Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three months ended March 31, 2017 and 2016
(Unaudited)

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	March 31, 2017	December 31, 2016
Assets		
Non-current assets:		
Investment properties (note 4)	$ 768,932	$ 759,494
Current assets:		
Other assets (note 6)	8,172	7,662
Accounts receivable	2,251	2,111
Cash and cash equivalents	9,601	7,746
Total current assets	20,024	17,519
Total assets	$ 788,956	$ 777,013
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 8)	$ 285,122	$ 301,472
Loans facility (note 9)	52,228	103,037
Deferred income tax liability (note 14)	23,945	23,294
Total non-current liabilities	361,295	427,803
Current liabilities:		
Current portion of mortgages payable (note 8)	9,687	9,483
Current portion of loans facility (note 9)	24,995	–
Tenant rental deposits and prepaid rent	8,290	6,804
Derivative instruments (note 13)	431	854
Accounts payable and accrued liabilities (note 7)	19,219	19,461
Distributions payable	2,116	1,805
Finance costs payable	1,173	1,108
Total current liabilities	65,911	39,515
Total liabilities	427,206	467,318
Unitholders' equity	361,750	309,695
Total liabilities and unitholders' equity	$ 788,956	$ 777,013

Commitments and contingencies (note 19)
Subsequent events (note 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 8, 2017 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, 2017	2016
Revenue:		
Minimum rent	$ 15,236	$ 13,879
Recoveries from tenants	8,266	7,874
Other income	561	616
	24,063	22,369
Expenses (income):		
Property operating	6,387	5,807
Property taxes	11,532	10,405
General and administrative	1,656	1,309
Deferred income taxes (note 14)	832	(766)
Fair value adjustment on investment properties (note 4)	952	10,814
IFRIC 21 fair value adjustment on investment properties (note 4)	(7,880)	(6,930)
	13,479	20,639
Income before finance costs	10,584	1,730
Finance costs (note 12)	3,635	2,884
Net income (loss)	6,949	(1,154)
Other comprehensive income (loss):		
Reclassified subsequently to income when specific conditions are met:		
Unrealized loss on translation of U.S. dollar-denominated foreign operations	(1,645)	(11,085)
Comprehensive income (loss)	$ 5,304	$ (12,239)

See accompanying notes to condensed consolidated interim financial statements.

AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2017	Amounts of unit capital (note 10)	Accumulated distributions	Net income	Other comprehensive income (loss)	Total
Unitholders' equity, January 1, 2017	$ 257,485	$ (70,745)	$ 82,591	$ 40,364	$ 309,695
Units issued, net of issuance costs	52,609	–	–	–	52,609
Net income	–	–	6,949	–	6,949
Other comprehensive loss	–	–	–	(1,645)	(1,645)
Distributions	–	(6,036)	–	–	(6,036)
Distribution reinvestment plan	178	–	–	–	178
Unitholders' equity, March 31, 2017	$ 310,272	$ (76,781)	$ 89,540	$ 38,719	$ 361,750

Distributions per unit for the three months ended March 31, 2017 - $0.206.

Three months ended March 31, 2016	Amounts of unit capital (note 10)	Accumulated distributions	Net income	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)
Unitholders' equity, March 31, 2016	$ 213,338	$ (55,680)	$ 61,662	$ 34,636	$ 253,956

