GT CANADA MEDICAL PROPERTIES
REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Financial Statements
Unaudited

For the Three Months Ended March 31, 2012

GT Canada Medical Properties Real Estate Investment Trust
Condensed Consolidated Interim Statements of Financial Position
Unaudited (Canadian dollars)

As at	March 31, 2012	December 31, 2011
Assets		
Investment properties (note 5)	**$ 73,540,873**	$ 61,332,333
Prepaid expenses and deposits	**109,010**	34,285
Accounts receivable	**90,832**	152,968
Other assets (note 6)	**674,269**	490,311
Cash	**1,290,908**	1,700,067
Total assets	**$ 75,705,892**	$ 63,709,964
Liabilities		
Mortgages and loans payable (note 7)	**$ 42,689,621**	$ 32,398,102
Accounts payable and accrued liabilities	**1,928,797**	1,349,213
Distributions payable	**75,778**	75,778
	44,694,196	33,823,093
Unit-based compensation liability (note 8)	**101,944**	108,099
Warrant liability (note 9)	**1,978,752**	2,474,543
Class B LP unit liability (note 10)	**967,250**	960,625
Deferred Unit Plan liability (note 11)	**597,167**	287,517
Total liabilities	**48,339,309**	37,653,877
Unitholders' Equity		
Unitholders' equity (note 12)	**27,366,583**	26,056,087
Total liabilities and unitholders' equity	**$ 75,705,892**	$ 63,709,964

The accompanying notes are an integral part of these condensed consolidated interim financial statements

GT Canada Medical Properties Real Estate Investment Trust
Condensed Consolidated Interim Statements of Operations and Comprehensive Income
Unaudited (Canadian dollars)

For the three months ended March 31,	2012	2011
Net Operating Income		
Revenue from investment properties	**$ 2,230,758**	$ 1,475,015
Property operating costs	**938,785**	611,400
	1,291,973	863,615
Other Income		
Interest and other income	**1,778**	1,216
	1,293,751	864,831
Expenses		
Mortgage and loan interest expense	**508,081**	239,391
General and administrative expenses	**479,230**	335,336
Transaction costs (note 13)	**421,796**	-
Finance costs	**33,386**	10,165
	1,442,493	584,892
Income (loss) before the undernoted items	**(148,742)**	279,939
Fair value gain on investment properties (note 5)	**1,202,901**	3,442,260
Other fair value gains (note 14)	**483,671**	1,037,278
Net income and comprehensive income	**$ 1,537,830**	$ 4,759,477

The accompanying notes are an integral part of these condensed consolidated interim financial statements

GT Canada Medical Properties Real Estate Investment Trust
Condensed Consolidated Interim Statements of Unitholders' Equity
Unaudited (Canadian dollars)

	Trust Unit Equity	Reduction on Reclassification to Liabilities	Cumulative Distributions	Retained Earnings (Deficit)	Total
Balance, December 31, 2010	**$ 20,002,565**	**$ (114,683)**	**$ (14,224)**	**$ (2,161,214)**	**$ 17,712,444**
Distributions	-	-	(227,967)	-	(227,967)
Net income for the period	-	-	-	4,759,477	4,759,477
Balance, March 31, 2011	**20,002,565**	**(114,683)**	**(242,191)**	**2,598,263**	**22,243,954**
Unit issue costs - cash	(86,150)	-	-	-	(86,150)
Distributions	-	-	(681,999)	-	(681,999)
Net income for the period	-	-	-	4,580,282	4,580,282
Balance, December 31, 2011	**19,916,415**	**(114,683)**	**(924,190)**	**7,178,545**	**26,056,087**
Distributions	-	-	(227,334)	-	(227,334)
Net income for the period	-	-	-	1,537,830	1,537,830
Balance, March 31, 2012	**$ 19,916,415**	**$ (114,683)**	**$ (1,151,524)**	**$ 8,716,375**	**$ 27,366,583**

The accompanying notes are an integral part of these condensed consolidated interim financial statements

GT Canada Medical Properties Real Estate Investment Trust
Condensed Consolidated Interim Statements of Cash Flows
Unaudited (Canadian dollars)

