

Condensed Consolidated Interim Financial Statements  
(In Canadian dollars)

# **AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST**

Three months ended March 31, 2016 and 2015  
(Unaudited)

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	March 31, 2016	December 31, 2015
<b>Assets</b>		
Non-current assets:		
Investment properties (note 4)	\$ 619,589	\$ 662,296
Current assets:		
Assets classified as held for sale (note 6)	9,128	–
Other assets (note 7)	4,107	4,138
Accounts receivable	1,988	2,639
Cash and cash equivalents	7,359	9,138
Total current assets	22,582	15,915
<b>Total assets</b>	<b>\$ 642,171</b>	<b>\$ 678,211</b>

## Liabilities and Unitholders' Equity

Non-current liabilities:		
Mortgages payable (note 9)	\$ 240,236	\$ 257,798
Loans payable (note 10)	99,154	89,372
Deferred income tax liability	19,087	21,139
Total non-current liabilities	358,477	368,309
Current liabilities:		
Current portion of mortgages payable (note 9)	7,643	7,960
Tenant rental deposits and prepaid rent	6,524	6,488
Derivative instruments (note 14)	2,204	3,196
Accounts payable and accrued liabilities (note 8)	10,490	19,077
Liabilities classified as held for sale (note 6)	470	–
Distributions payable	1,510	1,510
Finance costs payable	897	942
Total current liabilities	29,738	39,173
Total liabilities	388,215	407,482
Unitholders' equity	253,956	270,729
<b>Total liabilities and unitholders' equity</b>	<b>\$ 642,171</b>	<b>\$ 678,211</b>

Commitments and contingencies (note 19)  
Subsequent events (notes 11(b) and 21)

See accompanying notes to condensed consolidated interim financial statements.

The condensed consolidated interim financial statements were approved by the Board of Trustees on May 9, 2016 and signed on its behalf by:

"Glen Ladouceur" \_\_\_\_\_ 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,	
	2016	2015
<b>Revenue:</b>		
Minimum rent	\$ 13,879	\$ 12,516
Recoveries from tenants	7,874	7,456
Other income	616	691
	<u>22,369</u>	<u>20,663</u>
<b>Expenses:</b>		
Property operating	5,807	5,502
Property taxes	10,405	8,856
General and administrative	1,309	1,260
Deferred income taxes (note 15)	(766)	4,986
Fair value adjustment on investment properties (note 4)	10,814	(4,180)
IFRIC 21 fair value adjustment on investment properties (note 4)	(6,930)	(5,786)
Loss on sale of investment properties (note 5)	–	240
	<u>20,639</u>	<u>10,878</u>
Income before finance costs	1,730	9,785
Finance costs (note 13)	2,884	5,658
Net income (loss)	(1,154)	4,127
<b>Other comprehensive income (loss):</b>		
Reclassified subsequently to income when specific conditions are met:		
Unrealized gain (loss) on translation of U.S. dollar-denominated foreign operations	(11,085)	13,396
<b>Comprehensive income (loss)</b>	<b>\$ (12,239)</b>	<b>\$ 17,523</b>

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, 2016	Amounts of unit capital (note 11)	Accumulated distributions	Net income (loss)	Other comprehensive income (loss)	Total
Unitholders' equity, January 1, 2016	\$ 213,338	\$ (51,146)	\$ 62,816	\$ 45,721	\$ 270,729
Loss for the period	–	–	(1,154)	–	(1,154)
Other comprehensive loss	–	–	–	(11,085)	(11,085)
Distributions	–	(4,534)	–	–	(4,534)
<b>Unitholders' equity, March 31, 2016</b>	<b>\$ 213,338</b>	<b>\$ (55,680)</b>	<b>\$ 61,662</b>	<b>\$ 34,636</b>	<b>\$ 253,956</b>

Distributions per unit for the three months ended March 31, 2016 - \$0.194.

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
<b>Unitholders' equity, March 31, 2015</b>	<b>\$ 214,595</b>	<b>\$ (37,486)</b>	<b>\$ 53,990</b>	<b>\$ 30,971</b>	<b>\$ 262,070</b>

Distributions per unit for the three months ended March 31, 2015 - \$0.194.

