# CROMBIE REAL ESTATE INVESTMENT TRUST
## Consolidated Financial Statements
## December 31, 2009

Grant Thornton

# Auditors' report

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To the Unitholders of

Crombie Real Estate Investment Trust

We have audited the consolidated balance sheets of **Crombie Real Estate Investment Trust** (the "REIT") as at December 31, 2009 and 2008 and the consolidated statements of income, comprehensive income (loss), unitholders' equity and cash flows for the years ended December 31, 2009 and 2008. These consolidated financial statements are the responsibility of the REIT's management. 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 plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the REIT as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years ended December 31, 2009 and 2008 in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Chartered Accountants

New Glasgow, Canada
February 8, 2010 (except for Note 25
which is as of February 22, 2010)

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

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| | | Restated |
| **Assets** | | (Note 3) |
| Commercial properties (Note 4) | $1,314,611 | $1,308,347 |
| Intangible assets (Note 5) | 103,357 | 131,403 |
| Notes receivable (Note 6) | 8,169 | 11,323 |
| Other assets (Note 7) | 24,100 | 20,934 |
| Cash and cash equivalents | - | 4,028 |
| Assets related to discontinued operations (Note 22) | 6,929 | 7,184 |
| | **$1,457,166** | **$1,483,219** |
| **Liabilities and Unitholders' Equity** | | |
| Commercial property debt (Note 8) | $706,369 | $808,971 |
| Convertible debentures (Note 9) | 110,858 | 28,968 |
| Payables and accruals (Note 10) | 39,223 | 94,462 |
| Intangible liabilities (Note 11) | 31,558 | 41,061 |
| Employee future benefits obligation (Note 24) | 6,260 | 4,836 |
| Distributions payable | 4,522 | 3,883 |
| Future income tax liability (Note 17) | 79,700 | 79,800 |
| Liabilities related to discontinued operations (Note 22) | 6,334 | 6,517 |
| | 984,824 | 1,068,498 |
| Non-controlling interest (Note 12) | 225,367 | 199,163 |
| Unitholders' equity | 246,975 | 215,558 |
| | **$1,457,166** | **$1,483,219** |

Commitments and contingencies (Note 19)

Subsequent events (Note 25)

*See accompanying notes to the consolidated financial statements.*

## CROMBIE REAL ESTATE INVESTMENT TRUST
## Consolidated Statements of Income
(In thousands of dollars, except per unit amounts)

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 |
|---|---|---|
| | | Restated (Note 3) |
| **Revenues** | | |
| Property revenue (Note 14) | $207,254 | $188,142 |
| Lease terminations | 610 | 102 |
| | 207,864 | 188,244 |
| **Expenses** | | |
| Property expenses | 75,762 | 70,370 |
| General and administrative expenses | 9,274 | 8,636 |
| Interest expense (Note 15) | 46,319 | 39,232 |
| Depreciation of commercial properties | 18,765 | 16,398 |
| Depreciation of recoverable capital expenditures | 1,050 | 929 |
| Amortization of tenant improvements/lease costs | 4,272 | 3,488 |
| Amortization of intangible assets | 21,944 | 22,971 |
| | 177,386 | 162,024 |
| Income from continuing operations before other items | 30,478 | 26,220 |
| Other income (expenses) (Note 16) | (9,999) | 77 |
| Income from continuing operations before income taxes and non-controlling interest | 20,479 | 26,297 |
| Income tax recovery - Future (Note 17) | (100) | (1,490) |
| Income from continuing operations before non-controlling interest | 20,579 | 27,787 |
| Write down of asset held for sale (Note 22) | - | (408) |
| Income from discontinued operations (Note 22) | - | 649 |
| Income before non-controlling interest | 20,579 | 28,028 |
| Non-controlling interest | 9,831 | 13,440 |
| **Net income** | **$10,748** | **$14,588** |
| **Basic and diluted net income per unit (Note 13)** | | |
| Continuing operations | **$0.36** | **$0.56** |
| Discontinued operations | **$0.00** | **$0.01** |
| Net income | **$0.36** | **$0.57** |
| **Weighted average number of units outstanding** | | |
| **Basic** | **29,611,781** | **25,477,768** |
| **Diluted** | **29,764,964** | **25,596,001** |

*See accompanying notes to the consolidated financial statements.*

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

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 |
|---|---|---|
| **Net income** | $10,748 | $14,588 |
| Losses on derivatives designated as cash flow hedges transferred to net income in the current year | 5,140 | 96 |
| Net change in derivatives designated as cash flow hedges | 6,994 | (26,663) |
| Other comprehensive income (loss) | 12,134 | (26,567) |
| **Comprehensive income (loss)** | **$22,882** | **$(11,979)** |

*See accompanying notes to the consolidated financial statements.*

**CROMBIE REAL ESTATE INVESTMENT TRUST**
**Consolidated Statements of Unitholders' Equity**
(In thousands of dollars)

| | REIT Units | Net Income | Contributed Surplus | Accumulated Other Comprehensive Income (Loss) | Distributions | Total |
|---|---|---|---|---|---|---|
| | (Note 13) | | | | | |
| Unitholders' equity, January 1, 2009 | $265,096 | $34,652 | $34 | $(29,567) | $(54,635) | $215,580 |
| Adjustment due to change in accounting policy (Note 3) | - | (22) | - | - | - | (22) |
| Unitholders' equity, January 1, 2009 as restated | 265,096 | 34,630 | 34 | (29,567) | (54,635) | 215,558 |
| Units released under EUPP | 8 | - | (8) | - | - | - |
| Units issued under EUPP | 341 | - | - | - | - | 341 |
| Loans receivable under EUPP | (341) | - | - | - | - | (341) |
| EUPP compensation | - | - | 47 | - | - | 47 |
| Repayment of EUPP loans receivable | 183 | - | - | - | - | 183 |
| Net income | - | 10,748 | - | - | - | 10,748 |
| Distributions | - | - | - | - | (26,756) | (26,756) |
| Other comprehensive income | - | - | - | 12,134 | - | 12,134 |
| Unit issue proceeds, net of costs of $1,794 | 35,061 | - | - | - | - | 35,061 |
| Unitholders' equity, December 31, 2009 | **$300,348** | **$45,378** | **$73** | **$(17,433)** | **$(81,391)** | **$246,975** |

| | REIT Units | Net Income | Contributed Surplus | Accumulated Other Comprehensive Income (Loss) | Distributions | Total |
|---|---|---|---|---|---|---|
| Unitholders' equity, January 1, 2008 | $205,273 | $20,064 | $12 | $(3,000) | $(31,515) | $190,834 |
| Adjustment due to change in accounting policy (Note 3) | - | (22) | - | - | - | (22) |
| Unitholders' equity, January 1, 2008 as restated | 205,273 | 20,042 | 12 | (3,000) | (31,515) | 190,812 |
| Units released under EUPP | 20 | - | (20) | - | - | - |
| Units issued under EUPP | 386 | - | - | - | - | 386 |
| Loans receivable under EUPP | (386) | - | - | - | - | (386) |
| EUPP compensation | - | - | 42 | - | - | 42 |
| Repayment of EUPP loans receivable | 181 | - | - | - | - | 181 |
| Net income | - | 14,588 | - | - | - | 14,588 |
| Distributions | - | - | - | - | (23,120) | (23,120) |
| Other comprehensive loss | - | - | - | (26,567) | - | (26,567) |
| Unit issue proceeds, net of costs of $2,008 | 60,997 | - | - | - | - | 60,997 |
| Unit redemption | (1,375) | - | - | - | - | (1,375) |
| Unitholders' equity, December 31, 2008 as restated | **$265,096** | **$34,630** | **$34** | **$(29,567)** | **$(54,635)** | **$215,558** |

*See accompanying notes to the consolidated financial statements.*

**CROMBIE REAL ESTATE INVESTMENT TRUST**
**Consolidated Statements of Cash Flows**
(In thousand of dollars)

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 Restated (Note 3) |
|---|---|---|
| **Cash flows provided by (used in)** | | |
| **Operating Activities** | | |
| Net income | $10,748 | $14,588 |
| Items not affecting operating cash (Note 18) | 62,007 | 51,619 |
| | 72,755 | 66,207 |
| Additions to tenant improvements and lease costs | (7,633) | (11,419) |
| Change in other non-cash operating items (Note 18) | (11,134) | 6,086 |
| Cash provided by operating activities | **53,988** | **60,874** |
| **Financing Activities** | | |
| Issue of commercial property debt | 154,782 | 493,070 |
| Increase in deferred financing charges | (3,958) | (4,162) |
| Issue of convertible debentures | 85,000 | 30,000 |
| Issue costs of convertible debentures | (3,387) | (1,214) |
| Units and Class B LP Units issued | 66,855 | 63,005 |
| Units and Class B LP Units issue costs | (2,054) | (3,790) |
| Settlement of interest rate swap agreements | (36,204) | (3,961) |
| Repayment of commercial property debt | (261,351) | (191,505) |
| Decrease in liabilities related to discontinued operations | (183) | (25) |
| Collection of notes receivable | 3,154 | 9,645 |
| Repayment of EUPP loan receivable | 183 | 181 |
| Unit redemption | - | (1,375) |
| Payment of distributions | (50,436) | (43,117) |
| Cash provided by (used in) financing activities | **(47,599)** | **346,752** |
| **Investing Activities** | | |
| Additions to commercial properties | (9,967) | (19,075) |
| Additions to recoverable capital expenditures | (669) | (828) |
| Assets related to discontinued operations | - | (7,250) |
| Decrease in assets related to discontinued operations | 255 | 66 |
| Proceeds on disposal of commercial property, net of closing costs | - | 10,186 |
| Acquisition of commercial properties (Note 4) | (36) | (389,405) |
| Cash used in investing activities | **(10,417)** | **(406,306)** |
| **Increase (decrease) in cash and cash equivalents during the year** | **(4,028)** | **1,320** |
| **Cash and cash equivalents, beginning of year** | **4,028** | **2,708** |
| **Cash and cash equivalents, end of year** | **$Nil** | **$4,028** |

*See accompanying notes to the consolidated financial statements.*

## 1) CROMBIE REAL ESTATE INVESTMENT TRUST

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 units of Crombie are traded on the Toronto Stock Exchange ("TSX") under the symbol "CRR.UN".

