CROMBIE REAL ESTATE INVESTMENT TRUST
Consolidated Financial Statements
December 31, 2008

Grant Thornton

Auditors' report

Grant Thornton LLP
Suite 270, Aberdeen Business Centre
610 East River Road, PO Box 427
New Glasgow, NS
B2H 5E5

T (902) 752-8393
F (902) 752-4009
www.GrantThornton.ca

To the Unitholders of

Crombie Real Estate Investment Trust

We have audited the consolidated balance sheets of **Crombie Real Estate Investment Trust** (the "REIT") as at December 31, 2008 and 2007 and the consolidated statements of income, comprehensive (loss) income, unitholders' equity and cash flows for the years ended December 31, 2008 and 2007. These consolidated financial statements are the responsibility of the REIT's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the REIT as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years ended December 31, 2008 and 2007 in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Chartered Accountants

New Glasgow, Canada
February 11, 2009 (except for Note 24 (b) which is as of February 12, 2009 and Note 24 (c) which is as of February 19, 2009)

Contents

	Page
Consolidated Balance Sheets	2
Consolidated Statements of Income	3
Consolidated Statements of Comprehensive (Loss) Income	4
Consolidated Statements of Unitholders' Equity	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7-30

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

	December 31, 2008	December 31, 2007
Assets		
Commercial properties (Note 4)	$1,304,401	$898,938
Intangible assets (Note 5)	131,403	59,823
Notes receivable (Note 6)	11,323	20,968
Other assets (Note 7)	25,142	20,436
Cash and cash equivalents	4,028	2,708
Asset related to discontinued operations (Note 21)	7,184	11,109
	$1,483,481	**$1,013,982**
Liabilities and Unitholders' Equity		
Commercial property debt (Note 8)	$808,971	$493,945
Convertible debentures (Note 9)	28,968	-
Payables and accruals (Note 10)	94,682	38,555
Intangible liabilities (Note 11)	41,061	16,503
Employee future benefits obligation (Note 23)	4,836	4,458
Distributions payable	3,883	2,956
Future income tax liability (Note 16)	79,800	81,501
Liabilities related to discontinued operations (Note 21)	6,517	7,311
	1,068,718	645,229
Non-controlling interest (Note 12)	199,183	177,919
Unitholders' equity	215,580	190,834
	$1,483,481	**$1,013,982**

Commitments and contingencies (Note 18)

Subsequent events (Note 24)

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31, 2008	Year Ended December 31, 2007
Revenues		
Property revenue (Note 14)	$188,142	$141,235
Lease terminations	102	-
	188,244	141,235
Expenses		
Property expenses	71,299	58,016
General and administrative expenses	8,636	8,177
Interest expense (Note 15)	39,232	24,913
Depreciation of commercial properties	16,398	12,361
Amortization of tenant improvements/lease costs	3,488	2,714
Amortization of intangible assets	22,971	13,868
	162,024	120,049
Income from continuing operations before other items	26,220	21,186
Gain on disposition of land (Note 21)	77	-
Income from continuing operations before income taxes and non-controlling interest	26,297	21,186
Income tax (recovery) expense - Future (Note 16)	(1,490)	1,030
Income from continuing operations before non-controlling interest	27,787	20,156
Loss on sale of discontinued operations (Note 21)	(408)	-
Income from discontinued operations, net of tax of $210 (Note 21)	649	394
Income before non-controlling interest	28,028	20,550
Non-controlling interest	13,440	9,891
Net income	**$14,588**	**$10,659**
Basic and diluted net income per unit		
Continuing operations	**$0.56**	**$0.47**
Discontinued operations	**$0.01**	**$0.02**
Net income	**$0.57**	**$0.49**
Weighted average number of units outstanding		
Basic	**25,477,768**	**21,535,233**
Diluted	**25,596,001**	**21,646,135**

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31. 2008	Year Ended December 31, 2007
Net income	$14,588	$10,659
Losses on derivatives designated as cash flow hedges transferred to net income in the current year	96	-
Net change in derivatives designated as cash flow hedges	(26,663)	(2,838)
Other comprehensive loss	(26,567)	(2,838)
Comprehensive (loss) income	**$(11,979)**	**$7,821**

See accompanying notes to the consolidated financial statements.

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

	REIT Units	Net Income	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income	Distributions	Total
	(Note 13)					
Unitholders' equity, January 1, 2008	$205,273	$20,064	$12	$(3,000)	$(31,515)	$190,834
Units released under EUPP	20	-	(20)	-	-	-
Units issued under EUPP	386	-	-	-	-	386
Loans receivable under EUPP	(386)	-	-	-	-	(386)
EUPP compensation	-	-	42	-	-	42
Repayment of EUPP loans receivable	181	-	-	-	-	181
Net income	-	14,588	-	-	-	14,588
Distributions	-	-	-	-	(23,120)	(23,120)
Other comprehensive loss	-	-	-	(26,567)	-	(26,567)
Unit issue proceeds, net of costs of $2,008	60,997	-	-	-	-	60,997
Unit redemption	(1,375)	-	-	-	-	(1,375)
Unitholders' equity, December 31, 2008	**$265,096**	**$34,652**	**$34**	**$(29,567)**	**$(54,635)**	**$215,580**

