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, 2014

March 10, 2015

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TABLE OF CONTENTS

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, 2014.

This MD&A is based on the REIT's consolidated financial statements for the year ended December 31, 2014, prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are in thousands of Canadian dollars, except where otherwise stated. Per unit amounts are presented in Canadian dollars, on a diluted basis including Class B Exchangeable Units (as defined hereafter), 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, 2014, prepared in accordance with IFRS. Additional information about the REIT, including the REIT's annual information form dated March 10, 2015 (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 Debentures" has the meaning set out in the Section "Capitalization And Debt Profile – Convertible Debentures";
- "Class B Exchangeable Unit" means a 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 "Risks and Uncertainties". 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"), "Net Operating Income" ("NOI"), "Gross Book Value" ("GBV"), "Payout Ratio", "Interest Coverage", "EBITDA" 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 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, 2014. 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 Units are listed and publicly traded on the Toronto Stock Exchange ("TSX") under the symbol NWH.UN. The REIT's Convertible Debentures are listed and publicly traded on the TSX under the symbol NWH.DB.

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, 2014, the REIT was in compliance with all investment guidelines and operating policies stipulated in the Declaration of Trust.

2014 HIGHLIGHTS

We believe that we continued to make progress in our ongoing efforts to enhance our market leading position in the healthcare real estate sector in Canada while also positioning the REIT for future performance by improving the quality of our portfolio and, subsequent to year-end, internalizing property development.

Taking advantage of favourable borrowing conditions in the commercial mortgage market, through a number of re-financings we reduced our borrowing costs, lowering our weighted average mortgage interest rate to 4.62%.

Conditions in the real estate investment market, which generally favoured sellers over buyers, resulted in the REIT being a net seller of real estate in 2014. While we reviewed a number of acquisition opportunities, after our research we either choose to not pursue them or we were outbid. We did, however, sell a number of non-core properties because these properties were either smaller, older or in non-core markets.

We also improved the portfolio through active asset management of the properties. This was accomplished through investing capital at a number of properties to improve the physical environment and to best position the property to maximize revenue. Additionally, we took proactive steps to realize the full potential of a select number of properties, including designing and planning building expansions and, in two cases, planning for more fulsome redevelopment of the properties. Most projects are now in the process of obtaining municipal approvals to proceed, subject to pre-leasing efforts, which are also on-going.

With our February, 2015 internalization of the development function, which included the on-boarding of a four-person team with medical office building development expertise, we enhanced our abilities to undertake not only such value-added projects at existing properties, but also the development of new buildings. As part of that recent transaction we acquired one value-add opportunity as well as two greenfield sites each ready for development of a new medical office building. We are excited about executing on these new opportunities to create value, especially now that all value creation will flow directly to unitholders.

As part of our potential strategy to provide 'turnkey' managed clinic opportunities for physicians in certain assets across our portfolio, we opened a 'turnkey' clinic in one of our Atlantic Canada assets this quarter and, to date, we have been pleased with the market reaction, as the clinic is operating in accordance with expectations. Based upon this initial success, we prepared for the launch of a similar clinic in one of our southwestern Ontario assets for early 2015, with the expectation that this will be a catalyst for the healthcare synergies necessary to reposition such asset into a leading medical office building in its market.

In 2014 our financial performance declined slightly, with AFFO per unit decreasing to $0.83 from $0.84. However, our AFFO payout ratio of 94%, as of year-end, was consistent with the previous year. FFO per unit, decreased from $1.04 to $1.00, but was negatively impacted by debt repayment costs and deferred unit plan compensation expense. Operationally, occupancy improved to 91.9% at year-end, and year-over-year same property net operating income remained essentially flat.

The work completed in 2014, together with the positive start to 2015, has further positioned the REIT for predictable and enhanced performance over the long term.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Expressed in thousands of dollars, except per unit amounts	As at December 31, 2014	As at December 31, 2013
Operational information	(Unaudited)	(Unaudited)
Number of properties	73	78
Gross Leasable Area ("GLA")	4,503,375	4,695,333
Occupancy %	91.9%	91.3%
Average lease term to maturity	4.5 years	4.8 years
Weighted average in place net rental rate ($psf)	$16.42	$16.37
Summary of Financial information	(Unaudited)	(Unaudited)
Gross Book Value	$1,244,641	$1,314,992
Debt (1)	$688,640	$698,629
Debt to Gross Book Value (2)	55.3%	53.1%
Weighted average mortgage interest rate (3)	4.62%	4.80%
Weighted average mortgage term	4.6 years	5.0 years
Adjusted units outstanding – period-end (4):		
Basic	46,669,458	46,334,949
Diluted(5)	49,864,263	49,459,335
	For the three months ended December 31, 2014	**For the three months ended December 31, 2013(12)**
Summary of Financial information	(Unaudited)	(Unaudited)
Revenue	$36,725	$38,425
NOI (6)	$20,102	$20,741
Net Income	$327	$758
FFO (6)	$11,403	$12,158
FFO per unit (Adjusted basic)	$0.24	$0.26
FFO per unit (Adjusted fully diluted)	$0.24	$0.26
AFFO (6) (7)	$9,901	$9,873
AFFO per unit (Adjusted basic)	$0.21	$0.21
AFFO per unit (Adjusted fully diluted)	$0.21	$0.21
Distributions per Unit	$0.20	$0.20
AFFO Payout ratio	94%	94%
AFFO Payout ratio (fully diluted)	96%	95%
Interest coverage (8)	2.33x	2.44x
Net debt/EBITDA(9)	8.9x	8.7x
Adjusted weighted average units outstanding for the period (10):		
Basic	46,622,157	46,304,363
Diluted(11)	49,813,400	49,418,493

Notes:

(1) Debt includes Convertible Debentures but excludes Class B Exchangeable Units and is presented net of a Mark- to-Market premium of $1,751 (December 31, 2013 - $1,916) and unamortized financing costs of $1,855 (December 31, 2013 - $1,727).

(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 3.4%.

(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, 2014 (December 31, 2013 -7,551,546).

(5) Adjusted diluted units outstanding includes 2,834,507 REIT Units issuable on the conversion of Convertible Debentures (December 31, 2013 – 2,834,507).

(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 6.0% of revenue from investment properties.

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

(9) Defined as debt less cash and cash equivalents divided by annualized net income before fair value adjustment of investment properties, loss on disposal 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, 2014 and 7,551,546 outstanding Class B Exchangeable Units for the three months ended December 31, 2013.

(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, 2014 and 2,834,507 REIT Units issuable on the conversion of Convertible Debentures for the three months ended December 31, 2013.

(12) FFO and AFFO for the three months ended December 31, 2013 have been restated to conform with current year presentation.

SUMMARY OF SIGNIFICANT EVENTS

- AFFO per unit for the quarter was $0.21, consistent with that of the previous quarter and comparable prior year quarter.
- FFO per unit for the quarter was $0.24, a decrease of $0.01 compared to that of the previous quarter and a decrease of $0.02 compared to that of the comparable prior year quarter.
- Occupancy was 91.9%, an increase from that of the previous quarter at 91.8%.
- During the quarter the REIT sold a non-core property in Hamilton, Ontario (Victoria Medical Centre) for $6,605, before adjustments, resulting in net proceeds of approximately $6,345 after transaction costs.
- The REIT paid distributions of $0.06667 per Unit on October 15, 2014, November 14, 2014 and December 15, 2014 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. Although the REIT's healthcare-oriented portfolio operates somewhat differently from that of a general office portfolio, the REIT's portfolio is affected by market conditions for current commercial leasing markets, and recently these have come under pressure from increased supply and/or limited tenant demand in many markets across Canada.

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 that 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. As a result, the REIT actively renews healthcare tenancies, but only selectively renews non-healthcare tenancies upon lease expiry. It also aggressively pursues strategies to attract new healthcare tenancies to occupy vacant space. In this regard, at select properties where the demand for such an offering is evident, the REIT has recently introduced the concept of a REIT-operated, multi-practitioner managed clinic, wherein medical practitioners operate out of a 'turnkey' clinic, versus a physician-owned, sole practice rented from the landlord, and pay to the clinic owner a fixed portion of their billings. This provides medical practitioners with fewer operating distractions and greater flexibility, which is especially relevant for new and semi-retiring practitioners while providing the REIT with enhanced building synergy, as described above.

The REIT believes, through accretive acquisitions and select development opportunities, that leverage its existing asset and property management platform, there are opportunities to grow the portfolio 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. Acquisitions are also evaluated on their impact on portfolio quality in terms of building attributes such as age, size and condition, tenancy (especially percentage healthcare), market dynamics such as population and population growth, and property location (preferably in close proximity to healthcare infrastructure such as hospitals or large clinical facilities). However, the REIT believes that portfolio improvement can also be achieved through the active asset management of existing properties. Increased property values can be obtained through a number of initiatives, including active re-positioning of the site's uses to achieve its highest and best use, maximizing the allowable building density on the property and/or improving the property's quality to garner higher rents. In certain instances, the decision will be made to dispose of a property when market conditions warrant or when the property or its market has been deemed non-core.