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,	
	2016	2015
<b>Cash flows from (used in) operating activities:</b>		
Net income (loss)	\$ (1,154)	\$ 4,127
Adjustments for items not involving cash:		
Straight-line rents adjustment (note 4)	(295)	(557)
Amortization of lease incentive (note 4)	377	333
Fair value adjustment on investment properties (note 4)	3,884	(9,966)
Finance costs (note 13)	2,527	5,319
Loss on sale of investment properties (note 5)	–	240
Change in non-cash working capital items:		
Other assets	(67)	(46)
Accounts receivable	586	(108)
Tenant rental deposits and prepaid rent	396	128
Deferred income tax liability	(766)	4,986
Accounts payable and accrued liabilities	(774)	1,176
	<u>4,714</u>	<u>5,632</u>
<b>Cash flows from (used in) financing activities:</b>		
Proceeds from mortgages payable	–	12,535
Proceeds from loans payable	12,915	6,100
Financing fees paid	–	(298)
Principal payments	(1,267)	(965)
Repayment of loans payable	(2,850)	(19,718)
Interest paid	(3,599)	(3,209)
Distributions paid	(4,534)	(4,171)
	<u>665</u>	<u>(9,726)</u>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of investment properties (note 3)	–	(15,953)
Proceeds from disposition on investment properties (note 5)	–	7,897
Additions to investment properties	(6,151)	(2,120)
Change in restricted cash	(320)	8,461
	<u>(6,471)</u>	<u>(1,715)</u>
Effect of exchange rates on cash	(687)	801
Decrease in cash and cash equivalents	(1,779)	(5,008)
Cash and cash equivalents, beginning of period	9,138	11,729
Cash and cash equivalents, end of period	<u>\$ 7,359</u>	<u>\$ 6,721</u>
<b>Supplemental cash flow information:</b>		
Units issued under distribution reinvestment plan (note 11)	\$ –	\$ 385
Deferred compensation expense (note 12)	26	22

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 per unit amounts)

Three months ended March 31, 2016 and 2015  
(Unaudited)

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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 commenced operations on January 25, 2013 when it issued units for cash, pursuant to an initial public offering ("IPO").

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 ("TSX") 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 Standard ("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, 2015 financial information has been derived from the December 31, 2015 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, 2015.

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2016 and 2015  
(Unaudited)

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### 3. Acquisitions:

On July 8, 2015, the REIT acquired a 100% interest in one property located in Atlanta, Georgia for a total purchase price of \$14,131 (including acquisition and closing adjustments of \$137). The REIT assumed a net working capital liability of \$210, related to tenant rental deposits and prepaid rent of \$103, accounts payable and accrued liabilities of \$63, deferred revenue of \$46 and accounts receivable of \$2. The transaction has been recognized as an asset acquisition. The acquisition was funded by cash released from restricted cash (note 7).

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 restricted cash (note 7) and cash received on the loan payable.

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Net assets acquired:	
Investment properties, including acquisition costs and closing adjustments of (\$322) <sup>(1)</sup>	\$ 30,329
Working capital assumed	(455)
<b>Net assets acquired</b>	<b>\$ 29,874</b>
<b>Consideration paid</b>	<b>\$ 29,874</b>

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<sup>(1)</sup>International Financial Reporting Interpretations Committee 21 - Levies ("IFRIC 21"), adjustment of \$253 related to U.S. property taxes liability assumed on acquisitions is recorded as an offset to investment properties.

