# GT CANADA MEDICAL PROPERTIES
# REAL ESTATE INVESTMENT TRUST

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

**For the three months ended**

**MARCH 31, 2012**

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## TABLE OF CONTENTS

This Managementôs Discussion and Analysis of the results of operations and financial condition (ñ**MD&A**ò) of GT Canada Medical Properties Real Estate Investment Trust (ñ**GT Canada Medical Properties REIT**ò or the ñ**REIT**ò) should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2012. All amounts are in Canadian dollars, except where otherwise stated. This MD&A should also be read in conjunction with the REITôs audited consolidated financial statements for the year ended December 31, 2011, prepared in accordance with International Financial Reporting Standards (ñIFRSò) and the material change report of the REIT dated April 16, 2012. This MD&A is current as of at May 27, 2012 unless otherwise stated. Additional information relating to the REIT, including its continuous disclosure documents required by the securities regulators, is filed as required on the System for Electronic Document Analysis and Retrieval (ñ**SEDAR**ò) and can be accessed electronically at www.sedar.com.

## FORWARD-LOOKING INFORMATION ADVISORY

This MD&A may contain forward-looking statements and information within the meaning of applicable securities laws. Forward-looking statements include, but are not limited to, statements concerning the REITôs objectives, strategies to achieve those objectives, as well as statements with respect to managementôs beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can, but not always, be identified by the use of forward-looking terminology such as ñoutlookò, ñobjectiveò, ñmayò, ñwillò, ñexpectò, ñintendò, ñestimateò, ñanticipateò, ñbelieveò, ñproposesò, ñshouldò, ñplansò or ñcontinueò, or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect managementôs current beliefs and are based on information currently available to management. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated by such statements. Examples of such statements include the intention to complete future financings, acquisitions or investments. Factors that could cause such differences include: the ability of the REIT to obtain necessary financing, satisfaction of the conditions under any definitive purchase agreement to acquire future properties. This list is not exhaustive of the factors that may impact the REITôs forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the REITôs forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the REIT nor any other person assumes responsibility for the accuracy and completeness of these forward looking statements. The factors underlying current expectations are dynamic and subject to change. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements included in this MD&A may be considered ñfinancial outlookò for purposes of applicable securities laws, and such financial outlook may not be appropriated for purposes other than this MD&A. All forward-looking statements in this MD&A are qualified by these cautionary statements. Except as required by applicable law, the REIT undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Some of the specific forwardï 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;
- the expected tax treatment of the REITôs distributions to Unitholders;
- the ability of the REIT to qualify as a ñSIFT trustò (as discussed below); and
- the expectations regarding real estate, the healthcare industry and demographic trends.

Forward-looking statements may include statements related to acquisitions; development and capital expenditure activities; future maintenance and leasing expenditures; financing; the availability of financing sources; and income taxes.

Factors that could cause actual results, performance, or achievements to differ materially from those set forth in the forward-looking statements and information include, but are not limited to: general economic conditions; local real estate conditions, timely leasing of newly developed properties and releasing of occupied square footage upon expiration; dependence on tenantsô financial condition; changes in operating costs, government regulations and taxation; the uncertainties of real estate development and acquisition activity; the ability to effectively integrate acquisitions; interest rates; availability of equity and debt financing; the ability of the REIT to maintain stable cash flow and distributions; the impact of newly adopted accounting principles on the REITôs accounting policies and on period-to-period comparisons of financial results, including changes in accounting policies to be adopted under IFRS as issued by the International Accounting Standards Board; and other risks and factors described from time to time in the documents filed by the REIT. The REIT undertakes no obligations to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by law. Additional information about these risks and uncertainties and any corresponding plan to mitigate these risks, where possible, is contained in the REITôs filings with securities regulators, including the REITôs most recently filed audited consolidated financial statements for the year ended December 31, 2011, which are available on SEDAR.

# PART I – OVERVIEW & FINANCIAL HIGHLIGHTS

## OVERVIEW

The REIT is an unincorporated, openï ended real estate investment trust established pursuant to a declaration of trust under the laws of the Province of Ontario.

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

The objectives of the REIT are to: (i) provide Unitholders with stable and growing cash distributions from investments focused on medical office buildings and related healthcare properties in Canada, on a tax efficient basis; (ii) enhance the value of the REITôs assets and maximize longï term Unit value; and (iii) expand the asset base of the REIT.

The REIT is focusing on achieving its goal of becoming a significant owner of medical office properties throughout Canada through a disciplined acquisition, development and management program aimed at creating a geographically diversified portfolio of properties that will generate stable and growing rental income and capital appreciation opportunities.

## FINANCIAL AND OPERATIONAL HIGHLIGHTS

The following is a summary of key financial information and statistics for the periods indicated (see Part II ï Performance Measurement for a description of the key terms):

| | As at March 31, 2012 (Unaudited) | As at December 31, 2011 (Unaudited) |
|---|---|---|
| **Summary of Operational Information** | | |
| Number of properties[1] | 11 | 8 |
| Gross Leasable Area[1] | 256,300 | 210,000 |
| Portfolio occupancy | 96.0% | 96.0% |
| **Summary of Financial Information** | | |
| Gross Book Value[2] | $ 75,705,892 | $ 63,709,964 |
| Debt | $ 42,689,621 | $ 32,398,102 |
| Debt to Gross Book value | 56.4% | 50.9% |
| Weighted average mortgage interest rate | 5.04% | 4.87% |
| Units outstanding - basic and fully diluted[3] | 15,520,847 | 15,520,847 |

(1) Includes 89 Dawson Road, Guelph, construction of which was substantially completed in June 2011.

(2) Gross book value is comprised of total assets.

(3) Under IFRS, the REIT's Class B LP units are treated as a financial liability rather than equity. As permitted under IFRS, the REIT has chosen to present an adjusted basic and diluted earnings per share unit measure that includes the Class B LP units in basic and diluted units outstanding/weighted average units outstanding. As a result, the adjusted basic and diluted units outstanding and the adjusted basic and diluted weighted average units outstanding include 662,500 outstanding Class B LP units.

| **Summary of Financial Information** (in $ except unit amounts) | **Three months ended March 31, 2012** (Unaudited) | **Three months ended March 31, 2011** (Unaudited) |
|---|---|---|
| NOI[1] | 1,291,973 | 863,615 |
| FFO[1] | (138,606) | 290,104 |
| Per unit - basic and fully diluted[1][2] | (0.009) | 0.019 |
| FFO - Excluding Strategic Transaction Costs[1][4] | 234,394 | 290,104 |
| Per unit - basic and fully diluted[1][2] | 0.015 | 0.019 |
| AFFO[1] | 55,717 | 120,184 |
| Per unit - basic and fully diluted[1][2] | 0.004 | 0.008 |
| AFFO - Excluding Strategic Transaction Costs[1][4] | 428,717 | 120,184 |
| Per unit - basic and fully diluted[1][2] | 0.028 | 0.008 |
| Net income (loss) | 1,537,830 | 4,759,477 |
| Per unit - basic and fully diluted [2] | 0.099 | 0.307 |
| Distributions[3] | 237,469 | 238,132 |
| Per unit - basic and fully diluted[2][3] | 0.015 | 0.015 |
| Weighted average units outstanding for the period: | | |
| Basic and diluted[2][3] | 15,520,847 | 15,520,847 |

(1) Net operating income (ñNOIò), funds from operations (ñFFOò) and adjusted funds from operations ("AFFO") are non-IFRS financial measures widely used in the real estate industry. See ñPart II ï Performance Measurementò for further details and advisories.

