NORTHWEST HEALTHCARE PROPERTIES
REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION
FOR THE THREE MONTHS ENDED
MARCH 31, 2011

May 12, 2011

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CEO's Message

May 12, 2010

The first quarter of 2011 saw the continuance of the positive momentum in the Canadian economy and the commercial real estate market that occurred throughout the second half of 2010. Within the commercial real estate market, investment volumes continued to increase, the debt market remained robust and market fundamentals such as space absorption and rental rates remained steady, if not improving, in most markets. Our REIT had a solid first quarter as we embarked on executing on our two key strategies for the year – improving cash flow from our existing portfolio, primarily through improving occupancy, and growing our business through acquisitions in order to further our market-leading position as the dominant Healthcare Real Estate owner in Canada. Both initiatives are expected to produce steadily increasing funds per unit throughout 2011.

Operations

The operating results for the first quarter were generally in line with our expectations once the negative impact of the cash on hand at the beginning of the quarter from the October, 2010 equity raise and the impact from the March, 2011 equity raise are considered, together with the additional costs associated with the IFRS conversion and the previously reported departure of Networc Health in Calgary taking effect during the quarter. FFO per unit for the quarter was $0.21, and AFFO per unit was $0.18.

Occupancy at the end of the first quarter was 91.9%, an increase from the previous quarter. Occupancy would have been 92.2% if not for departure of Networc Health. Approximately half of the former Networc space has now been re-leased and is occupied by a replacement tenant, and another significant portion of the space is under conditional offer to lease for projected occupancy later in 2011.

Same property net operating income was slightly negative from first quarter 2010, down 1% on a portfolio basis. All regions experienced positive growth of between 1% and 4% except Western Canada, which experienced a 4% decline due primarily from the departure of Networc Health. Without that impact there would have been a 1% increase in the portfolio's same property net operating income compared to the prior year.

During the quarter the REIT achieved 30% of its annual budget of new leasing, and 46% of its budgeted renewals for the year. Both new and renewal rents were in line with expectations.

Acquisitions

Building on our acquisition successes of 2010, to date in 2011 we have closed or announced approximately $200 million of transactions, including two large complexes representing strategic holdings in two of our core markets – Dundas-Edward Centre, a 410,000 square foot, two-building project in downtown Toronto, and Hys Centre, the dominant medical office building in the Edmonton market containing 147,000 square feet of healthcare space. Subsequent to quarter-end we closed on the Malvern Medical Arts Building, a 41,000 square foot medical office building in east Toronto and announced the pending acquisition of Tawa Centre, a 94,500 square foot, multi-tenant medical office building located in Edmonton.

In addition to these recent acquisitions our pipeline continues to be active and we are confident of being able to announce additional acquisitions in the coming quarters.

Liquidity

This year we have taken several steps to enhance the REIT's liquidity, primarily in order to support our recent, and projected, acquisition activity. In March, 2011 the REIT completed a follow-on equity offering of 7,360,000 trust units, including the over-allotment option which was fully exercised, at a price of $11.75 per unit, resulting in net proceeds of approximately $82 million. This resulted in our debt to gross book value declining to 48% at March 31, 2011.

During the quarter we were also active on financings, securing a new long term mortgage for Dundas-Edward Centre, which funded subsequent to the quarter, renewing our credit facility for a two-year term at a reduced interest rate and refinancing 2924 Taschereau Boulevard with a long term mortgage.

Subsequent to quarter end we renewed the first mortgage financing for Glenmore Professional Centre, the REIT's only mortgage expiry in 2011, at a reduced interest rate. We also repaid the interim bridge facility that had been put in place to fund the acquisition of Dundas-Edward Centre and Hys Centre, and repaid the outstanding amount on our secured credit facility. We also have three quality assets (Hys Centre, Malvern Medical Arts and Alexander Medical Centre), representing approximately $80 million in value, remaining unencumbered, and our credit facility is now undrawn.

Although this increased liquidity positions the REIT for significant future growth, it has a short term negative impact on results until such time as the funds are invested to provide income growth per unit. Based on the extent of our acquisition pipeline we are confident of this outcome within the next few quarters.

Outlook

Our focus for the remainder of 2011 will be to consistently increase funds from operations on a per unit basis through increasing income from existing properties, primarily from increased occupancy, as well as through continued acquisitions activity which will allow us to deploy our cash, reduce our payout ratio and further our position as Canada's healthcare landlord.

Sincerely,

(signed) Peter Riggin
Chief Executive Officer

This Management's Discussion and Analysis ("MD&A") sets out NorthWest Healthcare Properties Real Estate Investment Trust's (the "REIT") operating strategies, risk profile considerations, business outlook and analysis of its financial performance and financial condition for the three months ended March 31, 2011.

This MD&A is based on the REIT's condensed consolidated interim financial statements for the three months ended March 31, 2011, prepared for the first time in accordance with International Financial Reporting Standards ("IFRS"). All amounts are in Canadian dollars, except where otherwise stated. Per Unit amounts are presented on a diluted basis, except where otherwise stated.

Amounts previously reported in 2010 under Canadian generally accepted accounting principles ("Canadian GAAP") have been restated to IFRS. An explanation of the impact of IFRS is described under Part VII – International Financial Reporting Standards. Note 23 of the condensed consolidated interim financial statements for the three months ended March 31, 2011 also reconciles amounts previously reported under Canadian GAAP to IFRS.

This MD&A should be read in conjunction with the REIT's condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2011, prepared in accordance with IFRS. This MD&A should also be read in conjunction with the REIT's consolidated financial statements for the period from March 25, 2010 to December 31, 2010, prepared in accordance with Canadian GAAP. Additional information about the REIT, including the REIT's annual information form dated March 16, 2011 (the "Annual Information Form"), can be found on SEDAR at www.sedar.com.

PART I

FORWARD-LOOKING INFORMATION

Certain statements in this MD&A may constitute "forward-looking statements" under applicable Canadian securities law. When used in this MD&A, words including, but not limited to, ''plans'', ''expects'', ''scheduled'', ''estimates'', ''intends'', ''anticipates'', "predicts", ''projects'', ''believes'' or variations of such words and phrases or statements to the effect that certain actions, events or results ''may'', ''will'', ''could'', ''would'', "should", ''might'', ''occur'', ''be achieved'' or ''continue'' and similar expressions identify forward-looking statements.

Forward-looking statements reflect management's expectations regarding objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities of the REIT and are necessarily based on a number of estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies which could cause actual results to differ materially from those that are disclosed in such forward-looking statements. While considered reasonable by management of the REIT, any of these assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions could be incorrect. The REIT's estimates, beliefs and assumptions, which may prove to be incorrect, include the various assumptions set forth herein, including, but not limited to, the REIT's future growth potential, results of operations, future prospects and opportunities, the demographic and industry trends remaining unchanged, future levels of indebtedness, the tax laws as currently in effect remaining unchanged, and the current economic conditions remaining unchanged. When relying on forward-looking statements to make decisions, the REIT cautions readers not to place undue reliance on these statements, as forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to those presented in Part VIII in this MD&A and in the Annual Information Form.

These forward-looking statements are made as of the date of this MD&A. Except as expressly required by applicable law, the REIT assumes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All forward-looking statements in this MD&A are qualified by these cautionary statements.

NON-IFRS FINANCIAL MEASURES

Certain terms used such as "**Funds from Operations" ("FFO"), "Adjusted Funds from Operations" ("AFFO"), "Net Operating Income" ("NOI"), "Gross Book Value" ("GBV"), "Payout Ratio", "Interest Coverage" and any related per Unit amounts** used by management to measure, compare and explain the operating results and financial performance of the REIT are not recognized terms under IFRS, and therefore should not be construed as alternatives to net income or cash flow from operating activities calculated in accordance with IFRS. Management believes that these terms are relevant measures in comparing the REIT's performance to industry data and the REIT's ability to earn and distribute cash returns to holders of the REIT's Units. These terms are defined in this MD&A and reconciled to the condensed consolidated interim financial statements of the REIT for the three months ended March 31, 2011. Such terms do not have a standardized meaning prescribed by IFRS and may not be comparable to similarly titled measures presented by other publicly traded entities.

PART II

BUSINESS OVERVIEW AND STRATEGIC DIRECTION

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to the Declaration of Trust dated January 1, 2010 and as amended on March 25, 2010, under the laws of the Province of Ontario (the "Declaration of Trust"). The REIT completed its initial public offering ("IPO") on March 25, 2010. The REIT's units (the "Units") are listed and publicly traded on the Toronto Stock Exchange (TSX) under the symbol NWH.UN.

The REIT is the largest non-government owner of medical office buildings and healthcare focused real estate (collectively, ''Healthcare Real Estate'') in Canada, and is focused on leasing space to doctors, dentists, other medical professionals and related healthcare service providers such as pharmacies, laboratories and diagnostic imaging clinics. The REIT employs a full service, fully integrated national management platform with regional offices in four core markets of Calgary, Toronto, Montreal and Halifax.

Management believes that Healthcare Real Estate represents a growing yet defensive market position, owing to necessity-based tenancies that are not typically impacted by recessions or economic slowdowns. The REIT and its property portfolio are well positioned to benefit from strong demographic and industry trends, such as a growing and aging population, increased demand for and funding of healthcare, and a shift of administration, diagnostic services and other non-acute services out of hospitals and into nearby Healthcare Real Estate owing to space shortages, pressure for cost savings and a desire by the hospitals to focus their activities on acute care.

The objectives of the REIT are to: (i) provide unitholders with stable and growing cash distributions from investments focused on Healthcare Real Estate primarily in Canada, on a tax efficient basis; (ii) enhance the value of the REIT's assets and maximize long-term Unit value through active management; and (iii) expand the asset base of the REIT and increase the REIT's AFFO per Unit, including through accretive acquisitions.

DECLARATION OF TRUST

The investment guidelines of the REIT are outlined in the REIT's Declaration of Trust, a copy of which is filed on SEDAR and is also available on request to all unitholders. Further information regarding the Declaration of Trust can also be located starting on page 54 of the REIT's Annual Information Form. Some of the main investment guidelines and operating policies in the Declaration of Trust include the following:

Investment Guidelines

1. Acquire and operate income-producing commercial real estate located primarily in Canada;
2. Investments in joint ventures regarding real estate permitted; and
3. Investments in mortgages and mortgage bonds regarding real estate permitted.

Operating Policies

1. Maximum portfolio debt capacity not to exceed 65% of Gross Book Value;
2. No guaranteeing of third-party debt outside its existing structure and potential joint venture partner structures, except under certain specific conditions and meeting certain defined criteria;
3. Limitations meeting certain defined criteria restricting leasing to non – institutional tenants; and
4. Environmental third party surveys are required prior to the acquisition of any property.

