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## Management Discussion and Analysis

### (In thousands of dollars, except per unit amounts)

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Crombie Real Estate Investment Trust ("Crombie") for the year and quarter ended December 31, 2008, with a comparison to the financial condition and results of operations for the comparable period in 2007 and 2006.

This MD&A should be read in conjunction with Crombie's consolidated financial statements and accompanying notes for the period ended December 31, 2008, and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2007 and the related MD&A and the audited consolidated financial statements and accompanying notes for the period March 23, 2006 to December 31, 2006 and the related MD&A. Information about Crombie can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### FORWARD-LOOKING INFORMATION

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

In particular, certain statements in this document discuss Crombie's anticipated outlook of future events. These statements include, but are not limited to:

- (i) the development of new properties under a development agreement, which development activities are undertaken by a related party and thus are not under the direct control of Crombie and whose activities could be impacted by real estate market cycles, the availability of labour and general economic conditions;
- (ii) the acquisition of accretive properties and the anticipated extent of the accretion of any acquisitions, which could be impacted by demand for properties and the effect that demand has on acquisition capitalization rates and changes in interest rates;
- (iii) making improvements to the properties, which could be impacted by the availability of labour and capital resource allocation decisions;
- (iv) generating improved rental income and occupancy levels, which could be impacted by changes in demand for Crombie's properties, tenant bankruptcies, the effects of general economic conditions and competitive supply of competitive locations in proximity to Crombie locations;
- (v) overall indebtedness levels, which could be impacted by the level of acquisition activity Crombie is able to achieve and future financing opportunities;
- (vi) tax exempt status, which can be impacted by regulatory changes enacted by governmental authorities;
- (vii) anticipated subsidy payments from ECL Developments Limited ("ECL"), which are dependent on tenant leasing and construction activity;
- (viii) anticipated distributions and payout ratios, which could be impacted by seasonality of capital expenditures, results of operations and capital resource allocation decisions;
- (ix) anticipated accretion levels relating to portfolio acquisitions, which are dependent on interest and liquidity risks. The accretion levels as stated in the MD&A are based on the anticipated fixed rates of permanent financing rather than the lower current floating interest rates being paid on in-place term financing;
- (x) anticipated permanent placement of debt financing relating to a portfolio acquisition which is dependent on liquidity risks;
- (xi) the effect that any contingencies would have on Crombie's financial statements;
- (xii) the impact of new accounting policies relating to intangible assets and anticipated reclassification among asset classes without material change to unitholders' equity or net income; and
- (xiii) the continued investment in training and resources throughout the international financial reporting standards transition.

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

#### NON-GAAP FINANCIAL MEASURES

There are financial measures included in this MD&A that do not have a standardized meaning under Canadian generally accepted accounting principles ("GAAP") as prescribed by the Canadian Institute of Chartered Accountants. These measures are property net operating income ("NOI"), adjusted funds from operations ("AFFO"), debt to gross book value, funds from operations ("FFO") and earnings before interest, taxes, depreciation and amortization ("EBITDA"). Management includes these measures because it believes certain investors use these measures as a means of assessing relative financial performance.

#### INTRODUCTION

#### Financial and Operational Summary

<i>(in thousands of dollars, except per unit amounts and as otherwise noted)</i>	Year Ended December 31, 2008	Year Ended December 31, 2007	Quarter Ended December 31, 2008	Quarter Ended December 31, 2007
Property revenue	\$188,142	\$141,235	\$52,522	\$36,455
Net income	\$14,588	\$10,659	\$5,403	\$4,058
Basic and diluted net income per unit	\$0.57	\$0.49	\$0.20	\$0.19
FFO	\$69,855	\$50,809	\$18,699	\$13,057
FFO per unit <sup>(1)</sup>	\$1.42	\$1.22	\$0.36	\$0.31
FFO payout ratio (%)	63.1%	68.9%	62.3%	67.9%
AFFO	\$46,221	\$34,842	\$14,447	\$7,561
AFFO per unit <sup>(1)</sup>	\$0.94	\$0.84	\$0.28	\$0.18
AFFO payout ratio (%)	95.3%	100.4%	80.6%	117.3%
	December 31, 2008	December 31, 2007	December 31, 2006	
Debt to gross book value <sup>(2)</sup>	54.5%	48.0%	44.6%	
Total assets	\$1,483,481	\$1,013,982	\$952,789	
Total commercial property debt and convertible debentures	\$837,939	\$493,945	\$426,191	

(1) FFO and AFFO per unit are calculated by FFO or AFFO, as the case may be, divided by the diluted weighted average of the total Units and Special Voting Units outstanding of 49,172,845 for the year ended December 31, 2008, 41,725,711 for the year ended December 31, 2007, 52,351,464 for the quarter ended December 31, 2008 and 41,728,561 for the quarter ended December 31, 2007.

(2) See "Borrowing Capacity and Debt Covenants" for detailed calculation.

#### Overview of the Business

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

Crombie completed its IPO of 20,485,224 units ("Units") on March 23, 2006 for gross proceeds of \$204,852. Concurrent with the initial public offering ("IPO"), Crombie acquired 44 commercial properties in six provinces, totalling approximately 7.2 million square feet (the "Business Acquisition") from certain affiliates of Empire Company Limited ("Empire Subsidiaries"). On April 22, 2008, Crombie purchased a portfolio of 61 retail properties in six provinces, totalling approximately 3.3 million square feet from Empire Subsidiaries.

Crombie invests in income-producing retail, office and mixed-use properties in Canada, with a future growth strategy focused primarily on the acquisition of retail properties. At December 31, 2008, Crombie owned a portfolio of 113 commercial properties in seven provinces, comprising approximately 11.2 million square feet of gross leaseable area ("GLA").

## Business Strategy and Outlook

The objectives of Crombie are threefold:

1. Generate reliable and growing cash distributions;
2. Enhance the value of Crombie's assets and maximize long-term unit value through active management; and
3. Expand the asset base of Crombie and increase its cash available for distribution through accretive acquisitions.

Generate reliable and growing cash distributions: Management focuses on improving both the same-asset results while expanding the asset base with accretive acquisitions to grow the cash distributions to unitholders. As at December 31, 2008, after just under three years of operations, Crombie has been able to increase its distributions three times for a total increase of 11.25%. Crombie has achieved these distribution increases while achieving its annual AFFO payout ratio targets.

Enhance value of Crombie's assets: Crombie anticipates reinvesting approximately 3% to 5% of its property revenue each year into its properties to maintain their productive capacity and thus overall value.

Crombie's internal growth strategy focuses on generating greater rental income from its existing properties. Crombie plans to achieve this by strengthening its asset base through judicious expansion and improvement of existing properties, leasing vacant space at competitive market rates with the lowest possible transaction costs, and maintaining good relations with tenants. Management will continue to conduct regular reviews of properties and, based on its experience and market knowledge, will assess ongoing opportunities within the portfolio.

Expand asset base with accretive acquisitions: Crombie's external growth strategy focuses primarily on accretive acquisitions of income-producing retail properties. Crombie pursues two sources of accretive acquisitions which are third party acquisitions and the relationship with ECL. All acquisitions completed to date have been purchased at costs which ensure they will be immediately accretive to cash available for distribution. The relationship with ECL includes currently owned and future development properties, as well as opportunities through the rights of first refusal that one of Empire's subsidiaries has negotiated in many of their leases. Crombie will seek to identify future property acquisitions using investment criteria that focus on the strength of anchor tenancies, market demographics, terms of tenancies, proportion of revenue from national tenants, opportunities for expansion, security of cash flow, potential for capital appreciation and potential for increasing value through more efficient management of the assets being acquired, including expansion and repositioning.

Crombie plans to work closely with ECL to identify development opportunities that further Crombie's external growth strategy. The relationship is governed by a development agreement described in the Material Contracts section of Crombie's Annual Information Form for the year ended December 31, 2008. Through this relationship, Crombie expects to have the benefits associated with development while limiting its exposure to the inherent risks of development, such as real estate market cycles, cost overruns, labour disputes, construction delays and unpredictable general economic conditions. The development agreement will also enable Crombie to avoid the uncertainties associated with property development, including paying the carrying costs of land, securing construction financing, obtaining development approvals, managing construction projects, marketing in advance of and during construction and earning no return during the construction period.

The development agreement provides Crombie with a preferential right to acquire retail properties developed by ECL, subject to approval by the independent trustees. The history of the relationship between Crombie and ECL continues to provide promising opportunities for growth through future development opportunities on both new and existing sites in Crombie's portfolio.

ECL currently owns approximately 1.4 million square feet in eighteen development properties that can be offered to Crombie on a preferential right through the development agreement when the properties are sufficiently developed to meet Crombie's acquisition criteria. The properties are primarily retail plazas and approximately 60% of the GLA of the eighteen properties is located outside of Atlantic Canada. These properties are anticipated to be made available to Crombie over the next one to four years.

On April 22, 2008, Crombie closed an acquisition of a 61 retail property portfolio representing approximately 3.3 million square feet of GLA (the "Portfolio Acquisition") from Empire Subsidiaries. The cost of the Portfolio Acquisition to Crombie was \$428,500, excluding closing and transaction costs. The portfolio consists of 40 single-use freestanding Sobeys grocery stores of various Sobeys banners, 20 Sobeys anchored retail strip centres and one Sobeys anchored partially enclosed centre. The GLA of the portfolio is as follows: Atlantic Canada – 78%; Quebec – 7%; and Ontario – 15%.

Crombie received approval by a majority of its unitholders (excluding Empire Subsidiaries and certain of its affiliates and insiders) to proceed with the Portfolio Acquisition at a meeting held on April 14, 2008.

In order to partially finance the Portfolio Acquisition, on March 20, 2008, Crombie completed a public offering of 5,727,750 subscription receipts, including the over-allotment option, at a price of \$11.00 per subscription receipt (each subscription receipt converted into one Unit of Crombie upon closing) and \$30,000 of convertible extendible unsecured subordinated debentures (the "Debentures") to a syndicate of underwriters led by CIBC World Markets Inc. and TD Securities Inc. for aggregate gross proceeds of \$93,005.

Empire Subsidiaries took \$55,000 of the purchase price in Class B LP Units of Crombie Limited Partnership at the \$11.00 offering price. Empire Company Limited ("Empire") holds a 47.9% economic and voting interest in Crombie as of December 31, 2008.

The remainder of the purchase price was satisfied with a \$280,000, 18 month floating rate term financing ("Term Facility") from the Bank of Nova Scotia and a draw on Crombie's revolving credit facility. On September 30, 2008, Crombie completed a refinancing of \$100,000 of the Term Facility with fixed rate mortgages (see "Commercial Property Debt"). Subsequent to December 31, 2008, Crombie completed mortgage refinancing on an additional \$39,000 of the Term Facility (see "Subsequent Events"). It is Crombie's intention to replace the remaining Term Facility by suitable long-term fixed-rate financing.

Crombie expects that the Portfolio Acquisition will have a positive impact to AFFO per unit and FFO per unit will remain at a consistent level. Debt to gross book value increased from 48.0% at December 31, 2007 to 52.6 % excluding Debentures, which is within Crombie's target ratio of 50% to 55%, and 54.5% including Debentures at December 31, 2008. Both ratios remain under the maximum allowable ratio as per Crombie's Declaration of Trust.

The following table summarizes the key performance measures and balance sheet changes as a result of the Portfolio Acquisition:

	Crombie for the year ended December 31, 2007	Annualized Pro Forma Effect of Acquisition	Crombie Pro Forma Annualized for Acquisition
Commercial properties	\$898,938	\$411,262	\$1,310,200
Commercial property debt	\$493,945	\$291,775	\$785,720
Property revenue	\$141,235	\$51,274	\$192,509
Property NOI	\$83,219	\$34,848	\$118,067
Units outstanding	21,648,985	5,727,750	27,376,735
Class B LP units outstanding	20,079,576	5,000,000	25,079,576
FFO	\$50,809	\$13,413	\$64,222
FFO/unit	\$1.22	\$1.25	\$1.22
AFFO	\$34,842	\$12,329	\$47,171
AFFO/unit	\$0.84	\$1.15	\$0.90

During the second, third and fourth quarters, the actual results of the Portfolio Acquisition were aligned with management's expectations and no events transpired that would give reason to believe that the results will differ materially from the pro forma estimates on an annual basis.

Crombie completed its first property acquisition west of Ontario by purchasing River City Centre in Saskatoon, Saskatchewan on June 12, 2008 for \$27,200 excluding closing and transaction costs. The 160,000 square foot site was 100% leased to 13 tenants at the time of purchase.

On October 24, 2008, Crombie completed the sale of West End Mall in Halifax, Nova Scotia. Under GAAP, the financial position and operating results have been reclassified on the financial statements for Crombie as Assets and Liabilities related to discontinued operations on a retroactive basis. The leasing and operating results tables in this MD&A also reflect the sale of the property on Crombie's results.

### **Business Environment**

During 2008, credit markets experienced a dramatic reduction in liquidity. As the credit crisis deepened during the second half of 2008, both the ability and willingness of financial institutions to lend money was greatly reduced as financial institutions became increasingly risk adverse. This reduced credit availability continues to be a major risk to the capital intensive real estate investment trust ("REIT") business environment. This reduction in available credit, combined with overall volatility in North American stock markets, has negatively impacted the unit price of many REITs.

The turmoil in the financial markets also caused bond yields to materially decline and reduced interest rate swap spreads to unprecedented levels during the fourth quarter of 2008. This resulted in a significant deterioration of the mark-to-market values during the final quarter of 2008 for the interest rate swap agreements Crombie has entered into to hedge its exposure to potential increases in Canadian bond yields associated with future debt issuances. The impact is more fully explained under the "Borrowing Capacity and Debt Covenants" and "Risk Management" sections of this MD&A.

Interest in investing in the real estate market has begun to moderate from 2007 and thus capitalization rates have begun to expand in light of the widening credit spreads, a limited liquidity credit environment and the recent deterioration in the unit price of many REITs. While it may be very challenging to source accretive acquisitions under these current market conditions, Crombie still intends to continue to pursue acquisitions that provide an acceptable return, including any acquisitions that may result from the relationship between Crombie and ECL.

In terms of occupancy rates, while both the retail and office markets where Crombie has a prominent presence remain relatively stable, the business environment outlook has become decidedly pessimistic, influenced by the pronounced recession in the U.S. economy and the emerging recession in the Canadian economy. One offsetting factor to the economic slowdown is that many of Crombie's retail locations are anchored by food stores, which typically are less affected by swings in consumer spending.