## 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as prescribed by the Canadian Institute of Chartered Accountants ("CICA").

### (b) Basis of consolidation

The consolidated financial statements include the accounts of Crombie and its incorporated and unincorporated subsidiaries.

### (c) Property acquisitions

Upon acquisition of commercial properties, Crombie performs an assessment of the fair value of the properties' related tangible and intangible assets and liabilities (including land, buildings, origination costs, in-place leases, above- and below-market leases, and any other assumed assets and liabilities), and allocates the purchase price to the acquired assets and liabilities. Crombie assesses and considers fair value based on cash flow projections that take into account relevant discount and capitalization rates and any other relevant sources of market information available. Estimates of future cash flow are based on factors that include historical operating results, if available, and anticipated trends, local markets and underlying economic conditions.

Crombie allocates the purchase price based on the following:

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

Buildings - Buildings are recorded at the fair value of the building on an "as-if-vacant" basis, which is based on the present value of the anticipated net cash flow of the building from vacant start up to full occupancy.

Origination costs for existing leases - Origination costs are determined based on estimates of the costs that would be incurred to put the existing leases in place under the same terms and conditions. These costs include leasing commissions as well as foregone rent and operating cost recoveries during an assumed lease-up period.

In-place leases - In-place lease values are determined based on estimated costs required for each lease that represents the net operating income lost during an estimated lease-up period that would be required to replace the existing leases at the time of purchase.

Tenant relationships - Tenant relationship values are determined based on costs avoided if the respective tenants were to renew their leases at the end of the existing term, adjusted for the estimated probability that the tenants will renew.

Above- and below-market existing leases - Values ascribed to above- and below-market existing leases are determined based on the present value of the difference between the rents payable under the terms of the respective leases and estimated future market rents.

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

### (d) Commercial properties

Commercial properties include land, buildings and tenant improvements. Commercial properties are carried at cost less accumulated depreciation and are reviewed periodically for impairment as described in Note 2(t).

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

Amortization of tenant improvements is determined using the straight-line method over the terms of the tenant lease agreements and renewal periods where applicable.

Improvements that are not recoverable from tenants are either expensed as incurred or, in the case of a major item, capitalized to commercial properties and amortized on a straight-line basis over the expected useful life of the improvement.

**(e) Intangible assets and liabilities**

Intangible assets include the value of origination costs for existing leases, the value of the differential between original and market rents for above-market existing leases, the value of the immediate cash flow stream from in-place leases and the value of tenant relationships.

Intangible liabilities are the value of the differential between original and market rents for below market existing leases.

Amortization of the value of origination costs, in-place leases and tenant relationships is determined using the straight-line method over the terms of the tenant lease agreements and renewal periods where applicable and is recorded as amortization. The value of the differential between original and market rents for above- and below-market existing leases is recognized using the straight-line method over the terms of the tenant lease agreements and recorded as property revenue.

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

**(f) Deferred financing charges**

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

**(g) 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 these leases on a straight-line basis over the term of the lease. Accordingly, an accrued rent receivable/payable is recorded for the difference between the straight-line rent recorded as property revenue and the rent that is contractually due from the tenants. Percentage rents are recognized when tenants are obligated to pay such rent under the terms of the related lease agreements. The value of the differential between original and market rents for existing leases is amortized using the straight-line method over the terms of the tenant lease agreements. Realty tax and other operating cost recoveries, and other incidental income, are recognized on an accrual basis.

**(h) Cash and cash equivalents**

Cash and cash equivalents are defined as cash on hand and cash in bank.

**(i) Income taxes**

Crombie is taxed as a "mutual fund trust" for income tax purposes. Crombie intends 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.

Future income tax 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, future income taxes are recognized for the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which tax and accounting basis differences are expected to reverse.

**(j) Financial instruments**

Crombie classifies all financial instruments, including derivatives, as either held to maturity, available-for-sale, held for trading, loans and receivables or other financial liabilities. Financial assets held to maturity, loans and receivables, and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss). Financial instruments classified as held for trading are measured at fair value using the settlement date, with unrealized gains and losses recognized in net income. Fair value measurements that are recognized in the balance sheet that do not have quoted prices in the market place are calculated using inputs that are observable for the liability, either directly as prices, or indirectly derived from prices. Impairment write-downs are recognized in net income.

**(k) Hedges**

Crombie has cash flow hedges which are used 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 net income. Amounts recognized in accumulated other comprehensive income (loss) are reclassified to net income in the same periods in which the hedged item is recognized in net income. Fair value hedges and the related hedge items are recognized on the balance sheet at fair value with any changes in fair value recognized in net 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 has fixed interest rate swap agreements and a number of delayed interest rate swap agreements designated as cash flow hedges. Crombie has identified these hedges against increases in benchmark interest rates and has formally documented all relationships between these derivative financial instruments and hedged items, as well as the risk management strategy and objectives. Crombie assesses on an ongoing basis whether the derivative financial instrument continues to be effective in offsetting changes in interest rates on the hedged items.

**(l)Transaction costs**

Crombie adds transaction costs directly attributable to the acquisition or issue of a financial asset or financial liability, other than for those classified as held for trading, to the fair value of the financial asset or financial liability on initial recognition, and they are amortized using the effective interest method.

**(m) Employee future benefits obligation**

The cost of pension benefits for the defined contribution plans is expensed as contributions are paid. The cost of the defined benefit pension plan and post-retirement benefit plan is accrued based on actuarial valuations, which are determined using the projected benefit method pro-rated on service and management's best estimate of the expected long-term rate of return on plan assets, salary escalation, retirement ages and expected growth rate of health care costs. The defined benefit plan and post-retirement benefit plan are unfunded.

The impact of changes in plan amendments is amortized on a straight-line basis over the expected average remaining service life ("EARSL") of active members. For the supplementary executive retirement plan, the impacts of changes in the plan provisions are amortized over five years.

**(n) Employee unit purchase plan**

Crombie has a unit purchase plan for certain employees which is described in Note 13. In accordance with the Emerging Issues Committee Abstract 132, loans granted to employees to purchase units under the plan are accounted for as stock-based compensation.

**(o) Use of estimates**

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The significant areas of estimation and assumption include:

- Impairment of assets;
- Depreciation and amortization;
- Employee future benefits obligation;
- Future income taxes;
- Allocation of purchase price on property acquisitions; and
- Fair value of commercial property debt, convertible debentures and assets and liabilities related to discontinued operations.

**(p) Payment of distributions**

The determination to declare and make payable distributions from Crombie is at the discretion of the Board of Trustees of Crombie and, until declared payable by the Board of Trustees of Crombie, Crombie has no contractual requirement to pay cash distributions to Unitholders' of Crombie. During the year ended December 31, 2009 $51,075 (year ended December 31, 2008 - $44,044) in cash distributions were declared payable by the Board of Trustees to Crombie Unitholders and Crombie Limited Partnership Unitholders (the "Class B LP Units").

**(q) Comprehensive income (loss)**

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

**(r) Convertible debentures**

Debentures with conversion features are assessed at inception as to the value of both their equity component and their debt component. Based on the assessment, Crombie has determined to date that no amount should be attributed to equity and thus its convertible debentures have been classified as liabilities. Distributions to debenture holders are presented as interest expense. Issue costs are netted against the convertible debentures and amortized over the original life of the convertible debentures using the effective interest method.

**(s) Discontinued operations**

Crombie classifies properties that meet certain criteria as held for sale and separately discloses any net income and gain (loss) on disposal for current and prior periods as discontinued operations. A property is classified as held for sale at the point in time when it is available for immediate sale, management has committed to a plan to sell the property and is actively locating a purchaser for the property at a sales price that is reasonable in relation to the current estimated fair value of the property, and the sale is expected to be completed within a one year period. Properties held for sale are carried at the lower of their carrying values and estimated fair value less costs to sell. In addition, assets held for sale are no longer depreciated and amortized. A property that is subsequently reclassified as held in use is measured at the lower of its carrying value amount before it was classed 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.

