

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three months ended March 31, 2014 and 2013
(Unaudited)

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Financial Position
(In thousands of Canadian dollars)
(Unaudited)

	March 31, 2014	December 31, 2013
Assets		
Non-current assets:		
Investment properties (note 4)	\$ 559,743	\$ 524,805
Current assets:		
Other assets (note 5)	2,507	2,767
Accounts receivable	2,355	1,767
Cash and cash equivalents	6,571	26,219
Total current assets	11,433	30,753
Total assets	\$ 571,176	\$ 555,558

Liabilities and Unitholders' Equity

Non-current liabilities:		
Mortgages payable (note 6)	\$ 192,057	\$ 185,767
Loans payable (note 7)	115,862	114,333
Deferred income tax liability (note 10)	3,633	2,539
Total non-current liabilities	311,552	302,639
Current liabilities:		
Current portion of mortgages payable (note 6)	3,500	3,331
Tenant rental deposits and prepaid rent	4,471	3,881
Derivative instruments (note 9)	814	432
Accounts payable and accrued liabilities	8,309	9,058
Distributions payable	1,507	1,502
Finance costs payable	691	682
Total current liabilities	19,292	18,886
Total liabilities	330,844	321,525
Unitholders' equity	240,332	234,033
Total liabilities and unitholders' equity	\$ 571,176	\$ 555,558

See accompanying notes to condensed consolidated interim financial statements.

The condensed consolidated interim financial statements were approved by the Board on May 5, 2014 and signed on its behalf by:

"Sara Yamotahari" _____ Trustee

"Paul J. Massicotte" _____ Trustee

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Income and Comprehensive Income
(In thousands of Canadian dollars)
(Unaudited)

	Three months ended March 31, 2014	Three months ended March 31, 2013
Revenue:		
Minimum rent	\$ 11,545	\$ 6,082
Recoveries from tenants	6,698	4,006
Other income	625	367
	<u>18,868</u>	<u>10,455</u>
Expenses (income):		
Property operating	5,075	2,636
Property taxes	7,554	1,533
General and administrative	1,044	511
Deferred income taxes (note 10)	1,094	1,080
Fair value adjustment on investment properties (note 4)	(4,566)	(12,082)
	<u>10,201</u>	<u>(6,322)</u>
Income before finance costs	8,667	16,777
Finance costs (note 14)	<u>3,451</u>	<u>2,079</u>
Net income	5,216	14,698
Other comprehensive income:		
Reclassified subsequently to income when specific conditions are met:		
Unrealized gain on translation of U.S. dollar- denominated foreign operations	4,989	691
Comprehensive income	<u>\$ 10,205</u>	<u>\$ 15,389</u>

See accompanying notes to condensed consolidated interim financial statements.

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity
(In thousands of Canadian dollars, except per unit amounts)
(Unaudited)

Three months ended March 31, 2014	Amounts of unit capital (note 8)	Accumulated distributions	Net income	Other comprehensive income	Total
Unitholders' equity, January 1, 2014	\$ 212,231	\$ (14,790)	\$ 30,618	\$ 5,974	\$ 234,033
Net income	–	–	5,216	–	5,216
Other comprehensive income	–	–	–	4,989	4,989
Distributions	–	(4,517)	–	–	(4,517)
Distribution reinvestment plan	611	–	–	–	611
Unitholders' equity, March 31, 2014	\$ 212,842	\$ (19,307)	\$ 35,834	\$ 10,963	\$ 240,332

Distributions per unit for the three months ended March 31, 2014 - \$0.19380.

Three months ended March 31, 2013	Amounts of unit capital (note 8)	Accumulated distributions	Net income	Other comprehensive income	Total
Unitholders' equity, January 25, 2013	\$ –	\$ –	\$ –	\$ –	\$ –
Units issued, net of issuance costs	180,791	–	–	–	180,791
Net income	–	–	14,698	–	14,698
Other comprehensive income	–	–	–	691	691
Distributions	–	(2,790)	–	–	(2,790)
Unitholders' equity, March 31, 2013	\$ 180,791	\$ (2,790)	\$ 14,698	\$ 691	\$ 193,390

Distributions per unit for the three months ended March 31, 2013 - \$0.14496.