	REIT Units	Net Income	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income	Distributions	Total
Unitholders' equity, January 1, 2007	$204,831	$9,405	$27	$Nil	$(13,369)	$200,894
Transition adjustment	-	-	-	(162)	-	(162)
Units released under EUPP	52	-	(52)	-	-	-
Units issued under EUPP	215	-	-	-	-	215
Loans receivable under EUPP	(215)	-	-	-	-	(215)
EUPP compensation	-	-	37	-	-	37
Repayment of EUPP loans receivable	390	-	-	-	-	390
Net income	-	10,659	-	-	-	10,659
Distributions	-	-	-	-	(18,146)	(18,146)
Other comprehensive loss	-	-	-	(2,838)	-	(2,838)
Unitholders' equity, December 31, 2007	**$205,273**	**$20,064**	**$12**	**$(3,000)**	**$(31,515)**	**$190,834**

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31, 2008	Year Ended December 31, 2007
Cash flows provided by (used in)		
Operating Activities		
Net income	$14,588	$10,659
Items not affecting cash		
Non-controlling interest	13,440	9,891
Depreciation of commercial properties	16,456	12,499
Amortization of tenant improvements/lease costs	3,511	2,747
Amortization of deferred financing costs	1,349	415
Amortization of swap settlements	184	-
Amortization of intangible assets	23,019	13,983
Amortization of above market leases	3,087	2,982
Amortization of below market leases	(7,297)	(4,489)
Loss on disposal commercial property	331	-
Accrued rental revenue	(1,942)	(1,195)
Unit based compensation	42	37
Future income taxes	(1,490)	1,030
	65,278	48,559
Additions to tenant improvements and lease costs	(11,419)	(11,223)
Change in other non-cash operating items (Note 17)	6,187	(3,400)
Cash provided by operating activities	**60,046**	**33,936**
Financing Activities		
Issue of commercial property debt	493,070	89,475
Increase in deferred financing charges	(4,162)	(1,064)
Settlement of interest rate swap agreements	(3,961)	-
Issue of convertible debentures	30,000	-
Issue costs of convertible debentures	(1,214)	-
Units issued	63,005	-
Units and Class B LP Units issue costs	(3,790)	-
Repayment of commercial property debt	(191,505)	(39,021)
Decrease in liabilities related to discontinued operations	(25)	-
Collection of notes receivable	9,645	20,491
Repayment of EUPP loan receivable	181	390
Unit redemption	(1,375)	-
Payment of distributions	(43,117)	(34,808)
Cash provided by financing activities	**346,752**	**35,463**
Investing Activities		
Additions to commercial properties	(19,075)	(16,822)
Assets related to discontinued operations	(7,250)	-
Decrease in assets related to discontinued operations	66	-
Proceeds of disposal of commercial property, net of closing costs	10,186	-
Acquisition of commercial properties (Note 4)	(389,405)	(51,049)
Cash used in investing activities	**(405,478)**	**(67,871)**
Increase in cash and cash equivalents during the year	**1,320**	**1,528**
Cash and cash equivalents, beginning of year	**2,708**	**1,180**
Cash and cash equivalents, end of year	**$4,028**	**$2,708**

See accompanying notes to the consolidated financial statements.

1) CROMBIE REAL ESTATE INVESTMENT TRUST

Crombie Real Estate Investment Trust ("Crombie") is an unincorporated "open-ended" real estate investment trust created pursuant to the Declaration of Trust dated January 1, 2006, as amended. The units of Crombie are traded on the Toronto Stock Exchange ("TSX") under the symbol "CRR.UN".

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

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

(b) Basis of consolidation

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

(c) Property acquisitions

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

Crombie allocates the purchase price based on the following:

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

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

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

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

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

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

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

(d) Commercial properties

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

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

(e) Intangible assets and liabilities

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

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

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

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

(f) Deferred financing charges

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

(g) Revenue recognition

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

(h) Cash and cash equivalents

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

(i) Income taxes

Crombie is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the terms of the Declaration of Trust, Crombie must make distributions not less than the amount necessary to ensure that Crombie will not be liable to pay income tax, except for the amounts incurred in its incorporated subsidiaries.

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

(j) Financial instruments

Crombie classifies all financial instruments, including derivatives, as either held to maturity, available-for-sale, held for trading, loans and receivables or other financial liabilities. Financial assets held to maturity, loans and receivables, and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive (loss) income. Financial instruments classified as held for trading are measured at fair value using the settlement date, with unrealized gains and losses recognized in net income. Impairment write-downs are recognized in net income.

(k) Hedges

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

Crombie has fixed interest rate swap agreements and a number of delayed interest rate swap agreements designated as cash flow hedges. Crombie has identified these hedges against increases in benchmark interest rates and has formally documented all relationships between these derivative financial instruments and hedged items, as well as the risk management strategy and objectives. Crombie assesses on an ongoing basis whether the derivative financial instrument continues to be effective in offsetting changes in interest rates on the hedged items.

(l)Transaction costs

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

(m) Employee future benefits obligation

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

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

(n) Executive unit purchase plan

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

(o) Use of estimates

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

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

(p) Payment of distributions

The determination to declare and make payable distributions from Crombie are at the discretion of the Board of Trustees of Crombie and, until declared payable by the Board of Trustees of Crombie, Crombie has no contractual requirement to pay cash distributions to Unitholders’ of Crombie. During the year ended December 31, 2008 $44,044 (year ended December 31, 2007 - $34,983) in cash distributions were declared payable by the Board of Trustees to Crombie Unitholders and Crombie Limited Partnership Unitholders (the “Class B LP Units”).