PART III

RESULTS OF OPERATIONS

The REIT's results of operations for the three months and year ended December 31, 2014 are summarized below:

Expressed in thousands of dollars	Three months ended December 31, 2014	Three months ended December 31, 2013	Variance	Year ended December 31, 2014	Year ended December 31, 2013	Variance
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from operations						
Base rent	$17,555	$18,257	($702)	$71,359	$71,514	($155)
Operating cost recoveries	14,301	15,458	(1,157)	60,495	59,949	546
Parking revenue	3,950	3,995	(45)	15,771	15,372	399
Other revenue	879	585	294	2,654	2,483	171
Revenue from investment properties	36,685	38,295	(1,610)	150,279	149,318	961
Management fee revenue	40	130	(90)	150	792	(642)
Revenue from operations	36,725	38,425	(1,700)	150,429	150,110	319
Property operating expenses	16,623	17,684	1,061	69,641	68,589	(1,052)
Operating income	20,102	20,741	(639)	80,788	81,521	(733)
Finance cost	8,270	8,260	(10)	32,777	34,075	1,298
Interest income	(178)	(196)	(18)	(834)	(816)	18
Trust expenses	1,802	823	(979)	4,852	3,642	(1,210)
Income before undernoted items	10,208	11,854	(1,646)	43,993	44,620	(627)
Finance income (costs):						
Class B Exchangeable Units distributions	(1,511)	(1,510)	(1)	(6,042)	(6,050)	8
Fair value adjustment of Class B Exchangeable Units	3,549	5,437	(1,888)	8,760	15,381	(6,621)
Fair value adjustment of Convertible Debentures	664	(805)	1,469	(604)	-	(604)
Fair value adjustment of other financial instruments	(979)	210	(1,189)	(2,859)	2,819	(5,678)
Fair value adjustment of investment properties	(6,886)	(14,428)	7,542	(59,702)	(20,177)	(39,525)
Net loss on disposal of investment properties	(260)	-	(260)	(1,283)	(73)	(1,210)
Goodwill impairment	(4,458)	-	(4,458)	(4,458)	-	(4,458)
Net income (loss)	**$327**	**$758**	**($431)**	**($22,195)**	**$36,520**	**($58,715)**

Revenue from Operations

Revenue from operations for the three months ended December 31, 2014 is $1,700 lower than the actual for the three months ended December 31, 2013, primarily as a result of reduced revenue of $827 following the sale of five properties and a reduction in same property revenue of $661 due primarily to same property operating costs decreases. Included in Revenue from operations is $274 of lease termination revenue (three months ended December 31, 2013 - $13).

Revenue from operations for the year ended December 31, 2014 is $319 greater than that for the year ended December 31, 2013, primarily as a result of same property revenue increases of $1,636 driven by increased operating cost recoveries and parking income, revenue generated from two properties acquired subsequent to December 31, 2012 of $1,833, partially offset by reduction in revenue previously generated from disposed properties of $2,474 and a reduction in management fee revenue of $642.

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, 2014 were $1,061 lower than the three months ended December 31, 2013, primarily as a result of a reduction in operating expenses of $531 from disposed properties and same property operating cost reductions of $486.

Operating expenses for the year ended December 31, 2014 were $1,052 greater than the year ended December 31, 2013, primarily as a result of same property operating expenses that increased $1,833 and acquisitions that contributed $597 to operating expenses, partially offset by operating cost savings from disposed properties of $1,330.

Finance Cost
Finance cost for the three months ended December 31, 2014 is consistent with the actual results for the three months ended December 31, 2013 as $330 of debt repayment costs offset interest cost savings.

Finance cost for the year ended December 31, 2014 is $1,298 lower than the actual results for the year ended December 31, 2013 primarily as a result of $2,092 issuance cost incurred in the third quarter of 2013 related to the Convertible Debentures and a $560 increase in debt repayment costs.

Interest Income
Interest income for the three months and year ended December 31, 2014 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 to acquire. Interest income also included interest earned on outstanding accounts receivable due from a related party.

Trust Expenses
Trust expense for the three months ended December 31, 2014 increased by $979 compared to that of the three months ended December 31, 2013 mainly due to $793 of acquisition related costs expensed during the quarter (see Part X – Subsequent Events) and increased deferred unit plan compensation expense.

Trust expense for the year ended December 31, 2014 increased by $1,210 compared to that of the year ended December 31, 2013 mainly due to $793 of acquisition related costs expensed during the fourth quarter of 2014 (see Part X – Subsequent Events) and increased deferred unit plan compensation expense.

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, 2014 the REIT declared distributions of $1,511 and $6,042, respectively (2013 - $1,510 and $6,050, 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, 2014 and 2013, respectively.

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, 2014 the value of the Class B Exchangeable Units decreased to $9.28 from $9.75 resulting in a decrease of the Class B Exchangeable Units liability and an associated gain of $3,549. 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 year ended December 31, 2014 the value of the Class B Exchangeable Units decreased from $10.44 to $9.28 resulting in a decrease of the Class B Exchangeable Unit liability and an associated gain of $8,760. 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.

Finance Cost – Fair Value Adjustment of Convertible Debentures
During the year ended December 31, 2013 the REIT issued $40,250 of Convertible Debentures. The Convertible 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.

During the three month period ended December 31, 2014 the trading price of the Convertible Debentures decreased to $101.50 from $103.15 resulting in a decrease of the Convertible Debentures liability and an associated gain of $664. During the three month period ended December 31, 2013 the trading price of the Convertible Debenture increased to $100.00 from $98.00 resulting in an increase of the Convertible Debenture liability and an associated loss of $805.

During the year ended December 31, 2014 the trading price of the Convertible Debentures increased to $101.50 from $100.00 resulting in a increase of the Convertible Debentures liability and an associated loss of $604.

Finance Cost – Fair Value Adjustment of Other Financial Instruments
During the three months and year ended December 31, 2014 the REIT recognized a fair value loss of $979 and $2,859, respectively (2013 - $210 gain and $2,819 gain, 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, 2014 the value of the REIT's investment properties decreased by $6,886 and $59,702, 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 December 31, 2014 the REIT sold a non-core investment property for gross proceeds of $6,605. The loss on disposal of $260 represents transaction costs associated with the sale.

During the year ended December 31, 2014 the REIT sold five non-core investment properties for gross proceeds of $24,977. The loss on disposal of $1,283 represents transaction costs associated with the sales.

Goodwill Impairment
Healthcare Properties LP ("HPLP") is the lowest level within the entity where goodwill is monitored for internal management purposes; this is the level where all properties and management company reside. Since goodwill cannot be allocated on a non-arbitrary basis, it has been allocated to a group of CGUs represented by the individual CGUs forming HPLP.

The process of determining fair value is highly subjective and required management to exercise a significant amount of judgment. The REIT estimated the fair value of HPLP using a market capitalization approach. Based on the market capitalization value of the REIT at December 31, 2014, the REIT determined there was an impairment of goodwill. As a result, the REIT has recognized a goodwill impairment charge of $4,458 in the three-months and year ended December 31, 2014. To the extent the enterprise value of HPLP recovers in future periods, this goodwill impairment will not be reversed.

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, 2014 represents income from currently owned investment properties, excluding properties held for redevelopment, acquired prior to October 1, 2013. Same property NOI for the year ended December 31, 2014 represents income from currently owned investment properties, excluding properties held for redevelopment, acquired prior to January 1, 2013. The REIT's NOI for the three months and year ended December 31, 2014 is summarized below:

Expressed in thousands of dollars	Three months ended December 31, 2014	Three months ended December 31, 2013	Variance	Year ended December 31, 2014	Year ended December 31, 2013	Variance
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Same property revenue from operations						
Base rent	$17,518	$17,822	($304)	$68,352	$68,601	($249)
Operating cost recoveries	14,250	14,956	(706)	58,740	57,562	1,178
Parking revenue	3,912	3,856	56	15,028	14,592	436
Other revenue	868	575	293	2,559	2,288	271
Revenue from investment properties	36,548	37,209	(661)	144,679	143,043	1,636
Same property operating expenses	16,533	17,019	486	67,371	65,538	(1,833)
Same property NOI	**20,015**	**20,190**	**(175)**	**77,308**	**77,505**	**(197)**
Management fee revenue	40	130	(90)	150	792	(642)
Properties held for redevelopment	(2)	76	(78)	278	264	14
Acquisitions	-	-	-	2,495	1,259	1,236
Dispositions	49	345	(296)	557	1,701	(1,144)
NOI	**$20,102**	**$20,741**	**($639)**	**$80,788**	**$81,521**	**($733)**

Revenue from Investment Properties

Same property revenue from investment properties for the three months ended December 31, 2014 is $661 lower than actual results for the three months ended December 31, 2013 primarily due to decrease in base rent and operating cost recoveries, partially offset by a $264 increase in lease termination revenue. Same property revenue from investment properties for the year ended December 31, 2014 is $1,636 greater than actual results for the year ended December 31, 2013 primarily due to increase in operating cost recovery and parking revenue of $1,178 and $436, respectively.

Same property base rent for the three months and year ended December 31, 2014 is $304 and $249 lower, respectively, than that of the three months and year ended December 31, 2013 due primarily to lower occupancy in certain properties in Ontario and Quebec. The results for the three months ended December 31, 2014 were also impacted by a tenant bankruptcy at one of the REIT's western properties. However, the tenant space has subsequently been leased.

