

Consolidated Financial Statements
(In Canadian dollars)

**NORTHWEST HEALTHCARE
PROPERTIES REAL ESTATE
INVESTMENT TRUST**

Years ended December 31, 2013 and 2012



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INDEPENDENT AUDITORS' REPORT

To the Unitholders of NorthWest Healthcare
Properties Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of NorthWest Healthcare Properties Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2013 and 2012, the consolidated statements of income and comprehensive income, unitholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of NorthWest Healthcare Properties Real Estate Investment Trust as at December 31, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

March 4, 2014
Toronto, Canada

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(In thousands of Canadian dollars, except per unit amounts)

December 31, 2013 and 2012

	2013	2012
Assets		
Investment properties (note 4)	\$ 1,286,843	\$ 1,244,875
Goodwill (note 5)	4,458	4,458
Loan receivable (note 6)	8,000	8,000
Accounts receivable (note 7)	7,448	3,059
Other assets (note 8)	6,163	16,721
Restricted cash (note 9)	175	175
Cash and cash equivalents (note 10)	1,905	4,189
Total assets	\$ 1,314,992	\$ 1,281,477

Liabilities and Unitholders' Equity

Liabilities:

Mortgages payable (note 11)	\$ 647,912	\$ 626,426
Convertible debentures (note 12)	40,250	–
Loans payable (note 13)	10,467	34,796
Class B exchangeable units (note 14)	78,838	95,042
Other financial instruments	–	1,047
Accounts payable and accrued liabilities	26,295	21,820
Distributions payable	2,586	2,567
Total liabilities	806,348	781,698
Unitholders' equity (note 15)	508,644	499,779
Commitments and contingencies (notes 19 and 22)		
Total liabilities and unitholders' equity	\$ 1,314,992	\$ 1,281,477

See accompanying notes to consolidated financial statements.

The consolidated financial statements were approved
by the Board on March 4, 2014 and signed on
its behalf by:

"Michael Knowlton" _____ Trustee

"Peter Riggan" _____ Trustee

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Income and Comprehensive Income
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

	2013	2012
Revenue from operations (note 19)	\$ 150,110	\$ 134,458
Property operating expenses (note 19)	68,589	60,826
Property operating income	81,521	73,632
Finance cost (note 21)	34,075	28,424
Interest income	(816)	(2,002)
Trust expenses	3,642	3,587
Income before Class B exchangeable unit costs, fair value adjustments and net loss on disposal of investment property	44,620	43,623
Finance income (cost):		
Class B exchangeable unit distributions (note 21)	(6,050)	(6,093)
Fair value adjustment of Class B exchangeable units (notes 14 and 21)	15,381	(7,539)
Fair value adjustment of other financial instruments (note 11)	2,819	(1,047)
Fair value adjustment of investment properties (note 4)	(20,177)	63,549
Net loss on disposal of investment property	(73)	–
Net income and comprehensive income	\$ 36,520	\$ 92,493

See accompanying notes to consolidated financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Unitholders' Equity
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

2013	Unit capital	Retained earnings (deficit)	Total
Unitholders' equity, January 1, 2013	\$ 395,625	\$ 104,154	\$ 499,779
Conversion of Class B exchangeable units	823	–	823
Total net income and comprehensive income	–	36,520	36,520
Distributions	–	(30,933)	(30,933)
Distribution reinvestment plan (note 15(b))	2,455	–	2,455
Unitholders' equity, December 31, 2013	\$ 398,903	\$ 109,741	\$ 508,644

2012	Unit capital	Retained earnings (deficit)	Total
Unitholders' equity, January 1, 2012	\$ 355,467	\$ 40,794	\$ 396,261
Units issued, net of costs (note 15(a))	37,747	–	37,747
Total net income and comprehensive income	–	92,493	92,493
Distributions	–	(29,133)	(29,133)
Distribution reinvestment plan (note 15(b))	2,411	–	2,411
Unitholders' equity, December 31, 2012	\$ 395,625	\$ 104,154	\$ 499,779

Distributions per unit during the year ended December 31, 2013 were \$0.80 (2012 - \$0.80).

See accompanying notes to consolidated financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Net income	\$ 36,520	\$ 92,493
Adjustments for:		
Finance cost (note 21)	21,925	43,103
Interest income	(816)	(2,002)
Fair value adjustment of investment properties	20,177	(63,549)
Net loss on disposal of investment property	73	–
Change in non-cash operating items (note 23)	(1,445)	1,576
Cash generated from operating activities	76,434	71,621
Interest paid	(32,570)	(29,032)
Interest paid - Class B exchangeable units	(6,055)	(6,093)
Interest received	816	2,017
Net cash from operating activities	38,625	38,513
Investing activities:		
Acquisition of investment properties (note 3)	(26,045)	(91,163)
Additions to investment properties (note 4)	(25,992)	(19,063)
Proceeds on disposal of investment property	962	–
Notes and loan receivable advance	–	(41,300)
Notes and loan receivable repayments	–	11,300
Acquisition of securities	–	(11,848)
Proceeds on securities	11,601	247
Deposits on investment properties under contract	320	1,530
Net cash used in investing activities	(39,154)	(150,297)
Financing activities:		
Proceeds from issuance of units, net of issue costs	–	37,747
Distributions	(28,459)	(26,504)
Mortgage advances	131,848	141,855
Repayment of mortgages	(118,581)	(56,039)
Repayment of loans payable	(11,055)	(386)
Proceeds from issuance of convertible debentures, net of issue costs	38,158	–
Secured credit facility advances	73,500	131,500
Secured credit facility repayments	(86,250)	(114,750)
Transaction costs	(916)	(1,166)
Net cash from (used in) financing activities	(1,755)	112,257
Increase (decrease) in cash and cash equivalents	(2,284)	473
Cash and cash equivalents, beginning of year (note 10)	4,189	3,716
Cash and cash equivalents, end of year (note 10)	\$ 1,905	\$ 4,189

See accompanying notes to consolidated financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

NorthWest Healthcare Properties Real Estate Investment Trust (the "REIT") is a Canadian unincorporated open-ended real estate investment trust created pursuant to the Declaration of Trust dated January 1, 2010, as amended on March 25, 2010. The REIT invests primarily in real properties operated as medical offices in Canada. The registered office of the REIT is 284 King Street East, Suite 100, Toronto, Ontario, M5A 1K4.

At December 31, 2013, NorthWest Operating Trust ("NW Trust") and its affiliates controlled approximately 25.7% of the REIT through a combination of REIT units, Class B exchangeable units of NHP Holdings Limited Partnership ("NHP") and 100% of the special voting units of the REIT, which are attached to the Class B exchangeable units of NHP, a subsidiary of the REIT.

