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, 2013

March 4, 2014

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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, 2013.

This MD&A is based on the REIT's consolidated financial statements for the year ended December 31, 2013, 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, 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, 2013, prepared in accordance with IFRS. Additional information about the REIT, including the REIT's annual information form dated March 12, 2013 (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:

- "Convertible Debenture" means 5.25% convertible unsecured subordinated debentures of the REIT;
- "Class B Exchangeable Unit" means Class B limited partnership unit of NHP Holdings Limited Partnership ("NHP LP"), 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, 2013. 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 a wide variety of medical and healthcare professionals, institutional healthcare organizations, as well as 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 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 income-producing commercial real estate located primarily in Canada, including Healthcare Real Estate, 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, 2013, the REIT was in compliance with all investment guidelines and operating policies stipulated in the Declaration of Trust.

2013 HIGHLIGHTS

We believe that our continued efforts and achievements during 2013 have enhanced our market leading position in the Healthcare Real Estate sector in Canada.

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

In 2013 we again improved our financial results, with fully diluted FFO and AFFO per unit for the year increasing to $1.00 and $0.85, from $0.99 and $0.83, respectively, in the prior year. This allowed us to also lower our AFFO payout ratio to 95% from 96% last year.

During 2013 we continued to take proactive steps to lower our present and future borrowing costs, enhance our liquidity and reduce our exposure to rising interest rates. We took advantage of favourable borrowing conditions in both the convertible debenture and mortgage markets, which allowed us to extend our average loan term to maturity, reduce our borrowing costs (from 4.93% to 4.80%) and replace floating rate debt with fixed rate debt. We also improved our financial flexibility by reducing the costs of and extending, for two years to 2016, our Revolving Credit Facility. Our portfolio debt to gross book value ratio remains reasonable, closing the year at 53.1%.

During 2013 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.

As of December 31, 2013, our portfolio included 78 properties, comprising approximately 4.7 million square feet and approximately 1,600 tenants, in seven provinces. The quality and diversity of our portfolio was augmented by the acquisition during the year of two property portfolios located in Winnipeg, Manitoba, having an aggregate value of approximately $34 million and comprising over 116,000 square feet. The acquisitions of the Portage and Hargrave Portfolios establish a presence in the large and growing healthcare market of Winnipeg.

In light of some market volatility during 2013, we deliberately slowed our pace of acquisitions from prior years; but, we continue to see a steady pipeline of opportunities for future external growth.

As for our existing portfolio of properties, during the year we continued to focus on improving and positioning our assets for long term success. We maintained our strategies of increasing the healthcare component and extending the average lease term of our tenant base whenever possible. As a result, an increasing majority of our tenants form part of the growing healthcare system and infrastructure of our country, benefitting from direct and indirect government funding. This tenancy is much less susceptible to economic slowdowns and market volatility, which in turn enhances the security and stability of our distributions to our Unitholders. We believe that the long term benefits of these strategies outweigh some short term challenges which sometimes arise, such as slower occupancy gains while we wait for the right type of tenant or higher leasing costs to secure longer lease terms.

During 2013, progress was made on improving occupancy and asset quality, which should show benefits in 2014 and beyond. We continue to have a small number of properties in our portfolio which are not meeting their operating targets and we have focused on stabilizing them through enhanced marketing and leasing efforts, capital upgrades/repositioning and, in certain instances, a disposition strategy to allow us to recycle capital and reallocate resources to allow us to achieve the best risk-adjusted returns.

We enter 2014 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, except per unit amounts	As at December 31, 2013	As at December 31, 2012
Operational information	(Unaudited)	(Unaudited)
Number of properties	78	77
Gross Leasable Area ("GLA")	4,695,333	4,597,358
Occupancy %	91.3%	91.2%
Average lease term to maturity	4.8 years	4.6 years
Weighted average in place net rental rate ($psf)	$16.37	$16.30
Summary of Financial information	(Unaudited)	(Unaudited)
Gross Book Value	$1,314,992	$1,281,477
Debt [(1)]	$698,629	$661,222
Debt to Gross Book Value [(2)]	53.1%	51.6%
Weighted average mortgage interest rate [(3)]	4.80%	4.93%
Weighted average mortgage term	5.0 years	4.6 years
Adjusted units outstanding – period-end [(4)]:		
Basic	46,334,949	46,115,449
Diluted[(5)]	49,459,335	46,292,584
	For the three months ended December 31, 2013	**For the three months ended December 31, 2012**
Summary of Financial information	(Unaudited)	(Unaudited)
Revenue	$38,425	$36,704
NOI [(6)]	$20,741	$20,075
FFO [(6)]	$11,854	$11,651
FFO per unit (Adjusted basic)	$0.26	$0.26
FFO per unit (Adjusted fully diluted)	$0.25	$0.26
AFFO [(6) (7)]	$10,042	$9,664
AFFO per unit (Adjusted basic)	$0.22	$0.21
AFFO per unit (Adjusted fully diluted)	$0.21	$0.21
Distributions per Unit	$0.20	$0.20
AFFO Payout ratio	92%	94%
AFFO Payout ratio (fully diluted)	93%	94%
Interest coverage [(8)]	2.44x	2.44x
Net debt/EBITDA[(9)]	8.7x	8.3x
Adjusted weighted average units outstanding for the period [(10)]:		
Basic	46,304,363	45,220,697
Diluted[(11)]	49,418,493	45,390,255

Notes:

(1) Debt is presented net of a Mark-to-Market premium of $1,916 (December 31, 2012 - $3,232) and unamortized financing costs of $1,727 (December 31, 2012 - $1,372).

(2) Defined as total debt including Convertible Debentures but excluding Class B Exchangeable Units, divided by total assets.

(3) Current market weighted average mortgage interest rate = approximately 3.9%.

(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. There were 7,551,546 outstanding Class B Exchangeable Units outstanding as at December 31, 2013 (December 31, 2012 -7,615,546).

(5) Adjusted diluted units outstanding includes 2,834,507 REIT Units issuable on the conversion of Convertible Debentures (December 31, 2012 – Nil).

(6) NOI, FFO and AFFO are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. NOI, FFO and AFFO as computed by the REIT may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to NOI, FFO and AFFO as reported by other such issuers. These terms are defined in this MD&A and reconciled to the consolidated financial statements of the REIT.

(7) 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.

(8) Defined as net income before fair value adjustment of investment properties plus finance costs divided by finance costs excluding amounts related to Class B Exchangeable Units and Convertible Debenture issuance costs.

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

(10) Adjusted basic and diluted weighted average units outstanding include 7,551,546 outstanding Class B Exchangeable Units for the three months ended December 31, 2013 and 7,615,546 outstanding Class B Exchangeable Units for the three months ended December 31, 2012.

(11) Adjusted diluted weighted average units outstanding includes 2,834,507 REIT Units issuable on the conversion of Convertible Debentures for the three months ended December 31, 2013 and Nil REIT Units issuable on the conversion of Convertible Debentures for the three months ended December 31, 2012.

SUMMARY OF SIGNIFICANT EVENTS

- AFFO per unit for the quarter was $0.22, consistent with the previous quarter and up $0.01 from the comparable prior year quarter.
- FFO per unit for the quarter was $0.26, consistent with the previous quarter and comparable to prior year quarter.
- Occupancy improved relative to the prior year, although, due to a couple of large tenant move-outs which had been expected, occupancy declined slightly to 91.3% from 92.0% in the previous quarter.
- During the quarter the REIT renegotiated its $50,000 Revolving Credit Facility, which now bears interest at a rate equal to the bank's prime rate plus 1.00% (previously 1.25%) or Bankers' Acceptances plus 2.00% (previously 2.25%), with a term extended to March 25, 2016 (previously March 25, 2014). The REIT also added a $5,000 revolving letter of credit facility.
- In November the REIT refinanced its Glenmore Professional Centre variable rate mortgage with a $50,000 fixed rate mortgage, at 3.57% for a 5 year term, resulting in net proceeds to the REIT of approximately $11,400. The REIT also fully repaid a $13,000 variable rate financing secured by its Springbank Medical Centre property. The transactions reduced the REIT's exposure to variable interest rates and provided an attractive longer term fixed interest rate.
- The REIT paid distributions of $0.06667 per unit on October 15, 2013, November 15, 2013 and December 13, 2013 consistent with its annualized target of $0.80 cents per unit.

See Part X – Subsequent Events

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, when appropriate and 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, positions the property for increased rents from support service tenants such as pharmacies, laboratories, diagnostic imaging clinics and other retail-oriented businesses who benefit from such synergies. It also assists in driving maximum traffic to the property which translates into increased miscellaneous revenue, especially parking revenue, if applicable.