At March 31, 2011, the REIT was in material compliance with all investment guidelines and operating policies stipulated in the Declaration of Trust.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	As at March 31, 2011	As at December 31, 2010
Operational information	(Unaudited)	(Unaudited)
Number of properties	52	50
Gross Leasable Area ("GLA")	3,668,132	3,065,815
Occupancy % (1)	91.9%	91.5%
Average lease term to maturity	4.3 years	4.4 years
Weighted average in place net rental rate (psf)	$15.41	$15.37
Summary of Financial information	(Unaudited)	(Unaudited)
Gross Book Value	$873,823,031	$736,626,230
Debt (2)	$417,544,755	$372,051,861
Debt to Gross Book Value (3)	47.8%	50.5%
Weighted average mortgage interest rate (4)	5.54%	5.54%
Adjusted units outstanding – period-end (5):		
Basic	42,672,081	35,266,537
Diluted	42,726,548	35,277,343

	For the 3 months ended March 31, 2011
Summary of Financial information	(Unaudited)
Revenue	$27,101,727
NOI (6)	$14,651,487
FFO (6)	$7,898,547
FFO per unit (Adjusted fully diluted) (7)	$0.21
AFFO (6)	$6,578,658
AFFO per unit (Adjusted fully diluted) (7)	$0.18
Distributions per unit	$0.20
AFFO Payout ratio	113%
Interest coverage (8)	2.33x
Adjusted weighted average units outstanding for the period (5):	
Basic	37,111,118
Diluted	37,126,316

Notes:

(1) As at March 31, 2011
(2) Debt is presented net of a Mark to Market premium of $2,077,270 and unamortized financing costs of $247,112.
(3) Defined as total debt excluding Class B exchangeable units, divided by total assets
(4) Current market weighted average mortgage interest rate = approximately 4.8%
(5) Under IFRS the REIT's Class B exchangeable units are treated as a financial liability rather than equity. As is permitted under IFRS the REIT has chosen to present an adjusted basic and diluted earnings per unit measure that includes the Class B exchangeable units in basic and diluted units outstanding/weighted average units outstanding. As a result the adjusted basic and diluted adjusted units outstanding and the adjusted basic and diluted weighted average units outstanding include 7,680,746 outstanding Class B exchangeable units.
(6) NOI, FFO and AFFO are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. NOI, FFO and AFFO as computed by the REIT may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to NOI, FFO and AFFO as reported by other such issuers. These terms are defined in this MD&A and reconciled to the condensed consolidated interim financial statements of the REIT.
(7) FFO and AFFO per unit amounts based on fully diluted adjusted weighted average number of units, which includes Class B exchangeable units, for the three months ended March 31, 2011. AFFO amounts calculated utilizing a stabilized reserve for growth capital expenditures, leasing costs and tenant improvements of 4.5% of revenue from investment properties (reduced from 6% in prior quarters to reflect that under IFRS certain costs which previously were capitalized are now being expensed).
(8) Defined as net income before fair value adjustment of investment properties plus finance costs divided by finance costs excluding amounts related to Class B exchangeable units.

SUMMARY OF SIGNIFICANT EVENTS

- The three month period ended March 31, 2011 is the first period that the REIT has reported under IFRS. An explanation of the impact of IFRS is described under Part VII – International Financial Reporting Standards and throughout the MD&A. For the REIT, significant accounting differences arising from the adoption of IFRS include (a) the valuation of investment properties at fair value (during the quarter the REIT recognized a modest increase in value), (b) the re-classification of the REIT's Class B LP Units as a liability rather than equity (notwithstanding that the characteristics of such Units remain exactly as before), and (c) the expensing of certain leasing costs which were previously capitalized (accordingly, the REIT has reduced its stabilized leasing cost reserve estimate by a corresponding amount).
- AFFO per unit for the quarter of $0.18 was unfavourable by $0.02, against the 7 day pro-rated actual results for the prior year quarter of $0.20. This was primarily as a result of delays in deploying $46 million of cash on hand at the beginning of the quarter and the March 2011 follow-on equity issuance. In addition the 2010 pro-rated actual results do not reflect the impact of the exercise of the over-allotment option following the REIT's IPO.
- Occupancy improved to 91.9% at March 31, 2011 from 91.5% at December 31, 2010 as the REIT continues to make progress improving occupancy.
- The REIT extended (until March 25, 2013) and improved its Revolving Credit Facility. The Revolving Credit Facility now bears interest at a rate equal to the bank's prime rate plus 175 basis points (previously plus 250 basis points) or Bankers' Acceptances plus 275 basis points (previously plus 350 basis points).
- On January 25, 2011, the REIT completed the acquisition of the prominent medical and professional office complex known as The Dundas-Edward Centre, in Toronto, Ontario for $103 million. The acquisition was funded by a combination of cash on hand and an Interim Bridge Facility. Located in the Discovery District of downtown Toronto, one block from University Avenue, The Dundas-Edward Centre is a 410,000 square foot two-tower office complex with an eight-level parking facility. The complex is located in close proximity to several hospitals including SickKids, Princess Margaret, Toronto General, and Mount Sinai. The complex is currently 97% leased to primarily medical, professional and government tenancies including the following healthcare tenants: SickKids, Medisys Diagnostic Imaging, a pharmacy, labs, clinics and numerous specialist physicians and general practitioners. The balance of the tenancy is comprised of tenants who value the close proximity to the Provincial Legislature (Queen's Park), the Provincial Courts, Toronto City Hall and the City's financial core.
- On February 1, 2011, the REIT completed the acquisition of Hys Centre, the premiere medical office complex in Edmonton, Alberta. Hys Centre is strategically located on and connected by pedway access to the Royal Alexandra Hospital campus. Hys Centre is a Class "A" medical office complex composed of a 147,000 square foot medical office building, 50 residential apartments and a 384-stall pay parking facility. It has a long history of low vacancy, strong tenant retention, and the provision of integrated healthcare services to the community. The REIT acquired Hys Centre for a price of $53 million. The acquisition was funded by a combination of cash on hand and debt, the Interim Bridge Facility, and a draw on the Revolving Credit Facility.
- During the quarter the REIT raised net proceeds of $82.4 million from the March 2011 follow-on equity offering of 7,360,000 trust units (including over-allotment option) at a price of $11.75 per unit. The net proceeds of the equity offering were utilized to pay down the Interim Bridge Facility.
- During the quarter the REIT refinanced the mortgage at 2924 Taschereau Boulevard with a $4.3 million, 10 year fixed rate mortgage at 5.10%.
- The REIT paid distributions of $0.06667 per unit on January 17, 2011, February 15, 2011 and March 15, 2011 consistent with its annualized target of $0.80 cents per unit.

- Subsequent to the quarter on April 1, 2011 the REIT acquired the Malvern Medical Arts Building for $16.75 million. The Malvern Medical Arts Building is a Class “A” office complex located at 1333 Neilson Road, in the former city of Scarborough portion of Toronto, approximately 3.7 kilometres from the Rouge Valley Centenary Hospital. The property consists of a 40,974 square foot medical office building and is currently 99% occupied.
- Subsequent to the quarter the REIT closed a $65 million 10 year fixed rate mortgage financing at 5.11% on the Dundas-Edward Centre. From such loan proceeds, $15 million was used to repay in full the Interim Bridge Facility, with the balance available for acquisitions and general trust purposes.
- Subsequent to the quarter the REIT agreed to acquire Tawa Centre, a 94,500 square foot medical office complex immediately adjacent to one of Edmonton’s primary hospitals. The purchase price is approximately $25.9 million and acquisition is expected to close in the second quarter.
- Subsequent to the quarter, the REIT renewed the mortgage on Glenmore Professional Centre at $35 million, for two years, with a fixed interest rate of 3.40%.
- Three quality assets (Hys Centre, Malvern Medical Arts Building and Alexander Medical Centre), representing approximately $80 million in value, remain unencumbered.

OUTLOOK AND CURRENT BUSINESS ENVIRONMENT

The REIT believes that its portfolio of primarily necessity-based tenancies is typically not materially impacted by economic slowdowns and is well-positioned to capitalize upon longer term demographic and healthcare industry trends of increasing demand for healthcare from an aging population, as well as increasing pressure on governments and healthcare institutions to contain costs, which will likely result in additional opportunities for non-government providers of Healthcare Real Estate.

The REIT continues to focus its leasing efforts on increasing the healthcare tenancies within each building, wherever possible, which means aggressively pursuing new healthcare tenancies for vacant space and renewing healthcare tenancies but only selectively renewing non-healthcare tenancies. This is important in order to create the positive synergies that result from an agglomeration of healthcare users in one property, which over the long term, should result in escalating property revenue from increased rents from support service tenants who benefit from such synergies, such as pharmacies, laboratories, diagnostic imaging clinics and other retail-oriented businesses. It also assists in driving maximum traffic to the property which translates into increased parking revenue, if applicable, and other revenue.

The REIT believes, through accretive acquisitions that efficiently leverage its existing asset and property management platform, there are significant opportunities to grow the portfolio by being a consolidator within a fragmented sector that has not been targeted by traditional institutional investors.

The Canadian real estate equity and debt capital markets are currently stable with debt now readily available and competitively priced. In general the investment market has become more competitive with increased activity as capital recently raised, especially by REITs, is available for investment. As a consequence of this growth in demand there has been a gradual decline in yields.

The REIT continues to pursue an active acquisition pipeline, with multiple properties in varying stages of review, negotiation and due diligence. This pipeline also includes an on-going review of University Centre, located in Calgary, Alberta, over which the REIT has a right of first offer to acquire from NorthWest Operating Trust (“NW Trust”), as set out in the REIT’s Annual Information Form.

PART III

RESULTS OF OPERATIONS

Results for the three months ended March 31, 2011 are not directly comparable to the same period in the prior year as the REIT commenced operations on March 25, 2010. As such, pro-rated results for the three months ended March 31, 2010 have been estimated based on the REIT's actual results for the seven day period from March 25, 2010 to March 31, 2010, pro-rated on a straight-line basis to derive the estimated three months ended March 31, 2010. The REIT's results of operations for the three months ended March 31, 2011 are summarized below:

	Actual results for the three months ended March 31, 2011	**Pro-rated Actual results for the three months ended March 31, 2010** [(1)]	**Variance**
	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from operations	**$27,101,727**	**$19,744,997**	**$7,356,730**
Property operating expenses	12,450,240	9,029,173	3,421,067
Operating income	14,651,487	10,715,824	3,935,663
Finance cost	5,924,340	4,319,691	1,604,649
Interest income	(35,665)	-	(35,665)
Trust expenses	864,265	370,749	493,516
Income before undernoted items	7,898,547	6,025,384	1,873,163
Finance cost – Class B exchangeable units	1,536,226	-	1,536,226
Finance cost - Fair value adjustment of Class B exchangeable units	1,536,149	2,324,932	(788,783)
Fair value adjustment of investment properties [(2)]	(4,545,059)	-	(4,545,059)
Net income / (loss)	**$9,371,231**	**$3,700,452**	**$5,670,779**

Notes:

(1) Represents the actual results for the seven day period from March 25, 2010 to March 31, 2010 pro-rated on a straight-line basis for the three month period ended March 31, 2010; except for the fair value adjustment of Class B exchangeable units and the fair value adjustment of investment properties which reflect the actual results of the fair value changes in these items for the seven day period from March 25, 2010 to March 31, 2010. These figures have been prepared by management and are unaudited.

(2) The REIT has chosen to use the fair value model to account for investment property under IFRS. As a result the investment properties are not depreciated and changes in the fair value of the properties are recognized in income in the period they occur.

Revenue from Operations

Revenue from operations is $7,356,730 greater than the pro-rated actual for the three months ended March 31, 2010, primarily as a result of seven properties acquired subsequent to the REIT's IPO that contributed $6,851,721 to revenue for the quarter. Same property revenue increased $505,009 over the pro-rated actual for the three months ended March 31, 2010, primarily due to increased operating costs, and thus recoveries, at Rockyview Professional Centre II as the head-lease property leases up with new tenants. In addition higher operating costs associated with snow removal, due to a difficult winter in certain areas, increased recovery revenue. Same store parking revenue also increased over the pro-rated actual results for the three months ended March 31, 2010 primarily due to paid parking improvements at two properties.

Property Operating Expenses

Property operating expenses are comprised of amounts recoverable from tenants (including property taxes, repairs and maintenance, utilities and insurance) and non-recoverable expenses including certain property management costs.

Operating expenses were $3,421,067 greater than the pro-rated actual for the three months ended March 31, 2010, primarily as a result of seven properties acquired subsequent to the REIT's IPO that incurred $2,829,477 of operating expenses. Same property operating expenses increased $591,590 over the pro-rated actual for the three months ended March 31, 2010, due to a number of factors including higher operating costs at Rockyview Professional Centre II, as the head lease property is leased up, and higher snow removal costs.

Finance Cost

Interest expense for the three months ended March 31, 2011 is $1,604,649 greater than the pro-rated actual results for the three months ended March 31, 2010, primarily a result of mortgage interest on acquired properties of $671,857, and interest ($713,094) and the amortization of financing costs ($500,710) on the Revolving Credit Facility and the Interim Bridge Facility.

Interest Income

Interest income for the three months ended March 31, 2011, reflects interest earned on cash and cash equivalents.