See accompanying notes to condensed consolidated interim financial statements.

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Cash Flows
(In thousands of Canadian dollars)
(Unaudited)

	Three months ended March 31, 2014	Three months ended March 31, 2013
Cash flows from (used in) operating activities:		
Net income	\$ 5,216	\$ 14,698
Adjustments for items not involving cash:		
Straight-line rents adjustment	(626)	(386)
Amortization of lease incentive	84	–
Fair value adjustment on investment properties (note 4)	(4,566)	(12,082)
Finance costs (note 14)	3,451	2,079
Change in non-cash operating working capital:		
Other assets	388	(210)
Accounts receivable	(554)	968
Tenant rental deposits and prepaid rent	434	1,008
Deferred income tax liability	1,094	1,080
Accounts payable and accrued liabilities	3,644	140
	<u>8,565</u>	<u>7,295</u>
Cash flows from (used in) financing activities:		
Proceeds from issuance of units, net of issuance costs	–	124,518
Proceeds from mortgages payable	–	86,714
Proceeds from loans payable	4,082	100,000
Financing fees paid	–	(1,826)
Principal payments	(731)	(297)
Repayment of loans payable	(3,300)	–
Finance costs paid	(3,128)	(1,199)
Distributions paid	(3,901)	(1,536)
	<u>(6,978)</u>	<u>306,374</u>
Cash flows used in investing activities:		
Acquisition of investment properties	(20,615)	(306,480)
Additions to investment properties	(1,185)	(956)
	<u>(21,800)</u>	<u>(307,436)</u>
Effect of exchange rates on cash	565	209
Increase (decrease) in cash and cash equivalents	(19,648)	6,442
Cash and cash equivalents, beginning of period	26,219	–
<u>Cash and cash equivalents, end of period</u>	<u>\$ 6,571</u>	<u>\$ 6,442</u>
Supplemental disclosure for non-cash activities:		
Additional shares issued under the DRIP program	\$ 611	\$ –

See accompanying notes to condensed consolidated interim financial statements.

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, except unit and per unit amounts)

Three months ended March 31, 2014 and 2013
(Unaudited)

Agellan Commercial Real Estate Investment Trust (the "REIT") is an open-ended real estate investment trust established under, and governed by, the laws of the Province of Ontario, pursuant to a Declaration of Trust dated November 1, 2012, when one trust unit was issued for \$10 cash. For the period from November 1, 2012 to January 24, 2013, the REIT had no operations or activity other than holding \$10 in cash and an equivalent amount of equity. The REIT commenced operations on January 25, 2013 when it issued units for cash pursuant to an initial public offering ("IPO") and completed the acquisition of 23 properties located in Canada and the United States.

The units of the REIT ("Units") trade on the Toronto Stock Exchange under the symbol ACR.UN. The registered office of the REIT is 156 Front Street West, Suite 303, Toronto, Ontario, Canada, M5J 2L6.

1. Basis of preparation:

Statement of compliance:

These condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting ("IAS 34"). Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. The December 31, 2013 financial information has been derived from the December 31, 2013 annual consolidated financial statements.

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except unit and per unit amounts)

Three months ended March 31, 2014 and 2013
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2. Significant accounting policies:

Except as described below, the accounting policies applied by the REIT in these unaudited condensed consolidated interim financial statements are the same as those applied by the REIT as at and for the year ended December 31, 2013.

Levies:

The REIT has adopted IFRS Interpretations Committee ("IFRIC") 21, Levies ("IFRIC 21"), with a date of initial application of January 1, 2014. IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities, and Contingent Assets. IFRIC 21 is to be applied retrospectively. As a result of the adoption of IFRIC 21, the REIT has reassessed the timing of when to accrue annual property taxes imposed by specific legislation in the jurisdictions where it owns the properties. The interpretation clarifies that a levy is not recognized until the obligating event specified in the legislation occurs, even if there is no realistic opportunity to avoid the obligation.