The REIT believes, through accretive acquisitions that leverage 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 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, 2013 are summarized below:

Expressed in thousands of dollars	Three months ended December 31, 2013	Three months ended December 31, 2012	Variance	Year ended December 31, 2013	Year ended December 31, 2012	Variance
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from operations						
Base rent	$18,257	$17,651	$606	$71,514	$65,045	$6,469
Operating cost recoveries	15,458	14,615	843	59,949	53,250	6,699
Parking revenue	3,995	3,776	219	15,372	13,611	1,761
Other revenue	585	539	46	2,483	2,074	409
Revenue from investment properties	38,295	36,581	1,714	149,318	133,980	15,338
Management fee revenue	130	123	7	792	478	314
Revenue from operations	38,425	36,704	1,721	150,110	134,458	15,652
Property operating expenses	17,684	16,629	(1,055)	68,589	60,826	(7,763)
Operating income	20,741	20,075	666	81,521	73,632	7,889
Finance cost	8,260	8,118	(142)	34,075	28,424	(5,651)
Interest income	(196)	(502)	(306)	(816)	(2,002)	(1,186)
Trust expenses	823	808	(15)	3,642	3,587	(55)
Income before undernoted items	11,854	11,651	203	44,620	43,623	997
Finance cost:						
Class B Exchangeable Units distributions	(1,510)	(1,523)	13	(6,050)	(6,093)	43
Fair value adjustment of Class B Exchangeable Units	5,437	4,569	868	15,381	(7,539)	22,920
Fair value adjustment of Convertible Debentures	(805)	-	(805)	-	-	-
Fair value adjustment of other financial instruments	210	8	202	2,819	(1,047)	3,866
Fair value adjustment of investment properties	(14,428)	9,101	(23,529)	(20,177)	63,549	(83,726)
Net loss on disposal of investment properties	-	-	-	(73)	-	(73)
Net income	**$758**	**$23,806**	**($23,048)**	**$36,520**	**$92,493**	**($55,973)**

Revenue from Operations

Revenue from operations for the three months ended December 31, 2013 is $1,721 greater than the actual for the three months ended December 31, 2012, primarily as a result of three properties acquired subsequent to September 30, 2012 that increased revenue $1,105 over the actual for the three months ended December 31, 2012. Included in Revenue from operations is $13 of lease termination revenue (three months ended December 31, 2012 - $34).

Revenue from operations for the year ended December 31, 2013 is $15,652 greater than the actual for the year ended December 31, 2012, primarily as a result of twenty-one properties acquired subsequent to December 31, 2011 that increased revenue $12,819 over the actual for the year ended December 31, 2012.

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, 2013 were $1,055 greater than the three months ended December 31, 2012, partially as a result of acquisitions that contributed $390 to operating expenses.

Operating expenses for the year ended December 31, 2013 were $7,763 greater than the year ended December 31, 2012, primarily as a result of acquisitions that contributed $5,906 to operating expenses.

Finance Cost

Finance cost for the three months ended December 31, 2013 is $142 greater than the actual results for the three months ended December 31, 2012 due primarily to mortgage interest on acquired properties of $364 offset by interest savings on the REIT's existing properties as mortgages amortized down and interest savings as a result of the maturity of a defeased mortgage.

Finance cost for the year ended December 31, 2013 is $5,651 greater than the actual results for the year ended December 31, 2012 due primarily to $2,092 of issuance costs related to the Convertible Debentures and mortgage interest on acquired properties of $2,871. The balance of the increase consists of increased leverage at two of the REIT's existing properties and debt repayment costs, on the refinancing of several mortgages, of $208.

Interest Income

Interest income for the three months and year ended December 31, 2013 reflects primarily interest earned on an $8,000 loan secured by a medical office building in Owen Sound, Ontario, over which the REIT has a right of first offer. Interest income for the three months and year ended December 31, 2012 also included interest earned on $41,300 of promissory notes receivable which were repaid during the fourth quarter of 2012.

Trust Expenses

Trust expense for the three months and year ended December 31, 2013 are comparable to the prior year periods. Increases in various administrative costs were offset by a reduction in deferred unit plan compensation expense amortization.

Finance Cost – Class B Exchangeable Unit Distributions

Under IFRS the Class B Exchangeable Unit distributions are treated as a finance cost. During the three months and year ended December 31, 2013 the REIT declared distributions of $1,510 and $6,050, respectively (2012 - $1,523 and $6,093, respectively), on the Class B Exchangeable Units. This represents $0.0667 per unit, equivalent to REIT Units, for each month of the three month period and year ended December 31, 2013 and 2012, respectively.

The slight decrease in the finance costs associated with the Class B Exchangeable Units over the prior year's quarter reflects the reduction in outstanding Class B Exchangeable Units following the conversion into REIT Units of 64,000 Class B Exchangeable Units in March 2013.

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, 2013 the value of the Class B Exchangeable Units decreased to $10.44 from $11.16 resulting in a decrease of the Class B Exchangeable Units liability and an associated gain of $5,437. 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 year ended December 31, 2013 the value of the Class B Exchangeable Units decreased from $12.48 to $10.44 resulting in a decrease of the Class B Exchangeable Unit liability and an associated gain of $15,381. 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.

Finance Cost – Fair Value Adjustment of Convertible Debentures

During the year ended December 31, 2013 the REIT issued $40,250 of Convertible Debentures. The debentures were designated by the REIT on initial recognition as fair value through profit and loss and are therefore carried at fair value with any change in value recognized in the statement of income.

Finance Cost – Fair Value Adjustment of Other Financial Instruments
During the three months and year ended December 31, 2013 the REIT recognized a fair value gain of $210 and $2,819, respectively (2012 - $8 gain and $1,047 loss, 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 analysis. 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, 2013 the value of the REIT's investment properties decreased by $14,428 and $20,177, respectively. See Part III – Investment Properties for additional information on the fair value changes to the REIT's investment properties.

Net Loss on Disposal of Investment Properties
During the three months ended March 31, 2013 the REIT sold a non-core investment property for gross proceeds of $1,035. The loss on disposal of $73 for the year ended December 31, 2013 represents transaction costs associated with the sale.

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, 2013 represents income from investment properties held prior to October 1, 2012. Same property NOI for the year ended December 31, 2013 represents income from investment properties held prior to January 1, 2012. The REIT's NOI for the three months and year ended December 31, 2013 is summarized below:

Expressed in thousands of dollars	**Three months ended December 31, 2013**	**Three months ended December 31, 2012**	**Variance**	**Year ended December 31, 2013**	**Year ended December 31, 2012**	**Variance**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Same property revenue from operations						
Base rent	$17,541	$17,555	($14)	$60,577	$60,674	($97)
Operating cost recoveries	15,155	14,589	566	52,723	50,690	2,033
Parking revenue	3,882	3,776	106	13,299	12,946	353
Other revenue	578	538	40	1,980	1,854	126
Revenue from investment properties	37,156	36,458	698	128,579	126,164	2,415
Same property operating expenses	17,283	16,578	(705)	59,571	57,705	(1,866)
Same property NOI	**19,873**	**19,880**	**(7)**	**69,008**	**68,459**	**549**
Management fee revenue	130	123	7	792	478	314
Acquisitions	737	22	715	11,558	4,645	6,913
Dispositions	1	50	(49)	163	50	113
NOI	**$20,741**	**$20,075**	**$666**	**$81,521**	**$73,632**	**$7,889**

Revenue from Investment Properties
Same property base rent for the three months ended December 31, 2013 decreased slightly from the comparable prior year period due primarily to an early termination at one of the REIT's GTA properties offsetting improvements elsewhere in the portfolio.

Same property base rent for the year ended December 31, 2013 decreased slightly from the comparable prior year period due primarily to an early termination at one of the REIT's GTA properties offsetting improvements elsewhere in the portfolio, as well as, the conversion of a number of gross leases to net in Quebec.

Same property operating cost recovery revenue for the quarter increased $566 over the comparable prior year period with net operating cost recoveries decreasing approximately $139 over the comparable prior year period. The decrease reflects various non-recurring non-recoverable costs in 2013. Same property operating cost recovery revenue for the year ended December 31, 2013 increased $2,033 over the comparable prior year period with net operating cost recoveries improved approximately $167 over the comparable prior year period. The increase reflects the on-going conversion of gross leases to net leases and improved same property occupancy, partially offset by various non-recurring non-recoverable costs in 2013.

Same property parking revenue increased $106 and $353 over the three months and year ended December 31, 2013, respectively as the REIT saw improvements at a number of properties in the Greater Toronto Area and Western Canada.

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, 2013 increased over the comparable prior year period primarily due to increased security/fire protection costs and utility cost partially offset by repairs and maintenance savings.

Same property operating expenses for the year ended December 31, 2013 increased over the comparable prior year period primarily due to increased property taxes, security/fire protection costs and utility cost.

Management Fee Revenue
Management fee revenue for the three months ended December 31, 2013 where comparable to the prior year period. Management fee revenue the year ended December 31, 2013 increased over the comparable prior year periods primarily due to a non-recurring leasing and construction supervision fees of $200 earned pursuant to a lease termination with a related party (see Part V – Related Party Transactions).

Management fees are expected to decrease in 2014 as a Management and Cost Sharing Agreement with a related party that contributed $388 during the year ended December 31, 2013 was terminated in the fourth quarter by the related party, following sale of the property subject to the agreement (see Part V – Related Party Transactions). The impact of revenue loss will be partially mitigated by approximately $179 through the reduction of certain costs related to services provided or redeployment of resources.

PORTFOLIO PROFILE

As of December 31, 2013, the REIT's portfolio consisted of 78 Healthcare Real Estate properties, located in seven provinces. The properties had a total GLA of approximately 4.7 million square feet encompassing approximately 1,556 individual tenancies.

Geographic Diversification

The properties are well diversified throughout Canada, with 75% of annualized NOI derived from the greater metropolitan areas of the following six major markets of Toronto (27%), Calgary (20%), Edmonton (12%), Montreal (8%), Quebec City (4%) and Halifax (4%) for the three months ended December 31, 2013. The following charts and graphs set out the regional diversification of the portfolio by NOI and GLA.

