

Condensed Consolidated Interim Financial Statements  
(In Canadian dollars)

# **AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST**

Three months ended March 31, 2018 and 2017  
(Unaudited)

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

|                                  | March 31,<br>2018 | December 31,<br>2017 |
|----------------------------------|-------------------|----------------------|
| <b>Assets</b>                    |                   |                      |
| Non-current assets:              |                   |                      |
| Investment properties (note 5)   | \$ 859,455        | \$ 808,875           |
| Other assets (note 6)            | 2,433             | 2,570                |
| <b>Total non-current assets</b>  | <b>861,888</b>    | <b>811,445</b>       |
| Current assets:                  |                   |                      |
| Other assets (note 6)            | 9,052             | 8,609                |
| Derivative instruments (note 16) | 713               | 807                  |
| Accounts receivable              | 3,507             | 2,388                |
| Cash and cash equivalents        | 8,747             | 9,519                |
| <b>Total current assets</b>      | <b>22,019</b>     | <b>21,323</b>        |
| <b>Total assets</b>              | <b>\$ 883,907</b> | <b>\$ 832,768</b>    |

## Liabilities and Unitholders' Equity

|   |                   |                   |
|---|-------------------|-------------------|
| Non-current liabilities:                          |                   |                   |
| Mortgages payable (note 8)                        | \$ 234,842        | \$ 229,993        |
| Loans facility (note 9)                           | 102,703           | 91,594            |
| Class B LP Units (note 10)                        | 10,052            | 10,401            |
| Deferred income tax liability (note 17)           | 21,137            | 19,011            |
| <b>Total non-current liabilities</b>              | <b>368,734</b>    | <b>350,999</b>    |
| Current liabilities:                              |                   |                   |
| Current portion of mortgages payable (note 8)     | 71,874            | 70,432            |
| Tenant rental deposits and prepaid rent           | 7,777             | 9,343             |
| Accounts payable and accrued liabilities (note 7) | 17,284            | 24,908            |
| Distributions payable                             | 2,221             | 2,122             |
| Finance costs payable                             | 1,056             | 1,039             |
| <b>Total current liabilities</b>                  | <b>100,212</b>    | <b>107,844</b>    |
| <b>Total liabilities</b>                          | <b>468,946</b>    | <b>458,843</b>    |
| <b>Unitholders' equity</b>                        | <b>414,961</b>    | <b>373,925</b>    |
| <b>Total liabilities and unitholders' equity</b>  | <b>\$ 883,907</b> | <b>\$ 832,768</b> |

Commitments and contingencies (note 22)  
Subsequent events (note 24)

See accompanying notes to condensed consolidated interim financial statements.

The condensed consolidated interim financial statements were approved  
by the Board on May 8, 2018 and signed on its behalf by:

"Rafael Lazer" \_\_\_\_\_ Trustee

"Glen Ladouceur" \_\_\_\_\_ Trustee

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Income and Comprehensive Income  
(In thousands of Canadian dollars, except per unit amounts)  
(Unaudited)

|   | Three months ended<br>March 31, |                 |
|---|---------------------------------|-----------------|
|   | 2018                            | 2017            |
| Revenue:  |                                 |                 |
| Rental (note 13)  | \$ 25,083                       | \$ 23,502       |
| Other income  | 620                             | 561             |
|   | <u>25,703</u>                   | <u>24,063</u>   |
| Expenses (income):  |                                 |                 |
| Property operating  | 6,327                           | 6,387           |
| Property taxes  | 12,403                          | 11,532          |
| General and administrative (note 14)  | 1,480                           | 1,656           |
| Deferred income taxes (note 17)   | 1,234                           | 832             |
| Fair value adjustment on:   |                                 |                 |
| Investment properties (note 5)  | (31,822)                        | 952             |
| IFRIC 21 adjustment on investment properties (note 5)                               | (8,570)                         | (7,880)         |
| Investment in limited partnership   | (3)                             | –               |
| Class B LP Units (note 10)  | (349)                           | –               |
| Amortization of other assets  | 141                             | –               |
|   | <u>(19,159)</u>                 | <u>13,479</u>   |
| Income before finance costs   | 44,862                          | 10,584          |
| Finance costs (note 15)   | 4,207                           | 3,635           |
| Net income  | 40,655                          | 6,949           |
| Other comprehensive income (loss):  |                                 |                 |
| Reclassified subsequently to income when specific conditions are met:               |                                 |                 |
| Unrealized gain (loss) on translation of U.S. dollar-denominated foreign operations | 6,668                           | (1,645)         |
| Comprehensive income  | <u>\$ 47,323</u>                | <u>\$ 5,304</u> |

See accompanying notes to condensed consolidated interim financial statements.

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

| Three months ended<br>March 31, 2018       | Amounts of<br>unit capital<br>(note 11) | Accumulated<br>distributions | Net<br>income     | Other<br>comprehensive<br>income | Total             |
|--|---|------------------------------|-------------------|----------------------------------|-------------------|
| Unitholders' equity, January 1, 2018       | \$ 311,317                              | \$ (95,867)                  | \$ 135,234        | \$ 23,241                        | \$ 373,925        |
| Net income                                 | –                                       | –                            | 40,655            | –                                | 40,655            |
| Deferred trust units exercised             | 170                                     | –                            | –                 | –                                | 170               |
| Other comprehensive income                 | –                                       | –                            | –                 | 6,668                            | 6,668             |
| Distributions                              | –                                       | (6,660)                      | –                 | –                                | (6,660)           |
| Distribution reinvestment plan             | 203                                     | –                            | –                 | –                                | 203               |
| <b>Unitholders' equity, March 31, 2018</b> | <b>\$ 311,690</b>                       | <b>\$ (102,527)</b>          | <b>\$ 175,889</b> | <b>\$ 29,909</b>                 | <b>\$ 414,961</b> |

Distributions per unit for the three months ended March 31, 2018 - \$0.202.

| Three months ended<br>March 31, 2017       | Amounts of<br>unit capital<br>(note 11) | Accumulated<br>distributions | Net<br>income    | Other<br>comprehensive<br>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               |
| <b>Unitholders' equity, March 31, 2017</b> | <b>\$ 310,272</b>                       | <b>\$ (76,781)</b>           | <b>\$ 89,540</b> | <b>\$ 38,719</b>                        | <b>\$ 361,750</b> |

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

See accompanying notes to condensed consolidated interim financial statements.

