Consolidated Financial Statements
(In Canadian dollars)

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2014 and 2013

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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, 2014 and 2013, the consolidated statements of income (loss) and comprehensive income (loss), changes in 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, 2014 and 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 10, 2015
Toronto, Canada

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

December 31, 2014 and 2013

	2014	2013
Assets		
Investment properties (note 5)	$ 1,223,429	$ 1,286,843
Goodwill (note 6)	–	4,458
Loan receivable (note 7)	8,000	8,000
Accounts receivable (note 8)	7,573	7,448
Other assets (note 9)	3,125	6,163
Restricted cash	–	175
Cash and cash equivalents (note 10)	2,514	1,905
Total assets	$ 1,244,641	$ 1,314,992
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 11)	$ 631,257	$ 647,912
Convertible debentures (note 12)	40,854	40,250
Loans payable (note 13)	16,529	10,467
Class B exchangeable units (note 14)	70,078	78,838
Other financial instruments (note 11)	1,087	–
Accounts payable and accrued liabilities	23,721	26,295
Distributions payable	2,608	2,586
Total liabilities	786,134	806,348
Unitholders' equity	458,507	508,644
Commitments and contingencies (note 22)		
Subsequent events (note 26)		
Total liabilities and unitholders' equity	$ 1,244,641	$ 1,314,992

See accompanying notes to consolidated financial statements.

The consolidated financial statements were approved by the Board on March 10, 2015 and signed on its behalf by:

"Colin Loudon" Trustee

"Peter Riggin" Trustee

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2014 and 2013

	2014	2013
Revenue from operations (note 19)	$ 150,429	$ 150,110
Property operating expenses (note 19)	69,641	68,589
Property operating income	80,788	81,521
Finance costs (note 21)	32,777	34,075
Interest income	(834)	(816)
Trust expenses	4,852	3,642
Income before Class B exchangeable unit distributions, fair value adjustments, net loss on disposal of investment property and goodwill impairment	43,993	44,620
Finance costs (note 21):		
Class B exchangeable unit distributions	(6,042)	(6,050)
Fair value adjustment of Class B exchangeable units (note 14)	8,760	15,381
Fair value adjustment of convertible debentures (note 12)	(604)	–
Fair value adjustment of other financial instruments (note 11)	(2,859)	2,819
Fair value adjustment of investment properties (note 5)	(59,702)	(20,177)
Net loss on disposal of investment properties (note 4)	(1,283)	(73)
Goodwill impairment (note 6)	(4,458)	–
Net income (loss) and comprehensive income (loss)	$ (22,195)	$ 36,520

See accompanying notes to consolidated financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2014 and 2013

2014	Unit capital	Retained earnings (deficit)	Total
Unitholders' equity, January 1, 2014	$ 398,903	$ 109,741	$ 508,644
Issuance of units under deferred unit plan (note 15(a))	400	–	400
Net loss and comprehensive loss	–	(22,195)	(22,195)
Distributions	–	(31,159)	(31,159)
Issuance of units under distribution reinvestment plan (notes 15(a) and (b))	2,817	–	2,817
Unitholders' equity, December 31, 2014	$ 402,120	$ 56,387	$ 458,507

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

Distributions per unit during the year ended December 31, 2014 were $0.80 (2013 - $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, 2014 and 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Net income (loss)	$ (22,195)	$ 36,520
Adjustments for:		
Finance cost (note 21)	33,522	21,925
Interest income	(834)	(816)
Fair value adjustment of investment properties	59,702	20,177
Net loss on disposal of investment properties	1,283	73
Goodwill impairment	4,458	–
Net decrease in restricted cash	175	–
Change in non-cash operating items (note 23)	(1,883)	(1,445)
Cash generated from operating activities	74,228	76,434
Interest paid	(33,381)	(32,570)
Interest received	834	816
Net cash from operating activities	41,681	44,680
Investing activities:		
Acquisition of investment properties (note 3)	–	(26,045)
Additions to investment properties (note 5)	(20,169)	(25,992)
Net proceeds on disposal of investment property	15,041	962
Proceeds on securities	–	11,601
Deposits on investment properties under contract	–	320
Net cash used in investing activities	(5,128)	(39,154)
Financing activities:		
Distributions paid	(28,320)	(28,459)
Class B exchangeable unit distributions	(6,042)	(6,055)
Mortgage advances	65,590	131,848
Mortgage principal repayments	(16,622)	(15,240)
Mortgage lump sum repayments	(56,008)	(102,975)
Repayment of loans payable	–	(11,421)
Proceeds from issuance of convertible debentures, net of issue costs	–	38,158
Secured credit facility advances	100,500	73,500
Secured credit facility repayments	(94,500)	(86,250)
Transaction costs	(542)	(916)
Net cash used in financing activities	(35,944)	(7,810)
Increase (decrease) in cash and cash equivalents	609	(2,284)
Cash and cash equivalents, beginning of year (note 10)	1,905	4,189
Cash and cash equivalents, end of year (note 10)	$ 2,514	$ 1,905

See accompanying notes to consolidated financial statements.