Region	# of Properties	Total GLA	Current Occupancy Rate [1]	Avg. In-place Net Rent (psf)
Western Canada	16	1,275,151	95.1%	$20.98
Ontario	37	2,099,055	87.1%	15.82
Quebec	16	777,672	94.9%	12.55
Atlantic Canada	9	543,455	93.8%	13.14
Total	**78**	**4,695,333**	**91.3%**	**$16.37**

Geographic diversification by NOI [2]

Geographic diversification by GLA

Notes:

(1) As at December 31, 2013

(2) Based on NOI for the 3 months ended December 31, 2013, 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 $16.37.

The following table summarizes the REIT's 10 largest tenants by percentage of gross rent for the three months ended December 31, 2013:

	Tenant	% of Gross Rent	No. of Locations
1	Bantrel Corporation	4.3%	1
2	CLSC/CSSS	3.7%	6
3	Shoppers Drug Mart	2.3%	8
4	Lawtons Drugs	2.0%	5
5	Alberta Health Services	1.9%	5
6	Province of Ontario	1.7%	3
7	The Hospital for Sick Children	1.3%	2
8	Medical Imaging Consultants	1.3%	2
9	Albany Medical Clinic	1.2%	1
10	LifeLabs	1.2%	18
Total		**21.0%**	
Weighted average lease term			6.4years

Leasing Activity

Leasing Activity (square feet) – three months ended December 31, 2013

	Total GLA	Occupied	Vacant	Committed[1]
September 30, 2013	4,686,027	4,308,599	377,428	207,952
Acquired	-	-	-	-
Expiries	-	(141,703)	141,703	-
Renewal	-	142,025	(142,025)	[2](13,712)
Early Terminations	-	(51,715)	51,715	-
New Leasing	-	55,278	(55,278)	[3](9,851)
Month to month	-	(26,579)	26,579	-
Re-measurements and other	9,306	2,818	6,488	-
December 31, 2013	4,695,333	4,288,723	406,610	184,389

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 13,712 square feet during the quarter equals 71,569 square feet of early renewals during the quarter less 85,281 square feet of prior quarter early renewals that commenced during the current quarter.
(3) Net change of 9,851 square feet during the quarter equals 22,778 square feet of leasing, with lease commencement subsequent to the quarter, less 32,629 square feet of prior quarter new leasing that commenced during the current quarter.

Leasing Activity (square feet) – year ended December 31, 2013

	Total GLA	Occupied	Vacant	Committed[1]
December 31, 2012	4,597,358	4,191,488	405,870	273,909
Acquired	116,164	116,164	-	-
Disposition	(13,218)	(10,721)	(2,497)	-
Expiries	-	(558,875)	558,875	-
Renewal	-	455,711	(455,711)	(71,942)
Early Terminations	-	(87,058)	87,058	-
New Leasing	-	173,718	(173,718)	(17,578)
Month to month	-	(4,904)	4,904	-
Re-measurements and other	(4,971)	13,200	(18,171)	-
December 31, 2013	4,695,333	4,288,723	406,610	184,389

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:

During the quarter the REIT completed 142,025 square feet of renewal leasing inclusive of 22,996 square feet of month to month tenants that renewed during the quarter. In addition 6,340 square feet of expiries remained in occupancy on a month to month basis, and are expected to renew. The REIT also early renewed 71,569 square feet of future expiries during the quarter.

Tenant renewals during the quarter were completed at an initial net rent per square foot of $12.75 versus an expiring net rent per square foot of $12.64. Rents for renewals have been positive, although renewals rents for certain support service tenants have been somewhat below expectations. This situation negatively impacted our renewal spreads this quarter, which were positive 1%, but would have been positive 2.6% if not for one such renewal. Year to date renewal leasing was completed at a weighted average initial net rent per square foot of $14.82 versus a weighted average expiring net rent per square foot of $14.92.

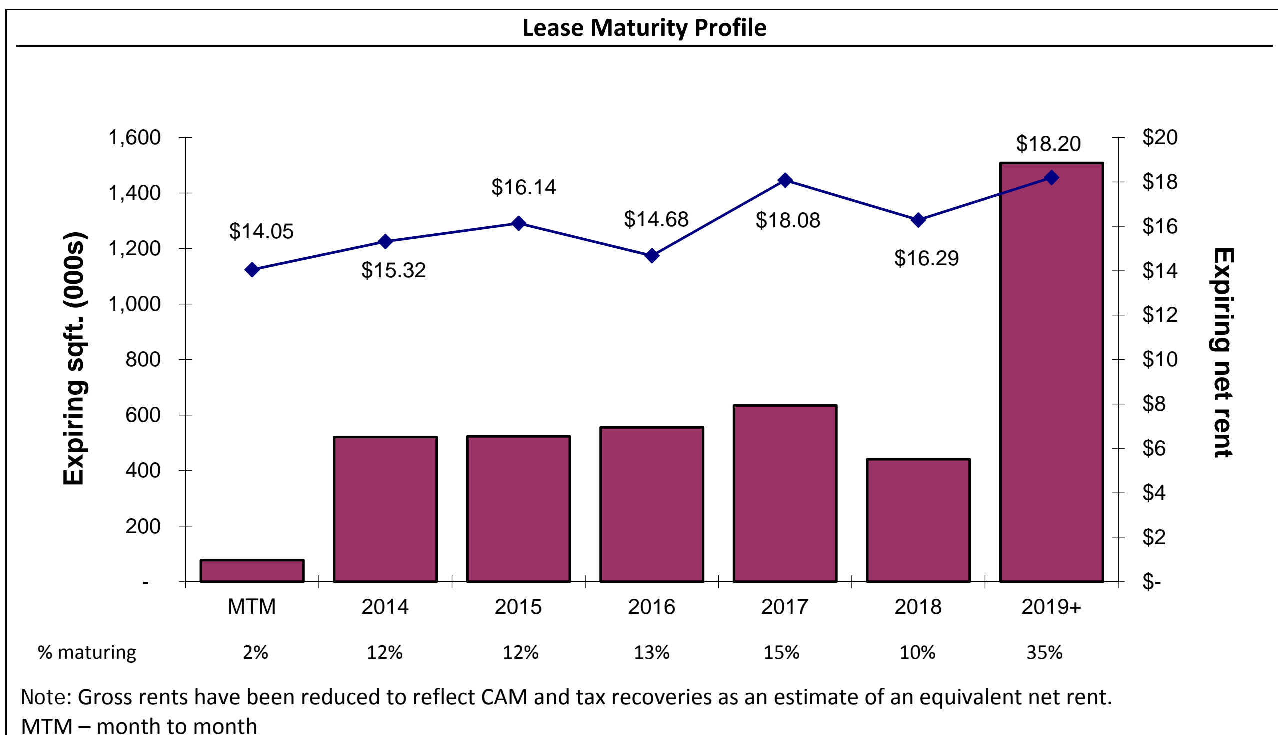
Early terminations were higher than normal primarily due to two expected terminations. One at the REIT's Dundas-Edward Centre ("DEC") property in Toronto and the other at the St. Urbain Medical Centre ("St. Urbain") in Montreal. Although these had an impact on the REIT's occupancy at December 31, 2013 the REIT has already leased, or is negotiating leases, on approximately 80% of the DEC property space and St. Urbain is listed for sale in order to maximize its value as a residential redevelopment property.

New leasing:

During the quarter the REIT completed 55,278 square feet of new leasing commencing in the quarter, plus 22,778 square feet of leasing with lease commencement subsequent to the quarter. New leasing commencing during the quarter was completed at an initial net rent per square foot of $11.99. Year to date the REIT completed 173,718 square feet of new leasing at a weighted average initial net rent per square foot of $13.49.

Lease Expiry Profile

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 2014 and 2018, as illustrated by the chart below, and, as of December 31, 2013, a weighted average term to maturity of 4.8 years.



Note: Gross rents have been reduced to reflect CAM and tax recoveries as an estimate of an equivalent net rent.
MTM – month to month

Expiring Square Feet						
	Western Canada	Ontario	Quebec	Atlantic Canada	Total	Committed
Month to month	1,628	69,058	-	7,130	77,816	1,050
2014	134,948	234,807	85,412	65,882	521,049	121,785
2015	141,909	246,477	49,770	84,931	523,087	23,369
2016	95,145	284,638	122,356	53,633	555,772	9,299
2017	277,959	240,729	61,234	54,720	634,642	858
2018	166,133	166,385	64,321	43,772	440,611	-
2019+	367,257	586,542	354,993	199,694	1,508,486	1,512
Total Expiries	1,184,979	1,828,636	738,086	509,762	4,261,463	157,873
Residential	27,260	-	-	-	27,260	-
	1,212,239	1,828,636	738,086	509,762	4,288,723	157,873
Vacant	62,912	270,419	39,586	33,693	406,610	26,516
Total GLA	1,275,151	2,099,055	777,672	543,455	4,695,333	184,389
Occupancy percentage	**95.1%**	**87.1%**	**94.9%**	**93.8%**	**91.3%**	

Expiring Net Rent ($psf)						
	Western Canada	Ontario	Quebec	Atlantic Canada	Total	Committed[(1)]
Month to month	13.60	14.91	-	5.80	14.05	10.25
2014	18.90	14.90	13.64	11.65	15.32	17.65
2015	20.22	15.49	16.78	10.85	16.14	19.04
2016	17.50	14.75	10.75	18.25	14.68	19.93
2017	23.25	14.21	14.46	12.87	18.08	10.00
2018	20.16	16.05	10.83	10.53	16.29	-
2019+	23.37	18.86	13.21	15.61	18.20	26.00
Total Expiries	21.52	16.24	12.99	13.71	16.85	17.98

Notes:

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

The REIT has 26,516 square feet of committed future leasing against vacant space at an initial net rent per square foot of $10.66.