(2) Per unit calculations based on weighted average units outstanding for the period, including the Class B LP units.

(3) Represents distributions to Unitholders and Class B LP unitholders on an accrual basis. Distributions are payable as at the end of the period in which they are declared by the Board of Trustees, and are paid on or around the 15th day of the following month.

(4) Costs incurred in connection with the Strategic Transaction during the three months ended March 31, 2012 and 2011 were $373,000 and $nil respectively.

## REAL ESTATE PORTFOLIO

As at March 31, 2012, the REIT owns eleven medical office buildings in Ontario as follows:

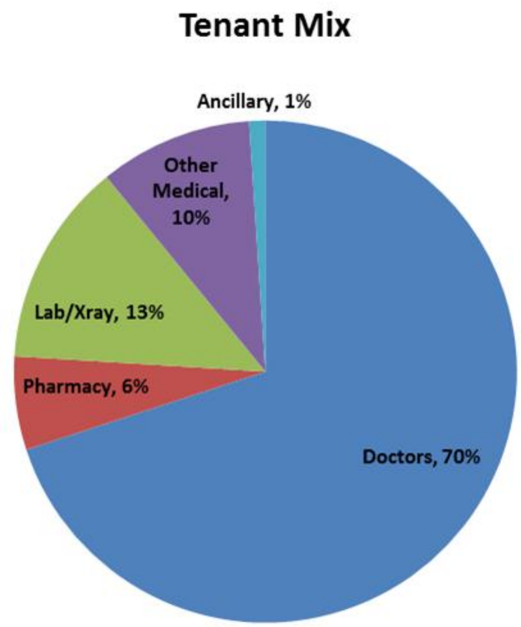
| Property | Date Acquired | Year Built / Expanded | Approximate Area (sf) | Number of Tenants | Occupancy |
|---|---|---|---|---|---|
| 83 Dawson Road, Guelph, Ontario | 24-Dec-10 | 1991/2008 | 32,400 | 12 | 94% |
| 89 Dawson Road, Guelph, Ontario[1] | 24-Dec-10 | 2011 | 25,000 | 8 | 100% |
| 631 Queenston Road, Hamilton, Ontario | 12-Mar-10 | 1992 | 15,600 | 16 | 100% |
| 1955 King Street, Hamilton, Ontario | 06-Jan-12 | 1977/1978 | 13,200 | 6 | 100% |
| 86 Angeline Street, Lindsay, Ontario | 06-Jan-12 | 1990 | 16,500 | 18 | 100% |
| 240 Penetanguishene, Midland, Ontario | 21-Sep-11 | 1986 | 24,000 | 22 | 100% |
| 100 Colborne, Orillia, Ontario | 06-Dec-11 | 1982 | 20,800 | 17 | 100% |
| 230 First Avenue, St Thomas | 06-Jan-12 | 1986 | 16,600 | 14 | 94% |
| 65 Larch Street, Sudbury, Ontario | 24-Dec-10 | 1981/1990 | 52,200 | 33 | 91% |
| 570 King Street, Welland, Ontario | 24-Dec-10 | Mid 1960ôs/1989 | 12,200 | 11 | 80% |
| 220 Dundas Street West, Whitby, Ontario | 24-Dec-10 | 1987 | 27,800 | 23 | 100% |
| **Totals** | | | **256,300** | **180** | **96%**[2] |

(1) Construction of the property was completed in the third quarter of 2011. The total rentable area is subject to a head lease with a related party. The building is currently 75% occupied with third party tenants.

(2) Represents weighted average occupancy calculated by taking the occupancy by property and averaging this occupancy based on the area (square feet) weightings of each property.

Tenant Profile

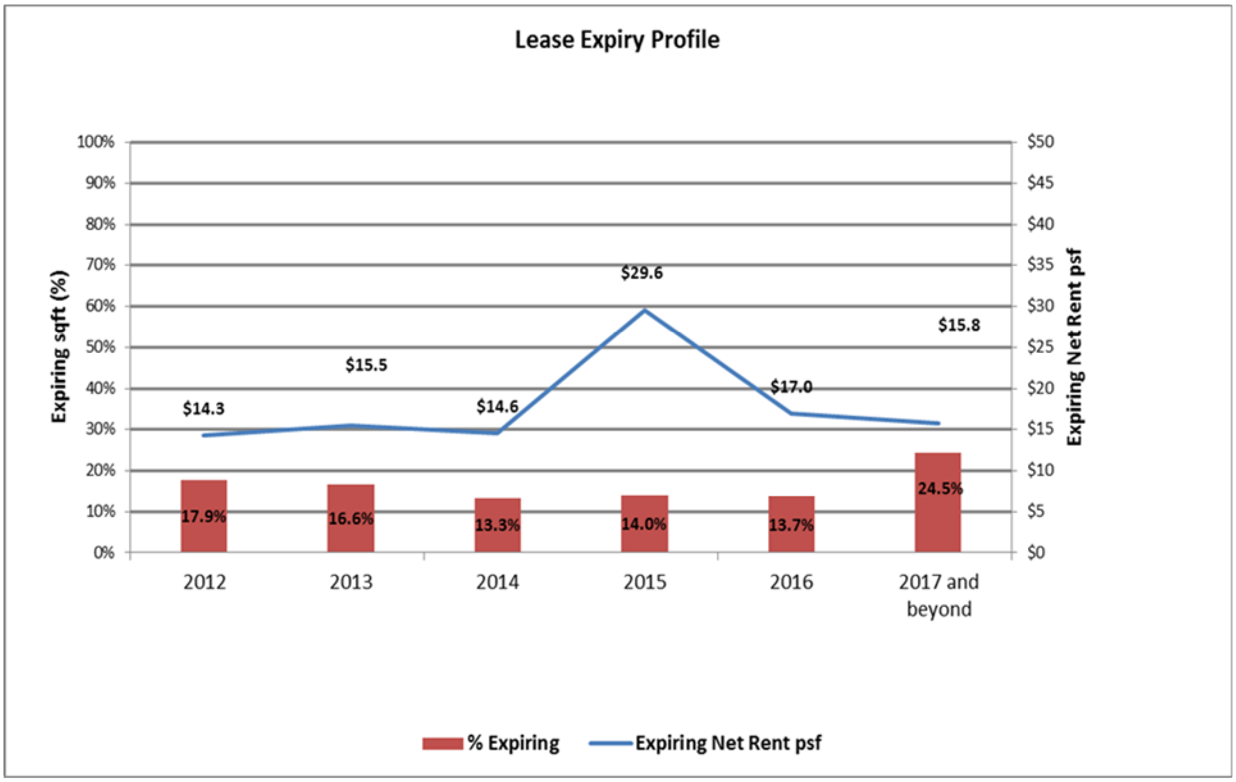
The tenant mix, excluding head leases, for the properties as at March 31, 2012 is as follows:



Leasing Profile

Current in-place net rents average $16.45 per square foot.