(q) Comprehensive (loss) income

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

(r) Convertible debentures

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

(s) Discontinued operations

Crombie classifies properties that meet certain criteria as held for sale and separately discloses any net income and gain (loss) on disposal for current and prior periods as discontinued operations. A property is classified as held for sale at the point in time when it is available for immediate sale, management has committed to a plan to sell the property and is actively locating a purchaser for the property at a sales price that is reasonable in relation to the current estimated fair market value of the property, and the sale is expected to be completed within a one year period. Properties held for sale are carried at the lower of their carrying values and estimated fair value less costs to sell. In addition, assets held for sale are no longer depreciated. A property that is subsequently reclassified as held in use is measured at the lower of its carrying value amount before it was classed as held for sale, adjusted for an amortization expense that would have been recognized had it been continuously classified as held and in use, and its estimated fair value at the date of the subsequent decision not to sell.

(t) Impairment of long-lived assets

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

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

3) CHANGES IN ACCOUNTING POLICIES 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. Refer to Note 22.

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. Refer to Note 20.

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 (see Note 16).

Effect of New Accounting Standards 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.

4) COMMERCIAL PROPERTIES

	December 31, 2008		
	Cost	Accumulated Depreciation	Net Book Value
Land	$288,566	$Nil	$288,566
Buildings	1,029,990	37,276	992,714
Tenant improvements and leasing costs	29,754	6,633	23,121
	$1,348,310	**$43,909**	**$1,304,401**

	December 31, 2007		
	Cost	Accumulated Depreciation	Net Book Value
Land	$180,938	$Nil	$180,938
Buildings	723,673	20,878	702,795
Tenant improvements and leasing costs	18,350	3,145	15,205
	$922,961	**$24,023**	**$898,938**

Property Acquisitions

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

2008

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

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

2007

On January 17, 2007, Crombie acquired a property in Carleton Place, Ontario, representing a 79,700 square foot increase to the portfolio, for $11,800 plus additional closing costs, from an unrelated third party. The acquisition was initially financed through Crombie's revolving credit facility. On April 27, 2007, a mortgage of $7,850 at a fixed rate of 5.18% and a term of twelve years was established for the property.

On March 7, 2007, Crombie acquired a property in Perth, Ontario representing a 102,500 square foot increase to the portfolio, for $17,900 plus additional closing costs, from an unrelated third party. The acquisition was initially financed through Crombie's revolving credit facility. On April 20, 2007, a mortgage of $12,600 at a fixed rate of 5.43% and a term of fifteen years was established for the property.

On July 26, 2007, Crombie acquired a property in Fort Erie, Ontario representing a 92,500 square foot increase to the portfolio, for $19,200 plus additional closing costs, from an unrelated third party. The acquisition was financed through an assumption of an existing mortgage of $11,400 at a fixed rate of 5.36% and a term of eight years with the balance of the purchase price paid in cash using funds from the revolving credit facility.

On August 24, 2007, Crombie acquired a property in Brossard, Quebec representing a 38,800 square foot increase to the portfolio, for $7,300 plus additional closing costs, from an unrelated third party. The acquisition was financed through an assumption of an existing mortgage of $3,400 at a fixed rate of 6.44% and a term of seventeen years with the balance of the purchase price paid in cash using funds from the revolving credit facility.

On October 15, 2007, Crombie acquired a property in LaSalle, Ontario representing a 87,700 square foot increase to the portfolio, for $12,700 plus additional closing costs, from an unrelated third party. The acquisition was financed through an

assumption of an existing mortgage of $4,220 at a fixed rate of 6.0% and an approximate term of 4 years with the balance of the purchase price paid in cash using funds from the revolving credit facility.

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

Commercial property acquired, net:	**Year Ended December 31, 2008**	**Year Ended December 31, 2007**
Land	$107,826	$15,102
Buildings	287,154	44,281
Intangible assets:		
Lease origination costs	40,233	3,473
Tenant relationships	21,622	4,806
Above market leases	370	1,086
In-place leases	35,384	5,059
Intangible liabilities:		
Below market leases	(31,848)	(3,370)
Net purchase price	460,741	70,437
Assumed mortgages	(16,517)	(19,063)
Fair value debt adjustment on assumed mortgages	181	(325)
	$444,405	$51,049
Consideration funded by:		
Revolving credit facility	$16,000	$26,449
Mortgage financing	-	20,450
Term facility	280,000	-
Units	63,005	-
Convertible debentures	30,000	-
Application of deposit	400	4,150
Cash paid	389,405	51,049
Class B LP Units (non-controlling interest) paid	55,000	-
Total consideration paid	$444,405	$51,049

5) INTANGIBLE ASSETS

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

	December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Origination costs for existing leases	$14,186	$5,468	$8,718
In-place leases	21,992	9,628	12,364
Tenant relationships	35,476	7,431	28,045
Above market existing leases	15,645	4,949	10,696
	$87,299	**$27,476**	**$59,823**

6) NOTES RECEIVABLE

On March 23, 2006, Crombie acquired 44 properties from Empire Company Limited's subsidiary, ECL Properties Limited ("ECL") and certain affiliates, resulting in ECL issuing two demand non-interest bearing promissory notes in the amounts of $39,600 and $20,564. Payments on the first note of $39,600 are being received as funding is required for a capital expenditure program relating to eight commercial properties over the period from 2006 to 2010. Payments on the second note of $20,564 are being received on a monthly basis to reduce the effective interest rate to 5.54% on certain assumed mortgages with an average term to maturity of approximately 3.25 years.