# AGELLAN COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

|  | Three months ended<br>March 31, |                 |
|--|---------------------------------|-----------------|
|  | 2018                            | 2017            |
| <b>Cash flows from (used in) operating activities:</b>             |                                 |                 |
| Net income   | \$ 40,655                       | \$ 6,949        |
| Adjustments for items not involving cash:                          |                                 |                 |
| Fair market value of Class B LP Units                              | (349)                           | –               |
| Straight-line rents adjustment                                     | (53)                            | (453)           |
| Amortization of lease incentive                                    | 878                             | 457             |
| Fair value adjustment on investment properties (note 5)            | (40,392)                        | (6,928)         |
| Fair value adjustment on investment in limited partnership         | (3)                             | –               |
| Finance costs (note 15)  | 4,295                           | 3,532           |
| Deferred income tax liability                                      | 1,234                           | 832             |
| Amortization of other assets                                       | 141                             | –               |
| Change in non-cash operating working capital:                      |                                 |                 |
| Other assets   | 1,578                           | 290             |
| Accounts receivable  | (294)                           | (50)            |
| Tenant rental deposits and prepaid rent                            | (1,699)                         | 1,515           |
| Accounts payable and accrued liabilities                           | (120)                           | 8,056           |
|  | <u>5,871</u>                    | <u>14,200</u>   |
| <b>Cash flows from (used in) financing activities:</b>             |                                 |                 |
| Proceeds from issuance of units (note 11(a))                       | –                               | 52,609          |
| Proceeds from loans payable  | 11,068                          | 26,220          |
| Repayment of loans payable   | –                               | (52,000)        |
| Repayment of mortgage  | –                               | (11,914)        |
| Financing fees paid  | (163)                           | (301)           |
| Principal payments   | (1,672)                         | (1,522)         |
| Interest paid  | (4,459)                         | (4,097)         |
| Distributions paid   | (6,431)                         | (5,547)         |
|  | <u>(1,657)</u>                  | <u>3,448</u>    |
| <b>Cash flows from (used in) investing activities:</b>             |                                 |                 |
| Additions to other assets  | (23)                            | –               |
| Additions to investment properties                                 | (3,260)                         | (14,311)        |
| Change in restricted cash  | (1,849)                         | (940)           |
| Distribution from (investment in) limited partnership              | 47                              | –               |
|  | <u>(5,085)</u>                  | <u>(15,251)</u> |
| <b>Effect of exchange rates</b>                                    | <u>99</u>                       | <u>(542)</u>    |
| <b>Increase (decrease) in cash and cash equivalents</b>            | <u>(772)</u>                    | <u>1,855</u>    |
| <b>Cash and cash equivalents, beginning of period</b>              | <u>9,519</u>                    | <u>7,746</u>    |
| <b>Cash and cash equivalents, end of period</b>                    | <u>\$ 8,747</u>                 | <u>\$ 9,601</u> |
| <b>Supplemental disclosure for non-cash activities:</b>            |                                 |                 |
| Units issued under the distribution reinvestment plan (note 11(b)) | \$ 203                          | \$ 178          |
| Deferred compensation expense (note 12)                            | 55                              | 24              |
| Deferred Unit Incentive Plan liability adjustment (note 12)        | (170)                           | –               |

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, 2018 and 2017  
(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 and November 13, 2017. 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 ("IAS") 34, Interim Financial Reporting. 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, 2017 financial information has been derived from the December 31, 2017 annual audited consolidated financial statements.

# 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, 2018 and 2017  
(Unaudited)

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## 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, 2017, except for the accounting standard implemented in 2018 as described below.

Accounting standards implemented in 2018:

On January 1, 2018, the REIT implemented IFRS 15, Revenue from Contracts with Customers ("IFRS 15") and IFRS 9, Financial Instruments ("IFRS 9"), in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

(a) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

In 2014, the IASB issued IFRS 15, replacing IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations. IFRS 15 contains a single, control-based model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized.

The REIT adopted the standard on January 1, 2018 and applied the requirements of the standard retrospectively. The REIT applied the practical expedient in which contracts that began and were completed within the same annual reporting period before December 31, 2017 or are completed on January 1, 2017 do not require restatements.

The implementation of IFRS 15 did not have a significant impact on the REIT. The REIT has disclosed the disaggregation of revenue from lease and other components, which include recoveries of property tax and insurance and recoveries of property operating in note 13. The REIT has reclassified amounts reported for minimum rent and recoveries in the prior period to confirm to the current periods presentation of revenue.

# 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, 2018 and 2017  
(Unaudited)

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## 2. Significant accounting policies (continued):

### (b) IFRS 9, Financial Instruments ("IFRS 9"):

In 2014, the IASB issued IFRS 9, replacing IAS 39, Financial Instruments - Recognition and Measurement ("IAS 39"), and related interpretations. IFRS 9 contains revised guidance on the classification and measurement of financial assets, including impairment and a new general hedge accounting model.

The REIT adopted the standard on January 1, 2018 and applied the requirements for classification and measurements, including impairment, retrospectively with no restatement of comparative periods. The REIT also applied related amendments to IFRS 7, Financial Instruments - Disclosures ("IFRS 7").

### (i) Classification and measurement:

IFRS 9 contains a new classification and measurement approach which requires financial assets to be classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contain three principal classification categories for financial assets: amortized cost, fair value through other comprehensive income, and fair value through profit and loss ("FVTPL"). Financial liabilities are classified and measured in two categories: amortized costs or FVTPL. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated, but the hybrid financial instrument as a whole is assessed for classification.