INVESTMENT PROPERTIES

The fair value of investment properties as at December 31, 2013 was $1,286,843 representing an implied weighted average capitalization rate (“Implied Cap Rate”) of 6.6%. At December 31, 2012 investment properties were valued at $1,244,875 representing an Implied Cap Rate of 6.7%.

The increase in value is summarized as follows:

Expressed in thousands of dollars	Three months ended December 31, 2013	Three months ended December 31, 2012	Year ended December 31, 2013	Year ended December 31, 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Opening Balance	**$1,294,375**	**$1,131,191**	**$1,244,875**	**$985,384**
Acquisitions of investment properties	-	99,379	35,612	175,138
Additions	6,489	4,761	25,992	19,063
Disposition of investment property	-	-	(1,035)	-
Increase in straight-line rents receivable	407	443	1,576	1,741
Fair value adjustment	(14,428)	9,101	(20,177)	63,549
Closing Balance	**$1,286,843**	**$1,244,875**	**$1,286,843**	**$1,244,875**

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 valuations performed on properties with a value of $173,000. 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, 2013	**December 31, 2012**
	(Unaudited)	(Unaudited)
Discount rates – range	6.0% - 9.8%	6.5% - 10.0%
Discount rate – weighted average	7.7%	7.6%
Terminal capitalization rate - range	5.8% - 9.0%	6.0% - 9.3%
Terminal capitalization rate - weighted average	7.2%	7.0%
Implied capitalization rate – range	5.4% - 9.2%	5.6% - 9.4%
Implied capitalization rate – weighted average	6.6%	6.7%

During the three months ended March 31, 2013 the REIT sold a non-core investment property for gross proceeds of $1,035.

ACQUISITIONS

There were no acquisitions during the three months ended December 31, 2013.

Effective July 31, 2013, the REIT acquired a Winnipeg office portfolio comprising 70,247 square feet primarily located at 490-494, 496 & 500 Hargrave Street ("Hargrave Portfolio"). The Hargrave Portfolio was purchased for $21,000, with the REIT assuming and up-financing the vendor's existing first mortgage for a principal amount of approximately $15,750, a blended interest rate of 4.75% and a 2023 maturity. The acquisition was immediately accretive. Located within the downtown Exchange District, the Hargrave Portfolio is comprised of one recently developed and two recently upgraded office buildings, and is a leading example of contemporary design in the City of Winnipeg. The portfolio is fully-occupied, with the majority of the premises (84%) leased to the Winnipeg Regional Health Authority ("WRHA") on a longer term basis, with the majority of the space leased to 2031. Primary use at the Hargrave Portfolio relates to the WRHA's home-care nursing program, while secondary uses relate to community health services, including a travel and tropical medicine clinic. Additional tenancies include a provincially funded post-secondary institution and a non-profit educational NGO. The investment is the REIT's second asset in the Province of Manitoba.

During the third quarter the REIT also acquired an additional condo unit at the Smyth Medical Centre in Ottawa.

During the second quarter, effective May 16, 2013 the REIT acquired 741, 755, and 765 Portage Avenue, a three building office portfolio located in downtown Winnipeg ("Portage Portfolio"). The Portage Portfolio was purchased for $13,200, with the REIT assuming the vendor's existing first mortgage, as well as securing a new vendor take-back second mortgage, for an aggregate principal amount of approximately $9,600, a weighted average interest rate of 4.56% and an average term to maturity of 14 years. The acquisition was immediately accretive. Totaling 43,750 square feet, the Portage Portfolio is fully-leased to three tenants, of which the WRHA is the most significant, occupying all of the recently developed, purpose-built government healthcare building located at 755 Portage Avenue (80% of the total portfolio rentable area), under a long-term lease (2029). The WRHA is funded by the provincial government and is charged with the organization and provision of healthcare services for Winnipeg and surrounding municipalities, operating and funding over 200 healthcare facilities and programs with an annual budget of over $2 billion. The Portage Portfolio is

home to a WRHA Community Health Office, which provides healthcare related services focusing on childhood development, mental health, public health and child and family services. The investment was the REIT's first asset in the Province of Manitoba.

During the first quarter there were no significant property acquisitions. However, during the three months ended March 31, 2013 the REIT acquired an additional condo unit at the Smyth Medical Centre in Ottawa and land adjacent to one of the REIT's Ontario investment properties.

LEASING COSTS AND CAPITAL EXPENDITURES

Expressed in thousands of dollars	Three months ended December 31, 2013	Three months ended December 31, 2012	Year ended December 31, 2013	Year ended December 31, 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Leasing costs [1]	$587	$538	$1,971	$1,815
Tenant improvements [2]	3,575	2,423	13,846	8,147
Capital expenditures[3]	2,327	1,800	10,175	9,101
Additions to investment properties	6,489	4,761	25,992	19,063
Less: recoverable maintenance capital expenditures	(1,216)	(1,257)	(5,879)	(5,090)
Less: value enhancing and non-recurring capital expenditures	(955)	(2,398)	(6,105)	(5,412)
Total adjusted leasing costs and capital expenditures	$4,318	$1,106	$14,008	$8,561
Reserve for stabilized capital expenditures, leasing costs and tenant improvements [4]	$1,723	$1,646	$6,719	$6,029
Actual leasing and capital expenditures in excess of reserve	$2,595	($540)	$7,289	$2,532

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.

In the quarter over 51% of leasing costs and tenant improvement costs related to lease deals of ten years or longer, which typically require greater upfront costs, and over 50% were primary medical.

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), excluding gains (or losses) from sales of investment properties and extraordinary items plus distributions on Class B Exchangeable Units, and adjusted for fair value adjustments on Class B Exchangeable Units and investment properties, plus deferred income tax and after adjustments for equity accounted for entities and non-controlling interests. The REIT calculates FFO substantially in accordance with the definition adopted by the Real Property Association of Canada with the exception of adding back to FFO the issuance costs of the Convertible Debentures. The issuance costs are expensed to income calculated in accordance with IFRS and the REIT believes adding back these non-recurring issuance costs improves the comparability of FFO to other periods. 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, 2013 is set out below:

Expressed in thousands of dollars, except per unit amounts	**Three months ended December 31, 2013**	**Three months ended December 31, 2012**	**Variance**	**Year ended December 31, 2013**	**Year ended December 31, 2012**	**Variance**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net income	**$758**	**$23,806**	**($23,048)**	**$36,520**	**$92,493**	**($55,973)**
Add / (Deduct):						
Finance cost – Class B Exchangeable Unit distributions [2]	1,510	1,523	(13)	6,050	6,093	(43)
Finance cost - Fair value adjustment of Class B Exchangeable Units [2]	(5,437)	(4,569)	(868)	(15,381)	7,539	(22,920)
Finance cost - Fair value adjustment of Convertible Debentures	805	-	805	-	-	-
Finance cost – Convertible Debenture issuance costs [3]	-	-	-	2,092	-	2,092
Finance costs – Fair value adjustment of other financial instruments	(210)	(8)	(202)	(2,819)	1,047	(3,866)
Fair value adjustment of investment properties [2]	14,428	(9,101)	23,529	20,177	(63,549)	83,726
Net loss on disposal of investment properties	-	-	-	73	-	73
FFO[1]	**$11,854**	**$11,651**	**$203**	**$46,712**	**$43,623**	**$3,089**
FFO per unit (Adjusted basic)	$0.26	$0.26	$-	$1.01	$0.99	$0.02
FFO per unit (Adjusted fully diluted) [4]	$0.25	$0.26	($0.01)	$1.00	$0.99	$0.01
Adjusted weighted average units outstanding[5]:						
Basic	46,304,363	45,220,697	1,083,666	46,218,770	43,953,786	2,264,914
Fully diluted [6]	49,418,493	45,390,255	4,028,238	47,330,492	44,100,767	3,229,725

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) Non-recurring issuance costs of the Convertible Debentures.

(4) Includes dilutive impact of Convertible Debentures.

(5) Adjusted basic and diluted weighted average units outstanding include 7,551,546 and 7,566,099 outstanding Class B Exchangeable Units for the three months and year ended December 31, 2013, respectively, and 7,615,546 outstanding Class B Exchangeable Units for the three months and year ended December 31, 2012.

(6) Adjusted diluted weighted average units outstanding includes 2,834,507 and 861,663 REIT Units issuable on the conversion of Convertible Debentures for the three months and year ended December 31, 2013, respectively, and Nil REIT Units issuable on the conversion of Convertible Debentures for the three months and year ended December 31, 2012, respectively.

The FFO per unit of $0.26 for the three months ended December 31, 2013 was comparable to the three months ended December 31, 2012.

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 income tax expense, Deferred unit plan compensation expense, losses on dispositions of assets 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, deferred income tax credits, gains on dispositions of assets and amortization of any net premium on long-term debt assumed from vendors of properties at rates of interest greater than fair value; (iii) adjusting for differences, if any, resulting from recognizing rental revenues on a straight-line basis as opposed to contractual rental amounts; (iv) adjusting for differences, if any, resulting from recognizing acquired contracts at fair value rather than the contracted rate; and (v) deducting reserves for tenant inducements, leasing commissions, financing costs and sustaining capital expenditures, as determined by the REIT.

