Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Financial Position
(In thousands of Canadian dollars, except per unit amounts)
(Unaudited)

	September 30, 2014	December 31, 2013
Assets		
Non-current assets:		
Investment properties (note 4)	$ 554,911	$ 524,805
Current assets:		
Other assets (note 6)	23,618	2,767
Accounts receivable	1,600	1,767
Cash and cash equivalents	5,984	26,219
Total current assets	31,202	30,753
Total assets	$ 586,113	$ 555,558
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 7)	$ 206,269	$ 185,767
Loans payable (note 8)	109,357	114,333
Deferred income tax liability (note 12)	8,025	2,539
Total non-current liabilities	323,651	302,639
Current liabilities:		
Current portion of mortgages payable (note 7)	3,815	3,331
Tenant rental deposits and prepaid rent	4,412	3,881
Derivative instruments (note 11)	596	432
Accounts payable and accrued liabilities	8,656	9,058
Distributions payable	1,514	1,502
Finance costs payable	730	682
Total current liabilities	19,723	18,886
Total liabilities	343,374	321,525
Unitholders' equity	242,739	234,033
Total liabilities and unitholders' equity	$ 586,113	$ 555,558

See accompanying notes to condensed consolidated interim financial statements.

The condensed consolidated interim financial statements were approved by the Board on October 27, 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, except per unit amounts)
(Unaudited)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenue:				
Minimum rent	$ 11,170	$ 9,072	$ 34,040	$ 23,725
Recoveries from tenants	6,384	6,010	19,159	15,493
Other income	598	588	1,855	1,554
	18,152	15,670	55,054	40,772
Expenses (income):				
Property operating	4,773	4,047	14,364	10,390
Property taxes	1,168	1,235	9,823	3,248
General and administrative	861	691	2,896	1,907
Deferred income taxes (note 12)	2,210	1,414	5,486	2,501
Fair value adjustment on investment properties (note 4)	(98)	(587)	953	(14,100)
IFRIC 21 fair value adjustment on investment properties (note 4)	1,620	1,091	(1,537)	2,685
	10,534	7,891	31,985	6,631
Income before finance costs	7,618	7,779	23,069	34,141
Finance costs (note 16)	3,256	2,295	9,392	6,935
Net income	4,362	5,484	13,677	27,206
Other comprehensive income (loss):				
Reclassified subsequently to income when specific conditions are met:				
Unrealized gain (loss) on translation of U.S. dollar-denominated foreign operations	6,641	(2,183)	7,013	1,749
Comprehensive income	$ 11,003	$ 3,301	$ 20,690	$ 28,955

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)

Nine months ended September 30, 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	–	–	13,677	–	13,677
Other comprehensive income	–	–	–	7,013	7,013
Distributions	–	(13,590)	–	–	(13,590)
Distribution reinvestment plan	1,606	–	–	–	1,606
Unitholders' equity, September 30, 2014	$ 213,837	$ (28,380)	$ 44,295	$ 12,987	$ 242,739

Nine months ended September 30, 2013	Amounts of unit capital (note 8)	Accumulated distributions	Net income	Other comprehensive income	Total
Unitholders' equity, January 1, 2013	$ –	$ –	$ –	$ –	$ –
Units issued, net of issuance costs	178,425	–	–	–	178,425
Units issued, net of cost for over-allotment option	2,177	–	–	–	2,177
Net income	–	–	27,206	–	27,206
Other comprehensive income	–	–	–	1,749	1,749
Distributions	–	(10,313)	–	–	(10,313)
Distribution reinvestment plan	119	–	–	–	119
Unitholders' equity, September 30, 2013	$ 180,721	$ (10,313)	$ 27,206	$ 1,749	$ 199,363

Distributions per unit for the nine months ended September 30, 2014 - $0.581457 (nine months ended September 30, 2013 - $0.532634).