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2016 and 2015  
(Unaudited)

## 4. Investment properties:

	March 31, 2016	December 31, 2015
Balance, beginning of period	\$ 662,296	\$ 564,545
Acquisition of investment properties (note 3)	–	30,329
Additions:		
Capital expenditures	4,665	8,994
Leasing costs, net of amortization of leasing incentives of \$377 (2015 - \$333)	1,172	2,323
Straight-line rents adjustment	295	1,923
Fair value adjustment	(10,814)	(5,005)
IFRIC 21 fair value adjustment	6,930	–
IFRIC 21 property taxes liability adjustment	(6,930)	–
Transfer of investment properties to assets held for sale	(8,910)	–
Disposition of investment properties	–	(13,870)
Foreign exchange impact on translation of U.S. operations	(29,115)	73,057
<b>Balance, end of period</b>	<b>\$ 619,589</b>	<b>\$ 662,296</b>

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.

### (a) External appraisals:

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

The aggregate appraised value of properties externally appraised during the three months ended March 31, 2016, including appraisals obtained in conjunction with acquisitions totalled \$182,780 (December 31, 2015 - \$240,134).



# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2016 and 2015  
(Unaudited)

## 4. Investment properties (continued):

### (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, 2016	Canada	United States
Discount rates - range	7.50% - 8.00%	8.00% - 9.50%
Discount rate - weighted average	7.52%	8.59%
Terminal capitalization rates - range	7.25% - 7.25%	7.50% - 8.75%
Terminal capitalization rate - weighted average	7.25%	7.93%

December 31, 2015	Canada	United States
Discount rates - range	7.50% - 8.00%	8.00% - 9.75%
Discount rate - weighted average	7.53%	8.60%
Terminal capitalization rates - range	7.00% - 7.25%	7.50% - 8.75%
Terminal capitalization rate - weighted average	7.24%	7.94%

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2016 and 2015  
(Unaudited)

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## 4. Investment properties (continued):

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, 2016	December 31, 2015
Weighted average discount rate:		
25-basis-points increase	\$ (11,240)	\$ (12,122)
25-basis-points decrease	11,505	12,938
Weighted average terminal capitalization rate:		
25-basis-points increase	(11,401)	(11,988)
25-basis-points decrease	12,169	12,269

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## 5. Dispositions:

There are no dispositions during the three months ended March 31, 2016.

On April 21, 2015, the REIT disposed of one investment property for \$13,870. Selling costs incurred on the transaction were \$445 and are recognized as a loss on sale of investment properties. The proceeds received net of selling costs and working capital adjustments were \$13,400.

On February 5, 2015, the REIT disposed of one investment property 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 selling costs and working capital adjustments were \$7,897.

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2016 and 2015  
(Unaudited)

## 6. Assets and liabilities classified as held for sale:

There is one property classified as held for sale at March 31, 2016. At December 31, 2015, there were no properties classified as held for sale.

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

	March 31, 2016	December 31, 2015
<b>Assets:</b>		
Investment properties	\$ 8,910	\$ —
Other assets	187	—
Accounts receivable	31	—
	<b>\$ 9,128</b>	<b>\$ —</b>
<b>Liabilities:</b>		
Tenant rental deposits and prepaid rent	\$ 73	\$ —
Accounts payable and accrued liabilities	397	—
	<b>\$ 470</b>	<b>\$ —</b>

## 7. Other assets:

	March 31, 2016	December 31, 2015
Prepaid expenses	\$ 1,240	\$ 1,421
Restricted cash	1,420	1,386
Deposits in escrow	1,274	1,163
Other receivables	173	168
	<b>\$ 4,107</b>	<b>\$ 4,138</b>

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.

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2016 and 2015  
(Unaudited)

## 8. Accounts payable and accrued liabilities:

	March 31, 2016	December 31, 2015
Trade payable	\$ 1,270	\$ 1,349
Realty tax payable	3,763	7,035
Other payables and accruals	5,457	10,693
	<u>\$ 10,490</u>	<u>\$ 19,077</u>

## 9. Mortgages payable:

	March 31, 2016	December 31, 2015
Current:		
Mortgages payable	\$ 7,072	\$ 7,355
Unamortized mark-to-market premium	946	1,009
Unamortized financing fees	(375)	(404)
	<u>7,643</u>	<u>7,960</u>
Non-current:		
Mortgages payable	240,287	257,702
Unamortized mark-to-market premium	1,046	1,367
Unamortized financing fees	(1,097)	(1,271)
	<u>240,236</u>	<u>257,798</u>
	<u>\$ 247,879</u>	<u>\$ 265,758</u>

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2016 and 2015  
(Unaudited)

## 9. Mortgages payable (continued):

The mortgages payable are secured by charges on 30 investment properties. Mortgages payable include financing fees and a 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, 2016, the condensed consolidated interim statements of financial position include financing fees of \$2,426 (December 31, 2015 - \$2,587) and accumulated amortization of \$954 (December 31, 2015 - \$912). The mortgages carry a weighted average interest rate of 4.18% (December 31, 2015 - 4.18%).