1. Basis of preparation:

(a) Statement of compliance:

The consolidated financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties, convertible debentures, derivative financial instruments and the Class B exchangeable units, which are stated at fair value.

The consolidated financial statements are presented in thousands of Canadian dollars, except for per unit amounts. The Canadian dollar is the REIT's functional currency.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

1. Basis of preparation (continued):

(c) Significant judgments and key estimates:

The following are significant judgments and key estimates that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the years:

(i) Leases (the REIT as lessor):

The REIT uses judgment in assessing the classification of its leases with tenants as operating leases, in particular with long-term leases in single tenant properties. The REIT has determined that all its leases are operating leases.

(ii) Property valuations:

Investment properties, which are carried on the consolidated balance sheets at fair value, are valued by qualified external valuation professionals or management.

The valuations are based on a number of assumptions, such as appropriate discount and capitalization rates and estimates of future rental income, operating expenses and capital expenditures. The valuation of investment properties is one of the principal estimates and uncertainties of the REIT. Refer to note 4 for further information on estimates and assumptions made in the determination of the fair value of investment properties.

(iii) Accounting for acquisitions:

Management must assess whether the acquisition of a property should be accounted for as an asset purchase or business combination. This assessment impacts the treatment of transaction costs, the acquisition accounting and whether or not goodwill is recognized. The REIT's acquisitions are generally determined to be asset purchases as the REIT does not acquire an integrated set of processes as part of the transaction.

(iv) Goodwill:

Estimates are used when testing goodwill for impairment. Refer to note 5 for further information on estimates and assumptions made when testing goodwill for impairment.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

1. Basis of preparation (continued):

(v) Income taxes:

The REIT is a mutual fund trust and a real estate investment trust pursuant to the Income Tax Act (Canada). Under current tax legislation, a real estate investment trust is not liable to pay Canadian income tax provided that its taxable income is fully distributed to unitholders each year. The REIT is a real estate investment trust if it meets prescribed conditions under the Income Tax Act (Canada) relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the REIT Conditions and has assessed their interpretation and application to the REIT's assets and revenue, and it has determined that it qualifies as a real estate investment trust for the year.

The REIT expects to continue to qualify as a real estate investment trust under the Income Tax Act (Canada); however, should it no longer qualify, it would not be able to flow through its taxable income to unitholders and the REIT would, therefore, be subject to tax.

2. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the REIT and its consolidated subsidiaries which are the entities over which the REIT has control. Control exists when an investor is exposed or has the right to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the REIT obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the REIT, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and distributions are eliminated in full.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

2. Significant accounting policies (continued):

(b) Investment properties:

Investment properties include medical office properties that are held to earn rental income. They are recognized initially at cost and, subsequently, at fair value, with changes in fair value recognized in the consolidated statements of income and comprehensive income in the year in which they arise.

Subsequent capital expenditures are added to the carrying value of investment properties only when it is probable that future economic benefits of the expenditure will flow to the REIT and the cost can be measured reliably.

Leasing costs incurred by the REIT that are incremental and directly attributable to negotiating and arranging tenant leases are added to the carrying value of investment properties.

(c) Goodwill:

The REIT measures goodwill arising in a business combination at the acquisition date as the fair value of the consideration transferred less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Where the fair value of net assets acquired in a business combination exceeds the consideration transferred, the excess, known as bargain purchase gain, is recognized immediately in the consolidated statements of income and comprehensive income.

For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the group of assets or cash-generating units ("CGUs") that are expected to benefit from the synergies of the combination. This allocation reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

2. Significant accounting policies (continued):

Goodwill is reviewed for impairment at least annually, and the recoverable amount of the CGU (or group of CGUs) containing goodwill is estimated each year at the same time. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognized if the carrying amount of the CGU exceeds its estimated recoverable amount. Any impairment loss is recognized immediately in the consolidated statements of income and comprehensive income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis. An impairment loss is not subsequently reversed.

(d) Cash and cash equivalents:

Cash and cash equivalents include unrestricted cash and short-term investments. Short-term investments, comprising money market instruments, have a maturity of 90 days or less at their date of purchase and are stated at cost, which approximates fair value.

(e) Revenue recognition:

(i) Revenue from investment properties:

Revenue from investment properties includes base rent, realty tax and operating cost recoveries, parking and other incidental income. Base rent is recognized over the lease term. Realty tax and operating cost recoveries are recognized in the year in which the recoverable costs are charged to the tenant. Parking and other incidental income are recognized at the time the service is provided.

As a lessor, the REIT has retained the risks and benefits of its investment properties and assessed its leases with tenants as operating leases.

Certain leases call for rental payments that vary significantly over their term due to changes in rates or rent inducements granted to tenants. The rental revenue from these leases is recognized on a straight-line basis, resulting in accruals for rent that are not billable or due until future years. These straight-line rent amounts are presented as accrued rent receivable and form a component of investment property.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

2. Significant accounting policies (continued):

(ii) Management fees:

Property management fees are recognized at the time the service is provided.

(f) Leasing costs:

Payments to tenants under lease contracts are characterized as either tenant improvements, which enhance the value of the property, or lease inducements. When the obligation is determined to be a tenant improvement, the REIT is considered to have acquired an asset. Accordingly, the tenant improvements are capitalized as part of investment property. When the obligation is determined to be a lease inducement, the amount is recognized as an asset, which forms a component of investment property and is amortized over the term of the lease as a reduction of revenue.

(g) Compensation expense:

Compensation expense obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or deferred unit plan.

(h) Unit-based compensation:

The REIT has a deferred unit plan, which provides holders with the right to receive REIT units which are puttable. The REIT estimates the fair value of the deferred units at the service commencement date. The unit-based compensation expense is amortized over the vesting year commencing on the service commencement date. The awards are fair-valued on the basis of the unit price at each reporting year and the change in fair value of the amortized unit-based compensation expense is recognized as unit-based compensation expense.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

2. Significant accounting policies (continued):

(i) Income taxes:

The REIT is a mutual fund trust and a real estate investment trust pursuant to the Income Tax Act (Canada). Under current tax legislation, a real estate investment trust is not liable to pay Canadian income tax provided that its taxable income is fully distributed to unitholders each year. The REIT intends to continue to qualify as a real estate investment trust and to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes. Accordingly, no current or deferred income taxes have been recognized in the consolidated financial statements.

