



**NORTHWEST HEALTHCARE PROPERTIES
REAL ESTATE INVESTMENT TRUST**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION
FOR THE THREE MONTHS ENDED
MARCH 31, 2014**

May 7, 2014

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CEO's Message

May 7, 2014

For the Canadian commercial real estate market, the start to 2014 saw a continuation of the themes from the second half of 2013 – fewer investment transactions, abundant available debt capital at attractive pricing, and relative stability in terms of market dynamics, albeit with increasing vacancy rates in certain office markets because of new supply.

Operations

Our same property performance was, as expected, flat, as we continued the re-leasing of late 2013 tenant departures.

We have had a satisfactory start to the year in terms of renewal leasing volume, as we renewed, or expect to renew, 78% of tenancies that expired in the quarter and are on track to achieve our renewal budget for the year, with 45% of our annual work plan already completed. Renewal rents in the first quarter were, with one exception which we view as an anomaly, slightly above expiring rents.

In terms of new leasing, we welcomed 37,500 square feet of new tenancies, a portion of which were in some of our more challenged markets, which is positive although it did bring down our average new leasing rents. We have 24% of our annual new leasing target completed, increasing our occupancy to 91.8%. However, we do not expect occupancy to improve significantly in the next quarter or two as we have now become aware that a larger non-healthcare tenant comprising approximately 15,000 square feet will be vacating one of our Montreal area properties at the end of the second quarter; but we view this only as a short term setback and also an opportunity to increase our healthcare tenancy at such building.

Also, we have identified one property, currently comprising approximately 25,000 square feet of leaseable space, in the Montreal market for redevelopment and intensification to better suit site and market conditions. This value creation strategy will take time to have a positive impact on cash flow, and, in fact, will negatively impact cash flow in the short term, starting in the fourth quarter of this year, as the current space is taken offline for construction. In the long term, however, this redevelopment is expected to augment our results while also contributing to our on-going improvement of the portfolio.

Acquisitions & Dispositions

While we continue to review a number of acquisition opportunities, we did not complete or announce any new acquisitions during the quarter as we continue our disciplined approach to investments. We have progressed upon our plan to dispose of non-core assets to allow us to recycle capital and focus our resources upon core assets with the sale of two smaller non-core assets, with combined net proceeds of \$5.6 million.

Liquidity

During the first quarter we completed one refinancing, and initiated three other financings which will be completed subsequent to quarter end, in order to extend mortgage terms, reduce borrowing rates, and improve the REIT's liquidity position.

Outlook

Our continued focus for the remainder of 2014 will be improving the financial performance of our assets for long term stability and growth.

Sincerely,
(signed) Peter Riffin
Chief Executive Officer

This Management's Discussion and Analysis ("MD&A") sets out NorthWest Healthcare Properties Real Estate Investment Trust's (the "REIT") operating strategies, risk profile considerations, business outlook and analysis of its financial performance and financial condition for the three months ended March 31, 2014.

This MD&A is based on the REIT's condensed consolidated interim financial statements for the three months ended March 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, except where otherwise stated.

This MD&A should be read in conjunction with the REIT's condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2014, prepared in accordance with IFRS. Additional information about the REIT, including the REIT's annual information form dated March 12, 2014 (the "Annual Information Form"), can be found on SEDAR at www.sedar.com.

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

- "Convertible Debenture" means 5.25% convertible unsecured subordinated debentures of the REIT;
- "Class B Exchangeable Unit" means Class B limited partnership unit of NHP Holdings Limited Partnership ("NHP LP"), exchangeable for Units;
- "Special Voting Unit" means a special voting unit of the REIT attached to a Class B Exchangeable Unit;
- "Unit" or "REIT Unit" means a unit of the REIT; and
- "Unitholder" means a holder of Units and any reference to a Unitholder in the context of such Unitholder's right to vote at a meeting of Unitholders also includes reference to a holder of Special Voting Units.

PART I

FORWARD-LOOKING INFORMATION

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

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

Forward-looking statements are necessarily based on a number of estimates and assumptions that, while considered reasonable by management of the REIT as of the date of this MD&A, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The REIT's estimates, beliefs and assumptions, which may prove to be incorrect, include the various assumptions set forth herein, including, but not limited to, the REIT's future growth potential, results of operations, future prospects and opportunities, the demographic and industry trends remaining unchanged, future levels of indebtedness, the tax laws as currently in effect remaining unchanged, and the current economic conditions remaining unchanged.

When relying on forward-looking statements to make decisions, the REIT cautions readers not to place undue reliance on these statements, as forward-looking statements involve significant risks and uncertainties and should not be read as

guarantees of future performance or results, and will not necessarily be accurate indications of whether or not, and the times at or by which, such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under “Risk 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**”), “**Adjusted Funds from Operations**” (“**AFFO**”), “**Net Operating Income**” (“**NOI**”), “**Gross Book Value**” (“**GBV**”), “**Payout Ratio**”, “**Interest Coverage**” and any related per Unit amounts used by management to measure, compare and explain the operating results and financial performance of the REIT are not recognized terms under IFRS, and therefore should not be construed as alternatives to net income or cash flow from operating activities calculated in accordance with IFRS. Management believes that these terms are relevant measures in comparing the REIT’s performance to industry data and the REIT’s ability to earn and distribute cash returns to holders of the REIT Units. These terms are defined in this MD&A and reconciled to the condensed consolidated interim financial statements of the REIT for the three months ended March 31, 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 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 March 31, 2014, the REIT was in compliance with all investment guidelines and operating policies stipulated in the Declaration of Trust.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Expressed in thousands of dollars, except per unit amounts	As at March 31, 2014	As at December 31, 2013
Operational information	(Unaudited)	(Unaudited)
Number of properties	76	78
Gross Leasable Area ("GLA")	4,634,670	4,695,333
Occupancy %	91.8%	91.3%
Average lease term to maturity	4.7 years	4.8 years
Weighted average in place net rental rate (\$psf)	\$16.31	\$16.37
Summary of Financial information	(Unaudited)	(Unaudited)
Gross Book Value	\$1,310,412	\$1,314,992
Debt ⁽¹⁾	\$696,379	\$698,629
Debt to Gross Book Value ⁽²⁾	53.1%	53.1%
Weighted average mortgage interest rate ⁽³⁾	4.74%	4.80%
Weighted average mortgage term	4.8 years	5.0 years
Adjusted units outstanding – period-end ⁽⁴⁾ :		
Basic	46,403,650	46,334,949
Diluted ⁽⁵⁾	49,601,370	49,459,335
	For the three months ended	For the three months ended
	March 31, 2014	March 31, 2013
Summary of Financial information	(Unaudited)	(Unaudited)
Revenue	\$39,190	\$37,120
NOI ⁽⁶⁾	\$20,138	\$19,845
FFO ⁽⁶⁾	\$11,327	\$11,353
FFO per unit (Adjusted basic)	\$0.24	\$0.25
FFO per unit (Adjusted fully diluted)	\$0.24	\$0.25
AFFO ^{(6) (7)}	\$9,522	\$9,537
AFFO per unit (Adjusted basic)	\$0.21	\$0.21
AFFO per unit (Adjusted fully diluted)	\$0.20	\$0.21
Distributions per Unit	\$0.20	\$0.20
AFFO Payout ratio	97%	97%
AFFO Payout ratio (fully diluted)	99%	97%
Interest coverage ⁽⁸⁾	2.39x	2.47x
Net debt/EBITDA ⁽⁹⁾	8.9x	8.7x
Adjusted weighted average units outstanding for the period ⁽¹⁰⁾ :		
Basic	46,367,072	46,138,760
Diluted ⁽¹¹⁾	49,504,260	46,329,357

Notes:

- (1) Debt is presented net of a Mark-to-Market premium of \$1,901 (December 31, 2013 - \$1,916) and unamortized financing costs of \$1,745 (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 3.7%.
- (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 March 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 4.5% of revenue from investment properties.
- (8) Defined as net income before fair value adjustment of investment properties plus finance costs divided by finance costs excluding amounts related to Class B Exchangeable Units and Convertible Debenture issuance costs.
- (9) Defined as debt less cash and cash equivalents divided by annualized net income before fair value adjustment of investment properties plus finance costs.
- (10) Adjusted basic and diluted weighted average units outstanding include 7,551,546 outstanding Class B Exchangeable Units for the three months ended March 31, 2014 and 7,610,568 outstanding Class B Exchangeable Units for the three months ended March 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 March 31, 2014 and nil REIT Units issuable on the conversion of Convertible Debentures for the three months ended March 31, 2013.