For the three months ended March 31,	2012	2011
Cash provided by (used in):		
Operating activities		
Net income for the period	**$ 1,537,830**	$ 4,759,477
Adjustment for:		
Mortgage and loan interest expense	**508,081**	239,391
Finance costs	**33,386**	10,165
Amortization of leasing costs and tenant inducements (note 5)	**4,017**	-
Add (deduct) items not involving cash:		
Fair value gain on investment properties	**(1,202,901)**	(3,442,260)
Other fair value gains	**(483,671)**	(1,037,278)
Unit based compensation expense (note 11)	**298,000**	-
	694,742	529,495
Changes in non-cash working capital balances:		
Prepaid expenses and deposits	**(74,725)**	(132,969)
Accounts receivable	**62,136**	(283,239)
Other assets	**(183,958)**	-
Accounts payable and accrued liabilities	**564,747**	(350,313)
Cash provided by (used in) operating activities	**1,062,942**	(237,026)
Interest paid	**(483,108)**	(239,391)
Net cash provided by (used in) operating activities	**579,834**	(476,417)
Investing activities		
Acquisitions of investment properties (note 5)	**(3,240,632)**	-
Additions to investment properties (note 5)	**(15,197)**	-
Investments	**-**	195,700
Net cash provided by (used in) investing activities	**(3,255,829)**	195,700
Financing activities		
Mortgage proceeds (note 7(a))	**2,155,000**	-
Repayment of mortgages	**(493,694)**	(215,434)
Refinancing of mortgages (note 7(b))	**843,000**	-
Distributions paid	**(227,334)**	(166,414)
Finance costs	**(10,136)**	(7,420)
Net cash provided by (used in) financing activities	**2,266,836**	(389,268)
Net change in cash during the period	**(409,159)**	(669,985)
Cash, beginning of period	**1,700,067**	1,188,992
Cash, end of period	**$ 1,290,908**	$ 519,007

The accompanying notes are an integral part of these condensed consolidated interim financial statements

1. Organization of the Real Estate Investment Trust

The REIT is an unincorporated open-ended real estate investment trust and trades under the symbol “MOB.UN”. The REIT was created to invest in medical office buildings and related healthcare properties in Canada. The REIT’s principal place of business is 161 Bay Street, Suite 2600, Toronto, Ontario in Canada.

The REIT was formed pursuant to a Declaration of Trust dated October 13, 2010. On December 24, 2010, GT Canada Medical Properties Inc. (the “Company”) completed its conversion to a trust structure under a Plan of Arrangement (the “Arrangement”). After the Arrangement, the Company is a wholly owned subsidiary of the REIT

2. Statement of Compliance

The REIT's condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under IAS 34, Interim Financial Reporting.

These condensed consolidated interim financial statements do not include all the information and notes required by IFRS for annual financial statements and therefore, should be read in conjunction with the audited consolidated financial statements and notes for the REIT’s year ended December 31, 2011, which are available on SEDAR at www.sedar.com.

3. Summary of Significant Accounting Policies

All significant accounting policies have been applied on a basis consistent with those followed in the most recent audited annual consolidated interim financial statements. The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and outstanding as at March 31, 2012. The Board of Directors approved these condensed consolidated interim financial statements on May 27, 2012.

Accounting Judgment and Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from estimates and such differences could be material. The significant estimates and judgments made by management are the same as those discussed in the audited annual consolidated financial statements for the year ended December 31, 2011.

Accounting Standards Issued But Not Yet Applied

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee that are mandatory for fiscal periods beginning July 1, 2012 or later. The standards are described in the REIT’s annual consolidated financial statements for the year ended December 31, 2011 and there have not been any additional standards applicable to the REIT issued since December 31, 2011.

4. Acquisitions of Investment Properties

On January 6, 2012, the REIT acquired a portfolio of three medical office buildings located in Lindsay, Hamilton and St. Thomas, Ontario (the “Portfolio). The transaction has been treated as an asset acquisition. The Portfolio was acquired for $10,600,000 plus customary closing costs of $394,459. The purchase price was comprised of assumed mortgage debt of $4,396,827 and coterminous vendor take back financing of $3,357,000 with a combined average interest rate of 4.09%. The balance of the purchase price was funded with existing resources.