**(t) Impairment of long-lived assets**

Long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable.

If it is determined that the net recoverable value of a long-lived asset is less than its carrying value, the long-lived asset is written down to its fair value. Net recoverable amount represents the undiscounted estimated future cash flow expected to be received from the long-lived asset. Assets reviewed under this policy include commercial properties and intangible assets.

## 3) CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2009 Crombie adopted two new accounting standards that were issued by the CICA in 2008 and 2009, and one Emerging Issues Committee Abstract issued by the CICA in January 2009. These accounting policy changes have been adopted in accordance with the transitional provisions.

The new standards and accounting policy changes are as follows:

**Goodwill and Intangible Assets**

Effective January 1, 2009, the accounting and disclosure requirements of the CICA's new accounting standard: "Handbook Section 3064, Goodwill and Intangible Assets" was adopted.

This standard is effective for annual and interim financial statements related to fiscal years beginning on or after October 1, 2008 and was applicable for Crombie's first quarter of fiscal 2009. Section 3064 states that intangible assets may be recognized as assets only if they meet the definition of an intangible asset. Section 3064 also provides further information on the recognition of internally generated intangible assets (including research and development).

This standard has been applied retrospectively with restatement of prior periods. The adoption of this new standard resulted in an increase of $929 to depreciation of commercial properties and a decrease of $929 to property expenses in the consolidated Statements of Income for the year ended December 31, 2008. In the consolidated Balance Sheets, there was an increase of $3,946 to commercial properties, an increase of $38 to receivables, a decrease of $4,246 to prepaid expenses, and a decrease of $220 to payables and accruals at December 31, 2008, and a decrease of $20 to non-controlling interest and a decrease of $22 to unitholders' equity at January 1, 2008.

**Financial instruments - recognition and measurement**

In January 2009, the CICA issued Emerging Issues Committee Abstract 173 ("EIC 173"), "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". EIC 173 requires that an entity take into account its own credit risk and the credit risk of its counterparty in determining the fair value of financial assets and financial liabilities. This Abstract must be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of EIC 173 did not have a significant impact on Crombie's financial results, position or disclosures.

**Financial Instruments - Disclosures**

In June 2009, the CICA issued amendments to the existing Section 3862, "Financial Instruments - Disclosures", to more closely align the section with those required under International Financial Reporting Standards ("IFRS"). The amendments include enhanced disclosure requirements relating to fair value measurements of financial instruments and liquidity risks (Note 21). These amendments apply for annual financial statements with fiscal years ending after September 30, 2009. The adoption of the amendments to Section 3862 did not have a material impact on the disclosures of Crombie.

**Effect of new accounting standards not yet Implemented**

**International Financial Reporting Standards**

On February 13, 2008, the Accounting Standards Board of Canada announced that GAAP for publicly accountable enterprises will be replaced by IFRS. IFRS must be adopted for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, with retrospective adoption and restatement of the comparative fiscal year ended December 31, 2010. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to Crombie's reporting for the first quarter of fiscal 2011 for which the current and comparative information will be prepared under IFRS.

Crombie, with the assistance of its external advisors, has launched an internal initiative to govern the conversion process and is currently evaluating the potential impact of the conversion to IFRS on its financial statements. At this time, the impact on Crombie's future financial position and results of operations is not reasonably determinable or estimatable. Crombie expects the transition to IFRS to impact accounting, financial reporting, internal control over financial reporting, information systems and business processes.

Crombie has developed a formal project governance structure, and is providing regular progress reports to senior management and the audit committee. Crombie has also completed a diagnostic impact assessment, which involved a high level review of the major differences between current GAAP and IFRS, as well as establishing an implementation guideline. In accordance with this guideline Crombie has established a staff training program and is in the process of completing analysis of the key decision areas, including analyzing the appropriate accounting policy selections from available IFRS options, and making recommendations on the same.

Crombie will continue to assess the impact of the transition to IFRS and to review all of the proposed and ongoing projects of the International Accounting Standards Board to determine their impact on Crombie. Additionally, Crombie will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

In order to assist Crombie with its transition to IFRS, the Unitholders approved amendments to Crombie's Declaration of Trust, at Crombie's Annual General and Special Meeting held on May 7, 2009, to allow the Trustees to make future amendments to the Declaration of Trust without the requirement to obtain Unitholder approval. These changes are in the same manner as the Declaration of Trust currently permits Trustees to act as it relates to the changes in taxation laws.

The amendments will not result in any material change to the Unitholders, but rather were contemplated in order to assist Crombie to implement changes that will assist in its transition to IFRS. Trustees will be obligated to determine whether any such change is necessary or desirable in the circumstances, and all other matters that are currently required to be approved by Unitholders pursuant to the Declaration of Trust will remain unchanged.

**4) COMMERCIAL PROPERTIES**

| | December 31, 2009 | | |
|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value |
| Land | $286,491 | $Nil | $ 286,491 |
| Buildings | 1,048,112 | 56,041 | 992,071 |
| Recoverable capital expenditures | 6,853 | 3,006 | 3,847 |
| Tenant improvements and leasing costs | 43,107 | 10,905 | 32,202 |
| | **$1,384,563** | **$69,952** | **$1,314,611** |

| | December 31, 2008 | | |
|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value |
| | Restated (Note 3) | Restated (Note 3) | Restated (Note 3) |
| Land | $288,566 | $Nil | $288,566 |
| Buildings | 1,029,990 | 37,276 | 992,714 |
| Recoverable capital expenditures | 5,902 | 1,956 | 3,946 |
| Tenant improvements and leasing costs | 29,754 | 6,633 | 23,121 |
| | **$1,354,212** | **$45,865** | **$1,308,347** |

**Property Acquisitions and Disposals**

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

**<u>2009</u>**

On June 1, 2009, Crombie acquired a vacant building and 1.1 acres of land adjacent to the Avalon Mall, Newfoundland and Labrador, for $3,527 plus additional closing costs from ECL General Partner Limited, a subsidiary of Empire Company Limited. The building has been leased while management assesses the future development of this site. The acquisition was financed with debt of $3,527 at a fixed rate of 8.00% and a term of 20 years with ECL General Partner Limited and the property is held as security.

The carrying value of land has been reduced by $5,706 along with the reduction in the carrying values of certain property related intangible assets of $3,000 and intangible liabilities of $1,306 as a result of a change in the allocation of costs relating to a property acquired in 2008. The reallocation has resulted in an increase of $7,400 in the carrying value of a building.

**<u>2008</u>**

On April 22, 2008, Crombie acquired 61 properties in Atlantic Canada, Quebec and Ontario from subsidiaries of Empire Company Limited, representing a 3,288,000 square foot increase to the portfolio, for $428,500 plus additional closing costs. The acquisition was financed through a $280,000 term facility, the issuance of $30,000 Series A convertible debentures, the issuance of $55,000 of Class B LP units of Crombie Limited Partnership to affiliates of Empire, the issuance of $63,005 of REIT units (5,727,750 units at a price of $11.00 per unit), and a draw on Crombie's revolving credit facility.

On May 21, 2008, land attached to a commercial property was sold to an unrelated third party for cash proceeds of $187, net of closing costs, resulting in a gain of $77. (Note 16)

On June 12, 2008, Crombie acquired a property in Saskatoon, Saskatchewan, representing a 160,000 square foot increase to the portfolio, for $27,200 plus additional closing costs, from an unrelated third party. The acquisition was financed through an assumption of an existing mortgage of $16,517 at a fixed rate of 5.35% and a term of three years with the balance of the purchase price paid using funds from the revolving credit facility.

The allocation of the total cost of the acquisitions is as follows:

| **Commercial property acquired, net:** | **Year Ended December 31, 2009** | **Year Ended December 31, 2008** |
|---|---|---|
| Land | $3,563 | $107,826 |
| Buildings | - | 287,154 |
| Intangible assets: | | |
| Lease origination costs | - | 40,233 |
| Tenant relationships | - | 21,622 |
| Above-market leases | - | 370 |
| In-place leases | - | 35,384 |
| Intangible liabilities: | | |
| Below-market leases | - | (31,848) |
| Net purchase price | 3,563 | 460,741 |
| Assumed mortgages | (3,527) | (16,517) |
| Fair value debt adjustment on assumed mortgages | - | 181 |
| | $36 | $444,405 |
| **Consideration funded by:** | | |
| Revolving credit facility | $36 | $16,000 |
| Term facility | - | 280,000 |
| Units | - | 63,005 |
| Convertible debentures | - | 30,000 |
| Application of deposit | - | 400 |
| Cash paid | 36 | 389,405 |
| Class B LP Units (non-controlling interest) paid | - | 55,000 |
| Total consideration paid | $36 | $444,405 |

### 5) INTANGIBLE ASSETS

| | **December 31, 2009** | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Origination costs for existing leases | $52,866 | $ 17,228 | $35,638 |
| In-place leases | 56,493 | 26,516 | 29,977 |
| Tenant relationships | 56,534 | 23,698 | 32,836 |
| Above-market existing leases | 16,015 | 11,109 | 4,906 |
| | **$181,908** | **$78,551** | **$103,357** |

| | **December 31, 2008** | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Origination costs for existing leases | $54,419 | $11,680 | $42,739 |
| In-place leases | 57,376 | 19,072 | 38,304 |
| Tenant relationships | 57,098 | 14,746 | 42,352 |
| Above-market existing leases | 16,015 | 8,007 | 8,008 |
| | **$184,908** | **$53,505** | **$131,403** |

### 6) NOTES RECEIVABLE

On March 23, 2006, Crombie acquired 44 properties from Empire Company Limited's subsidiary, ECL Properties Limited ("ECL") and certain affiliates, resulting in ECL Developments Limited issuing two demand non-interest bearing promissory notes in the amounts of $39,600 and $20,564. Payments on the first note of $39,600 are being received as funding is required for a capital expenditure program relating to eight commercial properties over the period from 2006 to 2010. Payments on the second note of $20,564 are being received on a monthly basis to reduce the effective interest rate to 5.54% on certain assumed mortgages with terms to maturity ranging from February 2010 to April 2022.