The following table sets out the number of leases within the REITôs property portfolio having maturities during the periods indicated (assuming tenants do not exercise renewal options or termination rights), the renewal area and the percentage of the total gross leasable area of the property portfolio represented by such maturities (excluding the property currently under construction).




## Leasing Activity and Occupancy

There has been no significant leasing activity or changes to occupancy in the three months ending March 31, 2012.

## PART II – PERFORMANCE MEASUREMENT

The key performance indicators by which management measures the REITøs performance are as follows:

Funds from operations (ñ**FFO**ò);
Adjusted funds from operations (ñ**AFFO**ò);
Net operating income (ñ**NOI**ò);
Weighted average interest rate; and
Occupancy levels.

We have provided an analysis of NOI, FFO and AFFO under Part IV ï Results of Operations.

### NON-IFRS MEASURES

FFO, AFFO and NOI are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. FFO, AFFO and NOI are supplemental measures of a Canadian real estate investment trustøs performance and the REIT believes that FFO, AFFO and NOI are relevant measures of its ability to earn and distribute cash returns to Unitholders. The IFRS measurement most directly comparable to FFO, AFFO and NOI is comprehensive income.

FFO is defined as comprehensive income (computed in accordance with IFRS) plus distributions on Class B LP units and adjusted for fair value adjustments on investment properties, Class B LP units, Deferred Unit Plan units, warrants and incentive unit options. The REITøs method of calculating FFO may differ from other issuersô methods and accordingly may not be directly comparable to FFO reported by other issuers.

AFFO is defined as comprehensive income (computed in accordance with IFRS), subject to certain adjustments, including: (i) adding back the following items: distributions on Class B LP units and any fair value losses on investment properties, Class B LP units, Deferred Unit Plan units, warrants and incentive unit options; (ii) deducting any fair value gains on investment properties, Class B LP units, Deferred Unit Plan units, warrants and incentive unit options; (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 non-cash compensation expenses; and (v) deducting reserves for tenant inducements, leasing commissions and sustaining capital expenditures, as determined by the REIT. Other adjustments may be made to AFFO as determined by the trustees in their discretion.

NOI is a non-IFRS measure of a REITøs operating performance, defined as property and property related revenue after operating expenses have been deducted, but before deducting interest expense, general and administrative expenses, income taxes, leasehold improvement and leasing costs, and unrecoverable capital costs.

FFO, AFFO and NOI should not be construed as alternatives to comprehensive income determined in accordance with IFRS as an indicator of the REITôs performance. The REITôs method of calculating FFO, AFFO and NOI may differ from other issuersô methods and accordingly may not be comparable to measures used by other issuers.

A reconciliation of FFO, AFFO and NOI to comprehensive income is set out below on page 22 under the heading ñFunds From Operationsò.

***Weighted Average Interest Rate***

The REITôs weighted average interest rate includes secured debt with fixed interest rates and excludes secured debt with floating interest rates. This calculation is a useful measure because it allows management to compare movements in interest rates period over period and to compare the average rate to the current market rates at that point in time.

***Occupancy Levels***

Occupancy levels are presented in different manners depending on its context. It could be presented as a weighted average portfolio occupancy, based on the area weightings, when analyzing the overall operating performance, or as a point-in-time reference when analyzing future lease expiries, or as an assessment of the performance of each property period over period. Management considers this a useful measure in assessing the overall performance of its portfolio and is an essential tool to determine which properties require further investigation if performance lags.

## KEY PERFORMANCE DRIVERS

In addition to monitoring and analyzing the performance of operations through such measures as NOI, FFO and AFFO, management considers the following to be key drivers of current and future financial performance:

- the ability to access equity capital at a competitive/reasonable cost;
- the ability to access debt with terms and conditions that are cost effective; and
- the ability to acquire new properties on a yield accretive basis that enhance the REITôs portfolio.

## PART III – RECENT DEVELOPMENTS

The REIT paid distributions to Unitholders in the amount of $0.0061 per unit in February 2011 and $0.0051 per unit in each of the remaining months of 2011 and the first three months of 2012.

On September 21, 2011, the REIT completed the purchase of a 24,000 square foot medical office building in Midland, Ontario for approximately $5,200,000.

On December 6, 2011, the REIT acquired a 21,000 square foot medical office building in Orillia, Ontario for a total purchase cost of $7,092,827, which includes $142,827 of acquisition costs, from Thornley Holdings Limited, a related party (see note 5, investment properties). The Orillia property is subject to a head lease with respect to approximately 4,000 sq. ft. of space and the parking lot, for a period of three years. The head lease is provided by the vendor, Thornley Holdings Limited. As a condition of providing the head lease, CMD, a related party to the REIT and Thornley Holdings Limited, shall remain the property manager of the Orillia property until the earlier of the expiry of the head lease or December 6, 2014.

On January 6, 2012, the REIT acquired a portfolio of three medical office buildings located in Lindsay, Hamilton and St. Thomas, Ontario (the ñPortfolio). The transaction has been treated as an asset acquisition. The Portfolio was acquired for approximately $10.6 million. Approximately $7.8 million of the purchase price was comprised of a combination of assumed mortgage debt on the Portfolio and coterminous vendor take back financing with a combined average interest rate of 4.09%. The balance of the purchase price was funded with existing resources.

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%.

***Subsequent Events***

(a) Subsequent to March 31, 2012, the REIT increased its distribution rate and declared distributions 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 Rights Offering on April 24, 2012 noted below.

(b) On April 16, 2012, the REIT announced that it had entered into a definitive agreement with NorthWest Value Partners Inc. (ñNorthWestò) pursuant to which NorthWest will offer to acquire all of the REITôs outstanding units for $2.05 per unit (the ñOfferò). The Offer price was adjusted to $1.87 per unit to reflect the dilution that resulted from the issuance of additional units pursuant to the rights offering noted 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 fully diluted units (the ñMinimum Tender Conditionò). 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 an offering of rights (the ñRights Offeringò) 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. The rights expired on April 24, 2012 and investors subscribed for 3,880,212 units 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 located in Port Hope, Ontario, for approximately $7.5 million, subject to customary closing adjustments. The buildingôs tenants are medical practitioners with a pharmacy, lab and x-ray facilities and it is 100% occupied.