The Hamilton property is subject to a Head Lease with the vendor. The Head Lease covers space occupied by an existing tenant who is vacating the building and is for a three year term, expiring in January 2015.

Unaudited (Canadian dollars)

5. Investment Properties

	Three Months Ended March 31, 2012	Year Ended December 31, 2011
Balance, beginning of period	$ 61,332,333	$ 44,676,320
Acquisitions of investment properties	10,994,459	12,541,048
Additions to investment properties	15,197	81,416
Fair value gain	1,190,000	4,192,563
Straight line rent	12,901	(144,985)
Amortization of leasing costs and tenant inducements	(4,017)	(14,029)
Balance, end of period	**$ 73,540,873**	**$ 61,332,333**

During the period, investment properties were acquired for $10,994,459. Of this amount, $7,753,827 was financed by the assumption of mortgages and vendor take-back financing described in note 7(c) with the remaining amount of $3,240,632 paid for in cash and an additional draw on the Credit Facility described in note 7(a).

Investment properties are carried at fair value. The investment properties are re-measured to fair value at each reporting date, determined either on internal valuation models incorporating available market evidence, or on valuations performed by third-party appraisers.

The fair value of the investment properties at March 31, 2012 and December 31, 2011 was determined on internal valuation models incorporating available market evidence. Estimates and assumptions used in determining the fair value of the investment properties include capitalization rates, inflation rates, vacancy rates, and property net operating income.

The key valuation metrics for investment properties are set out in the following table:

Capitalization Rate	March 31, 2012	December 31, 2011
Minimum	6.90%	6.90%
Maximum	8.75%	8.75%
Weighted average	7.18%	7.23%

Fair values are most sensitive to changes in capitalization rates. A 0.25% increase in the weighted average capitalization rate would decrease fair value by $2,483,000 and a 0.25% decrease would increase fair value by $2,662,000.

Included in Other Assets (note 6) is the amount of straight-line rent receivable arising from the recognition of rental revenues on a straight-line basis over the lease term. The fair value of investment properties has been reduced by these amounts.

Unaudited (Canadian dollars)

6. Other Assets

	March 31, 2012	December 31, 2011
Commodity taxes recoverable	$ 42,687	$ 101,425
Deferred acquisition costs	15,911	58,174
Deferred issue costs	276,834	-
Deposits on investment properties under contract	10,000	185,727
Realty and other escrow amounts	196,753	-
Straight-line rent receivable	132,084	144,985
	$ 674,269	**$ 490,311**

Deferred acquisition costs and deposits on investment properties under contract relate to potential acquisitions undergoing due diligence. Straight-line rent receivable arises from the recognition of rental revenues on a straight-line basis over the lease term.

7. Mortgages and Loans Payable

During the period ended March 31, 2012 the following mortgages and credit facilities were obtained:

(a) The REIT established a revolving credit facility agreement (the “Credit Facility”) in April 2011 in the amount of $5,655,000 to be drawn on by the REIT for property acquisitions and working capital. Amounts outstanding under the Credit Facility bear interest at a rate equal to the lender’s prime rate plus 200 basis points. The Credit Facility matures in December 2013 and is secured by a first ranking mortgage on the property located at 89 Dawson Road, in Guelph Ontario. The REIT drew $2,155,000 of this facility in connection with its purchase of the three property Portfolio described in note 4 and has included this amount in mortgages payable.

(b) On March 5, 2012, the REIT refinanced its Orillia property for a gross amount of $4,300,000, which generated net proceeds of $843,000. The refinancing shortened the maturity date to July 2016 while the interest rate was unchanged at 4.19%.

(c) On the acquisition of the Portfolio (note 4), the REIT assumed mortgage debt on the Portfolio in the amount of $4,396,827 and coterminous vendor-take-back (“VTB”) financing in the amount of $3,357,000, with the total debt in respect of the acquisition having a combined average interest rate of 4.09%. The VTB financing is in the form of $2,259,000 secured by mortgages and $1,098,000 in unsecured promissory notes, interest only, with a fixed interest rate of 2.0%. The mortgages and loans mature in May 2013 and April 2015 as noted in the table below.