The REIT previously accrued for U.S. property taxes evenly over the year. In accordance with IFRIC 21, the REIT has determined that the liability to pay the U.S. property taxes should be recognized in full at a single point in time, when the obligating event as stated in the legislation occurs, which in the jurisdictions where the REIT owns the properties, is January 1. The impact on these condensed consolidated interim financial statements was to recognize the annual property tax accrual and corresponding expense in full in the current period ended March 31, 2014. The REIT has retrospectively applied the change in accounting policy. However, there is no impact on the comparative interim period ended March 31, 2013 as the REIT acquired all of its properties subsequent to the date the annual property taxes were imposed thereon for the previous year.

The adoption of IFRIC 21 did not impact the REIT's consolidated statement of financial position as at December 31, 2013.

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except unit and per unit amounts)

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3. Acquisitions:

On January 10, 2014, the REIT acquired a 100% interest in a property located at 10130 Perimeter Parkway, in Charlotte, North Carolina for a total purchase price of \$20,709 (including acquisition costs and closing adjustments of \$123). The REIT assumed net working capital liability of \$94 related to tenant rental deposits and prepaid rent of \$45, accounts payable and accrued liabilities of \$87, net of other assets of \$38. The transaction has been recognized as an asset acquisition. The acquisition was funded by cash received on the loan payable.

Net assets acquired:

Investment properties, including acquisition costs and closing adjustments of (\$123)	\$ 20,709
Working capital assumed	(94)
<hr/>	
Net assets acquired	<hr/> \$ 20,615
Consideration paid	\$ 20,615

On November 12, 2013, the REIT acquired a 100% interest in two properties located at 10900 Corporate Centre Drive and 4920 Westway, in Houston, Texas for a total purchase price of \$47,347 (including acquisition costs and closing adjustments of \$128). The REIT assumed working capital of \$1,494 related to prepaid rent of \$324, accounts payable and accrued liabilities of \$1,209, net of other assets of \$39. The transaction has been recognized as an asset acquisition. The acquisition was funded by a mortgage of \$26,703 (net of financing costs of \$211), and the balance of the purchase price was paid in cash from proceeds from the offering.

On June 12, 2013, the REIT acquired a 100% interest in 11000 Corporate Centre Drive, Houston, Texas for a purchase price of \$18,475 (including acquisition costs and closing adjustments of (\$143)). The REIT assumed working capital of \$304, related to prepaid rent of \$136, accounts payable and accrued liabilities of \$176, net of other assets of \$8. This transaction has been recognized as an asset acquisition. The acquisition was funded by new financing of \$10,163 (net of financing costs of \$141) and a drawdown on the revolving credit facility of \$7,410. The balance of the purchase price was funded with cash on hand.

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except unit and per unit amounts)

Three months ended March 31, 2014 and 2013
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3. Acquisitions (continued):

Net assets acquired:	
Investment properties, including acquisition costs and closing adjustments of (\$15)	\$ 65,822
Working capital assumed	(1,798)
Net assets acquired	\$ 64,024
Consideration paid funded by:	
New financing, net of financing costs of \$352	\$ 36,866
Draw on revolving credit facility	7,410
Cash (proceeds from unit issuance and cash on hand)	19,748
	\$ 64,024

On January 25, 2013, the REIT indirectly acquired a 100% interest in a portfolio of investment properties for a purchase price of \$422,984 from the vendors of the properties, a related party (the "Vendors"), adjusted for closing adjustments and acquisitions costs. This transaction has been accounted for as an asset acquisition.