(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.

***Outlook***

The REIT continues to seek growth through acquisitions, with a discipline of continuing to build a portfolio comprised exclusively of medical office buildings that are physician intensive with high occupancy rates. The REIT expects further growth in net operating income in the second quarter of 2012 as a result of the acquisition of four investment properties (being the three building portfolio acquired on January 6, 2012 and the Port Hope property on May 1, 2012).

Should the Offer described above be successful, it is anticipated that the REITôs strategic direction will materially change. In announcing its Offer, NorthWest indicated that, if the Offer is successful, the investment properties of the REIT will be sold to a related party of NorthWest, NorthWest Healthcare Properties Real Estate Investment Trust and, following the sale of the REITôs investment properties, it will reconfigure the REIT to support its international healthcare real estate initiatives.

The REIT will incur substantial additional transaction costs with respect to the Offer. In the event NorthWest fails to complete the Offer, and the REIT is not in breach of the transaction agreement, the REIT will receive a ñbreak-feeò of $1,900,000. The REIT expects that the break-fee should materially offset the transaction costs incurred in respect of the Offer.

## PART IV – RESULTS OF OPERATIONS

The REIT owned six properties throughout the first quarter of 2011. The REIT subsequently acquired an additional two properties in the third and fourth quarter of 2011 and three properties in the first quarter of 2012. Accordingly, the results from operations for 2012 reflect the results of eleven properties while the results for 2011 reflect six properties.

### NET INCOME

The following is a summary of selected financial information from the consolidated statements of operations for the three months ended March 31, 2012 and March 31, 2011.

| | Three months ended | |
|---|---|---|
| | **March 31, 2012** | **March 31, 2011** |
| | (Unaudited) | (Unaudited) |
| Revenue from income producing properties | $ 2,230,758 | $ 1,475,015 |
| Property operating costs | 938,785 | 611,400 |
| Net Operating Income | 1,291,973 | 863,615 |
| Interest and other income | 1,778 | 1,216 |
| | 1,293,751 | 864,831 |
| Mortgage and loan interest expense | 508,081 | 239,391 |
| General and administrative expense | 479,230 | 335,336 |
| Abandoned acquisition costs | 48,796 | - |
| Strategic transaction costs | 373,000 | - |
| Finance costs | 33,386 | 10,165 |
| | 1,442,493 | 584,892 |
| Income (loss) before the undernoted | (148,742) | 279,939 |
| Fair value gain on investment properties | 1,202,901 | 3,442,260 |
| Other fair value gains | 483,671 | 1,037,278 |
| Net income | $ 1,537,830 | $ 4,759,477 |

### *Net Operating Income*

Net operating income was $1,291,973 and $863,615 for the three months ended March 31, 2012 and March 31, 2011 respectively. The increase of $428,358 for the three months ended March 31, 2012 versus the comparable period in 2011 was primarily as a result of the five properties acquired during the third and fourth quarter of 2011 and the beginning of the first quarter of 2012.

### *Interest and Other Income*

Interest and other income represents primarily interest income earned on cash balances.

### *Mortgage and Loan Interest Expense*

The majority of the REITøs debt has fixed interest rates. The REITøs fixed rate mortgages and loans had a weighted average interest rate of 5.04% as at March 31, 2012.

The REIT has two, interest only, floating rate mortgages with rates of prime plus 200 basis points and prime plus 300 basis points.

Mortgage and loan interest expense totaled $508,081 and $239,391 for the three ended March 31, 2012 and March 31, 2011, respectively. The increase of $268,690 from the three months ended March 31, 2011 is primarily as a result of the five properties acquired during the third and fourth quarter of 2011 and the beginning of the first quarter of 2012.

### *General and Administrative Expenses*

General and administrative expenses increased by $143,894 for the three months ended March 31, 2012 to $479,230 versus $335,336 in the comparable period in 2011. The increase reflected higher professional fees and regulatory compliance costs associated with being a public company.

### *Transaction Costs*

The REIT incurred $48,796 of professional fees and other costs for the three months ended March 31, 2012 ($Nil ï March 31, 2011) in connection with the REITøs evaluation of potential acquisitions of investment properties which have been abandoned.

The REIT incurred $373,000 of professional fees and other costs for the three months ended March 31, 2012 ($Nil ï March 2011) in connection with the REITøs consideration of strategic alternatives and the evaluation and negotiation of the proposed strategic transaction with NorthWest (the ñStrategic Transactionò, also see ñSubsequent Eventsò).

### *Finance Costs*

Under IFRS, the Class B LP unit distributions are treated as a finance cost. Class B LP units receive distributions on an equivalent per unit basis to the distributions declared on the REIT units. During the three months ended March 31, 2012 and March 31, 2011 the REIT made distributions of $10,136 and $10,165 respectively on the Class B LP units.

Also included in Finance Costs is amortization of deferred financing costs incurred to arrange mortgage or equity financing. For the three months ended March 31, 2012 and March 31, 2011, amortization of deferred financing costs totaled $23,250 and $Nil respectively.

### *Fair value gains (losses) on investment properties*

Under IFRS the REIT has elected to use the fair value model to account for its investment properties. 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. Rental revenues are recognized on a straight-line basis over the term of the lease. The fair value of investment properties is reduced by the amount of any straight-line rent receivable.

For the three month period ended March 31, 2012, the fair value of investment properties increased by $1,202,901. This reflected a gain on the revaluation of the investment properties of $1,190,000, primarily as a result of declining capitalization rates. Capitalization rates declined much more slowly in the first quarter of 2012 versus 2011. The fair value was adjusted by $12,901, reflecting the amortization of straight-line rent.

During the three month period ended March 31, 2011, the fair value of the REITós investment properties increased by $3,442,260. This reflected a gain on the revaluation of the investment properties of $4,192,563 as a consequence of a significant decline in capitalization rates from 2010. This gain was reduced by $144,985 as a consequence of straight-line rent in the quarter.

### *Other fair value gains*

Other fair value gains are comprised of gains in the fair value of the incentive unit options, warrants, Class B LP units and Deferred Unit Plan liability. Total other fair value gains for the three months ended March 31, 2012 and March 31, 2011 were $483,671 and $1,037,278 respectively. Other fair value gains are significantly affected by the change in the price of the REITós units. The trading price of the REITós units increased from $1.45 per unit at December 31, 2011 to $1.46 per unit at March 31, 2012. The trading price of the REITós units decreased from $2.00 per unit at December 31, 2010 to $1.89 per unit at March 31, 2011.