(d) In the three months ended March 31, 2012, the REIT incurred financing costs of $18,869 which will be deferred and amortized over the life of the underlying mortgages.

(e) The fair value of the mortgages and loans payable at March 31, 2012 is $46,434,000 (December 31, 2011 - $36,226,000).

Unaudited (Canadian dollars)

7. Mortgages and Loans Payable (continued)

As at March 31, 2012, the mortgages and loans payable are as follows:

	Maturity Date	Interest Rate	Monthly Payment	Balance
Floating Rate				
220 Dundas Street West, Whitby, Ontario	August 2012	Prime plus 3 %	$ 11,841	$ 2,330,000
89 Dawson Road, Guelph, Ontario	December 2013	Prime plus 2%	22,729	5,455,000
				7,785,000
Fixed Rate				
220 Dundas Street West, Whitby, Ontario	August 2012	5.51 %	$ 48,859	$ 3,951,123
570 King Street, Welland, Ontario	September 2012	3.96 %	8,635	1,084,336
1955 King Street, Hamilton, Ontario	May 2013	6.75 %	9,813	1,164,116
1955 King Street, Hamilton, Ontario	May 2013	2.00 %	610	366,000
86 Angeline Street, Lindsay, Ontario	April 2015	6.10 %	19,812	2,148,508
86 Angeline Street, Lindsay, Ontario	April 2015	2.00 %	3,608	2,165,000
230 First Street, St.Thomas, Ontario	April 2015	6.10 %	9,691	1,050,866
230 First Street, St.Thomas, Ontario	April 2015	2.00 %	1,377	826,000
83 Dawson Road, Guelph, Ontario	May 2016	5.24 %	40,245	6,648,057
631 Queenston Road, Hamilton, Ontario	May 2016	4.96 %	13,556	2,299,648
65 Larch Street, Sudbury, Ontario	May 2016	5.02 %	34,469	5,813,879
100 Colborne Street, Orillia, Ontario	July 2016	4.19 %	23,379	4,300,000
240 Penetanguishene Road, Midland, Ontario	October 2016	4.00 %	17,096	3,217,945
				35,035,478
			$ 265,720	$ 42,820,478
Less: Unamortized deferred financing costs			-	130,857
			$ 265,720	**$ 42,689,621**

As at March 31, 2012, the estimated future principal repayments are as follows:

	Principal Installment Payment	Balance Due at Maturity	Total
Remainder of 2012	$ 714,558	$ 7,178,788	$ 7,893,346
2013	712,512	6,936,414	7,648,926
2014	730,273	-	730,273
2015	636,198	5,645,313	6,281,511
2016	305,460	19,960,962	20,266,422
Contractual obligations	**$ 3,099,001**	**$ 39,721,477**	**$ 42,820,478**

Unaudited (Canadian dollars)

8. Unit-based Compensation Liability

The fair value of the options at March 31, 2012 was estimated using the Black-Scholes Option Pricing Model based on the following assumptions: dividend yield of 0% (December 31, 2011 – 0%); risk-free interest rate of 1.20% December 31, 2011 – 0.88%); and volatility of 100% (December 31, 2011 – 100%). The REIT has estimated a forfeiture rate of 0% (December 31, 2011 - 0%).

For the three months ended March 31, 2012, the fair value gain on the unit-based compensation liability was $6,155 (three months ended March 31, 2011 - $20,548).

The following table shows the continuity of incentive unit options:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2010, March 31, 2011, December 31, 2011 and March 31, 2012	**164,000**	**$ 2.39**

The following are the incentive unit options outstanding at March 31, 2012:

Number of Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number of Options Exercisable	Expiry Date
61,875	$ 2.00	1.28	61,875	July 10, 2013
13,125	3.40	1.55	13,125	October 16, 2013
89,000	2.50	2.95	89,000	March 12, 2015
164,000	$ 2.39	2.21	164,000	

Unaudited (Canadian dollars)

9. Warrant Liability

The fair value of the warrants at March 31, 2012 was estimated using the Black-Scholes Option Pricing Model based on the following assumptions: dividend yield of 0% (December 31, 2011 – 0%); risk-free interest rate of 1.20% (December 31, 2011 – 0.88%); and volatility of 100% (December 31, 2011 – 100%).

