NORTHWEST HEALTHCARE PROPERTIES
REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION
FOR THE THREE MONTHS AND YEAR ENDED
DECEMBER 31, 2012

March 5, 2013

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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 and year ended December 31, 2012.

This MD&A is based on the REIT's consolidated financial statements for the year ended December 31, 2012, prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are in thousands of Canadian dollars, except where otherwise stated. Per Unit amounts are presented in Canadian dollars, on a diluted basis including Class B Exchangeable Units, except where otherwise stated.

This MD&A should be read in conjunction with the REIT's consolidated financial statements and accompanying notes for the year ended December 31, 2012, prepared in accordance with IFRS. Additional information about the REIT, including the REIT's annual information form dated March 12, 2012 (the "Annual Information Form"), can be found on SEDAR at www.sedar.com.

Throughout this MD&A the following terms have the meanings set forth below, unless otherwise indicated. Words importing the singular include the plural and vice versa:

- "Class B Exchangeable Unit" means Class B limited partnership unit of NHP Holdings Limited Partnership, exchangeable for Units;
- "Special Voting Unit" means a special voting unit of the REIT attached to a Class B Exchangeable Unit;
- "Unit" or "REIT Unit" means a unit of the REIT; and
- "Unitholder" means a holder of Units and any reference to a Unitholder in the context of such Unitholder's right to vote at a meeting of Unitholders also includes reference to a holder of Special Voting Units;

PART I

FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking statements which reflect management's expectations regarding objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities of the REIT. The words "plans", "expects", "does not expect", "scheduled", "estimates", "intends", "anticipates", "does not anticipate", "projects", "believes" or variations of such words and phrases or statements to the effect that certain actions, events or results "may", "will", "could", "would", "might", "occur", "be achieved" or "continue" and similar expressions identify forward-looking statements. Some of the specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to the following:

- the intention of the REIT to pay stable and growing distributions;
- the ability of the REIT to execute its growth strategies;
- any projections of financial performance of the REIT for the periods set out herein;
- the expected tax treatment of the REIT's distributions to Unitholders;
- the ability of the REIT to qualify for the REIT Exception (as defined herein);
- the access of the REIT to debt markets; and
- the expected healthcare industry and demographic trends.

Forward-looking statements are necessarily based on a number of estimates and assumptions that, while considered reasonable by management of the REIT as of the date of this MD&A, are inherently subject to significant business, economic and competitive uncertainties and contingencies. 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, and 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, the factors discussed under "Risk Factors". These forward-looking statements are made as of the date of this MD&A and, 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.

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 consolidated financial statements of the REIT for the year ended December 31, 2012. 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 its 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 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 to all Unitholders upon request. Further information regarding the Declaration of Trust can also be located in the REIT's Annual Information Form under the heading "Declaration of Trust". 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. Third party environmental surveys are required prior to the acquisition of any property.

At December 31, 2012, the REIT was in compliance with all investment guidelines and operating policies stipulated in the Declaration of Trust.

2012 HIGHLIGHTS

We believe that our efforts and achievements during 2012 have enhanced our market leading position in the Healthcare Real Estate sector in Canada. As of December 31, 2012, our portfolio included 77 properties, comprising approximately 4.6 million square feet and approximately 1,600 tenants, in six provinces. Most of our tenants form part of the ever growing healthcare system and infrastructure of our country, benefitting from direct and indirect government funding and being much less susceptible to economic slowdowns and market volatility.

During the year we progressed on our key strategic priorities, as we improved our financial and operating performance, expanded and improved our property portfolio, and strengthened our mix of primarily healthcare, government and institutional tenants.

We improved our financial results, specifically our FFO and AFFO per Unit even while increasing the number of Units outstanding. This allowed us to lower our AFFO payout ratio to 94% by the fourth quarter (96% for the year). During the year we also took advantage of favourable borrowing conditions to enhance our liquidity and reduce our borrowing costs (our weighted average mortgage interest rate is now below 5%), while maintaining a reasonable debt to gross book value ratio (51.6%) and comfortable debt service ratio.

We continued to expand and improve our property portfolio for the long term betterment of the REIT, by way of both external growth via acquisitions and improvements to our existing properties via active asset management and investment.

The external growth included the acquisition during the year of 19 additional properties having an aggregate value of approximately $171 million and comprising over 550,000 square feet. Such acquisitions improved our portfolio by firstly, increasing tenant and geographic diversification and thus reducing risk, and secondly, allowing us to add many newer and modernly designed buildings, many of which are the dominant healthcare buildings in their respective markets.

Twelve of the acquired properties, all traditional medical office buildings located in Ontario, were previously owned by TSXV-listed GT Canada Medical Office Properties REIT (“GT REIT”). In addition to acquiring all of their Canadian assets, the transaction had the effect of removing GT REIT as a competitor in Ontario, leaving our REIT as the only publicly listed entity focused primarily on commercial healthcare real estate in Canada.

In addition to our external growth successes, we continued to focus on improving the existing portfolio and positioning our assets for long term success. We maintained our strategy of increasing the healthcare component of our tenant base whenever possible, even if it meant delayed occupancy or temporary vacancy while we sought the right tenant. While we would have preferred to see more immediate gains in occupancy during 2012, we remain confident that occupancy gains will be seen in 2013 and beyond. In fact, our occupancy challenges are limited for the most part to seven properties representing less than 10% of our total GLA. Excluding these properties, portfolio occupancy was stabilized at a stronger 94%, which we believe is more indicative of the mid and long term prospects for our portfolio. The timing of our expected improvements in occupancy was delayed by some one-time situations and the strategic non-renewal of some select non-healthcare tenancies in order to better position certain properties for intensified healthcare uses over the long term. To improve performance for the portfolio, and specifically the locations currently experiencing challenges, we are investing capital and bolstering our marketing and leasing efforts. We are pleased to observe that our new leasing efforts gained momentum in the latter part of the year.

Another achievement for the REIT during 2012 was that we enhanced our platform and the quality of our healthcare relationships across much of the country, including entering important new markets such as Ottawa, which will benefit us in the years ahead.

We enter 2013 feeling optimistic and confident that we are well positioned to further grow our market leading position in the Healthcare Real Estate sector in Canada.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Expressed in thousands of dollars	As at December 31, 2012	As at December 31, 2011
Operational information	(Unaudited)	(Unaudited)
Number of properties	77	58
Gross Leasable Area ("GLA")	4,597,358	4,035,480
Occupancy %	91.2%	91.2%
Average lease term to maturity	4.6 years	4.4 years
Weighted average in place net rental rate ($psf)	$16.30	$16.03
Summary of Financial information	(Unaudited)	(Unaudited)
Gross Book Value	$1,281,477	$1,011,717
Debt (1)	$661,222	$507,659
Debt to Gross Book Value (2)	51.6%	50.2%
Weighted average mortgage interest rate (3)	4.93%	5.22%
Weighted average mortgage term	4.6 years	5.0 years
Adjusted Units outstanding – period-end (4):		
Basic	46,115,449	42,847,569
Diluted	46,292,584	42,940,288

	For the three months ended December 31, 2012	For the year ended December 31, 2012
Summary of Financial information	(Unaudited)	(Unaudited)
Revenue	$36,704	$134,458
NOI (5)	$20,075	$73,632
FFO (5)	$11,651	$43,623
FFO per Unit (Adjusted fully diluted) (6)	$0.26	$0.99
AFFO (5)	$9,664	$36,690
AFFO per Unit (Adjusted fully diluted) (6)	$0.21	$0.83
Distributions per Unit	$0.20	$0.80
AFFO Payout ratio	94%	96%
Interest coverage (7)	2.44x	2.53x
Net debt/EBITDA(8)	8.3x	9.1x
Adjusted weighted average Units outstanding for the period (4):		
Basic	45,220,697	43,953,786
Diluted	45,390,255	44,100,767

Notes:

(1) Debt is presented net of a Mark to Market premium of $3,232 (December 31, 2011 -$3,067) and unamortized financing costs of $1,372 (December 31, 2011 - $568).

(2) Defined as total debt excluding Class B Exchangeable Units, divided by total assets

(3) Current market weighted average mortgage interest rate is approximately 3.5%

(4) 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 per unit measure that includes the Class B Exchangeable Units in basic and diluted units outstanding/weighted average units outstanding. There were 7,615,546 Class B Exchangeable Units outstanding as at December 31, 2012 and December 31, 2011.

(5) 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 consolidated financial statements of the REIT.

(6) 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 and year ended December 31, 2012. AFFO amounts are calculated utilizing a stabilized reserve for growth capital expenditures, leasing costs and tenant improvements of 4.5% of revenue from investment properties.

(7) 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.

(8) Defined as debt less cash and cash equivalents divided by annualized net income before fair value adjustment of investment properties plus finance costs.