The REIT's corporate subsidiaries are subject to tax on their taxable income. Income taxes for corporate subsidiaries are accounted for using the asset and liability method, whereby deferred income tax assets and liabilities are determined based on the differences between the carrying amount of the balance sheet items and their corresponding tax values. Income taxes are computed using enacted and substantively enacted corporate income tax rates for the years in which tax and accounting basis differences are expected to reverse. Adjustments to these balances are recognized in income as they occur.

(j) Class B exchangeable units:

The Class B exchangeable units of a subsidiary of the REIT are exchangeable into REIT units at the option of the holder. In accordance with International Accounting Standard ("IAS") 32, Financial Instruments: Presentation, the Class B exchangeable units are considered puttable instruments and are required to be classified as financial liabilities. Further, the Class B exchangeable units are classified as fair value through profit or loss ("FVTPL") financial liabilities and are measured at fair value each reporting year with any changes in fair value recognized in the consolidated statements of income and comprehensive income as finance cost. The distributions paid on the Class B exchangeable units are accounted for as a finance cost (note 21).

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

2. Significant accounting policies (continued):

(k) Financial instruments:

Financial instruments are classified as one of the following: (i) FVTPL, (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale, or (v) other liabilities. Financial instruments are recognized initially at fair value. Financial assets and liabilities classified at FVTPL are subsequently measured at fair value with gains and losses recognized in the consolidated statements of income and comprehensive income. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income and presented in the fair value reserve in equity.

The REIT designated its restricted cash, cash and cash equivalents, loan receivable, accounts receivable, mortgage escrow, deposits on investment properties under contract and other deposits as loans and receivables; and mortgages payable, loans payable, accounts payable and accrued liabilities and distributions payable as other liabilities. The convertible debentures and Class B exchangeable units are classified as FVTPL. Government bonds and cash pledged pursuant to a mortgage defeasance agreement are classified as held-to-maturity investments. The REIT has no available-for-sale instruments.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, other than financial assets and liabilities measured at FVTPL, are accounted for as part of the carrying amount of the respective asset or liability at inception.

Transaction costs on financial assets and liabilities measured at FVTPL are expensed in the year incurred.

Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

2. Significant accounting policies (continued):

(l) Derivative financial instruments and hedging activities:

The REIT may use derivative financial instruments to manage risks from fluctuations in interest rates.

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and, if so, the nature of the item being hedged.

The REIT has not designated any derivative financial instrument as a hedging instrument. However, the REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on certain variable rate mortgages. Gains or losses arising from the change in fair values of the interest rate swap contracts are recognized in the consolidated statements of income and comprehensive income.

(m) Unit capital:

The REIT's units are considered liability instruments under IFRS because of the features inherent in the open-ended trust structure. However, the units are the most subordinate class of units and, therefore, may be presented as equity under IFRS. External costs directly attributable to the issue of new units are shown in unitholders' equity as a deduction from the proceeds.

(n) Convertible debentures:

Convertible debentures are convertible into the REIT's units at the option of the holder. As the REIT's units are considered liability instruments under IFRS, the convertible debentures are considered a liability containing liability-classified embedded derivatives. The REIT has designated convertible debentures as FVTPL.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

2. Significant accounting policies (continued):

The convertible debentures are measured at fair value each reporting period with any changes in fair value recognized in the consolidated statements of income and comprehensive income as finance cost. The interest on the convertible debentures is accounted for as a finance cost (note 21).

(o) Changes in accounting standards:

- (i) The REIT has adopted IFRS 10, Consolidated Financial Statements ("IFRS 10"), in its consolidated financial statements for the year ended December 31, 2013. IFRS 10 replaces the guidance in IAS 27, Consolidated and Separate Financial Statements, and Standing Interpretation Committee 12, Consolidation - Special Purpose Entities. IFRS 10 provides a single control model on consolidation based on control, which exists when an investor is exposed or has the right to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee. IFRS 10 also provides guidance on how to evaluate power and requires that control be assessed as facts and circumstances change. The REIT has assessed its consolidation conclusions on December 31, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of its consolidated entities. The adoption of IFRS 10 did not have a material impact on the REIT's consolidated financial statements.
- (ii) The REIT has adopted IFRS 13, Fair Value Measurements ("IFRS 13"), prospectively in its consolidated financial statements for the year ended December 31, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. The standard also requires disclosures which enable users to assess the methods and inputs used to develop fair value measurements. The adoption of IFRS 13 resulted in additional disclosure of the REIT's various methods in estimating the fair values of assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the consolidated balance sheets.
- (iii) The REIT has adopted the amendments to IFRS 7, Financial Instruments - Disclosures, in its consolidated financial statements for the years ended December 31, 2013 and 2012. The adoption of the amendments did not have a material impact on the REIT's consolidated financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

2. Significant accounting policies (continued):

- (iv) In June 2011, the International Accounting Standards Board published amendments to IAS 1, Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income ("IAS 1"), which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. The REIT has adopted the amendments to IAS 1 in its consolidated financial statements for the years ended December 31, 2013 and 2012. The adoption of the amendments did not have a material impact on the REIT's consolidated financial statements.
 - (v) IAS 28, Investments in Associates and Joint Ventures ("IAS 28"), which was amended in 2011, prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IFRS 11, Joint Arrangements ("IFRS 11"), establishes principles for financial reporting by parties to a joint arrangement. The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity-accounted. The REIT has adopted IFRS 11 and IAS 28 for the year ended December 31, 2013. The adoption of IFRS 11 and the amendments to IAS 28 did not have a material impact on the REIT's consolidated financial statements.
 - (vi) IFRS 12, Disclosure of Interest in Other Entities ("IFRS 12"), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. Disclosure of information that will assist financial statement users in evaluating the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements is required. The REIT has adopted IFRS 12 for the years ended December 31, 2013 and 2012. The adoption of IFRS 12 did not have a material impact on the REIT's consolidated financial statements.
- (p) Future accounting changes:
- (i) In 2011, amendments were issued to IAS 32, Financial Instruments: Presentation. These amendments are required to be applied for periods beginning on or after January 1, 2014. The REIT does not expect any significant impacts on its consolidated financial statements as a result of these amendments.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

2. Significant accounting policies (continued):

- (ii) In 2013, the IASB issued amendments to, IFRS 9, Financial Instruments ("IFRS 9"), issued in 2010, which will ultimately replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The current issuance of IFRS 9 includes the first and third phases of the project, which provide guidance on the classification and measurement of financial assets and financial liabilities and hedge accounting. The mandatory effective date of the standard has not been determined due to the incomplete status of the second phase of the project, impairment. The effective date of the entire standard will be determined closer to the completion of the remaining phase.