The REIT's method of calculating AFFO may differ from other issuers' methods and accordingly may not be directly comparable to AFFO reported by other issuers. A reconciliation of FFO to AFFO for the three months and year ended December 31, 2013 is set out below:

Expressed in thousands of dollars, except per unit amounts	Three months ended December 31, 2013	Three months ended December 31, 2012	Variance	Year ended December 31, 2013	Year ended December 31, 2012	Variance
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
FFO	**$11,854**	**$11,651**	**$203**	**$46,712**	**$43,623**	**$3,089**
Add / (Deduct):						
Amortization of mark-to-market adjustment	(280)	(412)	132	(1,358)	(1,363)	5
Amortization of finance fees [(2)]	116	126	(10)	514	374	140
Amortization of straight-line rent	(136)	(228)	92	(752)	(853)	101
Amortization of above market utility contracts	-	(42)	42	-	(166)	166
Deferred unit plan compensation expense	211	215	(4)	802	1,104	(302)
Debt repayment costs[(3)]	-	-	-	208	-	208
Reserve for stabilized leasing costs, tenant improvements and growth capital expenditures [(4)]	(1,723)	(1,646)	(77)	(6,719)	(6,029)	(690)
AFFO [(1)]	**$10,042**	**$9,664**	**$378**	**$39,407**	**$36,690**	**$2,717**
Adjusted basic AFFO per Unit	$0.22	$0.21	$0.01	$0.85	$0.83	$0.02
Adjusted fully diluted AFFO per Unit[(5)]	$0.21	$0.21	$-	$0.85	$0.83	$0.02
Adjusted weighted average units outstanding[(6)]:						
Basic	46,304,363	45,220,697	1,083,666	46,218,700	43,953,786	2,264,914
Fully diluted [(7)]	49,418,493	45,390,255	4,028,238	47,330,492	44,100,767	3,229,725

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) During the second quarter the REIT refinanced various mortgages. Debt repayment cost include the difference between the carrying amount and the settlement amount of mortgages payable that were settled during the year ended December 31, 2013, including unamortized mark-to-market adjustments written off on the debt extinguishments of $492, prepayment penalty and other costs of $82, and mark-to-market adjustments of $618 recognized on the refinancing of existing mortgages.

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

(5) Includes dilutive impact of Convertible Debentures.

(6) Adjusted basic and diluted weighted average units outstanding include 7,551,546 and 7,566,099 outstanding Class B Exchangeable Units for the three months and year ended December 31, 2013, respectively, and 7,615,546 outstanding Class B Exchangeable Units for the three months and year ended December 31, 2012.

(7) Adjusted diluted weighted average units outstanding includes 2,834,507 and 861,663 REIT Units issuable on the conversion of Convertible Debentures for the three months and year ended December 31, 2013, respectively, and Nil REIT Units issuable on the conversion of Convertible Debentures s for the three months and year ended December 31, 2012, respectively.

The AFFO per unit of $0.22 for the three months ended December 31, 2013 increased $0.01 over the three months ended December 31, 2012. The increase was driven the accretive impact of the Portage Portfolio (Q2) and Hargrave Portfolio (Q3) acquisitions.

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, 2013 is calculated below:

	For the three months ended December 31, 2013	**For the three months ended December 31, 2012**
	(Unaudited)	(Unaudited)
AFFO per Unit	$0.22	$0.21
Distributions per Unit	$0.20	$0.20
Payout Ratio	**92%**	**94%**
Fully diluted AFFO per Unit	$0.21	$0.21
Distributions per Unit	$0.20	$0.20
Payout Ratio (fully diluted)	**93%**	**94%**

The REIT's payout ratio improved from the comparable prior year period.

Distribution Reinvestment Plan

Participants in the DRIP have their cash distributions used to purchase units of the REIT and also receive a "bonus distribution" of Units equal in value to 3% of each distribution. During the quarter 62,874 Units were issued pursuant to the DRIP and the DRIP participation rate was approximately 7% 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, 2013**	**Three months ended December 31, 2012**	**Year ended December 31, 2013**	**Year ended December 31, 2012**
Cash provided by / (used in):	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating activities	$9,262	$11,777	$38,625	$38,513
Investing activities	4,366	(12,824)	(39,154)	(150,297)
Financing activities	(13,730)	4,031	(1,755)	112,257
Increase / (Decrease) in cash and cash equivalents during the period	**($102)**	**$2,984**	**($2,284)**	**($473)**
Cash and cash equivalents, beginning of period	$2,007	$1,205	$4,189	$3,716
Cash and cash equivalents, end of period	**$1,905**	**$4,189**	**$1,905**	**$4,189**

Cash flow activity for the three months ended December 31, 2013 is primarily related to the results of the REIT's operations, distributions to Unitholders and additions to investment properties. The financing activities included a net increase in the draw on the Revolving Credit Facility during the quarter of $10,000, a refinancing of the Glenmore Professional Centre mortgage with net proceeds to the REIT of approximately $11,400 and the repayment of a $13,000

variable rate financing secured by the REIT's Springbank Medical Centre property. Additional commentary on these events can be found in the notes to the REIT's consolidated financial statements for the year ended December 31, 2013.

CAPITALIZATION AND DEBT PROFILE

Expressed in thousands of dollars	As at December 31, 2013	As at December 31, 2012
Indebtedness	(Unaudited)	(Unaudited)
Mortgages Payable	$647,458	$624,316
Mark-to-Market premium on Mortgages	1,927	3,232
Unamortized financing costs	(1,473)	(1,122)
	647,912	626,426
Convertible Debenture (net of $Nil Mark-to-Market discount)	40,250	-
Loans Payable (net of $254 of unamortized financing fees, December 31, 2012 - $250)	10,467	34,796
	698,629	661,222
Class B Exchangeable Units (Authorized – unlimited; Issued: December 31, 2013 - 7,551,546, December 31, 2012 - 7,615,546)	78,838	95,042
Unitholders' Equity		
Units (Authorized – unlimited; Issued: December 31, 2013 – 38,783,403, December 31, 2012 – 38,499,903)	$398,903	$395,625
Retained Earnings	109,741	104,154
	508,644	499,779
Total capitalization	**$1,286,111**	**$1,256,043**

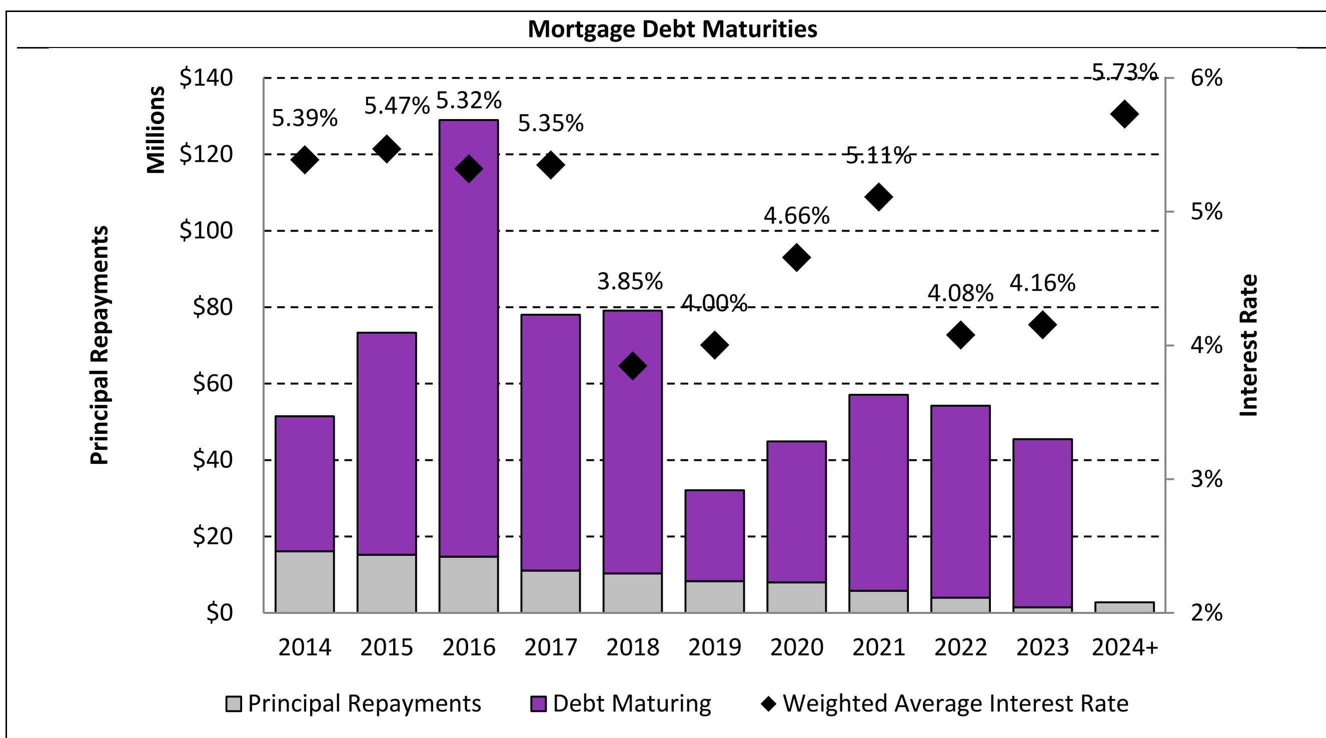
As at December 31, 2013, the REIT had a market capitalization of approximately $484,000 (including 7,551,546 Class B Exchangeable Units) based on a closing Unit price of $10.44 on the Toronto Stock Exchange.