SUMMARY OF SIGNIFICANT EVENTS

- AFFO per Unit was $0.21 for the quarter.
- Occupancy was 91.2% at the end of the quarter.
- On December 20, 2012 the REIT acquired 245 Curé-Majeau, a recently expanded and renovated government healthcare administration building located in Joliette, Quebec, northeast of Montreal. The property was purchased for $10 million free and clear of mortgages, and is expected to be immediately accretive. The REIT secured new 10-year mortgage financing for $7.5 million on the property at a fixed interest rate of 4.07%. Comprised of 53,771 square feet, 245 Curé-Majeau is leased exclusively on a long term basis (until 2023) to the Agence de la Santé et des Services Sociaux de Lanaudière (CSSS), a regional health authority responsible for deployment of management and the allocation of financial resources to area healthcare facilities, including several local hospitals. The investment was the REIT's sixteenth asset in the Province of Quebec.
- On November 16, 2012 the REIT acquired an eleven property medical office building portfolio in Ontario (the "GT Portfolio") from a subsidiary of NorthWest International Healthcare Properties REIT, formerly GT REIT, controlled by NorthWest Value Partners Inc. ("NWVP") (see Part V Related Party Transactions), by way of share and unit transactions, with an effective date of October 1, 2012. The purchase price, as adjusted on closing, together with reimbursement of certain transaction costs, was $36.3 million, plus the assumption of mortgage debt of approximately $43.3 million. The purchase price, as adjusted, and transaction costs were satisfied by a cash payment of $6.3 million and a note in the amount of $30 million bearing interest at 8% (the "GT Note"). The acquisition is expected to be immediately accretive.
- On November 16, 2012 the REIT issued 1,746,142 Units to NorthWest Operating Trust ("NW Trust"), which is controlled by NWVP, in a private placement at a subscription price of $12.3125 per Unit for net proceeds of approximately $21.4 million.
- On November 14, 2012 the REIT acquired a medical office building municipally known as 249 Ontario Street, Port Hope from GT REIT, by way of share and unit transactions, with an effective date of October 1, 2012. The purchase price was $2.9 million, plus the assumption of mortgage debt of approximately $5.0 million, subject to usual adjustments, and is expected to be immediately accretive.
- During the quarter NWVP repaid in full the $41.3 million 7% loan from the REIT by a cash payment of $11.3 million plus accrued interest and with the $30 million balance set-off against the GT Note.
- The REIT paid distributions of $0.06667 per Unit on October 15, 2012, November 15, 2012 and December 14, 2012 consistent with its annualized target of $0.80 cents per Unit.

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 miscellaneous revenue, especially parking revenue, if applicable.

The Canadian real estate equity and debt capital markets are currently stable with debt 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 been a continuing but 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. The REIT believes, through accretive acquisitions that by efficiently leveraging its existing asset and property management platform, there are significant opportunities to grow the portfolio by being a consolidator within a sector that is characterized by relatively fragmented ownership. Further, portfolio growth often enhances the REIT's relationships with the healthcare communities within which it operates, which over the longer term, will likely also contribute to improved performance.

PART III

RESULTS OF OPERATIONS

The REIT's results of operations for the three months and year ended December 31, 2012 are summarized below:

Expressed in thousands of dollars	Three months ended December 31, 2012	Three months ended December 31, 2011	Variance	Year ended December 31, 2012	Year ended December 31, 2011	Variance
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from operations						
Base rent	$17,651	$14,947	$2,704	$65,045	$56,965	$8,080
Operating cost recoveries	14,615	12,797	1,818	53,250	46,891	6,359
Parking revenue	3,776	3,180	596	13,611	12,070	1,541
Other revenue	539	467	72	2,074	1,738	336
Revenue from investment properties	36,581	31,391	5,190	133,980	117,664	16,316
Management fee revenue	123	111	12	478	488	(10)
Revenue from operations	36,704	31,502	5,202	134,458	118,152	16,306
Property operating expenses	16,629	14,489	(2,140)	60,826	53,675	(7,151)
Operating income	20,075	17,013	3,062	73,632	64,477	9,155
Finance cost	8,118	6,153	(1,965)	28,424	23,425	(4,999)
Interest income	(502)	(42)	460	(2,002)	(98)	1,904
Trust expenses	808	847	39	3,587	3,225	(362)
Income before undernoted items	11,651	10,055	1,596	43,623	37,925	5,698
Finance cost – Class B Exchangeable Units	(1,523)	(1,523)	-	(6,093)	(6,119)	26
Finance cost - Fair value adjustment of Class B Exchangeable Units	4,569	(686)	5,255	(7,539)	1,509	(9,048)
Finance cost – Fair value adjustments of other financial instruments	8	-	8	(1,047)	-	(1,047)
Fair value adjustment of investment properties [1]	9,101	9,000	101	63,549	45,026	18,523
Net income	**$23,806**	**$16,846**	**$6,960**	**$92,493**	**$78,341**	**$14,152**

Notes:

(1) 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 for the three months ended December 31, 2012 is $5,202 greater than the actual for the three months ended December 31, 2011, primarily as a result of 21 properties acquired subsequent to September 30, 2011 that increased revenue $5,197 over the actual for the three months ended December 31, 2011.

Revenue from operations for the year ended December 31, 2012 is $16,306 greater than the actual for the year ended December 31, 2011, primarily as a result of 27 properties acquired subsequent to December 31, 2010 that increased revenue $15,939 over the actual for the year ended December 31, 2011.

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 for the three months ended December 31, 2012 were $2,140 greater than the three months ended December 31, 2011, as a result of acquisitions that contributed $2,118 to operating expenses. Operating expenses for the year ended December 31, 2012 were $7,151 greater than the year ended December 31, 2011, primarily as a result of acquisitions that contributed $6,716 to operating expenses.

Finance Cost

Interest expense for the three months ended December 31, 2012 is $1,965 greater than the three months ended December 31, 2011, as a result of mortgage interest on acquired properties of $972, interest on the GT Note and greater utilization of Revolving Credit Facility during the current year quarter.

Interest expense for the year ended December 31, 2012 is $4,999 greater than the actual results for the year ended December 31, 2011, as a result of mortgage interest on acquired properties of $4,811.

Interest Income

Interest income for the three months and year ended December 31, 2012, reflects interest earned on $41.3 million in notes payable issued by a subsidiary of NorthWest Value Partners Inc. and an $8 million loan secured by a medical office building in Owen Sound, Ontario, over which the REIT has a right of first offer.

Trust Expenses

Trust expenses for the three months ended December 31, 2012 decreased slightly over the prior year quarter as increased compensation costs associated with the deferred unit plan were offset by timing differences in the recognition of costs in the current year. The increase in trust expenses for the year ended December 31, 2012 over the year ended December 31, 2011 is primarily related to increased compensation costs associated with the deferred unit plan.

Finance Cost – Class B Exchangeable Unit distributions

Under IFRS the Class B Exchangeable Unit distributions are treated as a finance cost. Class B Exchangeable Units receive distributions that are equivalent to REIT Units. The REIT declared distributions of $0.0667 per REIT Unit for each of the months of January to December resulting in $1,523 and $6,093 of finance cost during the three months and year ended December 31, 2012, respectively, related to the Class B Exchangeable Units. The distributions per Unit declared during the three months and year ended December 31, 2011 were equivalent.

The slight decrease in the finance costs associated with the Class B Exchangeable Units over the prior year's year to date reflects the reduction in outstanding Class B Exchangeable Units following the conversion into REIT Units of 65,200 Class B Exchangeable Units in July 2011.

Finance Cost - Fair Value Adjustment of Class B Exchangeable Units

Under IFRS the Class B Exchangeable Units are carried at fair value with any change in value recognized in the statement of income. During the three month period ended December 31, 2012 the value of the Class B Exchangeable Units decreased from $13.08 to $12.48 resulting in a decrease of the Class B Exchangeable Unit liability and an associated gain of $4,569. During the three months ended December 31, 2011 the outstanding Class B Exchangeable Units increased from $11.40 to $11.49 resulting in an increase of the Class B Exchangeable Unit liability and an associated loss of $686.

During the year ended December 31, 2012 the value of the Class B Exchangeable Units increased from $11.49 to $12.48 resulting in an increase of the Class B Exchangeable Unit liability and an associated loss of $7,539. During the year ended December 31, 2011 the outstanding Class B Exchangeable Units decreased from $11.69 to $11.49 resulting in a decrease of the Class B Exchangeable Unit liability and an associated gain of $1,509.

Finance Cost – Fair value adjustments of other financial instruments

During the three months and year ended December 31, 2012 the REIT recognized a fair value gain of $8 and a fair value loss of $1,047, respectively, on interest rate swap contracts used to fix the interest rate on certain variable rate mortgages. The interest rate swap contracts have not been designated by the REIT as hedges and as a result fair value movements on the derivatives are recognized in statement of income rather than other comprehensive income. The fair value movements are non-cash in nature and are expected to reverse over the life of the contracts.

Fair Value Adjustment of Investment Properties

Under IFRS the REIT has elected to use the fair value model to account for its investment properties. The REIT's primary valuation methodology is discounted cash flow. 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 months and year ended December 31, 2012 the value of the REIT's investment properties increased by $9,101 and $63,549, respectively. See Part III – Investment Properties for additional information on the fair value changes to the REIT's investment properties.

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 December 31, 2012 represents income from investment properties held prior to October 1, 2011. Same property NOI for the year ended December 31, 2012 represents income from investment properties held prior to January 1, 2011. The REIT's NOI for the three months and year ended December 31, 2012 is summarized below:

Expressed in thousands of dollars	Three months ended December 31, 2012	Three months ended December 31, 2011	Variance	Year ended December 31, 2012	Year ended December 31, 2011	Variance
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Same property revenue from operations						
Base rent	$14,733	$14,868	($135)	$44,683	$45,575	($892)
Operating cost recoveries	12,839	12,756	83	37,522	36,569	953
Parking revenue	3,220	3,162	58	9,791	9,556	235
Other revenue	454	467	(13)	1,442	1,361	81
Revenue from investment properties	31,246	31,253	(7)	93,438	93,061	377
Same property operating expenses	14,453	14,431	(22)	42,773	42,338	(435)
Same property NOI	**16,793**	**16,822**	**(29)**	**50,665**	**50,723**	**(58)**
Management fee revenue	123	111	12	478	488	(10)
Acquisitions	3,159	80	3,079	22,489	13,266	9,223
NOI	**$20,075**	**$17,013**	**$3,062**	**$73,632**	**$64,477**	**$9,155**

Revenue from Investment Properties

Same property revenue from investment properties for the three months and year ended December 31, 2012 is $7 less and $377 greater, respectively, than the comparable prior year period.