SUMMARY OF SIGNIFICANT EVENTS

- AFFO per unit for the quarter was \$0.21, consistent with the comparable prior year quarter.
- FFO per unit for the quarter was \$0.24, a \$0.01 decrease over the comparable prior year quarter.
- Occupancy was 91.8%, an improvement from the previous quarter at 91.3%.
- During the quarter the REIT sold a 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 quarter the REIT also sold a 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.
- During the quarter the REIT refinanced its Fredericton Medical Centre property with a \$13,000 fixed rate mortgage, at 3.31% for a 5 year term, resulting in net proceeds to the REIT of approximately \$5,300, after the maturing mortgage, at 6.19%, was paid out.
- On February 4, the REIT repaid a maturing mortgage at its Oxford Health Centre of \$5,455 at 5.89%.
- The REIT paid distributions of \$0.06667 per Unit on January 15, 2014, February 14, 2014 and March 14, 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.

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

The REIT believes, through accretive acquisitions that leverage its existing asset and property management platform, there are significant opportunities to grow the portfolio by being a consolidator within a sector that is characterized by relatively fragmented ownership. Further, portfolio growth often enhances the REIT's relationships with the healthcare communities within which it operates, which over the longer term, will also contribute to improved performance. 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 disposition, from time to time when market conditions warrant, of non-core assets that no longer possess the attributes being sought in acquisitions.

PART III

RESULTS OF OPERATIONS

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

Expressed in thousands of dollars	Three months ended	Three months ended	Variance
	March 31, 2014 (Unaudited)	March 31, 2013 (Unaudited)	
Revenue from operations			
Base rent	\$18,163	\$17,581	\$582
Operating cost recoveries	16,422	15,039	1,383
Parking revenue	4,021	3,681	340
Other revenue	544	691	(147)
Revenue from investment properties	39,150	36,992	2,158
Management fee revenue	40	128	(88)
Revenue from operations	39,190	37,120	2,070
Property operating expenses	19,052	17,275	(1,777)
Operating income	20,138	19,845	293
Finance cost	8,160	7,721	(439)
Interest income	(213)	(185)	28
Trust expenses	864	956	92
Income before undernoted items	11,327	11,353	(26)
Finance cost:			
Class B Exchangeable Units distributions	(1,510)	(1,519)	9
Fair value adjustment of Class B Exchangeable Units	6,721	(1,912)	8,633
Fair value adjustment of Convertible Debentures	(201)	-	(201)
Fair value adjustment of other financial instruments	(1,234)	99	(1,333)
Fair value adjustment of investment properties	(428)	2,177	(2,605)
Net loss on disposal of investment properties	(349)	(73)	(276)
Net income / (loss)	\$14,326	\$10,125	\$4,201

Revenue from Operations

Revenue from operations for the three months ended March 31, 2014 is \$2,070 greater than the actual for the three months ended March 31, 2013, primarily as a result of increased operating costs recoveries and two properties acquired subsequent to December 31, 2012 that increased revenue \$872, partially offset by the revenue from disposed properties of \$316 over the actual for the three months ended March 31, 2013. Included in Revenue from operations is \$7 of lease termination revenue (three months ended March 31, 2013 - \$136).

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 March 31, 2014 were \$1,777 greater than the three months ended March 31, 2013, primarily as a result of higher utilities, snow removal and repairs and maintenance expenses.

Finance Cost

Interest expense for the three months ended March 31, 2014 is \$439 greater than the actual results for the three months ended March 31, 2013, primarily as a result of mortgage interest on acquired properties of \$292 and interest on the convertible debenture issued of \$524, partially offset by lower financing costs on refinancing of some of the REIT's mortgages.

Interest Income

Interest income for the three months ended March 31, 2014 and 2013, primarily reflects interest earned on an \$8 million loan secured by a medical office building in Owen Sound, Ontario, over which the REIT has a right of first offer to acquire.

Trust Expenses

The decrease in trust expense for the three months ended March 31, 2014 over the three months ended March 31, 2013 is primarily related to decreased deferred unit compensation costs.

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 ended March 31, 2014 the REIT declared distributions of \$1,510 (2013 -\$1,519) on the Class B Exchangeable Units. This represents \$0.0667 per unit, equivalent to REIT Units, for each month of the three month period ended March 31, 2014 and 2013, respectively.

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

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 March 31, 2014 the value of the Class B Exchangeable Units decreased to \$9.55 from \$10.44 resulting in a decrease of the Class B Exchangeable Units liability and an associated gain of \$6,721. During the three month period ended March 31, 2013 the value of the Class B Exchangeable Units increased to \$12.73 from \$12.48 resulting in an increase of the Class B Exchangeable Units liability and an associated loss of \$1,912.

Finance Cost – Fair Value Adjustment of Convertible Debentures

During the year ended December 31, 2013 the REIT issued \$40,250 of Convertible Debentures. The debentures were designated by the REIT on initial recognition as fair value through profit and loss and are therefore carried at fair value with any change in value recognized in the statement of income. During the three month period ended March 31, 2014 the value of the Convertible Debenture increased to \$1,005 from \$1,000 resulting in an increase of the Convertible Debenture liability and an associated loss of \$201.

Finance Cost – Fair value adjustments of other financial instruments

During the three months ended March 31, 2014 the REIT recognized a fair value loss of \$1,234 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 ended March 31, 2014 the value of the REIT's investment properties decreased by \$428. See Part III – Investment Properties for additional information on the fair value changes to the REIT's investment properties.

Net Loss on Disposal of Investment Properties

During the three months ended March 31, 2014 the REIT sold two non-core investment properties for gross proceeds of \$8,350. The loss on disposal of \$349 represents transaction costs associated with the sale.

NET OPERATING INCOME

NOI is a non-IFRS measure of a REIT's operating performance, defined as property and property related revenue less operating expenses, inclusive of property management recovery fees and amortization of straight line rent. The REIT uses NOI to assess its property operating performance on an unleveraged basis. Same property NOI for the three months ended March 31, 2014 represents income from investment properties held prior to January 1, 2013. The REIT's NOI for the three months ended March 31, 2014 is summarized below:

Expressed in thousands of dollars	Three months ended	Three months ended	Variance
	March 31, 2014 (Unaudited)	March 31, 2013 (Unaudited)	
Same property revenue from operations			
Base rent	\$17,520	\$17,387	\$133
Operating cost recoveries	16,102	14,856	1,246
Parking revenue	3,855	3,624	231
Other revenue	534	542	(8)
Revenue from investment properties	38,011	36,409	1,602
Same property operating expenses	18,598	17,010	(1,588)
Same property NOI	19,413	19,399	14
Management fee revenue	40	128	(88)
Acquisitions	622	-	622
Dispositions	63	318	(255)
NOI	\$20,138	\$19,845	\$293

Revenue from Investment Properties

Same property revenue from investment properties for the three months ended March 31, 2014 is \$1,602 greater than actual results for the three months ended March 31, 2013 primarily due to operating cost recovery increase of \$1,246.

Same property base rent for the three months ended March 31, 2013 is \$133 higher than that of the prior year period primarily as a result of occupancy improvements in the West, new gross leases in Quebec, partially offset by vacancy at the one of the REIT's Toronto properties.

Same property operating cost recovery revenue for the quarter increased \$1,246 over the comparable prior year period driven by higher operating costs as a result of the severe winter. Net operating cost recoveries decreased over the comparable prior year period by \$342 primarily due to vacancy at the one of the REIT's Toronto properties and new gross leases in Quebec.

Same property parking revenue increased \$231 over the three months ended March 31, 2013 due to improved transient parking revenue at certain properties in the West region and in the GTA.

Other same property income was comparable to the three months ended March 31, 2013.

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 March 31, 2014 increased over the three months ended March 31, 2013 primarily due to higher utility, snow removal and repairs and maintenance costs.