Mortgage Debt Maturities

The following table sets out, as at December 31, 2013, 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
2014	16,131	35,324	51,455	5.39%	8%
2015	15,229	58,102	73,331	5.47%	11%
2016	14,726	114,267	128,993	5.32%	20%
2017	11,070	66,971	78,041	5.35%	12%
2018	10,306	68,812	79,118	3.85%	12%
2019	8,321	23,788	32,109	4.00%	5%
2020	7,954	36,907	44,861	4.66%	7%
2021	5,786	51,308	57,094	5.11%	9%
2022	3,968	50,264	54,232	4.08%	8%
2023	1,478	43,978	45,456	4.16%	7%
2024+	2,768	-	2,768	5.73%	1%
Sub-total	$97,737	$549,721	$647,458	4.80%	100%
Mark-to-market adjustment			1,927	(0.26%)	
			649,385	4.54%	
Unamortized financing costs			(1,473)		
Total			$647,912		



Mortgage Financing

During the quarter the REIT refinanced its Glenmore Professional Centre variable rate mortgage with a $50,000 fixed rate mortgage, at 3.57% for a 5 year term, resulting in net proceeds to the REIT of approximately $11,400. The REIT also repaid a $13,000 variable rate financing secured by the REIT's Springbank Medical Centre property. The transactions reduced the REIT's exposure to variable interest rates. The weighted average interest rate of the REIT's mortgage debt

increased slightly to 4.80% from the previous quarter at 4.76% and the weighted average term remained at 5.0 years as a result of this longer term financing.

See Part X – Subsequent Events

Loans Payable

During the quarter a mortgage defeased by the REIT in 2012 matured and was settled in full (approximately $11,100) from securities held in trust for the purpose of repayment of the loan outstanding. Both the loan and associated investment were derecognized by the REIT during the quarter with no net cash outflow to the REIT.

Revolving Credit Facility

During the quarter the REIT renegotiated its $50,000 Revolving Credit Facility, which now bears interest at a rate equal to the bank's prime rate plus 1.00% (previously 1.25%) or Bankers' Acceptances plus 2.00% (previously 2.25%), with a term extended to March 25, 2016 (previously March 25, 2014). The REIT also added a $5,000 revolving Letter of Credit Facility. The Revolving Credit Facility and Letter of Credit Facility are secured by a pool of first ranking mortgages on certain properties

During the quarter the balance outstanding on Revolving Credit Facility increased to $10,000 from $Nil primarily to fund additions to investment properties.

Convertible Debenture

Between September 11, 2013 and September 19, 2013 the REIT raised net proceeds of approximately $38,158, after issuance costs of $2,092, through the issuance of $40,250 aggregate principal amount of 5.25% convertible unsecured subordinated debentures due September 30, 2020 (the "Convertible Debentures") on a bought deal basis, including the subsequent exercise of an over-allotment option, to a syndicate of underwriters. The REIT used the net proceeds of the offering to repay indebtedness outstanding under its Revolving Credit Facility and for general trust purposes, thus replacing shorter-term debt with longer-term debt and improving liquidity; without materially increasing its aggregate indebtedness.

The Convertible Debentures bear interest at an annual rate of 5.25%, payable semi-annually in arrears on March 31 and September 30 in each year, commencing March 31, 2014. Each Convertible Debenture is convertible into freely-tradable REIT Units at the option of the holder at any time prior to the earlier of September 30, 2020, and the last business day immediately preceding the date specified by the REIT for redemption of the Convertible Debentures, at a conversion price of $14.20 per REIT Unit (the "Conversion Price").

The Convertible Debentures may not be redeemed by the REIT on or prior to September 30, 2016, except in the event of the satisfaction of certain conditions after a change of control has occurred. On or after October 1, 2016 to, and including, September 30, 2018, the Convertible Debentures may be redeemed by the REIT, in whole or in part from time to time at the option of the REIT, at a price equal to the principal amount thereof plus accrued and unpaid interest to, but excluding, the date fixed for redemption on not more than 60 days' and not less than 30 days' prior written notice, provided that the current market price on the date on which notice of redemption is given is not less than 125% of the Conversion Price. On, or after, October 1, 2018 and prior to the September 30, 2020, the Convertible Debentures may be redeemed in whole or in part from time to time at the option of the REIT at a price equal to the principal amount thereof plus accrued and unpaid interest to, but excluding, the date fixed for redemption on not more than 60 days' and not less than 30 days' prior written notice.

Subject to any required regulatory approvals and provided that no event of default has occurred and is continuing, the REIT may, at its option, elect to satisfy its obligation to pay, in whole or in part, the principal amount of the Convertible Debentures that are to be redeemed or that have matured, on not more than 60 days' and not less than 30 days' prior notice, by issuing that number of freely-tradeable REIT Units obtained by dividing the principal amount of the Convertible Debentures that are to be redeemed or that have matured, as the case may be, by 95% of the current market price on the date fixed for redemption or September 30, 2020, as applicable. In addition, subject to any required regulatory approvals and provided that no event of default has occurred and is continuing, freely-tradeable REIT Units may be issued with the proceeds used to satisfy the obligation to pay interest on the Convertible Debentures.

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, 2013:

Expressed in thousands of dollars	**As at/for the three months ended December 31, 2013**	**As at/for the three months ended December 31, 2012**
	(Unaudited)	(Unaudited)
Gross Book Value	$1,314,992	$1,281,477
Debt (excluding Class B Exchangeable Units)	$698,629	$661,222
Debt to Gross Book Value (1)	53.1%	51.6%
Amount of debt at fixed rates	$638,585	$563,704
Amount of debt at variable rates(2)	$60,044	$97,518
Interest coverage (3)	2.44x	2.44x
Debt Service coverage (4)	1.65x	1.70x
Net debt/EBITDA(5)	8.7x	8.3x
Weighted average mortgage interest rate (at contract) (6)	4.80%	4.93%

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. Debt includes Convertible Debentures.

(2) The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on $50,298 of its variable rate debt payable as at December 31, 2013 ($51,839– December 31, 2012). A 1.00% change in the interest rate, on the remaining variable rate debt will change the quarterly finance cost related to the outstanding balance by $100.

(3) Defined as net income excluding finance costs (interest, amortization of debt premiums/discounts and financing costs, distributions on Class B Exchangeable Units) and the revaluation of Class B Exchangeable Units and investment properties divided by finance costs (excluding distributions on Class B Exchangeable Units and the revaluation of Class B Exchangeable Units and issuance costs on the Convertible Debenture). Interest coverage was 2.46x and 2.53x for the years ended December 31, 2013 and 2012, respectively.

(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 issuance costs on the Convertible Debenture) and scheduled debt repayments. Debt Service coverage was 1.67x and 1.77x for the years ended December 31, 2013 and 2012, respectively.

(5) Defined as debt less cash and cash equivalents divided by annualized net income before fair value adjustment of investment properties plus finance costs. Net debt/EBITDA was 8.9x and 9.1x for the years ended December 31, 2013 and 2012, respectively.

(6) Excludes Revolving Credit Facility and Convertible Debentures. Current market weighted average mortgage interest rate is approximately 3.9%.

The ratio of Debt to GBV increased slightly in the quarter to 53.1% at December 31, 2013 from 52.9% as at September 30, 2013 primarily as a result of the fair value adjustment to investment properties.

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

In connection with the REIT's IPO on March 25, 2010, subsidiaries of the REIT acquired 45 properties from NorthWest Operating Trust ("NW Trust") for total consideration of $171,900. Part of the consideration included 7,749,772 Class B Exchangeable Units of NHP LP, a subsidiary of the REIT. These Class B Exchangeable Units, each of which are exchangeable at the option of the holder for one Unit of the REIT and that are attached to Special Voting Units of the REIT, provide for voting rights in the REIT.

As at December 31, 2013 the interest of NW Trust and its affiliates in the REIT is approximately 25.7% (24.1% on a fully diluted basis).

NW Trust is indirectly 100% owned by NorthWest International Healthcare Properties REIT ("International REIT") which acquired NW Trust from NorthWest Value Partners Inc. ("NWVP") and certain of its affiliates in June, 2013 pursuant to a put/call agreement between International REIT and NWVP, and its affiliates, dated November 16, 2012 (the "Put/Call Agreement") (see "Exercise of Put/Call Agreement By Significant Unitholder" below).

Related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties.