The REIT intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

- (iii) The REIT does not expect the amendments to IFRS 7, Disclosures - Transfers of Financial Assets, to have a material impact on the consolidated financial statements because of the nature of the REIT's operations and the types of financial assets that it holds.
- (iv) In 2013, the IASB issued IFRIC 21, "Levies" ("IFRIC 21"). The IFRIC addresses accounting for a liability to pay a levy within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"). A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of IAS 12, Income Taxes, and fines or other penalties imposed for breaches of the legislation. This interpretation becomes effective for annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. The REIT is currently assessing the impact of the new interpretation on its consolidated financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

3. Acquisitions:

(a) Acquisitions during the year ended December 31, 2013:

During the year ended December 31, 2013, the REIT's subsidiaries acquired five investment properties for net cash consideration of \$26,045. The acquisitions of the investment properties, and related assets and liabilities have been accounted for as asset purchases. The recognized amount of net assets acquired and liabilities assumed were as follows:

Assets

Investment properties	\$	35,612
Accounts receivable and other assets		69
		<hr/>
		35,681

Liabilities

Accounts payable and accrued liabilities		389
Assumed mortgages, including mark-to-market adjustment		9,247
		<hr/>
		9,636

Net assets acquired for cash	\$	26,045
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NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

3. Acquisitions (continued):

(b) Acquisitions during the year ended December 31, 2012:

During the year ended December 31, 2012, the REIT's subsidiaries acquired 19 investment properties for net cash consideration of \$121,163. The acquisitions of the investment properties, and related assets and liabilities have been accounted for as asset purchases. The recognized amount of assets acquired and liabilities assumed were as follows:

Assets

Investment properties	\$ 175,138
Accounts receivable and other assets	808
	<u>175,946</u>

Liabilities

Accounts payable and accrued liabilities	1,245
Assumed loans and mortgages, including mark-to-market adjustment	53,538
	<u>54,783</u>

Net assets acquired	<u>\$ 121,163</u>
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Consideration:

Cash	\$ 91,163
Note payable	30,000

\$ 121,163

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

4. Investment properties:

Balance, January 1, 2013	\$ 1,244,875
Acquisitions of investment properties	35,612
Additions	25,992
Disposition of investment property	(1,035)
Increase in straight-line rents	1,576
Fair value adjustment	(20,177)
Balance, December 31, 2013	\$ 1,286,843
Balance, January 1, 2012	\$ 985,384
Acquisitions of investment properties	175,138
Additions	19,063
Increase in straight-line rents	1,741
Fair value adjustment	63,549
Balance, December 31, 2012	\$ 1,244,875

The REIT determined the fair value of each investment property using the discounted cash flow method. The discounted cash flow method discounts the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows.

The key valuation assumptions as at December 31 for the REIT's commercial properties are set out in the following table:

	2013	2012
Discount rates - range	6.0% - 9.8%	6.5% - 10.0%
Discount rate - weighted average	7.7%	7.6%
Terminal capitalization rate - range	5.8% - 9.0%	6.0% - 9.3%
Terminal capitalization rate - weighted average	7.2%	7.0%

The fair values of investment properties are most sensitive to changes in discount rates and terminal capitalization rates. As at December 31, 2013, a 25-basis-point decrease in the weighted average portfolio discount rate and terminal capitalization rate would increase the value of investment property by \$51,500 (2012 - \$49,700). A 25-basis-point increase in the weighted average portfolio discount rate and terminal capitalization rate would decrease the value of investment property by \$47,800 (2012 - \$46,100).

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

4. Investment properties (continued):

The discounted cash flows reflect rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the reporting date, less future cash outflows in respect of such leases.

Commercial properties with an aggregate fair value of \$173,000 at December 31, 2013 (2012 - \$278,500) were valued by external valuation professionals with recognized and relevant professional qualifications.

5. Goodwill:

Balance, December 31, 2013 and 2012	\$ 4,458
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Healthcare Properties LP ("HPLP") is the lowest level within the entity where goodwill is monitored for internal management purposes; this is the level where all the properties and management company reside. Since goodwill cannot be allocated on a non-arbitrary basis, it has been allocated to a group of CGUs represented by the individual CGUs forming HPLP. The impairment test of goodwill at the HPLP level is based on fair value less cost-to-sell ("FVLCS").

FVLCS is based on management's determination of the business enterprise fair value of HPLP based on external sources of information that are used by the market to value the business in the real estate industry. Management has estimated its costs to sell based on market transactions for real estate transactions.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

6. Loan receivable:

	2013	2012
Loan	\$ 8,000	\$ 8,000

On December 23, 2011, the REIT funded an \$8,000 loan on a recently constructed property owned by a joint venture in which an affiliate of NW Trust has a 50% interest.

The loan receivable has an interest rate of 7.5% and is repayable the earlier of:

- (a) January 31, 2014; or
- (b) the date of the sale of the property.

The repayment date was subsequently extended to March 31, 2014 (note 26).

No principal amounts are due prior to maturity of the loan.

The loan is secured by a pledge of the partnership interest of the joint venture partners and guaranteed by the partners; each limited to 50% of the obligations under the loan; and is subject to a certain property value threshold determined by external valuation professionals.

Under the terms of the loan, the REIT has a right of first offer to acquire the property.

7. Accounts receivable:

	2013	2012
Tenant and other receivables	\$ 4,548	\$ 3,033
Due from NW Trust (note 18)	2,900	26
	\$ 7,448	\$ 3,059

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

8. Other assets:

	2013	2012
Prepaid expenses	\$ 2,666	\$ 2,668
Mortgage escrow	439	729
Deposits on investment properties under contract	–	320
Other deposits	759	880
Other financial instruments (note 11)	1,772	–
Investments - defeasance	–	11,601
Other	527	523
	\$ 6,163	\$ 16,721

During the year ended December 31, 2012, the REIT defeased a mortgage associated with one of its investment properties. Pursuant to the defeasance, the REIT placed \$11,838 of government bonds and cash in a securities account and pledged them as security for the loan in return for the lender releasing the mortgage on the investment property.

The government bonds were classified as held-to-maturity financial assets. The government bonds had various maturities to November 1, 2013 and were measured at amortized cost using an effective interest rate of 1.04%.

Neither the financial asset nor the loan qualified for derecognition, and as a result, both remained on the consolidated balance sheets until the mortgage matured on November 1, 2013.