Property operating expenses for the three months ended March 31, 2014 also includes certain one-time non-recoverable costs.

Management Fee Revenue

Management fee revenue for the three months ended March 31, 2014 decreased \$88 from the comparable prior year period as a Management and Cost Sharing Agreement with a related party was terminated in the fourth quarter of 2013 by the related party, following sale of the property subject to the agreement (see Part V – Related Party Transactions.)

PORTFOLIO PROFILE

As of March 31, 2014, the REIT's portfolio consisted of 76 Healthcare Real Estate properties, located in seven provinces. The properties had a total GLA of approximately 4.6 million square feet encompassing approximately 1,530 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 (3%) and the Halifax (5%) for the three months ended March 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	1,275,512	94.9%	\$20.95
Ontario	36	2,071,519	87.7%	15.76
Quebec	15	743,887	97.2%	12.55
Atlantic Canada	9	543,752	93.2%	12.81
Total	76	4,634,670	91.8%	\$16.31

Geographic diversification by annualized NOI ⁽²⁾

Region	Percentage
Ontario	42%
Western Canada	37%
Quebec	12%
Atlantic Canada	9%

Geographic diversification By GLA ⁽¹⁾

Region	Percentage
Ontario	45%
Western Canada	27%
Quebec	16%
Atlantic Canada	12%

Notes:

(1) As at March 31, 2014

(2) Based on NOI for the 3 months ended March 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 2,700 square feet of GLA. The primary source of revenue for a large portion of the REIT's tenants is government funding, either directly or indirectly, through medical practitioners, which supports the credit quality of the REIT's tenants. The weighted average in place net rent per square foot for the properties is \$16.31.

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

Tenant	% of Gross Rent	No. of Locations
1 Bantrel Corporation	4.3%	1
2 CLSC/CSSS	3.7%	6
3 Shoppers Drug Mart	2.2%	8
4 Lawtons Drugs	1.9%	5
5 Province of Ontario	1.9%	4
6 Alberta Health Services	1.8%	5
7 Medical Imaging Consultants	1.3%	2
8 Centric Health	1.2%	7
9 LifeLabs	1.2%	18
10 Albany Medical Clinic	1.2%	1
Total	20.7%	
Weighted average lease term		6.2 years

Leasing Activity

	Leasing Activity (square feet)			
	Total GLA	Occupied	Vacant	Committed⁽¹⁾
December 31, 2013	4,695,333	4,288,723	406,610	184,389
Acquired	-	-	-	-
Disposition	(64,734)	(32,712)	(32,022)	-
Expiries	-	(111,602)	111,602	-
Renewal	-	86,679	(86,679)	⁽²⁾ 15,208
Early Terminations	-	(6,819)	6,819	-
New Leasing	-	37,500	(37,500)	⁽³⁾ (5,143)
Month to month	-	(8,356)	8,356	-
Re-measurements and other	4,071	2,755	1,316	-
March 31, 2014	<u>4,634,670</u>	<u>4,256,168</u>	<u>378,502</u>	<u>194,454</u>

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 15,208 square feet during the quarter equals 57,205 square feet of early renewals during the quarter less 41,997 square feet of prior quarter early renewals that commenced during the current quarter.

(3) Net change of 5,143 square feet during the quarter equals 17,035 square feet of leasing, with lease commencement subsequent to the quarter, less 22,178 square feet of prior quarter new leasing that commenced during the current quarter.

Renewal leasing:

During the quarter the REIT completed 86,679 square feet of renewal leasing inclusive of 5,565 square feet of month to month tenants that renewed during the quarter. In addition 9,572 square feet of expiries remained in occupancy on a month to month basis, and are expected to renew. The REIT also early renewed 57,205 square feet of future expiries during the quarter.

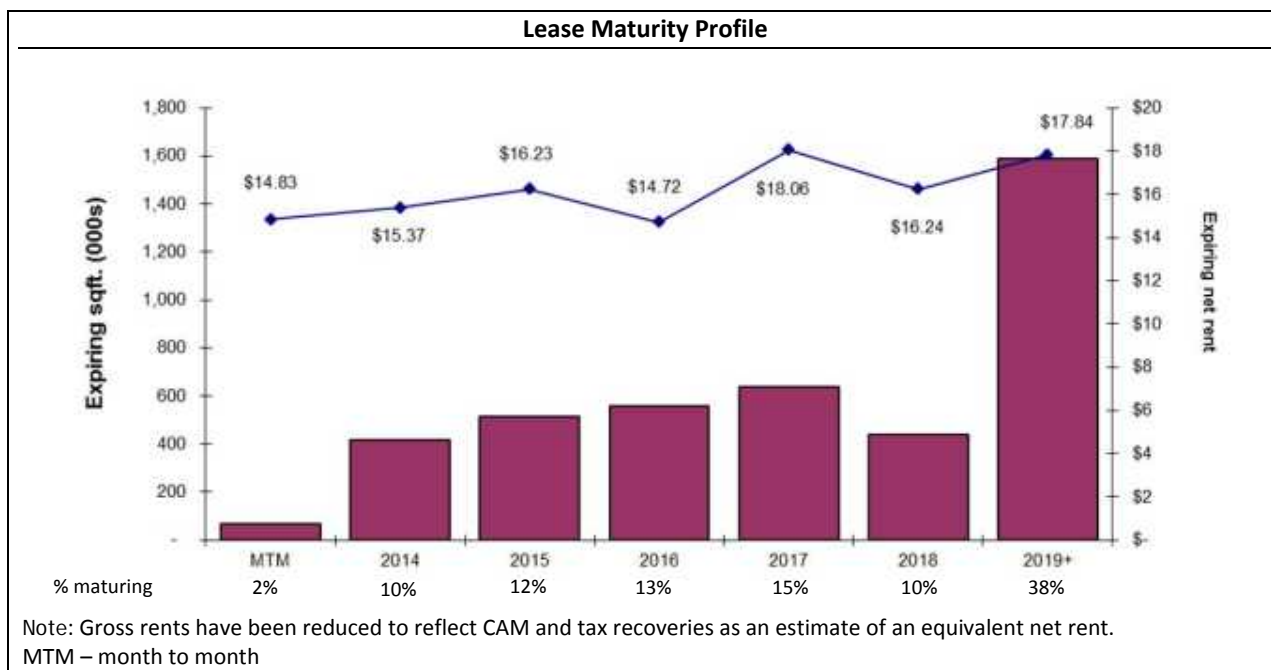
Tenant renewals were completed at an initial net rent per square foot of \$12.05 versus an expiring net rent per square foot of \$13.37. This decrease is directly attributable to the renewal of one core medical tenant in Atlantic Canada representing approximately 13% of the space renewed during the quarter. The tenant is one of the larger multi-practitioner clinics in Atlantic Canada and, as such, is important to the tenancy in one of our properties. While the renewal was at a discount to in-place rent, the effective rent does increase over the term of the lease. Further, the REIT believes that the continued presence of the tenant in the building improves the renewal probability for others as well as the potential for rent escalations from certain tenants upon their lease expiry. Excluding this tenant, there would have been an increase of \$0.08 psf, or 0.6%.

New leasing:

During the quarter the REIT completed 37,500 square feet of new leasing commencing in the quarter, plus 17,035 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 \$9.67. The rate reflects new leasing done in weaker markets in southwestern Ontario.

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 2014 and 2018, as illustrated by the chart below, and, as of March 31, 2014, a weighted average term to maturity of 4.7 years.