For the three months ended March 31, 2012, the fair value gain on the warrant liability was $495,791 (three months ended March 31, 2011 - $943,855).

The following table shows the continuity of warrants:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2010 and March 31, 2011	**6,774,957**	**$ 2.25**
Expired	(3,747)	2.70
Balance, December 31, 2011	**6,771,210**	**2.25**
Expired	(52,460)	2.50
Balance, March 31, 2012	**6,718,750**	**$ 2.25**

The following are the warrants outstanding at March 31, 2012:

Number of Warrants	Grant Date Black-Scholes Value	Exercise Price	Expiry Date
6,718,750	$ 6,718,750	$ 2.25	December 24, 2012

10. Class B LP Unit Liability

As at March 31, 2012, there were 662,500 exchangeable Class B LP units of GT LP issued and outstanding with a fair value of $967,250 (December 31, 2011 – $960,625). These exchangeable Class B LP units are economically equivalent to REIT units and are entitled to receive distributions equal to those provided to holders of REIT units. The fair value of the Class B LP Unit Liability is determined with reference to the market price of the REIT's trust units at the reporting date.

Class B LP unitholders may convert their Class B LP units into REIT units and tender to the Offer to acquire the REIT's units described in note 21(b).

For the three months ended March 31, 2012, the fair value gain (loss) on the Class B unit liability was ($6,625) (three months ended March 31, 2011 - $72,875).

Distributions on the Class B LP units totalled $10,136 for the three months ended March 31, 2012 ($7,420 for the three months ended March 31, 2011).

Unaudited (Canadian dollars)

11. Deferred Unit Plan ("DUP") Liability

During the quarter ended March 31, 2012, the REIT issued 210,731 DUP units with a cost of $298,000 (for the quarter ended March 31, 2011 - Nil DUP units).

As at March 31, 2012, there were 409,018 DUP units (December 31, 2011 - 198,287 DUP units) of the REIT issued and outstanding with a fair value of $597,167 (December 31, 2011 - $287,517) (see also note 18(d)). The fair value of the DUP Liability is determined with reference to the market price of the REIT's trust units at the reporting date.

For the three months ended March 31, 2012, the fair value gain (loss) on the DUP liability was ($11,650) (three months ended March 31, 2011 - $nil).

12. Trust Units

The REIT is authorized to issue an unlimited number of trust units. Each trust unit represents a single vote at any meeting of unitholders and entitles the unitholder to receive a pro rata share of all distributions. The unitholders have the right to require the REIT to redeem their units on demand. Upon receipt of the redemption notice by the REIT, all rights to and under the units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per unit ("Redemption Price") as determined by a market formula. The Redemption Price will be paid in accordance with the conditions provided for in the Declaration of Trust.

The REIT's trustees have discretion in declaring distributions.

The following table shows the changes in trust units:

	Trust Units	Amount
Balance - December 31, 2010 and March 31, 2011	**14,858,347**	**$ 20,002,565**
Unit issue costs - cash	-	(86,150)
Balance - December 31, 2011 and March 31, 2012	**14,858,347**	**$ 19,916,415**

13. Transactions Costs

The REIT incurred transaction costs in relation to the following:

	Three Months March 31, 2012	Three Months March 31, 2011
Abandoned acquisition transaction costs (a)	$ 48,796	$ -
Strategic transaction costs (b)	373,000	-
	$ 421,796	**$ -**

(a) The REIT expensed $48,796 of professional fees and other costs for the three months ended March 31, 2012 (March 31, 2011 - $nil) in connection with the REIT's evaluation of potential acquisitions of investment properties which have been abandoned.

(b) The REIT incurred $373,000 of professional fees and other costs for the three months ended March 31, 2012 (March 31, 2011 - $nil) in connection with the REIT's consideration of strategic alternatives and the evaluation and negotiation of the strategic transaction with NorthWest Value Partners described in note 21(b).