Under IFRS, the incentive unit options are carried at fair value, which is estimated using the Black Scholes Option Pricing Model. The value of the incentive unit options decreased from $108,099 at December 31, 2011 to $101,944 at March 31, 2012. This reflected the change in the trading price of the REIT units from the grant date of the options and an increase in the discount rate.

Under IFRS, the warrant liability is carried at fair value, which is estimated using the Black Scholes Option Pricing Model. The value of the warrants decreased from $2,474,543 at December 31, 2011 to $1,978,752 at March 31, 2012. The decline in value is primarily a result of the shortened life expectancy of the warrants from December 31, 2011.

Under IFRS, the Class B LP units are carried at fair value. The value of the Class B LP units mirrors the trading price of the REITôs listed units. During the three month period ended March 31, 2012, the value of the Class B LP liability increased by $6,625 to $967,250 from $960,625 at December 31, 2011.

Under IFRS, the Deferred Unit Plan units are carried at fair value. DUP units were issued for the first time in June 2011 at a fair value of $218,496. During the first quarter ended, March, 31, 2012, the REIT granted additional DUP units at a fair value at grant date of $298,000. At March 31, 2012, the value of the outstanding DUP units increased to $597,167 versus $287,517 at December 31, 2011 primarily as a result of new units granted.

## OPERATING RESULTS

### *NET OPERATING INCOME*

The REIT owned six properties throughout the first quarter of 2011. The REIT subsequently acquired an additional two properties in the third and fourth quarter of 2011 and three properties in the first quarter of 2012. Accordingly, the results from operations for 2012 reflect the results of eleven properties while the results for 2011 reflect six properties.

| (Unaudited) | Three months ended March 31, 2012 | Three months ended March 31, 2011 |
|---|---|---|
| **Revenue from Investment Properties** | | |
| Base rent | $ 1,068,747 | $ 750,685 |
| Operating cost recoveries | 832,262 | 538,322 |
| Parking and other income | 329,749 | 186,008 |
| | 2,230,758 | 1,475,015 |
| **Property Operating Costs** | | |
| Recoverable operating costs | 664,328 | 431,068 |
| Realty taxes | 244,039 | 147,142 |
| Non-recoverable costs | 30,418 | 33,190 |
| | 938,785 | 611,400 |
| **Net Operating Income** | **$ 1,291,973** | **$ 863,615** |

### ***Revenue from Investment Properties***

*Base rent*

Base rent totaled $1,068,747 and $750,685 for the three months ended March 31, 2012 versus the comparable period in 2011. The increase in base rents reflects the additional properties acquired during the third and fourth quarter of 2011 and early in the first quarter of 2012.

*Operating cost recoveries*

Operating cost recoveries for the three months ended March 31, 2012 were $832,262 compared to $538,322 for the three months ended March 31, 2011. The increases reflect the additional properties acquired during the third and fourth quarter of 2011 and early in the first quarter of 2012. Virtually all of the REIT's leases are on a net basis, providing for a recovery of most operating costs. The REIT recovered a significant portion of its recoverable operating costs as a consequence of occupancy rates exceeding 96%.

*Parking and other income*

Parking and other income primarily represents revenue from parking operations. Parking revenues and other income rose to $329,749 in the three months ended March, 31, 2012 versus $186,008 in the three months ended March 31, 2011. The increase in parking and other income in 2012 reflects the additional properties acquired during the third and fourth quarter of 2011 and early in the first quarter of 2012. As well, parking rates were adjusted effective January 1, 2012 on two of the REIT's properties. The REIT continues to seek growth in parking revenues of new and existing properties through adjusting parking rates to market.

### ***Property Operating Costs***

*Recoverable operating costs*

Recoverable operating costs totaled $664,328 and $431,068 for the three months ended March 31, 2012 and March 31, 2011 respectively. The increase in recoverable operating costs reflects the additional properties acquired during the third and fourth quarter of 2011 and early in the first quarter of 2012.

*Realty taxes*

Realty taxes for the three months ended March 31, 2012 were $244,039 versus $147,142 in the comparable period in 2011. The increase reflects the additional properties acquired during the third and fourth quarter of 2011 and early in the first quarter of 2012.

*Non-recoverable operating costs*

Non-recoverable operating costs primarily relate to the costs of operating parking lots.

## *NET OPERATING INCOME – "SAME STORE"*

ñSame Storeò properties are defined as all properties owned by the REIT continuously since December 31, 2010 and do not take into account the impact of the performance of acquisitions or dispositions completed subsequent to December 31, 2010. Accordingly, ñSame Storeò net operating income reflects the six properties owned for equivalent periods in 2012 and 2011.

| (Unaudited) | | Three months ended March 31, 2012 | | Three months ended March 31, 2011 |
|---|---|---|---|---|
| **Revenue from Investment Properties** | | | | |
| Base rent | $ | 692,392 | $ | 737,026 |
| Operating cost recoveries | | 509,984 | | 551,981 |
| Parking and other income | | 248,812 | | 186,008 |
| | | 1,451,189 | | 1,475,015 |
| **Property Operating Costs** | | | | |
| Recoverable operating costs | | 369,253 | | 432,552 |
| Realty taxes | | 151,192 | | 147,142 |
| Non-recoverable costs | | 29,414 | | 31,706 |
| | | 549,859 | | 611,400 |
| **Net Operating Income** | **$** | **901,330** | **$** | **863,615** |

Base rent and operating cost recoveries fell in the three months ended March 31, 2012 compared with the three months ended March 31, 2011. This reflects the loss of the lab in the Welland property late in the fourth quarter of 2011 and higher cost recoveries charged in 2011. This decline in revenue was partially offset by increased parking income, reflecting parking rate increases introduced in the first quarter of 2011.

Recoverable operating costs were lower in the first quarter of 2012 versus the comparable period on 2012, primarily as a result of lower snow removal and repair costs.