The proceeds from the government bonds were used to fully repay the mortgage during the year ended December 31, 2013.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

9. Restricted cash:

Restricted cash represents an earn-out reserve, subject to meeting certain occupancy requirements, on a first mortgage on one of the REIT's properties.

10. Cash and cash equivalents:

	2013	2012
Cash at bank	\$ 1,905	\$ 4,189

Short-term deposits consist of money market instruments and have a maturity of 90 days or less at their date of purchase.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

11. Mortgages payable:

All mortgages are secured by first or second charges on specific investment properties, with a carrying value of \$1,147,092 at December 31, 2013, and are repayable as follows:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable
2014	\$ 16,131	\$ 35,324	\$ 51,455
2015	15,229	58,102	73,331
2016	14,726	114,267	128,993
2017	11,070	66,971	78,041
2018	10,306	68,812	79,118
2019	8,321	23,788	32,109
2020	7,954	36,907	44,861
2021	5,786	51,308	57,094
2022	3,968	50,264	54,232
2023	1,478	43,978	45,456
2024+	2,768	—	2,768
Face value	<u>\$ 97,737</u>	<u>\$ 549,721</u>	647,458
Mark-to-market adjustment			1,927
Unamortized financing costs			(1,473)
Carrying amount			\$ 647,912
		2013	2012
Mortgages at fixed rates - contractual amount		\$ 596,849	\$ 548,852
Mortgages at variable rates - contractual amount		50,609	75,464
Mark-to-market adjustment		1,927	3,232
Unamortized financing costs		(1,473)	(1,122)
Carrying amount		\$ 647,912	\$ 626,426
Interest rates		2.00% - 6.19%	2.00% - 6.75%
Weighted average interest rate		4.80%	4.93%

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

11. Mortgages payable (continued):

The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on \$50,609 of its variable rate mortgages payable as at December 31, 2013. Gains or losses arising from the change in fair values of the interest rate swap contracts are recognized in the consolidated statements of income and comprehensive income and during the 12 months ended December 31, 2013, the REIT recognized a fair value gain of \$2,819 (2012 - fair value loss of \$1,047) and as at December 31, 2013 has a financial instrument asset of \$1,772 (2012 - financial instrument liability of \$1,047).

12. Convertible debentures:

The REIT has designated convertible debentures as FVTPL. Fair value is determined using the market prices for these listed convertible debentures. The market price of the 5.25% convertible debentures at December 31, 2013 was \$100.00.

The REIT has the following series of convertible debentures outstanding:

	Fair value	Principal
5.25% convertible debentures	\$ 40,250	\$ 40,250

Between September 11, 2013 and September 19, 2013, the REIT issued \$40,250 principal amount of unsecured, convertible, subordinated, seven-year debentures for cash proceeds of \$38,174, net of issuance costs.

The debentures bear interest at 5.25% per annum, payable semi-annually on March 31 and September 30 each year and mature on September 30, 2020. The debentures are convertible at the debenture holder's option into fully paid REIT units at any time prior to the earlier of the maturity date and the date fixed for redemption at a conversion price of \$14.20 per unit.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

12. Convertible debentures (continued):

The debentures are not redeemable prior to September 30, 2016. On or after October 1, 2016 to, and including September 30, 2018, the debentures may be redeemed, in whole or in part, at the REIT's option, provided that the market price for the REIT unit is not less than 125% of the conversion price. On or after October 1, 2018 and prior to the maturity date, the debentures may be redeemed in whole or in part, at the REIT's option, at a price equal to the principal amount plus accrued interest.

The REIT may satisfy its obligation to repay the principal amounts of the debentures, in whole or in part, by issuing REIT units. In the event the REIT elects to satisfy its obligation to repay the principal with REIT units, it must deliver that number of REIT units equal to 95% of the market price for the unit at that time.

13. Loans payable:

	2013	2012
Secured floating rate revolving credit facility (a)	\$ 9,746	\$ 22,500
Term loan, net of mark-to-market adjustment (b)	–	11,219
Promissory notes payable	721	1,077
	<u>\$ 10,467</u>	<u>\$ 34,796</u>

(a) Secured floating rate revolving credit facility:

The REIT has a floating rate revolving credit facility of \$50,000 and a \$5,000 letter of credit facility which expires on March 25, 2016. The facility bears interest at banker's acceptance rate plus 2.00% or prime plus 1.00% and is secured by certain investment properties, with a carrying value of \$103,245 and the terms of a general security agreement. As at December 31, 2013, there was a \$10,000 outstanding balance on the credit facility (net of unamortized financing costs of \$254).

The credit facility was renegotiated, expanded and extended during the three months ended December 31, 2013. Prior to the extension, the credit facility of \$50,000 bore interest at the banker's acceptance rate plus 2.25% or prime plus 1.25% expiring on March 25, 2014. As at December 31, 2012, there was a \$22,750 outstanding balance on the credit facility (net of unamortized financing costs of \$250).

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

13. Loans payable (continued):

(b) Term loan:

In 2012, the REIT defeased a mortgage associated with one of its investment properties (note 8). Following the defeasance, the underlying term loan did not qualify for derecognition. The term loan has a contractual interest rate of 6.53% and matured on November 1, 2013 and was repaid with amounts held in trust. The balance owing as at December 31, 2013 is nil (2012 - \$11,055, excluding mark-to-market adjustment of \$164).

14. Class B exchangeable units:

Each Class B exchangeable unit of NHP, a subsidiary of the REIT, is exchangeable into one unit of the REIT. These Class B exchangeable units are economically equivalent to REIT units and are entitled only to receive distributions equal to those provided to holders of REIT units.

Class B exchangeable units outstanding:

	Units	Amount
Class B exchangeable units outstanding, January 1, 2013	7,615,546	\$ 95,042
Fair value adjustment of Class B exchangeable units	-	(15,381)
Class B exchangeable units converted to REIT units	(64,000)	(823)
Class B exchangeable units outstanding, December 31, 2013	7,551,546	\$ 78,838

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

14. Class B exchangeable units (continued):

	Units	Amount
Class B exchangeable units outstanding, January 1, 2012	7,615,546	\$ 87,503
Fair value adjustment of Class B exchangeable units	–	7,539
Class B exchangeable units outstanding, December 31, 2012	7,615,546	\$ 95,042

During the year ended December 31, 2013, the REIT recognized \$6,050 (2012 - \$6,093) of distributions declared on Class B exchangeable units as finance cost.

15. Unitholders' equity:

The REIT is authorized to issue two categories of equity: (a) REIT units of the REIT; and (b) special voting units of the REIT attached to the Class B exchangeable units of NHP, a subsidiary of the REIT.