The following table summarizes the allocation of the purchase price to estimated fair value of the assets acquired and liabilities assumed:

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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3. Acquisitions (continued):

Net assets acquired:	
Investment properties	\$ 424,547
Assumed mortgages, including mark-to-market adjustment of \$3,777	(60,571)
Working capital assumed	(1,147)
Net assets acquired	\$ 362,829
Consideration paid:	
Units to Vendors	\$ 51,603
Units to Agellan Capital Partners Inc. ("ACPI") principals	4,669
Cash paid out by the REIT:	
Proceeds used from offering, net of costs	121,047
Proceeds used from new financing, net of financing costs	185,084
Due to ACPI	2,375
Due from Vendors	(1,949)
	\$ 362,829

The working capital assumed included other assets of \$2,962, net of accounts payable and accrued liabilities of \$1,857, tenant rental deposits of \$1,320 and prepaid rent of \$932. The REIT raised excess cash of \$945 from the offering.

Included in assumed mortgages is a U.S. dollar-denominated mortgage of U.S. \$54,114 (Cdn. \$54,547) and financing costs of U.S. \$212 (Cdn. \$214). Included in proceeds used from new financing are U.S. dollar-denominated mortgages of U.S. \$86,000 (Cdn. \$86,688).

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Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except unit and per unit amounts)

Three months ended March 31, 2014 and 2013
(Unaudited)

4. Investment properties:

	March 31, 2014	December 31, 2013
Balance, beginning of period	\$ 524,805	\$ –
Acquisition of investment properties - IPO	–	424,547
Acquisition of investment properties	20,709	65,822
Additions:		
Capital expenditures	51	2,772
Leasing costs	1,050	3,830
Straight-line rents adjustment	626	2,226
Fair value adjustment	4,566	11,160
IFRIC 21 - Property taxes adjustment	(4,756)	–
Difference on translation of U.S. operations	12,692	14,448
Balance, end of period	\$ 559,743	\$ 524,805

The REIT determined the fair value of each investment property internally using the discounted cash flow method. The discounted cash flow method discounts the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows.

The discounted cash flows reflect rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the reporting date, less future cash outflows in respect of such leases.

The key valuation assumptions for the REIT's investment properties reflect Level 3 inputs and are set out in the following tables:

March 31, 2014	Canada	United States
Discount rates - range	7.50% - 8.25%	7.75% - 9.75%
Discount rate - weighted average	7.53%	8.78%
Terminal capitalization rates - range	7.00% - 7.50%	7.50 - 9.00%
Terminal capitalization rate - weighted average	7.25%	8.15%

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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4. Investment properties (continued):

December 31, 2013	Canada	United States
Discount rates - range	7.50% - 8.25%	7.75% - 9.75%
Discount rate - weighted average	7.53%	8.78%
Terminal capitalization rates - range	7.00% - 7.50%	7.50% - 9.00%
Terminal capitalization rate - weighted average	7.25%	8.15%

The fair values of the REIT's investment properties are sensitive to changes in the key valuation assumptions. Changes in the terminal capitalization rates and discount rates would result in a change to the fair value of the REIT's investment properties as set out in the following table:

	March 31, 2014	December 31, 2013
Weighted average terminal capitalization rate:		
25-basis points increase	\$ (8,488)	\$ (8,331)
25-basis points decrease	9,060	8,893
Weighted average discount rate:		
25-basis points increase	(8,331)	(8,163)
25-basis points decrease	8,519	8,348

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Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except unit and per unit amounts)

Three months ended March 31, 2014 and 2013
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5. Other assets:

	March 31, 2014	December 31, 2013
Prepaid expenses	\$ 1,273	\$ 1,144
Deposits in escrow	1,162	1,110
Deposits on acquisitions	–	425
Other receivables	72	88
	<u>\$ 2,507</u>	<u>\$ 2,767</u>

Deposits in escrow can only be used for specified purposes. The REIT's deposits in escrow represent cash held in escrow by lenders pursuant to certain lender agreements.