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, 2014, NorthWest Operating Trust ("NW Trust") and its affiliates controlled approximately 25.5% (23.9% on a fully diluted basis) 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. At December 31, 2014, NW Trust is indirectly 100% owned by NorthWest International Healthcare Properties Real Estate Investment Trust ("International 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, other financial instruments, Class B exchangeable units and deferred units under the deferred unit plan, 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.

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 5 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 6 for further information on estimates and assumptions made when testing goodwill for impairment.

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 other 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.

2. Significant accounting policies (continued):

(b) Investment properties:

Investment properties include medical office properties that are held to earn rental income and properties that are being developed or constructed for use as investment properties. They are recognized initially at cost and, subsequently, at fair value, with changes in fair value recognized in the consolidated statements of income (loss) and comprehensive income (loss) 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 (loss) and comprehensive income (loss).

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.

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 (loss) and comprehensive income (loss). 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.

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 period 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.

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 (loss) and comprehensive income (loss) as finance cost. The distributions paid on the Class B exchangeable units are accounted for as a finance cost (note 21).

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 (loss) and comprehensive income (loss). 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, Class B exchangeable units and other financial instruments 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.

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 (loss) and comprehensive income (loss).

(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.

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 (loss) and comprehensive income (loss) 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 IAS 32, Financial Instruments - Presentation ("IAS 32"), in its financial statements for the year ended December 31, 2014. The adoption of the amendments to IAS 32 did not have a significant impact on the REIT's consolidated financial statements.

(ii) In 2013, the International Accounting Standards Board ("IASB") issued IFRS Interpretations Committee ("IFRIC") 21, Levies ("IFRIC 21"). IFRIC 21 addresses accounting for a liability to pay a levy within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. 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 became effective for annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. Application of the new interpretation did not have a material impact on the REIT's consolidated financial statements.

(p) Future accounting changes:

(i) In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. Early adoption is permitted. The REIT is currently assessing the impact of the new standard on its consolidated financial statements.

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

2. Significant accounting policies (continued):

(ii) In July 2014, the IASB issued IFRS 9, Financial Instruments ("IFRS 9") replacing IAS 39, Financial Instruments - Recognition and Measurement. The project had three main phases: classification and measurement, impairment and general hedging. The standard becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. Early adoption is permitted. The REIT is currently assessing the impact of the new standard on its consolidated financial statements.

(iii) In December 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements. The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. The REIT intends to adopt these amendments in its consolidated financial statements for the annual period beginning January 1, 2016 and is currently assessing the impact of the amendments on its consolidated financial statements.

3. Acquisitions:

(a) Acquisitions during the year ended December 31, 2014:

There were no acquisitions during the year ended December 31, 2014.

(b) 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
	35,681
Liabilities	
Accounts payable and accrued liabilities	389
Assumed mortgages, including mark-to-market adjustment	9,247
	9,636
Net assets acquired for cash	$ 26,045

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

4. Disposition:

During the year ended December 31, 2014, the REIT disposed of five investment properties for gross proceeds of $24,977 and recognized a net loss on sale of $1,283 due to transaction costs. The REIT repaid $3,609 of mortgage debt associated with one of the investment properties. The purchasers of two investment properties assumed $8,653 of mortgage debt associated with the investment properties. No mortgage debt was associated with the remaining two properties.

During the year ended December 31, 2013, the REIT disposed of one investment property for gross proceeds of $1,035 and recognized a net loss on sale of $73 related to transaction costs. The REIT repaid $1,498 of mortgage debt and term loan associated with the investment property.

5. Investment properties:

Balance, January 1, 2014	$ 1,286,843
Additions	20,169
Disposition of investment properties	(24,977)
Increase in straight-line rents	1,096
Fair value adjustment	(59,702)
Balance, December 31, 2014	$ 1,223,429
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

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.

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

5. Investment properties (continued):

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

	2014	2013
Discount rates - range	6.0% - 9.8%	6.0% - 9.8%
Discount rate - weighted average	7.5%	7.4%
Terminal capitalization rate - range	5.8% - 8.8%	5.8% - 9.0%
Terminal capitalization rate - weighted average	6.9%	6.8%

The 2013 weighted average discount rate and terminal capitalization rate have been re-calculated to conform with 2014 presentation.

