Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three months ended March 31, 2015 and 2014
(Unaudited)

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	March 31, 2015	December 31, 2014
Assets		
Non-current assets:		
Investment properties (note 4)	$ 607,595	$ 564,545
Current assets:		
Assets classified as held for sale (note 6)	14,335	8,242
Other assets (note 7)	3,537	11,143
Accounts receivable	2,041	1,802
Cash and cash equivalents	6,721	11,729
Total current assets	26,634	32,916
Total assets	$ 634,229	$ 597,461
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 9)	$ 240,085	$ 210,059
Loans payable (note 10)	88,283	101,250
Deferred income tax liability (note 14)	16,070	10,040
Total non-current liabilities	344,438	321,349
Current liabilities:		
Current portion of mortgages payable (note 9)	7,464	6,279
Tenant rental deposits and prepaid rent	5,367	4,698
Derivative instruments (note 13)	3,478	1,344
Accounts payable and accrued liabilities (note 8)	8,962	12,726
Liabilities classified as held for sale (note 6)	49	105
Distributions payable	1,520	1,517
Finance costs payable	881	724
Total current liabilities	27,721	27,393
Total liabilities	372,159	348,742
Unitholders' equity	262,070	248,719
Subsequent events (note 21)		
Total liabilities and unitholders' equity	$ 634,229	$ 597,461

See accompanying notes to condensed consolidated interim financial statements.

The condensed consolidated interim financial statements were approved by the Board on May 4, 2015 and signed on its behalf by:

"Sara Yamotahari" Trustee

"Richard Dansereau" 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, 2015	2014
Revenue:		
Minimum rent	$ 12,516	$ 11,545
Recoveries from tenants	7,456	6,698
Other income	691	625
	20,663	18,868
Expenses (income):		
Property operating	5,502	5,075
Property taxes	8,856	7,554
General and administrative	1,260	1,044
Deferred income taxes (note 14)	4,986	1,094
Loss on sale of investment properties	240	–
IFRIC 21 fair value adjustment on investment properties	(5,786)	(4,756)
Fair value adjustment on investment properties (note 4)	(4,180)	190
	10,878	10,201
Income before finance costs	9,785	8,667
Finance costs (note 18)	5,658	3,451
Net income	4,127	5,216
Other comprehensive income:		
Reclassified subsequently to income when specific conditions are met:		
Unrealized gain on translation of U.S. dollar-denominated foreign operations	13,396	4,989
Comprehensive income	$ 17,523	$ 10,205

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)
(Unaudited)

Three months ended March 31, 2015	Amounts of unit capital (note 11)	Accumulated distributions	Net income	Other comprehensive income	Total
Unitholders' equity, January 1, 2015	$ 214,210	$ (32,929)	$ 49,863	$ 17,575	$ 248,719
Net income	–	–	4,127	–	4,127
Other comprehensive income	–	–	–	13,396	13,396
Distributions	–	(4,557)	–	–	(4,557)
Distribution reinvestment plan	385	–	–	–	385
Unitholders' equity, March 31, 2015	$ 214,595	$ (37,486)	$ 53,990	$ 30,971	$ 262,070

Distributions per unit for the three months ended March 31, 2015 - $0.19375.

Three months ended March 31, 2014	Amounts of unit capital (note 11)	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.

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, 2015	2014
Cash flows from (used in) operating activities:		
Net income	$ 4,127	$ 5,216
Adjustments for items not involving cash:		
Fair value adjustment on investment properties (note 4)	(9,966)	(4,566)
Straight-line rents adjustment	(557)	(626)
Amortization of lease incentive	333	84
Loss on sale of investment properties (note 5)	240	–
Finance costs (note 18)	5,319	3,299
Change in non-cash operating working capital:		
Other assets	(46)	388
Accounts receivable	(108)	(554)
Tenant rental deposits and prepaid rent	128	434
Deferred income tax liability	4,986	1,094
Accounts payable and accrued liabilities	1,176	3,644
	5,632	8,413
Cash flows from (used in) financing activities:		
Proceeds from mortgages payable	12,535	–
Proceeds from loans payable	6,100	4,082
Financing fees paid	(298)	–
Principal payments	(965)	(731)
Repayment of loans payable	(19,718)	(3,300)
Interest paid	(3,209)	(2,976)
Distributions paid	(4,171)	(3,901)
	(9,726)	(6,826)
Cash flows from (used in) investing activities:		
Acquisition of investment properties (note 3)	(15,953)	(20,615)
Disposition of investment properties (note 5)	7,897	–
Additions to investment properties	(2,120)	(1,185)
Change in restricted cash	8,461	–
	(1,715)	(21,800)
Effect of exchange rates on cash	801	565
Decrease in cash and cash equivalents	(5,008)	(19,648)
Cash and cash equivalents, beginning of period	11,729	26,219
Cash and cash equivalents, end of period	$ 6,721	$ 6,571
Supplemental disclosure for non-cash activities:		
Units issued under the distribution reinvestment plan (note 11)	$ 385	$ 611
Deferred compensation expense (note 12)	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 and amended and restated on January 24, 2013. The REIT was created for the purpose of acquiring and owning industrial, office and retail properties in the United States and Canada. 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. The Declaration of Trust provides that the REIT may make cash distributions to the unitholders of the REIT. The amount distributed annually is $0.775 per unit and is subject to changes by the Board of Trustees.