## 2008 HIGHLIGHTS

- Crombie completed the acquisition of 61 commercial properties from Empire Subsidiaries on April 22, 2008 for a price of \$428,500, excluding closing and transaction fees. In order to partially fund the purchase, Crombie also completed a public offering of units, raising gross proceeds of \$63,005 and placed \$30,000 of Debentures.
- Crombie completed leasing activity on 104.8% of its 2008 expiring leases as at December 31, 2008, increasing average net rent per square foot to \$12.46 from the expiring rent per square foot of \$12.05, an increase of 3.4%.
- Occupancy for the properties (excluding the Portfolio Acquisition) at December 31, 2008 was 92.9% compared with 93.2% at September 30, 2008. Overall occupancy at December 31, 2008 was 94.9%.
- Property revenue for the year ended December 31, 2008 increased by \$46,907, or 33.2%, to \$188,142 compared to \$141,235 for the year ended December 31, 2007. The improvement was due to the Portfolio Acquisition, increased same-asset property results and the six individual property acquisitions.
- Same-asset NOI of \$82,133 increased by \$2,255 or 2.8%, compared to \$79,878 for the year ended December 31, 2007 due primarily to an increased average net rent per square foot (\$12.26 in 2008 versus \$12.10 in 2007).
- The FFO payout ratio for the year ended December 31, 2008 was 63.1% which was below the target annual payout ratio of 70.0% and below the payout ratio of 68.9% for the same period of 2007.
- The AFFO payout ratio for the year ended December 31, 2008 was 95.3% which approximated the target annual AFFO payout ratio of 95.0% and was below the payout ratio for the same period of 2007 of 100.4%.
- Debt to gross book value increased to 54.5% at December 31, 2008 compared to 48.0% at December 31, 2007 due primarily to the Portfolio Acquisition.
- Crombie's interest service coverage ratio for the year ended December 31, 2008 was 2.74 times EBITDA and debt service coverage ratio was 2.00 times EBITDA, compared to 3.00 times EBITDA and 2.03 times EBITDA, respectively, for the same period in 2007.

## OVERVIEW OF THE PROPERTY PORTFOLIO

### Property Profile

At December 31, 2008 the property portfolio consisted of 113 commercial properties that contain approximately 11.2 million square feet of GLA. The properties are located in seven provinces: Nova Scotia, New Brunswick, Newfoundland and Labrador, Prince Edward Island, Ontario, Quebec and Saskatchewan.

As at December 31, 2008, the portfolio distribution of the GLA by province was as follows:

Province	Number of Properties	GLA (sq. ft.)	% of GLA	% of Annual Minimum Rent	Occupancy <sup>(1)</sup>
Nova Scotia	41	5,062,000	45.3%	41.0%	94.4%
Ontario	22	1,640,000	14.7%	16.8%	96.1%
New Brunswick	20	1,647,000	14.7%	12.6%	92.0%
Newfoundland and Labrador	13	1,465,000	13.1%	17.0%	95.1%
Quebec	13	821,000	7.3%	7.9%	99.5%
Prince Edward Island	3	385,000	3.5%	3.2%	96.9%
Saskatchewan	1	160,000	1.4%	1.5%	100.0%
<b>Total</b>	<b>113</b>	<b>11,180,000</b>	<b>100.0%</b>	<b>100.0%</b>	<b>94.9%</b>

(1) For purposes of calculating occupancy percentage, Crombie considers GLA covered by the head lease agreement in favour of ECL as occupied as there is head lease revenue being earned on the GLA

During the fourth quarter of 2008 there was an increase in GLA due to expansion at two Sobeys locations in Newfoundland and Labrador, one Lawtons location and one Sobeys location in Nova Scotia and a freestanding pad expansion in Quebec.

Crombie continues to diversify its geographic composition through growth opportunities, as indicated by the seven acquisitions in Ontario, one acquisition in Quebec and one acquisition in Saskatchewan, plus the Portfolio Acquisition since the IPO. As well, the properties are located in rural and urban locations, which Crombie believes adds stability and future growth potential, while reducing vulnerability to economic fluctuations that may affect any particular region.

### Largest Tenants

The following table illustrates the ten largest tenants in Crombie's portfolio of income-producing properties as measured by their percentage contribution to total annual minimum base rent as at December 31, 2008.

Tenant	% of Annual Minimum Rent	Average Remaining Lease Term
Sobeys <sup>(1)</sup>	33.0%	17.0 years
Empire Theatres	2.2%	9.1 years
Zellers	2.2%	9.0 years
Shoppers Drug Mart	2.0%	7.3 years
Nova Scotia Power Inc	1.9%	2.3 years
CIBC	1.6%	18.0 years
Province of Nova Scotia	1.5%	6.5 years
Bell (Aliant)	1.4%	9.6 years
Public Works Canada	1.3%	2.4 years
Sears Canada Inc.	1.2%	15.9 years
<b>Total</b>	<b>48.3%</b>	

(1) Excludes Lawtons and Fast Fuel locations.

Crombie's portfolio is leased to a wide variety of tenants. Other than Sobeys, which accounts for 33.0% of the annual minimum rent, no other tenant accounts for more than 2.2% of Crombie's minimum rent.

Crombie had five locations leased to SAAN Stores Ltd. totalling 135,948 square feet of GLA, representing 1.2% of Crombie's total GLA as at December 31, 2008. During the second quarter SAAN ceased operations and came under bankruptcy protection. Total annual rental revenue from the locations was approximately \$293, representing less than 0.16% of Crombie's total property revenue (\$2.16 net rent per square foot). As at December 31, 2008, two of the leases had been taken over by the Bargain Shop and two had been taken over by Hart Stores. The remaining location had been disclaimed by the trustee as at December 31, 2008. Subsequent to year end, nine locations leased to Source by Circuit City totalling 17,979 square feet of GLA, representing less than 0.2% of Crombie's total GLA had come under bankruptcy protection.

### Lease Maturities

The following table sets out as of December 31, 2008 the number of leases relating to the properties subject to lease maturities during the periods indicated (assuming tenants do not holdover on a month-to-month basis or exercise renewal options or termination rights), the renewal area, the percentage of the total GLA of the properties represented by such maturities and the estimated average net rent per square foot at the time of expiry. The weighted average remaining term of all leases is approximately 10.6 years.

Year	Number of Leases	Renewal Area (sq. ft.)	% of Total GLA	Average Net Rent per Sq. Ft. at Expiry (\$)
2009	248	703,000	6.3%	\$13.58
2010	199	784,000	7.0%	\$12.32
2011	212	1,123,000	10.1%	\$13.70
2012	155	781,000	7.0%	\$12.19
2013	146	853,000	7.6%	\$11.83
Thereafter	375	6,365,000	56.9%	\$13.02
<b>Total</b>	<b>1,335</b>	<b>10,609,000</b>	<b>94.9%</b>	<b>\$12.92</b>

## 2008 Portfolio Lease Expiries and Leasing Activity

The portfolio lease expiries and leasing activity, excluding the impact of the 2008 acquisitions and disposals, for the year ending December 31, 2008 were as follows:

	Retail - Freestanding	Retail - Plazas	Retail - Enclosed	Office	Mixed-use	Total
Expiries (sq. ft.)	--	79,000	247,000	136,000	219,000	681,000
Average net rent per sq. ft.	\$--	\$13.96	\$13.32	\$10.92	\$10.63	\$12.05
Committed renewals (sq. ft.)	--	35,000	181,000	80,000	148,000	444,000
Average net rent per sq. ft.	\$--	\$16.60	\$12.42	\$10.97	\$12.44	\$12.49
New leasing (sq. ft.)	--	99,000	93,000	54,000	24,000	270,000
Average net rent per sq. ft.	\$--	\$13.04	\$10.17	\$14.91	\$12.83	\$12.41
Total renewals/new leasing (sq. ft.)	--	134,000	274,000	134,000	172,000	714,000
Total average net rent per sq. ft.	\$--	\$13.96	\$11.66	\$12.56	\$12.49	\$12.46

During the year ended December 31, 2008, Crombie had renewals or entered into new leases in respect of approximately 714,000 square feet at an average net rent of \$12.46 per square foot, compared with expiries for 2008 of approximately 681,000 square feet at an average net rent of \$12.05 per square foot. Of the 681,000 square feet of expiries, approximately 100,000 square feet involve tenants that are still paying property revenues on a holdover basis. Rent per square foot for the completed new leasing activity in retail plaza properties is below the average expiry rate due to the leasing of space during the fourth quarter of 2008 with limited access in smaller rural locations. Rent per square foot for the completed new leasing activity in the retail enclosed properties is below the average net rent per square foot of total expiries in 2008 due primarily to four relatively larger leases in three smaller rural locations that averaged \$6.50 per square foot. Rent per square foot for the renewals in the retail enclosed properties was lower than the average expiry rate due to the renewal of a long term tenant at previously negotiated terms favourable to the tenant. The reduction in new leasing activity for retail enclosed properties compared to the third quarter of 2008 is due to the delayed opening of a Future Shop location at Highland Square in New Glasgow, Nova Scotia from 2008 to Spring 2009. The reduction in new leasing activity for the office properties is due to the reduced square feet occupied by Keane Canada at Cogswell Tower in Halifax, Nova Scotia.

## Sector Information

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

As at December 31, 2008, the portfolio distribution of the GLA by asset type was as follows:

Asset Type	Number of Properties	GLA (sq. ft.)	% of GLA	% of Annual Minimum Rent	Occupancy <sup>(1)</sup>
Retail - Freestanding	42	1,696,000	15.2%	15.7%	100.0%
Retail - Plazas	44	3,974,000	35.5%	37.2%	96.7%
Retail - Enclosed	14	2,756,000	24.6%	24.5%	90.4%
Office	5	1,048,000	9.4%	9.0%	89.7%
Mixed-Use	8	1,706,000	15.3%	13.6%	96.1%
Total	113	11,180,000	100.0%	100.0%	94.9%

(1) For purposes of calculating occupancy percentage, Crombie considers GLA covered by the head lease agreement in favour of ECL as occupied



The following table sets out as of December 31, 2008, the square feet under lease subject to lease maturities during the periods indicated.

Year	Retail – Freestanding		Retail - Plazas		Retail – Enclosed	
	(sq. ft.)	(%)	(sq. ft.)	(%)	(sq. ft.)	(%)
2009	--	--	160,000	4.0%	220,000	8.0%
2010	--	--	286,000	7.2%	103,000	3.7%
2011	1,000	0.1%	325,000	8.2%	122,000	4.4%
2012	5,000	0.3%	269,000	6.8%	145,000	5.3%
2013	--	--%	384,000	9.7%	218,000	7.9%
Thereafter	1,690,000	99.6%	2,417,000	60.8%	1,683,000	61.1%
<b>Total</b>	<b>1,696,000</b>	<b>100.0%</b>	<b>3,841,000</b>	<b>96.7%</b>	<b>2,491,000</b>	<b>90.4%</b>

  

Year	Office		Mixed-Use		Total	
	(sq. ft.)	(%)	(sq. ft.)	(%)	(sq. ft.)	(%)
2009	103,000	9.8%	220,000	12.9%	703,000	6.3%
2010	75,000	7.1%	320,000	18.8%	784,000	7.0%
2011	367,000	35.0%	308,000	18.0%	1,123,000	10.1%
2012	110,000	10.5%	252,000	14.8%	781,000	7.0%
2013	87,000	8.3%	164,000	9.6%	853,000	7.6%
Thereafter	199,000	19.0%	376,000	22.0%	6,365,000	56.9%
<b>Total</b>	<b>941,000</b>	<b>89.7%</b>	<b>1,640,000</b>	<b>96.1%</b>	<b>10,609,000</b>	<b>94.9%</b>

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

Year	Retail - Freestanding	Retail – Plazas	Retail – Enclosed	Office	Mixed-Use
2009	\$--	\$16.28	\$13.97	\$12.66	\$11.64
2010	\$--	\$13.65	\$19.66	\$11.54	\$8.96
2011	\$37.50	\$14.22	\$21.81	\$14.12	\$9.36
2012	\$25.00	\$12.82	\$19.21	\$9.70	\$8.32
2013	\$--	\$9.66	\$14.47	\$12.85	\$12.89
Thereafter	\$13.32	\$13.64	\$11.62	\$11.59	\$14.48
<b>Total</b>	<b>\$13.38</b>	<b>\$13.34</b>	<b>\$13.38</b>	<b>\$12.59</b>	<b>\$10.95</b>

## 2008 RESULTS OF OPERATIONS

### Acquisitions

The following table outlines the acquisitions made which affected the results of operations when compared to the previous year's results. The following acquisitions took place between January 2007 and December 2008.

Property	Date Acquired	Property Type	GLA (sq. ft.)	Acquisition Cost <sup>(1)</sup>	Ownership Interest
The Mews of Carleton Place, Carleton Place, Ontario	Jan. 17, 2007	Retail – Plaza	80,000	\$11,800	100%
Perth Mews Shopping Mall, Perth, Ontario	Mar. 7, 2007	Retail – Plaza	103,000	\$17,900	100%
International Gateway Centre, Fort Erie, Ontario	Jul. 26, 2007	Retail – Plaza	93,000	\$19,200	100%
Brossard-Longueuil, Brossard, Quebec	Aug. 24, 2007	Retail – Freestanding	39,000	\$7,300	100%
Town Centre, LaSalle, Ontario	Oct. 15, 2007	Retail – Plaza	88,000	\$12,700	100%
Portfolio Acquisition	Apr. 22, 2008	Retail – Freestanding	1,589,000	\$428,500	100%
		Retail – Plaza	1,571,000		100%
		Retail – Enclosed	128,000		100%
River City Centre, Saskatoon, Saskatchewan	Jun. 12, 2008	Retail – Plaza	160,000	\$27,200	100%
<b>Total</b>			<b>3,851,000</b>	<b>\$524,600</b>	

(1) Excluding closing and transaction costs.

### Comparison to Previous Years

Results of operations for the year ended December 31, 2006 have been estimated by using actual results for the quarters ended June 30, 2006, September 30, 2006 and December 31, 2006 and pro-rating the results for the nine days of operations from March 23, 2006 to March 31, 2006. It is believed that this method of estimation of the results would be reflective of the actual results of Crombie in all material respects had Crombie been in operation for the entire period.