The balance of each note is as follows:

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Capital expenditure program | $436 | $505 |
| Interest rate subsidy | 7,733 | 10,818 |
| | **$8,169** | **$11,323** |

### 7) OTHER ASSETS

| | December 31, 2009 | December 31, 2008<br>Restated<br>(Note 3) |
|---|---|---|
| Gross accounts receivable | $7,732 | $7,286 |
| Provision for doubtful accounts | (326) | (250) |
| Net accounts receivable | 7,406 | 7,036 |
| Accrued straight-line rent receivable | 10,948 | 7,786 |
| Prepaid expenses | 5,531 | 5,174 |
| Restricted cash | 215 | 938 |
| | **$24,100** | **$20,934** |

### 8) COMMERCIAL PROPERTY DEBT

| | Range | Weighted average contractual interest rate | Weighted average term to maturity | December 31, 2009 |
|---|---|---|---|---|
| Fixed rate mortgages | 4.82-8.00% | 5.66% | 5.8 years | $604,992 |
| Floating rate revolving credit facility | | 1.53% | 1.5 years | 106,160 |
| Deferred financing charges | | | | (4,783) |
| | | | | **$706,369** |

| | Range | Weighted average contractual interest rate | Weighted average term to maturity | December 31,2008 |
|---|---|---|---|---|
| Fixed rate mortgages | 5.15-6.44% | 5.55% | 6.1 years | $531,970 |
| Floating rate term facility | | 4.87% | 0.8 years | 178,824 |
| Floating rate revolving credit facility | | 2.75% | 2.5 years | 93,400 |
| Floating rate demand credit facility | | 3.50% | Demand | 10,000 |
| Deferred financing charges | | | | (5,223) |
| | | | | **$808,971** |

As December 31, 2009, debt retirements for the next 5 years are:

| | Fixed Rate | Floating Rate | Financing Costs | Total |
|---|---|---|---|---|
| 2010 | $122,820 | $Nil | $Nil | $122,820 |
| 2011 | 43,521 | 106,160 | - | 149,681 |
| 2012 | 17,393 | - | - | 17,393 |
| 2013 | 48,339 | - | - | 48,339 |
| 2014 | 83,350 | - | - | 83,350 |
| Thereafter | 281,738 | - | - | 281,738 |
| | 597,161 | 106,160 | - | 703,321 |
| Deferred financing charges | - | - | (4,783) | (4,783) |
| Fair value debt adjustment | 7,831 | - | - | 7,831 |
| | $604,992 | $106,160 | $(4,783) | $706,369 |

The floating rate term facility was used to partially finance the acquisition of 61 properties from subsidiaries of Empire Company Limited. On February 12, 2009, Crombie completed mortgage financings of $39,000 to refinance a portion of the floating rate term facility. Fixed rate first mortgages were placed with a third party for a total of $32,800. The first mortgages have a weighted average interest rate of 4.88% with a maturity date of March 2014. In addition, $6,200 of fixed rate second mortgages were provided by Empire Company Limited. The second mortgages have a weighted average interest rate of 5.38% with a maturity date of March 2014. On August 27, 2009, Crombie completed a mortgage financing of $15,000 with a third party to refinance a portion of the floating rate term facility. The mortgage has an interest rate of 7.30% with a maturity date of September 2029. On September 30, 2009, Crombie issued $85,000 in unsecured convertible debentures to further reduce the floating rate term facility (Note 9). On November 27, 2009, Crombie completed a mortgage financing of $37,000 with a third party to refinance the remainder of the floating rate term facility. The mortgage has an interest rate of 6.9% with a maturity date of December 2019. During the fourth quarter of 2009, the floating rate term facility was cancelled.

The floating rate revolving credit facility has a maximum principal amount of $150,000 and is used by Crombie for working capital purposes. It is secured by a pool of first and second mortgages and negative pledges on certain properties. The floating interest rate is based on specific margins over prime rate or bankers acceptance rates. The specified margin increases as Crombie’s overall debt leverage increases.

Crombie had secured a $13,800 floating rate demand credit facility with Empire on substantially the same terms and conditions that govern the Revolving Credit Facility. This facility was put in place to ensure that Crombie maintained adequate liquidity in order to fund its daily operating activities while volatility in the financial markets continued. As at December 31, 2008, Crombie had $10,000 drawn against this facility which was repaid during the first quarter of 2009. During the third quarter of 2009, as a result of the improved financial market conditions, this facility was cancelled.

The revolving credit facility also contains a covenant that ECL Developments Limited must maintain a minimum 40% voting interest in Crombie. If ECL Developments Limited reduces its voting interest below this level, Crombie will be required to renegotiate the revolving credit facility or obtain alternative financing. Pursuant to an exchange agreement, and while such covenant remains in place, ECL Developments Limited will be required to give Crombie at least six months’ prior written notice of its intention to reduce its voting interest below 40%.

**9) CONVERTIBLE DEBENTURES**

| | **Conversion Price** | **Maturity date** | **Interest rate** | **December 31, 2009** | **December 31, 2008** |
|---|---|---|---|---|---|
| Series A (CRR.DB) | $13.00 | March 20, 2013 | 7.00% | $30,000 | $30,000 |
| Series B (CRR.DB.B) | $11.00 | June 30, 2015 | 6.25% | 85,000 | - |
| Deferred financing charges | | | | (4,142) | (1,032) |
| | | | | **$110,858** | **$28,968** |

Both the Series A Convertible Debentures, issued on March 20, 2008, and the Series B Convertible Debentures, issued on September 30, 2009, (collectively the "Debentures") pay interest semi-annually on June 30 and December 31 of each year and Crombie has the option to pay interest on any interest payment date by selling units and applying the proceeds to satisfy its interest obligation.

Each Series A Convertible Debenture and Series B Convertible Debenture is convertible into Units at the option of the debenture holder at any time up to the maturity date, at the conversion price indicated in the table above, being a conversion rate of approximately 76.9231 Units per one thousand principal amount of Series A Convertible Debentures and 90.9091 Units per one thousand principal amount of Series B Convertible Debentures. If all conversion rights attaching to the Series A Convertible Debentures and the Series B Convertible Debentures are exercised, Crombie would be required to issue approximately 2,307,693 Units and 7,727,272 Units, respectively, subject to anti-dilution adjustments.

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

Transaction costs related to the Debentures have been deferred and are being amortized into interest expense over the term of the Debentures using the effective interest method.

**10) PAYABLES AND ACCRUALS**

| | December 31, 2009 | December 31, 2008<br>Restated<br>(Note 3) |
|---|---|---|
| Tenant improvements and capital expenditures | $20,209 | $13,384 |
| Property operating costs | 10,575 | 20,166 |
| Advance rents | 2,069 | 5,364 |
| Interest on commercial property debt and debentures | 2,836 | 2,504 |
| Fair value of interest rate swap agreements | 3,534 | 53,044 |
| | **$39,223** | **$94,462** |

**11) INTANGIBLE LIABILITIES**

| | December 31, 2009 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Below-market existing leases | **$54,397** | **$22,839** | **$31,558** |

| | December 31, 2008 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Below-market existing leases | **$55,703** | **$14,642** | **$41,061** |

### 12) NON-CONTROLLING INTEREST

| | Class B LP Units | Net Income | Contributed Surplus | Accumulated Other Comprehensive Income (Loss) | Distributions | Total |
|---|---|---|---|---|---|---|
| Balance, January 1, 2009 | $244,520 | $32,118 | $Nil | $(27,254) | $(50,201) | $199,183 |
| Adjustment due to change in accounting policy (Note 3) | - | (20) | - | - | - | (20) |
| Balance, January 1, 2009 as restated | 244,520 | 32,098 | Nil | (27,254) | (50,201) | 199,163 |
| Net income | - | 9,831 | - | - | - | 9,831 |
| Distributions | - | - | - | - | (24,319) | (24,319) |
| Other comprehensive income | - | - | - | 10,952 | - | 10,952 |
| Class B LP Unit issue proceeds, net of costs of $260 | 29,740 | - | - | - | - | 29,740 |
| Balance, December 31, 2009 | **$274,260** | **$41,929** | **$Nil** | **$(16,302)** | **$(74,520)** | **$225,367** |

| | Class B LP Units | Net Income | Contributed Surplus | Accumulated Other Comprehensive Income (Loss) | Distributions | Total |
|---|---|---|---|---|---|---|
| Balance, January 1, 2008 | $191,302 | $18,678 | $Nil | $(2,784) | $(29,277) | $177,919 |
| Adjustment due to change in accounting policy (Note 3) | - | (20) | - | - | - | (20) |
| Balance, January 1, 2008 as restated | 191,302 | 18,658 | Nil | (2,784) | (29,277) | 177,899 |
| Net income | - | 13,440 | - | - | - | 13,440 |
| Distributions | - | - | - | - | (20,924) | (20,924) |
| Other comprehensive loss | - | - | - | (24,470) | - | (24,470) |
| Class B LP Unit issue proceeds, net of costs of $1,782 | 53,218 | - | - | - | - | 53,218 |
| Balance, December 31, 2008 as restated | **$244,520** | **$32,098** | **$Nil** | **$(27,254)** | **$(50,201)** | **$199,163** |