Included in mortgages payable is one Canadian dollar denominated mortgage of \$2,253 (December 31, 2015 - \$2,272) which is at a variable interest rate. Interest is charged at 250-basis points over the 90-day Canadian Dealer Offered Rate.

Included in mortgages payable are U.S. dollar-denominated mortgages of \$245,105 (U.S. \$188,964) (December 31, 2015 - \$262,785 (U.S. \$189,873)). Of these mortgages, \$58,477 (U.S. \$45,083) (December 31, 2015 - Cdn. \$62,607 (U.S. \$45,236)) have a variable interest rate. The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in interest rates (note 14).

Future principal repayments at March 31, 2016 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
2016 - remainder	\$ 3,609	\$ 2,229	\$ 5,838	\$ 8,172	\$ 14,010	3.38%
2017	4,952	—	4,952	10,651	15,603	—
2018	4,387	120,347	124,734	8,207	132,941	4.42%
2019	3,138	—	3,138	4,605	7,743	—
2020	2,170	41,918	44,088	3,050	47,138	3.89%
Thereafter	5,110	59,499	64,609	6,527	71,136	3.97%
Face value	<u>\$ 23,366</u>	<u>\$ 223,993</u>	247,359	<u>\$ 41,212</u>	<u>\$ 288,571</u>	
Unamortized mark-to-market premium			1,992			
Unamortized financing fees			(1,472)			
			<u>\$ 247,879</u>			

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2016 and 2015  
(Unaudited)

## 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, 2018. 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, 2016, the amount drawn on the facility was \$99,428 (December 31, 2015 - \$89,700). Included in loans payable at March 31, 2016 are U.S. dollar-denominated loans of \$1,128 (U.S. \$870) (December 31, 2015 - \$7,657 (U.S. \$6,600)). The interest rate on \$60,000 drawn on the facility has been economically fixed at 3.60% using an interest rate swap (note 14).

Financing fees of \$1,042 (December 31, 2015 - \$1,042) were incurred to obtain the revolving credit facility and are being amortized over the remaining term. As at March 31, 2016, the unamortized financing fees totalled \$274 (December 31, 2015 - \$328).

## 11. Unitholders' equity:

	2016		2015	
	Units	Amount	Units	Amount
Unit capital, January 1	23,395,139	\$ 213,338	23,494,687	\$ 214,210
Additional shares issued under the distribution reinvestment plan program	–	–	42,672	385
Unit capital, March 31	23,395,139	\$ 213,338	23,537,359	\$ 214,595

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2016 and 2015  
(Unaudited)

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## 11. Unitholders' equity (continued):

### (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"):

The REIT adopted a DRIP on May 18, 2013, where unitholders could 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.

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.

DRIP was suspended on August 10, 2015 when the Normal Course Issuer Bid was launched by the REIT. For the three months ended March 31, 2016, the REIT issued nil (2015 - 42,672) Units under the DRIP for a stated value of nil (2015 - \$9.05) per Unit.

Subsequent to quarter end, on April 7, 2016, the REIT announced the reinstatement of the DRIP with the amendment to remove the provision of the 3% discount previously available to unitholders.

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

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## 11. Unitholders' equity (continued):

### (c) Normal Course Issuer Bid:

On August 10, 2015, the TSX accepted the REIT's notice of intention to make a normal course issuer bid for a portion of its issued and outstanding Units. Pursuant to the notice, the REIT may purchase for cancellation up to a maximum of 1,000,000 Units or approximately 5% of its public float over the 12-month period commencing August 13, 2015 and ending on August 12, 2016. During March 31, 2016, the REIT has repurchased and cancelled nil Units (2015 - nil Units).