Same property operating cost recovery revenue for the quarter decreased $706 over the comparable prior year period with net operating cost recoveries decreasing approximately $220 over the comparable prior year period. The decrease in net operating cost recoveries reflects various non-recurring non-recoverable costs in the quarter. Same property operating cost recovery revenue for the year ended December 31, 2014 increased $1,178 over the comparable prior year period with net operating cost recoveries $655 lower over the comparable prior year period. The decrease in net operating cost recoveries was mainly attributable to occupancy weakness at certain Ontario properties, start up costs associated with the managed clinic business and various non-recurring non-recoverable costs in 2014.

Same property parking revenue was largely consistent for the three months ended December 31, 2014 and for the three months ended December 31, 2013. Same property parking revenue increased $436 over the year ended December 31, 2014 as the REIT saw improvements overall in Western Canada, partially offset by parking revenue declines in a few properties in Ontario.

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, 2014 decreased $486 over the comparable prior year period primarily due to decreased repairs and maintenance costs partially offset by an increase in recoverable salary costs and additional leasing resources.

Same property operating expenses for the year ended December 31, 2014 increased by $1,833 over the year ended December 31, 2013 primarily due to higher utility costs, additional leasing resources, startup costs associated with the managed clinic business and various non-recoverable costs in 2014.

Management Fee Revenue

Management fee revenue for the three months and year ended December 31, 2014 decreased $90 and $642 from the comparable prior year periods, respectively, partially due to the termination of a Management and Cost Sharing Agreement with a related party that was terminated in the fourth quarter of 2013 by the related party, following the sale of the property subject to the agreement. In the third quarter of 2013 the REIT also earned a non-recurring leasing and construction supervision fee of $200 pursuant to a lease termination by a related party (see Part V – Related Party Transactions).

PORTFOLIO PROFILE

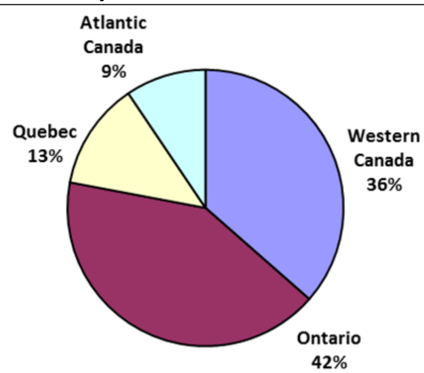
As of December 31, 2014, the REIT's portfolio consisted of 73 Healthcare Real Estate properties, located in seven provinces. The properties had a total GLA of approximately 4.5 million square feet encompassing approximately 1,460 individual tenancies.

Geographic Diversification

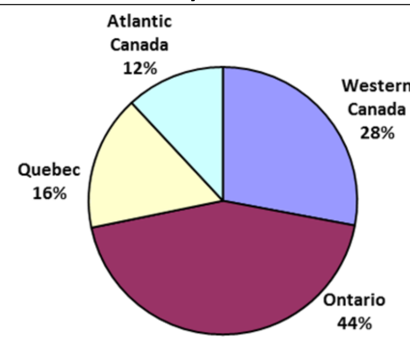
The properties are well diversified throughout Canada, with 76% of annualized NOI derived from the six major markets of Toronto (27%), Calgary (20%), Edmonton (13%), Montreal (8%), Quebec City (4%) and Halifax (4%) for the three months ended December 31, 2014. The following charts and graphs set out the regional diversification of the portfolio by annualized NOI and GLA.

Region	# of Properties	Total GLA	Current Occupancy Rate [(1)]	Avg. In-place Net Rent (psf)
Western Canada	16	1,275,570	94.8%	$20.94
Ontario	33	1,963,509	88.5%	16.03
Quebec	15	719,923	94.8%	12.48
Atlantic Canada	9	544,373	93.8%	12.59
Total	**73**	**4,503,375**	**91.9%**	**$16.42**

Geographic diversification by annualized NOI [(2)]



Geographic diversification by GLA [(1)]



Notes:

(1) As at December 31, 2014

(2) Based on NOI for the 3 months ended December 31, 2014, 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 2,850 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 $16.42.

The following table summarizes the REIT's 10 largest tenants by percentage of gross rent for the three months ended December 31, 2014:

	Tenant	% of Gross Rent	No. of Locations
1	Bantrel Corporation	4.6%	1
2	CLSC/CSSS	3.6%	5
3	Shoppers Drug Mart	2.5%	8
4	Lawtons Drugs	2.1%	5
5	Alberta Health Services	2.0%	5
6	Province of Ontario	1.9%	3
7	Centric Health	1.4%	7
8	Albany Medical Clinic	1.3%	1
9	Primary Care Network	1.2%	5
10	Lifelabs	1.2%	16
Total		**21.8%**	
Weighted average lease term			6.1 years

Leasing Activity

Leasing Activity (square feet) – three months ended December 31, 2014				
	Total GLA	**Occupied**	**Vacant**	**Committed**(1)
September 30, 2014	4,562,195	4,185,869	376,326	156,341
Disposition	(38,828)	(16,494)	(22,334)	-
Expiries	-	(96,455)	96,455	-
Renewal	-	61,812	(61,812)	(2) 1,272
Early Terminations	-	(16,400)	16,400	-
New Leasing	-	24,003	(24,003)	(3) 16,737
Month to month	-	(5,480)	5,480	-
Re-measurements and other	(4) (19,992)	3,504	(23,496)	-
December 31, 2014	4,503,375	4,140,359	363,016	174,350

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 1,272 square feet during the quarter equals 48,929 square feet of early renewals during the quarter less 47,657 square feet of prior quarter early renewals that commenced during the current quarter.

(3) Net change of 16,737 square feet during the quarter equals 29,591 square feet of leasing, with lease commencement subsequent to the quarter, less 12,854 square feet of prior quarter new leasing that commenced during the current quarter.

(4) Includes 24,457 square feet at the REIT's Vaudreuil-Dorion property which was removed from total GLA pending redevelopment of the property following termination of the CLSC La Presqu'Ile lease.

Leasing Activity (square feet) – year ended December 31, 2014				
	Total GLA	**Occupied**	**Vacant**	**Committed**(1)
December 31, 2013	4,695,333	4,288,723	406,610	184,389
Disposition	(179,772)	(100,976)	(78,796)	-
Expiries	-	(507,919)	507,919	-
Renewal	-	388,859	(388,859)	(23,044)
Early Terminations	-	(51,280)	51,280	-
New Leasing	-	133,769	(133,769)	13,005
Month to month	-	(21,135)	21,135	-
Re-measurements and other	(12,186)	10,318	(22,504)	-
December 31, 2014	4,503,375	4,140,359	363,016	174,350

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 61,812 square feet of renewal leasing inclusive of 6,582 square feet of month to month tenants that renewed during the quarter. In addition 4,011 square feet of expiries remained in occupancy on a month to month basis, and are expected to renew. The REIT also early renewed 48,929 square feet of future expiries during the quarter.

Tenant renewals were completed at an initial net rent per square foot of $15.95 versus an expiring net rent per square foot of $16.92, a decrease of 5.7%. If not for one support service tenancy renewal, the expiring and renewal rates would have been comparable.

Year to date renewal leasing was completed at a weighted average initial net rent per square foot of $15.22 versus a weighted average expiring net rent per square foot of $15.70, a decrease of 3.1%.

New leasing:

During the quarter the REIT completed 24,003 square feet of new leasing commencing in the quarter, plus 29,591 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 $12.20. This is lower than the REIT's average in-place net rent primarily due to new leasing in lower rent markets such as Atlantic and southwestern Ontario.

Year to date the REIT completed 133,769 square feet of new leasing at a weighted average initial net rent per square foot of $10.98.

Lease Expiry Profile

The REIT's diverse tenant base is complemented by a balanced lease maturity profile, with an average of 12% of GLA maturing each year between 2015 and 2019, as illustrated by the chart below, and, as of December 31, 2014, a weighted average term to maturity of 4.5 years.

Lease Maturity Profile

% maturing	1%	14%	13%	16%	11%	8%	37%

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	4,222	39,695	-	6,185	50,102	1,525
2015	177,133	240,582	55,568	105,605	578,888	114,986
2016	96,230	283,745	119,958	54,669	554,602	9,301
2017	286,443	242,508	69,278	63,256	661,485	2,385
2018	171,501	159,893	61,262	43,348	436,004	3,003
2019	69,091	187,816	41,477	36,754	335,138	3,629
2020+	377,137	584,229	334,770	200,744	1,496,880	
Total Expiries	1,181,757	1,738,468	682,313	510,561	4,113,099	134,829
Residential	27,260	-	-	-	27,260	-
	1,209,017	1,738,468	682,313	510,561	4,140,359	134,829
Vacant	66,553	225,041	37,610	33,812	363,016	39,521
Total GLA	1,275,570	1,963,509	719,923	544,373	4,503,375	174,350
Occupancy percentage	**94.8%**	**88.5%**	**94.8%**	**93.8%**	**91.9%**	

Expiring Net Rent ($psf)						
	Western Canada	Ontario	Quebec	Atlantic Canada	Total	Committed[1]
Month to month	$22.51	$16.89	$-	$4.21	$15.80	$20.37
2015	19.98	15.85	17.01	10.22	16.20	15.66
2016	17.53	14.92	10.71	18.12	14.77	19.52
2017	23.07	14.29	13.36	12.40	17.81	13.82
2018	20.11	16.20	10.77	10.46	16.40	22.77
2019	21.97	15.98	15.74	9.08	16.43	20.98
2020+	22.70	18.70	13.13	15.25	18.00	-
Total Expiries	$21.54	$16.51	$12.99	$13.18	$16.96	$16.25

Notes:

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

The REIT has 39,521 square feet of committed future leasing against vacant space at an initial net rent per square foot of $14.38.