Unaudited (Canadian dollars)

14. Other Fair Value Gains

	Three Months March 31, 2012	2011
Unit-based compensation liability (note 8)	$ 6,155	$ 20,548
Warrant liability (note 9)	495,791	943,855
Class B LP unit liability (note 10)	(6,625)	72,875
DUP liability (note 11)	(11,650)	-
	$ 483,671	**$ 1,037,278**

15. Income Taxes

Current income taxes

The REIT qualifies as a mutual fund trust and a real estate trust for Canadian income tax purposes. The REIT expects to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, no provision for current income tax payable is required, except for amounts incurred in its incorporated subsidiaries.

As at March 31, 2012 and December 31, 2011, none of the REIT's corporate entities have current taxes payable. Each corporate entity either has sufficient tax deductions to offset any taxable income or has operating losses from previous years to apply against any taxable income. As such, no current income taxes payable has been recorded in the REIT's corporate entities.

Deferred taxes

Deferred income taxes reflect the net effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The REIT has not recognized a deferred tax asset in respect of its deductible temporary differences.

The REIT's corporate entities have non capital losses totalling $1,940,492 at December 31, 2011 ($2,053,709 at December 31, 2010) which are available to reduce taxable income in future years and, if not utilized, will expire between 2027 and 2030.

16. Related Party Transactions

(a) On December 24, 2010, the REIT completed the acquisition of a portfolio of five medical office buildings (the "Acquired Properties") from a related party, Thornley Holdings Limited (which is indirectly controlled by Edward Thornley, a director of the REIT and Darren Thornley, an officer of the REIT). The REIT has a contractual obligation to pay a post-closing adjustment in respect of the two Acquired Properties located in Guelph, Ontario on the second anniversary of closing (being December 24, 2012 the "Re-Adjustment Date") to the extent that the net operating income, based on annualized revenues and expenses for the following 12 month period and parking revenues for the trailing 12 month period, implies, with a capitalization rate of 8.25%, a value in excess of the purchase price paid.

16. Related Party Transactions (continued)

(b) A Head Lease was entered into between GT Canada Operating Partnership (I) L.P. (the "Operating Partnership"), a subsidiary of the REIT, and Guelph Medical Place 2 Ltd. (a related party as its' shareholders include Ed Thornley and Douglas Friars, M.D. (trustees of the REIT) and Darren Thornley (an officer of the REIT)).

Pursuant to the Head Lease, Guelph Medical Place 2 Ltd. has leased the total rentable area of the building being constructed at 89 Dawson Road, Guelph, Ontario (the "Building Head Lease"), and a portion of the property comprising and intended for use as parking facilities serving the building (The "Lot Head Lease"). The Building Head Lease will terminate on the date which is the earlier of (i) the second anniversary of the closing of the Acquisition (being December 24, 2012), and (ii) the date on which the aggregate of the fully net rents payable under end user leases in respect of a particular month are equal to or exceed the Building Head Lease rent in respect of such month. Under the Lot Head Lease, the right to operate the parking facilities, and to receive parking revenues, will be assigned back to the Operating Partnership; the Lot Head Lease provides the terms upon which the benefit of such rental revenues are allocated between the parties. The Lot Head Lease will terminate on the date that is the earlier of (i) the day immediately preceding the second anniversary of the closing of the Acquisition, and (ii) the first day of a month where the aggregate gross parking revenues received by the Operating Partnership from such operations at 89 Dawson Road, Guelph, Ontario (based on the allocation of parking revenues contemplated by the Lot Head Lease) for the preceding six (6) consecutive months is equal to or greater than $397,500.

(c) The eight investment properties acquired prior to 2012 are managed by CMD Management Limited ("CMD") which is indirectly owned by Edward Thornley and Darren Thornley.