Distributions per unit for the three months ended March 31, 2016 - $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, 2017	2016
Cash flows from (used in) operating activities:		
Net income (loss)	$ 6,949	$ (1,154)
Adjustments for items not involving cash:		
Straight-line rents adjustment	(453)	(295)
Amortization of lease incentive	457	377
Fair value adjustment on investment properties (note 4)	(6,928)	3,884
Finance costs (note 12)	3,532	2,527
Deferred income tax liability	832	(766)
Change in non-cash operating working capital:		
Other assets	290	(67)
Accounts receivable	(50)	586
Tenant rental deposits and prepaid rent	1,515	396
Accounts payable and accrued liabilities	8,056	(774)
	14,200	4,714
Cash flows from (used in) financing activities:		
Proceeds from issuance of units (note 10(a))	52,609	–
Proceeds from loans payable	26,220	12,915
Repayment of loans payable	(52,000)	(2,850)
Repayment of mortgage	(11,914)	–
Financing fees paid	(301)	–
Principal payments	(1,522)	(1,267)
Interest paid	(4,097)	(3,599)
Distributions paid	(5,547)	(4,534)
	3,448	665
Cash flows from (used in) investing activities:		
Additions to investment properties	(14,311)	(6,151)
Change in restricted cash	(940)	(320)
	(15,251)	(6,471)
Effect of exchange rates on cash	(542)	(687)
Increase (decrease) in cash and cash equivalents	1,855	(1,779)
Cash and cash equivalents, beginning of period	7,746	9,138
Cash and cash equivalents, end of period	$ 9,601	$ 7,359
Supplemental disclosure for non-cash activities:		
Units issued under the distribution reinvestment plan (note 10(b))	$ 178	$ –
Deferred compensation expense (note 11)	24	26

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 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 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.

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 34, Interim Financial Reporting. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards have been omitted or condensed. The December 31, 2016 financial information has been derived from the December 31, 2016 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, 2016.

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

3. Acquisitions:

There are no acquisitions during the three months ended March 31, 2017.

On December 6, 2016, the REIT acquired a 100% interest in one property located in Sarasota, Florida for a total purchase price of $69,927 (including acquisition costs and closing adjustments of $162 and a mark-to-market adjustment on the mortgage of $2,032). The REIT assumed a net working capital liability of $170, comprising costs related to tenant rental deposits and prepaid rent of $34, deferred revenue of $572 offset by prepaid expenses of $436. In addition, the REIT has also deposited certain amounts in restricted cash relating to interest payments on the assumed mortgage and deposits for $1,992 and $474, respectively. The transaction has been recognized as an asset acquisition. In consideration, the REIT assumed a mortgage of $45,690 (including a mark-to-market adjustment of $2,032) and paid the remainder in cash.

Investment properties (includes acquisition costs and closing adjustments of $162 and mark-to-market adjustment on mortgage of $2,032)[(i)]	$ 69,927
Other assets	2,466
Assumed mortgage, including mark-to-market adjustment of $2,032	(45,690)
Working capital assumed, net	(170)
Net assets acquired	$ 26,533
Restricted cash	$ 2,466
Consideration paid	24,067
Consideration paid	$ 26,533

[(i)] International Financial Reporting Interpretations Committee 21, Levies ("IFRIC 21") adjustment of $56 related to U.S. property taxes liability assumed on acquisitions is recorded as an offset to investment properties.

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

3. Acquisitions (continued):

On September 8, 2016, the REIT acquired 100% interest in two properties located in Atlanta, Georgia for a total purchase price of $20,380 (including acquisition costs and closing adjustments of $35. The REIT assumed a net working capital liability of $490, comprising costs related to tenant rental deposits and prepaid rent of $138, accounts payable and accrued liabilities of $365, deferred revenue of $104 and accounts receivable of $117. The transaction has been recognized as an asset acquisition. Consideration was paid using proceeds from mortgage financing of $12,264 and the remaining with cash available from the public unit offering.

Investment properties, including acquisition costs and closing adjustments of ($35)[(i)]	$	20,380
Working capital assumed		(490)
Net assets acquired	$	19,890
Consideration paid	$	19,890

[(i)]IFRIC 21 adjustment of $83 related to U.S. property taxes liability assumed on acquisition is recorded as an offset to investment properties.