### 13) UNITS OUTSTANDING

| | Crombie REIT Units | | Crombie REIT Special Voting Units and Class B LP Units | | Total | |
|---|---|---|---|---|---|---|
| | Number of Units | Amount | Number of Units | Amount | Number of Units | Amount |
| Balance, January 1, 2009 | 27,271,888 | $265,096 | 25,079,576 | $244,520 | 52,351,464 | $509,616 |
| Unit issue proceeds, net of costs | 4,725,000 | 35,061 | 3,846,154 | 29,740 | 8,571,154 | 64,801 |
| Units issued under EUPP | 47,411 | 341 | - | - | 47,411 | 341 |
| Units released under EUPP | - | 8 | - | - | - | 8 |
| Net change in EUPP loans receivable | - | (158) | - | - | - | (158) |
| Balance, December 31, 2009 | **32,044,299** | **$300,348** | **28,925,730** | **$274,260** | **60,970,029** | **$574,608** |

| | Crombie REIT Units | | Crombie REIT Special Voting Units and Class B LP Units | | Total | |
|---|---|---|---|---|---|---|
| | Number of Units | Amount | Number of Units | Amount | Number of Units | Amount |
| Balance, January 1, 2008 | 21,648,985 | $205,273 | 20,079,576 | $191,302 | 41,728,561 | $396,575 |
| Unit issue proceeds, net of costs | 5,727,750 | 60,997 | 5,000,000 | 53,218 | 10,727,750 | 114,215 |
| Units issued under EUPP | 34,053 | 386 | - | - | 34,053 | 386 |
| Units released under EUPP | - | 20 | - | - | - | 20 |
| Net change in EUPP loans receivable | - | (205) | - | - | - | (205) |
| Unit redemption | (138,900) | (1,375) | - | - | (138,900) | (1,375) |
| Balance, December 31, 2008 | **27,271,888** | **$265,096** | **25,079,576** | **$244,520** | **52,351,464** | **$509,616** |

**Crombie REIT Units**

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

The aggregate redemption price payable by Crombie in respect of any 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 Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that:

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

ii. at the time such Units are tendered for redemption, the outstanding Units must be listed for trading on 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 Units; and

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

On June 25, 2009, Crombie closed a public offering, on a bought deal basis, of 4,725,000 Units, after full exercise of the underwriters' over-allotment option, to the public at a price of $7.80 per Unit for proceeds of $35,061 net of issue costs.

**Crombie REIT Special Voting Units and Class B LP Units**

The Declaration of Trust and the Exchange Agreement provide for the issuance of voting non-participating Units (the "Special Voting Units") to the holders of Class B LP Units used solely for providing voting rights proportionate to the votes of Crombie's Units. The Special Voting Units 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 Special Voting Units will be redeemed and cancelled for no consideration by Crombie.

The Class B LP Units issued by a subsidiary of Crombie to ECL have economic and voting rights equivalent, in all material aspects, to Crombie's Units. They are indirectly exchangeable on a one-for-one basis for Crombie's Units at the option of the holder, under the terms of the Exchange Agreement.

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

The Class B LP Units are accounted for as non-controlling interest.

On June 25, 2009, concurrently with the issuance of the Units, in satisfaction of its pre-emptive right, ECL Developments Limited purchased 3,846,154 Class B LP Units and the attached Special Voting Units at a price of $7.80 per Class B LP Unit for proceeds of $29,740 net of issue costs, on a private placement basis.

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

Crombie provides for unit purchase entitlements under the EUPP for certain senior executives. Awards made under the EUPP will allow executives to purchase units from treasury at the average daily high and low board lot trading prices per unit on the TSX for the five trading days preceding the issuance. Executives are provided non-recourse loans at 3% annual interest by Crombie for the purpose of acquiring Units from treasury and the Units purchased are held as collateral for the loan. The loan is repaid through the application of the after-tax amounts of all distributions received on the Units, as well as the after-tax portion of any Long-Term Incentive Plan ("LTIP") cash awards received, as payments on interest and principal. As at December 31, 2009, there are loans receivable from executives of $1,445 under Crombie's EUPP, representing 165,485 Units, which are classified as a reduction of Unitholders' Equity. Loan repayments will result in a corresponding increase in Unitholders' Equity. Market value of the Units at December 31, 2009 was $1,796.

The compensation expense related to the EUPP during the year ended December 31, 2009 was $47 (year ended December 31, 2008 - $42).

**Income per Unit Computations**

Basic net income per Unit is computed by dividing net income by the weighted average number of Units outstanding during the year. Diluted net income per Unit is calculated on the assumption that all EUPP loans were repaid at the beginning of the year. For all years, the assumed exchange of all Class B LP Units would not be dilutive. The convertible debentures are anti-dilutive and have not been included in diluted net income per unit or diluted weighted average number of units outstanding. As at December 31, 2009, there are no other dilutive items.

## 14) PROPERTY REVENUE

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 |
|---|---|---|
| Rental revenue contractually due from tenants | $198,997 | $181,978 |
| Straight-line rent recognition | 3,162 | 1,932 |
| Below-market lease amortization | 8,197 | 7,290 |
| Above-market lease amortization | (3,102) | (3,058) |
| | **$207,254** | **$188,142** |

## 15) INTEREST

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 |
|---|---|---|
| Fixed rate mortgages | $35,987 | $25,136 |
| Floating rate term, revolving and demand facilities | 6,878 | 12,459 |
| Convertible debentures | 3,454 | 1,637 |
| **Interest expense** | **46,319** | **39,232** |
| Change in fair value debt adjustment | 3,090 | 3,353 |
| Interest paid on discontinued operations | - | 337 |
| Change in accrued interest | (332) | (743) |
| Amortization of effective swap agreements | (1,641) | (184) |
| Amortization of deferred financing charges | (2,815) | (1,349) |
| **Interest paid** | **$44,621** | **$40,646** |

**16) OTHER INCOME (EXPENSES)**

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 |
|---|---|---|
| Expense related to settlement of ineffective swap | $(8,139) | $- |
| Write off of deferred financing charges | (1,860) | - |
| Gain on disposition of land | - | 77 |
| | $(9,999) | $77 |

On September 14, 2009, in connection with the Series B Convertible Debenture issue, Crombie settled an interest rate swap agreement related to a notional amount of $84,000 for a settlement amount of $8,139. The delayed interest rate swap hedge had been designated to mitigate exposure to interest rate increases prior to replacing the floating rate term facility with long-term financing. Due to the reduction of the floating rate term facility using gross proceeds of the Series B Convertible Debenture offering (Note 9), the associated interest rate swap agreement was no longer deemed to be an effective hedge. As a result, Crombie recognized an expense in net income during the third quarter of 2009 for the settlement amount. In addition, Crombie wrote off the deferred financing charges related to the repaid component of the floating rate term facility.

On May 20, 2008, land attached to a commercial property was sold to an unrelated third party, resulting in a gain of $77.

**17) FUTURE 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 rates beginning in 2011, subject to an exemption for real estate investment trusts ("REITs"). A trust that satisfies the criteria of a REIT throughout its taxation year will not be subject to income tax in respect of distributions to its unitholders or be subject to the restrictions on its growth that would apply to SIFTs.

