

Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars)

**NORTHWEST HEALTHCARE
PROPERTIES REAL ESTATE
INVESTMENT TRUST**

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Balance Sheets
(Expressed in thousands of Canadian dollars)
(Unaudited)

	September 30, 2014	December 31, 2013
Assets		
Investment properties (note 5)	\$ 1,230,154	\$ 1,286,843
Goodwill	4,458	4,458
Loan receivable (note 6)	8,000	8,000
Accounts receivable (note 7)	7,628	7,448
Other assets (note 8)	5,118	6,163
Restricted cash	–	175
Cash and cash equivalents	469	1,905
Total assets	\$ 1,255,827	\$ 1,314,992

Liabilities and Unitholders' Equity

Liabilities:

Mortgages payable (note 9)	\$ 639,270	\$ 647,912
Convertible debentures (note 10)	41,518	40,250
Loans payable (note 11)	11,507	10,467
Class B exchangeable units (note 12)	73,627	78,838
Other financial instruments (note 9)	108	–
Accounts payable and accrued liabilities	22,218	26,295
Distributions payable	2,601	2,586
Total liabilities	790,849	806,348
Unitholders' equity (note 13)	464,978	508,644
Commitments and contingencies (note 18)		
Total liabilities and unitholders' equity	\$ 1,255,827	\$ 1,314,992

See accompanying notes to the condensed consolidated interim financial statements.

The condensed consolidated interim financial statements were approved by the Board on November 6, 2014 and signed on its behalf by:

"Michael Knowlton" _____ Trustee

"Peter Riffin" _____ Trustee

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Income and Comprehensive Income
(Expressed in thousands of Canadian dollars)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenue from operations	\$ 37,103	\$ 37,683	\$ 113,704	\$ 111,685
Property operating expenses	17,109	16,954	53,018	50,905
Operating income	19,994	20,729	60,686	60,780
Finance cost (note 17)	7,965	10,124	24,507	25,815
Interest income	(210)	(200)	(656)	(620)
Trust expenses	932	930	3,050	2,819
Income before Class B exchangeable unit costs, fair value adjustments and net loss on disposal of investment properties	11,307	9,875	33,785	32,766
Finance cost (note 17):				
Class B exchangeable unit distributions (notes 12 and 17)	(1,510)	(1,511)	(4,531)	(4,540)
Fair value adjustment of Class B exchangeable units (notes 12 and 17)	1,888	2,341	5,211	9,944
Fair value adjustment of convertible debentures (notes 10 and 17)	(865)	805	(1,268)	805
Fair value adjustment of other financial instruments (notes 9 and 17)	(110)	194	(1,880)	2,609
Fair value adjustment of investment properties (note 5)	(3,207)	(217)	(52,816)	(5,749)
Net loss on disposal of investment properties (note 4)	(36)	–	(1,023)	(73)
Net income (loss) and comprehensive income (loss)	\$ 7,467	\$ 11,487	\$ (22,522)	\$ 35,762

See accompanying notes to condensed consolidated interim financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Unitholders' Equity
(Expressed in thousands of Canadian dollars, except for unit amounts)
(Unaudited)

Nine months ended September 30, 2014	Unit capital	Retained earnings	Total
Unitholders' equity, beginning of period	\$ 398,903	\$ 109,741	\$ 508,644
Units issued on exercise of deferred units	177	–	177
Total loss for the period and comprehensive loss	–	(22,522)	(22,522)
Distributions	–	(23,341)	(23,341)
Distribution reinvestment plan (note 13(b))	2,020	–	2,020
Unitholders' equity, end of period	\$ 401,100	\$ 63,878	\$ 464,978

Nine months ended September 30, 2013	Unit capital	Retained earnings	Total
Unitholders' equity, beginning of period	\$ 395,625	\$ 104,154	\$ 499,779
Conversion of Class B exchangeable units	823	–	823
Total net income and comprehensive income	–	35,762	35,762
Distributions	–	(23,180)	(23,180)
Distribution reinvestment plan (note 13(b))	1,816	–	1,816
Unitholders' equity, end of period	\$ 398,264	\$ 116,736	\$ 515,000

Distributions per unit during the nine months ended September 30, 2014 were \$0.60 (nine months ended September 30, 2013 - \$0.60).