Expiring Square Feet						
	Western Canada	Ontario	Quebec	Atlantic Canada	Total	Committed
Month to month	3,793	58,499	-	5,878	68,170	-
2014	114,501	177,320	77,046	49,104	417,971	136,162
2015	143,540	238,241	49,770	83,925	515,476	25,253
2016	96,836	291,298	117,051	53,242	558,427	9,299
2017	279,634	245,220	59,055	54,344	638,253	858
2018	166,133	168,657	61,262	44,338	440,390	-
2019+	378,501	636,849	359,127	215,744	1,590,221	1,509
Total Expiries	1,182,938	1,816,084	723,311	506,575	4,228,908	173,081
Residential	27,260	-	-	-	27,260	-
	1,210,198	1,816,084	723,311	506,575	4,256,168	173,081
Vacant	65,314	255,435	20,576	37,177	378,502	21,373
Total GLA	1,275,512	2,071,519	743,887	543,752	4,634,670	194,454
Occupancy percentage	94.9%	87.7%	97.2%	93.2%	91.8%	

Expiring Net Rent						
	Western Canada	Ontario	Quebec	Atlantic Canada	Total	Committed ⁽¹⁾
Month to month	14.90	15.74	-	5.72	14.83	-
2014	18.97	15.18	13.97	9.89	15.37	17.15
2015	20.20	15.65	16.76	10.80	16.23	18.62
2016	17.53	14.81	10.52	18.35	14.72	19.93
2017	23.22	14.18	14.48	12.89	18.06	10.00
2018	20.16	15.88	10.77	10.45	16.24	-
2019+	21.47	18.24	13.19	12.79	17.84	26.00
Total Expiries	<u>21.53</u>	<u>16.20</u>	<u>12.99</u>	<u>13.40</u>	<u>16.81</u>	<u>17.56</u>

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

The REIT has 21,373 square feet of committed future leasing against vacant space at an initial net rent per square foot of \$12.07.

INVESTMENT PROPERTIES

The fair value of investment properties as at March 31, 2014 was \$1,281,333 representing an implied weighted average capitalization rate ("Implied Cap Rate") of 6.6%. At March 31, 2013 investment properties were valued at \$1,251,093 representing an Implied Cap Rate of 6.7%.

The increase in value is summarized as follows:

Expressed in thousands of dollars	Three months ended March 31, 2014	Three months ended March 31, 2013
	(Unaudited)	(Unaudited)
Opening Balance	\$1,286,843	\$1,244,875
Acquisitions of investment properties	-	548
Additions	2,865	4,174
Disposition of investment property	(8,350)	(1,035)
Increase in straight-line rents	403	354
Fair value adjustment	(428)	2,177
Closing Balance	<u>1,281,333</u>	<u>1,251,093</u>

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.

There were no external valuations performed on properties during the quarter. 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:

	March 31, 2014	March 31, 2013
	(Unaudited)	(Unaudited)
Discount rates – range	6.0% - 9.8%	6.3% - 10.0%
Discount rate – weighted average	7.6%	7.5%
Terminal capitalization rate - range	5.8% - 9.0%	6.0% - 9.3%
Terminal capitalization rate - weighted average	7.2%	7.0%
Implied capitalization rate – range	5.4% - 9.4%	5.5% - 9.4%
Implied capitalization rate – weighted average	6.6%	6.7%

During the three months ended March 31, 2014 the REIT sold two non-core investment properties for gross proceeds of \$8,350.

ACQUISITIONS

There were no property acquisitions during the quarter.

DISPOSITIONS

During the quarter the REIT sold a 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 quarter the REIT also sold a 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	For the three months ended March 31, 2014	For the three months ended March 31, 2013
	(Unaudited)	(Unaudited)
Leasing costs ⁽¹⁾	\$381	\$578
Tenant improvements ⁽²⁾	1,952	2,116
Capital expenditures ⁽³⁾	532	1,480
Additions to investment properties	2,865	4,174
Less: recoverable maintenance capital expenditures	(374)	(639)
Less: value enhancing and non recurring capital expenditures	(29)	(954)
Total adjusted leasing costs and capital expenditures	<u>\$2,462</u>	<u>\$2,581</u>
Reserve for stabilized capital expenditures, leasing costs and tenant improvements ⁽⁴⁾	<u>\$1,762</u>	<u>\$1,665</u>
Actual leasing and capital expenditures in excess of reserve	<u>\$700</u>	<u>\$916</u>
Notes:		
(1) The leasing costs exclude the base salary and benefits of the internal leasing department which have been expensed.		
(2) Tenant improvements include tenant allowances and landlord's work where the REIT has determined, for accounting purposes, that it is the owner of the tenant improvements. These amounts are added to the carrying value of investment properties.		
(3) The REIT's capital expenditures include capital costs required to maintain the existing property portfolio (i.e. maintenance capital expenditures) as well as capital costs in relation to the on-going expansion and continuous improvement of the portfolio.		
(4) Based on a reserve of 4.5% of quarterly revenue from investment properties.		

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

In the first quarter over 65% of leasing costs and tenant improvement costs related to lease deals of ten years or longer, which typically require greater upfront costs, and over 70% were primary medical.

PART IV

FUNDS FROM OPERATIONS

FFO is a supplemental non-IFRS industry wide financial measure of a REIT's operating performance. The REIT calculates FFO as net income (computed in accordance with IFRS), excluding gains (or losses) from sales of investment properties and extraordinary items plus distributions on Class B Exchangeable Units, and adjusted for fair value adjustments on Class B Exchangeable Units and investment properties, plus deferred income tax and after adjustments for equity accounted for entities and non-controlling interests. The REIT calculates FFO substantially in accordance with the definition adopted by the Real Property Association of Canada ("REALpac") with the exception of not adding back to FFO the incremental leasing costs and adding back to FFO the issuance costs of the Convertible Debentures. The issuance costs are expensed to income calculated in accordance with IFRS and the REIT believes adding back these non-recurring issuance costs improves the comparability of FFO to other periods. The REIT's method of calculating FFO may differ from other issuers' methods and accordingly may not be directly comparable to FFO reported by other issuers. A reconciliation of IFRS net income to FFO for the three months ended March 31, 2014 is set out below:

Expressed in thousands of dollars	Three months ended	Three months ended	Variance
	March 31, 2014	March 31, 2013	
	(Unaudited)	(Unaudited)	(Unaudited)
Net income (per IFRS)	\$14,326	\$10,125	\$4,201
Add / (Deduct):			
Finance cost – Class B Exchangeable Units distributions ⁽²⁾	1,510	1,519	(9)
Finance cost - Fair value adjustment of Class B Exchangeable Units ⁽²⁾	(6,721)	1,912	(8,633)
Finance cost - Fair value adjustment of Convertible Debentures	201	-	201
Finance costs – Fair value adjustments of other financial instruments	1,234	(99)	1,333
Fair value adjustment of investment properties ⁽²⁾	428	(2,177)	2,605
Net loss on disposal of investment properties	349	73	276
FFO ⁽¹⁾	\$11,327	\$11,353	\$(26)
FFO per unit (Adjusted basic)	\$0.24	\$0.25	(\$0.01)
FFO per unit (Adjusted fully diluted) ⁽³⁾	\$0.24	\$0.25	(\$0.01)
Adjusted weighted average units outstanding ⁽⁴⁾:			
Basic	46,367,072	46,138,760	228,312
Fully diluted ⁽⁶⁾	49,504,260	46,329,357	3,174,903
Notes:			
(1) FFO is a non-IFRS measure of a REIT's operating performance. FFO is only one measure of real estate operating performance and does not reflect amounts available for tenant installation costs, property capital expenditures, debt service obligations, commitments or uncertainties. FFO should not be interpreted as an indicator of cash generated from operating activities and is not indicative of cash available to fund operating expenditures, or for the payment of cash distributions.			
(2) Under IFRS the distributions on the REIT's Class B Exchangeable Units, the fair value changes related to these units and the fair value changes related to investment properties are included in the determination of net income. The impact of these amounts has been eliminated when determining FFO in order to enhance the usefulness and comparability of FFO as a supplemental measure of the operating performance of the REIT.			
(3) Includes dilutive impact of Convertible Debentures.			
(4) Adjusted basic and diluted weighted average units outstanding include 7,551,546 outstanding Class B Exchangeable Units for the three months ended March 31, 2014, and 7,610,568 outstanding Class B Exchangeable Units for the three months March 31, 2013.			
(5) Adjusted diluted weighted average units outstanding includes 2,834,507 REIT Units issuable on the conversion of Convertible Debentures for the three months ended March 31, 2014, and Nil REIT Units issuable on the conversion of Convertible Debentures for the three months March 31, 2013.			

The FFO per unit of \$0.24 for the three months ended March 31, 2014 is below that of the three months ended March 31, 2013, at \$0.25, primarily as a result of certain one-time non-recoverable expenses included in the property operating expenses of the current quarter.