6. Mortgages payable:

	March 31, 2014	December 31, 2013
Current:		
Mortgages payable	\$ 2,965	\$ 2,825
Unamortized mark-to-market premium	775	739
Unamortized financing fees	(240)	(233)
	<u>3,500</u>	<u>3,331</u>
Non-current:		
Mortgages payable	190,719	184,348
Unamortized mark-to-market premium	2,490	2,583
Unamortized financing fees	(1,152)	(1,164)
	<u>192,057</u>	<u>185,767</u>
	<u>\$ 195,557</u>	<u>\$ 189,098</u>

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except unit and per unit amounts)

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6. Mortgages payable (continued):

The mortgages payable are secured by charges on 23 investment properties. Mortgages payable include financing fees and mark-to-market premium which are amortized into finance costs over the terms of the related mortgages, using the effective interest rate method. At March 31, 2014, the condensed consolidated interim statements of financial position included financing fees of \$1,625 (December 31, 2013 - \$1,565) and accumulated amortization of \$233 (December 31, 2013 - \$168). The mortgages carry a weighted average interest rate of 4.25% (December 31, 2013 - 4.25%). Included in mortgages payable are U.S. dollar-denominated mortgages of U.S. \$173,071 (Cdn. \$191,296) (December 31, 2013 - U.S. \$173,719 (Cdn. \$184,767)).

Future principal repayments at March 31, 2014 are as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments	Total debt service	Weighted average interest rate of debt maturing
2014 - remainder	\$ 2,200	\$ -	\$ 2,200	\$ 6,168	\$ 8,368	-
2015	3,025	2,312	5,337	8,041	13,378	3.95%
2016	3,125	-	3,125	7,877	11,002	-
2017	3,275	-	3,275	7,727	11,002	-
2018	2,856	94,034	96,890	5,788	102,678	4.50%
Thereafter	7,097	75,760	82,857	8,801	91,658	3.94%
Face value	<u>\$ 21,578</u>	<u>\$ 172,106</u>	193,684	<u>\$ 44,402</u>	<u>\$ 238,086</u>	
Unamortized mark-to-market premium			3,265			
Unamortized financing fees			(1,392)			
			<u>\$ 195,557</u>			

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except unit and per unit amounts)

Three months ended March 31, 2014 and 2013
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7. Loans payable:

On closing of the IPO, the REIT obtained a revolving credit facility, secured by charges on three Canadian properties. The maximum amount available to the REIT under these facilities is \$120,000, in three tranches of \$60,000, \$55,000 and \$5,000, with the \$60,000 tranche maturing January 25, 2017 and the \$55,000 and \$5,000 tranches maturing January 25, 2015. Amounts can be drawn under the facility in both United States and Canadian dollars. The facility bears interest at bankers' acceptance/LIBOR plus 2.00% or prime/U.S. base rate plus 1.00%. As at March 31, 2014, the amount drawn on the facility was \$116,274 (December 31, 2013 - \$114,818). Included in loans payable at March 31, 2014 are U.S. dollar-denominated loans of U.S. \$19,700 (Cdn. \$21,774) (December 31, 2013 - U.S. \$16,000 (Cdn. \$17,018)). The interest rate on \$60,000 drawn on the facility has been fixed at 3.15% using an interest rate swap (note 9).

Financing fees of \$736 (December 31, 2013 - \$736) were incurred to obtain the revolving credit facility and are being amortized over the respective terms of the tranches. As at March 31, 2014, the unamortized financing fees totalled \$412 (December 31, 2013 - \$485).

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Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except unit and per unit amounts)

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8. Unitholders' equity:

(a) Units:

The REIT is authorized to issue an unlimited number of Units. On January 25, 2013, the REIT issued 13,461,943 Units at \$10 per Unit for total proceeds of \$134,619. Costs relating to the IPO, including underwriters' fees, were \$12,627 and have been charged directly to unitholders' equity.

In addition, the REIT issued \$51,603 of Units to Vendors and \$4,669 of Units to ACPI.

On February 27, 2013, the REIT issued an additional 313,097 Units under the over-allotment option for total of \$3,131. Costs relating to this over-allotment were \$954. As part of the over-allotment option, the Vendors exchanged a portion of their Units to bring their ownership to 19.3%.

On August 6, 2013, the REIT filed a short-form base shelf prospectus ("Prospectus") allowing for the issuance, from time to time, of Units and debt securities or any combination thereof, having an aggregate offering price of up to \$500,000. The Prospectus is valid for a 25-month period.