<i>(In thousands of dollars, except where otherwise noted)</i>	Year Ended		
	December 31, 2008	December 31, 2007	December 31, 2006
Property revenue	\$188,142	\$141,235	\$127,554
Property expenses	71,299	58,016	54,224
Property NOI	116,843	83,219	73,330
NOI margin percentage	62.1%	58.9%	57.5%
Expenses:			
General and administrative	8,636	8,177	7,052
Interest	39,232	24,913	20,969
Depreciation and amortization	42,857	28,943	22,734
	90,725	62,033	50,755
Income from continuing operations before other items, income taxes and non-controlling interest	26,118	21,186	22,575
Other items	179	--	--
Income from continuing operations before income taxes and non-controlling interest	26,297	21,186	22,575
Income taxes expense (recovery) – Future	(1,490)	1,030	(763)
Income from continuing operations before non-controlling interest	27,787	20,156	23,338
Loss on sale of discontinued operations	(408)	--	--
Income from discontinued operations	649	394	371
Income before non-controlling interest	28,028	20,550	23,709
Non-controlling interest	13,440	9,891	11,512
Net income	\$14,588	\$10,659	\$12,197
Basic and diluted net income per Unit	\$0.57	\$0.49	\$0.57
Basic weighted average Units outstanding (in 000's)	25,478	21,535	21,445
Diluted weighted average Units outstanding (in 000's)	25,596	21,646	21,499

Net income for the year ended December 31, 2008 of \$14,588 increased by \$3,929 from \$10,659 for the year ended December 31, 2007. The increase was primarily due to:

- higher property NOI from the increased average rent per square foot of the same-asset properties as well as the impact from the individual property acquisitions after January 1, 2007 and the Portfolio Acquisition; offset in part by
- higher interest and depreciation charges, due primarily to the individual property acquisitions after January 1, 2007 and the Portfolio Acquisition.

### Property Revenue and Property Expenses

<i>(In thousands of dollars)</i>	Year Ended		
	December 31, 2008	December 31, 2007	Variance
Same-asset property revenue	\$141,211	\$136,543	\$4,668
Acquisition property revenue	46,931	4,692	42,239
Property revenue	\$188,142	\$141,235	\$46,907

Same-asset property revenue of \$141,211 for the year ended December 31, 2008 was 3.4% higher than the year ended December 31, 2007 due primarily to the increased average rent per square foot (\$12.26 in 2008 and \$12.10 in 2007) and increased revenue from higher recoverable common area expenses.

<i>(In thousands of dollars)</i>	Year Ended		Variance
	December 31, 2008	December 31, 2007	
Same-asset property expenses	\$59,078	\$56,665	\$2,413
Acquisition property expenses	12,221	1,351	10,870
Property expenses	\$71,299	\$58,016	\$13,283

Same-asset property expenses of \$59,078 for the year ended December 31, 2008 were 4.3% higher than the year ended December 31, 2007 due to increased recoverable common area expenses primarily from increased utility and snow removal costs, and increased non-recoverable maintenance costs.

<i>(In thousands of dollars)</i>	Year Ended		Variance
	December 31, 2008	December 31, 2007	
Same-asset property NOI	\$82,133	\$79,878	\$2,255
Acquisition property NOI	34,710	3,341	31,369
Property NOI	\$116,843	\$83,219	\$33,624

Same-asset NOI for the year ended December 31, 2008 grew by 2.8% over the year ended December 31, 2007.

Property NOI for the year ended December 31, 2008 by region was as follows:

<i>(In thousands of dollars)</i>	2008			2007		Variance
	Property Revenue	Property Expenses	Property NOI	NOI % of revenue	NOI % of revenue	
Nova Scotia	\$87,098	\$36,995	\$50,103	57.5%	54.8%	2.7%
Newfoundland and Labrador	29,327	8,858	20,469	69.8%	64.9%	4.9%
New Brunswick	23,083	10,264	12,819	55.5%	50.2%	5.3%
Ontario	31,082	10,559	20,523	66.0%	67.2%	(1.2)%
Prince Edward Island	4,623	1,368	3,255	70.4%	72.6%	(2.2)%
Quebec	11,352	2,865	8,487	74.8%	75.5%	(0.7)%
Saskatchewan	1,577	390	1,187	75.3%	--%	--%
Total	\$188,142	\$71,299	\$116,843	62.1%	58.9%	3.2%

The overall 3.2% increase in NOI as a % of revenue, as well as specific provincial increases in Nova Scotia and Newfoundland and Labrador, was primarily due to the Portfolio Acquisition, as well as the growth in same-asset NOI. Prince Edward Island's decrease in NOI % of revenue is attributable to the increased non-recoverable paving repairs incurred in 2008 as compared to 2007, partially offset by the acquisition activity in that province. New Brunswick's growth in NOI % of revenue includes the effect of the Portfolio Acquisition, the completion of the redevelopment of Uptown Centre in Fredericton, and the collection of previously allowed-for receivables for SAAN stores that had undergone bankruptcy protection during the first quarter of 2008.

### General and Administrative Expenses

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

	Year Ended		Variance
	December 31, 2008	December 31, 2007	
Salaries and benefits	\$4,185	\$3,931	\$254
Professional fees	2,107	1,490	617
Public company costs	905	933	(28)
Rent and occupancy	687	985	(298)
Other	752	838	(86)
General and administrative costs	\$8,636	\$8,177	\$459
As a percentage of revenue	4.6%	5.8%	(1.2)%

General and administrative expenses increased by 5.6% for the year ended December 31, 2008 to \$8,636 compared to \$8,177 for the year ended December 31, 2007. The increase in expenses was primarily due to additional staff hired for ongoing acquisition activity and head office support functions, higher performance incentives as well as increased legal and information technology professional fees. Rent and occupancy costs have decreased as a result of the negotiation of more favourable lease terms at the head office.

## Interest Expense

<i>(In thousands of dollars)</i>	Year Ended		Variance
	December 31, 2008	December 31, 2007	
Same-asset interest expense	\$22,630	\$23,648	\$(1,018)
Acquisition interest expense	16,602	1,265	15,337
Interest expense	\$39,232	\$24,913	\$14,319

Same-asset interest expense of \$22,630 for the year ended December 31, 2008 decreased by 4.3% when compared to the year ended December 31, 2007 due to the declining interest portion of debt repayments for the same-assets combined with effects of reduced interest rates on some fixed rate mortgages that have been renegotiated since December 31, 2007 and a decrease in the effective interest rate on the revolving credit facility.

There is an agreement between ECL and Crombie whereby ECL provides a monthly interest rate subsidy to Crombie to reduce the effective interest rates to 5.54% on certain mortgages that were assumed on closing of the Business Acquisition for their remaining term. Over the term of this agreement, management expects this subsidy to aggregate to the amount of approximately \$20,564. The amount of the interest rate subsidy received during the year ended December 31, 2008 was \$3,333 (year ended December 31, 2007 - \$3,566). The interest rate subsidy is received by Crombie through monthly repayments by ECL of amounts due under one of the demand notes issued by ECL to Crombie Developments Limited ("CDL") prior to the Business Acquisition.

## Depreciation and Amortization

<i>(In thousands of dollars)</i>	Year Ended		Variance
	December 31, 2008	December 31, 2007	
Same-asset depreciation and amortization	\$27,547	\$27,069	\$478
Acquisition depreciation and amortization	15,310	1,874	13,436
Depreciation and amortization	\$42,857	\$28,943	\$13,914

Same-asset depreciation and amortization of \$27,547 for the year ended December 31, 2008 was 1.8% higher than the year ended December 31, 2007 due primarily to depreciation on fixed asset additions and amortization of tenant improvements and leasing costs incurred since December 31, 2007. Depreciation and amortization consists of:

<i>(In thousands of dollars)</i>	Year Ended		Variance
	December 31, 2008	December 31, 2007	
Depreciation of commercial properties	\$16,398	\$12,361	\$4,037
Amortization of tenant improvements/lease costs	3,488	2,714	774
Amortization of intangible assets	22,971	13,868	9,103
Depreciation and amortization	\$42,857	\$28,943	\$13,914

## Future Income Taxes

A trust that satisfies the criteria of a REIT throughout its taxation year will not be subject to income tax in respect of distributions to its unitholders or be subject to the restrictions on its growth that would apply to trusts classified as specified investment flow-through entities ("SIFTs").

Crombie believes it has organized its assets and operations to permit Crombie to satisfy the criteria contained in the Income Tax Act (Canada) in regard to the definition of a REIT. 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.

Crombie's management and their advisors have completed an extensive review of Crombie's organizational structure and operations to support Crombie's assertion that it meets the REIT criteria at January 1, 2008 and throughout the 2008 fiscal year.

The future income tax expenses represent the future tax provision of the wholly-owned corporate subsidiary which is subject to income taxes.

The reduction in future income tax expense is primarily due to the reduction in enacted effective income tax rates that will be applicable when the timing differences are expected to reverse.

During the fourth quarter of 2007, Crombie reversed future income tax expense of \$1,850 due to the reversal of previously recorded income tax expense as a result of the extensive review Crombie's management and their advisors underwent in the fourth quarter of 2007 to support Crombie's assertion that it meets the REIT criteria.

## Sector Information

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

### Retail Freestanding Properties

<i>(In thousands of dollars, except as otherwise noted)</i>	Year ended December 31, 2008			Year ended December 31, 2007		
	Same-Asset	Acquisitions	Total	Same-Asset	Acquisitions	Total
Property revenue	\$792	\$18,435	\$19,227	\$690	\$198	\$888
Property expenses	92	4,459	4,551	64	8	72
Property NOI	\$700	\$13,976	\$14,676	\$626	\$190	\$816
NOI Margin %	88.4%	75.8%	76.3%	90.7%	96.0%	91.9%
Occupancy %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The improvement in the retail freestanding property NOI was caused by the Portfolio Acquisition. The NOI % margin is lower in the acquisition properties as a result of property tax expenses that are fully recoverable from the tenant being included as both revenue and expense.

### Retail Plaza Properties

<i>(In thousands of dollars, except as otherwise noted)</i>	Year ended December 31, 2008			Year ended December 31, 2007		
	Same-Asset	Acquisitions	Total	Same-Asset	Acquisitions	Total
Property revenue	\$33,646	\$27,301	\$60,947	\$34,517	\$4,494	\$39,011
Property expenses	11,224	7,433	18,657	11,037	1,343	12,380
Property NOI	\$22,422	\$19,868	\$42,290	\$23,480	\$3,151	\$26,631
NOI Margin %	66.6%	72.8%	69.4%	68.0%	70.1%	68.3%
Occupancy %	95.5%	97.7%	96.7%	95.1%	95.1%	95.1%

The improvement in the retail plaza property NOI was primarily caused by the Portfolio Acquisition, partially offset by increased non-recoverable maintenance costs in same-asset properties. Although occupancy in the same-assets at December 31, 2008 is higher than as at December 31, 2007, fluctuations in occupancy levels throughout the year are the primary cause of decreased revenue overall compared to the prior year.

### Retail Enclosed Properties

<i>(In thousands of dollars, except as otherwise noted)</i>	Year ended December 31, 2008			Year ended December 31, 2007		
	Same-Asset	Acquisitions	Total	Same-Asset	Acquisitions	Total
Property revenue	\$47,511	\$1,195	\$48,706	\$45,613	\$--	\$45,613
Property expenses	17,569	329	17,898	17,230	--	17,230
Property NOI	\$29,942	\$866	\$30,808	\$28,383	\$--	\$28,383
NOI Margin %	63.0%	72.5%	63.3%	62.2%	--%	62.2%
Occupancy %	90.2%	94.0%	90.4%	92.5%	--%	92.5%

The improvement in NOI was primarily caused by the improved results at Avalon Mall in St. John's, Newfoundland and Labrador and the Portfolio Acquisition. Same-asset occupancy is lower in 2008 as compared to 2007 as a result of the vacancy caused by the loss of SAAN stores in two properties totalling 60,500 square feet. The increase in average net rent per square foot for the properties has increased the revenue compared to the same period of 2007.

### Office Properties

<i>(In thousands of dollars, except as otherwise noted)</i>	Year ended December 31, 2008			Year ended December 31, 2007		
	Same-Asset	Acquisitions	Total	Same-Asset	Acquisitions	Total
Property revenue	\$23,550	\$--	\$23,550	\$21,409	\$--	\$21,409
Property expenses	12,972	--	12,972	12,462	--	12,462
Property NOI	\$10,578	\$--	\$10,578	\$8,947	\$--	\$8,947
NOI Margin %	44.9%	--%	44.9%	41.8%	--%	41.8%
Occupancy %	89.7%	--%	89.7%	91.1%	--%	91.1%

The improved occupancy levels at the Halifax Developments Properties were offset by decreased occupancy in Terminal Centres in Moncton, New Brunswick. Higher net rent per square foot at the Halifax Developments Properties resulted in the higher property NOI and NOI margin % for the office properties in 2008 compared to 2007.

#### Mixed-Use Properties

<i>(In thousands of dollars, except as otherwise noted)</i>	Year ended December 31, 2008			Year ended December 31, 2007		
	Same-Asset	Acquisitions	Total	Same-Asset	Acquisitions	Total
Property revenue	\$35,712	\$--	\$35,712	\$34,314	\$--	\$34,314
Property expenses	17,221	--	17,221	15,872	--	15,872
Property NOI	\$18,491	\$--	\$18,491	\$18,442	\$--	\$18,442
NOI Margin %	51.8%	--%	51.8%	53.7%	--%	53.7%
Occupancy %	96.1%	--%	96.1%	95.4%	--%	95.4%

The increase in mixed-use occupancy levels from 95.4% in 2007 to 96.1% in 2008 and improved average net rent per square foot from leasing activity were partially offset by higher operating expenses, resulting in the slightly higher NOI results for the year ended December 31, 2008 when compared to the year ended December 31, 2007. The NOI margin has decreased as a result of increased common area expenses which are partially recovered from tenants and an increase in non-recoverable maintenance expenses in 2008 compared to 2007.