# 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, 2018 and 2017  
(Unaudited)

## 2. Significant accounting policies (continued):

The adoption of the new classification requirements under IFRS 9 did not result in a significant change in measurement or the carrying amount of financial assets and liabilities. The following table summarizes the classification impacts upon adoption of IFRS 9:

|  | Classification under IAS 39    | Classification under IFRS 9    |
|--|--------------------------------|--------------------------------|
| Financial assets:                        |                                |                                |
| Accounts receivable                      | Loans and receivables          | Amortized cost                 |
| Cash and cash equivalents                | Loans and receivables          | Amortized cost                 |
| Other receivables                        | Loans and receivables          | Amortized cost                 |
| Investment in limited partnership        | Fair value through profit loss | Fair value through profit loss |
| Financial liabilities:                   |                                |                                |
| Mortgages payable                        | Other liabilities              | Amortized cost                 |
| Loans facility                           | Other liabilities              | Amortized cost                 |
| Tenant rental deposits and prepaid rent  | Other liabilities              | Amortized cost                 |
| Accounts payable and accrued liabilities | Other liabilities              | Amortized cost                 |
| Class B LP Units                         | Fair value through profit loss | Fair value through profit loss |
| Finance costs payable                    | Other liabilities              | Amortized cost                 |
| Derivative instruments                   | Fair value through profit loss | Fair value through profit loss |
| Distributions payable                    | Other liabilities              | Amortized cost                 |

Financial assets are not reclassified subsequent to their initial recognition, unless the REIT identifies changes in its business model in managing financial assets and would reassess the classification of financial assets.

### (ii) Impairment:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model is applied to the REIT's financial assets measured at amortized cost.

# 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, 2018 and 2017  
(Unaudited)

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## 2. Significant accounting policies (continued):

The REIT adopted the practical expedient to determine ECL on account receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL models applied to other financial assets also required judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. The provision matrix and ECL models applied did not have a significant impact on the REIT's financial assets measured at amortized costs.

Impairment losses are recorded in general and administrative expenses in the condensed consolidated interim statements of income and comprehensive income and reduces the carrying amount of the financial asset. In periods subsequent to the impairment where the impairment loss has decreased the previously recognized impairment loss is reversed through the condensed consolidated interim statements of income and comprehensive income. The impairment reversal is limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

### (iii) General hedging:

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management objectives and strategy and forward-looking approach to assessing hedge effectiveness. The REIT does not currently apply hedge accounting.

# 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, 2018 and 2017  
(Unaudited)

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## 2. Significant accounting policies (continued):

### (c) Future accounting standards:

#### Leases ("IFRS 16"):

In January 2016, the IASB issued IFRS 16. The new standard will replace existing lease guidance in IFRS and related interpretations, and requires lessees to bring most leases on-balance sheet. Lessor accounting remains similar to the current standard. However, the REIT is evaluating the identification of lease components and non-lease components in accordance with the new requirements. IFRS 16 is only applicable to lease components and therefore other standards, such as IFRS 15, will apply to non-lease components of contracts. The REIT is evaluating whether this will have a measurement impact. The new standard is effective for years beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

## 3. Acquisitions:

### (a) Business combination:

On November 13, 2017 ("Closing"), the REIT through its subsidiary, Agellan Management Limited Partnership ("Management LP"), acquired all the requisite assets of Nallega Diversified Inc. ("Nallega") (formerly Agellan Capital Partners Inc.) and internalized the REIT's asset management function (the "Acquisition and internalization"). Concurrently with the Acquisition and internalization, all the executives and other employees of Nallega became employees of the REIT or Management LP.

The aggregate consideration to Nallega comprised of: (i) Issuance of 871,080 Class B LP Units, and (ii) Cash consideration of up to \$3,000 payable to Nallega contingent on certain performance hurdles to be met in fiscal years 2018 and 2019. On Closing, the fair value of the Class B LP Units was \$10,122 and fair value of the contingent cash considerations was determined to be nil.

# 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, 2018 and 2017  
(Unaudited)

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### 3. Acquisitions (continued):

The Acquisition and internalization transaction has been recognized as a business combination and transaction costs of \$422 were expensed during 2017. The REIT recognized all identifiable assets acquired which were measured at their respective fair values on Closing as follows:

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|  |                 |
|--|-----------------|
| Nallega management agreements with the REIT          | \$ 8,443        |
| Acquired assets:                                     |                 |
| Intangible assets - third-party management agreement | 1,639           |
| Fixed assets   | 40              |
| <hr/> Total fair value                               | <hr/> \$ 10,122 |
| Fair value of Class B LP Units issued                | \$ 10,122       |
| Contingent cash considerations                       | –               |
| <hr/> Fair value of consideration                    | <hr/> \$ 10,122 |

The portion of purchase price allocated to Nallega's management agreement with the REIT were expensed in general and administrative during 2017.

As at March 31, 2018, the fair value of the contingent cash consideration was determined to be nil (December 31, 2017 - nil).

# 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, 2018 and 2017  
(Unaudited)

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### 3. Acquisitions (continued):

#### (b) Asset acquisitions:

There were no asset acquisitions during the three months ended March 31, 2018.

On April 25, 2017, the REIT acquired a 100% interest in one property located in Flint, Michigan for a total purchase price of \$21,877 (including acquisition costs and closing adjustments of (\$130)). The REIT assumed a net working capital liability of \$60, comprising costs related to deferred revenue of \$60. The transaction has been recognized as an asset acquisition. In consideration, the REIT paid cash. This property was previously managed by the REIT's external manager, Nallega, and certain principals of Nallega had an interest in the property.

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|  |                  |
|--|------------------|
| Investment property (includes acquisition costs and closing adjustments of \$130) <sup>(i)</sup> | \$ 21,877        |
| Working capital assumed, net   | (60)             |
| <b>Net assets acquired</b>   | <b>\$ 21,817</b> |
| Consideration paid   | \$ 21,817        |

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<sup>(i)</sup> IFRIC 21, Levies ("IFRIC 21") adjustment of \$147 related to U.S. property taxes liability assumed on acquisitions is recorded as an offset to investment properties.