On October 9, 2013, the REIT issued 3,450,000 Units at a price of \$8.70 per Unit. On November 4, 2013, an additional 345,000 Units were issued through the underwriters' over-allotment option under the same terms for total proceeds of \$33,017. Costs relating to the offering were \$1,824 and have been charged directly to unitholders' equity.

The unitholders have the right to require the REIT to redeem their Units on demand not to exceed \$50 per calendar month. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit ("Redemption Price"), as determined by a market formula. The Redemption Price will be paid in accordance with the conditions provided for in the Declaration of Trust.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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8. Unitholders' equity (continued):

(b) Distribution Reinvestment Plan ("DRIP"):

The REIT adopted a DRIP on May 18, 2013. Unitholders can elect to reinvest cash distributions into additional Units at a 3% discount to the weighted average closing price of the Units on the exchange for the five trading days immediately preceding the applicable date of distribution. For the three months ended March 31, 2014, the REIT issued 71,301 (2013 - nil) Units under the DRIP for a stated value of \$8.57 (2013 - nil) per Unit.

The REIT may initially issue up to 954,461 Units of the REIT under the DRIP. The REIT may increase the number of Units available to be issued under the DRIP at any time at its discretion subject to: (i) the approval of the REIT's Board of Trustees; (ii) the approval of any stock exchange upon which the Units trade; and (iii) public disclosure of such increase.

	Units	Amount
Unit capital, January 1, 2014	23,269,796	\$ 212,231
Additional shares issued under the DRIP program	71,301	611
Unit capital, March 31, 2014	23,341,097	\$ 212,842

	Units	Amount
IPO Units, net of issuance costs of \$12,279, January 25, 2013	19,089,206	\$ 178,614
Units issued under IPO overallotment option, net of issuance costs of \$954	313,097	2,177
Unit capital, March 31, 2013	19,402,303	\$ 180,791

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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9. Derivative instruments:

The REIT has entered into interest rate swap agreements and a foreign currency forward lock contract agreement.

- (a) Under the revolving credit facility's interest rate swap agreement, the REIT has agreed to exchange, at specified intervals, the difference between the fixed and variable interest amounts calculated by reference to a notional amount of \$60,000 maturing January 28, 2015, as outlined in note 7. The valuation of this interest rate swap contract was computed using Level 2 inputs.

The REIT also entered into additional swap agreements to fix mortgages payable of U.S. \$10,100 and U.S. \$25,650 at 3.04% and 3.35%, respectively, for five years each.

The REIT recognized an unrealized loss of \$49 (2013 - \$206) for the three months ended March 31, 2014, which has been recorded as finance costs.

- (b) Under the terms of the foreign currency forward lock contract agreement, the REIT will be exchanging a fixed amount of U.S. dollars for Canadian dollars each month. The valuation of the foreign currency forward lock contract agreement was computed using Level 2 inputs. The REIT recognized an unrealized loss of \$345 (2013 - \$179) for the three months ended March 31, 2014, which has been recorded as finance costs. The contract expires on March 31, 2016.

10. Income taxes:

The REIT has corporate subsidiaries in Canada and the United States which are subject to income taxes and, accordingly, has provided for current and deferred income taxes with respect to those subsidiaries. The deferred tax expense of \$1,094 and \$1,080 for the three months March 31, 2014 and 2013, respectively, is due to a difference in the fair market value of the properties in the United States and depreciation claimed for income tax purposes. The effective tax rate for the year differs from the expected statutory tax rate in the United States of 40% as a significant portion of the condensed consolidated net income is earned directly by the REIT.

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11. Capital management:

The REIT's objectives when managing capital are to ensure sufficient liquidity to pursue its organic growth combined with strategic acquisitions, and to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk and preserves the ability to meet financial obligations.

The capital structure of the REIT consists of cash, debt and unitholders' equity. In managing its capital structure, the REIT monitors performance throughout the period and make adjustments to its capital based on its investment strategies and changes to economic conditions. In order to maintain or adjust its capital structure, the REIT may issue equity or new debt, issue new debt to replace existing debt (with different characteristics), or reduce the amount of existing debt.