For the three months and year ended December 31, 2012 the same property base rent decreased $135 and $892, respectively, over the comparable prior year periods. For the three months and year ended December 31, 2012 although the REIT had same property base rent improvements at many of its properties this progress continues to be affected by the impact of the loss of 15,045 square feet at the REIT's Rockyview Health Centre I property in Calgary, Alberta following the anticipated vacancy of a single tenant. The REIT continues working to replace this vacancy and has made progress in this regard as reflected in the improvements in base rent in the current quarter. The results for the year ended December 31, 2012 were also affected by the loss of approximately 9,200 square feet at the Royal Bank Building property in Dartmouth, Nova Scotia in mid-2011, following the vacancy of one large tenant due to our inability to accommodate this tenant's expansion requirements in an otherwise substantially full property. In addition the same property base rent is affected by the continued conversion of gross leases to net, which typically reduces base rent but increases operating cost recoveries.

Same property operating cost recovery revenue for the quarter increased $83 over the comparable prior year quarter. The increase reflects an increase in operating costs over the comparable prior quarter. Net operating cost recoveries increased approximately $61 over the comparable prior year quarter due to the conversion of gross leases to net.

Same property operating cost recovery revenue for the year to date increased $953 over the comparable prior year to date partially due to higher operating costs. Net operating cost recoveries also improved approximately $518 over the comparable prior year to date due to the continued conversion of gross leases to net.

Same property parking revenue is $58 and $235 more for the three months and year ended December 31, 2012, respectively, over the comparable prior year period due to paid parking improvements at several of the REIT's 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.

Same property operating expenses for the three months ended December 31, 2012 increased $22 over the three months ended December 31, 2011 primarily due to higher property taxes at several of the REIT's properties partially offset by lower repairs and maintenance costs and lower utility costs.

Same property operating expenses for the year ended December 31, 2012 increased $435 over the year ended December 31, 2011 due to property tax increases at several properties and increases in utilities, partially offset by lower repairs and maintenance costs and general and administration costs.

Management Fee Revenue

Management fee revenue for the three months and year ended December 31, 2012 is relatively unchanged from the comparable prior year period.

PORTFOLIO PROFILE

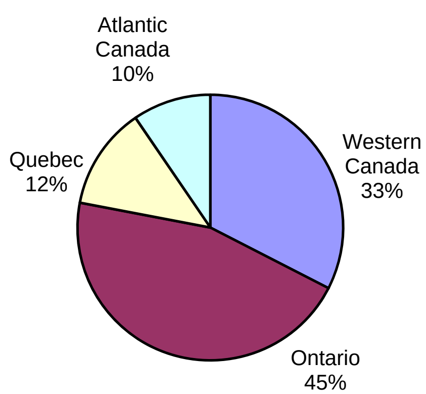
As of December 31, 2012, the REIT's portfolio consisted of 77 Healthcare Real Estate properties, located in six provinces. The properties had a total GLA of approximately 4.6 million square feet encompassing approximately 1,560 individual tenancies.

Geographic Diversification

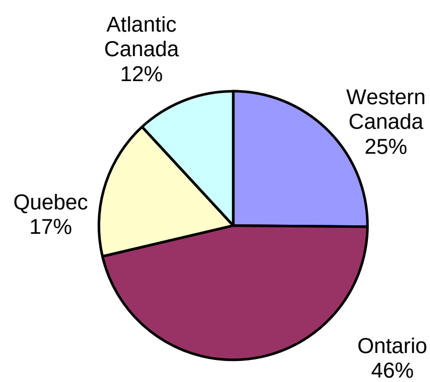
The properties are well diversified throughout Canada, with 79% of annualized NOI derived from the six major markets of the Greater Toronto Area (30%), Calgary (20%), Edmonton (12%), the Greater Montreal Area (9%), Quebec City (4%) and the Halifax Regional Municipality (4%) for the three months ended December 31, 2012. 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	14	1,155,703	93.3%	$21.41
Ontario	38	2,122,933	87.8%	15.84
Quebec	16	773,415	96.4%	12.29
Atlantic Canada	9	545,307	92.5%	13.29
Total	**77**	**4,597,358**	**91.2%**	**$16.30**

Geographic diversification by annualized NOI (2)



Geographic diversification By GLA



Notes:

(1) As at December 31, 2012

(2) Based on NOI for the 3 months ended December 31, 2012, excluding property management fees.

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. Approximately 77% of the REIT's tenants are healthcare-oriented. The average tenant occupies approximately 2,700 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 $16.30.

The following table summarizes the REIT's 10 largest tenants by percentage of gross rent for the three months ended December 31, 2012:

	Tenant	% of Gross Rent
1	Bantrel Corporation	4.3%
2	CLSC/CSSS	3.1%
3	Lawtons Drugs	2.0%
4	Alberta Health Services	1.9%
5	Shoppers Drug Mart	1.9%
6	The Hospital for Sick Children	1.5%
7	CML Healthcare	1.5%
8	Medical Imaging Consultants	1.3%
9	Albany Medical Clinic	1.2%
10	NorthWest Operating Trust[1]	1.2%
Total		**19.9%**

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

Leasing Activity

Leasing Activity (square feet) – three months ended December 31, 2012

	Total GLA	Occupied	Vacant	Committed[1]
September 30, 2012	4,262,292	3,889,361	372,931	165,134
Acquired	333,595	303,726	29,869	-
Expiries	-	(103,548)	103,548	-
Renewal	-	106,528	(106,528)	[2]91,825
Early Terminations	-	(17,759)	17,759	-
New Leasing	-	32,381	(32,381)	[3]16,950
Month to month	-	(20,738)	20,738	-
Re-measurements and other	1,471	1,537	(66)	-
December 31, 2012	4,597,358	4,191,488	405,870	273,909
Occupancy/Vacancy Rate	100%	91.2%	8.8%	

Notes:
(1) Represents existing tenants that have early renewed prior to lease expiry or new tenant leasing where the lease commences subsequent to the quarter end.
(2) Net change of 91,825 square feet during the quarter equals 153,321 square feet of early renewals during the quarter less 61,496 square feet of prior quarter early renewals that commenced during the current quarter.
(3) Net change of 16,950 square feet during the quarter equals 33,184 square feet of leasing, with lease commencement subsequent to the quarter, less 16,234 square feet of prior quarter new leasing that commenced during the current quarter.

Leasing Activity (square feet) –year ended December 31, 2012

	Total GLA	Occupied	Vacant	Committed[1]
December 31, 2011	4,035,480	3,679,903	355,577	26,666
Acquired	556,984	523,386	33,598	1,119
Expiries	-	(464,274)	464,274	-
Renewal	-	366,444	(366,444)	229,812
Early Terminations	-	(61,003)	61,003	-
New Leasing	-	176,917	(176,917)	16,312
Month to month	-	(30,901)	30,901	-
Re-measurements and other	4,894	1,016	3,878	-
December 31, 2012	4,597,358	4,191,488	405,870	273,909
Occupancy/Vacancy Rate	100%	91.2%	8.8%	

Notes:
(1) Represents existing tenants that have early renewed prior to lease expiry or new tenant leasing where the lease commences subsequent to the quarter end.

Renewal leasing:

The renewal ratio during the quarter was approximately 103% with 106,528 square feet of renewal leasing inclusive of 22,530 square feet of existing month to month tenants that renewed during the quarter. The REIT also early renewed 153,321 square feet of future expiries during the quarter. In addition 5,896 square feet of expiries remained in occupancy on a month to month basis, and are expected to renew.

During the quarter tenant renewals were completed at a weighted average initial net rent per square foot of $14.34 versus a weighted average expiring net rent per square foot of $14.51. The weighted average renewal rate was adversely affected by a strategic decision to retain a core medical tenant at one of our southwestern Ontario properties.

The 366,444 square feet of renewal leasing completed during the year was at a weighted average initial net rent per square foot of $15.12 versus a weighted average expiring net rent per square foot of $15.34.

New leasing:

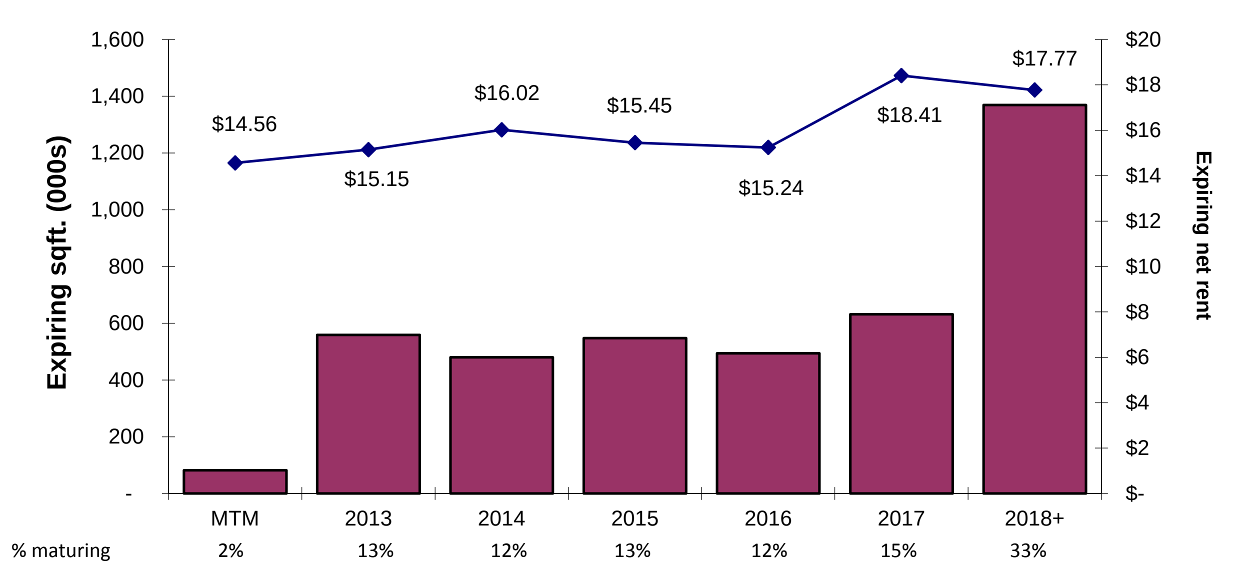
During the quarter the REIT completed 32,381 square feet of new leasing commencing in the quarter, plus 33,184 square feet of leasing with lease commencement subsequent to the quarter. New leasing commencing during the quarter was completed at a weighted average initial net rent per square foot of $11.29.