## 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 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.

The Board of Trustees are 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, 2016, 2,810 (2015 - 2,457) DTUs were granted to trustees for services rendered. These amounts are recognized in accounts payable and accrued liabilities and general and administrative expenses.



# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2016 and 2015  
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## 12. Deferred Unit Incentive Plan (continued):

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

	Three months ended March 31,	
	2016	2015
Balance, January 1	10,085	5,646
DTUs granted for services rendered	2,810	2,457
DTUs granted through distributions	213	109
<b>Balance, March 31</b>	<b>13,108</b>	<b>8,212</b>

The movement of the DUIP liability was as follows:

	Three months ended March 31,	
	2016	2015
Balance, January 1	\$ 87	\$ 50
Compensation expense	26	22
<b>Balance, March 31</b>	<b>\$ 113</b>	<b>\$ 72</b>

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2016 and 2015  
(Unaudited)

## 13. Finance costs:

	Three months ended March 31,	
	2016	2015
Interest:		
Loan facility	\$ 837	\$ 839
Mortgages payable	2,775	2,455
Amortization of financing fees	156	131
Amortization of mark-to-market premium	(247)	(216)
Unrealized loss on derivative instrument - interest rate swap	425	1,211
Unrealized loss (gain) on derivative instrument - foreign currency exchange hedge	(1,355)	899
Capitalized interest	(64)	-
	2,527	5,319
Realized loss on foreign currency exchange hedge	357	339
	\$ 2,884	\$ 5,658

Interest is capitalized to a qualifying development project, based on the REIT's weighted average rate of borrowings, excluding any borrowings. The weighted average interest rate used was approximately 3.93%.

## 14. 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, as outlined in note 10. The interest rate swap agreement matures on January 27, 2017. The valuation of this interest rate swap contract was computed using Level 2 inputs, as outlined in note 20.

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

The REIT has entered into swap agreements to fix mortgages payable of U.S. \$10,100 at 3.09%, U.S. \$25,650 at 3.40%, U.S. \$6,696 at 3.41% and U.S. \$2,637 at 3.17% for terms maturing in 2018.

The REIT recognized an unrealized loss of \$425 for the three months ended March 31, 2016 (2015 - unrealized loss of \$1,211), which has been recorded as finance costs.

The fair value of the interest rate swap instruments outstanding as at March 31, 2016 is a liability of \$1,380 (December 31, 2015 - \$1,016).

- (b) Under the terms of the foreign currency forward lock contract agreement, the REIT exchanges 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.

The total notional value of the forward contracts outstanding as at March 31, 2016 is U.S. \$12,603 (December 31, 2015 - U.S. \$12,063) and has a weighted average forward exchange rate of 1.23 (December 31, 2015 - 1.20) Canadian dollars per United States dollar.

The REIT recognized an unrealized gain of \$1,355 for the three months ended March 31, 2016 (2015 - unrealized loss of \$899), which has been recorded as finance costs. The final contract has terms maturing on February 28, 2018.

The REIT recognized a realized loss on the settlement of foreign currency forward contracts of \$357 for the three months ended March 31, 2016 (2015 - \$339), which has been recorded as finance costs.

The fair value of the foreign currency forward lock instruments as at March 31, 2016 is a liability of \$824 (December 31, 2015 - \$2,180).

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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## 15. 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 (recovery) of (\$766) (2015 - \$4,986) 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% (2015 - 37%) as a significant portion of the condensed consolidated net income is earned directly by the REIT. The foreign exchange impact of the deferred tax liability of (\$1,286) (2015 - \$1,044) is recorded in other comprehensive income (loss).

## 16. 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.

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%;

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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## 16. Capital management (continued):

(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, 2016.