Crombie's management and its 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 future income tax liability of the wholly-owned corporate subsidiary which is subject to income taxes consists of the following:

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Tax liabilities relating to difference in tax and book value | $87,389 | $86,060 |
| Tax asset relating to non-capital loss carry-forward | (7,689) | (6,260) |
| Future income tax liability | **$79,700** | **$79,800** |

The future income tax recovery consists of the following:

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 |
|---|---|---|
| Provision for income taxes at the expected rate | $7,133 | $9,023 |
| Tax effect of income attribution to Crombie's unitholders | (7,233) | (4.441) |
| Decreased income tax resulting from a change in expected rate | - | (6,072) |
| Income tax recovery | **$(100)** | **$(1,490)** |

**18) SUPPLEMENTARY CASH FLOW INFORMATION**

**a) Items not affecting operating cash**

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 |
|---|---|---|
| | | Restated (Note 3) |
| Items not affecting operating cash: | | |
| Non-controlling interest | $9,831 | $13,440 |
| Depreciation of commercial properties | 18,765 | 16,456 |
| Depreciation of recoverable capital expenditures | 1,050 | 929 |
| Amortization of tenant improvements/lease costs | 4,272 | 3,511 |
| Amortization of deferred financing charges | 2,815 | 1,349 |
| Write off of deferred financing charges (Note 16) | 1,860 | - |
| Expense related to swap settlement (Note 16) | 8,139 | - |
| Amortization of effective swap agreements (Note 15) | 1,641 | 184 |
| Amortization of intangible assets | 21,944 | 23,019 |
| Amortization of above-market leases (Note 14) | 3,102 | 3,087 |
| Amortization of below-market leases (Note 14) | (8,197) | (7,297) |
| Loss on disposition of land | - | 331 |
| Accrued rental revenue | (3,162) | (1,942) |
| Unit based compensation | 47 | 42 |
| Future income tax recovery | (100) | (1,490) |
| | **$62,007** | **$51,619** |

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

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 |
|---|---|---|
| | | Restated (Note 3) |
| Cash provided by (used in): | | |
| Receivables | $(370) | $(1,535) |
| Prepaid expenses and other assets | 366 | (1,035) |
| Payables and other liabilities | (11,130) | 8,656 |
| | **$(11,134)** | **$6,086** |

**19) COMMITMENTS AND CONTINGENCIES**

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

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

Crombie has entered into a management cost sharing agreement with a subsidiary of Empire Company Limited. Details of this agreement are described in "Related Party Transactions" (Note 20).

Crombie has land leases on certain properties. These leases have payments of $969 per year over the next five years. The land leases have terms of between 15.3 and 75.7 years remaining, including renewal options.

Crombie obtains letters of credit to support its obligations with respect to construction work on its commercial properties and defeasing commercial property debt. In connection with the defeasance of the discontinued operations commercial property debt, Crombie has issued a standby letter of credit in the amount of $1,715 in favour of the mortgage lender. In addition, Crombie has $296 in standby letters of credit for construction work that is being performed on its commercial properties. Crombie does not believe that any of these standby letters of credit are likely to be drawn upon.

Crombie has agreed to acquire a portfolio of eight retail properties from subsidiaries of Empire Company Limited. The purchase price in respect of the eight properties is approximately $59,500, excluding closing and transaction costs, and represents an effective capitalization rate of 8.16%. The properties to be acquired comprise approximately 336,000 square feet of gross leaseable area, consisting of three freestanding tenants and five retail plazas.

**20) RELATED PARTY TRANSACTIONS**

As at December 31, 2009, Empire Company Limited, through its wholly-owned subsidiary ECL, holds a 47.4% (fully diluted 42.0%) indirect interest in Crombie. Crombie uses the exchange amount as the measurement basis for the related party transactions.

For a period of five years commencing March 23, 2006, certain executive management individuals and other employees of Crombie will provide general management, financial, leasing, administrative, and other administration support services to certain real estate subsidiaries of Empire Company Limited on a cost sharing basis, pursuant to a Management Cost Sharing Agreement dated March 23, 2006 between Crombie Developments Limited, a subsidiary of Crombie, and ECL Properties Limited, a subsidiary of Empire Company Limited ("Management Cost Sharing Agreement"). The costs assumed by Empire Company Limited pursuant to the agreement during the year ended December 31, 2009 were $1,055 (year ended December 31, 2008 - $1,393) and were netted against general and administrative expenses owing by Crombie to Empire Company Limited.

For a period of five years, commencing March 23, 2006, certain on-site maintenance and management employees of Crombie will provide property management services to certain real estate subsidiaries of Empire Company Limited on a cost sharing basis pursuant to the Management Cost Sharing Agreement. In addition, for various periods, ECL has an obligation to provide rental income and interest rate subsidies pursuant to an Omnibus Subsidy Agreement dated March 23, 2006 between Crombie Developments Limited, Crombie Limited Partnership and ECL. The cost assumed by Empire Company Limited pursuant to the Management Cost Sharing Agreement during the year ended December 31, 2009 were $1,148 (year ended December 31, 2008 $2,013) and were netted against property expenses owing by Crombie to Empire Company Limited. The head lease subsidy during the year ended December 31, 2009 was $854 (year ended December 31 2008 - $897).

Crombie also earned rental revenue of $62,634 for the year ended December 31, 2009 (year ended December 31, 2008 - $50,483) from Sobeys Inc., Empire Theatres and ASC Commercial Leasing Limited ("ASC"). These companies were all subsidiaries of Empire Company Limited until September 8, 2008 when ASC was sold. Property revenue from ASC is included in this note disclosure until the sale date.

Crombie had secured a $13,800 floating rate demand credit facility with Empire on substantially the same terms and conditions that govern the Revolving Credit Facility. This facility was put in place to ensure that Crombie maintained adequate liquidity in order to fund its daily operating activities while volatility in the financial markets continued. As at December 31, 2008, Crombie had $10,000 drawn against this facility which was repaid during the first quarter of 2009. During the third quarter of 2009, as a result of the improved financial market conditions, this facility was cancelled.

On February 12, 2009, Crombie completed fixed rate second mortgage financings of $6,200. The mortgages were provided by Empire Company Limited and have a weighted average interest rate of 5.38% and a maturity date of March 2014.

On June 1, 2009, Crombie acquired 1.1 acres of land adjacent to the Avalon Mall, Newfoundland and Labrador, for $3,527 plus additional closing costs from ECL General Partner Limited, an affiliate of Empire Company Limited. ECL General Partner Limited provided debt of $3,527 at a fixed rate of 8.00% and a term of 20 years.

On June 25, 2009, concurrent with the public offering, in satisfaction of its pre-emptive rights, ECL Developments Limited purchased $30,000 of Class B LP Units and the attached Special Voting Units, on a private-placement basis.

On September 30, 2009, as part of a prospectus offering, in satisfaction of its pre-emptive rights, Empire Company Limited purchased $10,000 of Series B Convertible Debentures.

Crombie has agreed to acquire a portfolio of eight retail properties from subsidiaries of Empire Company Limited. The purchase price in respect of the eight properties is approximately $59,500, excluding closing and transaction costs, and represents an effective capitalization rate of 8.16%. The properties to be acquired comprise approximately 336,000 square feet of gross leaseable area, consisting of three freestanding tenants and five retail plazas.

## 21) FINANCIAL INSTRUMENTS

### a) Fair value of financial instruments

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

Crombie has classified its financial instruments in the following categories:

i. Held for trading - Restricted cash and cash and cash equivalents

ii. Held to maturity investments – Assets related to discontinued operations

iii. Loans and receivables - Notes receivable and accounts receivable

iv. Other financial liabilities - Commercial property debt, liabilities related to discontinued operations, convertible debentures, tenant improvements and capital expenditures payable, property operating costs payable and interest payable

The book value of cash and cash equivalents, restricted cash, receivables, payables and accruals approximate fair values at the balance sheet date. The fair value of other financial instruments is based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts Crombie might pay or receive in actual market transactions.

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

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Assets related to discontinued operations | $6,929 | $7,066 | $7,184 | $7,477 |
| Commercial property debt | $711,152 | $708,401 | $814,194 | $812,488 |
| Convertible debentures | $115,000 | $120,200 | $30,000 | $25,950 |
| Liabilities related to discontinued operations | $6,334 | $6,270 | $6,487 | $6,599 |

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

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

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

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

**b) Risk management**

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

**Credit risk**

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. Crombie's credit risk is limited to the recorded amount of tenant receivables. A provision for doubtful accounts is taken for all anticipated problem accounts (Note 7).

Crombie mitigates credit risk by geographical diversification, utilizing staggered lease maturities, diversifying both its tenant mix and asset mix and conducting credit assessments for new and renewing tenants. As at December 31, 2009:

- Excluding Sobeys (which accounts for 32.7% of Crombie's minimum rent), no other tenant accounts for more than 2.2% of Crombie's minimum rent; and
- Over the next five years, no more than 9.4% of the gross leaseable area of Crombie will expire in any one year.

As outlined in Note 20, Crombie earned rental revenue of $62,634 for the year ended December 31, 2009 (year ended December 31, 2008 - $50,483) from subsidiaries of Empire Company Limited.

**Interest rate risk**

Interest rate risk is the potential for financial loss arising from increases in interest rates. Crombie mitigates interest rate risk by utilizing staggered debt maturities, limiting the use of permanent floating rate debt and utilizing interest rate swap agreements. As at December 31, 2009:

- Crombie's weighted average term to maturity of the fixed rate mortgages was 5.8 years; and
- Crombie's exposure to floating rate debt, including the impact of the fixed rate swap agreements discussed below, was 8.0% of the total commercial property debt.