The balance of each note is as follows:

	December 31, 2008	December 31, 2007
Capital expenditure program	$505	$6,817
Interest rate subsidy	10,818	14,151
	$11,323	**$20,968**

7) OTHER ASSETS

	December 31, 2008	December 31, 2007
Gross accounts receivable	$7,248	$5,943
Provision for doubtful accounts	(250)	(504)
Net accounts receivable	6,998	5,439
Accrued straight-line rent receivable	7,786	5,728
Prepaid expenses and deferred tenant charges	9,420	8,479
Restricted cash	938	790
	$25,142	**$20,436**

8) COMMERCIAL PROPERTY DEBT

	Range	Average interest rate	Average term to maturity	December 31, 2008
Fixed rate mortgages	5.15-6.44%	5.54%	6.9 years	$531,970
Floating rate term facility		4.87%	0.8 years	178,824
Floating rate revolving credit facility		4.37%	2.5 years	93,400
Floating rate demand credit facility		3.50%	Demand	10,000
Deferred financing charges				(5,223)
				$808,971

	Range	Average interest rate	Average term to maturity	December 31,2007
Fixed rate mortgages	5.15-6.44%	5.46%	7.4 years	$425,273
Floating rate revolving credit facility		5.50%	2.6 years	70,900
Deferred financing charges				(2,228)
				$493,945

As December 31, 2008, debt retirements for the next 5 years are:

	Fixed Rate	Floating Rate	Financing Costs	Total
Twelve months ended Dec. 31, 2009	$17,234	$188,824	$Nil	$206,058
Twelve months ended Dec. 31, 2010	120,004	-	-	120,004
Twelve months ended Dec. 31, 2011	40,535	93,400	-	133,935
Twelve months ended Dec. 31, 2012	14,226	-	-	14,226
Twelve months ended Dec. 31, 2013	44,978	-	-	44,978
Thereafter	284,072	-	-	284,072
	521,049	282,224	-	803,273
Deferred financing charges	-	-	(5,223)	(5,223)
Fair value debt adjustment	10,921	-	-	10,921
	$531,970	$282,224	$(5,223)	$808,971

On April 22, 2008, Crombie entered into an 18 month floating rate term facility of $280,000 to partially finance the acquisition of 61 properties from subsidiaries of Empire Company Limited. The floating interest rate is based on a specified margin over prime rate or the bankers acceptance rate, which margin increases over time. As security for the floating rate term facility, Crombie provided an unconditional guarantee and shall at any time on or after the 90th day following the closing of the 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 floating rate term facility. The floating rate 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.

The floating rate revolving credit facility has a maximum principal amount of $150,000 and is used by Crombie for working capital purposes and to provide financing for future acquisitions. It is secured by a pool of first and second mortgages and negative pledges on certain properties. The floating interest rate is based on specific margins over prime rate or bankers acceptance rates. The specified margin increases as Crombie's overall debt leverage increases. As at December 31, 2008, $93,400 is drawn on the facility. During the second quarter of 2008, the maturity date of the floating rate credit facility was extended to June 30, 2011.

During the fourth quarter of 2008, Crombie secured a $20,000 floating rate demand credit facility with Empire Company Limited on substantially the same terms and conditions that govern the floating rate revolving credit facility. At December 31, 2008, Crombie had $10,000 drawn against the floating rate demand credit facility (December 31, 2007 - $Nil). Subsequent to December 31, 2008, the entire $10,000 floating rate demand credit facility was repaid. Upon completion of mortgage financings to refinance the $39,000 of the floating rate term facility subsequent to December 31, 2008, $6,200 was drawn on the floating rate demand credit facility to fund fixed rate second mortgages (see Note 24).

On August 28, 2008, Crombie completed the refinancing of an existing mortgage on the freestanding store at 318 Ontario Street in Ontario. The new fixed rate mortgage of $4,600 provided funds of $4,584 (net of fees). The interest rate on the new mortgage is 5.73% with a maturity date of September 2013.

On September 10, 2008, Crombie completed the refinancing of an existing mortgage on the South Pelham Market Plaza in Ontario. The new fixed rate mortgage of $5,610 provided funds of $5,576 (net of fees). The interest rate on the new mortgage is 5.64% with a maturity date of October 2013.

On September 30, 2008, Crombie completed mortgage financing to refinance $100,000 of the floating rate term facility. The fixed rate mortgages have a weighted average 7.7 year term, with a 25 year amortization, and a weighted average interest rate of 5.91%.

On November 3, 2008, Crombie completed the refinancing of an existing mortgage on the Amherst Plaza in Nova Scotia. The new fixed rate mortgage of $6,000 provided funds of $5,985 (net of fees). The interest rate on the new mortgage is 5.50% with a maturity date of November 2013.

On November 6, 2008, Crombie completed the refinancing of an existing mortgage on the Port Colborne Mall in Ontario. The new fixed rate mortgage of $6,175 provided funds of $6,096 (net of fees). The interest rate on the new mortgage is 6.0% with a maturity date of November 2013.

9) CONVERTIBLE DEBENTURES

Convertible debenture	Maturity date	Interest rate	Principal	Transaction costs	December 31, 2008
Series A	March 20, 2013	7%	$30,000	$(1,032)	$28,968

Series A convertible debentures

On March 20, 2008, Crombie issued $30,000 in unsecured convertible debentures related to the agreements to acquire a portfolio of 61 retail properties from subsidiaries of Empire Company Limited.