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, except per unit amounts)
(Unaudited)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Cash flows from (used in) operating activities:				
Net income	$ 4,362	$ 5,484	$ 13,677	$ 27,206
Adjustments for items not involving cash:				
Straight-line rents adjustment	(569)	(646)	(1,787)	(1,509)
Amortization of lease incentive	256	10	558	16
Fair value adjustment on investment properties (note 4)	1,522	504	(584)	(11,415)
Finance costs (note 16)	3,256	2,295	9,392	6,935
Unit price performance fee expense	–	–	–	12
Change in non-cash operating working capital:				
Other assets	(174)	(771)	313	(1,238)
Accounts receivable	(152)	(836)	193	603
Tenant rental deposits and prepaid rent	342	342	440	1,360
Deferred income tax liability	2,210	1,414	5,486	2,501
Accounts payable and accrued liabilities	(443)	273	878	(31)
	10,610	8,069	28,566	24,440
Cash flows from (used in) financing activities:				
Proceeds from issuance of units, net of issuance costs	–	(23)	–	122,153
Proceeds from over-allotment option, net of underwriting fee	–	–	–	2,177
Proceeds from mortgages payable, net of financing fees	13,226	–	13,226	95,924
Proceeds from loans payable, net of financing fees	–	(52)	3,170	106,681
Principal payments	(720)	(711)	(2,163)	(1,698)
Repayment of loans payable	(5,916)	–	(9,216)	–
Finance costs paid	(2,994)	(2,613)	(9,360)	(6,215)
Distributions paid	(4,173)	(3,653)	(11,972)	(8,938)
	(577)	(7,052)	(16,315)	310,084
Cash flows from (used in) investing activities:				
Acquisition of investment properties	–	–	(20,615)	(324,790)
Proceeds from disposition of investment properties	12,052	–	12,052	–
Additions to investment properties	(979)	(2,186)	(4,117)	(4,304)
Change in restricted cash	(20,425)	139	(20,425)	(180)
	(9,352)	(2,047)	(33,105)	(329,274)
Effect of exchange rates on cash	(257)	–	619	–
Increase (decrease) in cash and cash equivalents	424	(1,030)	(20,235)	5,250
Cash and cash equivalents, beginning of period	5,560	6,280	26,219	–
Cash and cash equivalents, end of period	$ 5,984	$ 5,250	$ 5,984	$ 5,250
Supplemental disclosure for non-cash activities:				
Additional shares issued under the DRIP program	$ 365	$ 108	$ 1,606	$ 119
Deferred compensation expense (note 8)	22	–	22	–

See accompanying notes to condensed consolidated interim financial statements.

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 audited consolidated financial statements.

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.

(a) 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 September 30, 2014. The REIT has retrospectively applied the change in accounting policy, resulting in $1,091 and $2,685 decrease in the fair value adjustment on investment properties for the three and nine months ended September 30, 2013, respectively, with an equal and offsetting decrease in property taxes.

IFRIC 21 adjustment related to U.S. property taxes liability is assumed on IPO and subsequent acquisitions and are disclosed in note 3 as an offset to investment properties, consistent with the policy choice taken on the presentation of the statements of financial position.

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

2. Significant accounting policies (continued):

(b) Unit-based compensation:

The REIT has a deferred unit plan, which provides holders with the right to receive REIT units which are puttable. The REIT estimates the fair value of the deferred units on issuance and amortizes this unit-based compensation expense over the vesting period. The deferred units are fair-valued on the basis of the unit price at each reporting period and the change in fair value of the amortized unit-based compensation expense is recognized as unit-based compensation expense.

(c) Future accounting standards:

In May 2014, the International Accounting Standards Board issued IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. Early adoption is permitted. The REIT is currently assessing the impact of the new standard on its condensed consolidated interim financial statements.

In July 2014, the IASB issued IFRS 9, Financial Instruments ("IFRS 9") replacing IAS 39, Financial Instruments - Recognition and Measurement. The project has three main phases: classification and measurement, impairment and general hedging. The standard becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. The REIT is currently assessing the impact of the new standard on its consolidated interim financial statements.