#### OTHER 2008 PERFORMANCE MEASURES

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

#### Funds from Operations

FFO represents a supplemental non-GAAP industry-wide financial measure of a real estate organization's operating performance. Crombie has calculated FFO in accordance with the recommendations of the Real Property Association of Canada ("RealPAC") which defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of depreciable real estate and extraordinary items, plus depreciation and amortization expense, plus future income taxes, and after adjustments for equity-accounted entities and non-controlling interests. Crombie's method of calculating FFO may differ from other issuers' methods and accordingly may not be directly comparable to FFO reported by other issuers. A calculation of FFO for the year ended December 31, 2008 and 2007 is as follows:

<i>(In thousands of dollars)</i>	Year Ended December 31, 2008	Year Ended December 31, 2007	Variance
Net income	\$14,588	\$10,659	\$3,929
Add:			
Non-controlling interest	13,440	9,891	3,549
Depreciation and amortization	42,857	28,943	13,914
Depreciation and amortization on discontinued operations	129	286	(157)
Future income taxes	(1,490)	1,030	(2,520)
Loss on sale of discontinued operations	408	--	408
Less:			
Gain on disposition of land	(77)	--	(77)
FFO	\$69,855	\$50,809	\$19,046

The improvement in FFO for the year ended December 31, 2008 was primarily due to higher property NOI as a result of the individual acquisitions, the Portfolio Acquisition and the improved same-asset results, offset in part by the increased interest expense related to the individual and Portfolio acquisitions.

## Adjusted Funds from Operations

Crombie considers AFFO to be a measure of its distribution-generating ability. AFFO reflects cash available for distribution after the provision for non-cash adjustments to revenue, maintenance capital expenditures and maintenance tenant improvements ("TI") and leasing costs. The calculation of AFFO for the year ended December 31, 2008 and 2007 is as follows:

<i>(In thousands of dollars)</i>	Year Ended December 31, 2008	Year Ended December 31, 2007	Variance
FFO	\$69,855	\$50,809	\$19,046
Add:			
Above market lease amortization	3,058	2,913	145
Non-cash revenue impacts on discontinued operations	12	71	(59)
Less:			
Below market lease amortization	(7,290)	(4,471)	(2,819)
Straight-line rent adjustment	(1,932)	(1,215)	(717)
Amortization of fair value of debt premium	--	(20)	20
Maintenance capital expenditures	(8,647)	(5,395)	(3,252)
Maintenance TI and leasing costs	(8,835)	(7,850)	(985)
AFFO	\$46,221	\$34,842	\$11,379

The AFFO result for the year ended December 31, 2008 was affected by the increase in FFO for the period, partially offset by higher maintenance TI and capital expenditures. Details of the maintenance TI and capital expenditures are outlined in the "Tenant Improvement and Capital Expenditures" section of the MD&A.

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

<i>(In thousands of dollars)</i>	Year Ended December 31, 2008	Year Ended December 31, 2007	Variance
Cash provided by operating activities	\$60,046	\$33,936	\$26,110
Add back (deduct):			
Recoverable/productive capacity enhancing TIs	2,584	3,373	(789)
Change in non-cash operating items	(6,187)	3,400	(9,587)
Unit-based compensation expense	(42)	(37)	(5)
Amortization of deferred financing charges	(1,349)	(415)	(934)
Amortization of fair value of debt premium	--	(20)	20
Amortization of swap settlements	(184)	--	(184)
Maintenance capital expenditures	(8,647)	(5,395)	(3,252)
AFFO	\$46,221	\$34,842	\$11,379

## LIQUIDITY AND CAPITAL RESOURCES

### Sources and Uses of Funds

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 TI costs and distributions. In addition, Crombie has the following sources of financing available to finance future growth: secured short-term financing through an authorized \$150,000 revolving credit facility, of which \$93,400 was drawn at December 31, 2008, a demand facility with Empire Company Limited of \$20,000, of which \$10,000 was drawn at December 31, 2008, and the issue of new equity and mortgage debt, pursuant to the Declaration of Trust.

<i>(In thousands of dollars)</i>	Year Ended December 31, 2008	Year Ended December 31, 2007	Variance
Cash provided by (used in):			
- Operating activities	\$60,046	\$33,936	\$26,110
- Financing activities	\$346,752	\$35,463	\$311,289
- Investing activities	\$(405,478)	\$(67,871)	\$(337,607)

#### Operating Activities

<i>(In thousands of dollars)</i>	Year Ended December 31, 2008	Year Ended December 31, 2007	Variance
Cash provided by (used in):			
Net income and non-cash items	\$65,278	\$48,559	\$16,719
Tenant improvements and leasing costs	(11,419)	(11,223)	(196)
Non-cash working capital	6,187	(3,400)	9,587
Cash provided by operating activities	\$60,046	\$33,936	\$26,110

Fluctuations in cash provided by operating activities are largely influenced by the change in non-cash working capital which can be affected by the timing of receipts and payments. Of the TI and leasing costs in 2008, \$2,133 was covered by the non-interest bearing demand notes from ECL (\$3,373 in 2007). The details of the TI and leasing costs during the year ended 2008 is outlined in the "Tenant Improvements and Capital Expenditures" section of the MD&A.

#### Financing Activities

<i>(In thousands of dollars)</i>	Year Ended December 31, 2008	Year Ended December 31, 2007	Variance
Cash provided by (used in):			
Net issue of commercial property debt	\$488,908	\$88,411	\$400,497
Net issue of convertible debentures	28,786	--	28,786
Net issue of public units	59,215	--	59,215
Repayment of commercial property debt	(191,505)	(39,021)	(152,484)
Payment of distributions	(43,117)	(34,808)	(8,309)
Other items (net)	4,465	20,881	(16,416)
Cash provided by financing activities	\$346,752	\$35,463	\$311,289

Cash provided by financing activities for the year ended December 31, 2008 was \$311,289 higher than the year ended December 31, 2007 primarily due to gross proceeds related to the financing of the Portfolio Acquisition: \$280,000 of term financing; \$30,000 of convertible debentures and the issuance of \$63,005 of Units of Crombie.

#### Investing Activities

Cash used in investing activities for the year ended December 31, 2008 was \$405,478. Of this, \$389,405 was used for the Portfolio Acquisition and the purchase of River City Centre in Saskatoon, Saskatchewan while \$19,075 was used for additions to commercial properties. Of the cash used in additions to commercial properties, \$3,796 was for the commercial properties covered by non-interest bearing demand notes from ECL. Of cash used in investing activities for the year ended December 31, 2007 \$51,049 was used for acquisition of five properties, net of assumed mortgages, and \$16,822 was due to additions to commercial properties. Included in the 2007 additions to commercial properties is approximately \$7,669 for the commercial properties covered by non-interest bearing demand notes from ECL.

#### Tenant Improvement and Capital Expenditures

There are two types of TI and capital expenditures:

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



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

Productive capacity enhancement expenditures are costs incurred that increase the property level NOI, or expand the GLA of a property by a minimum threshold and thus enhance the property's overall value. These costs are then evaluated to ensure they are fully financeable. Productive capacity enhancement expenditures are capitalized and depreciated over their useful lives, but not deducted when calculating AFFO as they are considered financeable rather than having to be funded from operations.

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

<i>(In thousands of dollars)</i>	Year Ended December 31, 2008	Year Ended December 31, 2007
Total additions to commercial properties	\$19,075	\$16,822
Less: amounts recoverable from ECL	(3,796)	(7,669)
Net additions to commercial properties	15,279	9,153
Less: productive capacity enhancements	(6,632)	(3,758)
Maintenance capital expenditures	\$8,647	\$5,395

<i>(In thousands of dollars)</i>	Year Ended December 31, 2008	Year Ended December 31, 2007
Total additions to TI and leasing costs	\$11,419	\$11,223
Less: amounts recoverable from ECL	(2,133)	(3,373)
Net additions to TI and leasing costs	9,286	7,850
Less: productive capacity enhancements	(451)	--
Maintenance TI and leasing costs	\$8,835	\$7,850

The higher maintenance TI expenditures during the year was primarily due to early renegotiation of lease renewals that were scheduled to expire in 2009 which will have higher average net rents per square foot on an ongoing basis. At our Halifax Developments Properties offices in Halifax, Nova Scotia, a total of 195,000 square feet of GLA was renewed with several tenants resulting in an overall increase to minimum per square foot rent of 12.9% at a cost of \$2,823.

Maintenance capital expenditures increased during the year ended December 31, 2008 compared to 2007 due to parking deck and structural repairs at Scotia Parkade, scheduled roof repairs at Perth Mews and common area renovations at Brunswick Place. As well, the portion of expenditures undertaken in the productive capacity enhancement category that Crombie deems to be non-financeable is included in the maintenance capital expenditure costs.

Productive capacity enhancements during the year consisted of new pad sites for Royal Bank at St. Romuald, Quebec, TD Bank at Brampton, Ontario, and retail expansion at Mill Cove Plaza in Bedford, Nova Scotia, as well as three liquor store expansions at Sobeys stores at Conception Bay and Ropewalk Lane, both in Newfoundland and Labrador and in Spryfield, Nova Scotia.

### Capital Structure

<i>(In thousands of dollars)</i>	Dec. 31, 2008	Sep. 30, 2008	Jun. 30, 2008	Mar. 31, 2008	Dec. 31, 2007
Commercial property debt	\$808,971	\$820,634	\$811,845	\$466,779	\$493,945
Convertible debentures	\$28,968	\$28,907	\$28,847	\$28,624	\$--
Non-controlling interest	\$199,183	\$218,205	\$224,871	\$172,249	\$177,919
Unitholders' equity	\$215,580	\$236,241	\$243,472	\$184,740	\$190,834

### Bank Credit Facilities and Commercial Property Debt

Crombie has in place an authorized floating rate revolving credit facility of \$150,000 (the "Revolving Credit Facility") \$93,400 of which was drawn as at December 31, 2008. The Revolving Credit Facility is secured by a pool of first and second mortgages and negative

pledges on certain properties. The floating interest rate is based on specified margins over prime rate or bankers acceptance rates. The specified margin increases as Crombie's overall debt leverage increases. Funds available for drawdown pursuant to the Revolving Credit Facility are determined with reference to the value of the mortgaged properties relative to certain financial obligations of Crombie (see "Borrowing Capacity and Debt Covenants"). As at December 31, 2008, \$150,000 of funds were available for drawdown pursuant to the Revolving Credit Facility. During the second quarter of 2008, the maturity date of the Revolving Credit Facility was extended to June 30, 2011.

As of December 31, 2008, Crombie had fixed rate mortgages outstanding of \$521,049 (\$531,970 after including the marked-to-market adjustment of \$10,921), carrying an average interest rate of 5.54% (after giving effect to a monthly interest rate subsidy from ECL under an omnibus subsidy agreement) and an average term to maturity of 6.9 years. During fiscal 2008, Crombie completed the refinancing of four existing mortgages on four properties. The new fixed rate mortgages in the aggregate amount of \$22,385 provided funds of \$22,241 (net of fees). The weighted average interest rate on the four new mortgages is 5.72% and all had five year terms. The funds provided were used to reduce the Revolving Credit Facility.

On April 22, 2008, Crombie entered into an 18 month floating rate Term Facility of \$280,000 to partially finance the Portfolio Acquisition. The floating interest rate is based on a specified margin over prime rate or bankers acceptance rate, which margin increases over time. As security for the Term Facility, at any time on or after the 90<sup>th</sup> day following the closing of the Portfolio Acquisition, the lender may require Crombie to grant a charge on all or certain of the acquired properties together with an assignment of leases. On October 14, 2008, the lender did request that Crombie provide such security for the Term Facility. The terms of the Term Facility have otherwise not changed. The Term Facility contains financial and non-financial covenants that are customary for a credit facility of this nature and which mirror the covenants set forth in the Revolving Credit Facility.

On September 30, 2008, Crombie completed a mortgage financing on certain of the properties acquired pursuant to the Portfolio Acquisition in order to refinance \$100,000 of the Term Facility. The fixed rate mortgages have a weighted average term of 7.7 years, a 25 year amortization and a weighted average interest rate of 5.91%. Factoring in the deferred financing costs and cost of delayed interest rate swap hedges placed upon assumption of the Term Facility, the overall weighted average interest rate is 6.21%. This overall weighted average interest rate is 14 basis points lower than the 6.35% rate used to model the pro forma accretion of the Portfolio Acquisition.

During the fourth quarter of 2008, Crombie secured a \$20,000 floating rate demand credit facility with Empire (the "Empire Demand Facility") on substantially the same terms and conditions that govern the Revolving Credit Facility. This Empire Demand Facility was put in place to ensure that Crombie maintains adequate liquidity in order to fund its daily operating activities while volatility in the financial markets continues, and also to allow Crombie to take advantage of strategic market opportunities that might arise, while also mitigating the risk of Crombie not being in compliance with certain covenants under the Revolving Credit Facility (see "Borrowing Capacity and Debt Covenants"). Although it was not necessary to access the Empire Demand Facility at year end in order for Crombie to remain in compliance with its debt covenants, Crombie had \$10,000 drawn against the Empire Demand Facility as at December 31, 2008. Subsequent to December 31, 2008, the entire \$10,000 drawn under the Empire Demand Facility was repaid.

Subsequent to December 31, 2008 (See "Subsequent Events"), Crombie completed \$39,000 of additional fixed rate mortgage financings for eight of the properties acquired pursuant to the Portfolio Acquisition in order to refinance the Term Facility. A third party provided \$32,800 of fixed rate first mortgage financing, while \$6,200 of fixed rate second mortgage financing was provided by Empire. As a result of this financing, the maximum amount available under the Empire Demand Facility was reduced from \$20,000 to \$13,800.

From time to time, Crombie has entered into interest rate swap agreements to manage the interest rate profile of its current or future debts without an exchange of the underlying principal amount (see "Risk Management").

Principal repayments of the debt are scheduled as follows:

Year	Payments of Principal	Fixed Rate Debt Maturing during Year	Floating Rate Debt	Total Maturity	% of Total
Year ended December 31, 2009	\$17,234	\$--	\$188,824	\$206,058	25.7%
Year ended December 31, 2010	13,925	106,079	--	120,004	14.9%
Year ended December 31, 2011	13,749	26,786	93,400	133,935	16.7%
Year ended December 31, 2012	14,226	--	--	14,226	1.8%
Year ended December 31, 2013	14,936	30,042	--	44,978	5.6%
Thereafter	58,431	225,641	--	284,072	35.3%
<b>Total <sup>(1)</sup></b>	<b>\$132,501</b>	<b>\$388,548</b>	<b>\$282,224</b>	<b>\$803,273</b>	<b>100.0%</b>

(1) Excludes fair value debt adjustment of \$10,921 and the deferred financing costs of \$5,223

## Convertible debentures

On March 20, 2008, Crombie issued \$30,000 in Debentures related to the Portfolio Acquisition.