Trust Expenses

The increase in trust expense for the three months ended March 31, 2011 over the pro-rated actual results period for the three months ended March 31, 2010 is related to increased professional fees associated with the cost of investment property valuations and IFRS, as well as compensation costs associated with the deferred unit plan and trustee fees.

Finance Cost – Class B LP Unit Distributions

Under IFRS the Class B LP unit distributions are treated as a finance cost. During the three months ended March 31, 2011 the REIT declared distributions of $1,536,226 on the Class B LP, representing $0.0667 per unit for each of January, February and March which is equivalent to the distributions declared on the REIT units. No distributions were declared during the pro-rated actual three months ended March 31, 2010.

Fair Value Adjustment of Class B exchangeable units

Under IFRS the Class B exchangeable units are carried at fair value. During the three month period ended March 31, 2011 the value of the 7,680,746 outstanding Class B exchangeable units increased from $11.69 to $11.89. During the pro-rated actual three months ended March 31, 2010 the 7,749,772 outstanding Class B exchangeable units increased from their issue price as at March 25, 2010 of $10.00 to $10.30 as at March 31, 2010.

Fair Value Adjustment of Investment Properties

Under IFRS the REIT has elected to use the fair value model to account for its investment properties. Under the fair value model, investment properties are carried on the consolidated balance sheet at fair value. The properties are not depreciated and changes in the fair value of the properties are recognized in income in the period in which they occur. During the three month period ended March 31, 2011 the value of the REIT's investment properties increased by $4,545,059. During the pro-rated actual three months ended March 31, 2010 there was no change in the value of investment properties from March 25, 2010; the date of acquisition.

NET OPERATING INCOME

NOI is a non-IFRS measure of a REIT's operating performance, defined as property and property related revenue less operating expenses, inclusive of property management recovery fees and amortization of straight line rent. The REIT uses NOI to assess its property operating performance on an unleveraged basis. Same property NOI for the three months ended March 31, 2011 represents income from investment properties held since the REIT's IPO on March 25, 2010 and management fee income. The REIT's NOI for the three months ended March 31, 2011 is summarized below:

	Actual results for the three months ended March 31, 2011	**Pro-rated Actual results for the three months ended March 31, 2010** [1]	**Variance**
	(Unaudited)	(Unaudited)	
Revenue from operations			
Revenue from investment properties	$20,043,882	$19,563,094	$480,788
Management fee revenue	206,124	181,903	24,221
Revenue from operations	20,250,006	19,744,997	505,009
Operating expenses	9,620,763	9,029,173	591,590
Same property NOI	**10,629,243**	**10,715,824**	**(86,581)**
Acquisitions	4,022,244	-	4,022,244
NOI	**$14,651,487**	**$10,715,824**	**$3,935,663**

Notes:

(1) Represents the actual results for the seven day period from March 25, 2010 to March 31, 2010 pro-rated on a straight-line basis for the three month period ended March 31, 2010. These figures have been prepared by management and are unaudited.

Revenue from Investment Properties

Same property revenue from investment properties for the three months ended March 31, 2011 is $480,788 greater than pro-rated actual results for the three months ended March 31, 2010.

Same property base rent increased $38,945 over the pro-rated actual results for the three months ended March 31, 2010 as improvements at properties were offset by the loss of Networc Health at Riley Park Health Centre.

Same property operating cost recovery revenue increased $529,430 over pro-rated actual results for the three months ended March 31, 2010. The increase during the quarter was primarily due to increased operating costs, and thus recoveries, at Rockyview Professional Centre II as the head-lease property leases up with new tenants. In addition higher operating costs associated with snow removal, due to a difficult winter in certain areas, increased recovery revenue.

Same store parking revenue increased $109,937 over the pro-rated actual results for the three months ended March 31, 2010 primarily due to paid parking improvements at two properties.

Other same property income was $175,170 less than the pro-rated actual results for the three months ended March 31, 2010 primarily due to a non-recurring item at one property.

Property Operating Expenses

Property operating expenses are comprised of amounts recoverable from tenants (including property taxes, repairs and maintenance, utilities and insurance) and non-recoverable expenses including certain property management costs.

Same property operating expenses were $591,590 greater than the pro-rated actual results for the three months ended March 31, 2010. The increase was due to a number of factors including higher operating costs at Rockyview Professional Centre II, as the head lease property is leased up, higher snow removal costs and management costs.

FUNDS FROM OPERATIONS

FFO is a supplemental non-IFRS industry wide financial measure of a REIT's operating performance. The REIT calculates FFO as net income (computed in accordance with IFRS), plus distributions on Class B exchangeable units, and adjusted for fair value adjustments on Class B exchangeable units and investment properties. The REIT's method of calculating FFO may differ from other issuers' methods and accordingly may not be directly comparable to FFO reported by other issuers. A reconciliation of IFRS net income to FFO for the three months ended March 31, 2011 is set out below:

	Actual results for the three months ended March 31, 2011	**Pro-rated Actual results for the three months ended March 31, 2010 (1)**	**Variance**
	(Unaudited)	(Unaudited)	(Unaudited)
Net income (per IFRS)	**$9,371,231**	**$3,700,452**	**$5,670,779**
Add / (Deduct):			
Finance cost – Class B exchangeable unit distributions (3)	1,536,226	-	1,536,226
Finance cost - Fair value adjustment of Class B exchangeable units (3)	1,536,149	2,324,932	(788,783)
Fair value adjustment of investment properties (3)	(4,545,059)	-	(4,545,059)
FFO(2)	**$7,898,547**	**$6,025,384**	**$1,873,163**
Adjusted basic FFO per unit (4)	$0.21	$0.24	$(0.03)
Adjusted fully diluted FFO per unit (4)	$0.21	$0.24	$(0.03)
Adjusted weighted average units outstanding(5):			
Basic	37,111,118	25,249,772	11,861,346
Fully diluted	37,126,316	25,249,772	11,876,544

Notes:

(1) Represents the actual results for the seven day period from March 25, 2010 to March 31, 2010 pro-rated on a straight-line basis for the three month period ended March 31, 2010; except for the fair value adjustment of Class B exchangeable units and the fair value adjustment of investment properties which reflect the actual results of the fair value changes in these items for the seven day period from March 25, 2010 to March 31, 2010. These figures have been prepared by management and are unaudited.

(2) FFO is a non-IFRS measure of a REIT's operating performance. FFO is only one measure of real estate operating performance and does not reflect amounts available for tenant installation costs, property capital expenditures, debt service obligations, commitments or uncertainties. FFO should not be interpreted as an indicator of cash generated from operating activities and is not indicative of cash available to fund operating expenditures, or for the payment of cash distributions.

(3) Under IFRS the distributions on the REIT's Class B exchangeable units, the fair value changes related to these units and the fair value changes related to investment properties are included in the determination of net income. The impact of these amounts has been eliminated when determining FFO in order to enhance the usefulness and comparability of FFO as a supplemental measure of the operating performance of the REIT.

(4) FFO per unit amounts are based on basic and fully diluted adjusted weighted average number of units, which includes Class B exchangeable units.

(5) Under IFRS the REIT's Class B exchangeable units are treated as a financial liability rather than equity. As is permitted under IFRS the REIT has chosen to present an adjusted basic and diluted earnings per share measure that includes the Class B exchangeable units in basic and diluted units outstanding/weighted average units outstanding. As a result the adjusted basic and diluted adjusted units outstanding and the adjusted basic and diluted weighted average units outstanding include 7,680,746 Class B exchangeable units for the three months ended March 31, 2011 and 7,749,772 Class B exchangeable units for the three months ended March 31, 2010.

The unfavourable FFO per unit variance of $.03 against the pro-rated actual results for the three months ended March 31, 2010 is primarily a result of delays in deploying $46 million of cash on hand at the beginning of the quarter. In addition the 2010 pro-rated actual results do not reflect the impact of the exercise of the over-allotment option following the REIT's IPO.

There was a negative impact to FFO as a result of transitioning from Canadian GAAP to IFRS resulting from the treatment of internal leasing costs. Under Canadian GAAP certain of these costs were capitalized, while under IFRS they are expensed. For the quarter, this resulted in an approximate $0.01 per unit reduction in FFO as compared to that reported under Canadian GAAP. While this is disappointing from a reporting perspective, there is no impact on cash flow. Further, the REIT firmly believes that its internal leasing team is crucial to its success in establishing close ties with our tenants and the healthcare community at large which contributes to the performance of the properties through maintaining the REIT's high tenant retention rate while also ensuring that the optimal tenant leasing strategies are put in place to maximize income at each property.

A reconciliation of FFO reported under Canadian GAAP to FFO reported under IFRS is provided in the Summary of Quarterly Results section of this MD&A.

ACQUISITONS

On January 25, 2011, the REIT completed the acquisition of the prominent medical and professional office complex known as The Dundas-Edward Centre, in Toronto, Ontario for $103 million. The acquisition was funded by a combination of cash on hand and $60 million drawn on a new Interim Bridge Facility to fund the purchase. Located in the Discovery District of downtown Toronto, one block from University Avenue, The Dundas-Edward Centre is a 410,000 square foot two-tower office complex with an eight-level parking facility. The complex is located in close proximity to several hospitals including SickKids, Princess Margaret, Toronto General, and Mount Sinai. On acquisition the complex was 97% leased to primarily medical, professional and government tenancies including the following healthcare tenants: SickKids, Medisys Diagnostic Imaging, a pharmacy, labs, clinics and numerous specialist physicians and general practitioners. The balance of the tenancy is comprised of tenants who value the close proximity to the Provincial Legislature (Queen's Park), the Provincial Courts, Toronto City Hall and the City's financial core. Subsequent to the quarter the REIT arranged a $65 million, 10 year fixed rate mortgage financing at 5.11% on the Dundas-Edward Centre.

On February 1, 2011, the REIT completed the acquisition of Hys Centre, the premiere medical office complex in Edmonton, Alberta. Hys Centre is strategically located on and connected by pedway access to the Royal Alexandra Hospital campus. Hys Centre is a Class "A" medical office complex composed of a 147,000 square foot medical office building, 50 residential apartments and a 384-stall pay parking facility. It has a long history of low vacancy, strong tenant retention, and the provision of integrated healthcare services to the community. The REIT acquired Hys Centre for a price of $53 million. The acquisition was funded by a combination of cash on hand and debt, including a $25 million draw on the Interim Bridge Facility and a draw of $23 million on the Revolving Credit Facility. The REIT is currently arranging permanent long term fixed rate financing for this property.

PORTFOLIO PROFILE

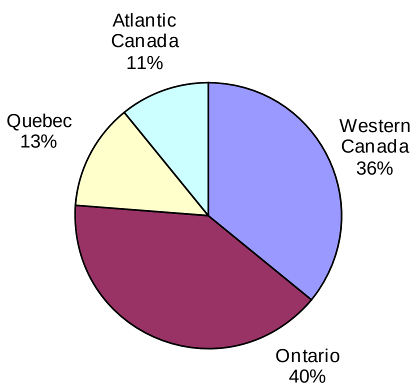
As of March 31, 2011, the REIT's portfolio consisted of 52 Healthcare Real Estate properties, located in six provinces. The properties had a total GLA of approximately 3.7 million square feet encompassing approximately 1,300 individual tenancies.

Geographic Diversification

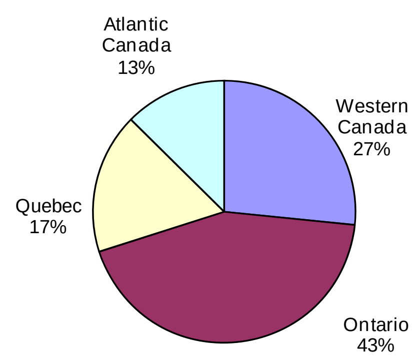
The properties are well diversified throughout Canada, with 70% of annualized NOI derived from the four major markets of the Greater Toronto Area (28%), Calgary (21%), the greater Montreal Area (13%), and the Halifax Regional Municipality (8%) for the three months ended March 31, 2011. The following charts and graphs set out the regional diversification of the portfolio by annualized NOI and GLA.