On June 27, 2017, the REIT acquired a 100% interest in eight properties located in Chicago Illinois for a total purchase price of \$37,118 (including acquisition costs and closing adjustments of (\$192)). The REIT assumed a net working capital liability of \$925, comprising costs related to tenant rental deposits and prepaid rent of \$196, accounts payable and accrued liabilities of \$345 and deferred revenue of \$384. Consideration was paid in cash using proceeds from obtaining new financing of \$19,782 and the remaining from cash on hand.

# 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, 2018 and 2017  
(Unaudited)

### 3. Acquisitions (continued):

|  |                  |
|--|------------------|
| Investment properties (includes acquisition costs and closing adjustments of \$192) <sup>(i)</sup> | \$ 37,118        |
| Working capital assumed, net   | (925)            |
| <b>Net assets acquired</b>   | <b>\$ 36,193</b> |
| Consideration paid   | \$ 36,193        |

<sup>(i)</sup> IFRIC 21 adjustment of \$404 related to U.S. property taxes liability assumed on acquisitions is recorded as an offset to investment properties.

### 4. Dispositions:

On July 27, 2016, the REIT entered into agreements with certain arm's-length private purchasers to sell the REIT's partnership interest in a limited partnership created by the REIT to own a car dealership and corporate head office pursuant to a lease agreement with the tenant. On September 29, 2017, the REIT disposed of its interest in the limited partnership for a gross sale price of \$42,276, as detailed below:

|   |                  |
|---|------------------|
| Gross sale price  | \$ 42,276        |
| Selling costs (December 31, 2016 - \$52)  | (571)            |
| Other transaction and working capital adjustments   | (1,810)          |
| Other receivable in escrow for construction holdbacks and remaining development work (note 6) | (2,978)          |
| <b>Net proceeds</b>   | <b>\$ 36,917</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, 2018 and 2017  
(Unaudited)

## 5. Investment properties:

|   | March 31,<br>2018 | December 31,<br>2017 |
|---|-------------------|----------------------|
| Balance, beginning of period  | \$ 808,875        | \$ 759,494           |
| Acquisition of investment properties (note 3(b))  | –                 | 58,995               |
| Additions - capital expenditures <sup>(i)</sup>   | 1,671             | 25,528               |
| Additions - leasing costs, net of amortization<br>of lease incentives of \$878<br>(December 31, 2017 - \$2,316) | 711               | 18,821               |
| Straight-line rents adjustment  | 53                | 1,521                |
| Fair value adjustment   | 31,822            | 24,186               |
| IFRIC 21 fair value adjustment  | 8,570             | –                    |
| IFRIC 21 property taxes liability adjustment  | (8,570)           | –                    |
| Disposition of investment properties (note 4) <sup>(ii)</sup>   | –                 | (39,585)             |
| Foreign exchange impact on translation of U.S. operations   | 16,323            | (40,085)             |
| <b>Balance, end of period</b>   | <b>\$ 859,455</b> | <b>\$ 808,875</b>    |

<sup>(i)</sup> Includes interest capitalized on a qualifying development project of nil (December 31, 2017 - \$1,469).

<sup>(ii)</sup> The fair value reflects the gross sale price of \$42,276, net of certain other transaction adjustments and remaining costs on the development of \$2,691 at the date of disposition (note 4).

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 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, 2018 totalled nil (December 31, 2017 - \$395,129).

# 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, 2018 and 2017  
(Unaudited)

## 5. 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, 2018                                  | Canada        | United States  |
|---|---------------|----------------|
| Discount rates - range                          | 5.50% - 7.25% | 7.00% - 12.00% |
| Discount rate - weighted average                | 6.64%         | 8.64%          |
| Terminal capitalization rates - range           | 5.00% - 7.00% | 6.50% - 11.50% |
| Terminal capitalization rate - weighted average | 5.93%         | 7.88%          |

| December 31, 2017                               | Canada | United States  |
|---|--------|----------------|
| Discount rates - range                          | 7.25%  | 7.00% - 12.00% |
| Discount rate - weighted average                | 7.25%  | 8.64%          |
| Terminal capitalization rates - range           | 7.00%  | 6.50% - 11.50% |
| Terminal capitalization rate - weighted average | 7.00%  | 7.88%          |



# 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, 2018 and 2017  
(Unaudited)

## 5. 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 calculated using the discounted cash flow method as set out in the following table:

|  | March 31,<br>2018 | December 31,<br>2017 |
|--|-------------------|----------------------|
| Weighted average discount rate:                |                   |                      |
| 25-basis points increase                       | \$ (15,777)       | \$ (14,222)          |
| 25-basis points decrease                       | 16,152            | 14,558               |
| Weighted average terminal capitalization rate: |                   |                      |
| 25-basis points increase                       | (17,622)          | (14,882)             |
| 25-basis points decrease                       | 18,996            | 15,909               |

## 6. Other assets:

|  | March 31,<br>2018 | December 31,<br>2017 |
|--|-------------------|----------------------|
| Current:   |                   |                      |
| Prepaid expenses                                     | \$ 1,666          | \$ 1,571             |
| Restricted cash                                      | 5,311             | 4,416                |
| Deposits in escrow                                   | 2,019             | 906                  |
| Other receivables in escrow (note 4)                 | 56                | 1,716                |
|  | 9,052             | 8,609                |
| Non-current:   |                   |                      |
| Investment in limited partnership                    | 851               | 871                  |
| Third-party management agreements (note 3(a))        | 1,499             | 1,639                |
| Fixed assets (note 3(a)), net of depreciation of \$4 | 83                | 60                   |
|  | 2,433             | 2,570                |
|  | \$ 11,485         | \$ 11,179            |

# 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, 2018 and 2017  
(Unaudited)

## 6. Other assets (continued):

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.