Each Debenture will be convertible into units of Crombie at the option of the Debenture holder up to the maturity date of March 20, 2013 at a conversion price of \$13 per unit.

The Debentures bear interest at an annual fixed rate of 7%, payable semi-annually on June 30, and December 31 in each year commencing on June 30, 2008. The Debentures are not redeemable prior to March 20, 2011. From March 20, 2011 to March 20, 2012, 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 Toronto Stock Exchange 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 March 20, 2012, and prior to March 20, 2013, 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.

Crombie will also have an option to pay interest on any interest payment date by selling units and applying the proceeds to satisfy its interest obligation.

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 rate method.

## Unitholders' Equity

In April 2008 there were 34,053 Units awarded as part of the Employee Unit Purchase Plan (March 2007 – 15,760). Also, as a result of the successful completion of the Portfolio Acquisition on April 22, 2008, 5,727,750 subscription receipts issued in March 2008 were converted into Crombie Units (including the over-allotment), as well as 5,000,000 Special Voting Units were issued to Empire Subsidiaries. On April 29, 2008, 138,900 Units were redeemed under provisions in the Declaration of Trust at an average price of \$9.90. Total units outstanding at February 26, 2009 were as follows:

Units	27,271,888
Special Voting Units <sup>(1)</sup>	25,079,576

(1) Crombie Limited Partnership, a subsidiary of Crombie, has also issued 25,079,576 Class B LP Units. These Class B LP units accompany the Special Voting Units, are the economic equivalent of a Unit, and are convertible into Units on a one-for-one basis.

## **Taxation of Distributions**

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

The following table summarizes the history of the taxation of distributions from Crombie:

Taxation Year	Return of Capital	Investment Income	Capital Gains
2006 per \$ of distribution	40%	60%	--
2007 per \$ of distribution	25.5%	74.4%	0.1%

## **Borrowing Capacity and Debt Covenants**

Under the amended terms governing the Revolving Credit Facility, Crombie is entitled to borrow a maximum of 70% of the fair market value of assets subject to a first security position and 60% of the excess of fair market value over first mortgage financing of assets subject to a second security position or a negative pledge (the "Borrowing Base"). The Revolving Credit Facility provides Crombie with flexibility to add or remove properties from the Borrowing Base, subject to compliance with certain conditions. The terms of the Revolving Credit Facility also require that Crombie must maintain certain coverage ratios above prescribed levels:

- annualized NOI for the prescribed properties must be a minimum of 1.4 times the coverage of the related annualized debt service requirements; and
- annualized NOI on all properties must be a minimum of 1.4 times the coverage of all annualized debt service requirements.

The Revolving Credit Facility also contains a covenant of Crombie that ECL must maintain a minimum 40% voting interest in Crombie. If ECL 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 will be required to give Crombie at least six months' prior written notice of its intention to reduce its voting interest below 40%.

The Revolving Credit Facility also contains a covenant limiting the amount which may be utilized under the Revolving Credit Facility at any time. This covenant provides that the aggregate of amounts drawn under the Revolving Credit Facility plus any negative mark-to-market position on any interest rate swap agreements or other hedging instruments may not exceed the security provided by Crombie identified as the "Aggregate Coverage Amount" as defined in the Revolving Credit Facility. In order to hedge its interest rate risk on various debt commitments maturing through 2011, Crombie has entered into a series of interest rate swap agreements on notional principal amounts totalling approximately \$380,334 at December 31, 2008 that have settlement dates between January 2, 2009 and July 4, 2011. The unprecedented volatility in the capital markets, especially during the fourth quarter of 2008, has caused the mark-to-market adjustment on these interest rate swap agreements to reach an out-of-the-money position of approximately \$53,044 at December 31, 2008. There is no immediate cash impact from this mark-to-market adjustment. The unfavourable difference in the mark-to-market amount of these interest rate swap agreements is reflected in other comprehensive income (loss) rather than net income as the swaps are all designated and effective hedges. However, the deterioration in the mark-to-market position has the impact of reducing Crombie's available credit pursuant to the Revolving Credit Facility.

The following is the unutilized and available Revolving Credit Facility:

(In thousands of dollars)	Dec. 31, 2008	Sep. 30, 2008	Jun. 30, 2008	Mar. 31, 2008	Dec. 31, 2007
Available for drawdown	\$150,000	\$148,426	\$147,755	\$116,433	\$118,923
Amount utilized	93,400	121,585	111,475	48,038	70,900
Unutilized Revolving Credit Facility	\$56,600	\$26,841	\$36,280	\$68,395	\$48,023

At December 31, 2008, and throughout the 2008 fiscal year, Crombie remained in compliance with all debt covenants.

As previously discussed, during the fourth quarter of 2008, Crombie secured a \$20,000 floating rate Empire Demand Facility. While Crombie has reduced its third party acquisition program for 2009 until the financial markets become more stabilized, Crombie believes ECL's development pipeline may present opportunities in 2009 to acquire properties which provide an acceptable return. The establishment of this Empire Demand Facility allows Crombie to contemplate these potential transactions. The Empire Demand Facility also ensures that Crombie maintains adequate liquidity in order to fund its daily operating activities as the volatility in the financial markets continues while also mitigating the risk of Crombie not being in compliance with the Aggregate Coverage Amount. Although it was not necessary to access the Empire Demand Facility at year end in order for Crombie to remain in compliance with the Aggregate Coverage Amount, which had available capacity of \$18,974 at December 31, 2008, Crombie had \$10,000 drawn against the Empire Demand Facility at December 31, 2008. Subsequent to December 31, 2008, the entire \$10,000 of the Empire Demand Facility was repaid. Upon completion of mortgage financings to refinance \$39,000 of the Term Facility subsequent to December 31, 2008 (see "Subsequent Events"), which included \$6,200 of fixed rate second mortgage financing provided by Empire, the maximum amount available under the Empire Demand Facility was reduced from \$20,000 to \$13,800.

#### **Debt to Gross Book Value Ratio**

When calculating debt to gross book value, debt is defined under the terms of the Declaration of Trust as bank loans plus commercial property debt. Gross book value means, at any time, the book value of the assets of Crombie and its consolidated subsidiaries plus deferred financing charges, accumulated depreciation and amortization in respect of Crombie's properties (and related intangible assets) less (i) the amount of any receivable reflecting interest rate subsidies on any debt assumed by Crombie and (ii) the amount of future income tax liability arising out of the fair value adjustment in respect of the indirect acquisitions of certain properties. If approved by a majority of the independent trustees, the appraised value of the assets of Crombie and its consolidated subsidiaries may be used instead of book value.

The debt to gross book value ratio was 54.5% at December 31, 2008 compared to 48.0% at December 31, 2007. This leverage ratio is still below the maximum 60%, or 65% including convertible debentures, as outlined by Crombie's Declaration of Trust. On a long-term basis, Crombie intends to maintain overall indebtedness in the range of 50% to 55% of gross book value, depending upon Crombie's future acquisitions and financing opportunities.

<i>(In thousands of dollars, except as otherwise noted)</i>	As at Dec. 31, 2008	As at Sep. 30, 2008	As at Jun. 30, 2008	As at Mar. 31, 2008	As at Dec. 31, 2007
Mortgages payable	\$531,970	\$524,307	\$425,945	\$421,013	\$425,273
Convertible debentures	30,000	30,000	30,000	30,000	--
Term financing	178,824	180,000	280,000	--	--
Revolving credit facility payable	93,400	121,585	111,475	48,038	70,900
Demand credit facility payable	10,000	--	--	--	--
Total debt outstanding	844,194	855,892	847,420	499,051	496,173
Less: Applicable fair value debt adjustment	(10,818)	(11,615)	(12,433)	(13,285)	(14,151)
Debt	\$833,376	\$844,277	\$834,987	\$485,766	\$482,022
Total assets	\$1,483,481	\$1,501,214	\$1,501,507	\$1,006,625	\$1,013,982
Add:					
Deferred financing charges	6,255	6,351	6,728	3,648	2,228
Accumulated depreciation of commercial properties	43,909	38,383	32,850	27,966	24,023
Accumulated amortization of intangible Assets	53,505	45,995	38,454	32,053	27,476
Less:					
Assets related to discontinued operations	(7,184)	(9,673)	(10,951)	(10,983)	(11,109)
Interest rate subsidy	(10,818)	(11,615)	(12,433)	(13,285)	(14,151)
Fair value adjustment to future taxes	(39,245)	(39,245)	(39,245)	(39,245)	(39,245)
Gross book value	\$1,529,903	\$1,531,410	\$1,516,910	\$1,006,779	\$1,003,204
Debt to gross book value	54.5%	55.1%	55.0%	48.2%	48.0%
Maximum borrowing capacity <sup>(1)</sup>	65%	65%	65%	65%	60%

(1) Maximum permitted by the Declaration of Trust

#### Debt and Interest Service Coverage Ratios

Crombie's interest and debt service coverage ratios for the year ended December 31, 2008 were 2.74 times EBITDA and 2.00 times EBITDA. This compares to 3.00 times EBITDA and 2.03 times EBITDA respectively for the year ended December 31, 2007. EBITDA should not be considered an alternative to net income, cash flow from operations or any other measure of operations or liquidity as prescribed by Canadian GAAP. EBITDA is not a GAAP financial measure; however Crombie believes it is an indicative measure of its ability to service debt requirements, fund capital projects and acquire properties. EBITDA may not be calculated in a comparable measure reported by other entities.

	Year Ended December 31, 2008	Year Ended December 31, 2007
Property revenue	\$188,142	\$141,235
Amortization of above-market leases	3,058	2,913
Amortization of below-market leases	(7,290)	(4,471)
Adjusted property revenue	183,910	139,677
Property expenses	(71,299)	(58,016)
General and administrative expenses	(8,636)	(8,177)
EBITDA (1)	\$103,975	\$73,484
Interest expense	\$39,232	\$24,913
Amortization of deferred financing charges	(1,349)	(414)
Adjusted interest expense (2)	\$37,883	\$24,499
Debt repayments	\$191,505	\$39,021
Debt repayments on discontinued operations	(121)	(138)
Amortization of fair value debt premium	(21)	(21)
Payments relating to interest rate subsidy	(3,333)	(3,566)
Payments relating to Term Facility	(101,176)	--
Payments relating to revolving credit facility	(58,185)	(12,000)
Balloon payments on mortgages	(14,447)	(11,672)
Adjusted debt repayments (3)	\$14,222	\$11,624
Interest service coverage ratio $\{(1)/(2)\}$	2.74	3.00
Debt service coverage ratio $\{(1)/((2)+(3))\}$	2.00	2.03

## Distributions and Distribution Payout Ratios

### Distribution Policy

Pursuant to Crombie's Declaration of Trust, it is required, at a minimum, to make distributions to Unitholders equal to the amount of net income, net realizable capital gains and net recapture income of Crombie as is necessary to ensure that Crombie will not be liable for income taxes. Within these guidelines, Crombie has reduced its annual target payout ratios and intends to make monthly cash distributions to Unitholders equal to approximately 70% of its FFO and 95% of its AFFO on an annual basis. This reduction from a 100% AFFO target payout ratio in 2007 is to provide increased stability to Crombie's distributions.

Details of distributions to Unitholders are as follows:

<i>(In thousands of dollars, except per unit amounts and as otherwise noted)</i>	Year Ended December 31, 2008	Year Ended December 31, 2007	Period from March 23, 2006 to December 31, 2006
Distributions to Unitholders	\$23,120	\$18,146	\$13,369
Distributions to Special Voting Unitholders	20,924	16,837	12,440
<b>Total distributions</b>	<b>\$44,044</b>	<b>\$34,983</b>	<b>\$25,809</b>
Number of diluted Units	25,596,001	21,646,135	21,498,595
Number of diluted Special Voting Units	23,576,844	20,079,576	20,079,576
<b>Total diluted weighted average Units</b>	<b>49,172,845</b>	<b>41,725,711</b>	<b>41,578,171</b>
Distributions per unit	\$0.90	\$0.84	\$0.62
FFO payout ratio (target ratio = 70%)	63.1%	68.9%	73.2%
AFFO payout ratio (target ratio = 95%)	95.3%	100.4%	99.6%

The FFO payout ratio of 63.1% was below the target ratio as the improved FFO reflected the stronger same-asset results as well as the individual property acquisitions and the Portfolio Acquisition. The AFFO payout ratio of 95.3% approximated the target ratio as a result of the higher FFO which was partially offset by higher TI and maintenance capital expenditures as previously discussed, combined with one month of distributions made on the subscription receipts prior to the closing of the Portfolio Acquisition.

## FOURTH QUARTER RESULTS

### Comparison to Previous Year

<i>(In thousands of dollars, except where otherwise noted)</i>	Quarter Ended		
	December 31, 2008	December 31, 2007	Variance
Property revenue	\$52,522	\$36,455	\$16,067
Property expenses	19,883	14,536	(5,347)
Property NOI	32,639	21,919	10,720
NOI margin percentage	62.1%	60.1%	2.0%
Expenses:			
General and administrative	2,701	2,492	(209)
Interest	11,318	6,577	(4,741)
Depreciation and amortization	12,265	8,152	(4,113)
	<b>26,284</b>	<b>17,221</b>	<b>(9,063)</b>
Income from continuing operations before other items, income taxes and non-controlling interest	6,355	4,698	1,657
Other items	55	--	55
Income from continuing operations before income taxes and non-controlling interest	6,410	4,698	1,712
Income taxes expense (recovery) – Future	(3,450)	(2,994)	456
Income from continuing operations before non-controlling interest	9,860	7,692	2,168
Gain on sale of discontinued operations	487	--	487
Income from discontinued operations	24	132	(108)
Income before non-controlling interest	10,371	7,824	2,547
Non-controlling interest	4,968	3,766	(1,202)
<b>Net income</b>	<b>\$5,403</b>	<b>\$4,058</b>	<b>\$1,345</b>
Basic and diluted net income per Unit	\$0.20	\$0.19	
Basic weighted average Units outstanding (in 000's)	27,147	21,544	
Diluted weighted average Units outstanding (in 000's)	27,272	21,649	

Net income for the quarter ended December 31, 2008 of \$5,403 increased by \$1,345 from \$4,058 for the quarter ended December 31, 2007. The increase was primarily due to:

- higher property NOI from the increased average rent per square foot of the same-asset properties as well as the impact from the individual property acquisitions since December 31, 2007 and the Portfolio Acquisition; offset in part by
- higher interest and depreciation charges, due primarily to the individual property acquisitions since December 31, 2007 and the Portfolio Acquisition.