Each convertible 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 convertible 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 convertible debentures are not redeemable prior to March 20, 2011. From March 20, 2011 to March 20, 2012, the convertible debentures may be redeemed, in whole or in part, on not more than 60 days' and not less than 30 days' prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice on redemption is given exceeds 125% of the conversion price. After March 20, 2012, and prior to March 20, 2013, the convertible debentures may be redeemed, in whole or in part, at anytime at the redemption price equal to the principal amount thereof plus accrued and unpaid interest. 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 convertible debentures at maturity or upon redemption, in whole or in part, by issuing the number of units equal to the principal amount of the convertible 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 convertible 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 convertible debentures have been deferred and are being amortized into interest expense over the term of the convertible debentures using the effective interest rate method.

10) PAYABLES AND ACCRUALS

	December 31, 2008	December 31, 2007
Tenant improvements and capital expenditures	$13,384	$9,828
Property operating costs	20,386	18,520
Advance rents	5,364	2,692
Interest on commercial property debt and debentures	2,504	1,731
Fair value of interest rate swap agreements	53,044	5,784
	$94,682	**$38,555**

11) INTANGIBLE LIABILITIES

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

	December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Below market existing leases	**$23,855**	**$7,352**	**$16,503**

12) NON-CONTROLLING INTEREST

	Class B LP Units	Net Income	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income	Distributions	Total
Balance, January 1, 2008	$191,302	$18,678	$Nil	$(2,784)	$(29,277)	$177,919
Net income	-	13,440	-	-	-	13,440
Distributions	-	-	-	-	(20,924)	(20,924)
Other comprehensive (loss) income	-	-	-	(24,470)	-	(24,470)
Unit issue proceeds, net of costs of $1,782	53,218	-	-	-	-	53,218
Balance, December 31, 2008	**$244,520**	**$32,118**	**$Nil**	**$(27,254)**	**$(50,201)**	**$199,183**

	Class B LP Units	Net Income	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income	Distributions	Total
Balance, January 1, 2007	$191,302	$8,787	$Nil	$Nil	$(12,440)	$187,649
Transition adjustment	-	-	-	(148)	-	(148)
Net income	-	9,891	-	-	-	9,891
Distributions	-	-	-	-	(16,837)	(16,837)
Other comprehensive (loss) income	-	-	-	(2,636)	-	(2,636)
Balance, December 31, 2007	**$191,302**	**$18,678**	**$Nil**	**$(2,784)**	**$(29,277)**	**$177,919**

13) UNITS OUTSTANDING

	Crombie REIT Units		Crombie REIT Special Voting Units and Class B LP Units		Total	
	Number of Units	Amount	Number of Units	Amount	Number of Units	Amount
Balance, January 1, 2008	21,648,985	$205,273	20,079,576	$191,302	41,728,561	$396,575
Units issued	5,727,750	63,005	5,000,000	55,000	10,727,750	118,005
Cost of issuance	-	(2,008)	-	(1,782)	-	(3,790)
Net Unit issue proceeds	27,376,735	266,270	25,079,576	244,520	52,456,311	510,790
Units issued under EUPP	34,053	386	-	-	34,053	386
Units released under EUPP	-	20	-	-	-	20
Net change in EUPP loans receivable	-	(205)	-	-	-	(205)
Unit redemption	(138,900)	(1,375)	-	-	(138,900)	(1,375)
Balance, December 31, 2008	**27,271,888**	**$265,096**	**25,079,576**	**$244,520**	**52,351,464**	**$509,616**

	Crombie REIT Units		Crombie REIT Special Voting Units and Class B LP Units		Total	
	Number of Units	Amount	Number of Units	Amount	Number of Units	Amount
Balance, January 1, 2007	21,633,225	$204,831	20,079,576	$191,302	41,712,801	$396,133
Units issued under EUPP	15,760	215	-	-	15,760	215
Units released under EUPP	-	52	-	-	-	52
Net change in EUPP loans receivable	-	175	-	-	-	175
Balance, December 31, 2007	**21,648,985**	**$205,273**	**20,079,576**	**$191,302**	**41,728,561**	**$396,575**

Crombie REIT Units

Crombie is authorized to issue an unlimited number of units (“Units”) and an unlimited number of Special Voting Units. Issued and outstanding Units may be subdivided or consolidated from time to time by the Trustees without the approval of the Unitholders. Units are redeemable at any time on demand by the holders at a price per Unit equal to the lesser of: (i) 90% of the weighted average price per Crombie Unit during the period of the last ten days during which Crombie’s Units traded; and (ii) an amount equal to the price of Crombie’s Units on the date of redemption, as defined in the Declaration of Trust. During the second quarter of 2008, Crombie redeemed 138,900 Units at a value of $1,375.

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

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

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

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

Crombie REIT Special Voting Units and Class B LP Units

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

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

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

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

Employee Unit Purchase Plan ("EUPP")

Crombie provides for unit purchase entitlements under the EUPP for certain senior executives. Awards made under the EUPP will allow executives to purchase units from treasury at the average daily high and low board lot trading prices per unit on the TSX for the five trading days preceding the issuance. Executives are provided non-recourse loans at 3% annual interest by Crombie for the purpose of acquiring Units from treasury and the Units purchased are held as collateral for the loan. The loan is repaid through the application of the after-tax amounts of all distributions received on the Units, as well as the after-tax portion of any Long-Term Incentive Plan ("LTIP") cash awards received, as payments on interest and principal. As at December 31, 2008, there are loans receivable from executives of $1,291 under Crombie's EUPP, representing 124,508 Units, which are classified as a reduction of Unitholders' Equity. Loan repayments will result in a corresponding increase in Unitholders' Equity. Market value of the Units at December 31, 2008 was $966.