See accompanying notes to condensed consolidated interim financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in thousands of Canadian dollars)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Operating activities:				
Net income (loss) and comprehensive income (loss)	\$ 7,467	\$ 11,487	\$ (22,522)	\$ 35,762
Adjustments for:				
Finance cost (note 17)	8,562	8,295	26,975	16,997
Interest income	(210)	(200)	(656)	(620)
Fair value adjustment of investment properties	3,207	217	52,816	5,749
Net loss on disposal of investment property	36	–	1,023	73
Net decrease in restricted cash	–	–	175	–
Change in non-cash operating items (note 19)	1,496	2,038	(4,796)	(409)
Cash generated from operating activities	20,558	21,837	53,015	57,552
Interest paid	(8,633)	(8,083)	(25,687)	(24,264)
Interest received	210	200	656	620
Net cash from operating activities	12,135	13,954	27,984	33,908
Investing activities:				
Acquisition of investment properties (note 3)	–	(21,413)	–	(26,045)
Additions to investment properties (note 5)	(6,845)	(7,765)	(13,650)	(19,503)
Net proceeds on disposal of investment properties	239	–	8,696	962
Proceeds on securities	–	249	–	746
Deposits on investment properties under contract	(10)	200	(10)	320
Net cash used in investing activities	(6,616)	(28,729)	(4,964)	(43,520)
Financing activities:				
Distributions	(7,054)	(7,108)	(21,306)	(21,350)
Class B exchangeable units distributions	(1,510)	(1,511)	(4,531)	(4,545)
Mortgage advances	22,300	15,750	65,590	81,848
Mortgage principal repayments	(4,136)	(4,046)	(12,393)	(63,339)
Mortgage lump sum repayments	(6,580)	–	(52,399)	–
Proceeds from issuance of convertible debentures, net of issue costs	–	38,158	–	38,158
Secured credit facility advances	15,000	16,500	85,500	60,500
Secured credit facility repayments	(24,000)	(41,500)	(84,500)	(83,250)
Transaction costs	(145)	(164)	(417)	(592)
Net cash from (used in) financing activities	(6,125)	16,079	(24,456)	7,430
Increase (decrease) in cash and cash equivalents	(606)	1,304	(1,436)	(2,182)
Cash and cash equivalents, beginning of period	1,075	703	1,905	4,189
Cash and cash equivalents, end of period	\$ 469	\$ 2,007	\$ 469	\$ 2,007
Supplemental disclosures for non-cash activities:				
Mortgage assumed by purchasers:				
On disposition of investment properties	\$ –	\$ –	\$ 8,653	\$ –

See accompanying notes to condensed consolidated interim financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements
(Expressed in thousands of Canadian dollars)

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

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 estate 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 June 30, 2014, NorthWest Operating Trust ("NW Trust") and its affiliates controlled approximately 25.6% (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.

1. Basis of preparation:

The condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The preparation of these condensed consolidated interim financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS"). The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the notes to the REIT's audited consolidated financial statements for the year ended December 31, 2013, since they do not contain all disclosures required by IFRS for annual financial statements.

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

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

2. Significant accounting policies:

The accounting policies applied by the REIT in these condensed consolidated interim financial statements are the same as those applied by the REIT in its consolidated financial statements as at and for the year ended December 31, 2013, except as described below:

Changes in accounting standards:

- (a) The REIT has adopted IAS 32, Financial Instruments - Presentation ("IAS 32"), in its condensed consolidated interim financial statements for the three and nine months ended September 30, 2014. The adoption of the amendments to IAS 32 did not have a significant impact on the REIT's condensed consolidated interim financial statements.
- (b) 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 becomes 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 condensed consolidated interim financial statements.

Future accounting standards:

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 condensed consolidated interim financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

2. Significant accounting policies (continued):

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 condensed consolidated interim financial statements.