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

4. Investment properties:

	March 31, 2017	December 31, 2016
Balance, beginning of period	$ 759,494	$ 662,296
Acquisition of investment properties (note 3)	–	90,307
Additions:		
Capital expenditures[(i)]	11,537	32,338
Leasing costs, net of amortization of leasing incentives of $457 (2016 - $1,565)	2,663	6,883
Straight-line rents adjustment	453	631
Fair value adjustment	(952)	(11,628)
IFRIC 21 fair value adjustment	7,880	–
IFRIC 21 property taxes liability adjustment	(7,880)	–
Disposition of investment properties (note 5)	–	(8,929)
Foreign exchange impact on translation of U.S. operations	(4,263)	(12,404)
Balance, end of period	$ 768,932	$ 759,494

[(i)]Includes interest capitalized on a qualifying development project of $346 (2016 - $64) (note 12).

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 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 months ended March 31, 2017, including appraisals obtained in conjunction with acquisitions, totalled $14,120 (December 31, 2016 - $353,067).

(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, 2017	Canada	United States
Discount rates - range	7.50%	7.50% - 9.50%
Discount rate - weighted average	7.50%	8.67%
Terminal capitalization rates - range	7.00% - 7.25%	7.00% - 8.75%
Terminal capitalization rate - weighted average	7.24%	7.95%

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

4. Investment properties (continued):

December 31, 2016	Canada	United States
Discount rates - range	7.50%	7.50% - 9.50%
Discount rate - weighted average	7.50%	8.69%
Terminal capitalization rates - range	7.00% - 7.25%	7.00% - 8.75%
Terminal capitalization rate - weighted average	7.24%	7.97%

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, 2017	December 31, 2016
Weighted average discount rate:		
25-basis-points increase	$ (13,426)	$ (15,693)
25-basis-points decrease	13,742	11,407
Weighted average terminal capitalization rate:		
25-basis-points increase	(13,432)	(15,708)
25-basis-points decrease	14,324	12,006

5. Dispositions:

There are no dispositions during the three months ended March 31, 2017.

On May 3, 2016, the REIT disposed of one investment property for an adjusted sale price of $8,929. Selling costs incurred on the transaction were $337 and are recognized as a loss on sale of investment properties. The proceeds received, net of selling costs and working capital adjustments, were $8,494.

On July 27, 2016, the REIT also incurred costs of $150 related to the Parkway Place transaction (note 19(b)).

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

6. Other assets:

	March 31, 2017	December 31, 2016
Prepaid expenses	$ 1,283	$ 1,606
Restricted cash	5,562	4,653
Deposits in escrow	1,255	1,258
Other receivables	72	145
	$ 8,172	$ 7,662

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 and deposits held in trust relating to certain development plans.

7. Accounts payable and accrued liabilities:

	March 31, 2017	December 31, 2016
Trade payable	$ 1,278	$ 1,050
Realty taxes payable	4,628	7,258
IFRIC 21 property taxes liability	7,880	–
Other payables and accruals	5,433	11,153
	$ 19,219	$ 19,461

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

8. Mortgages payable:

	March 31, 2017	December 31, 2016
Current:		
Mortgages payable	$ 8,406	$ 8,358
Unamortized mark-to-market premium	1,829	1,749
Unamortized financing fees	(548)	(624)
	9,687	9,483
Non-current:		
Mortgages payable	285,200	301,173
Unamortized mark-to-market premium	1,079	1,579
Unamortized financing fees	(1,157)	(1,280)
	285,122	301,472
	$ 294,809	$ 310,955

The mortgages payable are secured by charges on 33 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, 2017, the condensed consolidated interim statements of financial position include financing fees of $3,373 (December 31, 2016 - $3,209) and accumulated amortization of $1,668 (December 31, 2016 - $1,305). The mortgages carry a weighted average interest rate of 4.52% (December 31, 2016 - 4.30%) and mature at various dates between 2017 and 2026.

Included in mortgages payable is one Canadian dollar-denominated mortgage of $2,181 (December 31 - 2016 - $2,199), 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 Cdn. $291,425 (U.S. $218,755) (December 31, 2016 - Cdn. $307,332 (U.S. $228,891)). Of these mortgages, Cdn. $47,250 (U.S. $35,468) (December 31, 2016 - Cdn. $59,913 (U.S. $44,641)) have a variable interest rate. The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in interest rates (note 13).