On April 18, 2017, the REIT acquired a 9% non-controlling interest in a limited partnership that holds a property located in Tampa, Florida for a purchase price of \$859. Consideration was paid in cash. The investment has been recognized as a financial asset at FVTPL and included in other assets. The property is managed by the REIT's external asset manager Nallega.

## 7. Accounts payable and accrued liabilities:

|                             | March 31,<br>2018 | December 31,<br>2017 |
|-----------------------------|-------------------|----------------------|
| Trade payable               | \$ 818            | \$ 1,598             |
| Realty tax payable          | 5,156             | 7,842                |
| Other payables and accruals | 11,310            | 15,468               |
|                             | <u>\$ 17,284</u>  | <u>\$ 24,908</u>     |

## 8. Mortgages payable:

|                                    | March 31,<br>2018 | December 31,<br>2017 |
|------------------------------------|-------------------|----------------------|
| Current:                           |                   |                      |
| Mortgages payable                  | \$ 71,405         | \$ 69,771            |
| Unamortized mark-to-market premium | 905               | 1,109                |
| Unamortized financing fees         | (436)             | (448)                |
|                                    | <u>71,874</u>     | <u>70,432</u>        |
| Non-current:                       |                   |                      |
| Mortgages payable                  | 235,907           | 230,936              |
| Unamortized mark-to-market premium | 139               | 335                  |
| Unamortized financing fees         | (1,204)           | (1,278)              |
|                                    | <u>234,842</u>    | <u>229,993</u>       |
|                                    | <u>\$ 306,716</u> | <u>\$ 300,425</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, 2018 and 2017  
(Unaudited)

## 8. Mortgages payable (continued):

The mortgages payable are secured by charges on 42 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, 2018, the condensed consolidated interim statements of financial position included financing fees of \$3,064 (December 31, 2017 - \$2,996) and accumulated amortization of \$1,424 (December 31, 2017 - \$1,270). The mortgages carry a weighted average interest rate of 4.47% (December 31, 2017 - 4.46%) and mature at various dates between 2018 and 2027.

Included in mortgages payable is one Canadian dollar denominated mortgage of \$1,993 (December 31, 2017 - \$2,011) which is at a variable interest rate. Interest is charged at 250-basis points over the 90-day Canadian Dollar Offered Rate.

Included in mortgages payable are U.S. dollar denominated mortgages of \$305,319 (U.S. \$236,792) (December 31, 2017 - \$298,696 (U.S. \$238,100)). Of these mortgages, \$44,938 (U.S. \$34,852) (December 31, 2017 - \$43,915 (U.S. \$35,005)) have a variable interest rate. The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in interest rates (note 16).

The following table shows the change in mortgages payable:

|  | March 31,<br>2018 | December 31,<br>2017 |
|--|-------------------|----------------------|
| Opening balance, beginning of period   | \$ 300,425        | \$ 310,955           |
| Proceeds from mortgages payable        | –                 | 29,844               |
| Repayments of mortgages payable        | –                 | (11,687)             |
| Principal payments                     | (1,672)           | (6,410)              |
| Financing fees refund                  | 13                | (697)                |
| Amortization of mark-to-market premium | (431)             | (1,726)              |
| Amortization of financing fees         | 117               | 681                  |
| Foreign exchange impact                | 8,264             | (20,535)             |
| <b>Closing balance, end of period</b>  | <b>\$ 306,716</b> | <b>\$ 300,425</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, 2018 and 2017  
(Unaudited)

## 8. Mortgages payable (continued):

Future principal repayments at March 31, 2018 are as follows:

|                                       | Scheduled<br>principal<br>payments | Debt<br>maturing<br>during<br>the period | Total<br>mortgages<br>payable | Scheduled<br>interest<br>payments | Total<br>debt<br>service | Weighted<br>average<br>interest<br>rate of debt<br>maturing |
|---------------------------------------|------------------------------------|--|-------------------------------|-----------------------------------|--------------------------|---|
| 2018                                  | \$ 4,390                           | \$ 65,562                                | \$ 69,952                     | \$ 8,296                          | \$ 78,248                | 5.35%   |
| 2019                                  | 5,569                              | 43,615                                   | 49,184                        | 9,628                             | 58,812                   | 3.97%   |
| 2020                                  | 3,948                              | 41,670                                   | 45,618                        | 6,550                             | 52,168                   | 3.89%   |
| 2021                                  | 3,898                              | —  | 3,898                         | 6,114                             | 10,012                   | —   |
| 2022                                  | 3,325                              | 47,766                                   | 51,091                        | 4,541                             | 55,632                   | 5.31%   |
| Thereafter                            | 4,527                              | 83,042                                   | 87,569                        | 5,315                             | 92,884                   | 3.93%   |
| Face value                            | <u>\$ 25,657</u>                   | <u>\$ 281,655</u>                        | 307,312                       | <u>\$ 40,444</u>                  | <u>\$ 347,756</u>        |   |
| Unamortized<br>mark-to-market premium |                                    |  | 1,044                         |                                   |                          |   |
| Unamortized financing fees            |                                    |  | (1,640)                       |                                   |                          |   |
|                                       |                                    |  | <u>\$ 306,716</u>             |                                   |                          |   |

## 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 the facility was originally \$120,000 and matured on January 25, 2019. On February 28, 2018, The REIT amended the credit facility which increased the maximum amount available to \$140,000 and extended the maturity date to January 25, 2020. 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% and a standby fee rate of 0.50%. As at March 31, 2018, the amount drawn on the facility was \$103,058 (December 31, 2017 - \$91,800). The amount drawn includes \$5,158 (U.S. \$4,000), which have been drawn in U.S. dollar-denominated currency (December 31, 2017 - nil).

The interest rate on \$60,000 drawn on the facility has been economically fixed at 3.42% using an interest rate swap (note 16).