The following are the related party transactions for the periods ended December 31st:

Expressed in thousands of dollars	Note	Three months ended December 31, 2013	Three months ended December 31, 2012	Year ended December 31, 2013	Year ended December 31, 2012
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from investment properties:					
Head lease income	(a)	416	463	1,711	2,080
Rental income	(b)	216	234	931	941
Management fee revenue:					
Leasing and construction supervision services	(b)(c)	7	3	218	20
Management services and cost sharing	(d)	91	97	388	389
Support services provided	(e)	33	19	98	52
Property operating and trust expenses:					
Support services provided	(e)	34	-	82	(72)
Rental expense	(f)	77	77	312	335
Interest income:					
Interest	(a)(b)	33	-	59	-
Owen Sound Loan interest	(g)	76	76	300	309
Promissory note interest	(h)	-	307	-	1,273
Finance cost:					
Interest on fixed rate debt	(i)	-	296	-	296
Class B Exchangeable Unit distributions		1,510	1,523	6,050	6,093
Leasing costs reimbursement	(a)(b)	36	45	1,253	136

(a) In conjunction with its IPO the REIT entered into head leases, originally with NW Trust and subsequently assigned to an affiliate of NW Trust, on three properties. The head leases commenced March 25, 2010 and have a term of five years subject to certain rights of termination upon third party leasing of such space. The tenant is responsible for any leasing costs incurred in leasing this space and reimburses the REIT for costs incurred.

(b) The REIT earned rental revenue from a tenant which is an affiliate of NW Trust. The lease was surrendered on September 1, 2013 and the tenant is responsible for any rental shortfall (see "Lease Surrender Agreement" below).

(c) The REIT has a Leasing and Construction Supervision Services Agreement with an affiliate of NW Trust for the provision of supervision and leasing services at the properties subject to the head leases for a period of five years commencing March 25, 2010.

(d) The REIT has a Management and Cost Sharing Agreement with NW Trust for the REIT to provide property management services for one property for a period of five years commencing March 25, 2010. During the three months ended December 31, 2013 the agreement was terminated by the related party following sale of the property.

(e) The REIT has entered into a Support Services Agreement with and affiliate of NW Trust to provide each party certain general management and administrative support services for a fee based on sharing the costs incurred.

(f) The REIT has a monthly Sublease Agreement with an affiliate of NW Trust for the REIT to lease its head office premises.

(g) The REIT earned interest on the Owen Sound Loan at 7.5% per annum (see "Owen Sound Loan and Right of First Offer" below).

(h) The REIT earned interest in 2012 at 7% on two promissory notes related to the GT REIT Transaction; these notes were fully repaid in 2012 (see "GT REIT Transaction" below).

(i) During 2012 the REIT paid interest on the GT Note at 8.0% per annum; this note was fully repaid in 2012 (see "GT REIT Transaction" below).

Additional information on the agreements governing the relationship with NW Trust are discussed under ''Relationship with NW Trust'' in the Annual Information Form.

Lease Surrender Agreement

On September 1, 2013 the REIT leased the space, previously leased by a tenant which is an affiliate of NW Trust, to a third party healthcare tenant. The new lease is a 10 year term with rental steps during the term of the lease. As part of the surrender agreement the tenant agreed to reimburse the REIT $1,160 for the restoration of the premises and $200 as a leasing and construction supervision fee. As part of the agreement the tenant is responsible for any rental shortfall between the rent and parking income derived from the new tenant as compared to the rent that would have been paid by the tenant for the period September 1, 2013 to December 31, 2018, the original expiry date of the lease held by the tenant.

Phase II Development Agreement – Glenmore Professional Centre

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, 2014.

Owen Sound Loan and Right of First Offer

On December 23, 2011 the REIT granted a loan in the amount of $8,000 (the "Owen Sound Loan") to a party which is indirectly owned 50% by NWVP, an affiliate of NW Trust. The Owen Sound Loan bears interest at 7.5% per annum and matured on January 31, 2014, extended to March 31, 2014 subsequent to the quarter. The Owen Sound 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 Owen Sound Loan. In exchange for the Owen Sound 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.

Exercise of Put/Call Agreement By Significant Unitholder

On June 21, 2013, International REIT announced that, pursuant to a put right held by NWVP, an affiliate of NW Trust, under the Put/Call Agreement, International REIT had acquired NW Trust from NWVP and its affiliates. The interest in the REIT acquired by International REIT, by way of its purchase of NW Trust, consists of 4,345,900 Units of the REIT and 7,551,546 Class B Exchangeable Units of NHP LP, which are exchangeable on a one-for-one basis for Units of the REIT. NW Trust also holds certain board appointment rights, preemptive rights and registration rights related to the REIT.

Pursuant to the terms of the Put/Call Agreement, International REIT acquired the securities of the REIT at a price of $13.22 per Unit, for total gross consideration of approximately $157,300 less approximately $73,800 of debt (at approximately 4.25%) that was indirectly assumed by International REIT.

Paul Dalla Lana, Chair and Chief Executive Officer of International REIT, is the sole shareholder of NWVP and is the Chair of the REIT.

GT REIT Transaction

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, twelve investment properties from GT Canada Medical Properties REIT ("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 June 1, 2012, the REIT issued by way of private placement 1,323,858 REIT Units to NWVP in a private placement at a subscription price of $12.3125 per REIT Unit, for aggregate consideration of $16,300, pursuant to the acquisition of GT REIT.

On November 14, 2012 the REIT acquired an investment property from a subsidiary of International REIT, formerly GT REIT, by way of share and unit transactions, with an effective date of October 1, 2012. The purchase price was $2,900, plus the assumption of mortgage debt of approximately $5,000, subject to usual adjustments.

On November 16, 2012, the REIT acquired eleven investment properties 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 $36,300, plus the assumption of mortgage debt of approximately $43,300. The purchase price, as adjusted, and transaction costs were satisfied by a cash payment of $6,300 and the transfer of a note in the amount of $30,000 bearing interest at 8% (the "GT Note"). During Q4 2012 the GT Note was set-off against an amount receivable from a subsidiary of NWVP.

On November 16, 2012, the REIT issued 1,746,142 REIT units to NW Trust in a private placement at a subscription price of $12.3125 per REIT unit pursuant to the acquisition of GT REIT.

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, 2013			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	45,922	$16.24	Jul-25 [3]
HealthPark	29,932	16.25	Mar-15	15,303	9.84	Apr-24[3]
Riley Park Health Centre	20,271	30.00	Mar-15	-	-	
Total / Weighted averages	**101,380**	**$21.40**		**61,225**	**$14.64**	

Notes:
(1) As at November 4, 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.

During the quarter the REIT leased 1,925 square feet of head lease space at its HealthPark property.

PART VI

SUMMARY OF QUARTERLY RESULTS

The following sets out summary information for the eight most recently completed quarters since the REIT commenced operations:

Expressed in thousands of dollars	Q4 2013	Q3 2013	Q2 2013	Q1 2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from operations	**$38,425**	**$37,683**	**$36,882**	**$37,120**
Property operating expenses	17,684	16,954	16,676	17,275
Operating income	**20,741**	**20,729**	**20,206**	**19,845**
Finance cost	8,260	10,124	7,970	7,721
Interest income	(196)	(200)	(235)	(185)
Trust expenses	823	930	933	956
Income before undernoted items	**11,854**	**9,875**	**11,538**	**11,353**
Finance cost:				
Class B Exchangeable Unit distributions	(1,510)	(1,511)	(1,510)	(1,519)
Fair value adjustment of Class B Exchangeable Units	5,437	2,341	9,515	(1,912)
Fair value adjustment of Convertible Debentures	(805)	805	-	-
Fair value adjustment of other financial instruments	210	194	2316	99
Fair value adjustment of investment properties	(14,428)	(217)	(7,709)	2,177
Net loss on disposal of investment properties	-	-	-	(73)
Net income / (loss)	**758**	**11,487**	**14,150**	**10,125**
NOI	**20,741**	**20,729**	**20,206**	**19,845**
FFO	**11,854**	**11,967**	**11,538**	**11,353**
FFO per Unit (Adjusted basic)[1]	$0.26	$0.26	$0.25	$0.25
FFO per Unit (Adjusted fully diluted) [1]	$0.25	$0.26	$0.25	$0.25
AFFO	**10,042**	**10,148**	**9,680**	**9,537**
AFFO per Unit (Adjusted basic) [1]	$0.22	$0.22	$0.21	$0.21
AFFO per Unit (Adjusted fully diluted) [1]	$0.21	$0.22	$0.21	$0.21
AFFO payout ratio (fully diluted)	93%	92%	96%	97%
Distributions[2]	9,263	9,242	9,239	9,230
Distributions per Unit	$0.20	$0.20	$0.20	$0.20
Total Assets	$1,314,992	$1,333,118	$1,302,951	$1,285,854
Debt (excluding Class B Exchangeable Units)	$698,629	$704,714	$678,795	$661,151
Debt to Gross Book Value	53.1%	52.9%	52.1%	51.4%
Number of properties	78	78	77	76
Gross leasable area	4,695,333	4,686,027	4,609,212	4,583,850
Occupancy % – period end	91.3%	92.0%	91.6%	91.3%
Number of employees	140	144	144	143

Notes:

(1) 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.

(2) Includes distributions on Class B Exchangeable Units.

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)
Fair value adjustment of Class B Exchangeable Units	4,569	153	(6,473)	(5,788)
Fair value adjustment of Convertible Debentures	-	-	-	-
Fair value adjustment of other financial instruments	8	(1,055)	-	-
Fair value adjustment of investment properties	9,101	15,460	20,804	18,184
Net loss on disposal of investment properties	-	-	-	-
Net income / (loss)	**23,806**	**24,126**	**23,577**	**20,984**
NOI	**20,075**	**18,154**	**18,155**	**17,248**
FFO	**11,651**	**11,092**	**10,769**	**10,111**
FFO per Unit (Adjusted basic)[1]	$0.26	$0.25	$0.25	$0.24
FFO per Unit (Adjusted fully diluted) [1]	$0.26	$0.25	$0.25	$0.24
AFFO	**9,664**	**9,500**	**9,115**	**8,411**
AFFO per Unit (Adjusted basic) [1]	$0.21	$0.21	$0.21	$0.20
AFFO per Unit (Adjusted fully diluted) [1]	$0.21	$0.21	$0.21	$0.20
AFFO payout ratio (fully diluted)	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 % – period end	91.2%	91.3%	91.1%	90.9%
Number of employees	134	131	131	134

Notes:

(1) 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.