The fair values of investment properties are most sensitive to changes in discount rates and terminal capitalization rates. As at December 31, 2014, a 25-basis-point decrease in the weighted average portfolio discount rate and terminal capitalization rate would increase the value of investment property by $50,100 (2013 - $51,500). A 25-basis-point increase in the weighted average portfolio discount rate and terminal capitalization rate would decrease the value of investment property by $46,500 (2013 - $47,800).

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.

During the year ended December 31, 2014, commercial properties with an aggregate fair value of $350,862 (year ended December 31, 2013 - $173,000) were valued by external valuation professionals with recognized and relevant professional qualifications.

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

6. Goodwill:

	2014	2013
Goodwill	$ –	$ 4,458

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 process of determining fair value is highly subjective and required management to exercise significant amount of judgment. The REIT estimated the fair value of HPLP using a market capitalization approach. Based on the market capitalization value of the REIT at December 31, 2014, the REIT determined that there was an impairment of goodwill and recognized an impairment charge in the consolidated statements of income (loss) and comprehensive (loss).

7. Loan receivable:

	2014	2013
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.

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

7. Loan receivable (continued):

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

(a) March 31, 2015; or

(b) the date of the sale of the property.

During the year ended December 31, 2014, the parties to the loan mutually agreed to extend the maturity date from January 31, 2014 to March 31, 2015.

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.

Under the terms of the loan, the REIT has a right of first offer to acquire the property. Subsequent to December 31, 2014, the REIT acquired the property for purchase price of $23,000. The loan receivable was settled as part of the purchase consideration (note 26).

8. Accounts receivable:

	2014	2013
Tenant and other receivables	$ 3,167	$ 4,548
Due from NW Trust and its affiliates (notes 18 and 26)	4,406	2,900
	$ 7,573	$ 7,448

Due from NW Trust and its affiliates was settled subsequent to year end (note 26).

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

9. Other assets:

	2014	2013
Prepaid expenses	$ 1,364	$ 2,666
Mortgage escrow	395	439
Other deposits	645	759
Other financial instruments (note 11)	–	1,772
Other	721	527
	$ 3,125	$ 6,163

10. Cash and cash equivalents:

	2014	2013
Cash at bank	$ 2,514	$ 1,905

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

11. Mortgages payable:

All mortgages are secured by first or second charges on specific investment properties, with a carrying value of $1,098,566 at December 31, 2014, and are repayable as follows:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable
2015	$ 16,594	$ 41,341	$ 57,935
2016	16,263	110,863	127,126
2017	12,984	58,962	71,946
2018	12,333	68,812	81,145
2019	9,810	61,179	70,989
2020	8,768	36,907	45,675
2021	6,637	51,308	57,945
2022	4,857	50,264	55,121
2023	2,407	43,979	46,386
2024	988	14,224	15,212
2025 and thereafter	2,282	–	2,282
Face value	$ 93,923	$ 537,839	631,762
Unamortized mark-to-market adjustment			1,150
Unamortized financing costs			(1,655)
Balance at December 31, 2014			$ 631,257

	2014	2013
Mortgages at fixed rates - contractual amount	$ 582,459	$ 596,849
Mortgages at variable rates - contractual amount	49,303	50,609
Unamortized mark-to-market adjustment	1,150	1,927
Unamortized financing costs	(1,655)	(1,473)
Balance at December 31	$ 631,257	$ 647,912
Interest rates	2.00% - 6.15%	2.00% - 6.19%
Weighted average interest rate	4.62%	4.80%

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

11. Mortgages payable (continued):

The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on $49,303 of its variable rate mortgages payable as at December 31, 2014. Gains or losses arising from the change in fair values of the interest rate swap contracts are recognized as finance costs in the consolidated statements of income (loss) and comprehensive income (loss) and during the 12 months ended December 31, 2014, the REIT recognized a fair value loss of $2,859 (2013 - fair value gain of $2,819). At December 31, 2014, the REIT has a financial instrument liability of $1,087 (2013 - financial instrument asset of $1,772) recorded in other assets.

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, 2014 was $101.50.

The REIT has the following series of convertible debentures outstanding:

	Fair value	Principal
5.25% convertible debentures	$ 40,854	$ 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.

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

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:

	2014	2013
Secured floating rate revolving credit facility (a)	$ 15,800	$ 9,746
Promissory notes payable	729	721
	$ 16,529	$ 10,467

(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 $97,783 and the terms of a general security agreement. As at December 31, 2014, there was a $16,000 outstanding balance on the credit facility (net of unamortized financing costs of $200).