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

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 a 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)[(i)]	$ 20,709
Working capital assumed	(94)
Net assets acquired	$ 20,615
Consideration paid	$ 20,615

[(i)] IFRIC 21 adjustment of $218 related to U.S. property taxes liability assumed on acquisitions is recorded as an offset to investment properties.

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.

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

3. Acquisitions (continued):

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.

Net assets acquired:	
Investment properties, including acquisition costs and closing adjustments of ($15)[ii]	$ 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

[ii] IFRIC 21 adjustment of $371 related to U.S. property taxes liability assumed on acquisitions is recorded as an offset to investment properties.

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.

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

3. Acquisitions (continued):

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

Net assets acquired:	
Investment properties[iii]	$ 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

[iii] IFRIC 21 adjustment of $3,471 related to U.S. property taxes liability assumed on acquisitions is recorded as an offset to investment properties.

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).

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

4. Investment properties:

	September 30, 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	523	2,772
Leasing costs	3,044	3,830
Straight-line rents adjustment	1,787	2,226
Fair value adjustment	(953)	11,160
IFRIC 21 fair value adjustment	1,537	–
IFRIC 21 - property taxes liability adjustment	(1,537)	–
Disposition of investment properties (note 5)	(12,395)	–
Difference on translation of U.S. operations	17,391	14,448
Balance, end of period	$ 554,911	$ 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:

September 30, 2014	Canada	United States
Discount rates - range	7.25% - 8.25%	7.75% - 9.75%
Discount rate - weighted average	7.54%	8.79%
Terminal capitalization rates - range	6.75% - 7.50%	7.50% - 9.00%
Terminal capitalization rate - weighted average	7.25%	8.16%

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

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:

	September 30, 2014	December 31, 2013
Weighted average terminal capitalization rate:		
25-basis points increase	$ (8,904)	$ (8,331)
25-basis points decrease	9,712	8,893
Weighted average discount rate:		
25-basis points increase	(9,579)	(8,163)
25-basis points decrease	9,947	8,348

5. Disposition:

On August 13, 2014, the REIT disposed of one investment property for fair value less selling costs of $12,395, which was equivalent to the carrying value of the property and, as such, no gain or loss has been recognized. The proceeds received net of working capital adjustments was $12,052.

The mortgage payable previously secured by the property remains with the REIT and has now been secured by cash held in escrow of $8,002.

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

6. Other assets:

	September 30, 2014	December 31, 2013
Prepaid expenses	$ 1,649	$ 1,144
Restricted cash	20,947	–
Deposits in escrow	950	1,110
Deposits on acquisitions	–	425
Other receivables	72	88
	$ 23,618	$ 2,767

Restricted cash can only be used for specified purposes. The REIT's restricted cash represent cash held in escrow by lenders pursuant to certain lender agreements, cash held in escrow for certain U.S. tax rollover requirements, and cash held in escrow on disposition of an investment property (note 5).

7. Mortgages payable:

	September 30, 2014	December 31, 2013
Current:		
Mortgages payable	$ 3,296	$ 2,825
Unamortized mark-to-market premium	794	739
Unamortized financing fees	(275)	(233)
	3,815	3,331
Non-current:		
Mortgages payable	205,327	184,348
Unamortized mark-to-market premium	2,126	2,583
Unamortized financing fees	(1,184)	(1,164)
	206,269	185,767
	$ 210,084	$ 189,098

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

7. 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 September 30, 2014, the condensed consolidated interim statements of financial position include financing fees of $1,814 (December 31, 2013 - $1,565) and accumulated amortization of $355 (December 31, 2013 - $168). The mortgages carry a weighted average interest rate of 4.22% (December 31, 2013 - 4.25%). Included in mortgages payable are U.S. dollar-denominated mortgages of U.S. $184,036 (Cdn. $206,267) (December 31, 2013 - U.S. $173,719 (Cdn. $184,767)).