## QUARTERLY PERFORMANCE

The following is a summary of the interim results for each of the last eight quarterly periods.

| | Q1-2012 | Q4-2011 | Q3-2011 | Q2-2011 | Q1-2011 | Q4-2010 | Q3-2010 | Q2-2010 |
|---|---|---|---|---|---|---|---|---|
| | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS |
| **Quarterly Performance (in $)** | | | | | | | | |
| Revenue from investment properties | 2,230,758 | 1,697,012 | 1,429,120 | 1,418,613 | 1,475,015 | 232,312 | 142,050 | 143,439 |
| Property operating costs | 938,785 | 704,531 | 625,709 | 584,236 | 611,400 | 129,037 | 60,952 | 67,787 |
| Net operating income | 1,291,973 | 992,481 | 803,411 | 834,377 | 863,615 | 103,275 | 81,098 | 75,652 |
| Net income (loss) | 1,537,830 | 60,314 | 2,529,368 | 1,990,600 | 4,759,477 | (379,794) | (209,968) | (259,219) |
| Cash provided by (used in) operating activities | 579,834 | 504,522 | 224,915 | (24,687) | (483,837) | 403,026 | 85,815 | (409,815) |
| FFO | (138,606) | (17,232) | 250,315 | 98,580 | 290,104 | (271,727) | (209,968) | (259,344) |
| Per unit | (0.0089) | (0.0011) | 0.0161 | 0.0064 | 0.0187 | (0.0876) | (0.1027) | (0.1308) |
| AFFO | 55,717 | 317,313 | 192,154 | (61,289) | 120,184 | (285,666) | (218,491) | (267,950) |
| Per Unit | 0.0036 | 0.0204 | 0.0124 | (0.0039) | 0.0077 | (0.0921) | (0.1068) | (0.1351) |
| Total distributions(1) | 237,469 | 237,469 | 237,469 | 237,469 | 238,132 | 14,858 | n/a | n/a |
| Per unit - basic and diluted | 0.0153 | 0.0153 | 0.0153 | 0.0153 | 0.0153 | 0.0100 | n/a | n/a |
| Distributions as percentage of AFFO (Payout ratio) | 426% | 75% | 124% | n/a | 198% | n/a | n/a | n/a |
| Total assets | 75,705,892 | 63,709,964 | 56,733,443 | 53,043,001 | 49,438,980 | 46,455,851 | 5,015,939 | 4,677,292 |
| Total mortgages payable | 42,689,621 | 32,398,102 | 25,687,323 | 22,612,479 | 18,659,422 | 18,874,856 | 2,017,630 | 2,088,316 |
| **Other Data** | | | | | | | | |
| Debt to Gross Book Value | 56.4% | 50.9% | 45.3% | 42.6% | 37.7% | 40.6% | 40.2% | 44.6% |
| Number of Properties | 11 | 8 | 7 | 6 | 6 | 6 | 1 | 1 |
| Gross Leaseable Area (sq. ft.) | 256,300 | 210,000 | 189,200 | 170,200 | 170,200 | 15,600 | 15,600 | 15,600 |
| Occupancy | 96.0% | 96.3% | 96.3% | 96.8% | 96.0% | 96.2% | 100.0% | 100.0% |
| Weighted average units o/s | 15,520,847 | 15,520,847 | 15,520,847 | 15,520,847 | 15,520,847 | 3,102,995 | 2,045,139 | 1,983,380 |

(1) Includes distributions on Class B LP units

*Net Operating Income*

Net operating income reflected seasonal variation from the first quarter through the fourth quarter of 2011. Fourth quarter net operating income increased from the previous quarters as a consequence of the addition of the two properties on September 26, 2011 and December 6, 2011. The first quarter 2012 benefited from the addition of a three building portfolio on January 6, 2012.

*Net income*

Net income was significantly impacted by changes in fair values of investment properties and other fair value adjustments. The fair values of investment properties increased as a consequence of declining capitalization rates throughout 2011 and into the first quarter of 2012. The other fair value adjustments relate to various unit-based liabilities which declined due to a fall in the market price of the REITôs units during 2011.
Net income in the first quarter of 2012 was negatively affected by the $373,000 of costs incurred in respect of the Strategic Transaction.

*Cash provided by (used in) operating activities*

In 2011, cash from operations swung from a deficit in the first quarter to a surplus in the fourth quarter. This was a result of income before fair value adjustments increasing with the effect of the newly acquired properties in the third and fourth quarter of 2011 and a significant pay-down of net liabilities in the first quarter of 2011. Cash from operations continued to grow in the first quarter of 2012, reflecting acquisitions completed early in the first quarter of 2012. Cash from operations was negatively affected by the Strategic Transaction costs incurred in the first quarter of 2012.

*AFFO*

AFFO and AFFO per unit increased throughout fiscal 2011. This reflected a decline in general and administration expense, after adjusting for non-cash unit-based compensation expense, and the impact of the step-up in rents imbedded in certain leases. The fourth quarter was positively effected by the properties acquired in the third quarter and late in the fourth quarter.

AFFO and AFFO per unit declined in the first quarter of 2012 to $ 55,717 or $0.004 per unit from $317,313 or $0.020 in the fourth quarter of 2011. After adjusting for the effect of the Strategic Transaction costs of $373,000, the revised AFFO would be $428,717 or $0.028 per unit in the first quarter of 2012. The improvement in the revised AFFO in the first quarter of 2012 over the fourth quarter of 2011 was attributable to the addition of one property in December 2011 and three properties on January 6, 2012.

*Pay-out ratio*

Distributions as a percentage of AFFO (the ñpay-out ratioò) improved in accordance with the improvement in AFFO. The pay-out ratio steadily declined in fiscal 2011 from 198% in the first quarter to 75% in the fourth quarter.

The pay-out ratio deteriorated in the first quarter of 2012 as a consequence of the Strategic Transaction costs. Excluding the effect of the Strategic Transaction costs, the pay-out ratio improved to 55%.

*Debt to Gross Book Value*

Debt to gross book value increased from 37.7% in the first quarter of 2011 to 50.9% in the fourth quarter. This reflected the growth in the portfolio of investment properties, both through gains in fair value and the addition of new properties in the third and fourth quarter of fiscal 2011. The increase in the asset base was offset by the refinancing of mortgages in the second quarter, additional first mortgage financing assumed with the acquisitions and the draw down on the acquisition facility to fund the acquisitions.

The first quarter of 2012 say the debt to gross book value increase to 56.4%. This was primarily a result of the vendor-take-back financing on the three property portfolio on January 6, 2012 which had a higher leverage ratio than the REITôs previous acquisitions.

*Gross Leaseable Area*

Gross leaseable area increased in fiscal 2011 with the completion of construction on 89 Dawson Rd., Guelph and the purchase of buildings in the third and fourth quarters. This continued with the acquisition of the three building portfolio in the first quarter of 2012.

*Occupancy*

Occupancy levels remained above 96% throughout fiscal 2011 and the first quarter of 2012. This reflects a stable tenant base with minimal movement and the acquisition of buildings with high occupancy levels.