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, 2014 financial information has been derived from the December 31, 2014 annual audited consolidated financial statements.

2. Significant accounting policies:

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, 2014.

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

3. Acquisitions:

On February 9, 2015, the REIT acquired a 100% interest in six properties located in Atlanta, Georgia for a total purchase price of $16,198 (including acquisition costs and closing adjustments of $185). The REIT assumed a net working capital liability of $245 related to tenant rental deposits and prepaid rent of $224, accounts payable and accrued liabilities of $21. The transaction has been recognized as an asset acquisition. The acquisition was funded by cash released from escrow (note 7), and cash received on the loan payable.

Net assets acquired:	
Investment properties, including acquisition costs and closing adjustments of ($185)[i]	$ 16,198
Working capital assumed	(245)
Net assets acquired	$ 15,953
Consideration paid	$ 15,953

[i] IFRIC 21 adjustment of $194 related to U.S. property taxes liability assumed on acquisitions is recorded as an offset to investment properties.

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.

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

3. Acquisitions (continued):

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.

4. Investment properties:

	March 31, 2015	December 31, 2014
Balance, beginning of year	$ 564,545	$ 524,805
Acquisition of investment properties (note 3)	16,198	20,709
Additions:		
Capital expenditures	713	2,473
Leasing costs	1,074	4,608
Straight-line rents adjustment	557	2,429
Fair value adjustment	4,180	530
IFRIC 21 fair value adjustment	5,786	–
IFRIC 21- property taxes liability adjustment	(5,786)	–
Foreign exchange impact on translation of U.S. operations	34,660	29,869
Transfer of investment properties to assets held for sale	(14,332)	(8,200)
Disposition of investment properties	–	(12,678)
Balance, end of year	$ 607,595	$ 564,545

Investment properties are stated at fair value. The fair value was determined by a combination of valuations made by independent external appraisers having appropriate professional qualifications and internal management valuations primarily using a discounted cash flow model.

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

4. Investment properties (continued):

(a) External appraisals:

The REIT regularly obtains appraisals to supplement internal management valuations and to support fair market value.

The aggregate appraised value of properties externally appraised during the three-month period ended March 31, 2015, including appraisals obtained in conjunction with acquisitions totalled U.S. $84,650 (Cdn $107,362).

(b) Internal valuations:

Fair value of each property was primarily determined by 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, 2015	Canada	United States
Discount rates - range	7.50% - 8.25%	7.25% - 9.50%
Discount rate - weighted average	7.52%	8.63%
Terminal capitalization rates - range	7.00% - 7.50%	6.50% - 8.75%
Terminal capitalization rate - weighted average	7.25%	7.97%

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

4. Investment properties (continued):

December 31, 2014	Canada	United States
Discount rates - range	7.40% - 8.25%	7.25% - 9.50%
Discount rate - weighted average	7.43%	8.61%
Terminal capitalization rates - range	7.00% - 7.50%	6.50% - 8.75%
Terminal capitalization rate - weighted average	7.25%	8.00%

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, 2015	December 31, 2014
Weighted average terminal capitalization rate:		
25-basis points increase	$ (8,662)	$ (9,859)
25-basis points decrease	9,249	10,524
Weighted average discount rate:		
25-basis points increase	(8,062)	(10,015)
25-basis points decrease	8,243	10,348

5. Disposition:

On February 5, 2015, the REIT disposed of one investment property for fair value of $8,200. Selling costs incurred on the transaction were $240 and are recognized as a loss on sale of investment properties. The proceeds received net of working capital adjustments were $7,897.

On August 13, 2014, the REIT disposed of one investment property for fair value of $12,678. Selling costs incurred on the transaction costs were $269 and are recognized as a loss on sale of investment properties. The proceeds received net of working capital adjustments was $12,052. The mortgage payable previously secured by the property remained with the REIT and was secured by cash held in escrow of $8,312 as restricted cash.

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

6. Assets and liabilities classified as held for sale:

The REIT has classified one property as held for sale at March 31, 2015 (December 31, 2014 - one).