The REIT is authorized to issue an unlimited number of REIT units without par value. Each 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 not to exceed \$50 per calendar month. 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 special voting units are only issued in tandem with Class B exchangeable units and are not transferable separately from the Class B exchangeable units to which they are attached. As Class B exchangeable units are exchanged or surrendered for REIT units, the corresponding special voting units will be cancelled for no consideration. Special voting units have no economic entitlement in the REIT, but entitle the holder to one vote per special voting unit at any meeting of the unitholders.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

15. Unitholders' equity (continued):

The REIT's Trustees have discretion in declaring distributions.

(a) Units outstanding:

	Units	Amount
Units outstanding, January 1, 2013	38,499,903	\$ 395,625
Units issued in exchange for Class B exchangeable units (note 14)	64,000	823
Distribution reinvestment plan	219,500	2,455
Units outstanding, December 31, 2013	38,783,403	\$ 398,903

	Units	Amount
Units outstanding, January 1, 2012	35,232,023	\$ 355,467
Units issued	3,070,000	37,799
Distribution reinvestment plan	197,880	2,411
Units issued	38,499,903	395,677
Less issue costs	-	52
Units outstanding, December 31, 2012	38,499,903	\$ 395,625

(b) Distribution reinvestment plan:

The REIT has established a distribution reinvestment plan for its unitholders, which allows participants to reinvest their monthly cash distributions in additional units at an effective discount of 3%.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

16. Deferred unit plan:

In order to align the interest between the Trustees and certain officers of the REIT, there may be grants of deferred units under the deferred unit plan. Under the plan, the maximum number of units authorized for issuance shall not exceed 5% of the units issued and outstanding at any given time. The deferred units vest as follows:

- 50% of the deferred units on the third anniversary of the award date;
- 25% of the deferred units on the fourth anniversary of the award date; and
- 25% of the deferred units on the fifth anniversary of the award date.

(a) Liability:

January 1, 2013	\$ 1,847
Unit-based compensation expense	802
Exercised and paid	(18)
December 31, 2013	<u>\$ 2,631</u>

January 1, 2012	\$ 743
Unit-based compensation expense	1,104
December 31, 2012	<u>\$ 1,847</u>

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

16. Deferred unit plan (continued):

(b) Units outstanding:

January 1, 2013	177,135
Granted	104,553
Exercised and paid	(1,453)
Forfeited	(8,006)
Distribution entitlement	17,650
December 31, 2013	289,879
Vested, but not issued, December 31, 2013	–
January 1, 2012	92,719
Granted	75,113
Distribution entitlement	9,303
December 31, 2012	177,135
Vested, but not issued, December 31, 2012	–

For the year ended December 31, 2013, 104,553 units were granted under the deferred unit plan at an average unit price of \$12.23. For the year ended December 31, 2012, 75,113 units were granted under the deferred unit plan at an average unit price of \$12.45.

Unit-based compensation expense is measured at the service commencement date, based on the fair market value of a REIT unit, and amortized over the vesting year. Unit-based compensation does not qualify as an equity award and is classified as a liability. The awards are fair-valued every reporting year, based on the fair market value of a REIT unit, and the change in fair value is recognized as compensation expense.

The deferred units can be settled at the holders' option in units or cash subject to the REIT's approval and are treated as a liability until redeemed.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

17. Segment disclosure:

All of the REIT's assets and liabilities are in, and its revenue derived from, the Canadian real estate industry segment. No single tenant accounts for 10% or more of the REIT's rental revenue.

18. Transactions with related parties:

The REIT is the ultimate Canadian parent entity.

The consolidated financial statements include the accounts of the REIT and all its subsidiaries. The subsidiaries of the REIT are listed below:

NHP Holdings Limited Partnership	NWH (Tawa) LP
NHP Holdings Inc.	NWH (Tawa) GP Inc.
Healthcare Properties LP	NWH (Sunpark) LP
Healthcare Properties Holdings Ltd.	NWH (Sunpark) GP Inc.
NorthWest Healthcare Properties P1 Ltd.	NWH (Portage) LP
1201 Glenmore LP	NWH (Portage) Inc.
2101 Glenmore GP Inc.	GT Canada Medical Properties Inc.
2675-36 th Street NE LP	NorthWest Healthcare Properties Corporation
2675-36 th Street NE GP Inc.	NWH C-Management Corporation
HealthPark Medical Clinic Inc.	

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

18. Transactions with related parties (continued):

	2013	2012
Revenue from investment properties:		
Head lease income (a)	\$ 1,711	\$ 2,080
Rental income (b)	931	941
Management fee revenue:		
Leasing and construction supervision services (b), (c)	218	20
Management services and cost-sharing (d)	388	389
Support services provided (e)	98	52
Property operating and trust expenses:		
Support services provided (e)	82	(72)
Rental expense (f)	312	335
Interest income:		
Interest (a), (b)	59	–
Loan receivable interest (g)	300	309
Promissory notes interest (h)	–	1,273
Finance cost:		
Interest on fixed rate debt (i)	–	296
Class B exchangeable unit distributions	6,050	6,093
Leasing costs reimbursement (a), (b)	1,253	136

	2013	2012
Balance sheet balances:		
Accounts receivable	\$ 2,900	\$ 26
Working capital adjustment payable	92	92
Loan receivable (g)	4,000	4,000

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

18. Transactions with related parties (continued):

- (b) The REIT earned rental revenue from a tenant which is an affiliate of NW Trust. The lease was surrendered on September 1, 2013 and the tenant is responsible for any rental shortfall, as discussed below.
- (c) The REIT has entered into a Leasing and Construction Supervision Services Agreement with an affiliate of NW Trust for the provision to NW Trust of supervision and leasing services at the properties subject to the head leases for a period of five years commencing March 25, 2010.
- (d) The REIT has a Management and Cost-Sharing Agreements with NW Trust for the REIT to provide property management services for one property for a period of five years commencing March 25, 2010. This agreement was terminated during the year ended December 31, 2013.
- (e) The REIT has entered into a Support Services Agreement with an affiliate of NW Trust for certain general management and administrative support services for a fee based on cost-sharing.
- (f) The REIT has a monthly Sublease Agreement with an affiliate of NW Trust for the REIT to lease its head office premises.
- (g) The REIT earned interest on the Owen Sound Loan (note 6).
- (h) The REIT earned interest in 2012 on two promissory notes related to a portfolio acquisition from an affiliate of NW Trust; these notes were fully repaid in 2012.
- (i) The REIT paid interest in 2012 on a \$30,000 8% note related to a portfolio acquisition from an affiliate of NW Trust; the note was fully repaid in 2012.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

18. Transactions with related parties (continued):

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

The compensation of Trustees and key management personnel is set out in the following table:

	2013	2012
Compensation expense	\$ 1,172	\$ 1,138
Unit-based compensation expense (note 16)	699	843
	<u>\$ 1,871</u>	<u>\$ 1,981</u>

Compensation expense includes salary, bonus and other short-term benefits.