INVESTMENT PROPERTIES

The fair value of investment properties as at December 31, 2014 was $1,223,429 representing an implied weighted average capitalization rate ("Implied Cap Rate") of 6.8%. At December 31, 2013 investment properties were valued at $1,286,843 representing an Implied Cap Rate of 6.6%.

The change in value is summarized as follows:

Expressed in thousands of dollars	Three months ended December 31, 2014	Three months ended December 31, 2013	Year ended December 31, 2014	Year ended December 31, 2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Opening Balance	**$1,230,154**	**$1,294,375**	**$1,286,843**	**$1,244,875**
Acquisitions of investment properties	-	-	-	35,612
Additions	6,519	6,489	20,169	25,992
Dispositions of investment properties	(6,605)	-	(24,977)	(1,035)
Increase in straight-line rents receivable	247	407	1,096	1,576
Fair value adjustment	(6,886)	(14,428)	(59,702)	(20,177)
Closing Balance	**$1,223,429**	**$1,286,843**	**$1,223,429**	**$1,286,843**

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.

Given the state of office space markets in most of the country and the continued pressure on provincial government budgets, which is the primary source of funding for most of the REIT's tenancy base, during the second quarter of 2014 the REIT revised some key assumptions about the REIT's business, resulting in a reduction of projected rental rate growth in certain markets over the next several years as well as an increase in projected capital to enhance the future leaseability of the REIT's properties. These changes, together with some valuation changes at specific properties to reflect property-specific or local market conditions in the current and prior quarters, reduced our internal assessment of the value of the portfolio by $6,886 in the fourth quarter and $59,702 for the year ended December 31, 2014.

During the year ended December 31, 2014 external valuations were performed on properties with an aggregate value of $350,862. 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, 2014	**December 31, 2013**[1]
	(Unaudited)	(Unaudited)
Discount rate – range	6.0% - 9.8%	6.0% - 9.8%
Discount rate – weighted average	7.5%	7.4%
Terminal capitalization rate - range	5.8% - 8.8%	5.8% - 9.0%
Terminal capitalization rate - weighted average	6.9%	6.8%
Implied capitalization rate – range	5.3% - 9.4%	5.4% - 9.2%
Implied capitalization rate – weighted average	6.8%	6.5%

Notes:
(1)December 31, 2013 weighted average percentages have been recalculated to conform with current year presentation.

During the year ended December 31, 2014 the REIT sold five non-core investment properties for gross proceeds of $24,977.

ACQUISITIONS

There were no property acquisitions during the three months or year ended December 31, 2014.

DISPOSITIONS

During the quarter the REIT sold a non-core property in Hamilton, Ontario (Victoria Medical Centre) for $6,605, before adjustments, resulting in net proceeds of approximately $6,345 after transaction costs.

During the third quarter the REIT sold a non-core property in Welland, Ontario (Welland Professional Arts Building) for $275, before adjustments, resulting in net proceeds of approximately $239 after transaction costs.

During the second quarter the REIT sold a non-core property in Toronto, Ontario (2065 Finch Avenue West) for $10,050, before adjustments, resulting in net proceeds of approximately $2,886 after transaction costs and a mortgage of $6,223 assumed by the purchaser.

During the first quarter the REIT sold a non-core property in London, Ontario (Wharncliffe Health Centre) for net proceeds of approximately $3,375. The property was designated by the REIT as a non-core asset and was sold to a user group.

During the first quarter the REIT also sold a non-core property in Montreal, Quebec (Centre Medical Saint Urbain) for net proceeds of approximately $2,196 with a mortgage of $2,430 assumed by the purchaser. The property was designated by the REIT as a non-core asset and was sold to a local developer group.

LEASING COSTS AND CAPITAL EXPENDITURES

Expressed in thousands of dollars	Three months ended December 31, 2014	Three months ended December 31, 2013	Year ended December 31, 2014	Year ended December 31, 2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Leasing costs (1)	$347	$587	$1,624	$1,971
Tenant improvements (2)	1,092	3,575	9,017	13,846
Capital expenditures(3)	5,080	2,327	9,528	10,175
Additions to investment properties	6,519	6,489	20,169	25,992
Internal leasing costs expensed	514	405	1,730	1,481
	7,033	6,894	21,899	27,473
Less: recoverable maintenance capital expenditures	(1,542)	(1,216)	(4,721)	(5,879)
Less: value enhancing and non-recurring capital expenditures	(3,503)	(955)	(5,950)	(6,105)
Total adjusted leasing costs and capital expenditures	$1,988	$4,723	$11,228	$15,489
Reserve for stabilized capital expenditures, leasing costs and tenant improvements (4)	$2,201	$2,297	$9,017	$8,958
Actual leasing and capital expenditures in excess of (lower than) the reserve	($213)	$2,426	$2,211	$6,531

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 6.0% of quarterly revenue from investment properties. Prior year comparatives have increased from a reserve of 4.5% to 6.0% to conform with current year presentation.

On a quarterly basis and during portfolio repositioning, leasing costs, tenant improvements and capital expenditures can fluctuate and as such, should not be regarded as stabilized. Further, in accordance with the REIT's strategy of extending average lease term whenever possible, especially for primary medical tenancies, often non-recurring leasing costs are involved.

During the second quarter the REIT changed the AFFO reserve for non-recoverable leasing and capital costs from 4.5% of gross revenue to 6.0%. A portion of this increase (1.0%) was related to an off-setting increase to FFO as a result of the REIT adopting the Real Property Association of Canada's FFO White Paper position on the treatment of internalized leasing costs, with the remainder (0.5%) related to a revised projection of leasing and capital costs as we continue to invest in our properties. Comparative periods have been adjusted to reflect the REIT's revised presentation.

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, other financial instruments and investment properties, plus goodwill impairment, internal leasing costs and 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 ("REALpac") 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 and year ended December 31, 2014 is set out below:

Expressed in thousands of dollars, except per unit amounts	**Three months ended December 31, 2014**	**Three months ended December 31, 2013**	**Variance**	**Year ended December 31, 2014**	**Year ended December 31, 2013**	**Variance**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net income	**$327**	**$758**	**($431)**	**($22,195)**	**$36,520**	**($58,715)**
Add / (Deduct):						
Finance cost – Class B Exchangeable Unit distributions	1,511	1,510	1	6,042	6,050	(8)
Finance cost - Fair value adjustment of Class B Exchangeable Units	(3,549)	(5,437)	1,888	(8,760)	(15,381)	6,621
Finance cost - Fair value adjustment of Convertible Debentures	(664)	805	(1,469)	604	-	604
Finance cost – Convertible Debenture issuance costs [7]	-	-	-	-	2,092	(2,092)
Finance costs – Fair value adjustments of other financial instruments	979	(210)	1,189	2,859	(2,819)	5,678
Fair value adjustment of investment properties	6,886	14,428	(7,542)	59,702	20,177	39,525
Net loss on disposal of investment properties	260	-	260	1,283	73	1,210
Goodwill impairment	4,458	-	4,458	4,458	-	4,458
Acquisition related costs[8]	793	-	793	793	-	793
Internal leasing costs[4]	514	405	109	1,730	1,481	249
Fair value adjustment to deferred unit plan liability[5]	(112)	(101)	(11)	(169)	(125)	(44)
FFO[1][6]	**$11,403**	**$12,158**	**($755)**	**$46,347**	**$48,068**	**($1,721)**
Adjusted basic FFO per unit[2]	$0.24	$0.26	($0.02)	$1.00	$1.04	($0.04)
Adjusted fully diluted FFO per unit[2]	$0.24	$0.26	($0.02)	$0.98	$1.03	($0.05)
Adjusted weighted average units outstanding[3]:						
Basic	46,622,157	46,304,363	317,794	46,485,985	46,218,700	267,285
Fully diluted	49,813,400	49,418,493	394,907	49,671,552	47,330,492	2,341,060

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

(3) Under IFRS the REIT's Class B Exchangeable Units are treated as a financial liability rather than equity. As is permitted under IFRS the REIT has chosen to present an adjusted basic and diluted per unit measure that includes the Class B Exchangeable Units in basic and diluted units outstanding/weighted average units outstanding. As a result the adjusted basic and diluted weighted average units outstanding include 7,551,546 outstanding Class B Exchangeable Units for the three months and year ended December 31, 2014, and 7,551,546 and 7,566,099 outstanding Class B Exchangeable Units for the three months and year ended December 31, 2013, respectively. Adjusted diluted weighted average units outstanding includes 2,834,507 Units issuable on the conversion of Convertible Debentures for the three months and year ended December 31, 2014, and 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. Fully diluted adjusted units outstanding includes the impact of deferred units outstanding.

(4) In April 2014, an update to the FFO White Paper was released by REALpac to provide that the costs of full-time or salaried leasing personnel, and related internal costs, that can be reasonably and directly attributed to signed leases, and that would otherwise be capitalized if incurred from external sources, be added back to net income in determining FFO. In accordance with the update to the FFO White Paper, management determined that internal leasing costs, that aren't incremental and as a result expensed in accordance with IFRS when determining net income, would be added back to FFO. This amount includes the base salary and benefits of the internal leasing department which have been expensed. The REIT has amended prior period comparative figures retrospectively to improve comparability.