The following table sets forth the consolidated statements of financial position items associated with the investment property classified as held for sale:

	March 31, 2015	December 31, 2014
Assets:		
Investment properties	$ 14,332	$ 8,200
Other assets	2	7
Accounts receivable	1	35
	$ 14,335	$ 8,242
Liabilities:		
Tenant rental deposits and prepaid rent	$ –	$ 62
Accounts payable and accrued liabilities	49	43
	$ 49	$ 105

7. Other assets:

	March 31, 2015	December 31, 2014
Prepaid expenses	$ 1,363	$ 1,255
Restricted cash	549	8,709
Deposits in escrow	1,478	1,054
Other receivables	147	125
	$ 3,537	$ 11,143

Restricted cash can only be used for specified purposes. The REIT's restricted cash represents cash held in escrow by lenders pursuant to certain lender agreements. During the period, restricted cash held for securing the mortgage on an investment property sold in 2014, was released, and subsequently used to fund the acquisition of investment properties in Atlanta, Georgia.

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

8. Accounts payable and accrued liabilities:

	March 31, 2015	December 31, 2014
Trade payable	$ 820	$ 517
Realty tax payable	3,599	5,580
Other payables and accruals	4,543	6,629
	$ 8,962	$ 12,726

9. Mortgages payable:

	March 31, 2015	December 31, 2014
Current:		
Mortgages payable	$ 6,856	$ 5,722
Unamortized mark-to-market premium	910	825
Unamortized financing fees	(302)	(268)
	7,464	6,279
Non-current:		
Mortgages payable	239,663	209,267
Unamortized mark-to-market premium	1,948	1,991
Unamortized financing fees	(1,526)	(1,199)
	240,085	210,059
	$ 247,549	$ 216,338

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, 2015, the condensed consolidated interim statements of financial position include financing fees of $2,385 (December 31, 2014 - $1,903) and accumulated amortization of $557 (December 31, 2014 - $436). The mortgages carry a weighted average interest rate of 4.19% (December 31, 2014 - 4.22%). Included in mortgages payable are U.S. dollar-denominated mortgages of U.S. $192,538 (Cdn. $244,196) (December 31, 2014 - U.S. $183,302 (Cdn. $212,649)).

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

9. Mortgages payable (continued):

Future principal repayments at March 31, 2015 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
2015 - remainder	$ 3,390	$ 2,313	$ 5,703	$ 7,521	$ 13,224	3.95%
2016	4,658	–	4,658	9,835	14,493	
2017	4,842	–	4,842	9,627	14,469	
2018	4,290	117,675	121,965	7,418	129,383	4.42%
2019	3,068	–	3,068	4,162	7,230	
Thereafter	7,118	99,165	106,283	8,656	114,939	3.94%
Face value	$ 27,366	$ 219,153	246,519	$ 47,219	$ 293,738	
Unamortized mark-to-market premium			2,858			
Unamortized financing fees			(1,828)			
			$ 247,549			

10. Loans payable:

The REIT has a revolving credit facility, secured by charges on two 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 March 31, 2015, the amount drawn on the facility was $88,537 (December 31, 2014 - $101,557). Included in loans payable at March 31, 2015 are U.S. dollar-denominated loans of U.S. $2,000 (Cdn. $2,537) (December 31, 2014 - U.S. $6,600 (Cdn. $7,657)). The interest rate on $60,000 drawn on the facility has been economically fixed at 3.40%, using an interest rate swap (note 13).

Financing fees of $863 (December 31, 2014 - $863) were incurred to obtain the revolving credit facility and are being amortized over the remaining term. As at March 31, 2015, the unamortized financing fees totalled $254 (December 31, 2014 - $307).

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

11. Unitholders' equity:

	2015		2014	
	Units	Amount	Units	Amounts
Unit capital, January 1	23,494,687	$ 214,210	23,269,796	$ 212,231
Additional shares issued under the DRIP program	42,672	385	71,301	611
Unit capital, March 31	23,537,359	$ 214,595	23,341,097	$ 212,842

(a) Units:

The REIT is authorized to issue an unlimited number of Units.

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.

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

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, 2015, the REIT issued 42,672 (2014 - 71,301) Units under the DRIP for a stated value of $9.05 (2014 - $8.57) 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.

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

12. Deferred Unit Incentive Plan:

The Deferred Unit Incentive Plan ("DUIP") of the REIT 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.

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 months ended March 31, 2015, 2,457 (2014 - nil) DTUs were granted to Trustees for services rendered. Total compensation expense recognized for the three months ended March 31, 2015 was $22 (2014 - nil). These amounts are recognized in accounts payable and accrued liabilities and general and administrative expenses.