The REIT entered into a property management agreement with CMD for a period of two years ending December 31, 2012. At the closing of the two year period, the agreement provides the offer to extend the agreement as well as the option for both the REIT and CMD to terminate the agreement under a no fault termination. Should the REIT decide to cancel the agreement at the end of the two year period or any extension thereof; it would be required to reimburse CMD for lease termination costs and penalties and any other penalties or costs relating to the termination or satisfaction of any other contract or commitment that was entered into by CMD in order to fulfill its obligations as property manager. In addition, the REIT would be required to offer employment to all employees and independent contractors (excluding Darren Thornley and Ed Thornley) of CMD. Should the employees or independent contractors not accept the employment offer, the REIT would be required to reimburse CMD for any termination or severance costs incurred by CMD as a result of the termination of the agreement, if any. The REIT has not accrued any amount with respect to costs of potentially terminating the property management agreement.

During the three months ended March 31, 2012, the REIT was charged $75,251 (three months ended March 31, 2011 - $57,000) by CMD for property management fees. Such costs are recoverable from tenants as property operating costs.

In addition, during the three months ended March 31, 2012, the REIT was charged $nil (three months ended March 31, 2011 - $nil) by CMD for leasing commissions.

(d) For the three months ended March 31, 2012, the REIT received $225,460 (three months ended March 31, 2011 - $87,659) in respect of head leases from related parties.

(e) Transactions with related parties disclosed above, are in the normal course of business and are recorded at the transaction amount, being the price agreed between the parties.

17. Segmented Information

Management has determined that all activities of the REIT operate in a single business segment in Canada. The REIT's investment properties are all medical office buildings and, currently, are all located in Ontario.

Unaudited (Canadian dollars)

18. Contingent Liabilities

(a) As noted in note 16(a), the REIT has a contractual obligation to pay a post-closing adjustment in respect of the two Acquired Properties located in Guelph, Ontario on the second anniversary of closing (being December 24, 2012, the "Re-Adjustment Date") to the extent that the net operating income, based on annualized revenues and expenses for the following 12-month period and parking revenues for the trailing 12-month period, implies, with a capitalization rate of 8.25%, a value in excess of the purchase price paid.

(b) Under the terms of the by-laws of the REIT, the REIT indemnifies individuals who have acted at the REIT's request to be a trustee and/or director and/or officer of the REIT (and/or one or more of its direct and indirect subsidiaries), to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The claims covered by such indemnifications are subject to statutory and other legal limitation periods. The nature of the indemnification agreements prevents the REIT from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements.

(c) The REIT is subject to legal and other claims in the normal course of business. Management and the REIT's legal counsel evaluate all claims. In the opinion of management these claims are generally covered by the REIT's insurance policies and any liability from such claims would not have a significant effect on the REIT's consolidated financial statements.

(d) The REIT's deferred unit plan provides for the number of deferred unit plan units to double in the event of a change of control of the REIT prior to December 31, 2013. Should the offer to acquire all of the REIT's outstanding units described in note 21(b) be successful, this would constitute a change of control under the deferred unit plan.

19. Capital Management

The REIT's capital management objectives and policies are consistent with those disclosed in the audited consolidated financial statements for the year ended December 31, 2011.

The REIT's policy does not permit the debt-to-gross book ratio to exceed 65%. At March 31, 2012, the REIT is in compliance with its debt-to-gross book value ratio at 56.4% (December 31, 2011 - 50.9%), which is calculated as follows:

	March 31, 2012	December 31, 2011
Debt		
Gross value of secured debt (1)	$ 42,689,621	$ 32,398,102
Gross Book Value of Assets		
Total assets	$ 75,705,892	$ 63,709,964
Debt-to-Gross Book Value	56.4 %	50.9 %

(1) represents actual balance of mortgages

Unaudited (Canadian dollars)

20. Risk Factors

The REIT's activities expose it to a variety of financial risks, including interest rate risk, credit risk and liquidity risk. The REIT's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the REIT's financial performance.

Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments resulting in the REIT incurring a financial loss. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The REIT's credit risk is primarily attributable to cash, investments and accounts receivable. Cash and investments consist of cash on hand and term deposits with reputable financial institutions which are closely monitored by management. Financial instruments included in accounts receivable consist of rental income receivable from its commercial tenant base for monthly rental charges and interest receivable from the term deposit. Management believes that the potential loss from credit risk with respect to financial instruments included in cash, investments and accounts receivable is minimal. The REIT’s accounts receivable are all current.