Crombie has entered into interest rate swap agreements to manage the interest rate profile of its current or future debts without an exchange of the underlying principal amount. Turmoil in the financial markets materially affected interest swap rates. The interest swap rates are based on Canadian bond yields, plus a premium, called the swap spread, which reflects the risk of trading with a private counterparty as opposed to the Canadian government. Swap spreads fell far below historical average values and the effect of the abnormally low swap spreads, combined with the decline in the Canadian bond yields, resulted in a significant deterioration of the mark-to-market values for the interest rate swap agreements. A summary of the interest rate swaps settled during the year ended December 31, 2009 is as follows:

| Settlement Date | Hedged Item | Notional Amount | Settlement Amount |
|---|---|---|---|
| February 2, 2009 | Term Facility | $42,000 | $4,535 |
| August 27, 2009 | Term Facility | $16,000 | 2,807 |
| September 14, 2009 | Term Facility | $84,000 | 8,139 |
| October 15, 2009 | Term Facility | $38,000 | 6,116 |
| November 23, 2009 | HDL Properties Mortgage | $91,980 | 14,607 |
| | | | **$36,204** |

Swap settlement amounts on February 2, 2009, August 27, 2009, October 15, 2009 and November 23, 2009 have been recognized in other comprehensive income (loss) since the inception of the interest rate swap agreements as the swaps were all designated and effective hedges. These amounts will be reclassified to interest expense using the effective interest

method over the terms of the mortgages. The swap settlement amount on September 14, 2009 has been expensed in net income during the third quarter of 2009 as it was determined to be an ineffective hedge. (Note 16)

The breakdown of the swaps in place at December 31, 2009 as part of the interest rate management program, and their associated mark-to-market amounts are as follows:

- Crombie has entered into a fixed interest rate swap to fix the amount of interest to be paid on $50,000 of the revolving credit facility. The fair value of the fixed interest rate swap at December 31, 2009, had an unfavourable mark-to-market exposure of $2,896 (December 31, 2008 – unfavourable $4,024) compared to its face value. The change in this amount has been recognized in other comprehensive income (loss). The mark-to-market amount of fixed interest rate swaps reduce to $Nil upon maturity of the swaps.
- Crombie has entered into a delayed interest rate swap agreement of a notional amount of $8,204 (December 31, 2008 - $100,334) with a settlement date of July 2, 2011 and maturing July 2, 2021 to mitigate exposure to interest rate increases for a mortgage maturing in 2011. The fair value of this delayed interest rate swap agreement had an unfavourable mark-to-market exposure of $638 compared to the face value December 31, 2009 (December 31, 2008 – unfavourable $20,901). The change in this amount has been recognized in other comprehensive income (loss).

Crombie estimates that $4,025 of other comprehensive income (loss) will be reclassified to interest expense during the year ending December 31, 2010 based on interest rate swap agreements settled to December 31, 2009.

A fluctuation in interest rates would have had an impact on Crombie's net income and other comprehensive income (loss) items. Based on the previous year's rate changes, a 0.5% interest rate change would reasonably be considered possible. The changes would have had the following impact:

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | **0.5% increase** | **0.5% decrease** | **0.5% increase** | **0.5% decrease** |
| Impact on net income of interest rate changes on the floating rate revolving credit facility | $(794) | $794 | $(1,231) | $1,231 |

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | **0.5% increase** | **0.5% decrease** | **0.5% increase** | **0.5% decrease** |
| Impact on other comprehensive income and non-controlling interest items due to changes in fair value of derivatives designated as a cash flow hedge | $687 | $(710) | $10,678 | $(11,288) |

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

**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 the growth program and/or refinance the debt obligations as they mature.

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

There is a risk that the debt capital markets may not refinance maturing debt on terms and conditions acceptable to Crombie or at any terms at all. Crombie seeks to mitigate this risk by staggering the debt maturity dates (see Note 8). There is also a risk that the equity capital markets may not be receptive to an equity issue from Crombie with financial terms acceptable to Crombie.

As discussed in Note 23, Crombie mitigates its exposure to liquidity risk utilizing a conservative approach to capital management.

The estimated maturities of non-derivative financial liabilities are as follows:

| | Contractual Cash Flows[1] | 2010 | 2011 | 2012 | 2013 | 2014 | Thereafter |
|---|---|---|---|---|---|---|---|
| Fixed rate mortgages[2] | $766,153 | $151,021 | $68,946 | $41,217 | $70,968 | $98,805 | $335,196 |
| Convertible debentures | 151,046 | 7,413 | 7,413 | 7,413 | 35,838 | 5,313 | 87,656 |
| | 917,199 | 158,434 | 76,359 | 48,630 | 106,806 | 104,118 | 422,852 |
| Floating rate revolving credit facility | 108,596 | 1,624 | 106,972 | - | - | - | - |
| **Total** | **$1,025,795** | **$160,058** | **$183,331** | **$48,630** | **$106,806** | **$104,118** | **$422,852** |

(1) Contractual cash flows include principal and interest and ignore extension options
(2) Reduced by the interest rate subsidy payment received from ECL

The estimated maturities of derivative financial liabilities are as follows:

| | Total | 2010 | 2011 | 2012 | 2013 | 2014 | Thereafter |
|---|---|---|---|---|---|---|---|
| Swap agreement | $3,534 | $1,930 | $1,604 | $- | $- | $- | $- |

Crombie was able to access the equity capital markets in June 2009 for gross proceeds of $66,855 (Note 13) and the debt capital markets in September 2009 for gross proceeds of $85,000 (Note 9).

Crombie has $106,079 of fixed rate mortgage debt maturing in the first quarter of 2010. On February 1, 2010, this amount was refinanced as described in “Subsequent Events” (Note 25).

Crombie was also able to access the debt capital markets in February 2010 for gross proceeds of $45,000 as described in “Subsequent Events” (Note 25).

**22) ASSET HELD FOR SALE AND DISCONTINUED OPERATIONS**

(a) On May 21, 2008, land attached to a commercial property was sold to an unrelated third party, resulting in a gain of $77.

(b) During the second quarter of 2008, Crombie and an unrelated third party signed a purchase and sale agreement for a commercial property. The purchase and sale agreement closed on October 24, 2008. During the year ended December 31, of 2008, the asset held for sale was written down to estimate the property’s fair value resulting in a charge of $408 (net of taxes $210).

(c) During the fourth quarter of 2008, Crombie defeased the mortgage associated with the discontinued operations. The transaction did not qualify for defeasance accounting, therefore the defeased loan and related asset have not been removed from the balance sheet. The defeased loan is payable in monthly payments of $42 and bears interest at 5.46%, was originally amortized over 25 years and is due April 1, 2014. Crombie purchased Government of Canada bonds and treasury bills and Canada mortgage bonds and pledged them as security to the mortgage company. The bonds mature between January 22, 2009 and September 15, 2013, have a weighted average interest rate of 3.63% and have been placed in escrow. The assets and liabilities related to discontinued operations are measured at amortized cost using the effective interest method, until April 1, 2014 at which time the debt will be extinguished.

The following tables set forth the balance sheets associated with the income property classified as held for sale as at December 31, 2009 and December 31, 2008 and the statements of income for the property held for sale for the year ended December 31, 2009 and December 31, 2008.

**Balance Sheets**

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Assets | | |
| Assets related to discontinued operations | $6,929 | $7,184 |
| Liabilities | | |
| Accounts payable and accrued liabilities | - | 30 |
| Liabilities related to discontinued operations | 6,334 | 6,487 |
| | 6,334 | 6,517 |
| Net investment in asset held for sale | **$595** | **$667** |

**Statements of Income**

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 |
|---|---|---|
| Property revenue | | |
| Rental revenue contractually due from tenants | $- | $2,214 |
| Straight-line rent recognition | - | 10 |
| Below-market lease amortization | - | 7 |
| Above-market lease amortization | - | (29) |
| | - | 2,202 |
| Expenses | | |
| Property expenses | - | 1,087 |
| Interest | - | 337 |
| Depreciation of commercial properties | - | 58 |
| Amortization of tenant improvements/lease costs | - | 23 |
| Amortization of intangible assets | - | 48 |
| | - | 1,553 |
| Income from discontinued operations | **$-** | **$649** |

**23) CAPITAL MANAGEMENT**

Crombie's objective when managing capital on a long-term basis is to maintain overall indebtedness, including convertible debentures, in the range of 50% to 60% of gross book value (as defined in the credit facility agreement), utilize staggered debt maturities, minimize long-term exposure to floating rate debt and maintain conservative payout ratios. Crombie's capital structure consists of the following:

| | December 31, 2009 | December 31, 2008 Restated (Note 3) |
|---|---|---|
| Commercial property debt | $706,369 | $808,971 |
| Convertible debentures | 110,858 | 28,968 |
| Non-controlling interest | 225,367 | 199,163 |
| Unitholders' equity | 246,975 | 215,558 |
| | $1,289,569 | $1,252,660 |

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

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

- A restriction that Crombie shall not incur indebtedness of more than 60% of gross book value (65% including any convertible debentures)

Crombie's debt to gross book ratio as defined in Crombie's Declaration of Trust is as follows:

| | **December 31, 2009** | **December 31, 2008** |
|---|---|---|
| | | Restated (Note 3) |
| Mortgages payable | $604,992 | $531,970 |
| Convertible debentures | 115,000 | 30,000 |
| Term facility | - | 178,824 |
| Revolving credit facility | 106,160 | 93,400 |
| Demand credit facility | - | 10,000 |
| Total debt outstanding | 826,152 | 844,194 |
| Less: Applicable fair value debt adjustment | (7,733) | (10,818) |
| Debt | $818,419 | $833,376 |
| | | |
| Total assets | $1,457,166 | $1,483,219 |
| Add: | | |
| Deferred financing charges | 8,925 | 6,255 |
| Accumulated depreciation of commercial properties | 69,952 | 45,865 |
| Accumulated amortization of intangible assets | 78,551 | 53,505 |
| Less: | | |
| Assets held related to discontinued operations | (6,929) | (7,184) |
| Interest rate subsidy | (7,733) | (10,818) |
| Fair value adjustment to future taxes | (39,245) | (39,245) |
| Gross book value | $1,560,687 | $1,531,597 |
| Debt to gross book value | 52.4% | 54.4% |

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 any negative mark-to-market position on the interest rate swap agreements, not to exceed the security provided by Crombie; and
- distributions to Unitholders are limited to 100% of Distributable Income as defined in the revolving credit facility.