## FUNDS FROM OPERATIONS

A reconciliation of net income, as determined under IFRS, to FFO and AFFO is as follows:

| | Three months ended March 31, 2012 (Unaudited) | Three months ended March 31, 2011 (Unaudited) |
|---|---|---|
| **Net income (loss)** | $ 1,537,830 | $ 4,759,477 |
| Add back / (Deduct) | | |
| Finance cost[1] | 10,136 | 10,165 |
| Fair value (gain) loss on investment properties[1] | (1,202,901) | (3,442,260) |
| Other fair value (gains) | (483,671) | (1,037,278) |
| **Funds From Operations (FFO)** | **(138,606)** | **290,104** |
| FFO per unit - basic and fully diluted[2][3] | (0.009) | 0.019 |
| FFO per unit - basic and fully diluted[2][3][6] - Excluding impact of Strategic Transaction Costs | 0.015 | 0.019 |
| Add back / (Deduct) | | |
| Amortization of straight-line rent | 12,901 | (81,419) |
| Amortization of leasing costs and tenant inducements | 4,017 | - |
| Amortization of deferred financing charges | 13,250 | - |
| Unit-based compensation expense | 298,000 | - |
| Reserve for stabilized capital expenditures[4] | (44,615) | (29,500) |
| Reserve for stabilized leasing commissions and tenant inducements[5] | (89,230) | (59,001) |
| **Adjusted Funds From Operations (AFFO)** | **$ 55,717** | **$ 120,184** |
| AFFO per unit - basic and fully diluted[2][3] | $ 0.004 | $ 0.008 |
| AFFO per unit - basic and fully diluted[2][3][6] - Excluding impact of Strategic Transaction Costs | $ 0.028 | $ 0.008 |
| Weighted average units outstanding for the period: | | |
| Basic and diluted [2][3] | 15,520,847 | 15,520,847 |

(1) Under IFRS, the distributions on the REIT's Class B LP units (Finance Cost), the fair value changes related to these units, the fair value of the warrant liability, the fair value of the incentive unit options, the fair value of the Deferred Unit Plan and the fair value changes related to the 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.

(2) Under IFRS, the REIT's Class B LP units are treated as a financial liability rather than equity. As permitted under IFRS, the REIT has chosen to present an adjusted basic and diluted earnings per share unit measure that includes the Class B LP units in basic and diluted units outstanding/weighted average units outstanding. As a result, the adjusted basic and diluted units outstanding and the adjusted basic and diluted weighted average units outstanding include 662,500 outstanding Class B LP units for the three and six months ended June 30, 2011.

(3) Weighted average basic and fully diluted units outstanding, including the Class B LP units.

(4) Based on an estimate of 2.0% of property revenue

(5) Based on an estimate of 4.0% of property revenue

(6) Costs incurred in connection with the Strategic Transaction for the three months ended March 31, 2012 and 2011 were $373,000 and $nil respectively.

*Funds From Operations ("FFO")*

Funds from operations (ñFFOò) were a negative $138,606 in the three months ended March 31, 2012 versus a positive $290,104 in the comparable period in 2011. Excluding costs associated with the Strategic Transaction of $373,000, FFO was $234,394 for the first quarter of 2012 ($290,104 in the first quarter of 2011).

*Adjusted Funds From Operations ("AFFO")*

Adjusted funds from operations (ñAFFOò) for the three months ended March 31, 2012 was $55,717 or $0.004 per unit compared to $120,184 or $0.008 per unit for the three months ended March 31, 2011.

Excluding costs associated with the Strategic Transaction of $373,000, AFFO was $428,717 or $0.028 per unit for the three months ended March 31, 2012 ($201,603 or $0.013 per unit for 2011). The increase in AFFO in the first quarter of 2012 reflects the acquisition of five additional properties since the first quarter of 2011.

## LIQUIDITY AND CAPITAL RESOURCES

| Cash Resources and Liquidity | March 31, 2012 | December 31, 2011 |
|---|---|---|
| Cash | $ 1,290,908 | $ 1,700,067 |
| Unused operating credit facility | - | 1,000,000 |
| | $ 1,290,908 | $ 2,700,067 |

On the assumption that occupancy levels remain strong and that the REIT will be able to obtain financing on reasonable terms, the REIT anticipates meeting all current and future obligations as they come due. Management expects to finance future acquisitions from: (i) existing cash balances and (ii) a mix of mortgage debt secured by investment properties, bridge facilities, operating facilities, issuance of equity and convertible/unsecured debentures. Cash flow generated from operating activities is the source of liquidity to service debt (except maturing debt), sustain capital expenditures, leasing costs and unit distributions.

The REIT established a revolving credit facility agreement (the ñCredit Facilityò) in April 2011 in the amount of $5,655,000 to be drawn on by the REIT for property acquisitions and working capital. Of that Credit Facility, $1.0 million may be used for working capital.

***Changes in cash and cash equivalents***

Liquidity risk arises from the REITôs financial obligations and in the management of its assets, liabilities and capital structure. This risk is managed by regularly evaluating the liquid financial resources to fund current and long-term obligations and to meet the REITôs capital commitments in a cost- effective manner. 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 conventional mortgage debt secured by income producing properties and its revolving credit facility; and (iii) to the extent possible, the issuance of new equity.

The REITôs contractual financial commitments consist of mortgage obligations and general and administrative (overhead) expenses, which the REIT expects to be able to finance through working capital and cash flows from operating activities.

The following table sets out the REITôs 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 | $ - |

The REIT intends to distribute a high percentage (up to approximately 90%) of its AFFO to Unitholders. As such, the REIT will not retain a material amount of operating cash flow to finance other capital requirements, such as acquisitions and significant capital expenditures. Instead, the REIT intends to finance such initiatives through the issuance of additional equity or debt securities. From time to time, the REIT may also consider other financing initiatives, such as the refinancing of mortgages on existing properties, the entering into of a senior credit facility and/or the adoption of a distribution reinvestment plan.

| | Three months ended March 31, 2012 | Three months ended March 31, 2011 |
|---|---|---|
| | (unaudited) | (unaudited) |
| **Cash provided by / (used in):** | | |
| Operating activities | $ 579,834 | $ (476,417) |
| Investing activities | (3,255,829) | 195,700 |
| Financing activities | 2,266,836 | (389,268) |
| **Net increase (decrease) 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 REIT owned six properties throughout the first quarter of 2011. The REIT subsequently acquired an additional two properties in the fourth quarter of 2011 and three properties in the first quarter of 2012. Accordingly, cash from operations for the first quarter of 2012 reflects the results of eleven properties while cash from operations for the first quarter of 2011 reflects six properties.

### *Operating activities*

Net cash provided by operations increased by $1,056,251 to $579,834 in the three months ended March 31, 2012 from net cash used in operations of $476,417 in the three months ended March 31, 2011. The increase in cash provided from operations reflected the addition of two additional properties in September and December 2011 and three buildings in early January, 2012, partially offset by the increase in interest paid to fund the acquisitions. The increase was also affected by the swing from a net reduction in non-cash working capital balances in 2011 compared to an increase in non-cash working capital balances in 2012.

For the three months ended March 31, 2012, income (loss) before fair value adjustments was a loss of $148,742 versus income of $279,939 for the three months ended March 31, 2011. After adjusting for the Strategic Transaction costs of $373,000, net income before fair value adjustments for the three months ended March 31, 2012 would have been $244,258.