Region	# of properties	Total GLA	Current Occupancy rate (1)	Avg. in- place net rent (psf)
Western Canada	11	975,844	95.4%	$18.83
Ontario	21	1,594,817	88.6%	15.04
Quebec	13	636,251	94.0%	12.77
Atlantic Canada	7	461,220	92.8%	13.12
Total	**52**	**3,668,132**	**91.9%**	**$15.41**

Geographic diversification by annualized NOI (2)



Geographic diversification By GLA



Notes:

(1) As at March 31, 2011

(2) Based on NOI for the 3 months ended March 31, 2011, excluding property management fees.

Leasing Activity

Renewal leasing:

During the quarter the REIT completed 65,510 square feet of renewal leasing. Tenants occupying an additional 9,155 square feet remained in occupancy and are expected to renew.

New leasing:

During the quarter the REIT completed 34,987 square feet of new leasing. In addition, the REIT has an active new leasing pipeline which is expected to result in increased new leasing activity in the coming quarters.

Tenant Mix

The portfolio has a well diversified tenant profile, reflecting an attractive mix of healthcare-related tenants, including regional health authorities, primary care networks, family health teams, medical and diagnostic imaging clinics, medical practitioners, pharmacies and laboratories, as well as institutional and non-healthcare tenants. The average tenant occupies approximately 2,500 square feet of GLA. The primary source of revenue for a large portion of the REIT's tenants is government funding, either directly or indirectly, through medical practitioners, which supports the credit quality of the REIT's tenants. The weighted average in place net rent per square foot for the properties is $15.41.

The following table summarizes the REIT's 10 largest tenants by percentage of gross rent for the three months ended March 31, 2011:

	Tenant	% of gross rent
1	Bantrel Corporation	5.5%
2	CLSC/CSSS	4.1%
3	Alberta Health Services	3.2%
4	NW Trust (1)	3.0%
5	The Hospital for Sick Children	2.3%
6	Lawtons Drugs	1.7%
7	CML Healthcare	1.7%
8	Medisys Diagnostic Imaging LP	1.4%
9	Shoppers Drug Mart	1.2%
10	University of Toronto	1.1%
Total		**25.2%**

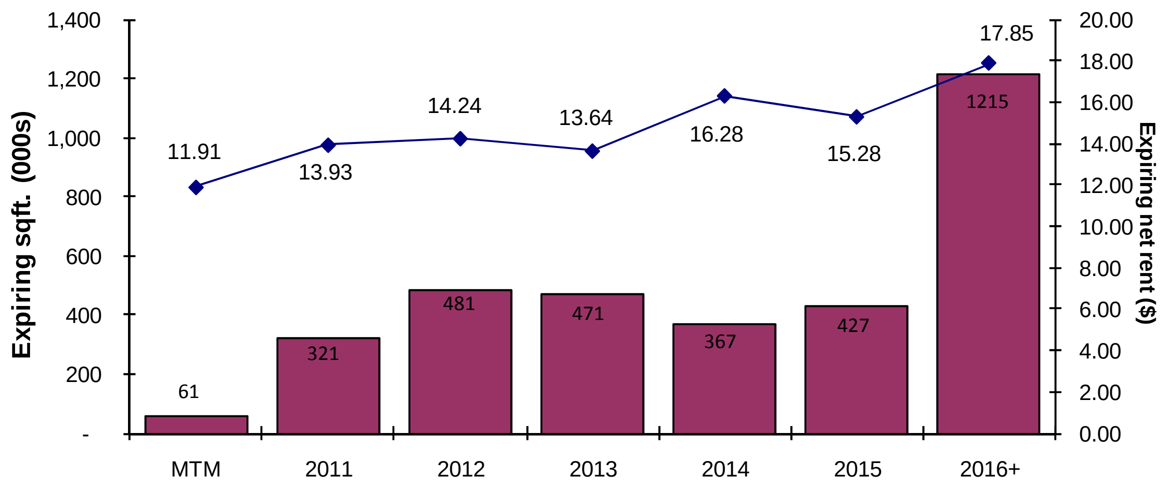
Notes:

(1) Includes head leases net of impact of leases to third parties

Lease Expiry Profile

The REIT's diverse tenant base is complemented by a balanced lease maturity profile, with an average of 12% of GLA maturing each year between 2011 and 2015, as illustrated by the chart below, and, as of March 31, 2011, a weighted average term to maturity of 4.3 years.

Lease Maturity Profile



Note: Gross rents have been reduced to reflect CAM and tax recoveries as an estimate of an equivalent net rent.
MTM – month to month
Excludes 26,680 sq ft of residential space at Hys Centre

PART IV

LIQUIDITY AND CAPITAL RESOURCES

The REIT expects to be able to meet all of its obligations as they become due and have sufficient liquidity from the following sources: (i) cash flow from operating activities; (ii) financing availability through a Revolving Credit Facility and conventional mortgage debt secured by investment properties; and (iii) the ability to issue equity and convertible unsecured debentures.

The following table details the changes in cash and cash equivalents during the period:

	Actual results for the three months ended March 31, 2011	**Actual results for the period from March 25, 2010 to March 31, 2010**
Cash provided by / (used in):	(Unaudited)	(Unaudited)
Operating activities	$3,099,134	$(1,236,596)
Investing activities	(153,875,627)	(105,634,502)
Financing activities	122,931,866	109,135,329
Increase / (Decrease) in cash and cash equivalents during the period	**$(27,844,627)**	**$2,264,231**
Cash and cash equivalents, beginning of period	$46,311,722	$-
Cash and cash equivalents, end of period	**$18,467,095**	**$2,264,231**

Cash flow activity for the three month period ended March 31, 2011 is primarily related to the results of the REIT's operations, distributions to Unitholders, the negotiation and use of an Interim Bridge Facility, the utilization of the Revolving Credit Facility, the March 2011 follow-on equity raise and the acquisition of two new properties. Additional commentary on these events can be found in the notes to the financial statements as well as earlier in this MD&A.

CAPITALIZATION AND DEBT PROFILE

	As at March 31, 2011	As at December 31, 2010
Indebtedness	(Unaudited)	(Unaudited)
Mortgages Payable	$370,714,597	$369,730,062
Mark-to-Market premium on Mortgages	2,077,270	2,445,647
Unamortized financing costs	(113,213)	(123,848)
	372,678,654	372,051,861
Loans Payable (March 31, 2011 - net of $133,899 of unamortized financing costs)	44,866,101	-
	417,544,755	372,051,861
Class B exchangeable units (Authorized – unlimited; Issued – 7,680,746 as at March 31, 2011 and December 31, 2010) (1)	91,324,070	89,787,921
Unitholders' Equity		
Units (Authorized – unlimited; Issued: March 31, 2011 - 34,991,335, December 31, 2010 – 27,585,791)	$333,662,788	$256,706,143
Retained Earnings	11,966,164	2,594,933
	345,628,952	259,301,076
Total capitalization	**$854,497,777**	**$721,140,858**

(1) Under Canadian GAAP, the REIT's Class B exchangeable units were presented as equity on the consolidated balance sheet. However, under IFRS the Class B exchangeable units in their current form are presented as a liability at their fair value. The REIT is currently exploring possible solutions that will allow it to classify the Class B exchangeable units as a component of equity under IFRS.

As at March 31, 2011, the REIT had a market capitalization of approximately $507.4 million (including 7,680,746 Class B exchangeable units) based on a closing unit price of $11.89 on the Toronto Stock Exchange.

Follow-on Equity Offering

During the quarter the REIT raised net proceeds of $82.4 million from the March 2011 follow-on equity offering (including over-allotment option) of 7,360,000 trust units at a price of $11.75 per unit. The net proceeds of the equity offering were utilized to pay down the Interim Bridge Facility by $80 million and for general trust purposes.

Mortgage Debt Maturities

The following table sets out, as at March 31, 2011, scheduled principal payments, debt maturity amounts and weighted average interest rate of maturing mortgages.

Year ending December 31st	Scheduled principal payments	Debt maturing during the year	Total mortgages payable	Weighted average interest rate of maturing mortgages	Percentage of total mortgages payable
2011	$5,391,121	$38,457,261	$43,848,382	5.65%	11.8%
2012	7,280,950	10,028,231	17,309,181	5.42%	4.7%
2013	7,419,185	17,228,511	24,647,696	6.15%	6.6%
2014	6,577,889	47,594,815	54,172,704	5.49%	14.6%
2015	5,291,929	49,630,869	54,922,798	5.64%	14.8%
2016	4,621,356	94,029,878	98,651,234	5.51%	26.6%
2017+	2,749,884	74,412,718	77,162,602	5.39%	20.8%
Sub-total	$39,332,314	$331,382,283	$370,714,597	5.54%	100.0%
Marked to market adjustment			2,077,270	(0.44%)	
			372,791,867	5.10%	
Unamortized financing costs			(113,213)		
Total			$372,678,654		

Mortgage Financing

During the quarter the REIT refinanced the mortgage at 2924 Taschereau Boulevard with $4.3 million, 10 year fixed rate mortgage at 5.10%.

Subsequent to the quarter, the REIT renewed the mortgage on Glenmore Professional Centre at $35 million, for two years, with a fixed interest rate of 3.40%.

Subsequent to the quarter the REIT also closed a $65 million, 10 year fixed rate mortgage financing at 5.11% on the Dundas-Edward Centre.

Revolving Bank Credit Facility

The Revolving Credit Facility has a maximum principal amount of $35 million, which may be increased to $50 million, subject to standard conditions including lender consent. During the quarter the REIT amended and extended the Revolving Credit Facility. The Revolving Credit Facility now bears interest at a rate equal to the bank's prime rate plus 175 basis points (previously plus 250 basis points) or Bankers' Acceptances plus 275 basis points (previously plus 350 basis points). Originally for a term of one year, maturing on March 25, 2011, the Revolving Credit Facility has now been extended to March 31, 2013. The Revolving Credit Facility is secured by a pool of first ranking mortgages on certain properties (the ''Borrowing Base''). The properties within the Borrowing Base, subject to a right of substitution under certain standard conditions, are Riley Park Health Centre, Rockyview Professional Centre II, Collingwood Health Centre, Wharncliffe Health Centre and CLSC La Presqu'Ile. The REIT is entitled to borrow a maximum of 60% of the appraised value of the properties in the Borrowing Base subject to occupancy requirements and the debt service capacity of the Borrowing Base.

As at March 31, 2011 the balance outstanding on the facility was $30 million as the REIT drew on it during the quarter to finance acquisition activity. Subsequent to the quarter the outstanding balance on the facility was fully repaid.

Interim Bridge Facility

During the quarter the REIT negotiated an $85 million non-revolving (unless lender agrees at its sole discretion to any re-advance) senior secured Interim Bridge Facility which was fully drawn to fund the acquisition of the Dundas Edward Centre and Hys Centre. The Interim Bridge Facility bears interest at the banker's acceptance rate plus 350 basis points or prime plus 2.5% and is secured by such acquired properties.

$80 million of the Interim Bridge Facility was repaid from the proceeds of the March 2011 follow on equity offering. The interim bridge facility was then amended such that the total commitment was reduced to $15 million and the lender re-advanced $10 million to fund the acquisition of the Malvern Medical Arts Building. As at March 31, 2011, there was a $14,980,000 outstanding balance on the Interim Bridge Facility, net of unamortized financing costs of $20,000.

The Interim Bridge Facility was fully repaid subsequent to quarter end.

Ratios / Covenants

Pursuant to the Declaration of Trust the REIT may not incur or assume any indebtedness if, after giving effect to the incurring or assumption of such indebtedness, the total indebtedness of the REIT would be more than 65% of the GBV of its assets. The REIT's overall borrowing policy is to obtain secured mortgage financing on a primarily fixed rate basis, with a term to maturity that is appropriate having regard to the lease maturity profile for each property and which allows the REIT to (i) achieve and maintain staggered debt maturities to lessen exposure to interest rate fluctuations and re-financing risk in any particular period and (ii) fix the rates and extend loan terms as long as possible when borrowing conditions are favourable. Subject to market conditions and the growth of the REIT, management of the REIT currently intends to maintain indebtedness in a range of 55% to 60% of GBV. The following summarizes the status of these key ratios as at and for the three months ended March 31, 2011:

	As at / For the three months ended March 31, 2011
	(Unaudited)
Gross Book Value	$873,823,031
Debt (excluding Class B exchangeable units)	$417,544,755
Debt to Gross Book Value (1)	47.8%
Amount of debt at fixed rates	$372,678,654
Interest coverage (2)	2.33x
Debt Service coverage (3)	1.76x
Weighted average mortgage interest rate (at contract) (4)	5.54%

Notes:

(1) Defined by the Declaration of Trust as total debt (excluding Class B exchangeable units) divided by the book value of the total assets in the consolidated balance sheet.