Part of the REIT's objectives in securing mortgages for its properties and managing its long-term debt is to stagger the maturities in order to mitigate short-term volatilities in the debt markets. The REIT's Declaration of Trust stipulates that the REIT shall not incur indebtedness greater than 60% of gross book value or 65%, including convertible debentures. As of March 31, 2014, the REIT's debt to gross book value ratio was 54% (December 31, 2013 - 54%).

The REIT is required under the terms of its credit facility to meet certain financial covenants, including:

- (a) a Debt to Gross Book Value ratio of not more than 65%;
- (b) a Debt Service Coverage Ratio of not less than 1.50; and
- (c) a minimum equity of not less than the aggregate of: (i) \$150,000; and (ii) 75% of net proceeds received in connection with any future equity offerings.

In addition, the REIT is required under certain property mortgage terms to meet financial covenant ratios.

The REIT complied with all financial covenants as at March 31, 2014.

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except unit and per unit amounts)

Three months ended March 31, 2014 and 2013
(Unaudited)

12. Segmented disclosure:

Identifiable non-current assets and revenue by geographic region are outlined below. Investment properties are attributable to countries based on the location of the properties.

(a) Non-current assets:

	March 31, 2014	December 31, 2013
Canada	\$ 208,778	\$ 207,916
United States	350,965	316,889
	\$ 559,743	\$ 524,805

(b) Revenue:

	Three months ended March 31, 2014	Three months ended March 31, 2013
Canada	\$ 7,273	\$ 4,979
United States	11,595	5,476
	\$ 18,868	\$ 10,455

The REIT has one tenant in its Canadian portfolio that accounts for 11.87% of its total revenue. The tenant's lease will expire in 2020.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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(Unaudited)

13. Transactions with related parties:

The REIT is the ultimate Canadian parent entity.

The condensed consolidated interim financial statements include the accounts of the REIT and all its subsidiaries. The subsidiaries of the REIT are listed below:

- Agellan Commercial REIT U.S. Inc.;
- Agellan Commercial REIT Holdings Inc.;
- Agellan Commercial REIT U.S. L.P.; and
- Agellan Warrenville L.P.

Related parties include the Vendors, by virtue of their ownership interest in REIT Units, and ACPI, who are related due their ownership of REIT Units, as well as due to certain common ownership interests in ACPI and the REIT.

Except as disclosed elsewhere in the condensed consolidated interim financial statements, the related party transactions include the following:

- (a) The REIT engaged ACPI or its related parties to perform asset management services for a fee of 0.4% of the gross book value, as defined in the asset management agreement (the "External Management Agreement") between the REIT and ACPI. The costs of these services, aggregating \$583 (2013 - \$320) for the three months ended March 31, 2014, were charged to general and administrative expenses.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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13. Transactions with related parties (continued):

- (b) ACPI is also entitled to a Unit Price Performance Fee five years following the IPO or upon termination of the External Management Agreement, which shall be equal to the product of:
 - (i) the Unit price on the date that is five years following the IPO based on the 20-day volume weighted average price of the Units on the stock exchange on which the Units are then listed, less \$13.00; and
 - (ii) \$1.0 million. The Unit Price Performance Fee shall not be payable to ACPI in the event the REIT terminates ACPI for cause or ACPI terminates the External Management Agreement. The Unit Price Performance Fee, calculated using the Black-Scholes pricing model, was nil (2013 - \$6) for the three months ended March 31, 2014 and is accrued in general and administrative expenses.
- (c) ACPI shall be paid an incentive fee annually, for each term of the External Management Agreement, equal to the product of: (i) 15% of any excess adjusted funds from operation ("AFFO") per Unit as derived by the REIT for each fiscal year greater than 103% of forecast AFFO per Unit; and (ii) the weighted average number of issued and outstanding Units over the applicable fiscal period. The incentive fee will be measured and paid in Units, unless payment in Units triggers a taxable event in ACPI. The incentive target will increase annually by 50% of the increase in Canadian and the United States consumer price indices. No amount (2013 - nil) has been accrued for the three months ended March 31, 2014.
- (d) The REIT engaged ACPI or its related parties to perform property management services for fees, as defined in the property management agreements. The costs of these services, aggregating \$151 (2013 - \$107) for the three months ended March 31, 2014, were charged to property operating expenses.
- (e) Included in accounts payable and accrued liabilities is \$227 (December 31, 2013 - \$174) payable to ACPI for asset management fees and \$49 (December 31 2013 - \$49) payable to ACPI or its related parties for property management fees.
- (f) The REIT has entered into lease agreements, whereby certain Vendor lease space in properties for terms of approximately five years. Rental revenue from these leases was \$510 (2013 - \$604) for the three months ended March 31, 2014 for minimum rent and recoveries revenue. Included in accounts receivable is nil (December 31, 2013 - \$96) from these leases.