For the full year the REIT completed 176,917 square feet of new leasing at a weighted average initial net rent per square foot of $14.96.

<u>Lease Expiry Profile</u>

The REIT's diverse tenant base is complemented by a balanced lease maturity profile, with an average of 13% of GLA maturing each year between 2013 and 2017, as illustrated by the chart below, and, as of December 31, 2012, a weighted average term to maturity of 4.6 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 27,257 sq. ft. of residential space at Hys Centre

Expiring Square Feet						
	Western Canada	**Ontario**	**Quebec**	**Atlantic Canada**	**Total**	**Committed**
Month to month	3,548	65,951	433	12,044	81,976	-
2013	176,937	236,704	86,013	59,433	559,087	182,910
2014	132,451	240,376	63,316	44,096	480,239	43,537
2015	144,915	251,545	64,826	86,605	547,891	1,849
2016	63,585	270,475	114,757	45,298	494,115	-
2017	266,930	238,059	63,365	63,368	631,722	-
2018+	262,991	560,057	352,530	193,623	1,369,201	1,509
Total Expiries	1,051,357	1,863,167	745,240	504,467	4,164,232	229,805
Residential	27,257	-	-	-	27,257	-
	1,078,614	1,863,167	745,240	504,467	4,191,488	229,805
Vacant	77,089	259,766	28,175	40,840	405,870	44,104
Total GLA	1,155,703	2,122,933	773,415	545,307	4,597,358	273,909
Occupancy percentage	**93.3%**	**87.8%**	**96.4%**	**92.5%**	**91.2%**	

Expiring Net Rent						
	Western Canada	**Ontario**	**Quebec**	**Atlantic Canada**	**Total**	**Committed[(1)]**
Month to month	23.00	15.42	14.46	7.35	14.56	-
2013	19.04	15.41	9.87	10.12	15.15	15.52
2014	19.73	15.07	14.45	12.30	16.02	21.32
2015	20.35	15.16	13.08	9.88	15.45	20.50
2016	18.55	15.79	10.52	19.27	15.24	-
2017	23.74	14.72	15.68	12.55	18.41	-
2018+	24.02	18.42	13.06	15.96	17.77	26.00
Total Expiries	21.73	16.21	12.64	13.57	16.65	16.73

Notes:

(1) Weighted average initial net rent per square foot.

The REIT has 44,104 square feet of committed future leasing against vacant space at a weighted average initial net rent per square foot of $14.58.

INVESTMENT PROPERTIES

The fair value of investment properties as at December 31, 2012 was $1,244,875 representing an implied weighted average capitalization rate ("Implied Cap Rate") of 6.7%. At December 31, 2011 investment properties were valued at $985,384 representing an Implied Cap Rate of 7.0%.

The increase in value is summarized as follows:

Expressed in thousands of dollars	**Three months ended December 31, 2012**	**Three months ended December 31, 2011**	**Year ended December 31, 2012**	**Year ended December 31, 2011**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Opening Balance	**$1,131,191**	**$945,042**	**$985,384**	**$671,033**
Acquisitions of investment properties	99,379	24,849	175,138	255,058
Additions	4,761	6,209	19,063	13,069
Increase in straight-line rents	443	284	1,741	1,198
Fair value adjustment	9,101	9,000	63,549	45,026
Closing Balance	**$1,244,875**	**$985,384**	**$1,244,875**	**$985,384**

During the three months ended December 31, 2012 the REIT acquired 13 investment properties with cost of $99,379 at acquisition.

The increase associated with the fair value adjustment during the quarter can be primarily attributed to compression of the capitalization rates in the Toronto and Calgary markets.

When valued internally the REIT determines 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.

During the quarter the REIT had external valuation performed on properties with a value of $278,500. The REIT expects to have a portion, likely one-quarter to one-third, of the value of the portfolio externally appraised each year, depending on management's assessment that such valuations would be appropriate given the market conditions and/or material changes at the properties at that time.

The key valuation assumptions for the REIT's commercial properties are set out in the following table:

	December 31, 2012	**December 31, 2011**
	(Unaudited)	(Unaudited)
Discount rates – range	6.5% - 10.0%	7.0% - 11.0%
Discount rate – weighted average	7.6%	8.0%
Terminal capitalization rate - range	6.0% - 9.3%	6.0% - 10.3%
Terminal capitalization rate - weighted average	7.0%	7.1%
Implied capitalization rate – range	5.6% - 9.4%	5.8% - 9.3%
Implied capitalization rate – weighted average	6.7%	7.0%

ACQUISITIONS

Property	Location	Purchase Price	Gross Leasable Area	Occupancy on Acquisition
Q4 Acquisitions		Expressed in thousands of dollars		
245 Curé-Majeau	Joliette, Québec	$10,000	53,771	100%
GT Portfolio	Various cities, Ontario	79,600	254,501	89%
Port Hope Medical Centre	Port Hope, Ontario	7,900	25,313	94%
		97,500	**333,595**	**91%**
Q3 Acquisitions				
Albany Medical Clinic	Toronto, Ontario	$16,440	42,583	100%
Smyth Medical Centre	Ottawa, Ontario	3,530	13,671	89%
		19,970	**56,254**	**97%**
Q2 Acquisitions				
Willow Brook Medical Centre	Airdrie, Alberta	14,500	34,822	100%
Q1 Acquisitions				
Springbank Medical Centre	London, Ontario	24,000	53,082	100%
Moncton Medical Clinic	Moncton, New Brunswick	7,860	42,729	95%
Centre Medicale de l'Hetriere	Quebec City, Quebec	7,000	36,502	100%
		38,860	**132,313**	**98%**
Year to date		**$170,830**	**556,984**	

On December 20, 2012 the REIT acquired 245 Curé-Majeau, a recently expanded and renovated government healthcare administration building located in Joliette, Quebec, northeast of Montreal. The property was purchased for $10 million free and clear of mortgages, and is expected to be immediately accretive. The REIT secured new 10-year mortgage financing for $7.5 million at a fixed interest rate of 4.07%. Comprised of 53,771 square feet, 245 Curé-Majeau is leased exclusively on a long term basis (until 2023) to the Agence de la Santé et des Services Sociaux de Lanaudière (CSSS), a regional health authority responsible for deployment of management and the allocation of financial resources to area healthcare facilities, including several local hospitals. The investment was the REIT's sixteenth asset in the Province of Quebec.

On November 16, 2012 the REIT acquired the GT Portfolio, an eleven property medical office building portfolio in Ontario, from a subsidiary of GT REIT, by way of share and unit transactions, with an effective date of October 1, 2012. The purchase price, as adjusted on closing, together with reimbursement of certain transaction costs, was $36.3 million, plus the assumption of mortgage debt of approximately $43.3 million. The purchase price, as adjusted, and transaction costs were satisfied by a cash payment of $6.3 million and the GT Note, a note in the amount of $30 million bearing interest at 8%. The acquisition is expected to be immediately accretive.

On November 14, 2012 the REIT acquired a medical office building municipally known as 249 Ontario Street, Port Hope from a subsidiary of GT REIT, by way of share and unit transactions, with an effective date of October 1, 2012. The purchase price was $2.9 million, plus the assumption of mortgage debt of approximately $5.0 million, subject to usual adjustments, and is expected to be immediately accretive.

On October 11, 2012 the REIT acquired an office condominium unit within the Smyth Medical Centre in Ottawa. The unit was acquired free and clear of mortgage financing and is expected to be immediately accretive.

On September 27, 2012 the REIT acquired 84% of the office condominium units and 100% of the underground parking units at 807 Broadview Avenue, a 54,720 square foot medical office condominium property in Toronto. The property was purchased for $16.44 million with the REIT assuming, then increasing and extending, the vendor's existing first mortgage to an aggregate principal amount of $10.5 million, with an interest rate of 4.26% and a 2022 maturity. The acquisition is expected to be immediately accretive. Located in the well-established neighbourhood of Riverdale northeast of the downtown core, 807 Broadview Avenue is a recently constructed, design built, medical office condominium building that benefits from a central location and a modern design. The portion acquired by the REIT is 100% leased on a long term basis to the Albany Medical Clinic, a large full service Family Health Group that represents one of Canada's oldest and largest healthcare clinics. The clinic is anchored by a large number of both general practitioners and medical specialists who are complemented by ancillary healthcare services that include laboratory, diagnostic imaging, dental, psychology and physiotherapy. The investment was the REIT's thirteenth acquisition in Toronto and its twenty-sixth asset in the Province of Ontario.