The credit facility was renegotiated, expanded and extended during the year 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, 2013, there was a $10,000 outstanding balance on the credit facility (net of unamortized financing costs of $254).

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

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, 2014	7,551,546	$ 78,838
Fair value adjustment of Class B exchangeable units	–	(8,760)
Class B exchangeable units outstanding, December 31, 2014	7,551,546	$ 70,078

	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

During the year ended December 31, 2014, the REIT recognized $6,042 (2013 - $6,050) of distributions declared on Class B exchangeable units as finance cost (note 21).

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.

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

15. Unitholders' equity (continued):

The REIT's Trustees have discretion in declaring distributions.

(a) Units outstanding:

	Units	Amount
Units outstanding, January 1, 2014	38,783,403	$ 398,903
Issuance of units and deferred unit plan	40,442	400
Issuance of unit under distribution reinvestment plan	294,067	2,817
Units outstanding, December 31, 2014	39,117,912	$ 402,120

	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
Issuance of unit under distribution reinvestment plan	219,500	2,455
Units outstanding, December 31, 2013	38,783,403	$ 398,903

(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%.

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

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, 2014	$ 2,631
Unit-based compensation expense	1,371
Exercised and paid in cash	(511)
Exercised and settled in REIT units	(400)
December 31, 2014	$ 3,091

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

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

16. Deferred unit plan (continued):

(b) Units outstanding:

January 1, 2014	289,879
Granted	140,797
Exercised and paid in cash	(51,789)
Exercised and settled in REIT units	(40,442)
Forfeited	(7,005)
Distribution entitlement	28,948
December 31, 2014	360,388
Vested, but not issued, December 31, 2014	91,273

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	–

For the year ended December 31, 2014, 140,797 units were granted under the deferred unit plan at an average unit price of $9.80. 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.

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.

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

16. Deferred unit plan (continued):

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.

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.
2675-36th Street NE LP	NorthWest Healthcare Properties Corporation
2675-36th 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.

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

18. Transactions with related parties (continued):

	2014	2013
Revenue from investment properties:		
Head lease income (a)	$ 1,632	$ 1,711
Rental income (b)	243	931
Management fee revenue:		
Leasing and construction supervision services (b), (c)	–	218
Management services and cost-sharing (d)	2	388
Support services provided (e)	129	98
Property operating and trust expenses:		
Support services provided (e)	436	82
Rental expense (f)	307	312
Interest income:		
Interest (h)	177	59
Loan receivable interest (g)	300	300
Finance cost:		
Class B exchangeable unit distributions	6,042	6,050
Leasing costs reimbursement (a), (b)	2	1,253

	2014	2013
Balance sheet balances:		
Accounts receivable[i]	$ 4,406	$ 2,900
Working capital adjustment payable	92	92
Loan receivable (g)[i]	4,000	4,000

[i]The amounts have been settled in full subsequent to year end (note 26).

(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.

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:

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.

(c) The REIT has entered into a Leasing and Construction Supervision Services Agreement, originally with NW Trust, and subsequently assigned to an affiliate of NW Trust, for the provision of supervision and leasing services at the properties subject to the head leases for a period of five years commencing March 25, 2010.

(d) The REIT had a Management and Cost-Sharing 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 7).

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

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

18. Transactions with related parties (continued):

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

	2014	2013
Compensation expense	$ 1,542	$ 1,172
Unit-based compensation expense (note 16)	1,105	699
	$ 2,647	$ 1,871

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

19. Property operations:

The components of revenue are as follows:

	2014	2013
Revenue from investment properties	$ 150,279	$ 149,318
Management fee revenue	150	792
Revenue from operations	$ 150,429	$ 150,110

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.

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

2015	$ 64,333
2016 - 2019	171,537
2020 and thereafter	115,366
	$ 351,236

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

19. Property operations (continued):

Property operating expenses include ground lease expense for the year ended December 31, 2014 of $225 (2013 - $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, 2014 of $60,495 (2013 - $59,949). There were no material contingent rents during the year.

20. Employee costs:

	2014	2013
Compensation expense	$ 13,554	$ 13,175
Unit-based compensation expense (note 16)	1,371	802
	$ 14,925	$ 13,977

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

During the year ended December 31, 2014, the REIT capitalized $890 (2013 - $976) of compensation expense to investment properties.