The compensation expense related to the EUPP during the year ended December 31, 2008 was $42 (year ended December 31, 2007 - $37).

Earnings per Unit Computations

Basic net earnings per Unit is computed by dividing net earnings by the weighted average number of Units outstanding during the period. Diluted earnings per Unit is calculated on the assumption that all EUPP loans were repaid at the beginning of the period. For all periods, the assumed exchange of all Class B LP Units would not be dilutive. The convertible debentures are anti-dilutive and have not been included in diluted net earnings per unit or diluted weighted average number of units outstanding. As at December 31, 2008, there are no other dilutive items.

14) PROPERTY REVENUE

	Year Ended December 31, 2008	Year Ended December 31, 2007
Rental revenue contractually due from tenants	$181,978	$138,462
Straight-line rent recognition	1,932	1,215
Below market lease amortization	7,290	4,471
Above market lease amortization	(3,058)	(2,913)
	$188,142	**$141,235**

15) INTEREST

	Year Ended December 31, 2008	Year Ended December 31, 2007
Fixed rate mortgages	$25,136	$19,081
Floating rate term, revolving and demand facilities	12,459	5,832
Convertible debentures	1,637	-
Interest expense	**39,232**	**24,913**
Amortization of fair value debt adjustment	3,353	3,587
Interest paid on discontinued operations	337	362
Change in accrued interest	(743)	(326)
Amortization of hedges	(184)	-
Amortization of deferred financing charges	(1,349)	(414)
Interest paid	**$40,646**	**$28,122**

16) FUTURE INCOME TAXES

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

Crombie's management and their advisors have completed an extensive review of Crombie's organizational structure and operations to support Crombie's assertion at January 1, 2008, and throughout the 2008 fiscal year, that it meets the REIT technical tests contained in the Act. The relevant tests apply throughout the taxation year of Crombie and, as such, the actual status of Crombie for any particular taxation year can only be ascertained at the end of the year.

The future income tax liability of the wholly-owned corporate subsidiary which is subject to income taxes consists of the following:

	December 31, 2008	December 31, 2007
Tax liabilities relating to difference in tax and book value	$86,060	$86,655
Tax asset relating to non-capital loss carry-forward	(6,260)	(5,154)
Future income tax liability	**$79,800**	**$81,501**

The future income tax expense consists of the following:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Provision for income taxes at the expected rate	$9,023	$7,553
Tax effect of income attribution to Crombie's unitholders	(4,441)	(4,986)
Decreased income tax resulting from a change in expected rate	(6,072)	(1,537)
Income tax (recovery) expense	**$(1,490)**	**$1,030**

17) CHANGE IN OTHER NON-CASH OPERATING ITEMS

	Year Ended December 31, 2008	Year Ended December 31, 2007
Cash provided by (used in):		
Receivables	$(1,535)	$1,975
Prepaid expenses and other assets	(934)	(1,727)
Payables and other liabilities	8,656	(3,648)
	$6,187	**$(3,400)**

18) 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 Company Limited. Details of this agreement are described in Note 19.

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.

19) RELATED PARTY TRANSACTIONS

As at December 31, 2008, Empire Company Limited, 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 Company Limited on a cost sharing basis. The costs assumed by Empire Company Limited pursuant to the agreement 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 Company Limited.

For a period of five years, commencing March 23, 2006, certain on-site maintenance and management employees of Crombie will provide property management services to certain real estate subsidiaries of Empire Company Limited on a cost sharing basis. In addition, for various periods, ECL has an obligation to provide rental income and interest rate subsidies. The costs assumed by Empire Company Limited pursuant to the agreement during the year ended December 31, 2008 were $2,013 (year ended December 31, 2007 - $2,408) and was netted against property expenses owing by Crombie to Empire Company Limited. 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 Sobeys Inc., Empire Theatres and ASC Commercial Leasing Limited (“ASC”). These companies were all subsidiaries of Empire Company Limited until September 8, 2008 when ASC was sold. Property revenue from ASC is included in this note disclosure until the sale date.

On April 22, 2008, Crombie acquired 61 properties from a related party (see Note 4).

Empire Company Limited has provided Crombie with a $20,000 floating rate demand credit facility on substantially the same terms and conditions that govern the floating rate revolving credit facility. The amount borrowed under this floating rate demand facility at December 31, 2008 was $10,000. Subsequent to December 31, 2008, the entire $10,000 of the floating rate demand credit facility was repaid. Subsequent to December 31, 2008, (see Note 24) Crombie completed $39,000 of additional fixed rate mortgage financings for eight of the properties acquired in the 61 property portfolio acquisition in order to refinance the floating rate 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 Company Limited. As a result of this financing, the maximum amount available under the Empire Company Limited floating rate demand credit facility was reduced from $20,000 to $13,800.

20) FINANCIAL INSTRUMENTS

a) Fair value of financial instruments

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

Crombie has classified its financial instruments in the following categories:

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

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

iii. Loans and receivables - Notes receivable and accounts receivable

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

The book value of cash and cash equivalents, restricted cash, receivables, payables and accruals approximate fair values at the balance sheet date.