(2) Defined as net income excluding finance costs (interest, amortization of debt premiums/discounts and financing costs, distributions on Class B exchangeable units) and the revaluation of Class B exchangeable units and investment properties divided by finance costs (excluding distributions on Class B exchangeable units and the revaluation of Class B exchangeable units).

(3) Defined as net income excluding finance costs (interest, amortization of debt premiums/discounts and financing costs, distributions on Class B exchangeable units) and the revaluation of Class B exchangeable units and investment properties divided by finance costs (excluding distributions on Class B exchangeable units and the revaluation of Class B exchangeable units) and scheduled debt repayments.

(4) Current market weighted average mortgage interest rate = approximately 4.80%

The ratio of Debt to GBV decreased in the quarter to 47.8% at March 31, 2011 from 50.5% (49.8% - Canadian GAAP) as at December 31, 2010, primarily as a result of the March 2011 follow-on equity offering, offset by draws on the Revolving Credit Facility and Interim Bridge Facility, as well as the proceeds on the 2924 Taschereau Boulevard mortgage.

Interest rates and debt maturities are reviewed regularly by the management and trustees of the REIT ("Trustees") to ensure the appropriate debt management strategies are implemented. The REIT intends to finance its ongoing operations with a combination of, primarily, fixed rate secured debt with staggered maturities and floating rate secured short-term, construction and/or revolving debt. The fixed rate debt is expected to be comprised primarily of first charge mortgages.

The REIT is targeting to distribute 90% of its AFFO to Unitholders, based on utilizing a stabilized reserve for leasing and capital of 4.5% (reduced from 6% in prior quarters to reflect that under IFRS certain costs which previously were capitalized are now being expensed) of revenue from investment properties. As such, the REIT does not retain a material amount of operating cash flow to finance its capital requirements including loan principal payments, acquisitions, redevelopments, and portfolio capital expenditures. Capital requirements for loan principal payments, acquisitions and redevelopment are generally sourced by financing for each project through mortgages and/or the Revolving Credit Facility.

LEASING COSTS AND CAPITAL EXPENDITURES

	For the three months ended March 31, 2011
	(Unaudited)
Leasing costs [1]	$273,990
Tenant improvements [2]	916,560
Maintenance capital expenditure[3]	205,141
Growth capital expenditure[3]	245,960
Additions to investment properties	1,641,651
Less: maintenance capital expenditure	(205,141)
Total adjusted leasing costs and capital expenditures	$1,436,510
Reserve for stabilized capital expenditures, leasing costs and tenant improvements [4]	$1,210,302
Actual leasing and capital expenditures in excess of reserve	$226,208

Notes:

(1) Under IFRS leasing costs, which include leasing commissions and costs related to the REIT's internal leasing function, that are incremental and directly attributable to negotiating and arranging tenant leases are added to the carrying value of investment properties. Leasing costs that are not incremental are expensed in the period incurred. The REIT has determined that under IFRS certain leasing costs associated with its internal leasing department do not qualify for capitalization and as a result these amounts have been expensed in the period. For the three months ended March 31, 2011 these amounts were approximately $425,000 and are excluded from the leasing costs capitalized. As a result the leasing reserve has been reduced from 6% to 4.5%.

(2) Tenant improvements include tenant allowances and landlord's work where the REIT has determined, for accounting purposes, that it is the owner of the tenant improvements. These amounts are added to the carrying value of investment properties.

(3) The REIT's capital expenditures include capital costs required to maintain the existing property portfolio (i.e. maintenance capital expenditures) as well as capital costs in relation to the on-going expansion and continuous improvement of the portfolio (i.e. growth capital expenditures). A large portion of the REIT's maintenance capital expenditures are recovered by tenants over future periods.

(4) Based on a reserve of 4.5% of quarterly revenue from investment properties.

On a quarterly basis and during portfolio repositioning, leasing costs, tenant improvements and capital expenditure can fluctuate and as such, should not be regarded as stabilized. For example, during the first quarter $190,410 was spent relocating tenants within buildings to accommodate new or expanding tenants. Further, in accordance with the REIT's strategy of extending average lease term whenever possible, especially for primary medical tenancies, often leasing costs are involved. In the first quarter 63% of tenant improvement costs related to lease deals of ten years or longer.

ADJUSTED FUNDS FROM OPERATIONS AND DISTRIBUTIONS

AFFO

AFFO is a supplemental non-IFRS industry wide financial measure of a REIT's cash generating activities after providing for stabilized operating capital requirements. Management considers AFFO to be a useful measure of cash available for distributions. The REIT calculates AFFO as net income (computed in accordance with IFRS), subject to certain adjustments, including: (i) adding back the following items: any fair value losses on investment properties or the Class B exchangeable units, the finance cost associated with distributions on the Class B exchangeable units and amortization of any net discount on long-term debt assumed from vendors of properties at rates of interest less than fair value; (ii) deducting the following items: any fair value gains on investment properties or the Class B exchangeable units and amortization of any net premium on long-term debt assumed from vendors of properties at rates of interest greater than fair value; (iii) adjusting for differences, if any, resulting from recognizing rental revenues on a straight-line basis as opposed to contractual rental amounts; (iv) adjusting for differences, if any, resulting from recognizing acquired contracts at fair value rather than the contracted rate; and (v) deducting reserves for tenant inducements, leasing commissions, financing costs and sustaining capital expenditures, as determined by the REIT.

The REIT's method of calculating AFFO may differ from other issuers' methods and accordingly may not be directly comparable to AFFO reported by other issuers. A reconciliation of IFRS net income to AFFO for the three months ended March 31, 2011 is set out below:

	Actual results for the three months ended March 31, 2011	**Pro-rated Actual results for the three months ended March 31, 2010[1]**	**Variance**
	(Unaudited)	(Unaudited)	(Unaudited)
Net income / (loss) (per IFRS)	**$9,371,231**	**$3,700,452**	**5,670,779**
Add / (Deduct):			
Finance cost – Class B LP unit distributions [3]	1,536,226	-	1,536,226
Finance cost - Fair value adjustment of Class B exchangeable units [3]	1,536,149	2,324,932	(788,783)
Fair value adjustment of investment properties [3]	(4,545,059)	-	(4,545,059)
FFO	**7,898,547**	**6,025,384**	**1,873,163**
Add / (Deduct):			
Amortization of marked to market adjustment	(368,377)	(151,573)	(216,804)
Amortization of finance fees [4]	504,887	130,269	374,618
Amortization of straight-line rent	(218,432)	(145,851)	(72,581)
Amortization of above market utility contracts	(27,665)	-	(27,665)
Reserve for stabilized leasing costs, tenant improvements and growth capital expenditures [5]	(1,210,302)	(880,339)	(329,963)
AFFO [2]	**$6,578,658**	**$4,977,890**	**$1,600,768**
Adjusted basic AFFO per unit [6]	$0.18	$0.20	$(0.02)
Adjusted fully diluted AFFO per unit [6]	$0.18	$0.20	$(0.02)
Adjusted weighted average units outstanding[7]:			
Basic	37,111,118	25,249,772	11,861,346
Fully diluted	37,126,316	25,249,772	11,876,544

Notes:

(1) Represents the actual results for the seven day period from March 25, 2010 to March 31, 2010 pro-rated on a straight-line basis for the three month period ended March 31, 2010; except for the fair value adjustment of Class B exchangeable units and the fair value adjustment of investment properties which reflect the actual results of the fair value changes in these items for the seven day period from March 25, 2010 to March 31, 2010. These figures have been prepared by management and are unaudited.

(2) AFFO is a non-IFRS measure of a REIT's operating performance. AFFO is only one measure of real estate operating performance and is an alternative measure of determining available cash flow. AFFO should not be interpreted as an indicator of cash generated from operating activities as it does not consider changes in working capital.

(3) Under IFRS the distributions on the REIT's Class B exchangeable units, the fair value changes related to these units and the fair value changes related to investment properties are included in the determination of net income. The impact of these amounts has been eliminated when determining FFO in order to enhance the usefulness and comparability of FFO as a supplemental measure of the operating performance of the REIT.

(4) Represents costs related to the REIT's Revolving Credit Facility, Interim Bridge Facility and mortgages.

(5) Based on an estimate of 4.5% of revenue from investment properties.

(6) FFO per unit amounts are based on basic and fully diluted adjusted weighted average number of units, which includes Class B exchangeable units.

(7) Under IFRS the REIT's Class B exchangeable units are treated as a financial liability rather than equity. As is permitted under IFRS the REIT has chosen to present an adjusted basic and diluted earnings per share measure that includes the Class B exchangeable units in basic and diluted units outstanding/weighted average units outstanding. As a result the adjusted basic and diluted adjusted units outstanding and the adjusted basic and diluted weighted average units outstanding include 7,680,746 Class B exchangeable units for the three months ended March 31, 2011 and 7,749,772 Class B exchangeable units for the three months ended March 31, 2010.

The unfavourable AFFO per unit variance of $.02 against the pro-rated actual results for the three months ended March 31, 2010 is primarily a result of delays in deploying $46 million of cash on hand at the beginning of the quarter. In addition the 2010 pro-rated actual results do not reflect the impact of the exercise of the over-allotment option following the REIT's IPO.

AFFO for the three months ended March 31, 2011, is calculated after deducting a reserve of $1,210,302 for stabilized leasing costs, tenant improvements and growth capital expenditures.

A reconciliation of AFFO reported under Canadian GAAP to AFFO reported under IFRS is provided in the Summary of Quarterly Results section of this MD&A.

Distributions

The REIT has adopted a distribution policy pursuant to which the REIT intends to make cash distributions to unitholders and to holders of Class B exchangeable units on each monthly distribution date equal to, on an annual basis, approximately 90% of AFFO calculated with reserves. The REIT currently intends on making monthly distributions of $0.06667 per unit, equating to $0.80 per unit on an annualized basis.

The REIT's AFFO payout ratio based on reserves for the three months ended March 31, 2011 is calculated below:

	For the three months ended March 31, 2011
	(Unaudited)
Fully diluted AFFO per unit	$0.18
Distributions per unit	$0.20
Payout Ratio	**113%**

The REIT payout ratio decreased from the previous quarter's 119% because the dilutive effects of the October 2010 follow-on equity offering in the prior quarter were offset by acquisitions completed during the current quarter.

Distribution Reinvestment Plan

The Distribution Reinvestment Plan ("DRIP") continues to build momentum. Participants in the DRIP have their cash distributions used to purchase units of the REIT and also receive a "bonus distribution" of units equal in value to 3% of each distribution. The DRIP participation rate increased to 11% as at March 31, 2011. During the quarter 45,544 units were issued pursuant to the DRIP.

PART V

RELATED PARTY TRANSACTIONS

On March 25, 2010, subsidiaries of the REIT acquired 45 properties from NW Trust for total consideration of $171,899,206. Paul Dalla Lana, chair of the Board of Trustees of the REIT is the sole trustee and indirect beneficiary of NW Trust. Part of the consideration included 7,749,772 Class B exchangeable units of NHP Holdings Limited Partnership, a subsidiary of the REIT. These Class B Units, each of which are exchangeable at the option of the holder for one unit of the REIT and that are attached to Special Voting Units of the REIT, provide for voting rights in the REIT.

As at March 31, 2011 the combined economic interest of NW Trust and its affiliates in the REIT is approximately 21.0%.

