418	12,533	53,168	1,983	625,000	1,653	2,651	74,400	2,266
Assumed mortgages	18,397	—	—	—	—	—	—	—	—
Amortization of issue premium	—	—	—	—	—	(330)	—	—	—
Amortization of deferred financing charges	—	(2,245)	—	(552)	—	—	(648)	—	(1,030)
Total financing non-cash activities	18,397	(2,245)	—	(552)	—	(330)	(648)	—	(1,030)
Balance, end of year	$ 1,762,815	$ 10,288	$ 53,168	$ 1,431	$ 625,000	$ 1,323	$ 2,003	$ 74,400	$ 1,236

(In thousands of CAD dollars)

18) RELATED PARTY TRANSACTIONS

As at December 31, 2017, Empire, through its wholly-owned subsidiary ECLD, holds a 41.5% (fully diluted 40.3%) indirect interest in Crombie. Related party transactions primarily include transactions with entities associated with Crombie through Empire's indirect interest. Related party transactions also include transactions with key management personnel and post-employment benefit plans.

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

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

		Year ended	
		December 31, 2017	December 31, 2016
Property revenue			
Property revenue	**(a)**	**$ 208,083**	$ 183,411
Head lease income	**(b)**	**$ 922**	$ 453
Lease termination income		**$ 100**	$ 64
Property operating expenses	**(c)**	**$ (47)**	$ (64)
General and administrative expenses			
Property management services recovered	**(d)**	**$ 645**	$ 949
Other general and administrative expenses		**$ (295)**	$ (281)
Finance costs - operations			
Interest on convertible debentures	**(e)**	**$ (608)**	$ (1,203)
Interest rate subsidy	**(b)**	**$ 335**	$ 269
Interest income		**$ —**	$ 651
Finance costs - distributions to Unitholders		**$ (55,293)**	$ (52,171)

(a) Crombie earned total property revenue from Sobeys Inc. and 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.

(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 effective January 1, 2016. Revenue generated from the Management Agreement is being recognized as a reduction of General and administrative expenses. This Agreement replaces the previous cost sharing arrangement covered by a Management Cost Sharing Agreement.

(e) Empire held $24,000 of Series D Convertible Debentures with an annual interest rate of 5.00% until their redemption on July 4, 2017.

In addition to the above:

- On September 29, 2017, Crombie acquired approximately 31,000 square feet of additional gross leaseable area from a subsidiary of Empire for $7,671 before closing and transaction costs.

- On May 4, 2017, Crombie acquired a development property in British Columbia for $31,136 before closing and transaction costs and settled the long-term receivable previously advanced to a subsidiary of Empire as part of the transaction.

(In thousands of CAD dollars)

- On March 16, 2017, Crombie acquired a retail property in Alberta and assumed the related land lease from Empire including approximately 50,000 square feet of gross leaseable area for $8,320 before closing and transaction costs.

- During the year ended December 31, 2017, Crombie issued 977,009 (December 31, 2016 - 657,901) Class B LP Units to ECLD under the DRIP (Note 16).

Key management personnel compensation

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

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

	Year ended	
	December 31, 2017	December 31, 2016
Salary, bonus and other short-term employee benefits	**$ 4,469**	$ 4,460
Other long-term benefits	**98**	112
	$ 4,567	$ 4,572

19) FINANCIAL INSTRUMENTS

a) Fair value of financial instruments

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

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

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

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

Level 3 - unobservable inputs for the asset or liability.

The following table provides information on financial assets and liabilities measured at fair value as at December 31, 2017:

Financial assets	Level	**December 31, 2017**	December 31, 2016
Marketable securities	**1**	**$ 1,285**	$ —
Marketable securities	**3**	**—**	2,290
Total financial assets measured at fair value		**$ 1,285**	$ 2,290

During the first quarter of 2017, Crombie transferred marketable securities with a fair value of $2,290 from Level 3 into Level 1. The transfer related to reduced price volatility and increased trading volume of the marketable securities held. There were no other transfers during the year ended December 31, 2017.

(In thousands of CAD dollars)

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, 2017		December 31, 2016	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
Financial assets				
Long-term receivables[1]	**$ 6,642**	**$ 6,628**	$ 19,999	$ 19,969
Total other financial assets	**$ 6,642**	**$ 6,628**	$ 19,999	$ 19,969
Financial liabilities				
Investment property debt	**$ 1,846,029**	**$ 1,815,983**	$ 1,959,091	$ 1,876,191
Senior unsecured notes	**627,120**	**625,000**	402,361	400,000
Convertible debentures	**76,818**	**74,400**	139,147	134,400
Total other financial liabilities	**$ 2,549,967**	**$ 2,515,383**	$ 2,500,599	$ 2,410,591

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

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

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

- Cash and cash equivalents
- Trade receivables
- Restricted cash
- Trade and other payables (excluding 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, 2017. The more significant risks, and the actions taken to manage them, are as follows:

Credit risk

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

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

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

- Crombie's largest tenant, Sobeys, represents 53.5% of annual minimum rent; excluding Sobeys, no other tenant accounts for more than 5.1% 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, 2017, Sobeys represents 49.2% of total property revenue. Excluding Sobeys, no other tenant accounts for more than 4.8% of Crombie's total property revenue.
- Over the next five years, no more than 5.1% 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. None of the receivable balances are considered impaired. The provision for doubtful accounts is reviewed at each balance sheet date. A provision is taken on accounts receivable from independent accounts and is recorded as a reduction to its respective receivable account on the balance sheet. Crombie updates its estimate of provision for doubtful accounts based on past due balances on accounts receivable. Current and long-term accounts receivable are reviewed on a regular basis and are provided for when collection is considered uncertain.