### Property Revenue and Property Expenses

<i>(In thousands of dollars)</i>	Quarter Ended		Variance
	December 31, 2008	December 31, 2007	
Same-asset property revenue	\$37,727	\$36,137	\$1,590
Acquisition property revenue	14,795	318	14,477
Property revenue	\$52,522	\$36,455	\$16,067

Same-asset property revenue of \$37,727 for the quarter ended December 31, 2008 was 4.4% higher than the quarter ended December 31, 2007 due primarily to the increased average rent per square foot (\$12.39 in 2008 and \$12.38 in 2007) and increased revenue from higher recoverable common area expenses.

<i>(In thousands of dollars)</i>	Quarter Ended		Variance
	December 31, 2008	December 31, 2007	
Same-asset property expenses	\$15,736	\$14,453	\$1,283
Acquisition property expenses	4,147	83	4,064
Property expenses	\$19,883	\$14,536	\$5,347

Same-asset property expenses of \$15,736 for the quarter ended December 31, 2008 were 8.9% higher than quarter ended December 31, 2007 due to increased recoverable common area expenses primarily from increased property taxes.

<i>(In thousands of dollars)</i>	Quarter Ended		Variance
	December 31, 2008	December 31, 2007	
Same-asset property NOI	\$21,991	\$21,684	\$307
Acquisition property NOI	10,648	235	10,413
Property NOI	\$32,639	\$21,919	\$10,720

Same-asset NOI for the quarter ended December 31, 2008 increased by 1.4% compared to the quarter ended December 31, 2007.

Property NOI for the quarter ended December 31, 2008 by region was as follows:

<i>(In thousands of dollars)</i>	2008			2007		Variance
	Property Revenue	Property Expenses	Property NOI	NOI % of revenue	NOI % of revenue	
Nova Scotia	\$23,351	\$10,119	\$13,232	56.7%	57.0%	(0.3)%
Newfoundland and Labrador	8,986	2,333	6,653	74.0%	65.6%	8.4%
New Brunswick	6,267	2,837	3,430	54.7%	48.4%	6.3%
Ontario	8,432	3,058	5,374	63.7%	70.1%	(6.4)%
Prince Edward Island	981	338	643	65.6%	70.6%	(5.0)%
Quebec	3,797	1,021	2,776	73.1%	79.2%	(6.1)%
Saskatchewan	708	177	531	75.0%	--%	--%
Total	\$52,522	\$19,883	\$32,639	62.1%	60.1%	2.0%

The 2.0% overall increase in NOI % of revenue, as well as the specific provincial increase in Newfoundland and Labrador, is due to the Portfolio Acquisition. The provincial decreases in Nova Scotia, Ontario, Prince Edward Island and Quebec are primarily a result of the increased recoverable property taxes and non-recoverable maintenance costs in 2008 as compared to 2007. New Brunswick's growth in NOI % of revenue includes the effect of the Portfolio Acquisition, the completion of the redevelopment of Uptown Centre in

Fredericton, and the collection of previously allowed-for receivables for SAAN stores that had undergone bankruptcy protection during the first quarter of 2008.

### General and Administrative Expenses

The following table outlines the major categories of expenses.

	Quarter Ended		Variance
	December 31, 2008	December 31, 2007	
Salaries and benefits	\$1,294	\$1,088	\$206
Professional fees	927	631	296
Public company costs	109	292	(183)
Rent and occupancy	173	233	(60)
Other	198	248	(50)
<b>General and administrative costs</b>	<b>\$2,701</b>	<b>\$2,492</b>	<b>\$209</b>
<b>As a percentage of revenue</b>	<b>5.1%</b>	<b>6.8%</b>	<b>(1.7)%</b>

General and administrative expenses increased by 8.4% for the quarter ended December 31, 2008 to \$2,701 compared to \$2,492 for the quarter ended December 31, 2007. The increase in expenses was primarily due to higher legal and information technology professional fees and higher salaries expenses due to additional staff and performance incentives. Rent and occupancy costs have decreased as a result of the negotiation of more favourable lease terms at the head office.

### Interest Expense

<i>(In thousands of dollars)</i>	Quarter Ended		Variance
	December 31, 2008	December 31, 2007	
Same-asset interest expense	\$6,557	\$6,420	\$137
Acquisition interest expense	4,761	157	4,604
<b>Interest expense</b>	<b>\$11,318</b>	<b>\$6,577</b>	<b>\$4,741</b>

Same-asset interest expense of \$6,557 for the quarter ended December 31, 2008 increased by 2.1% when compared to the quarter ended December 31, 2007 due to the amortization of payments made on the settlement of interest rate swap agreements of \$184, offset in part by the declining interest portion of debt repayments for the same-assets combined with effects of reduced interest rates on some fixed rate mortgages that have been renegotiated since December 31, 2007.

The amount of the interest rate subsidy paid by ECL to reduce the effective interest rates on certain mortgages to 5.54% for the quarter ended December 31, 2008 was \$797 (quarter ended December 31, 2007 - \$874).

### Depreciation and Amortization

<i>(In thousands of dollars)</i>	Quarter Ended		Variance
	December 31, 2008	December 31, 2007	
Same-asset depreciation and amortization	\$7,809	\$8,117	\$(308)
Acquisition depreciation and amortization	4,456	35	4,421
<b>Depreciation and amortization</b>	<b>\$12,265</b>	<b>\$8,152</b>	<b>\$4,113</b>

Same-asset depreciation and amortization of \$7,809 for the quarter ended December 31, 2008 was 3.8% lower than the quarter ended December 31, 2007 due primarily to the final allocation of costs between buildings and intangible assets in the fourth quarter of 2007 increasing depreciation and amortization, offset in part by depreciation on fixed asset additions incurred since December 31, 2007. Depreciation and amortization consists of:

<i>(In thousands of dollars)</i>	Quarter Ended		Variance
	December 31, 2008	December 31, 2007	
Depreciation of commercial properties	\$4,495	\$3,309	\$1,186
Amortization of tenant improvements/lease costs	1,031	895	136



Amortization of intangible assets	6,739	3,948	2,791
Depreciation and amortization	\$12,265	\$8,152	\$4,113

### Future Income Taxes

The reduction in future income tax expense is primarily due to the reduction in enacted effective income tax rates that will be applicable when the timing differences are expected to reverse.

During the fourth quarter of 2007, Crombie reversed future income tax expense of \$1,850 due to the reversal of previously recorded income tax expense as a result of the extensive review Crombie's management and their advisors underwent in the fourth quarter of 2007 to support Crombie's assertion that it meets the REIT criteria.

### Sector Information

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

As some expenses are not incurred evenly throughout the year, nor are they necessarily subject to comparable timing across comparable quarters, the NOI and NOI margin are subject to volatility on a quarterly basis.

#### Retail Freestanding Properties

<i>(In thousands of dollars, except as otherwise noted)</i>	Quarter ended December 31, 2008			Quarter ended December 31, 2007		
	Same-Asset	Acquisitions	Total	Same-Asset	Acquisitions	Total
Property revenue	\$372	\$6,376	\$6,748	\$316	\$--	\$316
Property expenses	58	1,607	1,665	23	--	23
Property NOI	\$314	\$4,769	\$5,083	\$293	\$--	\$293
NOI Margin %	84.4%	74.8%	75.3%	92.7%	--%	92.7%
Occupancy %	100.0%	100.0%	100.0%	100.0%	--%	100.0%

The improvement in the retail freestanding property NOI was caused by the Portfolio Acquisition. The NOI % margin is lower in the acquisition properties as a result of property tax expenses that are fully recoverable from the tenant being included as both revenue and expense.

#### Retail Plaza Properties

<i>(In thousands of dollars, except as otherwise noted)</i>	Quarter ended December 31, 2008			Quarter ended December 31, 2007		
	Same-Asset	Acquisitions	Total	Same-Asset	Acquisitions	Total
Property revenue	\$9,613	\$7,911	\$17,524	\$9,993	\$318	\$10,311
Property expenses	3,447	2,360	5,807	2,487	83	2,570
Property NOI	\$6,166	\$5,551	\$11,717	\$7,506	\$235	\$7,741
NOI Margin %	64.1%	70.2%	66.9%	75.1%	73.9%	75.1%
Occupancy %	95.4%	98.1%	96.7%	95.2%	91.8%	95.1%

The improvement in the retail plaza property NOI was caused primarily by the Portfolio Acquisition, partially offset by the lower NOI in the same-asset properties due to lower property revenue and higher non-recoverable maintenance expenses in 2008 compared to 2007.

#### Retail Enclosed Properties

<i>(In thousands of dollars, except as otherwise noted)</i>	Quarter ended December 31, 2008			Quarter ended December 31, 2007		
	Same-Asset	Acquisitions	Total	Same-Asset	Acquisitions	Total
Property revenue	\$12,534	\$508	\$13,042	\$11,634	\$--	\$11,634
Property expenses	4,513	180	4,693	4,426	--	4,426
Property NOI	\$8,021	\$328	\$8,349	\$7,208	\$--	\$7,208
NOI Margin %	64.0%	64.6%	64.0%	62.0%	--%	62.0%
Occupancy %	90.2%	94.0%	90.4%	92.5%	--%	92.5%

The NOI has increased for retail enclosed properties due primarily to the timing of non-recoverable maintenance in 2008 compared to the same period in 2007 and the Portfolio Acquisition. Occupancy is lower in 2008 as compared to 2007 as a result of the vacancy

caused by the loss of SAAN stores in two properties totalling 60,500 square feet. The increase in average net rent per square foot for the properties has increased the revenue compared to the same period of 2007.

#### Office Properties

<i>(In thousands of dollars, except as otherwise noted)</i>	Quarter ended December 31, 2008			Quarter ended December 31, 2007		
	Same-Asset	Acquisitions	Total	Same-Asset	Acquisitions	Total
Property revenue	\$6,046	\$--	\$6,046	\$5,342	\$--	\$5,342
Property expenses	3,556	--	3,556	3,354	--	3,354
Property NOI	\$2,490	\$--	\$2,490	\$1,988	\$--	\$1,988
NOI Margin %	41.2%	--%	41.2%	37.2%	--%	37.2%
Occupancy %	89.7%	--%	89.7%	91.1%	--%	91.1%

The improved occupancy level at the Halifax Developments properties in Halifax was offset by the decreased occupancy in Terminal Centres in Moncton, New Brunswick. Higher net rent per square foot at the Halifax Development properties resulted in the higher property NOI and NOI margin percent for the office properties in the fourth quarter 2008 compared to the fourth quarter of 2007.

#### Mixed-Use Properties

<i>(In thousands of dollars, except as otherwise noted)</i>	Quarter ended December 31, 2008			Quarter ended December 31, 2007		
	Same-Asset	Acquisitions	Total	Same-Asset	Acquisitions	Total
Property revenue	\$9,162	\$--	\$9,162	\$8,852	\$--	\$8,852
Property expenses	4,162	--	4,162	4,163	--	4,163
Property NOI	\$5,000	\$--	\$5,000	\$4,689	\$--	\$4,689
NOI Margin %	54.6%	--%	54.6%	53.0%	--%	53.0%
Occupancy %	96.1%	--%	96.1%	95.4%	--%	95.4%

The higher NOI results for the fourth quarter of 2008 when compared to the fourth quarter of 2007 resulted primarily from the increase in mixed-use occupancy levels from 95.4% in 2007 to 96.1% in 2008 and improved average net rent per square foot from leasing activity.

#### OTHER FOURTH QUARTER PERFORMANCE MEASURES

##### Funds from Operations

A calculation of FFO for the quarters ended December 31, 2008 and 2007 is as follows:

<i>(In thousands of dollars)</i>	Quarter Ended December 31, 2008	Quarter Ended December 31, 2007	Variance
Net income	\$5,403	\$4,058	\$1,345
Add back:			
Non-controlling interest	4,968	3,766	1,202
Depreciation and amortization	12,265	8,152	4,113
Depreciation and amortization on discontinued operations	--	75	(75)
Gain on sale of discontinued operations	(487)	--	(487)
Future income taxes	(3,450)	(2,994)	(456)
FFO	\$18,699	\$13,057	\$5,642

The improvement in FFO for the fourth quarter of 2008 was primarily due to higher property NOI as a result of the individual acquisitions and the Portfolio Acquisition, offset in part by the decrease in same-asset NOI and increased interest expense related to the acquisitions.

##### Adjusted Funds from Operations

The calculation of AFFO for the quarters ended December 31, 2008 and 2007 is as follows:

<i>(In thousands of dollars)</i>	Quarter Ended December 31, 2008	Quarter Ended December 31, 2007	Variance
FFO	\$18,699	\$13,057	\$5,642
Add back:			
Above market lease amortization	772	765	7
Non-cash revenue impacts on discontinued operations	(2)	10	(12)
Less:			
Below market lease amortization	(2,145)	(1,252)	(893)
Straight-line rent adjustment	(173)	(141)	(32)
Amortization of fair value of debt adjustment	--	(20)	20
Maintenance capital expenditures	(1,581)	(2,712)	1,131
Maintenance to TI and leasing costs	(1,123)	(2,146)	1,023
<b>AFFO</b>	<b>\$14,447</b>	<b>\$7,561</b>	<b>\$6,886</b>

The improved AFFO result for the fourth quarter of 2008 when compared to the same period in 2007 was primarily due to the improved FFO. As maintenance capital expenditures and TI costs are not incurred evenly throughout the fiscal year, there can be volatility in AFFO on a quarterly basis.