19. Property operations:

The components of revenue are as follows:

	2013	2012
Revenue from investment properties	\$ 149,318	\$ 133,980
Management fee revenue	792	478
Revenue from operations	<u>\$ 150,110</u>	<u>\$ 134,458</u>

The REIT generally leases investment properties under operating leases with lease terms between 5 and 10 years, with options to extend up to a further 5 years.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

19. Property operations (continued):

Future minimum base rent lease payments on non-cancellable tenant operating leases are as follows:

2014	\$ 67,052
2015 - 2018	185,270
2019 and thereafter	127,913
	\$ 380,235

Property operating expenses include ground lease expense for the year ended December 31, 2013 of \$225 and December 31, 2012 of \$225, representing rent expense associated with an operating lease for land on which one of the REIT's properties is situated. The ground lease expires on September 30, 2036, with monthly payments of \$19.

Included in revenue from investment properties are realty tax and operating cost recoveries for the year ended December 31, 2013 of \$59,949 and December 31, 2012 of \$53,250. There were no material contingent rents during the year.

20. Employee costs:

	2013	2012
Compensation expense	\$ 13,175	\$ 11,780
Unit-based compensation expense (note 16)	802	1,104
	\$ 13,977	\$ 12,884

Compensation expense includes salary, bonus, commissions and other short-term benefits.

During the year ended December 31, 2013, the REIT capitalized \$976 of compensation expense to investment properties (2012 - \$767).

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

21. Finance cost:

	2013	2012
Interest on convertible debentures	\$ 642	\$ –
Interest on fixed rate debt	29,986	27,907
Interest on floating rate debt	1,978	1,506
Amortization of debt premiums	(1,357)	(1,363)
Amortization of transaction costs	526	374
Convertible debentures issuance costs	2,092	–
Debt repayment costs	208	–
	34,075	28,424
Class B exchangeable unit distributions	6,050	6,093
Fair value adjustment of Class B exchangeable units	(15,381)	7,539
Fair value adjustment of other financial instruments	(2,819)	1,047
	\$ 21,925	\$ 43,103

22. Commitments and contingencies:

Except as disclosed elsewhere in these consolidated financial statements, commitments and contingencies of the REIT include the following:

- (a) The REIT has entered into fixed-price utility contracts with a third-party supplier in the amount of \$3,618 to provide electricity and gas for its own use at its investment properties for 2014 to 2016.
- (b) The REIT is involved in litigation and claims in relation to the investment properties that arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies would not have a significant adverse effect on the consolidated financial statements.
- (c) As part of the purchase and sale agreement with an affiliate of NW Trust related to the acquisition of an investment property, the REIT agreed that in the event a development agreement is not achieved with NW Trust, the REIT would sever and sell the development land portion of the investment property to NW Trust for \$2,950.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

22. Commitments and contingencies (continued):

(d) The REIT obtains letters of credit to support its obligations with respect to construction work on its investment properties and satisfying mortgage financing requirements. As at December 31, 2013, the REIT has a total of \$32 in outstanding letters of credit related to construction work that is being performed on investment properties.

The REIT does not believe that any of these standby letters of credit are likely to be drawn upon.

23. Change in non-cash operating items:

	2013	2012
Decrease (increase) in accounts receivable	\$ (4,351)	\$ 1,340
Increase in straight-line rents	(1,576)	(1,741)
Decrease (increase) in other assets, excluding deposits	440	(272)
Increase in accounts payable and accrued liabilities	4,042	2,249
	<u>\$ (1,445)</u>	<u>\$ 1,576</u>

24. Capital management:

The REIT's primary objective when managing capital is to maximize unit value through the ongoing active management of the REIT's investment properties, the acquisition of additional investment properties and the development and construction of projects which are leased to creditworthy tenants.

The REIT considers its capital to be its unitholders' equity, Class B exchangeable units, mortgages payable, convertible debentures and loans payable. The REIT is free to determine the appropriate level of capital in context with its cash flow requirements, overall business risks and potential business opportunities. As a result of this, the REIT will make adjustments to its capital based on its investment strategies and changes to economic conditions.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

24. Capital management (continued):

The REIT's strategy is also driven by policies as set out in the Amended and Restated Declaration of Trust, as well as requirements from certain lenders.

The requirements of the REIT's operating policies as outlined in the Amended and Restated Declaration of Trust include requirements that the REIT will not:

- (a) incur or assume indebtedness on properties in excess of 75% of the property's market value; and
- (b) incur or assume indebtedness which would cause the total indebtedness of the REIT to exceed 65% of Gross Book Value as defined.

The REIT is required under the terms of its credit facility to meet certain financial covenants, including:

- (a) a Debt to Gross Book Value ratio of not more than 65%;
- (b) an Interest Coverage Ratio of not less than 1.75%;
- (c) a Debt Service Coverage Ratio of not less than 1.40; and
- (d) a minimum Adjusted Unitholders' Equity of not less than the aggregate of: (i) \$350,000; and (ii) 75% of net proceeds in connection with equity offerings after December 31, 2013.

In addition, the REIT is required under certain property mortgage terms to meet financial covenant ratios.

The REIT complied with all financial covenants during the year ended December 31, 2013.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

25. Risk management and fair values:

(a) Risk management:

In the normal course of business, the REIT is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are as follows:

(i) Interest rate risk:

Floating rate debt puts the REIT at risk that interest rates may rise before long-term fixed rate debt is arranged. At December 31, 2013, \$50,609 (2012 - \$75,464) of the REIT's mortgages bear interest at floating rates. The REIT has entered into interest rate swap contracts on \$50,609 (2012 - \$51,839) of certain variable rate mortgages to fix interest rate over the term of these mortgages. The REIT also staggers the maturities of its fixed rate mortgages payable in order to minimize the exposure to future interest rate fluctuations. The REIT has \$10,000 of floating rate debt at December 31, 2013 (2012 - \$46,125) pursuant to its secured floating rate revolving credit facility and its variable rate mortgages, exclusive of mortgages subjected to the interest rate swap contract. A 1.00% change in the interest rate on this amount will change the annual finance cost related to the outstanding balance by \$100 (2012 - \$461).