# 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, 2018 and 2017  
(Unaudited)

## 9. Loans facility (continued):

On July 27, 2016, the REIT had secured a non-revolving construction facility, as an addition under the original agreement, secured by charges on one Canadian property. The maximum amount available to the REIT under this construction facility was \$48,000 and the facility was set to mature at the earlier of January 25, 2018 or the closing of the sale transaction. The facility bears interest at bankers' acceptance plus 2.00% or prime plus 1.00%. On September 29, 2017, the outstanding balance of the construction facility of \$32,005 was repaid and extinguished on closing of the sale transaction (note 4).

Financing fees of \$1,736 (December 31, 2017 - \$1,560) were incurred to obtain the revolving credit facility and are being amortized over the remaining term. As at March 31, 2018, the unamortized financing fees totalled \$355 (December 31, 2017 - \$206). The financing related to the construction facility was fully amortized.

The following table shows the change in loans facility:

|                                      | March 31,<br>2018 | December 31,<br>2017 |
|--------------------------------------|-------------------|----------------------|
| Opening balance, beginning of period | \$ 91,594         | \$ 103,037           |
| Proceeds from loans facility         | 11,068            | 91,825               |
| Repayment of loan facility           | –                 | (102,489)            |
| Financing fees paid                  | (176)             | (303)                |
| Amortization of financing fees       | 27                | 431                  |
| Foreign exchange impact              | 190               | (907)                |
| Closing balance, end of period       | \$ 102,703        | \$ 91,594            |

# 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, 2018 and 2017  
(Unaudited)

## 10. Class B LP Units:

|                                      | 2018           |                  | 2017     |             |
|--------------------------------------|----------------|------------------|----------|-------------|
|                                      | Units          | Amount           | Units    | Amount      |
| Class B LP Units, January 1          | 871,080        | \$ 10,401        | –        | \$ –        |
| Fair value adjustment                | –              | (349)            | –        | –           |
| <b>Class B LP Units, December 31</b> | <b>871,080</b> | <b>\$ 10,052</b> | <b>–</b> | <b>\$ –</b> |

On November 13, 2017, the REIT's subsidiary, Management LP, issued 871,080 Class B LP Units for a total fair value of \$10,122, equal to \$11.62 per unit, the price of the Units on closing of the Acquisition and internalization transaction (note 3(a)).

The Management LP is authorized to issue unlimited number of Class B LP Units. Each Class B LP Units issued is accompanied by a Special Voting Unit issued by the REIT which entitles the holder of record to one vote at meetings of the Unitholders of the REIT. The Class B LP Units are economically equivalent on a one-to-one basis to Units, receive distributions equal to the distributions paid on the Units, and are exchangeable, at the holder's option, to Units.

## 11. Unitholders' equity:

|  | 2018              |                   | 2017              |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | Units             | Amount            | Units             | Amount            |
| Unit capital, January 1  | 32,863,428        | \$ 311,317        | 27,947,350        | \$ 257,485        |
| Additional shares issued under the Distribution Reinvestment Plan ("DRIP") program | 17,629            | 203               | 15,700            | 178               |
| Units issued, net of issuance costs of \$2,431 in 2017                             | –                 | –                 | 4,807,000         | 52,609            |
| Deferred trust units exercised   | 19,566            | 170               | –                 | –                 |
| <b>Unit capital, March 31</b>  | <b>32,900,623</b> | <b>\$ 311,690</b> | <b>32,770,050</b> | <b>\$ 310,272</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, 2018 and 2017  
(Unaudited)

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## 11. Unitholders' equity (continued):

### (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 \$2,449, have been charged directly to unitholders' equity.

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) Distribution Reinvestment Plan ("DRIP"):

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. Unitholders can elect to reinvest cash distributions into Units of the REIT.

For the three months ended March 31, 2018, the REIT issued 17,629 (2017 - 15,700) Units under the DRIP for a stated value of \$11.49 (2017 - \$11.31) per Unit.

Unitholders can elect to reinvest cash distributions of the REIT.

# 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, 2018 and 2017  
(Unaudited)

## 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, 2018, 2,974 (2017 - 4,074) 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<br>March 31, |               |
|------------------------------------|---------------------------------|---------------|
|                                    | 2018                            | 2017          |
| Balance, January 1                 | 27,329                          | 17,966        |
| DTUs granted for services rendered | 2,974                           | 4,074         |
| DTUs granted through distributions | 229                             | 294           |
| DTUs exercised                     | (19,566)                        | –             |
| <b>Balance, March 31</b>           | <b>10,966</b>                   | <b>22,334</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, 2018 and 2017  
(Unaudited)

## 12. Deferred Unit Incentive Plan (continued):

The movement of the DUIP liability was as follows:

|                           | Three months ended<br>March 31, |               |
|---------------------------|---------------------------------|---------------|
|                           | 2018                            | 2017          |
| Balance, January 1        | \$ 280                          | \$ 178        |
| Compensation expense      | 55                              | 24            |
| DUIP liability adjustment | (170)                           | –             |
| <b>Balance, March 31</b>  | <b>\$ 165</b>                   | <b>\$ 202</b> |

Total compensation expense recognized for the three months ended March 31, 2018 is \$93 (2017 - \$24). These amounts are recognized in accounts payable and accrued liabilities and general and administrative expenses.