(5) In accordance with the FFO White Paper the REIT has begun to adjust for fair value changes to the deferred unit plan liability when determining FFO. These fair value changes were previously part of the AFFO adjustment. The REIT has also amended prior period comparative figures retrospectively to improve comparability. Summary of Quarterly Results for a reconciliation of prior quarter FFO presentation to current FFO presentation.

(6) See Summary of Quarterly Results for a reconciliation of prior quarter FFO presentation to current FFO presentation.

(7) Non-recurring issuance costs of the Convertible Debentures.

(8) During the three months ended December 31, 2014 the REIT expensed $793 of acquisition related costs. See Part X - Subsequent Events.

The FFO per unit of $0.24 for the three months ended December 31, 2014 is $0.02 lower than that of the three months ended December 31, 2013. FFO was negatively impacted by same property NOI performance, increased deferred unit plan compensation expense, debt repayment costs and the near term dilutive impact of property dispositions, partially offset by a net reduction in interest costs.

FFO per unit for the year ended December 31, 2014 is $0.04 lower than that of the year ended December 31, 2013 primarily as a result of reduced management fee income, debt repayment costs, the reduction of the amortization of debt premiums and the near term dilutive impact of property disposition, partially offset by interest cost savings and the income generated from properties acquired subsequent to 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, goodwill impairment, and internal leasing costs; (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, 2014 is set out below:

Expressed in thousands of dollars, except per unit amounts	**Three months ended December 31, 2014**	**Three months ended December 31, 2013**	**Variance**	**Year ended December 31, 2014**	**Year ended December 31, 2013**	**Variance**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
FFO	**$11,403**	**$12,158**	**($755)**	**$46,347**	**$48,068**	**($1,721)**
Add / (Deduct):						
Amortization of mark-to-market adjustment	(181)	(280)	99	(784)	(1,358)	574
Amortization of finance fees (2)	105	116	(11)	411	514	(103)
Amortization of straight-line rent	(123)	(136)	13	(487)	(752)	265
Deferred unit plan compensation expense(3)	568	312	256	1,539	927	612
Debt repayment costs(4)	330	-	330	768	208	560
Reserve for stabilized leasing costs, tenant improvements and growth capital expenditures (5)	(2,201)	(2,297)	96	(9,017)	(8,958)	(59)
AFFO (1)(8)	**$9,901**	**$9,873**	**$28**	**$38,777**	**$38,649**	**$128**
Adjusted basic AFFO per Unit(6)	$0.21	$0.21	$-	$0.83	$0.84	($0.01)
Adjusted fully diluted AFFO per Unit(6)	$0.21	$0.21	$-	$0.82	$0.83	($0.01)
Adjusted weighted average units outstanding(7):						
Basic	46,622,157	46,304,363	317,794	46,485,985	46,218,700	267,285
Fully diluted (7)	49,813,400	49,418,493	394,907	49,671,552	47,330,492	2,341,060

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) As noted under Funds From Operations the REIT has begun to adjust FFO for fair value changes in the REIT's deferred unit plan liability in accordance with the FFO White Paper. As a result the REIT has adjusted the deferred unit plan compensation expense AFFO adjustment to exclude this fair value adjustment already accounted for under FFO. The change in presentation does not impact AFFO.

(4) Debt repayment cost include the difference between the carrying amount and the settlement amount of mortgages payable that were settled during the three months and year ended December 31, 2014, including unamortized mark-to-market adjustment written off on the debt extinguishments, prepayment penalty and other costs.

(5) Based on an estimate of 6.0% of revenue from investment properties. In April 2014, an update to the FFO White Paper was released by REALpac to provide that the costs of full-time or salaried leasing personnel, and related internal costs, that can be reasonably and directly attributed to signed leases, and that would otherwise be capitalized if incurred from external sources, be added back to net income in determining FFO. In accordance with the update to the FFO White Paper, management determined that internal leasing costs, that aren't incremental and as a result expensed in accordance with IFRS when determining net income, would be added back to FFO. This amount includes the base salary and benefits of the internal leasing department which have been expensed. As a result of this amendment to the REIT's FFO calculation the REIT has increased its AFFO reserve by 1% to offset the increase in FFO as a result of adding back internal leasing costs. In addition the REIT increased the reserve by 0.5% to reflect a revised projection of leasing and capital costs as the REIT continues to invest in its properties. Comparative figures have been revised retrospectively to enhance comparability.

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

(7) Under IFRS the REIT's Class B Exchangeable Units are treated as a financial liability rather than equity. As is permitted under IFRS the REIT has chosen to present an adjusted basic and diluted per unit measure that includes the Class B Exchangeable Units in basic and diluted units outstanding/weighted average units outstanding. As a result the adjusted basic and diluted weighted average units outstanding include 7,551,546 outstanding Class B Exchangeable Units for the three months and year ended December 31, 2014, and 7,551,546 and 7,566,099 outstanding Class B Exchangeable Units for the three months and year ended December 31, 2013, respectively. Adjusted diluted weighted average units outstanding includes 2,834,507 Units issuable on the conversion of Convertible Debentures for the three months and year ended December 31, 2014, and 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. Fully diluted adjusted units outstanding includes the impact of deferred units outstanding.

(8) See Summary of Quarterly Results for a reconciliation of prior quarter AFFO presentation to current AFFO presentation.

The AFFO per unit of $0.21 for the three months ended December 31, 2014 is consistent with that of the three months ended December 31, 2013. A decrease in same property NOI and the near term dilutive impact of property dispositions is offset by interest cost savings.

The AFFO per unit for the year ended December 31, 2014 decreased $0.01 from the year ended December 31, 2013 due to the dilutive impact of the Distribution Reinvestment Plan ("DRIP"). The increase in AFFO for the year ended December 31, 2014 was mainly due to interest cost savings and income generated from properties acquired subsequent to December 31, 2012, partially offset by the near term dilutive impact of property dispositions .

A reconciliation of cash provided by operating activities to AFFO for the three months and year ended December 31, 2014 is set out below:

Expressed in thousands of dollars	**Three months ended December 31, 2014**	**Three months ended December 31, 2013**	**Variance**	**Year ended December 31, 2014**	**Year ended December 31 2013**	**Variance**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net cash from operating activities	**$13,697**	**$10,772**	**$2,925**	**$41,681**	**$44,680**	**($2,999)**
Add / (Deduct):						
Change in non-cash operating items	(2,913)	1,036	(3,949)	1,883	1,445	438
Net increase in restricted cash	-	-	-	(175)	-	(175)
Decrease (increase) in accrued interest expense	(652)	(118)	(534)	231	(257)	488
Debt repayment costs	330	-	330	768	208	560
Amortization of straight line rent	(123)	(136)	13	(487)	(752)	265
Deferred unit plan compensation expense	568	312	256	1,539	927	612
Fair value adjustment to deferred unit plan liability	(112)	(101)	(11)	(169)	(125)	(44)
Acquisition related costs	793	-	793	793	-	793
Incremental leasing costs	514	405	109	1,730	1,481	249
Reserve for stabilized leasing costs, tenant improvements and growth capital expenditures (2)	(2,201)	(2,297)	96	(9,017)	(8,958)	(59)
AFFO (1)	**$9,901**	**$9,873**	**$28**	**$38,777**	**$38,649**	**$128**

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) Based on an estimate of 6.0% of revenue from investment properties.

Pursuant to National Policy 41-201, "Income Trusts and Other Indirect Offerings", the following table outlines the differences between cash flow from operating activities and distributions paid and payable as well as the differences between net income and distributions paid and payable, in accordance with the guidelines.

Expressed in thousands of dollars	Three months ended December 31, 2014	Three months ended December 31, 2013	Variance	Year ended December 31, 2014	Year ended December 31, 2013	Variance
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net income	$327	$758	($431)	($22,195)	$36,520	($58,715)
Class B Exchangeable Unit distributions	1,511	1,510	1	6,042	6,050	(8)
Adjusted net income	1,838	2,268	(430)	(16,153)	42,570	(58,723)
Net cash from operating activities	13,697	10,772	2,925	41,681	44,680	(2,999)
Distributions	7,818	7,753	65	31,159	30,933	226
Class B Exchangeable Unit distributions	1,511	1,510	1	6,042	6,050	(8)
Distributions paid and payable	9,329	9,263	66	37,201	36,983	218
Excess (shortfall) of adjusted net income over distributions paid and payable	($7,491)	($6,995)	($496)	($53,354)	$5,587	($58,941)
Excess of cash flow from operating activities over distributions paid and payable	$4,368	$1,509	$2,859	$4,480	$7,697	($3,217)

Adjusted net income is not necessarily indicative of the REIT's ability to pay distributions as it includes certain non-cash items including fair value changes on investment properties and financial instruments.