## 17. 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, 2016	December 31, 2015
Canada	\$ 185,656	\$ 193,828
United States	433,933	468,468
	<b>\$ 619,589</b>	<b>\$ 662,296</b>

(b) Revenue:

	Three months ended March 31,	
	2016	2015
Canada	\$ 6,934	\$ 7,407
United States	15,435	13,256
	<b>\$ 22,369</b>	<b>\$ 20,663</b>

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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## 17. Segmented disclosure (continued):

The REIT has two tenants in its Canadian and U.S. portfolios that account for 10.93% and 11.46 % (2015 - 12.22% and 11.02%) of its total revenue. The tenants' leases will expire in 2020 and 2023, respectively.

## 18. 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 (the "Vendors") of certain investment properties, by virtue of their ownership interest in REIT Units, and Agellan Capital Partners Inc. ("ACPI"), who are related due to 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 \$675 (2015 - \$624) for the three months ended March 31, 2016, were charged to general and administrative expenses. The REIT has also reimbursed ACPI for certain costs incurred for general and administrative as well as property related expenses in the amount of \$10 (2015 - nil).

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

- (b) ACPI is also entitled to a unit price performance fee ("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) one 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 (2015 - nil) for the three months ended March 31, 2016.
- (c) ACPI shall be paid an incentive fee equal to the product of: (i) 15% of any excess adjusted funds from operation ("AFFO") per Unit for the applicable fiscal year greater than 103% of the forecast AFFO per Unit as set forth in the IPO prospectus (the "Incentive Fee Target"), and (ii) the weighted average number of issued and outstanding Units over the applicable fiscal year. The Incentive Fee will be measured and paid in Units, calculated based on the volume weighted average closing price of Units on the stock exchange on which the Units are then listed for the 20 trading days immediately preceding March 31 of the applicable year. If payment of the Incentive Fee in Units creates a taxable event for ACPI, a portion of the Incentive Fee may be paid in cash upon approval of the trustees. The Incentive Fee Target will increase annually by 50% of the increase in the weighted average Canadian and United States consumer price indices (weighted based on the Gross Book Value of the REIT's properties located in each jurisdiction). An amount of \$100 has been accrued for the three months ended March 31, 2016 (2015 - nil).
- (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 \$140 (2015 - \$206) for the three months ended March 31, 2016 were charged to property operating expenses.
- (e) Included in accounts payable and accrued liabilities is \$203 (December 31, 2015 - \$231) payable to ACPI for asset management fees, \$342 (December 31, 2015 - \$242) payable for incentive fees, and \$30 (December 31, 2015 - \$7) payable to ACPI or its related parties for property management fees.

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

- (f) The REIT has entered into lease agreements, whereby certain Vendors of investment properties lease space in properties for terms of approximately five years. Rental revenue from these leases was \$376 for the three months ended March 31, 2016 (2015 - \$591) for minimum rent and recoveries revenue. Included in accounts receivable is nil as at March 31, 2016 (December 31, 2015 - nil) from these leases.

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,	
	2016	2015
Salaries and benefits	\$ –	\$ 47
Trustee fees	58	56
	<u>\$ 58</u>	<u>\$ 103</u>

## 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 the 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. As at March 31, 2016, the REIT has two outstanding letters of credit totalling \$4,800 (December 31, 2015 - nil) relating to the site development.



# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

- (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.

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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## 20. 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, 2016 is \$253,108 (December 31, 2015 - \$267,234).

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, 2016:

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investment properties	\$ –	\$ –	\$ 619,589	\$ 619,589
<b>Liabilities:</b>				
Derivative instruments	\$ –	\$ 2,204	\$ –	\$ 2,204

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

The table below presents the REIT's assets and liabilities recognized at fair value as at December 31, 2015:

	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	\$ –	\$ –	\$ 662,296	\$ 662,296
Liabilities:				
Derivative instruments	\$ –	\$ 3,196	\$ –	\$ 3,196

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## 21. Subsequent events:

- (a) The REIT declared distributions of \$0.06458 per unit on April 19, 2016 to unitholders of record as at April 29, 2016.
- (b) On May 3, 2016, the REIT finalized the sale of the property held for sale (note 6).