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.

Due to the recent implementation by REALpac, management is still reviewing this amendment, so for this reporting period has not adjusted FFO. Such adjustment would potentially result in an increase to FFO of approximately \$0.01 per unit during the three months ended March 31, 2014 and 2013, respectively. There is not expected to be a material change to AFFO because the REIT would increase the reserve for stabilized leasing costs, tenant improvements and growth capital expenditures to include these internalized leasing costs.

ADJUSTED FUNDS FROM OPERATIONS AND DISTRIBUTIONS

AFFO

AFFO is a supplemental non-IFRS industry wide financial measure of a REIT's cash generating activities after providing for stabilized operating capital requirements. Management considers AFFO to be a useful measure of cash available for distributions. The REIT calculates AFFO as net income (computed in accordance with IFRS), subject to certain adjustments, including: (i) adding back the following items: any fair value losses on investment properties or the Class B Exchangeable Units, the finance cost associated with distributions on the Class B Exchangeable Units, Deferred unit plan compensation expense and amortization of any net discount on long-term debt assumed from vendors of properties at rates of interest less than fair value; (ii) deducting the following items: any fair value gains on investment properties or the Class B Exchangeable Units and amortization of any net premium on long-term debt assumed from vendors of properties at rates of interest greater than fair value; (iii) adjusting for differences, if any, resulting from recognizing rental revenues on a straight-line basis as opposed to contractual rental amounts; (iv) adjusting for differences, if any, resulting from recognizing acquired contracts at fair value rather than the contracted rate; and (v) deducting reserves for tenant inducements, leasing 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 ended March 31, 2014 is set out below:

Expressed in thousands of dollars	Three months ended March 31, 2014	Three months ended March 31, 2013	Variance
	(Unaudited)	(Unaudited)	(Unaudited)
FFO	\$11,327	\$11,353	(\$26)
Add / (Deduct):			
Amortization of marked to market adjustment	(216)	(408)	192
Amortization of finance fees ⁽²⁾	112	157	(45)
Amortization of straight-line rent	(142)	(206)	64
Deferred unit plan compensation expense	203	306	(103)
Reserve for stabilized leasing costs, tenant improvements and growth capital expenditures ⁽³⁾	(1,762)	(1,665)	(97)
AFFO ⁽¹⁾	\$9,522	\$9,537	(\$15)
Adjusted basic AFFO per unit	\$0.21	\$0.21	\$-
Adjusted fully diluted AFFO per unit ⁽⁴⁾	\$0.20	\$0.21	(\$0.01)
Adjusted weighted average units outstanding ⁽⁵⁾:			
Basic	46,367,072	46,138,760	228,312
Fully diluted ⁽⁶⁾	49,504,260	46,329,357	3,174,903
Notes:			
(1) AFFO is a non-IFRS measure of a REIT's operating performance. AFFO is only one measure of real estate operating performance and is an alternative measure of determining available cash flow. AFFO should not be interpreted as an indicator of cash generated from operating activities as it does not consider changes in working capital.			
(2) Represents costs related to the REIT's Revolving Credit Facility, loans and mortgages.			
(3) Based on an estimate of 4.5% of revenue from investment properties.			
(4) Includes dilutive impact of Convertible Debentures.			
(5) Adjusted basic and diluted weighted average units outstanding include 7,551,546 outstanding Class B Exchangeable Units for the three months ended March 31, 2014, and 7,610,568 outstanding Class B Exchangeable Units for the three months ended March 31, 2013.			
(6) Adjusted diluted weighted average units outstanding includes 2,834,507 REIT Units issuable on the conversion of Convertible Debentures for the three months March 31, 2014, respectively, and Nil REIT Units issuable on the conversion of Convertible Debentures for the three months March 31, 2013.			

The AFFO per unit of \$0.21 for the three months ended March 31, 2014 is consistent with the three months ended March 31, 2013.

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

Expressed in thousands of dollars	Three months ended	Three months ended	Variance
	March 31, 2014	March 31, 2013	
	(Unaudited)	(Unaudited)	(Unaudited)
Net cash from operating activities	\$4,248	\$8,249	(\$4,001)
Add / (Deduct):			
Change in non-cash operating items	4,798	2,855	1,943
Net increase in restricted cash	2,089	-	2,089
Decrease (increase) in accrued interest expense	88	(2)	90
Amortization of straight line rent	(142)	(206)	64
Deferred unit plan compensation expense	203	306	(103)
Reserve for stabilized leasing costs, tenant improvements and growth capital expenditures ⁽²⁾	(1,762)	(1,665)	(97)
AFFO ⁽¹⁾	\$9,522	\$9,537	(\$15)

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 4.5% of revenue from investment properties.

Distributions

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

The REIT's AFFO payout ratio based on reserves for the three months ended March 31, 2014 is calculated below:

	For the three months ended	For the three months ended
	March 31, 2014	March 31, 2013
	(Unaudited)	(Unaudited)
AFFO per unit	\$0.21	\$0.21
Distributions per Unit	\$0.20	\$0.20
Payout Ratio	97%	97%
Fully diluted AFFO per unit	\$0.20	\$0.21
Distributions per Unit	\$0.20	\$0.20
Payout Ratio (fully diluted)	99%	97%

The REIT payout ratio was comparable to the 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 61,812 Units were issued pursuant to the DRIP and the DRIP participation rate was approximately 7% during the quarter.

LIQUIDITY AND CAPITAL RESOURCES

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

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

Expressed in thousands of dollars	Three months ended March 31, 2014	Three months ended March 31, 2013⁽¹⁾
Cash provided by / (used in):	(Unaudited)	(Unaudited)
Operating activities	\$4,248	\$8,249
Investing activities	2,706	(3,502)
Financing activities	(8,573)	(8,475)
Increase / (Decrease) in cash and cash equivalents during the period	(\$1,619)	(\$3,728)
Cash and cash equivalents, beginning of period	\$1,905	\$4,189
Cash and cash equivalents, end of period	\$286	\$461
Notes:		
(1) The REIT reclassified certain items for the three months ended March 31, 2013 to conform to the current year's presentation.		

Cash flow activity for the three months ended March 31, 2014 is primarily related to the results of the REIT's operations, distributions to Unitholders, the utilization of the Revolving Credit Facility and additions to investment properties. The financing activities included a net increase in the draw on the Revolving Credit Facility during the quarter of \$4,500 so that the balance of the facility at March 31, 2014 was \$14,500. Investing activities include net proceeds on the sale of two investment properties of \$5,571.

CAPITALIZATION AND DEBT PROFILE

Expressed in thousands of dollars	As at March 31, 2014	As at December 31, 2013
Indebtedness	(Unaudited)	(Unaudited)
Mortgages Payable	\$640,741	\$647,458
Mark-to-Market premium on Mortgages	1,709	1,927
Unamortized financing costs	(1,523)	(1,473)
	640,927	647,912
Convertible Debenture (inclusive of \$201 Mark-to-Market premium)	40,451	40,250
Loans Payable (net of \$222 of unamortized financing fees, December 31, 2013 - \$254)	15,001	10,467
	696,379	698,629
Class B Exchangeable Units (Authorized – unlimited; Issued: March 31, 2014 - 7,551,546, December 31, 2013 - 7,551,546)	72,117	78,838
Unitholders' Equity		
Units (Authorized – unlimited; Issued: March 31, 2014 – 38,852,104, December 31, 2013 – 38,783,403)	\$399,589	\$398,903
Retained Earnings	116,302	109,741
	515,891	508,644
Total capitalization	\$1,284,387	\$1,286,111