(ii) Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the REIT by failing to discharge its obligations. The REIT is exposed to credit risk on all financial assets and its exposure is generally limited to the carrying amount on the consolidated balance sheets. The REIT actively manages to minimize its credit risk through careful selection and assessment of its credit parties based on knowledge obtained through means such as due diligence carried out in respect of leasing transactions to new tenants.

An allowance is provided for when collection is no longer reasonably assured, including bankruptcy, abandonment by tenants and certain tenant disputes.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2013 and 2012

25. Risk management and fair values (continued):

The following is an aging analysis of accounts receivable past due, net of allowance for doubtful accounts:

	Total
Less than 30 days	\$ 1,294
31 to 60 days	244
61 to 90 days	240
More than 90 days	2,652
Total billed	4,430
Unbilled	3,018
	\$ 7,448

(iii) Liquidity risk:

Liquidity risk is the risk that the REIT will encounter difficulty in meeting its financial obligations when they come due. The REIT's exposure to refinancing risk arises from maturing mortgages payable and loans payable. Management's strategy to managing liquidity risk is to ensure, to the extent possible, that it always has sufficient financial assets to meet its financial liabilities when they come due, by forecasting cash flows from operations and anticipated investing and financing activities. The REIT, whenever possible, enters into long-term leases with creditworthy tenants which assist in maintaining a predictable cash flow. The REIT's policy is to ensure adequate funding is available from operations, established lending facilities and other sources as required. The ability to obtain funding from external sources depends on several factors, including current economic climate and the underlying assets being financed.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

25. Risk management and fair values (continued):

The contractual principal and interest payments on the REIT's mortgages payable, convertible debentures and loans payable for the years ended December 31 are as follows:

	Mortgages payable	Convertible debentures	Loans payable
2014	\$ 80,549	\$ 2,223	\$ 15
2015	98,771	2,113	736
2016	151,573	2,113	–
2017	93,269	2,113	–
2018	91,930	2,113	–
2019 and thereafter	265,551	48,702	–
	<u>\$ 781,643</u>	<u>\$ 59,377</u>	<u>\$ 751</u>

(iv) Market risk:

Market risk is the risk that changes in market prices, such as interest rates and equity prices, will affect the REIT's financial instruments. All of the REIT's investment properties are focused on the Canadian medical office sector. All of the REIT's operations are denominated in Canadian dollars, resulting in no direct foreign exchange risk.

(b) Fair values:

Determination of fair value and resulting hierarchy requires the use of observable market data whenever applicable. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2013 and 2012

25. Risk management and fair values (continued):

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The REIT uses various methods in estimating the fair values of assets and liabilities that are measured at fair value on recurring or non-recurring basis in the consolidated balance sheets. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 - fair value is based on unadjusted quoted prices trades in active markets for identical instruments;
- Level 2 - fair value is based on models using significant market-observable inputs other than quoted prices for the instruments; and
- Level 3 - fair value is based on models using significant inputs that are not based on observable market data.

The REIT determined the fair value of each investment property using the discounted cash flow method. The discounted cash flow method discounts the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. Note 4 outlines the key assumptions used by the REIT in determining fair value of its investment properties (Level 3 inputs).

Derivative instruments valued using a valuation technique with market-observable inputs (Level 2) include interest rate swap contracts. The most frequently applied valuation technique includes forward pricing models, using present value calculations. The models incorporate various inputs, including forward rates and interest rate curves.

As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The REIT has chosen to use closing market price as a practical expedient for fair value measurement for its Class B exchangeable units, convertible debentures and deferred units.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2013 and 2012

25. Risk management and fair values (continued):

The fair value of the REIT's mortgages payable and loans payable are determined using present value calculations based on market-observable interest rates for mortgages and loans with similar terms and conditions (Level 2 inputs).

The carrying values of the REIT's financial assets, which include accounts receivable, loan receivable, mortgage escrow, other deposits, restricted cash and cash and cash equivalents, as well as financial liabilities, which include accounts payable, distributions payable and accrued liabilities, approximate their recorded fair values due to their short-term nature.

The fair values and levels within the fair value hierarchy for financial assets and liabilities measured at amortized cost as at December 31, 2013 are as follows:

	Carrying value	Fair value		
		Level 1	Level 2	Level 3
Financial assets:				
Loan receivable	\$ 8,000	\$ –	\$ –	\$ 8,000
Financial liabilities:				
Mortgages payable	647,912	–	648,160	–
Loans payable	10,467	–	10,467	–

The fair values and levels within the fair value hierarchy for financial assets and liabilities measured at amortized cost as at December 31, 2012 are as follows:

	Carrying value	Fair value		
		Level 1	Level 2	Level 3
Financial assets:				
Loan receivable	\$ 8,000	\$ –	\$ –	\$ 8,000
Financial liabilities:				
Mortgages payable	626,426	–	652,223	–
Loans payable	34,796	–	34,796	–

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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25. Risk management and fair values (continued):

The fair values and levels within the fair value hierarchy for assets and liabilities measured at fair value as at December 31, 2013 are as follows:

	Carrying value	Fair value		
		Level 1	Level 2	Level 3
Financial assets:				
Derivative financial instruments	\$ 1,772	\$ –	\$ 1,772	\$ –
Other assets:				
Investment properties	1,286,843	–	–	1,286,843
Financial liabilities:				
Deferred units	2,631	2,631	–	–
Class B exchangeable units	78,838	78,838	–	–
Convertible debentures	40,250	40,250	–	–

The fair values and levels within the fair value hierarchy for assets and liabilities measured at fair value as at December 31, 2012 are as follows:

	Carrying value	Fair value		
		Level 1	Level 2	Level 3
Other assets:				
Investment properties	\$ 1,244,875	\$ –	\$ –	\$ 1,244,875
Financial liabilities:				
Deferred units	1,847	1,847	–	–
Class B exchangeable units	95,042	95,042	–	–
Derivative financial instruments	1,047	1,047	–	–

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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26. Subsequent events:

Subsequent to year end, the maturity on the \$8,000 loan receivable was extended to March 31, 2014.

On January 23, 2014, the REIT signed an agreement of purchase and sale to sell one of its investment properties for a purchase price of \$3,500.

On January 27, 2014, the REIT secured a five-year \$13,000 mortgage against an investment property.

On January 31, 2014, the REIT repaid \$7,712 of mortgage debt.

On February 3, 2014, the REIT repaid \$5,455 of mortgage debt.

During the period from January 1, 2014 to March 4, 2014, the REIT declared distributions of \$0.13334 per unit or \$5,171.