On September 10, 2012 the REIT acquired approximately 40% of the office condominium units and 81% of the parking units in Smyth Medical Centre, a 34,788 square foot medical office condominium property in Ottawa. The units were acquired for an aggregate purchase price of $3.53 million, free and clear of mortgage financing, and are expected to be immediately accretive. Located just east of downtown, Smyth Medical Centre (1929 Russell Road) is a premier building in the Ottawa medical office market due to its favourable location, diversified healthcare tenant mix and appealing design. The property is well-leased to primarily healthcare related users that include pharmacy, laboratory, physiotherapy, dental and specialist physicians who benefit from the building's close proximity to the Ottawa Hospital General Campus. Negotiations and due diligence respecting the acquisition of additional condominium units in the building continue. The investment was the REIT's first acquisition in the Ottawa area and its twenty-fifth asset in the Province of Ontario.

On April 10, 2012 the REIT acquired Willow Brook Medical Centre, a 34,822 square foot medical office and retail property located in Airdrie, Alberta. The property was purchased for $14.5 million, free and clear of mortgage financing, and is expected to be immediately accretive. Located just north of Calgary, the recently developed Willow Brook Medical Centre (836 1st Avenue NW) has quickly become a prominent healthcare complex in the immediate market due to an appealing design and a strategic location within a growth area along the Calgary/Edmonton corridor. The property is leased to a quality roster of healthcare related tenants, including a large stand-alone Shoppers Drug Mart, a large medical clinic (Associate Medical Clinic), LifeMark Health and EFW Radiology, all on long-term leases. The investment was the REIT's eighth acquisition in Greater Calgary and its fourteenth asset in the Province of Alberta.

On March 30, 2012 the REIT acquired the new 53,082 square foot Springbank Medical Centre in London, Ontario. The property was acquired for $24 million free and clear of mortgages, with the REIT subsequently entering into a commitment for a two year, $13 million floating rate mortgage loan secured against the property, which loan funded April 10, 2012. Springbank Medical Centre has quickly become one of the dominant medical office buildings in London due to its new construction, appealing design and diversified healthcare tenant mix. The property is fully leased to a quality roster of users that is anchored by the Thames Valley Family Health Team on a longer term basis. The property is further supported by additional complementary physicians and healthcare related uses that include laboratory (CML), diagnostic imaging, pain management, audiology, respirology and pharmacy (Shoppers Drug Mart). The investment represents the REIT's third property in London and, at the time, its twenty-fourth asset in the Province of Ontario.

On January 23, 2012 the REIT completed its acquisition of Moncton Medical Clinic in Moncton, New Brunswick for $7.86 million. The REIT assumed and subsequently increased the vendor's existing mortgage to an aggregate principal amount of approximately $5.1 million, a weighted average interest rate of 4.71% and a 2016 maturity. Comprising of 42,729 square feet, Moncton Medical Clinic is a premiere medical office building in its market due to favourable scale, design and location. The property is 95% leased to exclusively healthcare related tenants anchored by the government health agency Horizon Health Network. Additional users include Shoppers Drug Mart, CBI Health Centre and complementary physicians who benefit from the property's close proximity to both Moncton Hospital and Dumont University Hospital. The acquisition is the REIT's first property in the City of Moncton and its ninth asset in Atlantic Canada.

On January 19, 2012 the REIT acquired Centre Medicale de l'Hetriere, a 36,502 square foot medical office building located in Greater Quebec City. The property was acquired for $7.0 million free and clear of mortgages, with the REIT subsequently securing 10-year mortgage financing for $4.6 million at a fixed interest rate of 4.23%, which loan funded March 30, 2012. Due to its newer development and position as the only prominent medical building in this fast growing market, Centre Medical de l'Hetriere is 100% leased to a quality roster of tenants that is anchored by a large medical clinic, Clinique Medicale Cap-Rouge. Additional healthcare related uses include audiology, optometry, physiotherapy and dental, with a large Brunet pharmacy as a complementary retail use. The investment represents the REIT’s fifth property in Greater Quebec City and was its fifteenth asset in the Province of Quebec.

The weighted average capitalization rate on in-place net operating income at the time of acquisition of properties acquired during the twelve months ended December 31, 2012 was approximately 7.0%, excluding the GT Portfolio, which was at approximately 6.5%.

See also Summary of Significant Events and Part V – Related Party Transactions.

LEASING COSTS AND CAPITAL EXPENDITURES

Expressed in thousands of dollars	Three months ended December 31, 2012	Three months ended December 31, 2011	Year ended December 31, 2012	Year ended December 31, 2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Leasing costs (1)	$538	$369	$1,815	$794
Tenant improvements (2)	2,423	2,609	8,147	6,442
Capital expenditures(3)	1,800	3,231	9,101	5,833
Additions to investment properties	4,761	6,209	19,063	13,069
Less: recoverable maintenance capital expenditures	(1,257)	(1,900)	(5,090)	(3,531)
Less: value enhancing and non-recurring capital expenditures	(2,398)	(2,356)	(5,412)	(3,940)
Total adjusted leasing costs and capital expenditures	$1,106	$1,953	$8,561	$5,598
Reserve for stabilized capital expenditures, leasing costs and tenant improvements (4)	$1,646	$1,413	$6,029	$5,295
Actual leasing and capital expenditures in excess of reserve	($540)	$540	$2,532	$303

Notes:

(1) The leasing costs exclude the base salary and benefits of the internal leasing department which have been expensed.

(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.

(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 expenditures can fluctuate and as such, should not be regarded as stabilized. Further, in accordance with the REIT's strategy of extending average lease term whenever possible, especially for primary medical tenancies, often non-recurring leasing costs are involved. During the quarter the REIT incurred $2,423 of tenant improvement costs. This included costs associated with a number of leasing initiatives to enhance the tenant mix at our Dundas-Edward Centre, Riley Park, Guelph Medical Place and Fredericton Medical Centre properties.

During the quarter the REIT incurred $1,257 of recoverable maintenance capital expenditure as part of the ongoing improvement of its properties. Expenditures include energy savings projects, HVAC automation, roof repairs, common area improvements and elevator modernization projects.

PART IV

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 and year ended December 31, 2012 is set out below:

Expressed in thousands of dollars	Three months ended December 31, 2012	Three months ended December 31, 2011	Variance	Year ended December 31, 2012	Year ended December 31, 2011	Variance
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net income	**$23,806**	**$16,846**	**$6,960**	**$92,493**	**$78,341**	**$14,152**
Add / (Deduct):						
Finance cost – Class B Exchangeable Unit distributions [2]	1,523	1,523	-	6,093	6,119	(26)
Finance cost - Fair value adjustment of Class B Exchangeable Units [2]	(4,569)	686	(5,255)	7,539	(1,509)	9,048
Finance cost - Fair value adjustments of other financial instruments	(8)	-	(8)	1,047	-	1,047
Fair value adjustment of investment properties [2]	(9,101)	(9,000)	(101)	(63,549)	(45,026)	(18,523)
FFO[1]	**$11,651**	**$10,055**	**$1,596**	**$43,623**	**$37,925**	**$5,698**
Adjusted basic FFO per Unit[3]	$0.26	$0.23	$0.03	$0.99	$0.92	$0.07
Adjusted fully diluted FFO per Unit[3]	$0.26	$0.23	$0.03	$0.99	$0.92	$0.07
Adjusted weighted average units outstanding[4]:						
Basic	45,220,697	42,803,611	2,417,086	43,953,786	41,358,195	2,595,591
Fully diluted	45,390,255	42,888,648	2,501,607	44,100,767	41,414,673	2,686,094

Notes:

(1) 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.

(2) 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.

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

(4) 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 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 weighted average units outstanding include 7,615,546 outstanding Class B Exchangeable Units for the three months and year ended December 31, 2012, respectively, and 7,615,546 and 7,652,522 Class B exchangeable units for the three months and year ended December 31, 2011, respectively. Fully diluted adjusted units outstanding include the impact of deferred units outstanding.

The FFO per unit of $0.26 for the three months ended December 31, 2012 is higher than the three months ended December 31, 2011, at $0.23, primarily as a result of accretive acquisitions since the REIT's follow on equity raise in March 2011 and due to lower financing costs.

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, deferred unit plan compensation expense 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 costs, 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 FFO to AFFO for the three months and year ended December 31, 2012 is set out below:

Expressed in thousands of dollars	**Three months ended December 31, 2012**	**Three months ended December 30, 2011**	**Variance**	**Year ended December 31, 2012**	**Year ended December 31, 2011**	**Variance**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
FFO	**$11,651**	**$10,055**	**$1,596**	**$43,623**	**$37,925**	**$5,698**
Add / (Deduct):						
Amortization of mark-to-market adjustment	(412)	(222)	(190)	(1,363)	(1,100)	(263)
Amortization of finance fees [2]	126	36	90	374	649	(275)
Amortization of straight-line rent	(228)	(191)	(37)	(853)	(854)	1
Amortization of above market utility contracts	(42)	(41)	(1)	(166)	(152)	(14)
Deferred unit plan compensation expense	215	280	(65)	1,104	673	431
Reserve for stabilized leasing costs, tenant improvements and growth capital expenditures [3]	(1,646)	(1,413)	(233)	(6,029)	(5,295)	(734)
AFFO [1]	**$9,664**	**$8,504**	**$1,160**	**$36,690**	**$31,846**	**$4,844**
Adjusted basic AFFO per Unit[4]	$0.21	$0.20	$0.01	$0.83	$0.77	$0.06
Adjusted fully diluted AFFO per Unit[4]	$0.21	$0.20	$0.01	$0.83	$0.77	$0.06
Adjusted weighted average Units outstanding[5]:						
Basic	45,220,697	42,803,611	2,417,086	43,953,786	41,358,195	2,595,591
Fully diluted	45,390,255	42,888,648	2,501,607	44,100,767	41,414,673	2,686,094

Notes:

(1) 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.

(2) Represents costs related to the REIT's Revolving Credit Facility, loans and mortgages.

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

(4) AFFO per Unit amounts are based on basic and fully diluted adjusted weighted average number of Units, which includes Class B Exchangeable Units. Fully diluted adjusted Units outstanding includes the impact of deferred units outstanding.