Information on the agreements governing the relationship with NW Trust are discussed under ''Retained Interests'' in the Annual Information Form. In addition to disclosures elsewhere in this MD&A, related party transactions are disclosed in Notes 3 and 16 of the condensed consolidated interim financial statements for the three months ended March 31, 2011 and Note 13 of the REIT's Canadian GAAP consolidated financial statements for the period from March 25, 2010 to December 31, 2010.

HEAD LEASES

A summary of Head Lease space as well as space which has been sub-leased to third parties is presented below. Pursuant to the terms of the Head Lease agreement, NW Trust is required to pay for any potential shortfalls in rent for space sub-leased to third parties for the duration of the Head Lease term.

Head Lease Summary

	At March 31, 2011			Sub-Leased to Third Parties[1]		
Property	**GLA**	**Min. rent (psf)** [2]	**Lease expiry**	**GLA**	**Min. rent (psf)** [2]	**Lease expiry**
Rockyview Professional Centre II	51,177	$21.00	Mar-15	39,579	$16.11	Jul-25 [3]
HealthPark	29,932	16.25	Mar-15	7,346	13.11	Mar-21[4]
Riley Park Health Centre	20,271	30.00	Mar-15	-	-	
Total / Weighted averages	**101,380**	**$21.40**		**46,925**	**$15.64**	

Notes:

(1) As at May 12, 2011

(2) Represents straight line annual minimum rent psf for the Head Lease term and excludes subsequent rent escalations

(3) Represents the latest lease expiry for the respective property. 9,870 square feet expires July 2025, 12,876 square feet expires August 2020, 4,723 square feet expires March 2021 and 12,110 square feet expires April 2022. During the quarter certain space was re-measured.

(4) Represents the latest lease expiry for the respective property. 1,496 square feet expires May 2020.

During the quarter the REIT did not lease any additional head lease space. However, negotiations continue for approximately 11,000 square feet or 21% of the uncommitted space.

PART VI

SUMMARY OF QUARTERLY RESULTS

The following sets out summary information for the most recently completed quarters since the REIT commenced operations. Amounts presented previously under Canadian GAAP have been restated to the IFRS equivalent:

	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010[1]
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from operations	**$27,101,727**	**$21,856,752**	**$20,705,684**	**$19,369,655**	**$1,535,722**
Property operating income	12,450,240	10,167,965	9,472,737	8,473,558	702,269
Operating income	**14,651,487**	**11,688,787**	**11,232,947**	**10,896,097**	**833,453**
Finance cost	5,924,340	4,624,863	4,530,491	4,296,796	335,976
Interest income	(35,665)	(341,284)	(222,884)	-	-
Trust expenses	864,265	926,179	435,546	429,598	28,836
Income before undernoted items	**7,898,547**	**6,479,029**	**6,489,794**	**6,169,703**	**468,641**
Finance cost – Class B exchangeable unit distributions	1,536,226	1,545,430	1,550,032	1,666,705	-
Finance costs - Fair value adjustment of Class B exchangeable units	1,536,149	683,674	3,487,397	6,587,306	2,324,932
Fair value adjustment of investment properties	(4,545,059)	(833,242)	-	-	-
Net income / (loss)	**$9,371,231**	**$5,083,167**	**$1,452,365**	**$(2,084,308)**	**$(1,856,291)**
Adjusted basic net income per unit[2]	$0.32	$0.21	$0.08	$(0.11)	$(0.11)
Adjusted fully diluted income per unit[2]	$0.32	$0.21	$0.08	$(0.11)	$(0.11)
NOI	**$14,651,487**	**$11,688,787**	**$11,232,947**	**$10,896,097**	**$833,453**
NOI margin	*54.1%*	*53.5%*	*54.3%*	*56.3%*	*54.3%*
FFO – Canadian GAAP		**$7,076,649**	**$7,234,487**	**$6,998,440**	**$530,466**
Above/below market lease intangibles [3]		(172,598)	(305,265)	(431,335)	(32,466)
Internal leasing costs [4]		(411,332)	(410,281)	(377,996)	(28,189)
Other [5]		(13,692)	(29,147)	(19,406)	(1,170)
FFO – IFRS	**$7,898,547**	**$6,479,027**	**$6,489,794**	**$6,169,703**	**$468,641**
Basic FFO per unit	$0.21	$0.20	$0.24	$0.23	$0.02
Fully diluted FFO per unit	$0.21	$0.20	$0.24	$0.23	$0.02
AFFO – Canadian GAAP		**$5,405,152**	**$5,565,656**	**$5,211,779**	**$390,907**
Internal leasing costs [4]		(411,332)	(410,281)	(377,996)	(28,189)
Reserve adjustment [6]		331,506	309,162	306,676	24,451
AFFO – IFRS	**$6,578,658**	**$5,325,326**	**$5,464,537**	**$5,140,459**	**$387,169**
Basic AFFO per unit	$0.18	$0.17	$0.21	$0.20	$0.02
Fully diluted AFFO per unit	$0.18	$0.17	$0.21	$0.20	$0.02
AFFO payout ratio	113%	119%	97%	110%	-
Distributions[7]	$7,551,337	$6,816,173	$5,300,293	$5,699,173	-
Distributions per unit	$0.20001	$0.20001	$0.20001	$0.21507[8]	-
Total Assets	$873,823,031	$736,626,230	$616,333,237	$571,798,066	$561,369,168
Debt (excluding Class B exchangeable units)	$417,544,755	$372,051,861	$351,230,233	$308,719,831	310,212,890
Debt to Gross Book Value	47.8%	50.5%	57.0%	54.0%	55.3%
Number of properties	52	50	48	45	45
Gross leasable area	3,668,132	3,065,815	2,893,825	2,701,708	2,697,791
Occupancy % (current) – period end	91.9%	91.5%	90.4%	90.3%	90.7%
Number of employees	123	104	103	104	100

Notes:

(1) Seven day period ended March 31, 2010

(2) Per unit amounts are based on basic and fully diluted adjusted weighted average number of units, which includes Class B exchangeable units.

(3) Elimination of net amortization of above-market and below-market leases to reflect the elimination of the related intangibles under IFRS.

(4) To expense certain costs related to the REIT's internal leasing department that have been deemed to not be incremental and as a result have been expensed under IFRS.

(5) Represents impact of amortization of furniture and equipment.

(6) Includes impact of changes to reserve amounts resulting from changes to revenue and a reduction of the reserve amount to 4.5% from 6%, as well as, amortization on furniture and equipment.

(7) Includes distributions on Class B exchangeable units.

(8) Includes proportionate increase in distribution for seven day period from March 25, 2010 to March 31, 2010.

PART VII

INTERNATIONAL FINANCIAL REPORTING STANDARDS

As required by the Canadian Accounting Standards Board IFRS replaced Canadian GAAP, for public entities, effective for fiscal periods beginning on or after January 1, 2011, with comparative figures presented on the same basis. The condensed consolidated interim financial statements of the REIT for the three month period ended March 31, 2011 have been prepared by management in accordance IFRS expected to be applicable as at December 31, 2011 and with IAS 34, Interim Financial Reporting. These are the REIT's first IFRS condensed consolidated interim financial statements and IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied. The condensed consolidated interim financial statements do not include all the information required for full annual financial statements.

The disclosures required by IFRS 1 concerning the transition from Canadian GAAP to IFRS are given in note 23 of the condensed consolidated interim financial statements. The REIT commenced operations on March 25, 2010 and the date of transition to IFRS is January 1, 2010 (the "Transition Date"). Note 23 includes reconciliations of equity and total comprehensive income for comparative periods reported under Canadian GAAP to amounts reported under IFRS, as well as, equity at the Transition Date reported under Canadian GAAP to equity reported under IFRS at the Transition Date.

Significant Differences

IFRS is based on a conceptual framework similar to Canadian GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure. The significant accounting policy differences between IFRS and Canadian GAAP are as follows:

Investment Properties

IAS 40 "Investment Property" defines investment properties as property (land or a building) held to earn rentals or for capital appreciation or both. The REIT's properties qualify as investment property. Under IFRS, the REIT can account for investment property using either the fair value model or the cost model. Under the fair value model, investment properties are recorded initially at cost and subsequently at fair value. The properties are not depreciated and changes in the fair value of the properties are recognized in income in the period in which they occur. The cost model is similar to Canadian GAAP and investment properties are carried on the consolidated balance sheet at cost less accumulated depreciation.

The REIT is using the fair value model to account for investment properties because it believes it is more relevant to understanding the REIT's performance. The REIT commenced operations on March 25, 2010, subsequent to the transition date to IFRS (January 1, 2010), and pursuant to the commencement of its operations the REIT investment properties were fair valued by management. As a result, there is no fair value adjustment, related to investment properties, upon adoption of IFRS. Changes in the fair value of investment properties subsequent to March 25, 2010 have been recognized in income in the period in which they occurred.

Leasing Costs
Under Canadian GAAP costs related to the REIT's internal leasing department were capitalized as initial leasing costs. Under IFRS, certain of these costs do not qualify for capitalization, as they are not considered incremental, and as a result have been expensed in the period.

REIT Units
Under Canadian GAAP, the REIT's Units were presented as equity on the consolidated balance sheet. However, under IFRS the REIT's units are considered liability instruments because of the features inherent in the open-ended trust structure. However, the units are the most subordinate class of units and, therefore, may be presented as equity under IFRS.

Class B exchangeable units
Under Canadian GAAP, the REIT's Class B exchangeable units were presented as equity on the consolidated balance sheet. However, under IFRS the Class B exchangeable units, in their current form, are presented as a liability because they are considered puttable instruments. The Class B exchangeable units are classified as fair value through profit or loss financial liabilities and are measured at fair value each reporting period. Changes in value are recognized in income in the period in which they arise and distributions on the Class B exchangeable units are recorded as interest expense rather than distributions. The REIT is currently exploring possible solutions that may allow it in the future, to classify the Class B exchangeable units as equity under IFRS.

Business Combinations
Canadian GAAP and IFRS both require the acquisition method of accounting for all business combinations; however, significant differences exist between the two standards. Canadian GAAP allows the capitalization of transaction costs, but IFRS requires transaction costs in a business combination to be expensed as incurred. In addition, negative goodwill generated in a business combination is recognized in income under IFRS. Under Canadian GAAP it is applied pro rata to reduce the fair value of assets acquired.

The REIT is also required to assess whether the acquisition of investment property represents a business combination or asset purchase. Under IFRS, transaction costs are expensed in a business combination but are generally capitalized in an asset purchase.

Income Tax
The *Income Tax Act* (Canada) contains rules (the "SIFT Rules"), which tax certain publicly traded or listed trusts in a manner similar to corporations and taxes certain distributions from such trusts as taxable dividends from a taxable Canadian corporation. Distributions paid by a SIFT as returns of capital will generally not be subject to the tax. The SIFT Rules are not applicable to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Exception").

Under Canadian GAAP and IFRS, REITs that qualify for the REIT Exception are not required to recognize future income tax assets or liabilities on temporary differences when there is an intention by management to distribute its taxable income to unitholders.

IFRS 1

In general, IFRS 1 requires an entity to retrospectively apply IFRS standards at the date of transition to IFRS. IFRS 1 provides certain exemptions and exceptions to the retrospective application of IFRS standards. The REIT commenced operations on March 25, 2010 subsequent to the transition date to IFRS (January 1, 2010) and as a result has not utilized any optional IFRS 1 exemptions.

SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies is described in note 2 to the condensed consolidated interim financial statements for the three months ended March 31, 2011. The disclosures required by IFRS 1 concerning the transition from Canadian GAAP to IFRS are given in note 23 to the condensed consolidated interim financial statements.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities as at each financial statement date, and revenues and expenses for the periods indicated. Actual results could differ from those estimates. The significant judgements and key estimates are outlined in note 1 of the condensed consolidated interim financial statements. The valuation of investment properties is one of the principal estimates and uncertainties of the REIT.