(In thousands of CAD dollars)

	Year ended			
		December 31, 2017		December 31, 2016
Provision for doubtful accounts, beginning of year	**$**	**127**	$	60
Additional provision		**455**		195
Recoveries		**(165)**		(120)
Write-offs		**(223)**		(8)
Provision for doubtful accounts, end of year	**$**	**194**	$	127

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, 2017:

- Crombie's weighted average term to maturity of its fixed rate mortgages was 5.4 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 $8,168 at December 31, 2017;
- Crombie has an unsecured bilateral credit facility available to a maximum of $100,000 with a balance of $45,000 at December 31, 2017; and,
- Crombie has interest rate swap agreements in place on $120,660 of floating rate mortgage debt.

Crombie estimates that $2,263 of accumulated other comprehensive income (loss) will be reclassified to finance costs during the year ending December 31, 2018, based on all settled swap agreements as of December 31, 2017.

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**
Year ended December 31, 2017	**$**	**468**	**$**	**(468)**
Year ended December 31, 2016	$	1,130	$	(1,130)

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.

(In thousands of CAD dollars)

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 20, 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:

		Year ending December 31,					
	Contractual Cash Flows[1]	**2018**	**2019**	**2020**	**2021**	**2022**	**Thereafter**
Fixed rate mortgages[2]	$ 2,109,420	$ 190,770	$ 249,668	$ 326,416	$ 183,289	$ 278,985	$ 880,292
Senior unsecured notes	691,963	197,315	16,502	138,417	183,986	155,743	—
Convertible debentures	87,095	3,906	3,906	3,906	75,377	—	—
	2,888,478	391,991	270,076	468,739	442,652	434,728	880,292
Floating rate debt	55,979	1,661	45,778	248	8,292	—	—
Total	$ 2,944,457	$ 393,652	$ 315,854	$ 468,987	$ 450,944	$ 434,728	$ 880,292

(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.

20) CAPITAL MANAGEMENT

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

Crombie's capital structure consists of the following:

	December 31, 2017	December 31, 2016
Investment property debt	**$ 1,804,264**	$ 1,865,477
Senior unsecured notes	**624,320**	398,588
Convertible debentures	**73,164**	132,134
Crombie REIT Unitholders	**873,478**	834,203
SVU and Class B LP Unitholders	**583,777**	555,943
	$ 3,959,003	$ 3,786,345

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

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

(In thousands of CAD dollars)

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, 2017		December 31, 2016
Fixed rate mortgages	**$**	**1,762,815**	$	1,655,817
Senior unsecured notes		**625,000**		400,000
Convertible debentures		**74,400**		134,400
Revolving credit facility		**8,168**		120,374
Bilateral credit facility		**45,000**		100,000
Total debt outstanding		**2,515,383**		2,410,591
Less: Applicable fair value debt adjustment		**(1,117)**		(1,452)
Debt	**$**	**2,514,266**	$	2,409,139
Income properties, cost	**$**	**4,280,433**	$	4,132,541
Properties under development, cost		**75,699**		33,442
Below-market lease component, cost [(1)]		**86,885**		85,946
Investment in joint ventures		**2,602**		815
Other assets, cost (see below)		**325,193**		300,923
Deferred financing charges		**14,958**		14,631
Interest rate subsidy		**(1,117)**		(1,452)
Fair value adjustment to deferred taxes		**—**		(34,120)
Gross book value	**$**	**4,784,653**	$	4,532,726
Debt to gross book value - cost basis		**52.5%**		53.1%

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

Other assets are calculated as follows:

		December 31, 2017		December 31, 2016
Other assets per Note 5	**$**	**257,291**	$	245,783
Add:				
Tenant incentive accumulated amortization		**67,902**		55,140
Other assets, cost	**$**	**325,193**	$	300,923

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, 2017, Crombie is in compliance with all externally imposed capital requirements and all covenants relating to its debt facilities.

(In thousands of CAD dollars)

21) COMMITMENTS AND CONTINGENCIES

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

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

Crombie 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, 2017, Crombie has a total of $8,719 in outstanding letters of credit related to:

	December 31, 2017	December 31, 2016
Construction work being performed on investment properties	**$ 3,879**	$ 2,027
Mortgage lenders primarily to satisfy mortgage financings on redevelopment properties	**4,840**	3,000
Total outstanding letters of credit	**$ 8,719**	$ 5,027

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

Land leases have varying terms ranging from seven to 72 years including renewal options. For the year ended December 31, 2017, Crombie paid $1,685 in land lease payments to third party landlords (year ended December 31, 2016 - $1,431). Crombie's commitments under the land leases are disclosed in Note 13.

As at December 31, 2017, Crombie had signed construction contracts totalling $112,211 of which $92,930 has been paid.

22) SUBSEQUENT EVENTS

(a) On January 19, 2018, Crombie declared distributions of 7.417 cents per Unit for the period from January 1, 2018 to and including, January 31, 2018. The distributions were paid on February 15, 2018, to Unitholders of record as of January 31, 2018.

(b) On February 16, 2018, Crombie declared distributions of 7.417 cents per Unit for the period from February 1, 2018 to and including, February 28, 2018. The distributions will be paid on March 15, 2018, to Unitholders of record as of February 28, 2018.

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.