Future principal repayments at September 30, 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	$ 818	$ –	$ 818	$ 2,156	$ 2,974	–
2015	3,316	2,312	5,628	8,492	14,120	3.95%
2016	3,427	–	3,427	8,318	11,745	–
2017	3,589	–	3,589	8,160	11,749	–
2018	3,175	95,352	98,527	6,226	104,753	4.50%
Thereafter	9,001	87,633	96,634	11,300	107,934	3.94%
Face value	$ 23,326	$ 185,297	208,623	$ 44,652	$ 253,275	
Unamortized mark-to-market premium			2,920			
Unamortized financing fees			(1,459)			
			$ 210,084			

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

8. Loans payable:

The REIT has a revolving credit facility, secured by charges on three Canadian properties. The maximum amount available to the REIT under this facility is $120,000, and the facility matures on January 25, 2017. 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 September 30, 2014, the amount drawn on the facility was $109,743 (December 31, 2013 - $114,818). Included in loans payable at September 30, 2014 are U.S. dollar-denominated loans of U.S. $13,600 (Cdn. $15,243) (December 31, 2013 - U.S. $16,000 (Cdn. $17,018)). The interest rate on $60,000 drawn on the facility has been economically fixed at 3.40% using an interest rate swap (note 11).

Financing fees of $856 (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 September 30, 2014, the unamortized financing fees totalled $386 (December 31, 2013 - $485).

9. Unitholders' equity:

	Units	Amount
Unit capital, January 1, 2014	23,269,796	$ 212,231
Additional shares issued under the DRIP program	181,547	1,606
Unit capital, September 30, 2014	23,451,343	$ 213,837

	Units	Amount
IPO Units, net of issuance costs of $12,444, January 25, 2013	19,089,206	$ 178,425
Units issued under IPO overallotment option, net of issuance costs of $954	313,097	2,177
Additional shares issued under the DRIP program	13,326	119
Unit capital, September 30, 2013	19,415,629	$ 180,721

9. Unitholders' equity (continued):

(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 overallotment 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.

9. 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 nine months ended September 30, 2014, the REIT issued 181,547 (2013 – 13,326) Units under the DRIP for a stated value of $1,606 (2013 - $119) 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.

10. Deferred Unit Incentive Plan:

On January 25, 2013, the REIT authorized a Deferred Unit Incentive Plan ("DUIP") that provides for the granting of deferred trust units ("DTUs") to trustees, officers, directors, employees, consultants and service providers, as well as employees of such service providers. DTUs are defined as notional units that are tied to the REIT's financial and REIT Unit trading performance. The maximum number of REIT Units reserved for issuance under the DUIP is 5% of the total number of REIT Units issued and outstanding from time to time. Vested DTUs may be redeemed in whole or in part of units of the REIT issued from treasury. Whenever cash distributions are paid to REIT unitholders, additional DTUs are credited to the participant's outstanding DTU balance based on the 5-day volume-weighted average price on the grant date. These additional units vest on the same schedule as their corresponding DTUs.

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

10. Deferred Unit Incentive Plan (continued):

On August 11, 2014, the plan was amended so that all members of the Board of Trustees will be able to receive their annual retainer and meeting fees for the fiscal year in the form of DTUs. DTUs issued to Trustees in lieu of their annual retainer and meeting fees will vest immediately. However, in no event shall the exercise of the Trustees' DTUs issued in lieu of their annual retainer and meeting fees occur prior to the third anniversary of the grant date, except in the instance of termination of service.

For the three and nine months ended September 30, 2014, 2,474 DTUs were granted to Trustees for services rendered.

The movement of the DUIP balance was as follows:

As at January 1, 2014	$ –
Compensation expense	22
As at September 30, 2014	$ 22

Total compensation expense recognized for the three and nine months ended September 30, 2014 was $22. These amounts are recognized in accounts payable and accrued liabilities and general and administrative expenses.