The increase in net operating income as a consequence of the growth in the investment property portfolio throughout 2011 and early 2012 was offset by the transaction costs of $421,796 incurred in the first quarter of 2012. Cash provided by operations, before changes in non-cash working capital balances, increased to $694,742 in the three months ended March 31, 2012 compared with $529,495 in the prior comparable period. An increase in non-cash working capital of $368,200 resulted in cash provided by operations totaling $1,062,942 for the three months ended March 31, 2012. A reduction in non-cash working capital of $766,521 reduced cash provided by operations to a negative $237,026 in the three months ended March 31 2011.

### *Investing activities*

For the three months ended March 31, 2012 the REIT invested $3,255,829 to acquire investment properties and make additions thereto. The REIT made no similar investments in properties in the same period in March 31, 2011. The REIT did redeem a portion of an investment certificate in the three months ended March 31, 2011, providing an additional $195,700 of cash.

The REIT invested a net $3,240,632 to acquire three properties in the three months ended March 31, 2012. No acquisitions were made in the three months ended March 31, 2011.

### *Financing activities*

For the three months ended March 31, 2012, cash was provided by financing activities totaling $2,266,836 compared to cash used in financing activities totaling $389,268 in the three months ended March 31, 2011. Greater funds were used in the first quarter of 2012 versus 2011 on scheduled principle repayments on mortgages as a consequence of acquisitions throughout 2011 and the first quarter of 2012.

The REIT drew down $2,155,000 on its Credit Facility to fund the acquisition of the three property portfolio in January 2012. The REIT also generated $843,000 of additional funds on the refinancing of the Orillia property in March of 2012.

### *Capital Structure*

The REIT, as is common in the real estate industry, considers its capitalization to consist of debt and equity capital. The REIT actively manages both its debt and equity capital with the objective of ensuring that the REIT can continue to grow and operate its business.

The REIT monitors its debt regularly for compliance with debt covenants contained in its loan agreements. At the date of this MD&A, the REIT is in compliance with all of its loan covenants.

The following table shows the REITôs total capital as at March 31, 2012 and March 31, 2011.

| **Capital Structure** | **March 31, 2012** | **December 31, 2011** |
|---|---|---|
| Mortgages and loans payable | 42,689,621 | $ 32,398,102 |
| Unit-based compensation liability | 101,944 | 108,099 |
| Warrant liability | 1,978,752 | 2,474,543 |
| Class B LP unit liability | 967,250 | 960,625 |
| Deferred Unit Plan liability | 597,167 | 287,517 |
| Unitholders Equity | 27,366,583 | 26,056,087 |
| **Total Capitalization** | **$ 73,701,317** | **$ 62,284,973** |

### *Mortgages and Loans Payable*

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

| Year | Principal payments | Balance maturing | Total | Weighted average interest rate on maturing mortgages | % of total maturing mortgages |
|---|---|---|---|---|---|
| Fixed Rate Mortgages and Loans | | | | | |
| 2012 | $ 714,558 | $ 7,839,788 | $ 8,554,345 | 5.17% | 24.5% |
| 2013 | 712,512 | $ 1,481,414 | 2,193,926 | 5.58% | 4.6% |
| 2014 | 730,273 | - | 730,273 | | |
| 2015 | 636,198 | 2,654,313 | 3,290,511 | 6.10% | 8.3% |
| 2016 | 305,460 | 19,960,963 | 20,266,423 | 4.78% | 62.5% |
| 2017 | | | | | |
| | $ 3,099,001 | $ 31,936,477 | $ 35,035,478 | 5.04% | 100.0% |
| Floating Rate Mortgages and Loans | | | | | |
| 2012 | | | 2,330,000 | Prime + 3% | |
| 2013 | | | 5,455,000 | Prime + 2% | |
| | | | $ 42,820,478 | | |

Mortgages Assumed and Vendor Financing

In the first quarter of 2012, the REIT assumed additional mortgages of $4,396,827 and received vendor-take-back financing of an additional $3,357,000 to fund the acquisition of the three property portfolio. The balance of funding came from an additional draw on the Credit Facility.

Acquisition and Working Capital Facility (the ñCredit Facilityò)

In April 2011, the REIT entered into a revolving Credit Facility agreement 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 lenderõs prime rate plus 200 basis points. The Credit Facility has an initial two-year term and is secured by a first ranking mortgage on the property located at 89 Dawson Road, in Guelph, Ontario. In the first quarter of 2012, the REIT drew down $2,155,000 on the Credit Facility to fund the acquisition of the three property portfolio.

Refinancing

As part of the Refinancing described above the REIT entered into a new mortgage on the Whitby property. It established a floating rate, second mortgage which matures in August 2012, co-terminus with the maturity of the existing first mortgage on Whitby. The mortgage commitment provides for a new first mortgage to be created at that time to payout the existing first mortgage, consolidate the second mortgage and provide additional funds. The new first mortgage will total $6,955,000, with a five year term and a fixed rate of interest.

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%.

### *Equity*

As of the date of this MD&A, the REIT had issued and outstanding 14,858,347 Units, 662,500 Class B LP units, 164,000 incentive options, 409,018 Deferred Unit Plan (DUP) units and 6,718,750 warrants. The REIT issued 210,731 DUP units during the three months ended March 31, 2012 in respect of Trusteesô fees and performance bonuses for certain officers for 2011 and 2012.

### Off Balance Sheet Arrangements

As at March 31, 2012, the Company had no off-balance sheet arrangements.

### Financial Instruments

Estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act.

The REIT uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value of financial instruments. The classifications are as follows: the use of quoted market prices for identical assets or liabilities (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3). The Company had no Level 3 financial instruments at December 31, 2011 and there have been no transfers between levels.

## RELATED PARTY TRANSACTIONS

(a) On December 24, 2010, the REIT completed the acquisition of a portfolio of five medical office buildings (the ñAcquired Propertiesò) 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 ñRe-Adjustment Dateò) 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) A Head Lease was entered into between GT Canada Operating Partnership (I) L.P. (the ñOperating Partnershipò), 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 ñBuilding Head Leaseò), and a portion of the property comprising and intended for use as parking facilities serving the building (The ñLot Head Leaseò). 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 (ñCMDò) 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 terminations 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 terminating the property management agreement.

During the three months ended March 31, 2012 and March 31, 2011, the REIT was charged $75,251 and $57,000 respectively, 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 (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.

## PART V – RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the Units and in the activities of the REIT which current and prospective Unitholders should carefully consider. Additional information about these and other risks and uncertainties and any corresponding plan to mitigate these risks, where possible, is contained in the REITôs filings with securities regulators, including the REITôs most recent audited consolidated financial statements, which are available on SEDAR.

## PART VI – CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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.

*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 REITôs 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.