3. Acquisitions:

(a) Acquisitions during the nine months ended September 30, 2014:

There were no acquisitions during the nine months ended September 30, 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
	<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	<hr/> \$ 26,045
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NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Three and nine months ended September 30, 2014 and 2013
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4. Dispositions:

During the nine months ended September 30, 2014, the REIT disposed of four investment properties for gross proceeds of \$18,372 and recognized a net loss on sale of \$1,023 due to transaction costs. 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 nine months ended September 30, 2013, the REIT disposed of one investment property for gross proceeds of \$1,035 and 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	13,650
Disposition of investment properties	(18,372)
Increase in straight-line rents	849
Fair value adjustment	(52,816)
Balance, September 30, 2014	\$ 1,230,154

Balance, January 1, 2013	\$ 1,244,875
Acquisitions of investment properties (note 3)	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.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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(Unaudited)

5. Investment properties (continued):

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

	September 30, 2014	December 31, 2013
Discount rate - range	6.0% - 9.8%	6.0% - 9.8%
Discount rate - weighted average	7.5%	7.7%
Terminal capitalization rate - range	5.8% - 9.0%	5.8% - 9.0%
Terminal capitalization rate - weighted average	7.1%	7.2%

The fair values of investment properties are most sensitive to changes in discount rates and terminal capitalization rates. As at September 30, 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 \$50,076. A 25-basis-point increase in the weighted average portfolio discount rate and terminal capitalization rate would decrease the value of investment property by \$46,413.

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 nine months ended September 30, 2014, commercial properties with an aggregate fair value of \$32,880 (year ended December 31, 2013 - \$173,000) were valued by external valuation professionals with recognized and relevant professional qualification.

6. Loan receivable:

	September 30, 2014	December 31, 2013
Loan	\$ 8,000	\$ 8,000

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

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6. Loan receivable (continued):

On December 23, 2011, the REIT funded a 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) December 12, 2014; or
- (b) the date of the sale of the property.

During the nine months ended September 30, 2014, the parties to the loan mutually agreed to extend the maturity date from January 31, 2014 to December 12, 2014.

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:

	September 30, 2014	December 31, 2013
Tenant and other receivables	\$ 3,521	\$ 4,548
Due from NW Trust (note 16)	4,107	2,900
	<u>\$ 7,628</u>	<u>\$ 7,448</u>

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

8. Other assets:

	September 30, 2014	December 31, 2013
Prepaid expenses	\$ 3,359	\$ 2,666
Mortgage escrow	395	439
Other deposits	645	759
Other financial instruments (note 9)	–	1,772
Other	719	527
	<u>\$ 5,118</u>	<u>\$ 6,163</u>

9. Mortgages payable:

All mortgages are secured by first or second charges on specific investment properties, with a carrying value of \$1,100,045 at September 30, 2014 and are repayable as follows:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable
2014 remainder	\$ 4,228	\$ –	\$ 4,228
2015	16,699	41,341	58,040
2016	16,363	114,267	130,630
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	43,978	46,385
2024 and thereafter	3,270	14,225	17,495
Face value	<u>\$ 98,356</u>	<u>\$ 541,243</u>	639,599
Mark-to-market adjustment			1,285
Unamortized financing costs			(1,614)
Carrying amount			<u>\$ 639,270</u>

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

9. Mortgages payable (continued):

	September 30, 2014	December 31, 2013
Mortgages at fixed rates - contractual amount	\$ 589,959	\$ 596,849
Mortgages at variable rates - contractual amount	49,640	50,609
Mark-to-market adjustment	1,285	1,927
Unamortized financing costs	(1,614)	(1,473)
Carrying amount	\$ 639,270	\$ 647,912
Interest rates	2.00% - 6.15%	2.00% - 6.19%
Weighted average interest rate	4.63%	4.80%

The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on \$49,640 of its variable rate mortgages payable as at September 30, 2014. Gains or losses arising from the change in fair values of the interest rate swap contracts are recognized in the condensed consolidated interim statements of income and comprehensive income and during the three and nine months ended September 30, 2014, the REIT recognized a fair value loss of \$110 and \$1,880, respectively (three and nine months ended September 30, 2013 - fair value gain of \$194 and \$2,609, respectively) and a financial instrument liability of \$108 (December 31, 2013 - financial instrument asset of \$1,772).