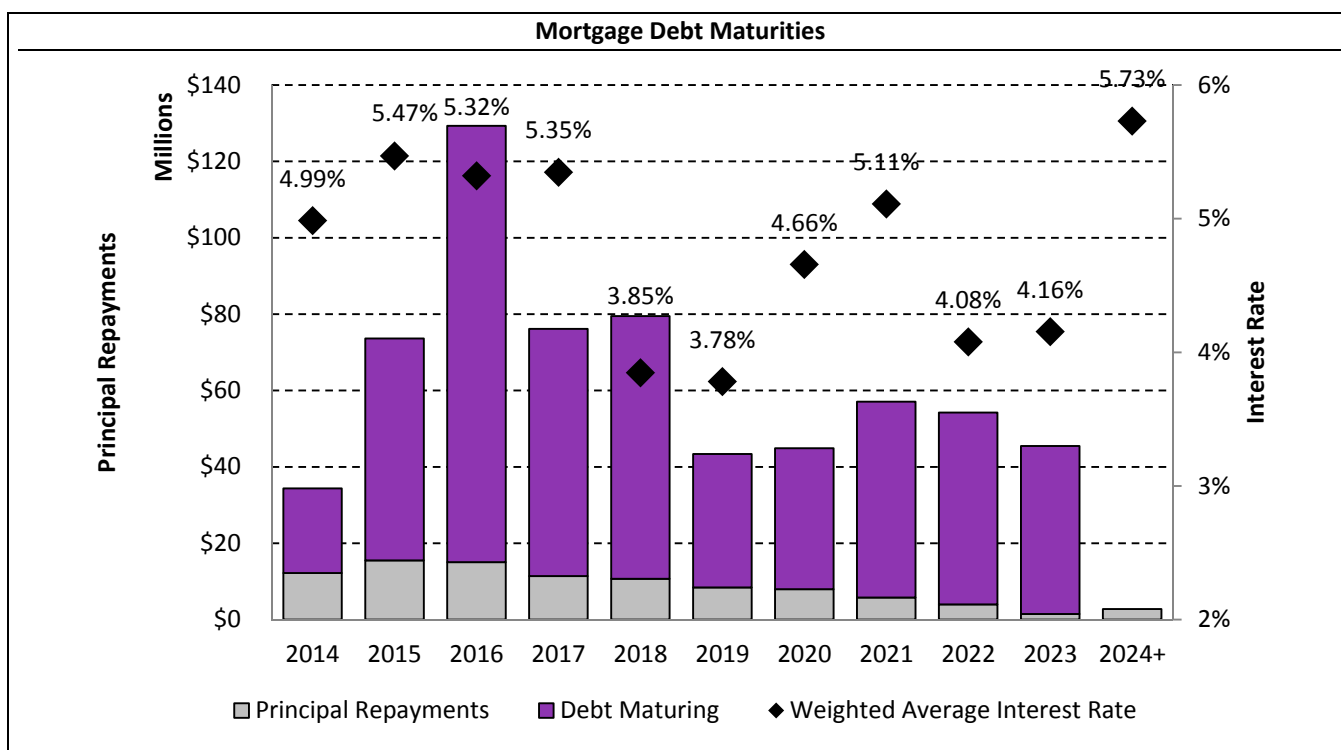
As at March 31, 2014, the REIT had a market capitalization of approximately \$443,000 (including 7,551,546 Class B Exchangeable Units) based on a closing Unit price of \$9.55 on the Toronto Stock Exchange.

Mortgage Debt Maturities

The following table sets out, as at March 31, 2014, scheduled principal payments, debt maturity amounts and weighted average interest rate of maturing mortgages:

Expressed in thousands of dollars

Year Ending December 31 st	Scheduled Principal Payments	Debt Maturing during the Year	Total Mortgages Payable	Weighted Average Interest Rate of Maturing Mortgages	Percentage of Total Mortgages Payable
2014	\$12,210	\$22,174	\$34,384	4.99%	5%
2015	15,524	58,102	73,626	5.47%	12%
2016	15,030	114,267	129,297	5.32%	20%
2017	11,419	64,716	76,135	5.35%	12%
2018	10,692	68,812	79,504	3.85%	12%
2019	8,419	34,965	43,384	3.78%	7%
2020	7,954	36,907	44,861	4.66%	7%
2021	5,786	51,308	57,094	5.11%	9%
2022	3,968	50,264	54,232	4.08%	8%
2023	1,478	43,978	45,456	4.16%	7%
2024+	2,768	-	2,768	5.73%	1%
Sub-total	\$95,248	\$545,493	\$640,741	4.74%	100%
Marked to market adjustment			1,709	(0.15%)	
			642,450	4.59%	
Unamortized financing costs			(1,523)		
Total			\$640,927		



Mortgage Financing

During the quarter the REIT refinanced its Fredericton Medical Centre with a \$13,000 fixed rate mortgage, at 3.31% for a 5 year term, resulting in net proceeds to the REIT of approximately \$5,300, after the maturing mortgage at 6.19% was repaid.

On February 4, the REIT repaid a maturing mortgage of \$5,455 at 5.89%.

As part of the sale of Centre Medical Saint Urbain, the purchaser had assumed the \$2,430 mortgage on the property which carried an interest rate of 5.41%.

As a result of these transactions the weighted average interest rate on the REIT's mortgages decreased to 4.74% at the end of the quarter, from 4.80% in the previous quarter, with a term to maturity of 4.8 years.

See Part X – Subsequent Events

Revolving Bank 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 and to fund additions to investment properties, as a result the balance outstanding as at March 31, 2014 was \$14,500 from \$10,000 as at December 31, 2013.

Convertible Debenture

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

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

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

Subject to any required regulatory approvals and provided that no event of default has occurred and is continuing, the REIT may, at its option, elect to satisfy its obligation to pay, in whole or in part, the principal amount of the Convertible Debentures that are to be redeemed or that have matured, on not more than 60 days' and not less than 30 days' prior notice, by issuing that number of freely-tradeable REIT Units obtained by dividing the principal amount of the

Convertible Debentures that are to be redeemed or that have matured, as the case may be, by 95% of the current market price on the date fixed for redemption or September 30, 2020, as applicable. In addition, subject to any required regulatory approvals and provided that no event of default has occurred and is continuing, freely-tradeable REIT Units may be issued with the proceeds used to satisfy the obligation to pay interest on the Convertible Debentures.

Ratios / Covenants

Pursuant to the Declaration of Trust, the REIT may not incur or assume any indebtedness if, after giving effect to the incurring or assumption of such indebtedness, the total indebtedness of the REIT would be more than 65% of the GBV of its assets. The REIT's overall borrowing policy is to obtain secured mortgage financing on a primarily fixed rate basis, with a term to maturity that is appropriate having regard to the lease maturity profile for each property and which allows the REIT to (i) achieve and maintain staggered debt maturities to lessen exposure to interest rate fluctuations and re-financing risk in any particular period and (ii) fix the rates and extend loan terms as long as possible when borrowing conditions are favourable. Subject to market conditions and the growth of the REIT, management of the REIT currently intends to maintain indebtedness in a range of 50% to 60% of GBV. The following summarizes the status of these key ratios as at and for the three months ended March 31, 2014:

Expressed in thousands of dollars	As at/for the three months ended March 31, 2014	As at/for the three months ended March 31, 2013
	(Unaudited)	(Unaudited)
Gross Book Value	\$1,310,412	\$1,285,854
Debt (excluding Class B Exchangeable Units)	\$696,379	\$661,151
Debt to Gross Book Value ⁽¹⁾	53.1%	51.4%
Amount of debt at fixed rates	\$632,120	\$558,416
Amount of debt at variable rates ⁽²⁾	\$64,259	\$102,735
Interest coverage ⁽³⁾	2.39x	2.47x
Debt Service coverage ⁽⁴⁾	1.58x	1.68x
Net debt/EBITDA ⁽⁵⁾	8.9x	8.7x
Weighted average mortgage interest rate (at contract) ⁽⁶⁾	4.74%	4.92%

Notes:

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

(2) The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on \$50,288 of its variable rate debt payable as at March 31, 2014 (\$51,538 – March 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 \$145.

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

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

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

(6) Excludes Revolving Credit Facility and Convertible Debentures. Current market weighted average mortgage interest rate is approximately 3.7%.

The ratio of Debt to GBV remained unchanged in the quarter at 53.1% as at March 31, 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 4.5% of revenue from investment properties. As such, the REIT does not retain a material amount of operating cash flow to finance its capital requirements including loan principal payments, acquisitions, redevelopments, and portfolio capital expenditures. Capital requirements for loan principal payments, acquisitions and redevelopment are generally sourced by financing for each project through mortgages and/or the Revolving Credit Facility.