## 13. Rental revenue:

|  | Three months ended<br>March 31, |                  |
|--|---------------------------------|------------------|
|  | 2018                            | 2017             |
| Minimum base rent                          | \$ 15,062                       | \$ 14,622        |
| Recoveries of property operating expenses  | 6,666                           | 6,117            |
| Recoveries of property taxes and insurance | 3,355                           | 2,763            |
| <b>Rental</b>                              | <b>\$ 25,083</b>                | <b>\$ 23,502</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, 2018 and 2017  
(Unaudited)

## 14. General and administrative expenses:

|                                   | Three months ended<br>March 31, |                 |
|-----------------------------------|---------------------------------|-----------------|
|                                   | 2018                            | 2017            |
| Asset management fee (note 21(b)) | \$ –                            | \$ 801          |
| Incentive fee (note 21(c))        | –                               | 100             |
| Salaries and benefits             | 712                             | –               |
| Director fees                     | 96                              | 50              |
| Corporate tax                     | 42                              | 83              |
| Others expenses                   | 630                             | 622             |
|                                   | <u>\$ 1,480</u>                 | <u>\$ 1,656</u> |

## 15. Finance costs:

|  | Three months ended<br>March 31, |                 |
|--|---------------------------------|-----------------|
|  | 2018                            | 2017            |
| Interest:  |                                 |                 |
| Loan facility  | \$ 924                          | \$ 840          |
| Mortgages payable  | 3,376                           | 3,371           |
| Amortization of financing fees   | 144                             | 479             |
| Amortization of mark-to-market premium   | (431)                           | (392)           |
| Unrealized loss (gain) on derivative instrument -<br>interest rate swap              | (375)                           | (114)           |
| Unrealized loss (gain) on derivative instrument -<br>foreign currency exchange hedge | 481                             | (306)           |
| Distributions on Class B LP Units  | 176                             | –               |
| Capitalized interest   | –                               | (346)           |
|  | <u>4,295</u>                    | <u>3,532</u>    |
| Realized loss (gain) on foreign currency<br>exchange hedge                           | (88)                            | 103             |
|  | <u>\$ 4,207</u>                 | <u>\$ 3,635</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, 2018 and 2017  
(Unaudited)

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## 16. 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, 2018 as outlined in note 9. The valuation of this interest rate swap contract was computed using Level 2 inputs, as outlined in note 23.

The REIT has entered into swap agreements to fix mortgages payable of U.S. \$7,557 at 3.95%, U.S. \$19,193 at 3.99%. U.S. \$5,813 at 3.935% and U.S. \$2,289 at 3.95% for terms maturing in 2019.

The REIT recognized an unrealized gain of \$375 (2017 - unrealized gain of \$114) for the three months ended March 31, 2018, which has been recorded as finance costs.

The fair value of interest rate swap investments outstanding as at March 31, 2018 is an asset of \$680 (December 31, 2017 - liability of \$293).

- (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 23.

The total notional value of the forward contracts outstanding as at March 31, 2018 is U.S. \$12,063 (December 31, 2017 - U.S. \$12,587) and has a weighted average forward exchange rate of Cdn. \$1.28 (December 31, 2017 - Cdn. \$1.29) per United States dollar. The contracts have terms maturing in 2019.

The REIT recognized an unrealized loss of \$481 (2017 - unrealized gain of \$306) for the three months ended March 31, 2018, which has been recorded as finance costs.

# 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, 2018 and 2017  
(Unaudited)

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## 16. Derivative instruments (continued):

The REIT recognized a gain on the settlement of foreign currency forward contracts of \$88 (2017 - loss of \$103) for the three months ended March 31, 2018, which has been recorded as finance costs.

The fair value of the foreign currency forward lock instruments as at March 31, 2018 is an asset of \$33 (December 31, 2017 - asset of \$514).

## 17. 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 \$1,234 (2017 - \$832) for the three months ended March 31, 2018, 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 24% (2017 - 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 \$556 (2017 - \$181) for the three months ended March 31, 2018 is recorded in other comprehensive income (loss).

During the three months ended March 31, 2018, \$42 (2017 - \$44), 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, 2018, \$59 (2017 - \$42), 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, 2018, nil (2017 - (\$48)), of U.S. state franchise taxes (recoveries) incurred by the U.S. subsidiaries has been recorded in 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, 2018 and 2017  
(Unaudited)

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## 17. Income taxes (continued):

During the three months ended March 31, 2018, nil (2017 - \$87) of U.S. alternative minimum recoveries (taxes) incurred by the U.S. subsidiaries has been recorded in general and administrative expenses.

On December 22, 2017, new U.S. tax legislation was enacted, commonly referred to as the Tax Cuts and Jobs Act of 2017 ("U.S. Tax Reform"). This legislation is broad and complex and introduces multiple changes to the U.S. tax code, including, but not limited to, (i) reducing the U.S. federal corporate tax rate from 35% to 21%; (ii) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (iii) creating a new limitation on deductible interest expense (new Code section 163(j)); (iv) changing rules related to uses and limitations of net operating loss carryforwards created in tax year beginning after December 31, 2017; and (v) creating the base erosion anti-abuse, a new minimum tax.

## 18. 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.

# 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, 2018 and 2017  
(Unaudited)

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## 18. Capital management (continued):

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, 2018.

## 19. 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,<br>2018 | December 31,<br>2017 |
|---------------|-------------------|----------------------|
| Canada        | \$ 257,780        | \$ 224,333           |
| United States | 604,108           | 587,112              |
|               | <u>\$ 861,888</u> | <u>\$ 811,445</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, 2018 and 2017  
(Unaudited)

## 19. Segmented disclosure (continued):

(b) Revenue:

|               | Three months ended<br>March 31, |                  |
|---------------|---------------------------------|------------------|
|               | 2018                            | 2017             |
| Canada        | \$ 7,412                        | \$ 6,797         |
| United States | 18,291                          | 17,266           |
|               | <u>\$ 25,703</u>                | <u>\$ 24,063</u> |

The REIT has two tenants in its portfolio that account for 9.78% and 8.07% (2017 - 10.24% and 10.18%) of its total revenue. The tenants' leases will expire in 2020 and 2023, respectively.

## 20. 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.;
- Agellan Management Limited Partnership;
- Norcross Springs LP;
- Norcross Springs GP LLC;
- 6100 McIntosh LP;
- 6100 McIntosh GP LLC;
- 6100 McIntosh Vacant LP;
- Continental Drive LP;
- ACR US GP LLC;
- 1820 Massaro Boulevard LP; and
- Chicago Industrial Properties 1 LP.