The REIT determined the fair value of each investment property using the discounted cash flow method. The discounted cash flow method discounts the expected future cash flows, generally over a term of ten 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 commercial properties are set out in the following tables:

	March 31, 2011	December 31, 2010	March 25, 2010
Discount rates – range	7.5% - 11.0%	7.8% - 11.0%	–
Discount rate – weighted average	8.6%	8.9%	
Terminal capitalization rate - range	6.5% - 10.3%	7.0% - 10.3%	–
Terminal capitalization rate - weighted average	8.0%	8.1%	–

PART VIII

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the Units and in the activities of the REIT, including the following, which current and prospective Unitholders should carefully consider.

Risk Factors Related to the Real Estate Industry

Real Property Ownership and Tenant Risks
The REIT owns the properties in its portfolio and is expected in the future to acquire interests in other real property. All real property investments are subject to elements of risk. By specializing in a particular type of real estate, the REIT is exposed to adverse effects on that segment of the real estate market and does not benefit from a diversification of its portfolio by property type.

The value of real property and any improvements thereto depends on the credit and financial stability of tenants, and upon the vacancy rates of the properties. AFFO will be adversely affected if a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of available space in the properties in which the REIT will have an interest become vacant and are not able to be leased on economically favourable lease terms.

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to the REIT than the existing lease. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting the REIT's investment may be incurred. Furthermore, at any time, a tenant of any of the properties in which the REIT has an interest may seek the protection of bankruptcy, insolvency or similar laws that could result in the disclaimer and termination of such tenant's lease, any of which events could have an adverse effect on the REIT's financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders. Certain of the REIT's tenants may require licences to operate their business, such as laboratories. To the extent these businesses are unable to obtain licences or maintain existing licences, the REIT's operations may be adversely impacted. The ability to rent unleased space in the properties in which the REIT will have an interest will be affected by many factors, including general economic conditions, local real estate markets, changing demographics, supply and demand for leased premises, competition from other available premises and various other factors, many of which are beyond the REIT's control.

Fixed Costs
The failure to rent unleased space on a timely basis or at all would likely have an adverse effect on the REIT's financial condition and results of operation and decrease the amount of cash available for distribution to Unitholders. Certain significant expenditures, including property taxes, ground rent, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether a property is producing any income. If the REIT is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale or the landlord's exercise of remedies. Costs may also be incurred in making improvements or repairs to property required by a new tenant and income may be lost as a result of any prolonged delay in attracting suitable tenants to the vacant space.

The timing and amount of capital expenditures by the REIT will indirectly affect the amount of cash available for distribution to Unitholders. Distributions may be reduced, or even eliminated, at times when the REIT deems it necessary to make significant capital or other expenditures.

Liquidity
Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the REIT were to be required to liquidate its real property investments, the proceeds to the REIT might be significantly less than the aggregate carrying value of its properties which could have an adverse effect on the REIT's financial condition and results of operation and decrease the amount of cash available for distribution to Unitholders.

Competition
The real estate business is competitive. Numerous other developers, managers and owners of office properties will compete with the REIT in seeking tenants. Some of the properties located in the same markets as the REIT's properties are newer, better located, less levered or have stronger tenant profiles than the REIT's properties. Some property owners with properties located in the same markets as the REIT's properties may be better capitalized and may be stronger financially and hence better able to withstand an economic downturn. The existence of developers, managers and owners in such markets and competition for the REIT's tenants could have a negative effect on the REIT's ability to lease space in its properties in such markets and on the rents charged or concessions granted, which could have an adverse effect on the REIT's financial condition and results of operation and decrease the amount of cash available for distribution to Unitholders.

Competition for acquisitions of real properties can be intense and some competitors may have the ability or inclination to acquire properties at a higher price or on terms less favourable than those that the REIT may be prepared to accept. An increase in the availability of investment funds, an increase in interest in real property investments or a decrease in interest rates may tend to increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them.

Current Economic Environment
Continued concerns about the uncertainty over whether the economy will be adversely affected by inflation, deflation or stagflation, and the systemic impact of increased unemployment, volatile energy costs, global geopolitical issues, the availability and cost of credit, and continued uncertainty related to the overall global economy have contributed to increased market volatility and somewhat weakened business and consumer confidence. Although the Healthcare Real Estate industry is an asset class that is not typically impacted by recessions or economic slowdowns, this difficult operating environment could adversely affect the REIT's ability to generate revenues, thereby reducing its operating income and earnings. It could also have an adverse impact on the ability of the REIT's tenants and operators to maintain occupancy rates in the REIT's properties, which could harm the REIT's financial condition. If these economic conditions continue, the REIT's tenants and operators may be unable to meet their rental payments and other obligations due to the REIT, which could have a material adverse effect on the REIT.

<u>Risk Factors Related to the Business of the REIT</u>

Acquisitions
The REIT's business plan includes growth through identifying suitable acquisition opportunities, pursuing such opportunities, consummating acquisitions and effectively operating and leasing such properties. If the REIT is unable to manage its growth effectively, it could adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders. There can be no assurance as to the pace of growth through property acquisitions or that the REIT will be able to acquire assets on an accretive basis, and as such there can be no assurance that distributions to Unitholders will increase in the future.

Acquisitions and development agreements entered into with third parties may be subject to unknown, unexpected or undisclosed liabilities which could have a material adverse impact on the operations and financial results of the REIT. Representations and warranties given by such third parties to the REIT may not adequately protect against these liabilities and any recourse against third parties may be limited by the financial capacity of such third parties. Moreover, the acquired properties may not meet expectations of operational or financial performance due to unexpected costs associated with developing an acquired property, as well as the general investment risks inherent in any real estate investment.

Access to Capital

The real estate industry is highly capital intensive. The REIT will require access to capital to maintain its properties, as well as to fund its growth strategy and significant capital expenditures from time to time. Although the REIT's Revolving Credit Facility is available for acquisitions, there can be no assurances that the REIT will otherwise have access to sufficient capital or access to capital on terms favourable to the REIT for future property acquisitions, financing or refinancing of properties, funding operating expenses or other purposes. In addition, the REIT may not be able to borrow funds under the Revolving Credit Facility due to the limitations on the incurrence of debt by the REIT set forth in the Declaration of Trust. Failure by the REIT to access required capital could adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution.

Financing Risks

As at March 31, 2011 the REIT had outstanding indebtedness of approximately $417.5 million, excluding Class B exchangeable units. Although a portion of the cash flow generated by investment properties will be devoted to servicing such debt, there can be no assurance that the REIT will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If the REIT is unable to meet interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. The failure of the REIT to make or renegotiate interest or principal payments or obtain additional equity, debt or other financing could adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders.

The REIT will be subject to the risks associated with debt financing, including the risk that the mortgages and banking facilities secured by the REIT's properties will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness, which may reduce AFFO. In order to minimize this risk, the REIT will attempt to diversify the term structure of its debt so that in no one year a disproportionate amount of its debt matures. As at March 31, 2011 $44.9 million of the REIT's total indebtedness, pursuant to the Revolving Credit Facility and Interim Bridge Facility, is at variable rates and this will result in fluctuations in the REIT's cost of borrowing as interest rates change. To the extent that interest rates rise, the REIT's operating results and financial condition could be adversely affected and decrease the amount of cash available for distribution. In addition, the REIT has conduit loans outstanding as at March 31, 2011. Due to the current economic climate, access to this type of financing has diminished significantly. Although substantially all of the amounts outstanding under the REIT's conduit loans mature in 2014 or later, there is a risk that the REIT may not be able to refinance such loans on similar terms, although, based upon the REIT's current loan-to-value ratios and loan amortizations, the REIT expects to be able to refinance such conduit loans as they come due.

The Revolving Credit Facility and Interim Bridge Facility contain covenants that require it to maintain certain financial ratios on a consolidated basis. If the REIT does not maintain such ratios, its ability to make distributions will be limited.

Environmental Matters
Environmental legislation and regulations have become increasingly important in recent years. As an owner of interests in real property in Canada, the REIT is subject to various Canadian federal, provincial and municipal laws relating to environmental matters. Such laws provide that the REIT could be, or become, liable for environmental harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under its properties. Further, liability may be incurred by the REIT with respect to the release of such substances from the REIT's properties to properties owned by third parties, including properties adjacent to the REIT's properties. The failure to remove or otherwise address such substances or properties, if any, may adversely affect the REIT's ability to sell such property, realize the full value of such property or borrow using such property as collateral security, and could potentially result in claims against the REIT by public or private parties by way of civil action.

The REIT's operating policy is to obtain a Phase I environmental site assessment, conducted by an independent and experienced environmental consultant, prior to acquiring a property and to have Phase II environmental site assessment work completed where recommended in a Phase I environmental site assessment. Although such environmental site assessments would provide the REIT with some level of assurance about the condition of property, the REIT may become subject to liability for undetected contamination or other environmental conditions at its properties against which the REIT cannot insure, or against which the REIT may elect not to insure, which could negatively impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution.

The REIT is not aware of any material non-compliance with environmental laws at any of its properties, and is not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties. The REIT has implemented policies and procedures to assess, manage and monitor environmental conditions at its properties to manage exposure to liability.

The REIT will make the necessary capital and operating expenditures to comply with environmental laws and address any material environmental issues and such costs relating to environmental matters may have a material adverse effect on the REIT's business, financial condition or results of operation and decrease the amount of cash available for distribution. However, environmental laws can change and the REIT may become subject to even more stringent environmental laws in the future, with increased enforcement of laws by the government. Compliance with more stringent environmental laws, which may be more rigorously enforced, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have an adverse effect on the REIT's financial condition and results of operation and decrease the amount of cash available for distribution to Unitholders.

Potential Conflicts of Interest
The Trustees will, from time to time, in their individual capacities, deal with parties with whom the REIT may be dealing, or may be seeking investments similar to those desired by the REIT. The interest of these persons could conflict with those of the REIT. The Declaration of Trust contains conflict of interest provisions requiring the Trustees to disclose their interests in certain contracts and transactions and to refrain from voting on those matters.

Conflicts may exist due to the fact that certain Trustees of the REIT will be affiliated with NW Trust. The REIT and NW Trust will enter into certain arrangements, including those relating to certain rights of first offer and development arrangements in respect of certain properties and the head leases described under ''Retained Interests'' in the Annual Information Form. NW Trust and its affiliates are engaged in a wide variety of real estate activities. The REIT may become involved in transactions that conflict with the interests of the foregoing.

General Insured and Uninsured Risks

The business carried on by the REIT entails an inherent risk of liability. The REIT expects that from time to time it may be subject to lawsuits as a result of the nature of its business. The REIT will carry comprehensive general liability, fire, flood, extended coverage and rental loss insurance with customary policy specifications, limits and deductibles. The REIT will have insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements, and will continue to carry such insurance if it is economical to do so. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. A successful claim against the REIT not covered by, or in excess of, the REIT's insurance could have a material adverse effect on the REIT's business, operating results and financial condition. Claims against the REIT, regardless of their merit or eventual outcome, also may have a material adverse effect on their ability to attract tenants or expand their businesses, and will require management to devote time to matters unrelated to the operation of the business.

Regulation Risk

The healthcare industry is highly regulated, and changes in government regulation and reimbursement in the past have had material adverse consequences on the industry in general, which consequences may not have been contemplated by lawmakers and regulators. There can be no assurance that future changes in government regulation of healthcare will not have a material adverse effect on the healthcare industry, which could in turn have an adverse effect on the REIT.

Land Leases

To the extent the properties in which the REIT has or will have an interest are located on leased land, the land leases may be subject to periodic rate resets which may fluctuate and may result in significant rental rate adjustments which would likely adversely impact the REIT's financial condition and results of operation and decrease the amount of cash available for distribution. Land leases may also be terminated or not renewed upon expiry.

Specific Lease Considerations

Some of the leases in the REIT's properties are leased on a base year or semi-gross basis or otherwise have caps on operating costs and/or tax recoveries. As a result, the REIT will bear the economic cost of increases in certain of the operating costs and/or property taxes in such cases to the extent it is not able to fully recover increases in operating costs and property taxes from these tenants which increases would likely adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders.

Reliance on Key Personnel

The management and governance of the REIT depends on the services of certain key personnel, including the names executive officers of the REIT and the Trustees. The loss of the services of any key personnel could have an adverse effect on the REIT and adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution. The REIT does not have key man insurance on any of its key employees.