(2) Includes distributions on Class B Exchangeable Units.

SELECTED ANNUAL INFORMATION

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

Expressed in thousands of dollars (except per Unit amounts)	2013	2012	2011
Revenue from operations	$150,110	$134,458	$118,152
Net income from continuing operations	$36,520	$92,493	$78,341
Net income	$36,520	$92,493	$78,341
Total assets	$1,314,992	$1,281,477	$1,011,717
Total non-current financial liabilities	$716,266	$646,033	$595,162
Distributions declared per Unit:			
REIT Units	$0.80	$0.80	$0.80
Class B Exchangeable Units [1]	$0.80	$0.80	$0.80

Notes:

(1) 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

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, and the REIT's significant accounting policies, are described in note 1 and note 2 of the REIT's consolidated financial statements for the year ended December 31, 2013.

Beginning January 1, 2013 the REIT has applied the following new accounting standards, or amendments to existing standards, for the first time:

- IFRS 10, Consolidated Financial Statements
- IFRS 13, Fair Value Measurements
- IFRS 7, Financial Instruments: Disclosures
- IAS 1, Presentation Financial Statements
- IAS 28, Investments in Associates and Joint Ventures
- IFRS 11, Joint Arrangements
- IFRS 12, Disclosure of Interest in Other Entities

The adoption of these new accounting standards, or amendments, did not have a material impact on the REIT's consolidated financial statements. For additional information on the adoption of these standards see note 2 of the REIT's consolidated financial statements for the year ended December 31, 2013.

PART VIII

RISKS AND UNCERTAINTIES

There are certain risks inherent in investments in REIT Units, Convertible Debentures and in the activities of the REIT, which current and prospective Unitholders and current or prospective investors in Convertible Debentures 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, 2013 the REIT had outstanding indebtedness of approximately $698,629, including Convertible Debentures, but 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, 2013, $60,044 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 $50,298 of its variable rate debt payable as at December 31, 2013. In addition, the REIT has conduit loans outstanding as at December 31, 2013. 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. During the remaining term of the Head Leases (which expire in March 2015) NW Trust has covenanted to maintain 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. 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 $8,000 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, 2014 (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. 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, 2013.

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 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 25.7% (24.1% fully diluted) economic interest in the REIT at December 31, 2013, 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.

Risk Factors Related to the Convertible Debentures

The REIT May Not Be Able to Satisfy Payment of Interest and Principal on the Convertible Debentures
There is no guarantee that the REIT will have sufficient cash available to make interest and principal payments on the Convertible Debentures on a timely basis or at all. The likelihood that purchasers will receive the payments owing to them in connection with the Convertible Debentures will be dependent upon the financial health and creditworthiness of the REIT and the ability of the REIT to earn revenues.

Subordination of Convertible Debentures
The Convertible Debentures are unsecured obligations of the REIT and are subordinate in right of payment to all of the REIT's existing and future Senior Indebtedness (as defined in the Indenture). The Convertible Debentures will also be effectively subordinate to claims of the creditors of the REIT's subsidiaries relating to all indebtedness, liabilities and obligations of the REIT or its subsidiaries for the payment of which the REIT is responsible or liable, whether absolutely or contingently. This subordination may significantly reduce the possibilities for purchasers of obtaining payment of the amounts owed under the Convertible Debentures. In the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of the REIT, the assets of the REIT would be made available to satisfy then obligations of the creditors of any Senior Indebtedness, whether those obligations are secured or unsecured, before being available to pay the REIT's obligations to holders of Convertible Debentures. Accordingly, all or a substantial portion of the REIT's assets could be unavailable to satisfy the claims of the Convertible Debentures.

Absence of Covenant Protection
The Indenture will not restrict the REIT or any of its subsidiaries from incurring additional indebtedness for borrowed money or otherwise from mortgaging, pledging or charging their real or personal property or properties to secure any indebtedness or other financing. The Indenture will not contain any provisions specifically intended to protect holders of the Convertible Debentures in the event of a future leveraged transaction involving the REIT or any of its subsidiaries.

Redemption Prior to Maturity
The Convertible Debentures may be redeemed at the REIT's option, subject to certain conditions, on or after October 1, 2016 and prior to the Maturity Date in whole or in part, at a redemption price equal to the principal amount thereof, together with any accrued and unpaid interest. Holders of Convertible Debentures should assume that this redemption option will be exercised if the REIT is able to refinance at a lower interest rate or it is otherwise in the interest of the REIT to redeem the Convertible Debentures.

Dilution
The Convertible Debentures are convertible into Units at the option of the holder thereof at any time. In addition, the REIT may determine to redeem any outstanding Convertible Debentures for Units or to repay outstanding principal amounts thereunder at maturity of the Convertible Debentures on the Maturity Date by issuing additional Units. The issuance of additional Units may have a dilutive effect on the REIT's Unitholders and an adverse impact on the price of Units.

Limitation in the REITs Ability to Finance Purchase of Convertible Debentures
The REIT is required to make an offer to holders of the Convertible Debentures to purchase all or a portion of their Convertible Debentures for cash in the event of certain Changes of Control. The REIT cannot assure holders of Convertible Debentures that, if required, it would have sufficient cash or other financial resources at that time or would be able to arrange financing to pay the purchase price of the Convertible Debentures in cash. The REIT's ability to purchase the Convertible Debentures in such an event maybe limited by law, by the Indenture, by the terms of other

present or future agreements relating to the REIT's credit facilities and other indebtedness and agreements that the REIT may enter into in the future which may replace, supplement or amend the REIT's future debt. The REIT's future credit agreements or other agreements may contain provisions that could prohibit the purchase by the REIT of the Convertible Debentures without the consent of the lenders or other parties thereunder. If the REIT's obligation to offer to purchase the Convertible Debentures arises at a time when the REIT is prohibited from purchasing or redeeming the Convertible Debentures, the REIT could seek the consent of lenders to purchase the Convertible Debentures or could attempt to refinance the borrowings that contain this prohibition. If the REIT does not obtain consent or refinance these borrowings, the REIT could remain prohibited from purchasing the Convertible Debentures under its offer.

The REIT's failure to purchase the Convertible Debentures would constitute an event of default under the Indenture, which might constitute a default under the terms of the REIT's other indebtedness at that time.

Market Price of the Convertible Debentures

The market price of the Convertible Debentures will be based on a number of factors, including: (a) the prevailing interest rates being paid by borrowers similar to the REIT; (b) the overall condition of the financial and credit markets; (c) prevailing interest rates and interest rate volatility; (d) the markets for similar securities; (e) the financial condition, results of operation and prospects of the REIT; (f) the publication of earnings estimates or other research reports and speculation in the press or investment community; (g) the market price and volatility of the Units; (h) changes in the industry and competition affecting the REIT; and (i) general market and economic conditions.

The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Fluctuations in these factors could have an adverse effect on the market price of the Convertible Debentures.

Volatility of Market Price of Convertible Debentures

The market price of the Convertible Debentures may be volatile. The volatility may affect the ability of holders of Convertible Debentures to sell the Convertible Debentures at a favourable price. Additionally, volatility in the market price of Units may result in greater volatility in the market price of the Convertible Debentures than would be expected for nonconvertible debt securities. Market price fluctuations in the Units and Convertible Debentures may be due to the REIT’s operating results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the REIT or its competitors, along with a variety of additional factors.

PART IX

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The REIT’s Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, the REIT’s disclosure controls and procedures (as defined by National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings, adopted by the Canadian Securities Administrators (“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, 2013, 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, 2013.

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, 2013, 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, 2013 that have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting.

Inherent Limitation

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

PART X

SUBSEQUENT EVENTS

- Subsequent to the year end the REIT repaid two maturing mortgages - $5,455 at 5.89% and $7,712 at 6.19%. One of the properties was refinanced with a $13,000 mortgage at 3.31% for 5 years and the other remains free and clear.
- Subsequent to year end, the REIT entered into an agreement to sell a property in London, Ontario (Wharncliffe Health Centre). The property is designated by the REIT as a non-core asset and it is being sold to a user group. The sale is expected to close in the first half of 2014 and generate net proceeds of approximately $3,300.
- Owen Sound mezzanine loan extended from January 31, 2014 to March 31, 2014.
- The REIT declared distributions of $0.06667 per unit to Unitholders of record as at January 31, 2014 and February 28, 2014.

PART XI

FINANCIAL OUTLOOK AND MARKET GUIDANCE

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

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

Apart from the sometimes significant difference between vendor and purchaser pricing expectations, as well as competition for good quality income-producing properties, the current market for acquisitions is favourable for the REIT's potential continued growth, 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 $570,000 of real estate 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. At the same time, the REIT will pursue the disposition of certain non-core properties in order to raise capital to reinvest into the REIT and to improve the portfolio and / or ensure management focus on the remaining properties.