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

<i>(In thousands of dollars)</i>	Quarter Ended December 31, 2008	Quarter Ended December 31, 2007	Variance
Cash provided by operating activities	\$24,760	\$19,190	\$5,570
Add back (deduct):			
Recoverable/productive capacity enhancing TIs	638	64	574
Change in non-cash operating items	(8,652)	(8,842)	190
Unit-based compensation expense	(11)	(9)	(2)
Amortization of fair value of debt adjustment	--	(20)	20
Amortization of deferred financing charges	(523)	(110)	(413)
Amortization of swap settlements	(184)	--	(184)
Maintenance capital expenditures	(1,581)	(2,712)	1,131
<b>AFFO</b>	<b>\$14,447</b>	<b>\$7,561</b>	<b>\$6,886</b>

#### Sources and Uses of Funds

<i>(In thousands of dollars)</i>	Quarter ended December 31, 2008	Quarter ended December 31, 2007	Variance
Cash provided by (used in):			
Operating activities	\$24,760	\$19,190	\$5,570
Financing activities	\$(21,086)	\$(2,031)	\$(19,055)
Investing activities	\$354	\$(14,451)	\$14,805

#### Operating Activities

<i>(In thousands of dollars)</i>	Quarter Ended December 31, 2008	Quarter Ended December 31, 2007	Variance
Cash provided by (used in):			
Net income and non-cash items	\$17,869	\$12,558	\$5,311
Tenant improvements and leasing costs	(1,761)	(2,210)	449
Non-cash working capital	8,652	8,842	(190)
<b>Cash provided by operating activities</b>	<b>\$24,760</b>	<b>\$19,190</b>	<b>\$5,570</b>

The improvement in net income and non-cash items again reflects the higher property NOI as a result of the individual acquisitions and the Portfolio Acquisition, offset in part by the increased interest expense related to the acquisitions. Of the TI and leasing costs in 2008 of \$1,761, \$638 was covered by the non-interest bearing demand notes from ECL (\$2,210 in 2007, \$64 covered by ECL notes).

#### Financing Activities

Cash used in financing activities during the quarter of \$21,086 was primarily due to the principal payments on commercial property debt and distributions. In 2007, \$2,031 of cash was used in financing activities, primarily as a result of proceeds from commercial property debt issued, being offset by principal payments on commercial property debt and distributions.

#### Investing Activities

Cash provided by investing activities of \$354 during the quarter was due primarily to the receipt of proceeds from the sale of West End Mall in Halifax, Nova Scotia during the quarter, partially offset by additions to commercial properties. During the fourth quarter of 2007, cash of \$8,894 was used for the acquisition of Town Centre in LaSalle, Ontario.

#### Tenant Improvement and Capital Expenditures

<i>(In thousands of dollars)</i>	Quarter Ended December 31, 2008	Quarter Ended December 31, 2007
Total additions to commercial properties	\$2,461	\$5,557
Less: amounts (recoverable from)/payable to ECL	145	(2,471)
Net additions to commercial properties	2,606	3,086
Less: productive capacity enhancements	(1,025)	(374)
Maintenance capital expenditures	\$1,581	\$2,712

<i>(In thousands of dollars)</i>	Quarter Ended December 31, 2008	Quarter Ended December 31, 2007
Total additions to TI and leasing costs	\$1,761	\$2,210
Less: amounts recoverable from ECL	(638)	(64)
Net additions to TI and leasing costs	1,123	2,146
Less: productive capacity enhancements	--	--
Maintenance TI and leasing costs	\$1,123	\$2,146

As maintenance TI and capital expenditures are not incurred evenly throughout the fiscal year, there can be volatility on a quarterly basis. The amount payable to ECL in the maintenance capital expenditures relates to a capital cost incurred by Crombie that was deemed to not be subject to the provisions of the capital expenditure program and was reimbursed. See the "Sources and Uses of Funds" section for a discussion on the TI and capital expenditures incurred for the year ended December 31, 2008.

#### **CHANGES IN ACCOUNTING POLICIES AND ESTIMATES**

Effective January 1, 2008 Crombie has adopted three new accounting standards that were issued by the CICA in 2006. These accounting policy changes have been adopted in accordance with their transitional provisions of the respective standard.

The new standards and accounting policy changes are as follows:

#### Capital Disclosures

Effective January 1, 2008, the CICA's new accounting standard "Handbook Section 1535, Capital Disclosures" was adopted, which requires the disclosure of both qualitative and quantitative information to enable users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new standard did not have any impact on the financial position or earnings of Crombie and was applied on a prospective basis.

#### Financial Instruments Disclosures and Presentation

Effective January 1, 2008, the accounting and disclosure requirements of the CICA's two new accounting standards were adopted: "Handbook Section 3862, Financial Instruments – Disclosures" and "Handbook Section 3863, Financial Instruments – Presentation." The new standards did not have any impact on the financial position or earnings of Crombie and were applied on a prospective basis.

#### Change in estimate

During the year, the weighted average tax rate used to calculate the future income tax liability was revised as a result of an assessment of the anticipated period of the reversal of timing differences. This change in estimate resulted in a decrease in the future income tax liability and future income tax expense of \$6,072 for the year ended December 31, 2008.

#### **EFFECT OF NEW ACCOUNTING POLICIES NOT YET IMPLEMENTED**

##### Goodwill and Intangible Assets

In February 2008, the CICA issued a new Section 3064 "Goodwill and Intangible Assets" replacing Section 3062 "Goodwill and Other Intangible Assets" as well as Section 3450 "Research and Development Costs". As a result of these new sections, section 1000 "Financial Statements Concepts" has been modified. The new 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 costs). As for subsequent measurement of intangible assets, goodwill, and disclosure, Section 3064 carries forward the requirements of the old Section 3062. The new Section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008.

Common practice in the real estate industry has been to defer and amortize deferred tenant charges. Under the amended section 1000 these deferred tenant charges would no longer qualify as a deferred asset.

Management has reviewed the impact of this amendment and anticipates a reclassification among asset classes without material change to unitholders' equity or net income.

##### 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 International Financial Reporting Standards (IFRS). IFRS must be adopted for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, with retroactive 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, have 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 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.

#### **RELATED PARTY TRANSACTIONS**

As at December 31, 2008, Empire, through its wholly-owned subsidiary ECL, holds a 47.9% 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 on a cost sharing basis. The costs assumed by Empire pursuant to the arrangement during the year ended December 31, 2008 were \$1,393 (year ended December 31, 2007 - \$1,505) and were netted against general and administrative expenses owing by Crombie to Empire.

For a period of five years, commencing on March 23, 2006, certain on-site maintenance and management employees of Crombie will provide property management services to certain real estate subsidiaries of Empire on a cost sharing basis. In addition, for various periods, ECL has an obligation to provide rental income and interest rate subsidies. The costs assumed by Empire pursuant to the arrangement during the year ended December 31, 2008 were \$2,013 (year ended December 31, 2007 - \$2,408) and were netted against property expenses owing by Crombie to Empire. The rental income subsidy during the year ended December 31, 2008 was \$Nil (year ended December 31, 2007 - \$37) and the head lease subsidy during the year ended December 31, 2008 was \$897 (year ended December 31, 2007 - \$2,124).

Crombie also earned rental revenue of \$50,483 for the year ended December 31, 2008 (year ended December 31, 2007 - \$23,722) from Sobey's Inc., Empire Theatres and ASC Commercial Leasing Limited ("ASC"). These companies were all subsidiaries of Empire until September 8, 2008 when ASC was sold. Property revenue from ASC is included in this note disclosure until the sale date.

On April 22, 2008, Crombie acquired 61 properties from Empire Subsidiaries, as discussed above under "Business Strategy and Outlook".

Empire has provided Crombie with a \$20,000 floating rate Empire Demand Facility on substantially the same terms and conditions that govern the Revolving Credit Facility. The amount borrowed under the Empire Demand Facility at December 31, 2008 is \$10,000. Subsequent to December 31, 2008, the entire \$10,000 Empire Demand Facility was repaid. Subsequent to December 31, 2008 (See "Subsequent Events"), Crombie completed \$39,000 of additional fixed rate mortgage financings for eight of the properties acquired pursuant to the Portfolio Acquisition in order to refinance the Term Facility. A third party provided \$32,800 of fixed rate first mortgage financing, while \$6,200 of fixed rate second mortgage financing was provided by Empire. As a result of this financing, the maximum amount available under the Empire Demand Facility was reduced from \$20,000 to \$13,800.

## **CRITICAL ACCOUNTING ESTIMATES**

### **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 is determined based on the differential between contractual and market interest rates on long term liabilities assumed at acquisition.

### **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.

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 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.

Repair and maintenance 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.

### **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.

### **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.

### **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.

### **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:

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

- Held to maturity investments – assets related to discontinued operations
- Loans and receivables - Notes receivable and accounts receivable
- Other financial liabilities - Commercial property debt, liability related to discontinued operations, convertible debentures, tenant improvements and capital expenditures payable, property operating costs payable and interest payable

The book values 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.

	Dec. 31, 2008		Dec. 31, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets related to discontinued operations	\$7,184	\$7,477	\$Nil	\$Nil
Commercial property debt	\$814,194	\$812,488	\$496,173	\$489,756
Convertible debentures	\$30,000	\$25,950	\$Nil	\$Nil
Liability related to discontinued operations	\$6,487	\$6,599	\$6,633	\$6,577

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 liability related to discontinued operations: The fair value of Crombie's commercial property debt and liability 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.

#### **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, in certain circumstances, the trustees and officers of Crombie.

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

Crombie has land leases on certain properties. These leases have annual payments of \$969 per year over the next five years. The land leases have terms of between 12 and 76 years remaining, including renewal options.

Crombie obtains letters of credit to support our obligations with respect to construction work on our 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 \$145 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.



## **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:

### **Risk Factors Related to the Real Estate Industry**

#### **Real Property Ownership and Tenant Risks**

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

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

#### **Credit risk**

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

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, 2008;

- Excluding Sobeys (which accounts for 33.0% 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 10.1% of the gross leaseable area of Crombie will expire in any one year.

As outlined in the Related Party Transactions disclosure, Crombie earned rental revenue of \$50,483 for the year ended December 31, 2008 (year ended December 31, 2007 - \$23,722) from subsidiaries of Empire.

#### **Competition**

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

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

#### **Significant Relationship**

Crombie's anchor tenants are concentrated in a relatively small number of retail operators. Specifically, 33.0% of the annual minimum rent generated from Crombie's properties is derived from anchor tenants which are owned and/or operated by Sobeys. Therefore, Crombie is reliant on the sustainable operation by Sobeys in these locations.

## Retail and Geographic Concentration

Crombie's portfolio of properties is heavily weighted in retail properties. Consequently, changes in the retail environment and general consumer spending could adversely impact Crombie's financial condition. Crombie's portfolio of properties is also heavily concentrated in Atlantic Canada. An economic downturn concentrated in the Atlantic Canada region could also adversely impact Crombie's financial condition. The geographic breakdown of properties and percentage of annual minimum rent of Crombie's properties for 2008 are as follows: 41 properties in Nova Scotia comprising 41.0%; 22 properties in Ontario comprising 16.8%; 20 properties in New Brunswick comprising 12.6%; 13 properties in Newfoundland and Labrador comprising 17.0%; three properties in Prince Edward Island comprising 3.2%; 13 properties in Quebec comprising 7.9%; and one property in Saskatchewan comprising 1.5%. Crombie's growth strategy of expansion outside of Atlantic Canada is predicated on reducing the geographic concentration risk.

## Interest rate risk

Interest rate risk is the potential for financial loss arising from potential increases in interest rates. Crombie mitigates interest rate risk by utilizing staggered debt maturities, minimizing long-term exposure to floating rate debt and utilizing interest rate swap agreements. As at December 31, 2008:

- Crombie's average term to maturity of the fixed rate mortgages was 6.9 years, and
- Crombie's exposure to floating rate debt, including the impact of the fixed rate swap agreements discussed below, was 21.3% of the total commercial property debt. Excluding the floating rate term facility, which is to be replaced with permanent fixed rate financing during the next twelve months, the exposure to floating rate debt is 6.9%.

From time to time, Crombie has entered into interest rate swap agreements to manage the interest rate profile of its current or future debts without an exchange of the underlying principal amount. Recent turmoil in financial markets has materially affected interest swap rates. This effect was especially pronounced during the fourth quarter of 2008. 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. During the fourth quarter of 2008, the swap spread turned negative. The effect of the negative swap spreads, combined with the decline in the Canadian bond yields to levels not seen since the late 1940's, has resulted in a significant deterioration of the mark-to-market values for the interest rate swap agreements during the final quarter of 2008. At December 31, 2008 the mark-to-market exposure on the interest rate swap agreements was approximately \$53,044. There is no immediate cash impact from this mark-to-market adjustment. The unfavourable difference in the mark-to-market amount of these interest rate swap agreements is reflected in other comprehensive income (loss) rather than net income as the swaps are all designated and effective hedges.

The breakdown of the swaps in place as part of the interest rate management program, and their associated unfavourable differences 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. In addition, Crombie has entered into a fixed interest rate swap agreement of a notional amount of \$50,000 to fix a portion of the interest on the floating rate Term Facility. The fair value of the fixed interest rate swaps at December 31, 2008, had an unfavourable mark-to-market exposure of \$4,024 (December 31, 2007 – unfavourable \$173) compared to its face value. The change in this amount has been recognized in other comprehensive (loss) income. The mark-to-market amount of fixed interest rate swaps reduce to \$Nil upon maturity of the swaps.
- Crombie has entered into a number of delayed interest rate swap agreements of a notional amount of \$100,334 with an effective date between February 1, 2010 and July 2, 2011, maturing between February 1, 2019 and July 2, 2021 to mitigate exposure to interest rate increases for mortgages maturing in 2010 and 2011. The fair value of these delayed interest rate swap agreements had an unfavourable mark-to-market exposure of \$20,901 compared to the face value on December 31, 2008 (December 31, 2007 – unfavourable \$5,611). The change in these amounts has been recognized in other comprehensive (loss) income.
- In relation to the acquisition of a portfolio of 61 retail properties from subsidiaries of Empire, Crombie has entered into a number of delayed interest rate swap agreements of a notional amount of \$180,000 to mitigate exposure to interest rate increases prior to replacing the 18 month floating rate Term Facility with long-term financing. The fair value of these agreements had an unfavourable mark-to-market exposure of \$28,119 compared to their face value on December 31, 2008 (December 31, 2007 – \$Nil). The change in these amounts has been recognized in other comprehensive (loss) income.

During the year ended December 31, 2008, Crombie settled three interest rate swap agreements related to a notional amount of \$18,355 that had an unfavourable mark-to-market exposure of \$3,745. This amount has been recognized in other comprehensive (loss) income since the inception of the interest rate swap agreements. This loss will be reclassified to interest expense using the effective interest rate method which amortizes the loss over the term of the replacement long-term debt.