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

8. Mortgages payable (continued):

Future principal repayments at March 31, 2017 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
2017	$ 4,629	$ 2,150	$ 6,779	$ 9,832	$ 16,611	3.75%
2018	5,727	65,711	71,438	11,061	82,499	5.39%
2019	5,167	45,063	50,230	8,908	59,138	3.97%
2020	3,476	43,053	46,529	5,709	52,238	3.89%
2021	3,410	–	3,410	5,278	8,688	–
Thereafter	5,094	110,126	115,220	6,413	121,633	4.54%
Face value	$ 27,503	$ 266,103	293,606	$ 47,201	$ 340,807	
Unamortized mark-to-market premium			2,908			
Unamortized financing fees			(1,705)			
			$ 294,809			

9. Loans facility:

The REIT has a revolving credit facility, secured by charges on one Canadian property. The maximum amount available to the REIT under this facility is $120,000, and the facility matures on January 25, 2019. 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, 2017, the amount drawn on the facility was $52,459 (December 31, 2016 - $87,640). The amount drawn includes $16,619 (U.S. $12,475), which have been drawn in U.S. dollar-denominated currency (December 31, 2016 - nil).

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

9. Loans facility (continued):

On July 27, 2016, the REIT secured a non-revolving construction facility, as an addition under the original agreement, secured by charges on one Canadian property (note 18(b)). The maximum amount available to the REIT under this construction facility is $48,000 and the facility matures at the earlier of January 25, 2018 or the closing of the sale transaction (note 19(b)). Amounts can be drawn under the facility in Canadian dollars. The facility bears interest at Bankers' Acceptance plus 2.00% or prime plus 1.00%. As at March 31, 2017, $25,103 has been drawn on the facility (December 31, 2016 - $15,731).

The interest rate on $60,000 drawn on the facilities has been economically fixed at 2.99%, using an interest rate swap (note 13).

Financing fees of $1,370 (December 31, 2016 - $1,257) were incurred to obtain the revolving credit facility and are being amortized over the remaining term. As at March 31, 2017, the unamortized financing fees totalled $339 (December 31, 2016 - $334), of which $108 (December 31, 2016 - $144) relates to the construction facility.

10. Unitholders' equity:

	2017		2016	
	Units	Amount	Units	Amount
Unit capital, January 1	27,947,350	$ 257,485	23,395,139	$ 213,338
Additional shares issued under the Distribution Reinvestment Plan ("DRIP") program	15,700	178	–	–
Units issued, net of issuance costs of $2,431	4,807,000	52,609	–	–
Unit capital, March 31	32,770,050	$ 310,272	23,395,139	$ 213,338

(a) Units:

On February 27, 2017, the REIT issued 4,807,000 Units at $11.45 per unit for total proceeds of $55,040. Costs relating to the offering, including issuance costs of $2,431, have been charged directly to unitholders' equity.

10. Unitholders' equity (continued):

The REIT is authorized to issue an unlimited number of Units. Each unit represents a single vote at any meeting of the unitholders and entitles the unitholder to receive a prorated share of all distributions.

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) DRIP:

Unitholders can elect to reinvest cash distributions into Units of the REIT. For the three months ended March 31, 2017, the REIT issued 15,700 (2016 - nil) Units under the DRIP for a stated average value of $11.31 (2016 - nil) per unit.

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

11. 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.