Limit on Activities

In order to maintain its status as a ''mutual fund trust'' under the Tax Act, the REIT cannot carry on most active business activities and is limited in the types of investments it may make. The Declaration of Trust contains restrictions to this effect.

Occupancy by Tenants

Although certain, but not all, leases contain a provision requiring tenants to maintain continuous occupancy of leased premises, there can be no assurance that such tenants will continue to occupy such premises. Certain tenants have a right to terminate their leases upon payment of a penalty but others are not required to pay any penalty associated with an early termination. There can be no assurance that tenants will continue their activities and continue occupancy of the premises. Any cessation of occupancy by tenants may have an adverse effect on the REIT and could adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution.

Forecasted Occupancy Rates and Revenues in Excess of Historical Occupancy Rates and Revenues

Historical occupancy rates and revenues are not necessarily an accurate prediction of the future occupancy rates for the REIT's properties or revenues to be derived therefrom. There can be no assurance that, upon the expiry or termination of the leases currently in effect, the average occupancy rates and revenues will be the same as, or higher than, historical occupancy rates and revenues.

Lease Renewals and Rental Increases

Expiries of leases for the REIT's properties, including those of significant tenants, will occur from time to time over the short and long-term. No assurance can be provided that the REIT will be able to renew any or all of the leases upon their expiration or that rental rate increases will occur or be achieved upon any such renewals. The failure to renew leases or achieve rental rate increases may adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution.

NW Trust Indemnity and Prior Commercial Operations

The indirect acquisition of the properties owned by the REIT in connection with its IPO included the indirect acquisition from NW Trust of all of the outstanding partnership units of Healthcare Properties LP ("HPLP"). Pursuant to the Acquisition Agreement, NW Trust made certain representations and warranties to the REIT with respect to HPLP. NW Trust also provided an indemnity to the REIT under the Acquisition Agreement that, subject to certain conditions and thresholds, NW Trust will indemnify the REIT for breaches of such representations and warranties. Although NW Trust has covenanted to maintain minimum net assets of $20 million plus an amount equal to the present value of its basic and additional rent obligations under the Head Leases plus 25% of tenant inducement obligations, from time to time, calculated using a discount rate equal to the appropriate Government of Canada bond rate for the remaining term of the Head Leases, for a period of 18 months following Closing, there can be no assurance that the REIT will be fully protected in the event of a breach of such representations and warranties or that NW Trust will be in a position to indemnify the REIT if any such breach occurs. The REIT may not be able to successfully enforce the indemnity contained in the Acquisition Agreement against NW Trust or such indemnity may not be sufficient to fully indemnify the REIT from third party claims. The REIT may also be subject to undisclosed liability to third parties as a result of the prior history of HPLP and such liability may be material, which could negatively impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution.

Phase II Development Agreement – Glenmore Professional Centre

There can be no assurances that the prospective future development of the additional parcel at the Glenmore Professional Centre (the "Phase II Development Agreement") will be achieved, in which case the vendor has the right after June 24, 2011 (or such other period as may be agreed) to require the REIT to obtain a severance of the development parcel and re-convey such parcel to the vendor or as it may direct for $2,950,000. In such event, the vendor will be obligated to replace any existing parking stalls lost as a result with on-site (except during construction) surface or underground parking stalls. There exist certain costs (which may be substantial) and certain risks traditionally associated with land severances including the availability of, or conditions to, municipal consent and accordingly, there is no guarantee that the REIT will be able to secure such land severance. Even if the Phase II Development Agreement is achieved, there exist certain risks traditionally associated with real estate development. The Phase II development would be subject to construction risks attributable to construction projects, including construction delays, the availability and timing of municipal approvals, and cost overruns.

Risk Factors Related to the Units

Cash Distributions are Not Guaranteed
There can be no assurance regarding the amount of income to be generated by the REIT's properties. The ability of the REIT to make cash distributions, and the actual amount distributed, will be entirely dependent on the operations and assets of the REIT, and will be subject to various factors including financial performance, obligations under applicable credit facilities, fluctuations in working capital, the sustainability of income derived from the tenant profile of the REIT's properties and capital expenditure requirements. The market value of the Units will deteriorate if the REIT is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors.

Tax-Related Risk Factors
Management of the REIT believes the REIT currently qualifies as a mutual fund trust for income tax purposes. If the REIT were not to so qualify, the consequences could be material and adverse.

The *Income Tax Act* (Canada) contains rules, which tax certain publicly traded or listed trusts in a manner similar to corporations and taxes certain distributions from such trusts as taxable dividends from a taxable Canadian corporation. Distributions paid by a SIFT as returns of capital will generally not be subject to the tax.

The SIFT Rules are not applicable to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue. Unless the REIT qualifies for the REIT Exception, the SIFT Rules could impact the level of cash distributions which would otherwise be made by the REIT and the taxation of such distributions to Unitholders.

Management of the REIT has determined that the REIT is not subject to the SIFT tax as it meets the REIT Exception at March 31, 2011, and plans to continue to do so in the future. Accordingly, no current income tax expense or future income tax assets or liabilities have been recorded in the March 31, 2011, condensed consolidated interim financial statements.

The REIT Exception is applied on an annual basis. As such, it will not be possible to determine if the REIT will satisfy the conditions of the REIT Exception for 2011 or any subsequent year until the end of the particular year.

Restrictions on Redemptions
The entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the following limitations: (i) the total amount payable by the REIT in respect of such Units and all other Units tendered for redemption in the same calendar month must not exceed $50,000 (provided that such limitation may be waived at the discretion of the Trustees); (ii) at the time such Units are tendered for redemption, the outstanding Units must be listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, provides fair market value prices for the Units; (iii) the trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the redemption date for more than five trading days during the 10 day trading period commencing immediately after the

redemption date; and (iv) the redemption of the Units must not result in the delisting of the Units on the principal stock exchange on which the Units are listed.

Potential Volatility of Unit Prices
One of the factors that may influence the market price of the Units is the annual yield on the Units. An increase in market interest rates may lead purchasers of Units to demand a higher annual yield, which accordingly could adversely affect the market price of the Units. In addition, the market price of the Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of the REIT.

Nature of Investment
A holder of a Unit of the REIT does not hold a share of a body corporate. As holders of Units of the REIT, the Unitholders will not have statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring ''oppression'' or ''derivative'' actions. The rights of Unitholders are based primarily on the Declaration of Trust. There is no statute governing the affairs of the REIT equivalent to the OBCA or the CBCA which sets out the rights and entitlements of shareholders of corporations in various circumstances. As well, the REIT may not be a recognized entity under certain existing insolvency legislation such as the *Bankruptcy and Insolvency Act* (Canada) and the *Companies Creditors' Arrangement Act* (Canada) and thus the treatment of Unitholders upon an insolvency is uncertain.

Availability of Cash Flow
AFFO may exceed actual cash available to the REIT from time to time because of items such as principal repayments, and tenant allowances, leasing costs and capital expenditures in excess of stipulated reserves identified by the REIT in its calculation of AFFO and redemptions of Units, if any. The REIT may be required to use part of its debt capacity or to reduce distributions in order to accommodate such items. The REIT anticipates temporarily funding such items, if necessary, through the Revolving Credit Facility in expectation of refinancing long-term debt on its maturity.

Dilution
The number of Units the REIT is authorized to issue is unlimited. The REIT may, in its sole discretion, issue additional Units from time to time, and the interests of the holders of Units may be diluted thereby.

Public Market Fluctuations
The REIT cannot predict at what price the Units will trade and there can be no assurance that an active trading market will develop after the IPO or, if developed, that such a market will be sustained at the price level of the IPO or follow-on equity offerings. A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets.

Indirect Ownership of Units by NW Trust
NW Trust and its affiliates hold an estimated 21% economic interest in the REIT at March 31, 2011, through the ownership of REIT units and Class B exchangeable units, each of which are exchangeable at the option of the holder for one Unit of the REIT and will be attached to a Special Voting Unit of the REIT, providing for voting rights in the REIT. Furthermore, pursuant to the Declaration of Trust, NW Trust will be entitled to appoint a certain number of Trustees based on the percentage of Units held by it. Thus, NW Trust will be in a position to exercise a certain influence with respect to the affairs of the REIT. If NW Trust reduces its ownership interest in the REIT, the market price of the Units could fall. The perception among the public that these sales may occur could also produce such effect.

PART IX

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The REIT's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, the REIT's disclosure controls and procedures (as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, adopted by the Canadian Securities Administrators) to provide reasonable assurance that (i) material information relating to the REIT, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the interim filings are being prepared, and (ii) material information required to be disclosed in the interim fillings or other reports filed or submitted by the REIT under securities legislation is recorded, processed, summarized and reported on a timely basis and within the time period specified by securities legislation. The Chief Executive Officer and the Chief Financial Officer have satisfied themselves that as at March 31, 2011, the design of disclosure controls and procedures continues to be appropriate.

Internal Controls Over Financial Reporting

The REIT's Chief Executive Officer and Chief Financial Officer have designed the REIT's internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and the Chief Financial Officer have satisfied themselves that as at March 31, 2011, the design of internal controls over financial reporting continues to be appropriate.

Changes in Internal Controls Over Financial Reporting

IFRS – Investment Property Valuations

The REIT has designed an adequate and appropriate controls framework to fair value its investment properties. These controls include utilizing qualified personnel, staff training, review of the assumptions including discount rates, operating costs, future rental rates, leasing activities and capital expenditure. The fair values derived are also subject to multiple levels of review and approved by management.

There were no other significant changes made in internal controls over financial reporting during the 3 month period ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting.

Inherent Limitation

Internal controls over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of their inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusions or improper management override. Because of such limitations, there is risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

PART X

SUBSEQUENT EVENTS

- Subsequent to the quarter on April 1, 2011 the REIT acquired the Malvern Medical Arts Building for $16.75 million. The Malvern Medical Arts Building is a Class "A" office complex located at 1333 Neilson Road, in the former city of Scarborough portion of Toronto, approximately 3.7 kilometres from the Rouge Valley Centenary Hospital. The property consists of a 40,974 square foot medical office building and is currently 99% occupied.
- The REIT agreed to acquire Tawa Centre, a 94,500 square foot medical office complex immediately adjacent to one of Edmonton's primary hospitals. The purchase price is approximately $25.9 million and the acquisition is expected to close in the second quarter.
- The REIT closed a $65 million, 10 year fixed rate mortgage financing at 5.11% on the Dundas-Edward Centre.
- The REIT renewed the mortgage on Glenmore Professional Centre at $35 million, for two years, with a fixed interest rate of 3.40%.
- Subsequent to the quarter, the REIT fully repaid the balances outstanding on the Revolving Credit Facility and Interim Bridge Facility.
- The REIT declared distributions of $0.06667 per unit to unitholders of record as at April 30, 2011 and May 31, 2011.
- Subsequent to the quarter, the REIT renewed the mortgage on Glenmore Professional Centre at $35 million, for two years, with a fixed interest rate of 3.40%.

PART XI

FINANCIAL OUTLOOK AND MARKET GUIDANCE

Management's outlook for the REIT is consistent with the recently produced financial update in the Short Form Prospectus dated March 2, 2011 which can be found on SEDAR at www.sedar.com. There is no material change to the operating or economic environment within which the REIT operates.

In order to achieve its objectives the REIT will focus on:

- Increasing occupancy in the portfolio
- Maximizing net operating income
- Acquiring assets on an accretive basis
- Improving operational productivity

Apart from the sometimes significant difference between vendor and purchaser pricing, as well as increasing competition for good quality income-producing properties, the current market for acquisitions is favourable for the REIT's expansion plans, with both debt and equity markets accessible and the market of Healthcare Real Estate fragmented in terms of current ownership. Since the IPO, to date, the REIT has completed or announced the acquisition of approximately $320 million of healthcare assets. The REIT will continue to actively pursue acquisitions, with a focus on properties within markets the REIT already operates, and a preference for well-occupied and well-located properties in order to consistently improve the REIT's portfolio quality.