A fluctuation in interest rates would have an impact on Crombie's net earnings and other comprehensive (loss) income 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:

	Year ended Dec. 31, 2008		Year ended Dec. 31, 2007	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Impact on net income of interest rate changes the floating rate Revolving Credit Facility	\$(1,231)	\$1,231	\$(416)	\$416
	Dec. 31, 2008		Dec. 31, 2007	
	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	\$10,678	\$(11,288)	\$4,657	\$(4,931)

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. These risks have heightened during the fourth quarter of 2008 due to the turmoil in the financial markets. Crombie seeks to mitigate this risk by staggering the debt maturity dates. 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.

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

- annualized NOI for the prescribed properties must be a minimum of 1.4 times the coverage of the related annualized debt service requirements;
- annualized NOI on all properties must be a minimum of 1.4 times the coverage of all annualized debt service requirements;
- 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 of Crombie that ECL must maintain a minimum 40% voting interest in Crombie. If ECL 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 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, 2008, and throughout the 2008 fiscal year, Crombie is in compliance with all externally imposed capital requirements and all covenants relating to its debt facilities.

As outlined above, access to the Revolving Credit Facility is limited such that the amount utilized under the facility, plus any negative mark-to-market position may not exceed the security provided by Crombie identified as the "Aggregate Coverage Amount" as defined in the Revolving Credit Facility. During the fourth quarter of 2008 as previously discussed, the mark-to-market adjustment on the interest rate swap agreements reached an out-of-the-money position of approximately \$53,044 at December 31, 2008. The deterioration in the mark-to-market position had the impact of reducing Crombie's available credit in the Revolving Credit Facility.

During the fourth quarter of 2008, Crombie secured the Empire Demand Facility to help ensure that Crombie maintains adequate liquidity in order to fund its daily operating activities while volatility in the financial markets continues while also mitigating the risk of Crombie not being in compliance with covenants under the Revolving Credit Facility.

Crombie has no mortgages maturing in fiscal 2009. During 2008, Crombie was able to extend its Revolving Credit Facility until June 30, 2011. In regard to the Term Facility that expires in October, 2009, Crombie has successfully refinanced \$100,000 during the third quarter of 2008, along with \$39,000 subsequent to December 31, 2008 (see "Subsequent Events"), and continues to have positive discussions with a number of lenders to refinance the remaining balance. While management can provide no assurances of refinancing, and while the current credit market remains very challenging, management remains confident it will refinance the remaining Term Facility prior to its maturity.

#### **Environmental Matters**

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

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

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

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

#### **Potential Conflicts of Interest**

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

Conflicts may exist due to the fact that certain trustees, senior officers and employees of Crombie are directors and/or senior officers of ECL and/or its affiliates or will provide management or other services to ECL and its affiliates. ECL and its affiliates are engaged in a wide variety of real estate and other business activities. Crombie may become involved in transactions that conflict with the interests of the foregoing. The interests of these persons could conflict with those of Crombie. To mitigate these potential conflicts, Crombie and ECL

have entered into a number of agreements to outline how potential conflicts of interest will be dealt with including a Non-Competition Agreement, Management Cost Sharing Agreement and Development Agreement. As well, the Declaration of Trust contains a number of provisions to manage potential conflicts of interest including setting limits to the number of ECL appointees to the Board, "conflict of interest" guidelines, as well as outlining which matters require the approval of a majority of the independent trustees such as any property acquisitions or dispositions between Crombie and ECL or another related party.

### **Reliance on Key Personnel**

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

### **Reliance on ECL and Other Empire Affiliates**

ECL has agreed to support Crombie under an omnibus subsidy agreement and to pay ongoing rent pursuant to a head lease and a ground lease. Crombie's ability to acquire new development properties is dependent upon ECL and the successful operation of the Development Agreement. In addition, a significant portion of Crombie's rental income will be received from tenants that are affiliates of Empire. There is no certainty that ECL will be able to perform its obligations to Crombie in connection with these agreements. ECL has not provided any security to guarantee these obligations. If ECL, Empire or such affiliates are unable or otherwise fail to fulfill their obligations to Crombie, such failure could adversely impact Crombie's financial condition.

### **Prior Commercial Operations**

Crombie Limited Partnership ("Crombie LP") acquired from ECL all of the outstanding shares of CDL. CDL is the company resulting from the amalgamation of predecessor companies which began their operations in 1964 and have since been involved in various commercial activities in the real estate sector. In addition, the share capital of CDL and its predecessors has been subject to various transfers, redemptions and other modifications. Pursuant to the Business Acquisition, ECL made certain representations and warranties to Crombie with respect to CDL, including with respect to the structure of its share capital and the scope and amount of its existing and contingent liabilities. ECL also provided an indemnity to Crombie under the Business Acquisition which provides, subject to certain conditions and thresholds, that ECL will indemnify Crombie for breaches of such representations and warranties. There can be no assurance that Crombie will be fully protected in the event of a breach of such representations and warranties or that ECL will be in a position to indemnify Crombie if any such breach occurs. ECL has not provided any security for its obligations and is not required to maintain any cash within ECL for this purpose.

Crombie LP acquired from ECL directly and indirectly 61 properties as discussed in "Business Strategy and Outlook". Pursuant to the Portfolio Acquisition, ECL made certain representations and warranties to Crombie with respect to the properties, including with respect to the scope and amount of its existing and contingent liabilities. ECL also provided an indemnity to Crombie under the Portfolio Acquisition which provides, subject to certain conditions and thresholds, that ECL will indemnify Crombie for breaches of such representations and warranties. There can be no assurance that Crombie will be fully protected in the event of a breach of such representations and warranties or that ECL will be in a position to indemnify Crombie if any such breach occurs. ECL has not provided any security for its obligations and is not required to maintain any cash within ECL for this purpose.

### **Risk Factors Related to the Units**

#### **Cash Distributions Are Not Guaranteed**

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

## **Restrictions on Redemptions**

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

## **Potential Volatility of Unit Prices**

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

## **Tax-Related Risk Factors**

The Declaration of Trust of Crombie provides that a sufficient amount of Crombie's net income and net realized capital gains will be distributed each year to Unitholders or otherwise in order to eliminate Crombie's liability for tax under Part I of the Tax Act. Where the amount of net income and net realized capital gains of Crombie in a taxation year exceeds the cash available for distribution in the year, such excess net income and net realized capital gains will be distributed to Unitholders in the form of additional Units. Unitholders will generally be required to include an amount equal to the fair market value of those Units in their taxable income, notwithstanding that they do not directly receive a cash distribution.

Income fund or REIT structures in which there is a significant corporate subsidiary such as CDL generally involve a significant amount of inter-company or similar debt, generating substantial interest expense, which reduces earnings and therefore income tax payable. Management believes that the interest expense inherent in the structure of Crombie is supportable and reasonable in the circumstances; however, there can be no assurance that taxation authorities will not seek to challenge the amount of interest expense deducted on the debt owing by CDL to Crombie LP. If such a challenge were to succeed, it could adversely affect the amount of cash available for distribution.

The cost amount for taxation purposes of various properties of CDL will be lower than their fair market value, generally resulting in correspondingly lower deductions for taxation purposes and higher recapture of depreciation or capital gains on their disposition. In addition, CDL (unlike Crombie) may not reduce its taxable income through cash distributions. If CDL should become subject to corporate income tax, the cash available for distribution to Unitholders would likely be reduced.

On June 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"). The exemption for REITs was provided to "recognize the unique history and role of collective real estate investment vehicles," which are well-established structures throughout the world. A trust that satisfies the criteria of a REIT throughout its taxation year will not be subject to income tax in respect of distributions to its unitholders or be subject to the restrictions on its growth that would apply to SIFTS.

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

Crombie and their advisors underwent an extensive review of Crombie's organizational structure and operations to support Crombie's assertion that, at January 1, 2008 and throughout the 2008 fiscal year, 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.

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

## **Indirect Ownership of Units by Empire**

ECL holds a 47.9% economic interest in Crombie through the ownership of Class B LP Units. Pursuant to the Exchange Agreement, each Class B LP Unit will be exchangeable at the option of the holder for one Unit of Crombie and will be attached to a Special Voting Unit of Crombie, providing for voting rights in Crombie. Furthermore, pursuant to the Declaration of Trust, ECL is entitled to appoint a certain number of Trustees based on the percentage of Units held by it. Thus, Empire is in a position to exercise a certain influence with respect to the affairs of Crombie. If Empire sells substantial amounts of its Class B LP Units or exchanges such units for Units and sells these Units in the public market, the market price of the Units could fall. The perception among the public that these sales will occur could also produce such effect.

## **SUBSEQUENT EVENTS**

On January 21, 2009, Crombie declared distributions of 7.417 cents per unit for the period from January 1, 2009 to, and including, January 31, 2009. The distribution will be payable on February 16, 2009 to Unitholders of record as at January 31, 2009.

On February 12, 2009, Crombie completed mortgage financings to refinance \$39,000 of the Term Facility used to partially finance the Portfolio Acquisition. First mortgages were placed with a third party for a total of \$32,800 and these fixed rate mortgages have a five year term and a weighted average interest rate of 4.88%. In addition, \$6,200 of fixed rate second mortgages with a five year term and a weighted average interest rate of 5.38% were provided by the Empire Demand Facility. Factoring in the cost of settling the delayed interest rate swap placed upon assumption of the Term Facility, the overall weighted average interest rate is 7.46%.

On February 19, 2009, Crombie declared distributions of 7.417 cents per unit for the period from February 1, 2009 to, and including, February 28, 2009. The distribution will be payable on March 16, 2009 to Unitholders of record as at February 28, 2009.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The control framework Management used to design ICFR is COSO, which is the Committee of Sponsoring Organizations of the Treadway Commission. The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of Crombie's ICFR and have concluded as at December 31, 2008 that Crombie's ICFR were designed and operated effectively, and that there are no material weaknesses relating to the design or operation of Crombie's ICFR. There were no changes to Crombie's ICFR for the quarter ended December 31 2008 that have materially affected, or are reasonably likely to materially affect Crombie's ICFR.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Management is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") to provide reasonable assurance that material information relating to Crombie is made known to Management by others, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed by Crombie in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported with the time periods specified in securities legislation. The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of Crombie's DC&P and have concluded as at December 31, 2008 that these DC&P were designed and operated effectively, and that there are no material weaknesses relating to the design or operation of Crombie's DC&P.

## QUARTERLY INFORMATION

The following table shows information for revenues, net income, AFFO, FFO, distributions and per unit amounts for the eight most recently completed quarters.

<i>(In thousands of dollars, except per unit amounts)</i>	Quarter Ended							
	Dec. 31, 2008	Sep. 30, 2008	Jun. 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sep. 30, 2007	Jun. 30, 2007	Mar. 31, 2007
Property revenue	\$52,522	\$51,044	\$47,315	\$37,261	\$36,455	\$35,068	\$34,636	\$35,076
Property expenses	19,883	18,867	17,009	15,540	14,536	14,875	13,958	14,647
Property net operating income	32,639	32,177	30,306	21,721	21,919	20,193	20,678	20,429
Expenses:								
General and administrative	2,701	2,004	1,979	1,952	2,492	1,843	2,224	1,618
Interest	11,318	11,449	9,965	6,500	6,577	6,413	6,080	5,843
Depreciation and amortization	12,265	12,302	10,524	7,766	8,152	7,382	7,085	6,324
	26,284	25,755	22,468	16,218	17,221	15,638	15,389	13,785
Income from continuing operations before other items, income taxes and non-controlling interest	6,355	6,422	7,838	5,503	4,698	4,555	5,289	6,644
Other items	55	27	97	--	--	--	--	--
Income from continuing operations before income taxes and non-controlling interest	6,410	6,449	7,935	5,503	4,698	4,555	5,289	6,644
Income taxes expense - Future	(3,450)	859	701	400	(2,994)	718	2,978	328
Income from continuing operations before non-controlling interest	9,860	5,590	7,234	5,103	7,692	3,837	2,311	6,316
Gain/(loss) on sale of discontinued operations	487	(895)	--	--	--	--	--	--
Income from discontinued operations	24	226	136	263	132	108	108	46
Income before non-controlling interest	10,371	4,921	7,370	5,366	7,824	3,945	2,419	6,362
Non-controlling interest	4,968	2,358	3,531	2,583	3,766	1,899	1,164	3,062
Net income	\$5,403	\$2,563	\$3,839	\$2,783	\$4,058	\$2,046	\$1,255	\$3,300
Basic and diluted net income per unit	\$0.20	\$0.09	\$0.15	\$0.13	\$0.19	\$0.10	\$0.06	\$0.15

  

<i>(In thousands of dollars, except per unit amounts)</i>	Quarter Ended							
	Dec. 31, 2008	Sep. 30, 2008	Jun. 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sep. 30, 2007	Jun. 30, 2007	Mar. 31, 2007
AFFO	\$14,447	\$12,224	\$11,683	\$7,867	\$7,561	\$6,080	\$10,330	\$10,871
FFO	\$18,699	\$18,967	\$18,579	\$13,610	\$13,057	\$12,117	\$12,553	\$13,082
Distributions	\$11,649	\$11,649	\$11,879	\$8,867	\$8,867	\$8,867	\$8,798	\$8,451
AFFO per unit <sup>(1)</sup>	\$0.28	\$0.23	\$0.23	\$0.19	\$0.18	\$0.15	\$0.25	\$0.26
FFO per unit <sup>(1)</sup>	\$0.36	\$0.36	\$0.37	\$0.33	\$0.31	\$0.29	\$0.30	\$0.31
Distributions per unit <sup>(1)</sup>	\$0.22	\$0.22	\$0.23	\$0.21	\$0.21	\$0.21	\$0.21	\$0.20

(1) AFFO, FFO and distributions per unit are calculated by AFFO, FFO or distributions, as the case may be, divided by the diluted weighted average of the total Units and Special Voting Units outstanding of 52,351,464 for the quarter ended December 31, 2008, 52,351,464 for the quarter ended September 30, 2008, 49,954,256 for the quarter ended June 30, 2008, 41,728,561 for the quarter ended March 31, 2008, 41,728,561 for the quarter ended December 31, 2007, 41,728,561 for the quarter ended September 30, 2007, 41,728,561 for the quarter ended June 30, 2007, 41,717,004 for the quarter ended March 31, 2007. The quarterly results of these calculations may not add to the annual calculations due to rounding.

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

Dated: February 26, 2009  
Stellarton, Nova Scotia, Canada