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

11. Deferred Unit Incentive Plan (continued):

The Board of Trustees is able to receive its 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, 2017, 4,074 (2016 - 2,810) DTUs were granted to Trustees for services rendered. 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,	
	2017	2016
Balance, January 1	17,966	10,085
DTUs granted for services rendered	4,074	2,810
DTUs granted through distributions	294	213
Balance, March 31	22,334	13,108

The movement of the DUIP liability was as follows:

	Three months ended March 31,	
	2017	2016
Balance, January 1	$ 178	$ 87
Compensation expense	24	26
Balance, March 31	$ 202	$ 113

Total compensation expense recognized for the three months ended March 31, 2017 is $24 (2015 - $26). These amounts are recognized in accounts payable and accrued liabilities and general and administrative expenses.

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

12. Finance costs:

	Three months ended March 31, 2017	2016
Interest:		
Loan facility	$ 840	$ 837
Mortgages payable	3,371	2,775
Amortization of financing fees	479	156
Amortization of mark-to-market premium	(392)	(247)
Unrealized loss (gain) on derivative instrument - interest rate swap	(114)	425
Unrealized gain on derivative instrument - foreign currency exchange hedge	(306)	(1,355)
Capitalized interest	(346)	(64)
	3,532	2,527
Realized loss on foreign currency exchange hedge	103	357
	$ 3,635	$ 2,884

Interest is capitalized to a qualifying development project. The weighted average interest rate used was approximately 3.46%.

13. Derivative instruments:

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

(a) The REIT entered into interest rate swap agreements relating to its loans facility, whereby 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 July 27, 2017, as outlined in note 9. The valuation of this interest rate swap contract was computed using Level 2 inputs, as outlined in note 20.

13. 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. $6,255 at 3.41% and U.S. $2,463 at 3.17% for terms maturing in 2018.

The REIT recognized an unrealized gain of $114 (2016 - unrealized loss of $425) for the three months ended March 31, 2017, which has been recorded as finance costs.

The fair value of interest rate swap investments outstanding as at March 31, 2017 is a liability of $213 (December 31, 2016 - $330).

(b) Under the terms of the foreign currency forward lock contract agreements, 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, 2017 is U.S. $12,063 (December 31, 2016 - U.S. $12,587) and has a weighted average forward exchange rate of Cdn. $1.30 (December 31, 2016 - Cdn. $1.30) per United States dollar.

The REIT recognized an unrealized gain of $306 (2016 - $1,355) for the three months ended March 31, 2017, which has been recorded in finance costs. The final contract has terms maturing on February 28, 2019.

The REIT recognized a loss on the settlement of foreign currency forward contracts of $103 (2016 - $357) for the three months ended March 31, 2017, which has been recorded as finance costs.

The fair value of the foreign currency forward lock instruments as at March 31, 2017 is a liability of $218 (December 31, 2016 - $524).

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 (recovery) of $832 (2016 - ($766)) for the three months ended March 31, 2017 is primarily 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% (2016 - 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 $181 (2016 - $1,286) for the three months ended March 31, 2017 is recorded in other comprehensive income (loss).

During the three months ended March 31, 2017, $44 (2016 - $46) of withholding taxes with respect to distributions from the U.S. subsidiaries have been recorded in general and administrative expenses.

During the three months ended March 31, 2017, $42 (2016 - $47) of U.S. state franchise taxes incurred by the U.S. subsidiaries has been recorded in property operating expenses.

During the three months ended March 31, 2017, a recovery of $48 (2016 - expense of $47) of U.S. state franchise taxes incurred by the U.S. subsidiaries has been recorded in general and administrative expenses.

During the three months ended March 31, 2017, $87 (2016 - nil) of U.S. alternative minimum taxes incurred by the U.S. subsidiaries has been recorded in general and administrative expenses.

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.

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, 2017.

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

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, 2017	December 31, 2016
Canada	$ 226,005	$ 213,491
United States	542,927	546,003
	$ 768,932	$ 759,494

(b) Revenue:

	Three months ended March 31, 2017	2016
Canada	$ 6,797	$ 6,934
United States	17,266	15,435
	$ 24,063	$ 22,369

The REIT has two tenants in its portfolio that account for 10.24% and 10.18% (2016 - 10.93% and 11.46%) of its total revenue. The tenants' lease terms continue until 2020 and 2023, respectively.