10. Convertible debentures:

The REIT has designated convertible debentures as fair value through profit or loss ("FVTPL"). Fair value is determined using the market prices for these listed convertible debentures. The market price of the 5.25% convertible debentures at September 30, 2014 was \$1,031.50 (December 31, 2013 - \$1,000.00).

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

10. Convertible debentures (continued):

The REIT has the following series of convertible debentures outstanding:

	Fair value	Principal
5.25% convertible debentures	\$ 41,518	\$ 40,250

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.

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 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.

11. Loans payable:

	September 30, 2014	December 31, 2013
Secured floating rate revolving credit facility (a)	\$ 10,781	\$ 9,746
Promissory notes payable	726	721
	\$ 11,507	\$ 10,467

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

11. Loans payable (continued):

(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 expire on March 25, 2016. The facilities bear interest at banker's acceptance rate plus 2.00% or prime plus 1.00% and are secured by certain investment properties, with a carrying value of \$98,952 and the terms of a general security agreement. As at September 30, 2014, there was an \$11,000 (December 31, 2013 - \$10,000) outstanding balance on the credit facility, net of unamortized financing costs of \$219 (December 31, 2013 - \$254).

12. 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	–	(5,211)
Class B exchangeable units outstanding, September 30, 2014	7,551,546	\$ 73,627
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 Condensed Consolidated Interim Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

12. Class B exchangeable units (continued):

During the three and nine months ended September 30, 2014, the REIT recognized \$1,510 and \$4,531, respectively (three and nine months ended September 30, 2013 - \$1,511 and \$4,540, respectively), of distributions declared on Class B exchangeable units as finance cost.

13. Unitholders' equity:

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

The REIT's Trustees have discretion in declaring distributions.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(Expressed in thousands of Canadian dollars)

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

13. Unitholders' equity (continued):

(a) Units outstanding:

	Units	Amount
Units issued, January 1, 2014	38,783,403	\$ 398,903
Units issued on exercise of deferred units	17,492	177
Distribution reinvestment plan	206,131	2,020
Units issued, September 30, 2014	39,007,026	\$ 401,100
Units outstanding, January 1, 2013	38,499,903	\$ 395,625
Units issued in exchange for Class B exchangeable units	64,000	823
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%.

14. Deferred unit plan:

(a) Liability:

January 1, 2014	\$ 2,631
Unit-based compensation expense	914
Exercised and paid in cash	(297)
Exercised and settled in REIT units	(177)
September 30, 2014	\$ 3,071

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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14. Deferred unit plan (continued):

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

(b) Units outstanding:

January 1, 2014	289,879
Granted	110,500
Exercised and paid in cash	(29,739)
Exercised and settled in REIT units	(17,492)
Distribution entitlement	21,034
September 30, 2014	374,182
Vested, but not issued, September 30, 2014	40,586
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 nine months ended September 30, 2014, 110,500 units were granted under the deferred unit plan at an average unit price of \$9.90.

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.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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Three and nine months ended September 30, 2014 and 2013
(Unaudited)

15. 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.

16. Transactions with related parties:

The REIT is the ultimate Canadian parent entity.