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

21. Finance costs:

	2014	2013
Interest on convertible debentures	$ 2,116	$ 642
Interest on fixed rate debt	29,582	29,986
Interest on floating rate debt	684	1,978
Amortization of debt premiums	(784)	(1,357)
Amortization of transaction costs	411	526
Convertible debentures issuance costs	–	2,092
Debt repayment costs	768	208
	32,777	34,075
Class B exchangeable unit distributions	6,042	6,050
Fair value adjustment of Class B exchangeable units	(8,760)	(15,381)
Fair value adjustment of convertible debentures	604	–
Fair value adjustment of other financial instruments	2,859	(2,819)
	$ 33,522	$ 21,925

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 $2,412 to provide electricity and gas for its own use at its investment properties for 2015 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.

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

22. Commitments and contingencies (continued):

(d) Pursuant to the sale of two of the REIT's investment properties, the existing mortgages were assumed by the purchasers. In the event of default, the REIT has guaranteed the outstanding balance of the mortgages of $8,528 as at December 31, 2014.

23. Change in non-cash operating items:

	2014	2013
Increase in accounts receivable	$ (125)	$ (4,351)
Increase in straight-line rents	(1,096)	(1,576)
Decrease in other assets, excluding other financial instruments	1,266	440
Increase (decrease) in accounts payable and accrued liabilities	(1,928)	4,042
	$ (1,883)	$ (1,445)

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.

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, 2014.

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, 2014, $49,303 (2013 - $50,609) of the REIT's mortgages bear interest at floating rates. The REIT has entered into interest rate swap contracts on $49,303 (2013 - $50,609) 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 $16,000 of floating rate debt at December 31, 2014 (2013 - $10,000) 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 $160 (2013 - $100).

(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.

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

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	$ 441
31 to 60 days	238
61 to 90 days	134
More than 90 days	4,179
Total billed	4,992
Unbilled	2,581
	$ 7,573

(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.

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

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
2015	$ 84,858	$ 2,113	$ 736
2016	151,362	2,113	–
2017	89,275	2,113	–
2018	96,062	2,113	–
2019	82,302	2,113	–
2020 and thereafter	245,002	46,589	–
	$ 748,861	$ 57,154	$ 736

(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.

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 5 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, Fair Value Measurement, 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.

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

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, 2014 are as follows:

		Fair value		
	Carrying value	Level 1	Level 2	Level 3
Financial assets:				
Loan receivable	$ 8,000	$ –	$ –	$ 8,000
Financial liabilities:				
Mortgages payable	631,257	–	653,626	–
Loans payable	16,529	–	16,529	–

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:

		Fair value		
	Carrying 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	–

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

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, 2014 are as follows:

		Fair value		
	Carrying value	Level 1	Level 2	Level 3
Other assets:				
Investment properties	$ 1,223,429	$ –	$ –	$ 1,223,429
Financial liabilities:				
Deferred units	250	250	–	–
Class B exchangeable units	70,078	70,078	–	–
Derivative financial instruments	1,087	–	1,087	–
Convertible debentures	40,854	40,854	–	–

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:

		Fair value		
	Carrying 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	–	–

26. Subsequent events:

(a) Subsequent to year end, the REIT completed a series of transactions with affiliates of NW Trust, which were approved by the Board of Trustees based on a review and recommendation from the Special Committee of the REIT, consisting of three independent trustees. The transactions are as follows:

(i) The REIT acquired the investment property over which it had a right of first offer for $23,000. Consideration included the assumption of a mortgage secured by the property for $13,903 and settlement of the $8,000 loan receivable (note 7) with remaining amounts paid in cash.

(ii) Subsequent to year end, the REIT purchased an acquisition right to acquire a two-building investment property and two parcels of land from affiliates of NW Trust for $10,000. The consideration of this amount was partially settled by $4,406 receivable due from NW Trust and its affiliates. The REIT then exercised the option to acquire the two-building investment property for an additional $10,515.

(iii) Concurrent with these acquisitions, the REIT ended its development relationship with NorthWest Value Partners Inc. ("NWVP"), an affiliate of NW Trust, and hired NWVP's development employees. As a result, the REIT is no longer required to sever and sell the development land portion of an investment property to NW Trust for $2,950 in the event a development agreement is not reached (note 22(c)).

(iv) As part of the agreement, the REIT also settled future amounts due under head leases, originally due from NW Trust, and subsequently assigned to an affiliate of NW Trust (note 18(a)) for $430. The REIT also released an affiliate of NW Trust from future rental shortfall amounts due, if any, under a lease surrender agreement (note 18(b)).

(b) On January 15, 2015, the REIT sold an investment property for $4,625 to a third party and recognized a loss on sale of $287.

(c) During the period from January 1, 2015 to March 10, 2015, the REIT declared distributions of $0.1334 per unit, or $5,216.

26. Subsequent events (continued):

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

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