The following is a summary of DTUs granted under the DUIP:

	Three months ended March 31,	
	2015	2014
Balance, January 1	5,646	–
DTUs granted for services rendered	2,457	–
DTUs granted through distributions	109	–
Balance, March 31	8,212	–

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

12. Deferred Unit Incentive Plan (continued):

The movement of the DUIP liability was as follows:

	Three months ended March 31, 2015	Three months ended March 31, 2014
Balance, January 1	$ 50	$ –
Compensation expense	22	–
Balance, March 31	$ 72	$ –

13. 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 27, 2017, as outlined in note 10. 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. $25,560 at 3.04% and 3.35%, respectively, for five years each.

The REIT recognized an unrealized loss of $1,211 (2014 - unrealized loss of $49) for the three months ended March 31, 2015, 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, as outlined in note 20.

13. Derivative instruments (continued):

The total notional value of the forward contracts outstanding as of March 31, 2015 is U.S. $12,587 (December 31, 2014 - U.S. $12,473) and have a weighted average forward exchange rate of 1.11 (December 31, 2014 - 1.09) Canadian dollars per United States dollar.

The REIT recognized an unrealized loss of $899 (2014 - unrealized loss of $345) for the three months ended March 31, 2015, which has been recorded as finance costs. The contract expires on March 31, 2017.

14. Income taxes:

The REIT has certain 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 $4,986 (2014- $1,094) for the three months ended March 31, 2015 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% (2014 - 40%) as a significant portion of the condensed consolidated net income is earned directly by the REIT. The foreign exchange impact of the deferred tax liabilities of $1,044 (2014 - nil) is recorded in other comprehensive income.

15. 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 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.

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

15. Capital management (continued):

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.

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, 2015.

16. 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, 2015	December 31, 2014
Canada	$ 196,982	$ 198,145
United States	410,613	366,400
	$ 607,595	$ 564,545

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

16. Segmented disclosure (continued):

(b) Revenue:

	Three months ended March 31, 2015	Three months ended March 31, 2014
Canada	$ 7,407	$ 7,273
United States	13,256	11,595
	$ 20,663	$ 18,868

As at March 31, 2015, the REIT has one tenant in its Canadian portfolio that accounts for 12.22% (2014 - 12.25%) of its total revenue and one tenant in its United States portfolio that accounts for 11.02%. The tenant leases will expire in 2020 and 2023, respectively.

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

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

17. Transactions with related parties (continued):

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 $624 (2014 - $583) for the three months ended March 31, 2015 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 (2014 - nil) for the three months ended March 31, 2015 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 (2014 - nil) has been accrued for the three and nine months ended March 31, 2015.

(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 $206 (2014 - $151) for the three months ended March 31, 2015 were charged to property operating expenses.

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

17. Transactions with related parties (continued):

(e) Included in accounts payable and accrued liabilities is $229 (December 31, 2014 - $199) payable to ACPI for asset management fees and $51 (December 31, 2014 - $51) 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 $591 (2014 - $510) for the three ended March 31, 2015 for minimum rent and recoveries revenue. Included in accounts receivable is nil (December 31, 2014 - $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.

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

	Three months ended March 31, 2015	2014
Trustee fees	$ 56	$ 56
Salaries and benefits	47	60
	$ 103	$ 116

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

18. Finance costs:

	Three months ended March 31, 2015	Three months ended March 31, 2014
Interest:		
Loan facility	$ 839	$ 907
Mortgages payable	2,455	2,053
Amortization of financing fees	131	133
Amortization of mark-to-market premium	(216)	(188)
Unrealized loss on derivative instrument - interest rate swap	1,211	49
Unrealized loss on derivative instrument - foreign currency exchange hedge	899	345
	5,319	3,299
Realized loss on foreign currency exchange hedge	339	152
	$ 5,658	$ 3,451

19. Commitments and contingencies:

(a) The REIT has entered into a long-term lease agreement with a tenant dated November 19, 2014, whereby the REIT is obligated to construct a built to suit automobile dealership and office space on existing lands at one of REIT's properties located in Canada. The lease can be terminated by either the tenant or the landlord if certain development requirements are not met in the time period agreed to between the REIT and the tenant, such as required governmental approvals for site development.

(b) The REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

(c) 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.

20. 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.

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, 2015 is $256,253 (December 31, 2014 - $223,265).

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

20. Fair value measurement (continued):

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, 2015:

	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 607,595	$ 607,595
Liabilities:				
Derivative instruments	$ –	$ 3,478	$ –	$ 3,478

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

	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 564,545	$ 564,545
Liabilities:				
Derivative instruments	$ –	$ 1,344	$ –	$ 1,344

21. Subsequent events:

The REIT declared distributions of $0.6458 per Unit on April 21, 2015 to unitholders of record as at April 30, 2015.

On April 21, 2015, the REIT disposed of one property located in Odenton, Maryland for approximately U.S. $11,300 (Cdn. $14,332) before closing costs. In conjunction with closing, a U.S. $3,692 (Cdn. $4,683) mortgage of the REIT that was previously secured by the property, was released and will be secured by cash.