The condensed consolidated interim financial statements as at September 30, 2014 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 Condensed Consolidated Interim Financial Statements (continued)
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16. Transactions with related parties (continued):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenue from investment properties:				
Head lease income (a)	\$ 412	\$ 432	\$ 1,222	\$ 1,295
Rental income (b)	21	223	227	715
Management fee revenue:				
Leasing and construction supervision services (b), (c)	–	206	–	211
Management services and cost sharing (d)	–	97	2	297
Support services provided (e)	32	23	97	65
Property operating and trust expenses:				
Support services provided (e)	103	64	315	64
Rental expense (f)	77	77	230	235
Interest income:				
Interest (h)	58	8	151	26
Loan receivable interest (g)	76	76	225	224
Finance cost:				
Class B exchangeable units distributions	1,510	1,511	4,531	4,540
Leasing costs reimbursement (a), (b)	–	1,179	2	1,217
			September 30, 2014	December 31, 2013
Balance sheet balances:				
Accounts receivable			\$ 4,107	\$ 2,900
Working capital adjustment payable			92	92
Loan receivable (g)			4,000	4,000

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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16. Transactions with related parties (continued):

- (a) In conjunction with its Initial Public Offering, the REIT entered into head leases with NW Trust on three properties in which NW Trust is the tenant. The head leases commenced March 25, 2010 and expire on March 24, 2015. NW Trust is responsible for any leasing costs incurred in leasing this space and reimburses the REIT for leasing costs incurred.
- (b) The REIT earned rental revenue from a tenant which is an affiliate of NW Trust. The lease was surrendered on September 1, 2013 and the tenant is responsible for any rental shortfall as discussed in (i) below.
- (c) The REIT has entered into a Leasing and Construction Supervision Services Agreement with 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 entered into 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 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 charges interest on amounts receivables relating to (a) and (b).

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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Three and nine months ended September 30, 2014 and 2013
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16. Transactions with related parties (continued):

- (i) 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-orientated tenant. As part of the surrender agreement, the previous tenant was responsible for the restoration work on the premises and agreed to reimburse the REIT \$1,160 for the restoration of the premises and \$200 as a leasing and construction management fee. As part of the agreement, the previous tenant was 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.

17. Finance cost:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Interest on convertible debentures	\$ 533	\$ 110	\$ 1,584	\$ 110
Interest on other fixed rate debt	7,262	7,839	22,251	22,788
Interest on floating rate debt	198	254	531	1,297
Amortization of debt premiums	(172)	(297)	(603)	(1,078)
Amortization of transaction costs	106	126	306	398
Convertible debenture issuance costs	–	2,092	–	2,092
Debt repayment costs	38	–	438	208
	7,965	10,124	24,507	25,815
Class B exchangeable unit distributions	1,510	1,511	4,531	4,540
Fair value adjustment of Class B exchangeable units	(1,888)	(2,341)	(5,211)	(9,944)
Fair value adjustment of convertible debentures	865	(805)	1,268	(805)
Fair value adjustment of other financial instruments	110	(194)	1,880	(2,609)
	\$ 8,562	\$ 8,295	\$ 26,975	\$ 16,997

18. Commitments and contingencies:

- (a) The REIT has entered into fixed-price utility contracts with a third-party supplier in the amount of \$2,713 to provide electricity and gas for its own use at its investment properties.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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18. Commitments and contingencies (continued):

- (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 condensed consolidated interim 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.
- (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 September 30, 2014, 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.
- (e) 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 \$8,585 as at September 30, 2014.

19. Change in non-cash operating items:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Decrease (increase) in accounts receivable	\$ 49	\$ (2,905)	\$ (180)	\$ (2,896)
Increase in straight-line rents	(159)	(485)	(849)	(1,169)
Decrease (increase) in other assets, excluding deposits	1,897	3,665	(717)	(757)
Increase (decrease) in accounts payable and accrued liabilities	(291)	1,763	(3,050)	4,413
	\$ 1,496	\$ 2,038	\$ (4,796)	\$ (409)

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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20. Fair values:

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 condensed consolidated interim 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 assumption used by the REIT in determining fair value of its investment properties (Level 3 inputs).

Derivatives 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 (Level 1 inputs).

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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20. 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, deposits, restricted cash and cash and cash equivalents, as well as financial liabilities, which include accounts 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 September 30, 2014 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	639,270	–	656,677	–
Loans payable	11,507	–	11,507	–

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	–

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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21. Subsequent events:

During the period from October 1, 2014 to November 6, 2014, the REIT declared distributions of \$0.06667 per unit or \$2,602 to unitholders of record at October 31, 2014.