17. Subsidiaries:

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.;
- Agellan Warrenville L.P.;
- 165 Yorkland LP;
- 165 Yorkland GP Inc.;
- Norcross Springs LP;
- Norcross Springs GP LLC;
- 6100 McIntosh LP; and
- 6100 McIntosh GP LLC.

18. Transactions with related parties:

Related parties include the vendors (the "Vendors") of certain properties acquired by the REIT in conjunction with the REIT's IPO and by virtue of their ownership interest in REIT Units which was sold by the Vendors during 2016. Related parties also include 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.

18. 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 $801 (2016 - $675) for the three months ended March 31, 2017, 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 $32 (2016 - $10) for the three months ended March 31, 2017.

(b) ACPI is also entitled to a unit 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) $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 (2016 - nil) for the three months ended March 31, 2017.

(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 Target 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 June 30 of the applicable year. If payment of the Incentive Fee Target in Units creates a taxable event for ACPI, a portion of the Incentive Fee Target 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 (2016 - $100) has been accrued for the three months ended March 31, 2017.

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

18. Transactions with related parties (continued):

(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 $143 (2016 - $140) for the three months ended March 31, 2017, were charged to property operating expenses.

(e) Included in accounts payable and accrued liabilities is $258 (December 31, 2016 - $227), payable to ACPI for asset management fees, $789 (December 31, 2016 - $689) payable for incentive fees, and $41 (December 31, 2016 - $45) payable to ACPI or its related parties for property management fees. The amount accrued of $689 related to incentive fees in 2016 is included in accounts payable and accrued liabilities as at March 31, 2017.

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 is set out in the following table:

	Three months ended March 31,	
	2017	2016
Trustee fees	$ 50	$ 58

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 the REIT's Consumers Road office complex in Toronto, Ontario. 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. In conjunction with the construction of the dealership, the REIT will construct a retail and parking facility that will address the reduction of surface parking due to the newly constructed dealership and provide additional retail amenities to an adjacent office property owned by the REIT, as well as the surrounding area.

As at March 31, 2017, the REIT has incurred $45,073 (December 31, 2016 - $33,906) in development costs and has two outstanding letters of credit totalling $4,800 (December 31, 2016 - $4,800) relating to the site development.

(b) On July 27, 2016, the REIT entered into agreements with certain arms-length private purchasers to sell the REIT's partnership interest in a limited partnership created by the REIT to own and operate car dealership and corporate head office pursuant to the aforementioned lease agreement. The transaction is subject to numerous closing conditions, including the REIT substantially completing the construction of the dealership and the occupancy thereof by the tenant. There can be no assurance that all conditions to closing will be satisfied or waived. The gross sale price for the transaction will be determined based on a capitalization rate applied to the annual minimum rent payable, as determined under the lease agreement with Porsche Cars Canada.

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

(d) 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, 2017 is $296,635 (December 31, 2016 - $311,888). The loans payable balance, bearing interest at variable interest rates, approximates its fair value.

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

20. Fair value measurement (continued):

The fair value of deferred units are determined based on the unit price at each reporting period (Level 1).

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, 2017:

	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 768,932	$ 768,932
Liabilities:				
Derivative instruments	$ –	$ 431	$ –	$ 431
Deferred unit incentive	$ 202	$ –	$ –	$ 202

The table below presents the REIT's assets and liabilities recognized at fair value as at December 31, 2016:

	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 759,494	$ 759,494
Liabilities:				
Derivative instruments	$ –	$ 854	$ –	$ 854
Deferred unit incentive	$ 178	$ –	$ –	$ 178

21. Subsequent events:

(a) The REIT declared distributions of $0.06458 per unit on April 18, 2017 to unitholders of record as at April 28, 2017.

(b) On April 25, 2017, the REIT purchased a single tenant industrial property for an aggregate purchase price of approximately U.S. $16,000.