PART V

RELATED PARTY TRANSACTIONS

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

As at March 31, 2014 the interest of NW Trust and its affiliates in the REIT is approximately 25.6% (24.0% on a fully diluted basis).

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

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

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

Expressed in thousands of dollars	Note	Three months ended March 31, 2014 (Unaudited)	Three months ended March 31, 2013 (Unaudited)
Revenue from investment properties:			
Head lease income	(a)	402	429
Rental income	(b)	171	263
Management fee revenue:			
Leasing and construction supervision services	(b)(c)	-	6
Management services and cost sharing	(d)	2	99
Support services provided	(e)	33	23
Property operating and trust expenses:			
Support services provided	(e)	108	-
Rental expense	(f)	77	77
Interest income:			
Interest	(a)(b)	43	-
Owen Sound Loan interest	(g)	74	74
Finance cost:			
Class B Exchangeable Unit distributions		1,510	1,519
Leasing costs reimbursement	(a)(b)	2	47

- (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.
- (b) The REIT earned rental revenue from a tenant which is an affiliate of NW Trust. The lease was surrendered on September 1, 2013 and the tenant is responsible for any rental shortfall (see "Lease Surrender Agreement" below).
- (c) The REIT has a Leasing and Construction Supervision Services Agreement with an affiliate of NW Trust for the provision of supervision and leasing services at the properties subject to the head leases for a period of five years commencing March 25, 2010.
- (d) The REIT 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 an 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).

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

Lease Surrender Agreement

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

Phase II Development Agreement – Glenmore Professional Centre

As part of the REIT's acquisition of Glenmore Professional Centre in December, 2010, from an affiliate of NW Trust, the REIT and NW Trust contracted to enter into a development arrangement with respect to the vacant development parcel at the property. The timing for completion of such an arrangement, pursuant to a mutually agreed to extension, is by June 30, 2014.

Owen Sound Loan and Right of First Offer

On December 23, 2011 the REIT granted a loan in the amount of \$8,000 (the "Owen Sound Loan") to a party which is indirectly owned 50% by NWVP, an affiliate of NW Trust. The Owen Sound Loan bears interest at 7.5% per annum and matured on January 31, 2014, extended to June 30, 2014 during the quarter. The Owen Sound Loan is secured by the pledge of certain securities of the borrower and is guaranteed by certain affiliates of the borrower; each limited to 50% of the obligations under the Owen Sound Loan. In exchange for the Owen Sound Loan, the REIT was granted a right of first offer to acquire a recently completed 73,500 square foot medical office building in Owen Sound, Ontario.

Exercise of Put/Call Agreement By Significant Unitholder

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

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

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

HEAD LEASES

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

Property	Head Lease Summary			Sub-Leased to Third Parties ⁽¹⁾		
	At March 31, 2014					
	GLA	Min. Rent (psf) ⁽²⁾	Lease Expiry	GLA	Min. Rent (psf) ⁽²⁾	Lease Expiry
Rockyview Professional Centre II	51,177	\$21.00	Mar-15	45,922	\$16.24	Jul-25 ⁽³⁾
HealthPark	29,932	16.25	Mar-15	15,303	9.84	Apr-24 ⁽³⁾
Riley Park Health Centre	20,271	30.00	Mar-15	-	-	
Total / Weighted averages	101,380	\$21.40		61,225	\$14.64	

Notes:
(1) As at May 7, 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.

The REIT did not lease additional head lease space during the quarter. The REIT is negotiating leases for approximately 6,000 square feet of the remaining head lease space.

PART VI

SUMMARY OF QUARTERLY RESULTS

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

Expressed in thousands of dollars	Q1 2014	Q4 2013	Q3 2013	Q2 2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from operations	\$39,190	\$38,425	\$37,683	\$36,882
Property operating expenses	19,052	17,684	16,954	16,676
Operating income	20,138	20,741	20,729	20,206
Finance cost	8,160	8,260	10,124	7,970
Interest income	(213)	(196)	(200)	(235)
Trust expenses	864	823	930	933
Income before undernoted items	11,327	11,854	9,875	11,538
Finance cost:				
Class B Exchangeable Unit distributions	(1,510)	(1,510)	(1,511)	(1,510)
Fair value adjustment of Class B Exchangeable Units	6,721	5,437	2,341	9,515
Fair value adjustment of Convertible Debentures	(201)	(805)	805	-
Fair value adjustment of other financial instruments	(1,234)	210	194	2,316
Fair value adjustment of investment properties	(428)	(14,428)	(217)	(7,709)
Net loss on disposal of investment properties	(349)	-	-	-
Net income / (loss)	14,326	758	11,487	14,150
NOI	20,138	20,741	20,729	20,206
FFO	11,327	11,854	11,967	11,538
FFO per unit (Adjusted basic) ⁽¹⁾	\$0.24	\$0.26	\$0.26	\$0.25
FFO per unit (Adjusted fully diluted) ⁽¹⁾	\$0.24	\$0.25	\$0.26	\$0.25
AFFO	\$9,522	\$10,042	\$10,148	\$ 9,680
AFFO per unit (Adjusted basic) ⁽¹⁾	\$0.21	\$0.22	\$0.22	\$0.21
AFFO per unit (Adjusted fully diluted) ⁽¹⁾	\$0.20	\$0.21	\$0.22	\$0.21
AFFO payout ratio (Adjusted basic)	97%	92%	91%	95%
AFFO payout ratio (Adjusted fully diluted)	99%	93%	92%	96%
Distributions ⁽²⁾	9,275	9,263	9,242	9,239
Distributions per Unit	\$0.20	\$0.20	\$0.20	\$0.20
Total Assets	\$1,310,412	\$1,314,992	\$1,333,118	\$1,302,951
Debt (excluding Class B Exchangeable Units)	\$696,379	\$698,629	\$704,714	\$678,795
Debt to Gross Book Value	53.1%	53.1%	52.9%	52.1%
Number of properties	76	78	78	77
Gross leasable area	4,634,670	4,695,333	4,686,027	4,609,212
Occupancy % – period end	91.8%	91.3%	92.0%	91.6%
Number of employees	140	140	144	144
Notes:				
(1)	Under IFRS the REIT's Class B Exchangeable Units are treated as a financial liability rather than equity. As is permitted under IFRS the REIT has chosen to present an adjusted basic and diluted per unit measure for FFO and AFFO that includes the Class B Exchangeable Units in basic and diluted weighted average units outstanding.			
(2)	Includes distributions on Class B Exchangeable Units.			

Expressed in thousands of dollars	Q1 2013	Q4 2012	Q3 2012	Q2 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from operations	\$37,120	\$36,704	\$32,672	\$32,567
Property operating expenses	17,275	16,629	14,518	14,412
Operating income	19,845	20,075	18,154	18,155
Finance cost	7,721	8,118	7,075	6,821
Interest income	(185)	(502)	(892)	(437)
Trust expenses	956	808	879	1,002
Income before undernoted items	11,353	11,651	11,092	10,769
Finance cost:				
Class B Exchangeable Unit distributions	(1,519)	(1,523)	(1,524)	(1,523)
Fair value adjustment of Class B Exchangeable Units	(1,912)	4,569	153	(6,473)
Fair value adjustment of Convertible Debentures	-	-	-	-
Fair value adjustment of other financial instruments	99	8	(1,055)	-
Fair value adjustment of investment properties	2,177	9,101	15,460	20,804
Net loss on disposal of investment properties	(73)	-	-	-
Net income / (loss)	10,125	23,806	24,126	23,577
NOI	19,845	20,075	18,154	18,155
FFO	11,353	11,651	11,092	10,769
FFO per unit (Adjusted basic) ⁽¹⁾	\$0.25	\$0.26	\$0.25	\$0.25
FFO per unit (Adjusted fully diluted) ⁽¹⁾	\$0.25	\$0.26	\$0.25	\$0.25
AFFO	\$9,537	\$9,664	\$9,500	\$9,115
AFFO per unit (Adjusted basic) ⁽¹⁾	\$0.21	\$0.21	\$0.21	\$0.21
AFFO per unit (Adjusted fully diluted) ⁽¹⁾	\$0.21	\$0.21	\$0.21	\$0.21
AFFO payout ratio (Adjusted basic)	97%	94%	93%	95%
AFFO payout ratio (Adjusted fully diluted)	97%	94%	94%	96%
Distributions ⁽²⁾	9,230	9,103	8,864	8,678
Distributions per Unit	\$0.20	\$0.20	\$0.20	\$0.20
Total Assets	\$1,285,854	\$1,281,477	\$1,206,489	\$1,153,492
Debt (excluding Class B Exchangeable Units)	\$661,151	\$661,222	\$622,260	\$586,782
Debt to Gross Book Value	51.4%	51.6%	51.6%	50.9%
Number of properties	76	77	64	62
Gross leasable area	4,583,850	4,597,358	4,262,292	4,203,528
Occupancy % – period end	91.3%	91.2%	91.3%	91.1%
Number of employees	143	134	131	131
Notes:				
(1)	Under IFRS the REIT's Class B Exchangeable Units are treated as a financial liability rather than equity. As is permitted under IFRS the REIT has chosen to present an adjusted basic and diluted per unit measure for FFO and AFFO that includes the Class B Exchangeable Units in basic and diluted weighted average units outstanding.			
(2)	Includes distributions on Class B Exchangeable Units.			