The fair value of other financial instruments is based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts Crombie might pay or receive in actual market transactions.

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

	December 31, 2008		**December 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.

b) Risk management

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

Credit risk

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

Crombie mitigates credit risk by geographical diversification, utilizing staggered lease maturities, diversifying both its tenant mix and asset mix and conducting credit assessments for new and renewing tenants. As at December 31, 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 Note 19, 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 Company Limited.

Interest rate risk

Interest rate risk is the potential for financial loss arising from increases in interest rates. Crombie mitigates interest rate risk by utilizing staggered debt maturities, limiting the use of permanent floating rate debt and utilizing interest rate swap agreements. As at December 31, 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 the 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, 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 the mark-to-market adjustment. The unfavourable difference in the mark-to-market amount of these interest rate swap agreements is reflected in other comprehensive (loss) income 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 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 Company Limited, 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 four interest rate swap agreements related to a notional amount of $18,355 that had an unfavourable mark-to-market difference 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.

Crombie estimates that $1,855 of other comprehensive (loss) income will be reclassified to interest expense during fiscal 2009.

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 December 31, 2008		**Year ended December 31, 2007**	
	0.5% increase	**0.5% decrease**	**0.5% increase**	**0.5% decrease**
Impact on net income of interest rate changes on the floating rate revolving credit facility	$(1,231)	$1,231	$(416)	$416

	December 31, 2008		**December 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 (see Note 8). There is also a risk that the equity capital

markets may not be receptive to an equity issue from Crombie with financial terms acceptable to Crombie. As discussed in Note 22, Crombie mitigates its exposure to liquidity risk utilizing a conservative approach to capital management.

Access to the revolving credit facility is also limited to the amount utilized under the facility, plus any negative mark-to-market position on the interest rate swap agreements may not exceed the security provided by Crombie. During the fourth quarter of 2008, 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 a $20,000 floating rate demand credit facility with Empire Company Limited under essentially the same terms and conditions that govern the revolving credit facility. This demand facility has been put in place to ensure Crombie maintains adequate liquidity in order to fund its daily operating activities while the 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 floating rate 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 Note 24), 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 floating rate term facility prior to it maturity.

21) ASSET HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

(c) During the forth quarter of 2008, Crombie defeased the $6,512 mortgage associated with the discontinued operations. The transaction did not qualify for defeasance accounting, therefore the defeased loan and related asset have not been removed from the balance sheet. The defeased loan is payable in monthly payments of $42 and bears interest at 5.46%, was originally amortized over 25 years and is due April 1, 2014. Crombie purchased Government of Canada bonds and treasury bills and Canada mortgage bonds in the amount of $7,250 and pledged them as security to the mortgage company. The bonds mature between January 22, 2009 and September 15, 2013, have a weighted average interest rate of 3.56% and have been placed in escrow. The assets related to discontinued operations and liability related to discontinued operations are measured at amortized cost using the effective interest rate method, until April 1, 2014 at which time the debt will be extinguished.

The following tables set forth the balance sheets associated with the income property classified as held for sale as at December 31, 2008 and December 31, 2007 and the statements of income for the property held for sale for the year ended December 31, 2008 and December 31, 2007.

Balance Sheets

	December 31, 2008	December 31, 2007
Assets		
Commercial property	$-	$10,025
Deferred leasing costs	-	132
Amounts receivable, prepaid expenses	-	295
Intangible assets	-	657
Asset related to discontinued operations	7,184	-
	7,184	11,109
Liabilities		
Term mortgages	-	6,633
Accounts payable and accrued liabilities	30	619
Intangible liabilities	-	59
Liabilities related to discontinued operations	6,487	-
	6,517	7,311
Net investment in asset held for sale	**$667**	**$3,798**

Statements of Income

	Year Ended December 31, 2008	Year Ended December 31, 2007
Property revenue		
Rental revenue contractually due from tenants	$2,214	$2,442
Straight-line rent recognition	10	(20)
Below market lease amortization	7	18
Above market lease amortization	(29)	(69)
	2,202	2,371
Expenses		
Property expenses	1,087	1,329
Interest	337	362
Depreciation of commercial properties	58	138
Amortization of tenant improvements/lease costs	23	33
Amortization of intangible assets	48	115
	1,553	1,977
Income from discontinued operation	**$649**	**$394**

22) CAPITAL MANAGEMENT

Crombie's objective when managing capital on a long-term basis is to maintain overall indebtedness in the range of 50% to 55% of gross book value (as defined in the credit facility agreement), utilize staggered debt maturities, minimize long-term exposure to floating rate debt, maintain conservative payout ratios and maximize long-term unit value. Crombie's capital structure consists of the following:

	December 31, 2008	December 31, 2007
Commercial property debt	$808,971	$493,945
Convertible debentures	28,968	-
Non-controlling interest	199,183	177,919
Unitholders' equity	215,580	190,834
	$1,252,702	$862,698

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

- A limitation that Crombie shall not incur indebtedness (other than by the assumption of existing indebtedness) where the indebtedness would exceed 75% of the market value of the individual property; and
- A limitation that Crombie shall not incur indebtedness of more than 60% of Gross Book Value (65% including any convertible debentures)