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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(Unaudited)

13. Transactions with related parties (continued):

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

The compensation of Trustees and key management personnel is set out in the following table:

	Three months ended March 31, 2014	Three months ended March 31, 2013
Salaries, benefits and trustee fees	\$ 116	\$ 76

14. Finance costs:

	Three months ended March 31, 2014	Three months ended March 31, 2013
Interest:		
Loan facility	\$ 907	\$ 541
Mortgages payable	2,053	1,194
Amortization of financing fees	133	69
Amortization of mark-to-market premium	(188)	(110)
Unrealized loss on derivative instrument - interest rate swap	49	206
Unrealized loss on derivative instrument - foreign currency exchange hedge	345	179
Realized loss on foreign currency exchange hedge	152	-
	\$ 3,451	\$ 2,079

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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15. Commitments and contingencies:

The REIT is involved in litigation and claims in relation to the investment properties that arise from time to time in the normal course of business. In the opinion of management, none of these, individually or in aggregate, would result in the recognition of a liability that would have a significant adverse effect on the condensed consolidated interim statements of financial position of the REIT.

16. Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The REIT uses various methods in estimating the fair values of assets and liabilities that are measured at fair value on recurring or non-recurring basis in the condensed consolidated interim statements of financial position. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 - fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - fair value is based on models using significant market-observable inputs other than quoted prices for the assets or liabilities; and
- Level 3 - fair value is based on models using significant inputs that are not based on observable market data (unobservable inputs).

Determination of fair value and resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The fair value of investment properties is outlined in note 4.

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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16. Fair value measurement (continued):

Derivative instruments valued using a valuation technique with market-observable inputs (Level 2) include foreign currency exchange contracts and interest rate swaps. The most frequently applied valuation technique includes forward pricing models, using present value calculations. The models incorporate various inputs, including foreign exchange spot and forward rates and interest rate curves.

The fair value of the REIT's mortgages payable and loans payable are determined using present value calculations based on market-observable interest rates for mortgages and loans with similar terms and conditions (Level 2). The fair value of the REIT's mortgages payable at March 31, 2014 is \$199,649 (December 31, 2013 - \$188,697).

The carrying values of the REIT's financial assets, which include accounts receivable, other assets and cash and cash equivalents, as well as financial liabilities, which include accounts payable and accrued liabilities and tenant rental deposits and prepaid rent, approximate their recorded fair values due to their short-term nature.

The table below presents the REIT's assets and liabilities recognized at fair value as at March 31, 2014:

	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	\$ –	\$ –	\$ 559,743	\$ 559,743
Liabilities:				
Derivative instruments	\$ –	\$ 814	\$ –	\$ 814

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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(Unaudited)

16. Fair value measurement (continued):

The table below presents the REIT's assets and liabilities recognized at fair value as at December 31, 2013:

	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	\$ –	\$ –	\$ 524,805	\$ 524,805
Liabilities:				
Derivative instruments	\$ –	\$ 432	\$ –	\$ 432

17. Subsequent event:

The REIT declared distributions of \$0.06458 per Unit on April 24, 2014 to unitholders of record as at April 30, 2014.