(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 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 weighted average units outstanding include 7,615,546 outstanding Class B Exchangeable Units for the three months and year ended December 31, 2012 and 7,615,546 and 7,652,522 Class B Exchangeable Units for the three months and year ended December 31, 2011, respectively. Fully diluted adjusted Units outstanding includes the impact of deferred units outstanding.

The AFFO per Unit of $0.21 for the three months ended December 31, 2012 is $0.01 higher than the three months ended December 31, 2011 primarily as a result of accretive acquisitions since the REIT's follow on equity raise in March 2011 and due to lower financing costs.

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 December 31, 2012 is calculated below:

	For the three months ended December 31, 2012	**For the three months ended December 31, 2011**
	(Unaudited)	(Unaudited)
Fully diluted AFFO per Unit	$0.21	$0.20
Distributions per Unit	$0.20	$0.20
Payout Ratio	**94%**	**101%**

The REIT payout ratio improved significantly over the comparable prior year period primarily as a result of accretive acquisitions since the REIT's follow on equity raise in March 2011 and due to lower financing costs.

Distribution Reinvestment Plan

Participants in the DRIP have their cash distributions used to purchase Units and also receive a "bonus distribution" of Units equal in value to 3% of each distribution. During the quarter 44,384 Units were issued pursuant to the DRIP and the DRIP participation rate was approximately 6% during the quarter.

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:

Expressed in thousands of dollars	**Three months ended December 31, 2012**	**Year ended December 31, 2012**
Cash provided by / (used in):	(Unaudited)	(Unaudited)
Operating activities	$11,777	$38,513
Investing activities	(12,824)	(150,297)
Financing activities	4,031	112,257
Increase / (Decrease) in cash and cash equivalents during the period	**$2,984**	**($473)**
Cash and cash equivalents, beginning of period	$1,205	$3,716
Cash and cash equivalents, end of period	**$4,189**	**$4,189**

Cash flow activity for the three months ended December 31, 2012 is primarily related to the results of the REIT's operations, distributions to Unitholders, the utilization of the Revolving Credit Facility and the acquisition of properties.

The financing activities included a $21.4 million private placement of Units, $7.5 million of mortgage advances and a net decrease in the draw on the Revolving Credit Facility during the quarter of $14.25 million such that the balance of the facility at December 31, 2012 was $22.75 million.

CAPITALIZATION AND DEBT PROFILE

Expressed in thousands of dollars	**As at December 31, 2012**	**As at December 31, 2011**
Indebtedness	(Unaudited)	(Unaudited)
Mortgages Payable	$624,316	$499,160
Mark-to-market premium on Mortgages	3,232	3,067
Unamortized financing costs	(1,122)	(470)
	626,426	501,757
Loans payable (net of $250 of unamortized financing fees, December 31, 2011 - $98)	34,796	5,902
	661,222	507,659
Class B Exchangeable Units (Authorized – unlimited; Issued: December 31, 2012 - 7,615,546, December 31, 2011 - 7,615,546)	95,042	87,503
Unitholders' Equity		
Units (Authorized – unlimited; Issued: December 31, 2012 – 38,499,903, December 31, 2011 – 35,232,023)	$395,625	$355,467
Retained Earnings	104,154	40,794
	499,779	396,261
Total capitalization	**$1,256,043**	**$991,423**

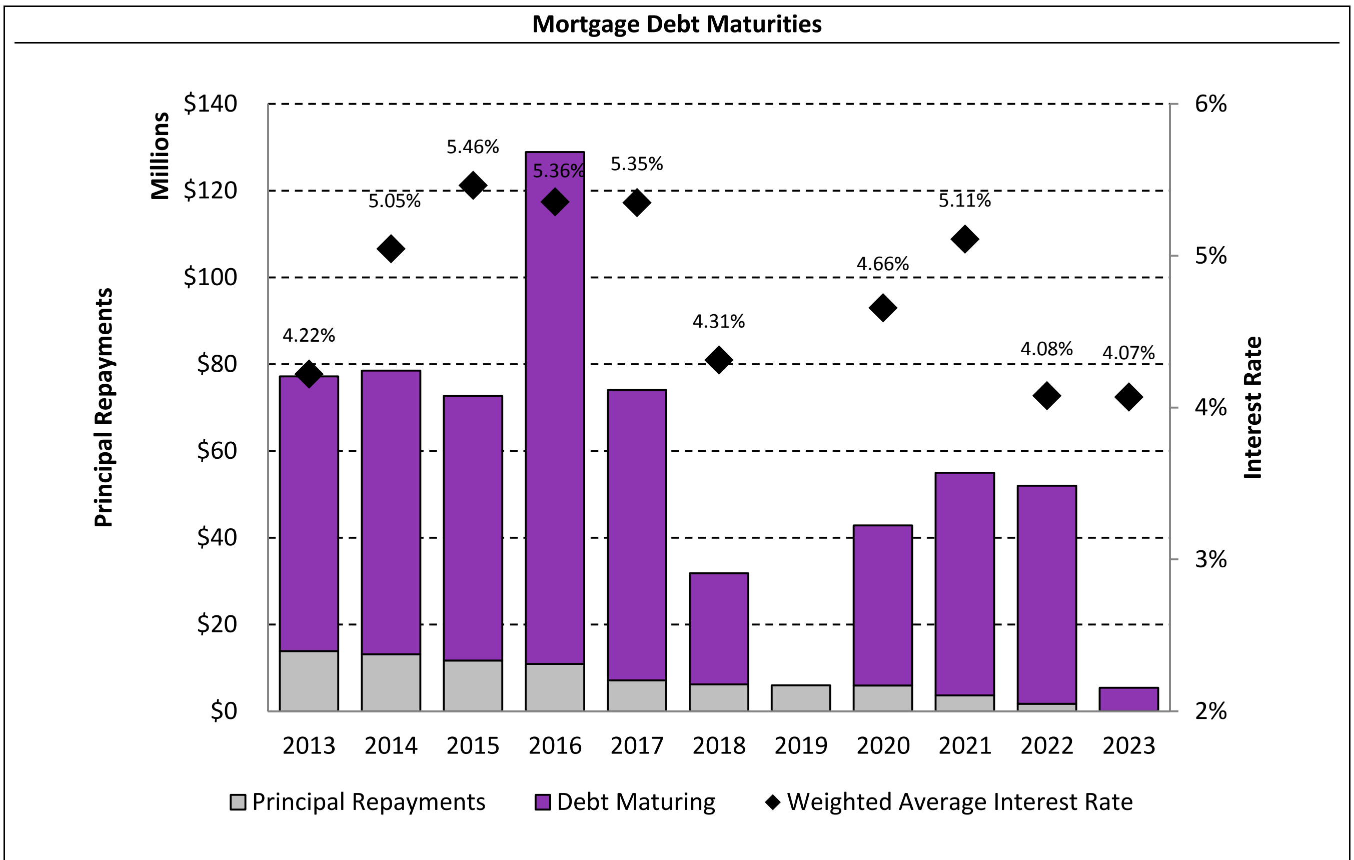
As at December 31, 2012, the REIT had a market capitalization of approximately $576 million (including 7,615,546 Class B Exchangeable Units) based on a closing Unit price of $12.48 on the Toronto Stock Exchange.

Mortgage Debt Maturities

The following table sets out, as at December 31, 2012, scheduled principal payments, debt maturity amounts and weighted average interest rate of maturing mortgages:

Expressed in thousands of dollars

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
2013	$13,877	$63,318	$77,195	4.22%	12.4%
2014	13,105	65,417	78,522	5.05%	12.6%
2015	11,671	61,031	72,702	5.46%	11.6%
2016	10,900	117,994	128,894	5.36%	20.6%
2017	7,099	66,971	74,070	5.35%	11.9%
2018	6,170	25,617	31,787	4.31%	5.1%
2019	5,955	-	5,955	n/a	1.0%
2020	5,919	36,907	42,826	4.66%	6.9%
2021	3,654	51,308	54,962	5.11%	8.8%
2022	1,737	50,264	52,001	4.08%	8.3%
2023	19	5,383	5,402	4.07%	0.8%
Sub-total	$80,106	$544,210	$624,316	4.93%	100.0%
Marked to market adjustment			3,232	(0.58%)	
			627,548	4.35%	
Unamortized financing costs			(1,122)		
Total			$626,426		



Mortgage Financing

On December 20, 2012 as part of the acquisition of 245 Curé-Majeau the REIT secured new 10-year mortgage financing for $7.5 million at a fixed interest rate of 4.07%.

During the quarter as part of the acquisition of the GT Portfolio and the Port Hope property from GT REIT, the REIT assumed approximately $47.0 million of mortgage debt with various terms to maturity of up to five years and a weighted average interest rate of 4.70%.

During the quarter, the weighted average interest rate on the REIT's mortgages decreased to 4.93% from 4.96% in the previous quarter. As at quarter end, the average term to maturity of the REIT's mortgages was 4.6 years.

Revolving Bank Credit Facility

On February 1, 2012, the REIT amended, expanded and extended the Revolving Credit Facility. The Revolving Credit Facility was expanded to $50 million, from $35 million, and now bears a lower interest rate at a rate equal to the bank's prime rate plus 1.25% (previously plus 1.75%) or Bankers' Acceptances plus 2.25% (previously plus 2.75%). The term was also extended to March 25, 2014 from March 25, 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, include Riley Park Health Centre, Rockyview Health Centre II, Collingwood Health Centre, Polyclinique Val-Belair, Canamera Medical Centre, Wharncliffe Health Centre and CLSC La Presqu'Ile.

During the quarter the REIT amended the Revolving Credit Facility such that it is entitled to borrow a maximum of 65% (previously 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.