The revolving credit facility also contains a covenant that ECL Developments Limited must maintain a minimum 40% voting interest in Crombie. If ECL Developments Limited reduces its voting interest below this level, Crombie will be required to renegotiate the revolving credit facility or obtain alternative financing. Pursuant to an exchange agreement, and while such covenant remains in place, ECL Developments Limited will be required to give Crombie at least six months' prior written notice of its intention to reduce its voting interest below 40%.

As at December 31, 2009, Crombie is in compliance with all externally imposed capital requirements and all covenants relating to its debt facilities.

**24) EMPLOYEE FUTURE BENEFITS**

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

**Defined contribution pension plans**

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

**Defined benefit pension plans**

The ultimate retirement benefit is defined by a formula that provides a unit of benefit for each year of service. Employee contributions, if required, pay for part of the cost of the benefit, and the employer contributions fund the balance. The employer contributions are not specified or defined within the plan text. They are based on the result of actuarial valuations which determine the level of funding required to meet the total obligation as estimated at the time of the valuation. The defined benefit plans are unfunded. During the second quarter of 2009, Crombie announced the retirement of its Chief Executive Officer. As a result of this announcement, an adjustment of $1,180 was made to the employee future benefit obligation to recognize service costs and interest costs.

The total defined benefit cost related to pension plans and post retirement benefit plans for the year ended December 31, 2009 was $1,531 (year ended December 31, 2008 - $382).

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

| | **Most recent valuation date** | **Next required valuation date** |
|---|---|---|
| Senior Management Pension Plan | December 31, 2009 | December 31, 2012 |
| Post-retirement Benefit Plans | May 1, 2008 | May 1, 2011 |

**Defined benefit plans**

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

| | **December 31, 2009** | | **December 31, 2008** | |
|---|---|---|---|---|
| **Accrued benefit obligation** | **Senior Management Pension Plan** | **Post-Retirement Benefit Plans** | **Senior Management Pension Plan** | **Post-Retirement Benefit Plans** |
| Balance, beginning of year | $951 | $2,545 | $951 | $2,941 |
| Impact of assumption changes | - | - | - | - |
| Current service cost | 29 | 112 | 40 | 145 |
| Interest cost | 152 | 179 | 52 | 162 |
| Actuarial loss (gain) | 530 | 472 | (92) | (698) |
| Benefits paid | (100) | (7) | - | (5) |
| Termination benefits | 1,131 | - | - | - |
| Balance, end of year | 2,693 | 3,301 | 951 | 2,545 |
| **Plan Assets** | | | | |
| Fair value at the beginning of the year | $- | $- | $- | $- |
| Employer contributions | 100 | 7 | - | 5 |
| Benefits paid | (100) | (7) | - | (5) |
| Fair value at end of year | $- | $- | $- | $- |
| **Funded status - deficit** | **2,693** | **3,301** | **951** | **2,545** |
| Unamortized actuarial gains | (379) | 645 | 151 | 1,189 |
| Accrued benefit obligation recorded as a liability | **$2,314** | **$3,946** | **$1,102** | **$3,734** |

| **Net expense** | | | | |
|---|---|---|---|---|
| Current service cost | $29 | $112 | $40 | $145 |
| Interest cost | 152 | 179 | 52 | 162 |
| Actuarial loss (gains) | 530 | 472 | (92) | (698) |
| Termination benefits | 1,131 | - | - | - |
| Expense before adjustments | 1,842 | 763 | - | (391) |
| Recognized vs. actual actuarial (losses) gains | (530) | (544) | 92 | 682 |
| Net expense | **$1,312** | **$219** | **$92** | **$291** |

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

| | **December 31, 2009** | | **December 31, 2008** | |
|---|---|---|---|---|
| | **Senior Management Pension Plan** | **Post-Retirement Benefit Plans** | **Senior Management Pension Plan** | **Post-Retirement Benefit Plans** |
| Discount rate – accrued benefit obligation | 5.50% | 6.25% | 6.25% | 6.75% |
| Discount rate – periodic cost | 6.25% | 6.75% | 5.25% | 5.25% |
| Rate of compensation increase | 4.00% | N/A | 4.00% | N/A |

For measurement purposes, a 9.0% fiscal 2009 annual rate of increase in the per capita cost of covered health care benefits was assumed. The cumulative rate expectation to 2018 is 5.0%. The EARSL for the active employees covered by the pension benefit plans range from 3 to 5 years at year end. The EARSL of the active employees covered by the other benefit plans range from 10 to 13 years at year end.

The table below outlines the sensitivity of the fiscal 2009 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.

| | | **Senior Management Pension Plan** | | **Post-Retirement Benefit Plans** | |
|---|---|---|---|---|---|
| | | **Benefit Obligations** | **Benefit Cost[1]** | **Benefit Obligations** | **Benefit Cost[1]** |
| Discount Rate | | 5.50% | 5.50% | 6.25% | 6.25% |
| Impact of: | 1% increase | $(243) | $253 | $(634) | $(48) |
| | 1% decrease | $287 | $(129) | $785 | $54 |
| Growth rate of health costs[2] | | | | 9.0% | 9.0% |
| Impact of: | 1% increase | | | $723 | $73 |
| | 1% decrease | | | $(561) | $(55) |

(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 2018 and remaining at that level thereafter.

For the year ended December 31, 2009, the net defined contribution pension plans expense was $350 (year ended December 31, 2008 - $303).

### 25) SUBSEQUENT EVENTS

a) On January 21, 2010, Crombie declared distributions of 7.417 cents per unit for the period from January 1, 2010 to and including, January 31, 2010. The distribution was paid on February 15, 2010 to Unitholders of record as at January 31, 2010.

b) On February 1, 2010, Crombie completed the refinancing for the office and retail portfolio known as Halifax Developments ("HDL"). The principal amount of the maturing HDL mortgages is approximately $106,079 with a weighted average interest rate of 5.43%. The new HDL mortgages are for a total of $141,000. The first mortgage financing has a $25,000 principal, a ten year term and a 25 year amortization with a fixed interest rate of 6.52%. The second refinancing is for $116,000 in principal; a ten year term and an amortization period of 25 years with a fixed interest rate of 6.47%.

c) On February 8, 2010, Crombie issued $45,000 in Series C Convertible unsecured subordinate Debentures (the "Series C Debentures") to reduce the revolving credit facility. The Series C Debentures pay interest at a rate of 5.75% per annum, paid semi-annually on June 30 and December 31 of each year and Crombie has the option to pay interest on any interest payment date by selling Units and applying the proceeds to satisfy its interest obligation. Each Series C Debenture is convertible into Units at the option of the debenture holder at any time up to the maturity date, at a conversion price of $15.30, being a conversion rate of approximately 65.3595 Units per one thousand principal. The Series C Debentures have a maturity date of June 30, 2017.

d) On February 10, 2010, Crombie executed commitments for first mortgage financing on five properties. The mortgages are for a total of $33,850 in principal, with an eight year term, a fixed rate interest rate of 5.70% and a weighted average amortization period of 21.6 years. The mortgages are anticipated to close on February 26, 2010.

e) On February 18, 2010, Crombie declared distributions of 7.417 cents per unit for the period from February 1, 2010 to and including, February 28, 2010. The distribution will be payable on March 15, 2010 to Unitholders of record as at February 28, 2010.

f) On February 22, 2010, Crombie completed the acquisition of five retail properties, representing approximately 186,000 square feet of gross leaseable area, from subsidiaries of Empire Company Limited. The purchase price of the properties is approximately $31,530, excluding closing and transaction costs. The purchase price was funded through $8,400 of assumed mortgages and the balance from Crombie's floating rate revolving credit facility. This is the first stage of the acquisitions announced on November 5, 2009. The acquisition of the remaining three retail properties for approximately $28,000, with approximately 150,000 square feet of gross leaseable area is expected to close during the first quarter of 2010.

### 26) SEGMENT DISCLOSURE

Crombie owns and operates primarily retail real estate assets located in Canada. Management, in measuring Crombie's performance or making operating decisions, does not distinguish or group its operations on a geographical or other basis. Accordingly, Crombie has a single reportable segment for disclosure purposes in accordance with GAAP.

### 27) COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to reflect the current year's presentation.