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, 2014 is calculated below:

	For the three months ended December 31, 2014	For the three months ended December 31, 2013
	(Unaudited)	(Unaudited)
AFFO per unit	$0.21	$0.21
Distributions per Unit	$0.20	$0.20
Payout Ratio	**94%**	**94%**
Fully diluted AFFO per unit	$0.21	$0.21
Distributions per Unit	$0.20	$0.20
Payout Ratio (fully diluted)	**96%**	**95%**

The REIT's payout ratio is consistent with the prior year and the payout ratio (fully diluted) has increased slightly 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 87,936 Units were issued pursuant to the DRIP and the DRIP participation rate was approximately 9% 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, 2014**	**Three months ended December 31, 2013**	**Year ended December 31, 2014**	**Year ended December 31, 2013**
Cash provided by / (used in):	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating activities	$13,697	$10,772	$41,681	$44,680
Investing activities	(164)	4,366	(5,128)	(39,154)
Financing activities	(11,488)	(15,240)	(35,944)	(7,810)
Increase / (Decrease) in cash and cash equivalents during the period	**$2,045**	**($102)**	**$609**	**($2,284)**
Cash and cash equivalents, beginning of period	$469	$2,007	$1,905	$4,189
Cash and cash equivalents, end of period	**2,514**	**$1,905**	**$2,514**	**$1,905**

Notes:

(1) The REIT reclassed certain items for the three months and year ended December 31, 2013 to conform to the current year's presentation.

Cash flow activity for the three months ended December 31, 2014 is primarily related to the results of the REIT's operations, distributions to Unitholders, the utilization of the Revolving Credit Facility and disposition of investment properties. The financing activities included a net increase in the draw on the Revolving Credit Facility during the quarter of $5,000 such that the balance owing of the facility at December 31, 2014 was $16,000.

CAPITALIZATION AND DEBT PROFILE

Expressed in thousands of dollars	As at December 31, 2014	As at December 31, 2013
Indebtedness	(Unaudited)	(Unaudited)
Mortgages Payable	$631,762	$647,458
Mark-to-Market premium on Mortgages	1,150	1,927
Unamortized financing costs	(1,655)	(1,473)
	631,257	647,912
Convertible Debentures (net of $604 Mark-to-Market premium, December 31, 2013 - nil)	40,854	40,250
Loans Payable (net of $200 of unamortized financing fees, December 31, 2013 - $254)	16,529	10,467
Debt	688,640	698,629
Class B Exchangeable Units (Authorized – unlimited; Issued: December 31, 2014 - 7,551,546, December 31, 2013 - 7,551,546)	70,078	78,838
Unitholders' Equity		
Units (Authorized – unlimited; Issued: December 31, 2014 – 39,117,912 December 31, 2013 – 38,783,403)	$402,120	$398,903
Retained Earnings	56,387	109,741
	458,507	508,644
Total capitalization	**$1,217,225**	**$1,286,111**

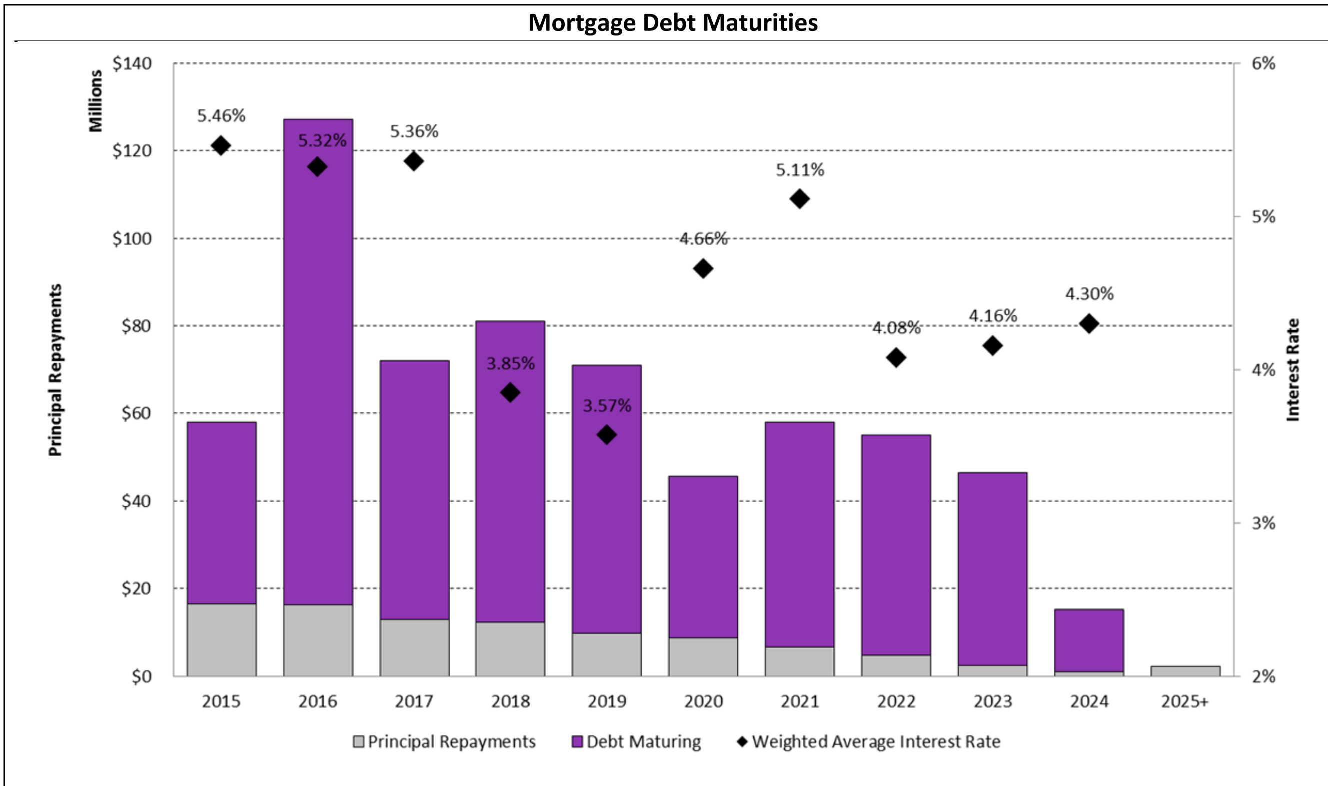
As at December 31, 2014, the REIT had a market capitalization of approximately $433,093 (including 7,551,546 Class B Exchangeable Units) based on a closing Unit price of $9.28 on the Toronto Stock Exchange.

Mortgage Debt Maturities

The following table sets out, as at December 31, 2014, 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
2015	16,594	41,341	57,935	5.46%	9%
2016	16,263	110,863	127,126	5.32%	20%
2017	12,984	58,962	71,946	5.36%	12%
2018	12,333	68,812	81,145	3.85%	13%
2019	9,810	61,179	70,989	3.57%	11%
2020	8,768	36,907	45,675	4.66%	7%
2021	6,637	51,308	57,945	5.11%	9%
2022	4,857	50,264	55,121	4.08%	9%
2023	2,407	43,979	46,386	4.16%	7%
2024	988	14,224	15,212	4.30%	3%
2025+	2,282	-	2,282	n/a	-%
Sub-total	93,923	537,839	631,762	4.62%	100%
Marked to market adjustment			1,150	(0.11%)	
			632,912	4.51%	
Unamortized financing costs			(1,655)		
Total			631,257		



Mortgage Financing

During the quarter as part of the sale of Victoria Medical Centre the REIT early repaid the $3,609 mortgage on the property which carried an interest rate of 5.28%.

As a result of this transaction the weighted average interest rate on the REIT's mortgages decreased to 4.62% at the end of the quarter, from 4.63% in the previous quarter, with a term to maturity of 4.8 years.

Revolving Credit Facility

The REIT has a $50 million Revolving Credit Facility, which bears interest at a rate equal to the bank's prime rate plus 1.00% or Bankers' Acceptances plus 2.00%, with a term to March 25, 2016. The REIT also has 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 REIT utilized the facility for general trust purposes. The balance outstanding as at December 31, 2014 was $16,000 from $11,000 as at September 30, 2014.

Convertible Debentures

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, 2014:

Expressed in thousands of dollars	**As at/for the three months ended December 31, 2014**	**As at/for the three months ended December 31, 2013**
	(Unaudited)	(Unaudited)
Gross Book Value	$1,244,641	$1,314,992
Debt (excluding Class B Exchangeable Units)	$688,640	$698,629
Debt to Gross Book Value (1)	55.3%	53.1%
Amount of debt at fixed rates	$623,821	$638,585
Amount of debt at variable rates(2)	$64,819	$60,044
Interest coverage (3)	2.33x	2.44x
Debt Service coverage (4)	1.54x	1.65x
Net debt/EBITDA(5)	8.9x	8.7x
Weighted average mortgage interest rate (at contract) (6)	4.62%	4.80%

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 $49,303 of its variable rate debt payable as at December 31, 2014 ($50,289– December 31, 2013). 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 $160.

(3) Defined as net income before fair value adjustment of investment properties, loss on disposal of investment properties, plus finance costs divided by finance costs excluding amounts related to Class B Exchangeable Units, Convertible Debenture issuance costs, acquisition related costs, fair value adjustments of financial liabilities and goodwill impairment. Interest coverage was 2.37x and 2.46x for the years ended December 31, 2014 and 2013, respectively.

(4) Defined as net income excluding finance costs (interest, amortization of debt premiums/discounts and financing costs, distributions on Class B Exchangeable Units), acquisition related costs, goodwill impairment 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 Debentures) and scheduled debt repayments. Debt Service coverage was 1.57x and 1.67x for the years ended December 31, 2014 and 2013, respectively.

(5) Defined as debt (excluding Class B Exchangeable Units) less cash and cash equivalents divided by annualized net income before fair value adjustment of investment properties plus finance costs. Net debt/EBITDA was 8.8x and 8.9x for the years ended December 31, 2014 and 2013, respectively.