The outstanding balance on the Revolving Credit Facility was $22.75 million as at December 31, 2012, from $37 million at the end of the previous quarter, as the REIT utilized a portion of the proceeds on a $21.4 million private placement to repay part of the facility.

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 50% to 60% of GBV. The following summarizes the status of these key ratios as at and for the three months ended December 31, 2012:

Expressed in thousands of dollars	**As at/for the three months ended December 31, 2012**	**As at/for the three months ended December 31, 2011**
	(Unaudited)	
Gross Book Value	$1,281,477	$1,011,717
Debt (excluding Class B Exchangeable Units)	$661,222	$507,659
Debt to Gross Book Value (1)	51.6%	50.2%
Amount of debt at fixed rates	$563,704	$501,757
Amount of debt at variable rates(2)	$97,518	$5,902
Interest coverage (3)	2.44x	2.63x
Debt Service coverage (4)	1.70x	1.85x
Net debt/EBITDA(5)	8.3x	7.8x
Weighted average mortgage interest rate (at contract) (6)	4.93%	5.22%

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) The REIT has entered into an interest rate swap contract to limit its exposure to fluctuations in the interest rates on $51,839 of its variable rate debt payable as at December 31, 2012.

(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). For the year ending December 31, 2012 interest coverage was 2.53x (2011 - 2.62x).

(4) 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. For the year ending December 31, 2012 debt service coverage was 1.77x (2011 - 1.90x).

(5) Defined as debt less cash and cash equivalents divided by annualized net income before fair value adjustment of investment properties plus finance costs.

(6) Current market weighted average mortgage interest rate is approximately 3.5%.

The REIT's Debt to GBV of 51.6% at December 31, 2012 was unchanged from 51.6% as at September 30, 2012. Interest coverage decreased to 2.44x from the previous quarter of 2.57x due to the short term impact of the GT Note which was repaid prior to the end of the quarter.

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% 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.

PART V

RELATED PARTY TRANSACTIONS

On March 25, 2010, subsidiaries of the REIT acquired 45 properties from NorthWest Operating Trust ("NW Trust") for total consideration of $171.9 million. 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 Exchangeable Units, each of which are exchangeable at the option of the holder for one REIT Unit and that are attached to Special Voting Units of the REIT, provide for voting rights in the REIT.

As part of the REIT's acquisition of Glenmore Professional Centre in December, 2010, from an affiliate of NW Trust, the REIT and NW Trust contracted to enter into a development arrangement with respect to the vacant development parcel at the property. The timing for completion of such an arrangement, pursuant to a mutually agreed to extension, is by March 31, 2013.

On December 23, 2011 the REIT granted a loan in the amount of $8 million to a party which is indirectly owned 50% by NorthWest Value Partners Inc. ("NWVP"). The loan bears interest at 7.5% per annum and matures no later than June 21, 2013. The loan is secured by the pledge of certain securities of the borrower and is guaranteed by certain affiliates of the borrower; each limited to 50% of the obligations under the loan. In exchange for the loan, the REIT was granted a right of first offer to acquire a recently completed 73,500 square foot medical office building in Owen Sound, Ontario.

On April 20, 2012, the REIT entered into an agreement with NWVP whereby the REIT, subject to regulatory approvals, would acquire, by way of a share and unit transaction, the GT Portfolio from GT REIT in the event that NWVP was successful in a take-over bid for GT REIT. On May 31, 2012, NWVP announced it was successful in its take-over bid for GT REIT.

On May 31, 2012, the REIT entered into an acquisition agreement with GT REIT (controlled by NWVP) to acquire, subject to regulatory approvals, all shares and limited partnership units of the applicable GT REIT subsidiaries controlling the GT Portfolio for a purchase price together with reimbursement of certain transaction costs of $37.4 million, plus assumption of mortgage debt of approximately $42.0 million, subject to usual adjustments. The purchase price and transaction costs, at GT REIT's option and subject to regulatory approvals, could be satisfied by the issuance of REIT Units at a price of $12.3125 per Unit ($12.50 per Unit closing price on the day the transaction was approved by the REIT less a 1.5% discount), for cash and/or for a note of the REIT.

On June 1, 2012, to facilitate the GT REIT take-over by NWVP and in accordance with the April 20, 2012 agreement with NWVP, the REIT advanced $41.3 million to NWVP by way of a loan bearing 7% interest.

On June 1, 2012, the REIT issued by way of private placement 1,323,858 REIT Units to NWVP at the previously agreed upon price of $12.3125 per Unit, for aggregate consideration of $16.3 million.

On June 19, 2012, a subsidiary of the REIT entered into an agreement with a subsidiary of GT REIT to acquire, subject to regulatory approvals, all shares and limited partnership units of the applicable entities which had recently acquired 249 Ontario Street, Port Hope for a purchase price of approximately $2.9 million, plus the assumption of mortgage debt of approximately $5.0 million, subject to usual adjustments. The purchase price, at the vendor's option and subject to regulatory approvals, could be satisfied by the issuance of REIT Units at a price of $12.3125 per Unit, for cash and/or for a note of the REIT.

On November 14, 2012 the REIT acquired 249 Ontario Street, Port Hope from a subsidiary of GT REIT, by way of share and unit transactions, with an effective date of October 1, 2012. The purchase price was $2.9 million, plus the assumption of mortgage debt of approximately $5.0 million, subject to usual adjustments.

On November 16, 2012 the REIT acquired the eleven-property GT Portfolio in Ontario from a subsidiary of GT REIT, by way of share and unit transactions, with an effective date of October 1, 2012. The purchase price, as adjusted on closing, together with reimbursement of certain transaction costs, was $36.3 million, plus the assumption of mortgage debt of approximately $43.3 million. The purchase price, as adjusted, and transaction costs were satisfied by a cash payment of $6.3 million and the GT Note in the amount of $30 million bearing interest at 8%.

On November 16, 2012 the REIT issued 1,746,142 Units to NW Trust, which is controlled by NWVP, in a private placement at a subscription price of $12.3125 per Unit for net proceeds of $21.4 million.

During the quarter NWVP repaid the $41.3 million 7% loan from the REIT, by way of a cash payment of $11.3 million plus accrued interest with the $30 million balance set-off against the GT Note.

Information on the agreements governing the relationship with NW Trust are discussed under ''Relationship with NW Trust'' in the Annual Information Form. In addition to disclosures elsewhere in this MD&A, related party transactions are disclosed in Notes 3, 6, 13 and 17 of the consolidated financial statements the year ended December 31, 2012.

As at December 31, 2012 the combined economic interest of NW Trust and its affiliates in the REIT is approximately 25.9%.

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 December 31, 2012			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	44,022	$16.17	Jul-25 [3]
HealthPark	29,932	16.25	Mar-15	13,378	10.32	Apr-24[4]
Riley Park Health Centre	20,271	30.00	Mar-15	-	-	
Total / Weighted averages	**101,380**	**$21.40**		**57,400**	**$14.80**	

Notes:

(1) As at March 5, 2013

(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. 12,876 square feet expires August 2020, 4,723 square feet expires March 2021, 14,978 square feet expires April 2022 and 11,445 square feet expires July 2025.

(4) Represents the latest lease expiry for the respective property. 1,496 square feet expires May 2020, 7,340 square feet expires March 2021, 2,065 square feet expires February 2022 and 2,477 square feet expires April 2024.

The REIT did not lease any head lease space during the quarter. However, the REIT is currently negotiating leases for approximately 6,500 square feet of the remaining head lease space.

PART VI

SUMMARY OF QUARTERLY RESULTS

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

Expressed in thousands of dollars	Q4 2012	Q3 2012	Q2 2012	Q1 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from operations	**$36,704**	**$32,672**	**$32,567**	**$32,515**
Property operating expenses	16,629	14,518	14,412	15,267
Operating income	**20,075**	**18,154**	**18,155**	**17,248**
Finance cost	8,118	7,075	6,821	6,410
Interest income	(502)	(892)	(437)	(171)
Trust expenses	808	879	1,002	898
Income before undernoted items	**11,651**	**11,092**	**10,769**	**10,111**
Finance cost – Class B Exchangeable Unit distributions	(1,523)	(1,524)	(1,523)	(1,523)
Finance cost - Fair value adjustment of Class B Exchangeable Units	4,569	153	(6,473)	(5,788)
Finance cost - Fair value adjustments of other financial instruments	8	(1,055)	-	-
Fair value adjustment of investment properties	9,101	15,460	20,804	18,184
Net income / (loss)	**23,806**	**24,126**	**23,577**	**20,984**
Basic net income per unit(1)	$0.63	$0.58	$0.66	$0.59
Fully diluted net income per unit(1)	$0.46	$0.58	$0.66	$0.59
NOI	**20,075**	**18,154**	**18,155**	**17,248**
FFO	**11,651**	**11,092**	**10,769**	**10,111**
Basic FFO per Unit(3)	$0.26	$0.25	$0.25	$0.24
Fully diluted FFO per Unit(3)	$0.26	$0.25	$0.25	$0.24
AFFO	**9,664**	**9,500**	**9,115**	**8,411**
Basic AFFO per Unit(3)	$0.21	$0.21	$0.21	$0.20
Fully diluted AFFO per Unit(3)	$0.21	$0.21	$0.21	$0.20
AFFO payout ratio	94%	94%	96%	102%
Distributions(2)	9,103	8,864	8,678	8,581
Distributions per Unit	$0.20	$0.20	$0.20	$0.20
Total Assets	$1,281,477	$1,206,489	$1,153,492	$1,073,280
Debt (excluding Class B Exchangeable Units)	$661,222	$622,260	$586,782	$548,532
Debt to Gross Book Value	51.6%	51.6%	50.9%	51.1%
Number of properties	77	64	62	61
Gross leasable area	4,597,358	4,262,292	4,203,528	4,148,498
Occupancy % (current) – period end	91.2%	91.3%	91.1%	90.9%
Number of employees	134	131	131	134

Notes:

(1) Per unit net income amounts are based on basic and fully diluted weighted average number of units. The diluted per unit net income includes dilutive Class B Exchangeable Units.