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

	December 31, 2008	December 31, 2007
Mortgages payable	$531,970	$425,273
Convertible debentures	30,000	-
Term facility	178,824	-
Revolving credit facility	93,400	70,900
Floating rate demand credit facility	10,000	-
Total debt outstanding	844,194	496,173
Less: Applicable fair value debt adjustment	(10,818)	(14,151)
Debt	$833,376	$482,022
Total assets	$1,483,481	$1,013,982
Add:		
Deferred financing charges	6,255	2,228
Accumulated depreciation of commercial properties	43,909	24,023
Accumulated amortization of intangible assets	53,505	27,476
Less:		
Assets held related to discontinued operations	(7,184)	(11,109)
Interest rate subsidy	(10,818)	(14,151)
Fair value adjustment to future taxes	(39,245)	(39,245)
Gross book value	$1,529,903	$1,003,204
Debt to gross book value	54.5%	48.0%

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

- annualized net operating income for the prescribed properties must be a minimum of 1.4 times the coverage of the related annualized debt service requirements;
- annualized net operating income on all properties must be a minimum of 1.4 times the coverage of all annualized debt service requirements;
- access to the revolving credit facility is limited by the amount utilized under the facility, and any negative mark-to-market position on the interest rate swap agreements, not to exceed the security provided by Crombie; and
- distributions to Unitholders are limited to 100% of Distributable Income as defined in the revolving credit facility.

The revolving credit facility also contains a covenant 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, Crombie is in compliance with all externally imposed capital requirements and all covenants relating to its debt facilities.

23) EMPLOYEE FUTURE BENEFITS

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

Defined contribution pension plans

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

Defined benefit pension plans

The ultimate retirement benefit is defined by a formula that provides a unit of benefit for each year of service. Employee contributions, if required, pay for part of the cost of the benefit, and the employer contributions fund the balance. The employer contributions are not specified or defined within the plan text. They are based on the result of actuarial valuations which determine the level of funding required to meet the total obligation as estimated at the time of the valuation. The defined benefit plans are unfunded.

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

	Most recent valuation date	Next required valuation date
Senior Management Pension Plan	May 1, 2008	May 1, 2011
Post-retirement Benefit Plans	May 1, 2008	May 1, 2011

Defined benefit plans

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

	December 31, 2008		December 31, 2007	
Accrued benefit obligation	**Senior Management Pension Plan**	**Post-Retirement Benefit Plans**	**Senior Management Pension Plan**	**Post-Retirement Benefit Plans**
Balance, January 1, 2008	$951	$2,941	$940	$3,356
Impact of assumption changes	-	-	10	(523)
Current service cost	40	145	50	148
Interest cost	52	162	50	149
Actuarial gains	(92)	(698)	(99)	(189)
Benefits paid	-	(5)	-	-
Balance, December 31,2008	951	2,545	951	2,941
Plan Assets				
Fair value at the beginning of the year	$-	$-	$-	$-
Employer contributions	-	5	-	-
Benefits paid	-	(5)	-	-
Fair value at end of year	$-	$-	$-	$-
Funded status - deficit	**951**	**2,545**	**951**	**2,941**
Unamortized actuarial gains	151	1,189	59	507
Accrued benefit obligation recorded as a liability	**$1,102**	**$3,734**	**$1,010**	**$3,448**
Net expense				
Current service cost	$40	$145	$50	$148
Interest cost	52	162	50	149
Actuarial gains	(92)	(698)	(99)	(189)
Expense before adjustments	-	(391)	1	108
Recognized vs. actual actuarial losses(gains)	92	682	98	187
Net expense	**$92**	**$291**	**$99**	**$295**

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

	December 31, 2008		December 31, 2007	
	Senior Management Pension Plan	**Post-Retirement Benefit Plans**	**Senior Management Pension Plan**	**Post-Retirement Benefit Plans**
Discount rate – accrued benefit obligation	6.25%	6.75%	5.25%	5.25%
Discount rate – periodic cost	5.25%	5.25%	5.00%	5.00%
Rate of compensation increase	4.00%	N/A	4.00%	N/A

For measurement purposes, a 9% fiscal 2008 annual rate of increase in the per capita cost of covered health care benefits was assumed. The cumulative rate expectation to 2018 is 5%. The EARSL for the active employees covered by the pension benefit plans is 4 years at year end. The EARSL of the active employees covered by the other benefit plans range from 10 to 13 years at year end.

The table below outlines the sensitivity of the fiscal 2008 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of Crombie's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce impact on the accrued benefit obligation or benefit plan expenses.

		Senior Management Pension Plan		Post-Retirement Benefit Plans	
		Benefit Obligations	**Benefit Cost(1)**	**Benefit Obligations**	**Benefit Cost(1)**
Discount Rate		6.25%	6.25%	6.75%	6.75%
Impact of:	1% increase	$(104)	$(31)	$(492)	$(85)
	1% decrease	$117	$15	$610	$101
Growth rate of health costs(2)				9.0%	9.0%
Impact of:	1% increase			$523	$68
	1% decrease			$(412)	$(53)

(1) Reflects the impact on the current service costs, the interest cost and the expected return on assets.

(2) Gradually decreasing to 5.0% in 2018 and remaining at that level thereafter.

For the year ended December 31, 2008, the net defined contribution pension plans expense was $303 (year ended December 31, 2007 - $394).

24) SUBSEQUENT EVENTS

a) On January 22, 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.

b) On February 12, 2009, Crombie completed mortgage financings to refinance $39,000 of the floating rate term facility used to partially finance the 61 property 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 Empire Company Limited from the floating rate demand credit facility.

c) 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.

25) SEGMENT DISCLOSURE

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

26) COMPARATIVE FIGURES

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