# 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, 2018 and 2017  
(Unaudited)

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## 21. Transactions with related parties:

Prior to Acquisition and internalization, related parties included Nallega and its principals, who are related due to their ownership of Units, as well as due to certain common ownership interests in Nallega and the REIT. The REIT entered into an agreement with Nallega to internalize its asset management function and issued Class B LP Units as part of the consideration (note 3(a)). The below related party transactions with Nallega are reflected up to the period of Acquisition and internalization on November 13, 2017.

Related parties also include Elad Canada Inc. ("ELAD") and Sandpiper Group Inc. ("Sandpiper") due to their ownership interest in the REIT and in their capacity as Trustees of the REIT.

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

- (a) On November 13, 2017, the REIT entered into a strategic settlement agreement with ELAD and Sandpiper relating to the proxy contest, and as part of the agreement, Sandpiper withdrew its previously announced Unitholder meeting requisition. The REIT agreed to reimburse expenses incurred by ELAD of \$1,885 and Sandpiper of \$1,102 and these amounts were recorded in general and administrative expenses in the second half of 2017.
- (b) The REIT had engaged Nallega 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 Nallega. The costs of these services, aggregating nil (2017 - \$801) were charged to general and administrative expenses.
- (c) An amount of nil (2017 - \$100) has been accrued for the three months ended March 31, 2018 relating to incentive fee payable to Nallega.
- (d) The REIT previously engaged Nallega or its related parties to perform property management services for fees as defined in the property management agreements. The costs of property management services incurred by Nallega or its related parties, aggregating nil (2017 - \$143), were charged to property operating 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, 2018 and 2017  
(Unaudited)

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## 21. Transactions with related parties (continued):

- (e) Included in accounts payable and accrued liabilities is nil (December 31, 2017 - \$112) payable to Nallega for asset management fees, \$622 (December 31, 2017 - \$622) payable for incentive fees, and \$63 (December 31, 2017 - \$23) payable to Nallega or its related entities for Class B Units interest and general and administrative expenses.

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:

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|                       | Three months ended<br>March 31, |       |
|-----------------------|---------------------------------|-------|
|                       | 2018                            | 2017  |
| Trustee fees          | \$ 95                           | \$ 50 |
| Salaries and benefits | 712                             | –     |

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## 22. Commitments and contingencies:

- (a) The REIT has entered into a long-term lease agreement with a tenant in 2014, whereby the REIT was obligated to construct a built-to-suit automobile dealership and office space on existing lands at the REIT's Consumers Road complex in Toronto, Ontario. The REIT is required to complete certain remaining development work in accordance with the lease agreement and terms of closing of the sale transaction (note 4).

As at March 31, 2018, the REIT has two outstanding letters of credit totalling \$4,800 (December 31, 2017 - \$4,800) relating to the site development.

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

# 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, 2018 and 2017  
(Unaudited)

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## 22. Commitments and contingencies (continued):

- (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.

## 23. 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 5.

# 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, 2018 and 2017  
(Unaudited)

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## **23. 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, 2018 is \$305,585 (December 31, 2017 - \$300,512). The loans payable balance, bearing interest at variable interest rates, approximates its fair value.

The fair value of the Class B LP Units and DUIP liability is determined based on the unit price at each reporting period (Level 1). The fair value of the investment in limited partnership was determined by using the discounted cash flow method (Level 3).

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.

# 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, 2018 and 2017  
(Unaudited)

## 23. Fair value measurement (continued):

The table below presents the REIT's assets and liabilities recognized at fair value as at March 31, 2018:

|                                   | Level 1   | Level 2 | Level 3    | Total      |
|-----------------------------------|-----------|---------|------------|------------|
| <b>Assets:</b>                    |           |         |            |            |
| Investment properties             | \$ –      | \$ –    | \$ 859,455 | \$ 859,455 |
| Investment in limited partnership | –         | –       | 851        | 851        |
| Derivative instruments            | –         | 713     | –          | 713        |
|                                   | \$ –      | \$ 713  | \$ 860,306 | \$ 861,019 |
| <b>Liabilities:</b>               |           |         |            |            |
| DUIP liability                    | \$ 165    | \$ –    | \$ –       | \$ 165     |
| Class B LP Units                  | 10,052    | –       | –          | 10,052     |
|                                   | \$ 10,217 | \$ –    | \$ –       | \$ 10,217  |

The table below presents the REIT's assets and liabilities recognized at fair value as at December 31, 2017:

|                                   | Level 1   | Level 2 | Level 3    | Total      |
|-----------------------------------|-----------|---------|------------|------------|
| <b>Assets:</b>                    |           |         |            |            |
| Investment properties             | \$ –      | \$ –    | \$ 808,875 | \$ 808,875 |
| Investment in limited partnership | –         | –       | 871        | 871        |
| Derivative instruments            | –         | 807     | –          | 807        |
|                                   | \$ –      | \$ 807  | \$ 809,746 | \$ 810,553 |
| <b>Liabilities:</b>               |           |         |            |            |
| DUIP liability                    | \$ 280    | \$ –    | \$ –       | \$ 280     |
| Class B LP Units                  | 10,401    | –       | –          | 10,401     |
|                                   | \$ 10,681 | \$ –    | \$ –       | \$ 10,681  |

# 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, 2018 and 2017  
(Unaudited)

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## **24. Subsequent events:**

The REIT declared distributions of \$0.0675 per unit on April 18, 2018 to unitholders of record as at April 30 2018.

On April 30, 2018, the REIT acquired seven light industrial properties located in northeast Dallas, Texas. The acquisition price was approximately U.S. \$12,200 (before closing costs).

The REIT entered into a purchase and sale agreement to dispose of its Consumers Road office complex located in Toronto, Ontario. The purchaser waived the due diligence conditions on May 4, 2018 and the closing is subject to customary conditions. The sale price is approximately \$256,300 (excluding closing costs) and is subject to certain adjustments in respect of, among other things, certain committed leasing costs. In addition, in conjunction with the sale of the asset, the REIT has agreed to enter into a two-year vendor head lease with the purchaser in respect of certain vacant retail space in the investment properties complex. The REIT's financial obligation under the vendor head lease is approximately \$2,800.