(6) Excludes Revolving Credit Facility and Convertible Debentures. Current market weighted average mortgage interest rate is approximately 3.4%.

The ratio of Debt to GBV of 55.3% as at December 31, 2014 increased slightly in the quarter from 55.1% as at September 30, 2014.

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 6.0% 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, 2014 the interest of NW Trust and its affiliates in the REIT is approximately 25.5% (23.9% 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 September, 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, 2014	Three months ended December 31, 2013	Year ended December 31, 2014	Year ended December 31, 2013
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from investment properties:					
Head lease income	(a)	410	416	1,632	1,711
Rental income	(b)	16	216	243	931
Management fee revenue:					
Leasing and construction supervision services	(b)(c)	-	7	-	218
Management services and cost sharing	(d)	-	91	2	388
Support services provided	(e)	32	33	129	98
Property operating and trust expenses:					
Support services provided	(e)	121	34	436	82
Rental expense	(f)	77	77	307	312
Interest income:					
Interest	(a)(b)	26	33	177	59
Owen Sound Loan interest	(g)	75	76	300	300
Finance cost:					
Class B Exchangeable Unit distributions		1,511	1,510	6,042	6,050
Leasing costs reimbursement	(a)(b)	-	36	2	1,253

The following are the related party balances as at December 31st:

Expressed in thousands of dollars	Note	As at December 31, 2014	As at December 31, 2013
		(Unaudited)	(Unaudited)
Balance sheet balances:			
Accounts receivable		$4,406	$2,900
Working capital adjustment payable		92	92
Loan receivable	(g)	4,000	4,000

(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 expire March 24, 2015 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. See Part X – Subsequent Events.

(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 and expiring March 24, 2015.

(d) The REIT had 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 charges interest on net amounts receivables relating to (a), (b), (c) and (e).

See Part X – Subsequent Events

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.

See Part X – Subsequent Events

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. This agreement was terminated on February 12, 2015.

See Part X – Subsequent Events

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 with a maturity date extended to March 31, 2015. 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. This right of first offer was executed by the REIT and the medical building in question was acquired as of February 12, 2015. As part of the consideration the Owen Sound Loan was settled by the REIT.

See Part X – Subsequent Events for additional related party transactions.

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.

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 has been required to pay for any potential shortfalls in rent for space sub-leased to third parties for the duration of the Head Lease term. . All Head Leases with NW Trust and its affiliates have been settled as of February 12, 2015 as part of the Internalization (as defined in Subsequent Events).

Head Lease Summary

	At December 31, 2014			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	19,774(4)	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 December 31, 2014.
(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.
(4) Includes managed clinic space which provides ancillary revenue.

The REIT did not lease additional head lease space to third parties during the quarter. The REIT is actively pursuing leases for approximately 5,400 square feet of the remaining head lease space. Should no additional leasing be completed on the head lease space which expires on March 24, 2015, revenue would decrease by $412 per quarter with a similar decline in NOI each quarter.

See Part X – Subsequent Events

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 2014	Q3 2014	Q2 2014	Q1 2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from operations	**$36,725**	**$37,103**	**$37,411**	**$39,190**
Property operating expenses	16,623	17,109	16,857	19,052
Operating income	**20,102**	**19,994**	**20,554**	**20,138**
Finance cost	8,270	7,965	8,382	8,160
Interest income	(178)	(210)	(233)	(213)
Trust expenses	1,802	932	1,254	864
Income before undernoted items	**10,208**	**11,306**	**11,151**	**11,327**
Finance cost:				
Class B Exchangeable Unit distributions	(1,511)	(1,510)	(1,511)	(1,510)
Fair value adjustment of Class B Exchangeable Units	3,549	1,888	(3,398)	6,721
Fair value adjustment of Convertible Debentures	664	(865)	(202)	(201)
Fair value adjustment of other financial instruments	(979)	(110)	(536)	(1,234)
Fair value adjustment of investment properties	(6,886)	(3,207)	(49,181)	(428)
Net loss on disposal of investment properties	(260)	(36)	(638)	(349)
Goodwill impairment	(4,458)	-	-	-
Net income / (loss)	**327**	**7,467**	**(44,315)**	**14,326**
NOI	**20,102**	**19,994**	**20,554**	**20,138**
FFO – previous presentation				11,327
Internal leasing costs				401
Fair value adjustment to deferred unit plan liability				(219)
FFO – current presentation (1)	**11,403**	**11,655**	**11,780**	**11,509**
FFO per unit (Adjusted basic)(1)(2)	$0.24	$0.25	$0.25	$0.25
FFO per unit (Adjusted fully diluted) (1)(2)	$0.24	$0.25	$0.25	$0.24
AFFO – previous presentation				$9,522
Internal leasing costs				401
Reserve adjustment				(587)
Net reserve increase				(186)
AFFO – current presentation (1)	**$9,901**	**$9,574**	**$9,966**	**$9,336**
AFFO per unit (Adjusted basic) (1)(2)	$0.21	$0.21	$0.21	$0.20
AFFO per unit (Adjusted fully diluted) (1)(2)	$0.21	$0.20	$0.21	$0.20
AFFO payout ratio (Adjusted basic)	94%	97%	93%	99%
AFFO payout ratio (Adjusted fully diluted)	95%	98%	95%	100%
Distributions(3)	9,328	9,306	9,291	9,275
Distributions per Unit	$0.20	$0.20	$0.20	$0.20
Total Assets	$1,244,641	$1,255,827	$1,254,849	$1,310,412
Debt (excluding Class B Exchangeable Units)	$688,640	$692,295	$689,105	$696,379
Debt to Gross Book Value	55.3%	55.1%	54.9%	53.1%
Number of properties	73	74	75	76
Gross leasable area	4,503,375	4,562,195	4,572,882	4,634,670
Occupancy % – period end	91.9%	91.8%	92.1%	91.8%
Number of employees	139	140	139	140

Notes:

(1) Prior periods FFO comparative information has been restated to include the add-back of internal leasing costs to FFO and the impact of fair value adjustments to the REIT's deferred unit plan liability. Prior period AFFO comparative information has been restated to reflect the increase in AFFO reserve for stabilized leasing costs, tenant improvements and growth capital expenditures in the calculation of AFFO.

(2) 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.

(3) Includes distributions on Class B Exchangeable Units.

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	2,316	99
Fair value adjustment of investment properties	(14,428)	(217)	(7,709)	2,177
Net loss on disposal of investment properties	-	-	-	(73)
Goodwill impairment	-	-	-	-
Net income / (loss)	**758**	**11,487**	**14,150**	**10,125**
NOI	**20,741**	**20,729**	**20,206**	**19,845**
FFO – previous presentation	11,854	11,967	11,538	11,353
Internal leasing costs	405	356	372	348
Fair value adjustment to deferred unit plan liability	(101)	6	(133)	103
FFO – current presentation [1]	**12,158**	**12,329**	**11,777**	**11,804**
FFO per unit (Adjusted basic)[1][2]	$0.26	$0.27	$0.25	$0.26
FFO per unit (Adjusted fully diluted) [1][2]	$0.26	$0.26	$0.25	$0.25
AFFO – previous presentation	$10,042	$10,148	9,680	9,537
Internal leasing costs	405	356	372	348
Reserve adjustment	(574)	(559)	(551)	(555)
Net reserve increase	(169)	(203)	(179)	(207)
AFFO – current presentation [1]	**$9,873**	**$9,945**	**$ 9,501**	**$9,330**
AFFO per unit (Adjusted basic) [1][2]	$0.21	$0.22	$0.21	$0.20
AFFO per unit (Adjusted fully diluted) [1][2]	$0.21	$0.21	$0.20	$0.20
AFFO payout ratio (Adjusted basic)	94%	93%	97%	99%
AFFO payout ratio (Adjusted fully diluted)	95%	94%	98%	99%
Distributions[3]	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) Prior periods FFO comparative information has been restated to include the add-back of internal leasing costs to FFO and the impact of fair value adjustments to the REIT's deferred unit plan liability. Prior period AFFO comparative information has been restated to reflect the increase in AFFO reserve for stabilized leasing costs, tenant improvements and growth capital expenditures in the calculation of AFFO.

(2) 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.

(3) 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)	2014	2013	2012
Revenue from operations	$150,429	$150,110	$134,458
Net income (loss) from continuing operations	($22,195)	$36,520	$92,493
Net income (loss)	($22,195)	$36,520	$92,493
Total assets	$1,244,641	$1,314,992	$1,281,477
Total non-current financial liabilities	$684,254	$716,266	$646,033
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, 2014.

Beginning January 1, 2014 the REIT has applied the following new accounting standards, or amendments to existing standards, for the first time:

- IAS 32, Financial Instruments: Presentation
- IFRIC 21, Levies

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, 2014.

PART VIII

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the 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.

Risk Factors Related to the Real Estate Industry

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

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

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to the REIT than the existing lease. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting the REIT's investment may be incurred. Furthermore, at any time, a tenant of any of the properties in which the REIT has an interest may seek the protection of bankruptcy, insolvency or similar laws that could result in the disclaimer and termination of such tenant's lease, any of which events could have an adverse effect on the REIT's financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders. Certain of the REIT's tenants may require 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 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.