(2) Includes distributions on Class B Exchangeable Units.

(3) 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 per Unit measure for FFO and AFFO that includes the Class B Exchangeable Units in basic and diluted weighted average Units outstanding.

Expressed in thousands of dollars	Q4 2011	Q3 2011	Q2 2011	Q1 2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from operations	**$31,502**	**$30,664**	**$28,884**	**$27,102**
Property operating expenses	14,489	14,027	12,709	12,450
Operating income	**17,013**	**16,637**	**16,175**	**14,652**
Finance cost	6,153	5,854	5,494	5,924
Interest income	(42)	(7)	(13)	(36)
Trust expenses	847	781	733	864
Income before undernoted items	**10,055**	**10,009**	**9,961**	**7,900**
Finance cost – Class B Exchangeable Unit distributions	(1,523)	(1,524)	(1,536)	(1,536)
Finance cost - Fair value adjustment of Class B Exchangeable Units	(686)	4,960	(1,229)	(1,536)
Finance cost - Fair value adjustments of other financial instruments	-	-	-	-
Fair value adjustment of investment properties	9,000	22,228	9,253	4,545
Net income / (loss)	**$16,846**	**$35,673**	**$16,449**	**$9,373**
Basic net income per unit(1)	$0.48	$1.02	$0.47	$0.32
Fully diluted net income per unit(1)	$0.44	$0.75	$0.45	$0.32
NOI	**$17,013**	**$16,637**	**$16,175**	**$14,652**
FFO	**$10,055**	**$10,009**	**$9,961**	**$7,900**
Basic FFO per Unit(3)	$0.23	$0.23	$0.23	$0.21
Fully diluted FFO per Unit(3)	$0.23	$0.23	$0.23	$0.21
AFFO	**$8,504**	**$8,360**	**$8,236**	**$6,746**
Basic AFFO per Unit(3)	$0.20	$0.20	$0.19	$0.18
Fully diluted AFFO per Unit(3)	$0.20	$0.20	$0.19	$0.18
AFFO payout ratio	101%	102%	104%	110%
Distributions(2)	$8,564	$8,549	$8,543	$7,551
Distributions per Unit	$0.20	$0.20	$0.20	$0.20
Total Assets	$1,011,717	$976,026	$908,835	$873,823
Debt (excluding Class B Exchangeable Units)	$507,659	$486,515	$443,455	$417,545
Debt to Gross Book Value	50.2%	49.8%	48.8%	47.8%
Number of properties	58	56	54	52
Gross leasable area	4,035,480	3,941,701	3,807,301	3,668,132
Occupancy % (current) – period end	91.2%	91.8%	91.9%	91.9%
Number of employees	124	125	125	123

Notes:

(1) Per unit net income amounts are based on basic and fully diluted weighted average number of units. The diluted per unit net income includes dilutive Class B Exchangeable Units.

(2) Includes distributions on Class B Exchangeable Units.

(3) 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 per Unit measure for FFO and AFFO that includes the Class B Exchangeable Units in basic and diluted weighted average Units outstanding.

SELECTED ANNUAL INFORMATION

The following table provides selected financial information for the past three years:

Expressed in thousands of dollars (except per Unit amounts)	2012	2011	2010[1]
Revenue from operations	$134,458	$118,152	$63,468
Net income from continuing operations	$92,493	$78,341	$2,595
Net income	$92,493	$78,341	$2,595
Total assets	$1,281,477	$1,011,717	$736,626
Total non-current financial liabilities	$646,033	$595,162	$461,840
Distributions declared per Unit:			
REIT Units	$0.80	$0.80	$0.62
Class B Exchangeable Units [2]	$0.80	$0.80	$0.62

Notes:

(1) For period from March 25, 2010 to December 31, 2010

(2) Under IFRS the distributions on the REIT's Class B Exchangeable Units are included in the determination of net income.

PART VII

SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies is described in note 2 of the REIT's consolidated financial statements for the year ended December 31, 2012.

The preparation of financial statements in conformity with IFRS requires management to make judgments, 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 judgments and key estimates made by the management of the REIT are outlined below:

Leases (the REIT as lessor)
The REIT uses judgment in assessing its leases with tenants as operating leases, in particular with long-term leases in single tenant properties. The REIT has determined that all its leases are operating leases.

Property valuations
Investment properties, which are carried on the consolidated balance sheet at fair value, are valued by qualified external valuation professionals or management.

The valuations are based on a number of assumptions, such as appropriate discount rates and estimates of future rental income, operating expenses and capital expenditures. The valuation of investment properties is one of the principal estimates and uncertainties of the REIT.

Accounting for acquisitions
Management must assess whether the acquisition of a property should be accounted for as an asset purchase or business combination. This assessment impacts the treatment of transaction costs, the allocation of the cost of the acquisition and whether or not goodwill is recognized. The REIT's acquisitions are generally determined to be asset purchases as the REIT does not acquire an integrated set of processes as part of the transaction.

Goodwill
Estimates are used when testing goodwill for impairment.

Income taxes
The REIT is a mutual fund trust and a real estate investment trust pursuant to the *Income Tax Act* (Canada). Under current tax legislation, the REIT is not liable to pay Canadian income tax provided that its taxable income is fully distributed to Unitholders each year. The REIT is a real estate investment trust if it meets prescribed conditions under the *Income Tax Act* (Canada) relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the REIT Conditions and has assessed their interpretation and application to the REIT's assets and revenue, and it has determined that it currently qualifies as a real estate investment trust.

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.

<u>Risk Factors Related to the Real Estate Industry</u>

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 licenses to operate their business, such as laboratories. To the extent these businesses are unable to obtain licenses or maintain existing licenses; 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 economic and political uncertainty within the global economy, especially the European Economic Union and the impact/"negative shocks" that could have on the availability and cost of credit, 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 materially 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.

Risk Factors Related to the Business of the REIT

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 December 31, 2012 the REIT had outstanding indebtedness of approximately $661 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 December 31, 2012, $97.5 million of the REIT’s total indebtedness is at variable rates. 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. To mitigate this risk the REIT has entered into an interest rate swap contract to limit its exposure to fluctuations in the interest rates on $51.8 million of its variable rate debt payable as at December 31, 2012. In addition, the REIT has conduit loans outstanding as at December 31, 2012. Access to this type of financing has diminished. 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 contains covenants that require the REIT 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 are 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 carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with customary policy specifications, limits and deductibles. The REIT has 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 named 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 *Income 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 there from. 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 related acquisition agreement ("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. Prior to September 25, 2011, NW Trust covenanted to maintain (i) minimum net assets of $20 million plus (ii) 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 (the "Head Lease Security"), calculated using a discount rate equal to the appropriate Government of Canada bond rate. On September 25, 2011, NW Trust's covenant to maintain minimum net assets of $20 million expired, but its covenant to maintain the Head Lease Security will survive for the remaining term of the Head Leases (which expire in March 2015). There can be no assurance that the REIT will be fully protected in the event of a breach of NW Trust's obligations under the Head Leases or a breach of the surviving 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. The REIT has advanced an $8 million loan to a joint venture in which NW Trust indirectly holds a 50% interest and is accordingly subject to the risks associated with having a loan outstanding.

See "Related Party Transactions."

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 March 31, 2013 (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 (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"). 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 currently meets the REIT Exception and plans to continue to do so in the future. Accordingly, no current income tax expense or deferred income tax assets or liabilities have been recorded in the consolidated financial statements for the year ended December 31, 2012.

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 2012 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 *Business Corporations Act* (Ontario) or the *Canada Business Corporations Act* 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 be sustained. 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 25.9% economic interest in the REIT at December 31, 2012, 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

<u>Disclosure Controls and Procedures</u>

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 (“NI 52-109”)) 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 filings are being prepared; and (ii) material information required to be disclosed in the 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.

As of December 31, 2012, an evaluation was carried out, under the supervision of the REIT’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the REIT’s disclosure controls and procedures (as defined by NI 52-109).

Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the REIT's disclosure controls and procedures were effective as at December 31, 2012.

Internal Controls Over Financial Reporting

The REIT's Chief Executive Officer and Chief Financial Officer have designed the REIT's internal control over financial reporting (as defined in NI 52-109) 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 Chief Financial Officer assessed, or caused an assessment under their direct supervision of, the design and operating effectiveness of the REIT's internal controls over financial reporting as at December 31, 2012, and based on that assessment determined that the REIT's internal controls over financial reporting were appropriately designed and were operating effectively in accordance with the COSO framework, published by the Committee of Sponsoring Organizations of the Treadway Commission.

Changes in Internal Controls Over Financial Reporting

There were no significant changes made in internal controls over financial reporting during the three months and year ended December 31, 2012 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

- On February 28, 2013, the REIT repaid $1.0 million of the mortgage debt associated with a property located in Welland, Ontario.
- On March 1, 2013 the REIT sold the small and non-strategic 1955 King Street East, Hamilton property, which it had acquired as part of the GT Portfolio, for $1.26 million, subject to adjustments, and repaid the mortgage debt thereon.
- The REIT declared distributions of $0.06667 per Unit to Unitholders of record as at January 31, 2013 and February 28, 2013.

PART XI

FINANCIAL OUTLOOK AND MARKET GUIDANCE

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; and
- Improving operational productivity.

Apart from the sometimes significant difference between vendor and purchaser pricing expectations, as well as 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 over $535 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.