11. 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 8. 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.

11. Derivative instruments (continued):

The REIT recognized an unrealized gain of $319 (2013 - unrealized loss of $77) for the three months ended September 30, 2014 and an unrealized gain of $9 (2013 - unrealized loss of $82) for the nine months ended September 30, 2014, which have 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 $476 (2013 - unrealized gain of $323) for the three months ended September 30, 2014 and an unrealized loss of $188 (2013 - unrealized loss of $229) for the nine months ended September 30, 2014, which have been recorded as finance costs. The contract expires on September 30, 2016.

12. 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 $2,210 and $5,486 for the three and nine months ended September 30, 2014, 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 37% as a significant portion of the condensed consolidated net income is earned directly by the REIT.

13. 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.

13. Capital management (continued):

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 makes 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 September 30, 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 September 30, 2014.

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

14. 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:

	September 30, 2014	December 31, 2013
Canada	$ 206,803	$ 207,916
United States	348,108	316,889
	$ 554,911	$ 524,805

(b) Revenue:

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Canada	$ 7,075	$ 7,070	$ 21,013	$ 18,739
United States	11,077	8,600	34,041	22,033
	$ 18,152	$ 15,670	$ 55,054	$ 40,772

As at September 30, 2014, the REIT has one tenant in its Canadian portfolio that accounts for 12.25% (2013 - 14.18%) of its total revenue. The tenant's lease will expire in 2020.

15. 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 $569 (2013 - $476) and $1,720 (2013 - $1,267) for the three and nine months ended September 30, 2014, respectively, were charged to general and administrative expenses.

(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 - nil) and nil (2013 - $12) for the three and nine months ended September 30, 2014, respectively, and is accrued in general and administrative expenses.

15. Transactions with related parties (continued):

(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. Nil (2013 - nil) has been accrued for the three and nine months ended September 30, 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 $155 (2013 - $145) and $462 (2013 - $398) for the three and nine months ended September 30, 2014, respectively, were charged to property operating expenses.

(e) Included in accounts payable and accrued liabilities is $192 (December 31, 2013 - $174) payable to ACPI for asset management fees and $51 (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 Vendors lease space in properties for terms of approximately five years. Rental revenue from these leases was $515 (2013 - $901) and $1,688 (2013 - $2,530) for the three and nine months ended September 30, 2014, respectively, for minimum rent and recoveries revenue. Included in accounts receivable is $262 (December 31, 2013 - $96) from these leases.

(g) Vendors of certain investment properties have an option to purchase certain vacant development land owned by the REIT, comprising 5.9 acres for $12,000, subject to certain conditions. The option expires July 24, 2015.

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.

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

15. Transactions with related parties (continued):

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

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Salaries, benefits and trustee fees	$ 99	$ 65	$ 304	$ 271

16. Finance costs:

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Interest:				
Loan facility	$ 897	$ 861	$ 2,753	$ 2,203
Mortgages payable	2,106	1,745	6,196	4,594
Amortization of financing fees	133	114	395	289
Amortization of mark-to-market premium	(191)	(179)	(568)	(462)
Unrealized loss (gain) on derivative instrument - interest rate swap	(319)	77	(9)	82
Unrealized loss (gain) on derivative instrument - foreign currency exchange hedge	476	(323)	188	229
Realized loss on foreign currency exchange hedge	154	–	437	–
	$ 3,256	$ 2,295	$ 9,392	$ 6,935

17. 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.

18. 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.

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

18. 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 September 30, 2014 is $214,588 (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 September 30, 2014:

	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 554,911	$ 554,911
Liabilities:				
Derivative instruments	$ –	$ 596	$ –	$ 596

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

18. 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

19. Subsequent event:

The REIT declared distributions of $0.06458 per Unit on October 15, 2014 to unitholders of record as at October 31, 2014.