Development

The REIT is and expects to be increasingly involved in the development of medical office buildings. These developments will often be carried out by former NWVP employees who are now employed by the REIT. Developing land is subject to the risks usually attributable to construction projects, which include: (i) construction or other unforeseen delays; (ii) cost overruns; (iii) the failure of tenants to occupy and pay rent in accordance with existing lease agreements, some of which are conditional; (iv) the inability to achieve projected rental rates or anticipated pace of lease-ups; (v) general construction risks; and (vi) an increase in interest rates during the life of the development or redevelopment. Furthermore, property development is a relatively new line of business for the REIT. As a result, development risks associated with such projects may be greater due to the REIT's developing experience in this area.

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, 2014 the REIT had outstanding indebtedness of approximately $688,640, 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, 2014, $64,819 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 $49,303 of its variable rate debt payable as at December 31, 2014. In addition, the REIT has conduit loans outstanding as at December 31, 2014. Access to this type of financing has diminished. Although substantially all of the amounts outstanding under the REIT's conduit loans mature in 2015 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 may enter into, and have entered 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 ''Relationships with NW Trust'' 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 Acquisition Agreement, NW Trust covenanted (the "Covenant"), inter alia, 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. NW Trust's covenant to maintain the Head Lease Security will survive for the remaining term of the Head Leases (which expire in March 2015). There had been no assurance that the REIT would be fully protected in the event of a breach of NW Trust's obligations under the Head Leases. The REIT might not have been able to successfully enforce the indemnity contained in the Acquisition Agreement against NW Trust or such indemnity may not have been sufficient to fully indemnify the REIT from third party claims. Regardless, as part of the Internalization, the Covenant and the Head Lease Security has been terminated and NW Trust no longer has obligation to the REIT in this regard.

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 had advanced an $8,000 loan to a joint venture in which NW Trust indirectly holds a 50% interest and accordingly was subject to the risks associated with having a loan outstanding, however this loan was forgiven as part of an acquisition of the Owen Sound property completed as of February 12, 2015. See "Related Party Transactions." and Part X – Subsequent Events.

Phase II Development Agreement – Glenmore Professional Centre
Prior to February 12, 2015, the REIT had an obligation that if a prospective future development of the additional parcel at the Glenmore Professional Centre (the "Phase II Development Agreement") was not achieved by a certain date, then the vendor had the right, after a mutually agreed future date, 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 would have been 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 was no guarantee that the REIT would have been able to secure such land severance.

This obligation of the REIT was terminated as of February 12, 2015 pursuant to the terms of the Internalization.

See Part X – Subsequent Events

<u>Risk Factors Related to the Units</u>

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, 2014.

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 25.5% (23.9% fully diluted) economic interest in the REIT at December 31, 2014, 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 trust indenture dated September 11, 2013 between the REIT and Computershare Trust Company of Canada, providing for the issue of the Debentures and subordinate debentures (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, 2014, 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, 2014.

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, 2014, 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 Internal Control – Integrated Framework, 1992, 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, 2014 that have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting.

Inherent Limitation

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

PART X

SUBSEQUENT EVENTS

- On January 15, 2015, the REIT, in its on-going efforts to recycle capital into higher-quality assets, sold Polyclinique de la Capitale in Quebec City, Quebec, an older non-core medical office building, for $4,625 to a third party and recognized a loss on sale of $287.

- Subsequent to the year end, the REIT executed term sheets, subject to the usual lender conditions and approvals, expected to generate gross mortgage proceeds of approximately $70,600, and net proceeds of approximately $18,800 after repayment of maturing mortgages, to be secured against nine existing properties. Such new mortgages are expected to fund in March 2015 and will have a weighted average term to maturity of 6.5 years and weighted average interest rate of approximately 3.1%.

- Subsequent to the year end, on February 12, 2015, the REIT completed a series of transactions with affiliates of NW Trust, as part of its on-going portfolio optimization strategy, that improve portfolio quality and position the REIT for growth. The transactions included:

  a) The REIT acquired the Owen Sound Medical Building for $23,000 pursuant to a right of first offer it held over the property. Consideration included the assumption of a $13,903 mortgage secured by the property and settlement of the $8,000 Owen Sound Loan (See Part V – Related Party Transactions). The property located at 1415 1st Avenue West, Owen Sound, Ontario is a new generation medical office building which has been the home of the Owen Sound Family Health Team since 2012 under a long-term lease.

  b) The REIT acquired the right to purchase a two-building investment property, and assumed a post-acquisition redevelopment opportunity, at 81-85 The East Mall, Toronto, Ontario and purchased two land parcels slated for medical office building development, one in Barrie, Ontario and one in St. Albert, Alberta. Consideration for the 81-85 The East Mall acquisition right and the two land parcels was $10,000, subject to adjustments, and was partially settled by the $4,406 account receivable due from affiliates of NW Trust.

     The two-building investment property located at 81-85 The East Mall, Toronto, Ontario, which was acquired from a third party for $10,515, contains an aggregate rentable area of approximately 82,000 square feet. One building is substantially occupied by a variety of tenants, including a significant healthcare user, and the second building is empty, and as part of the redevelopment will undergo renovation in order to become the future home of the Etobicoke Family Health Team, together with ancillary healthcare uses. It is expected to be substantially occupied in late 2016, after completion of the renovations.

     The first land parcel is located on Bayview Drive in Barrie, Ontario, and will be the future home of the Barrie Family Health Team. This long-term tenancy is scheduled, along with other identified healthcare users, to take occupancy following the construction of a 3-storey, 79,000 square foot, new generation multi-tenant medical office building. Pre-leasing is well advanced and construction is expected to commence shortly, with the opening of the building scheduled for late 2016. The property is the REIT's first in Barrie, where the REIT has already established its central Ontario office in support of its properties in nearby Collingwood, Orillia, Midland and now Owen Sound.

     The second land parcel is located across the street from the Sturgeon Community Hospital in St. Albert, Alberta, which is a 25-minute drive northwest of downtown Edmonton. The 1.4-acre site has been designed for a new generation, "on-campus" medical office building of between 30,000 and 50,000 square feet, and pre-leasing is underway. The property is the REIT's sixth in the greater Edmonton area.

c) Concurrent with these acquisitions, the REIT ended its development relationship with NWVP, an affiliate of NW Trust, at no cost, and hired NWVP's development employees (the “Internalization”). As a result, the REIT is no longer required to sever and sell the development land portion of Glenmore Professional Centre to NW Trust for $2,950 in the event a development agreement is not reached (See Part V – Related Party Transactions).

d) As part of the agreement, the REIT also settled future amounts due under head leases, originally due from NW Trust and subsequently assigned to NWVP, and also released an affiliate of NW Trust from future rental shortfall amounts due, if any, under a lease surrender agreement (See Part V – Related Party Transactions).

Each of the transactions described above involved NWVP and since Paul Dalla Lana is the sole shareholder of NWVP and is also a trustee and principal unit holder of the REIT, each of the transactions described herein above is considered a "related party transaction" for the purposes of Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions (“MI 61-101”). All were, therefore, reviewed, overseen and unanimously recommended for Board of Trustee approval by a Special Committee of the REIT consisting of three independent trustees. These transactions were not subject to the formal valuation and minority approval requirements of MI 61-101 as neither the fair market value nor the subject matter of any of the transactions represent more than 25% of the REIT's market capitalization.

- The REIT declared distributions of $0.06667 per unit to Unitholders of record as at January 30, 2014 and February 27, 2014.

- On March 10, 2015, the REIT entered into an agreement with International REIT to combine and form a single healthcare real estate investment trust. The combination will be effected by a plan of arrangement pursuant to which the REIT will acquire all of the assets of the International REIT. The unitholders of the International REIT will receive 0.208 of a REIT unit for each International REIT trust unit held, on a tax-deferred basis.

  The combination was approved by the REIT’s Board of Trustees based on a recommendation by an independent committee of the REIT, after consultation with the independent committee’s financial and legal advisors. The transaction will be subject to the approval of at least 66 2/3% of the votes cast at special meetings of the REIT and the International REIT’s voting unitholders, as well as the approval of a majority of the votes cast at the REIT special meeting, other than votes held by the International REIT. The International REIT indirectly holds an approximate 25.5% interest in the REIT. NWVP, which currently holds approximately 65% of the International REIT’s voting units, has entered into a customary voting and support agreement pursuant to which, among other things, it has agreed to vote its International REIT voting units in favour of the transaction. The combination is also subject to other customary regulatory approvals for transactions of this nature, including approvals from the TSX-V and TSX, Competition Act (Canada) authorities, the Australia’s Foreign Investment Review Board and New Zealand’s Overseas Investment Office), as well as other conditions. The analysis of the financial reporting implications of the transaction has not been completed as at the date the MD&A has been approved.

PART XI

FINANCIAL OUTLOOK AND MARKET GUIDANCE

There is no material change to the operating or economic environment within which the REIT operates.

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

- Increasing occupancy in the portfolio
- Maximizing net operating income
- Acquiring and developing assets on an accretive basis
- Improving operational productivity
- Selling non-core assets to recycle capital to maximize returns

Since the IPO, to date, the REIT has completed the acquisition of over $615,000 of healthcare assets. The REIT will continue to pursue accretive acquisitions of quality properties, with a focus on properties within markets the REIT already operates, and a preference for well-occupied, well-built and well-located properties in order to consistently improve the REIT's portfolio quality. The REIT will also dispose of certain non-core properties from time to time, when market conditions warrant, to improve portfolio quality and recycle capital for other investments.