Liquidity Risk

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to the REIT to fund future growth, refinance debts as they mature or meet the REIT’s payment obligations as they arise. Furthermore, liquidity risk also arises from the REIT not being able to obtain financing or refinancing on favourable terms.

The REIT’s main liquidity requirements arise from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures on existing properties, property acquisitions and distributions to unitholders. All of the aforementioned liquidity requirements, except for debt repayment obligations at maturity and property acquisitions, are generally funded from cash flows from operations. Debt repayment obligations are generally funded from refinancing the related debt and property acquisitions are generally funded from equity raises as well as obtaining debt financing on the related property.

The REIT’s financial condition and results of operations would be adversely affected if it were unable to obtain financing/refinancing or cost-effective financing/refinancing, or if it were unable to meet its other liquidity requirements from ongoing operating cash flows.

The following table sets out the REIT’s contractual cash flows:

	Carrying amount	Contractual cash flow	2012	2013	2014	2015	2016	Thereafter
Mortgages and loans payable	$ 42,820,479	$ 48,311,559	$ 9,260,634	$ 9,014,897	$ 1,958,791	$ 7,323,218	$ 20,754,019	$ -
Accounts payable and accrued liabilities	1,928,797	1,928,797	1,928,797	-	-	-	-	-
Distributions payable	75,778	75,778	75,778	-	-	-	-	-
Total	$ 44,825,054	$ 50,316,134	$ 11,265,209	$ 9,014,897	$ 1,958,791	$ 7,323,218	$ 20,754,019	$ -

Interest Rate Risk

The majority of the REIT’s debt is financed at fixed rates with maturities staggered over a number of years, thereby mitigating its exposure to changes in interest rates and financing risks. At March 31, 2012, approximately $7,785,000 (December 31, 2011 - $5,830,000) of the REIT’s debt is financed at variable rates exposing the REIT to interest rate risk on such debt. Sensitivity to a plus or minus 1% change in the interest rate would affect net loss and comprehensive loss by approximately $77,850 annually with all other variables held constant.

21. Subsequent Events

(a) Subsequent to March 31, 2012, the REIT declared a distribution of $99,951 for the trust units and $3,534 for the Class B LP units ($0.005334 per trust unit and Class B LP unit) for each of the months of April and May 2012, after giving effect to the closing on the Rights Offering on April 24, 2012 described below.

(b) On April 16, 2012, the REIT announced that it had entered into a definitive agreement with NorthWest Value Partners Inc. ("NorthWest") pursuant to which NorthWest will offer to acquire all of the REIT's outstanding units for $2.05 per unit (the "Offer"). The Offer price is subject to adjustment for dilution that may result from the issuance of additional units pursuant to the Rights Offering in note 21(c) below. The Offer is subject to a number of conditions, including acceptance of the Offer by the holders of at least 66 2/3% of the units on a fully diluted basis (the "Minimum Tender Condition"). As a result of the issuance of the Rights Offering noted below, NorthWest has confirmed that it will adjust the price at which it is offering to acquire all of the REIT's outstanding units from $2.05 per unit to $1.87 per unit.

(c) On April 24, 2012, the REIT completed its' previously announced offering of rights (the "Rights Offering") to acquire up to 3,880,212 units of the REIT to unitholders of record on March 30, 2012 at a price of $1.15 per unit. Pursuant to the Rights Offering, the REIT issued a total of 3,880,212 units of the REIT for net proceeds of $4,322,244.

(d) On May 1, 2012, the REIT completed the acquisition of a 25,000 square foot medical office building in Port Hope, Ontario for approximately $7,500,000 subject to customary closing adjustments.

(e) On May 25, 2012, NorthWest announced (i) that approximately 86% of the issued and outstanding units and approximately 65% of the fully diluted units of the REIT had been tendered to the Offer; (ii) its intention to extend the Offer for 10 days to June 4, 2012; and (iii) it intends to waive the Minimum Tender Condition on or before June 4, 2012 if required, in order to take-up units tendered to the Offer.