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 condensed consolidated interim financial statements for the three months ended March 31, 2014 and in note 1 and note 2 of the REIT's consolidated financial statements for the year ended December 31, 2013.

For the three months ended March 31, 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 condensed consolidated interim financial statements. For additional information on the adoption of these standards see note 2 of the REIT's condensed consolidated interim financial statements for the three months ended March 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. For a full list and explanation of the REIT's risks and uncertainties refer to "Risks and Uncertainties" in the REIT's MD&A for the three months and year ended December 31, 2013 or the Annual Information Form, both of which can be found on SEDAR at www.sedar.com.

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.

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.

Access to Capital

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

Financing Risks

As at March 31, 2014 the REIT had outstanding indebtedness of approximately \$696,379, excluding Class B Exchangeable Units. Although a portion of the cash flow generated by investment properties will be devoted to servicing such debt, there can be no assurance that the REIT will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If the REIT is unable to meet interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. The failure of the REIT to make or renegotiate interest or principal payments or obtain additional equity, debt or other financing could adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders.

The REIT will be subject to the risks associated with debt financing, including the risk that the mortgages and banking facilities secured by the REIT's properties will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness, which may reduce AFFO. In order to minimize this risk, the REIT will attempt to diversify the term structure of its debt so that in no one year a disproportionate amount of its debt matures. As at March 31, 2014, \$64,259 of the REIT's total indebtedness is at variable rates. This will result in fluctuations in the REIT's cost of borrowing as interest rates change. To the extent that interest rates rise, the REIT's operating results and financial condition could be adversely affected and decrease the amount of cash available for distribution. To mitigate this risk the REIT has entered into an interest rate swap contract to limit its exposure to fluctuations in the interest rates on \$50,288 of its variable rate debt payable as at March 31, 2014. In addition, the REIT has conduit loans outstanding as at March 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 2014 or later, there is a risk that the REIT may not be able to refinance such loans on similar terms, although, based upon the REIT's current loan-to-value ratios and loan amortizations, the REIT expects to be able to refinance such conduit loans as they come due.

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

Environmental Matters

Environmental legislation and regulations have become increasingly important in recent years. As an owner of interests in real property in Canada, the REIT is subject to various Canadian federal, provincial and municipal laws relating to environmental matters. Such laws provide that the REIT could be, or become, liable for environmental harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under its properties. Further, liability may be incurred by the REIT with respect to the release of such substances from the REIT's

properties to properties owned by third parties, including properties adjacent to the REIT's properties. The failure to remove or otherwise address such substances or properties, if any, may adversely affect the REIT's ability to sell such property, realize the full value of such property or borrow using such property as collateral security, and could potentially result in claims against the REIT by public or private parties by way of civil action.

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

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

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

NW Trust Indemnity and Prior Commercial Operations

The indirect acquisition of the properties owned by the REIT in connection with its IPO included the indirect acquisition from NW Trust of all of the outstanding partnership units of Healthcare Properties LP ("HPLP"). Pursuant to the related acquisition agreement ("Acquisition Agreement"), NW Trust made certain representations and warranties to the REIT with respect to HPLP. NW Trust also provided an indemnity to the REIT under the Acquisition Agreement that, subject to certain conditions and thresholds, NW Trust will indemnify the REIT for breaches of such representations and warranties. Prior to September 25, 2011, NW Trust covenanted to maintain (i) minimum net assets of \$20 million plus (ii) an amount equal to the present value of its basic and additional rent obligations under the Head Leases plus 25% of tenant inducement obligations, from time to time (the "Head Lease Security"), calculated using a discount rate equal to the appropriate Government of Canada bond rate. On September 25, 2011, NW Trust's covenant to maintain minimum net assets of \$20 million expired, but its covenant to maintain the Head Lease Security will survive for the remaining term of the Head Leases (which expire in March 2015). There can be no assurance that the REIT will be fully protected in the event of a breach of NW Trust's obligations under the Head Leases or a breach of the surviving representations and warranties or that NW Trust will be in a position to indemnify the REIT if any such breach occurs. The REIT may not be able to successfully enforce the indemnity contained in the Acquisition Agreement against NW Trust or such indemnity may not be sufficient to fully indemnify the REIT from third party claims. The REIT may also be subject to undisclosed liability to third parties as a result of the prior history of HPLP and such liability may be material, which could negatively impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution. The REIT has advanced an \$8 million loan to a joint venture in which NW Trust indirectly holds a 50% interest and is accordingly subject to the risks associated with having a loan outstanding.

See "Related Party Transactions."

Phase II Development Agreement – Glenmore Professional Centre

There can be no assurances that the prospective future development of the additional parcel at the Glenmore Professional Centre (the "Phase II Development Agreement") will be achieved, in which case the vendor has the right after June 30, 2014 (or such other period as may be agreed) to require the REIT to obtain a severance of the development parcel and re-convey such parcel to the vendor or as it may direct for \$2,950. In such event, the vendor

will be obligated to replace any existing parking stalls lost as a result with on-site (except during construction) surface or underground parking stalls. There exist certain costs (which may be substantial) and certain risks traditionally associated with land severances including the availability of, or conditions to, municipal consent and accordingly, there is no guarantee that the REIT will be able to secure such land severance. Even if the Phase II Development Agreement is achieved, there exist certain risks traditionally associated with real estate development. The Phase II development would be subject to construction risks attributable to construction projects, including construction delays, the availability and timing of municipal approvals, and cost overruns.

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 condensed consolidated financial statements for the three months ended March 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 2014 or any subsequent year until the end of the particular year.

PART IX

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

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 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 filings 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.

Changes in Internal Controls Over Financial Reporting

There were no significant changes made in internal controls over financial reporting during the three months ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting.

For additional information on the REIT's disclosure controls and procedures and internal controls over financial reporting refer to "Controls and Procedures" in the REIT's MD&A for the three months and year ended December 31, 2013, which can be found on SEDAR at www.sedar.com.

PART X

SUBSEQUENT EVENTS

- Subsequent to the quarter end, the REIT obtained new financing for its Springbank Medical Centre with a \$15,500 fixed rate mortgage, at 3.36% for a 5 year term, resulting in net proceeds to the REIT of \$15,500, which will be used to pay down the existing credit facility and for general trust purposes.
- On May 1, the REIT refinanced its CSSS du Haut-Richelieu Marieville and CSSS Grand Littoral properties with fixed rate mortgages of \$8,417 and \$6,374, respectively, at 4.53% (previous rates at 4.91%) for 10 year terms, resulting in net proceeds to the REIT of approximately \$3,000.
- On May 1, the REIT repaid a maturing mortgage at its Stewart Building of \$10,444 at 5.07%.
- The REIT declared distributions of \$0.06667 per Unit to Unitholders of record as at April 30, 2014.

PART XI

FINANCIAL OUTLOOK AND MARKET GUIDANCE

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

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

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

Since the IPO, to date, the REIT has completed or announced the acquisition of over \$570,000 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.