

Interim Consolidated Financial Statements of

**NORTHWEST HEALTHCARE  
PROPERTIES REAL ESTATE  
INVESTMENT TRUST**

Three months ended June 30, 2010 and  
period from March 25, 2010 to June 30, 2010  
(Unaudited)

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Interim Consolidated Balance Sheet

June 30, 2010  
(Unaudited)

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## Assets

Income-producing properties (note 3)	\$ 482,518,466
Goodwill and intangible assets (note 4)	66,569,431
Due from related party (note 5)	13,214,016
Accounts receivable (note 13)	1,792,204
Leasing costs (note 6)	1,756,049
Other assets (note 7)	4,514,452
Restricted cash (note 8)	175,000
Cash and cash equivalents	5,339,361
	<hr/>
	\$ 575,878,979

## Liabilities and Unitholders' Equity

### Liabilities:

Mortgages payable (note 9)	\$ 308,430,660
Accounts payable and accrued liabilities	11,000,678
Below-market leases (note 10)	10,099,046
Distribution payable	1,766,739
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	331,297,123
Unitholders' equity (note 11)	244,581,856
Related party (note 13)	
Commitments and contingencies (note 14)	
Subsequent event (note 18)	
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	\$ 575,878,979

See accompanying notes to interim consolidated financial statements.

On behalf of the Board:

"Edward J. Dato" \_\_\_\_\_ Trustee

"Peter Rigglin" \_\_\_\_\_ Trustee

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Interim Consolidated Statement of Operations  
(Unaudited)

	Three months ended June 30, 2010	Period from March 25, 2010 to June 30, 2010
Revenue	\$ 19,800,990	\$ 21,369,178
Expenses:		
Property operating	5,368,077	5,815,882
Property taxes	2,708,080	2,933,185
Mortgage and facility interest	4,296,796	4,632,772
Trust expenses	429,598	458,434
Depreciation of income-producing properties	2,570,363	2,767,738
Amortization of leasing costs	44,934	44,934
Amortization of in-place leases and tenant relationships	3,535,261	3,806,851
	<u>18,953,109</u>	<u>20,459,796</u>
Net income	\$ 847,881	\$ 909,382
Basic and diluted income per unit	\$ 0.03	\$ 0.03

See accompanying notes to interim consolidated financial statements.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Interim Consolidated Statement of Unitholders' Equity

Period from March 25, 2010 to June 30, 2010  
(Unaudited)

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Unitholders' equity, beginning of period	\$	–
Units issued, net of costs (note 11(a))		249,350,651
Units issued under deferred unit plan (note 11(b))		20,996
Net income		909,382
Distributions		(5,699,173)
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Unitholders' equity, end of period	\$	244,581,856

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See accompanying notes to interim consolidated financial statements.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Interim Consolidated Statement of Cash Flows  
(Unaudited)

	Three months ended June 30, 2010	Period from March 25, 2010 to June 30, 2010
Cash provided by (used in):		
Operating activities:		
Net income	\$ 847,881	\$ 909,382
Items not affecting cash:		
Depreciation and amortization	2,495,166	2,686,818
Amortization of mortgage premium	(153,685)	(165,474)
Amortization of intangible assets	3,535,261	3,806,851
Amortization of recoverable improvements	75,197	80,920
Amortization of financing costs	132,079	142,211
Amortization of leasing costs	44,934	44,934
Amortization of above-market leases	275,039	295,741
Amortization of below-market leases	(706,374)	(759,542)
Unit-based compensation	20,996	20,996
Leasing costs	(1,772,794)	(1,800,983)
Change in non-cash operating items (note 15)	(5,357,518)	(7,062,268)
	(563,818)	(1,800,414)
Financing activities:		
Proceeds from issuance of units, net of issue costs	11,657,046	171,852,931
Distributions	(3,932,434)	(3,932,434)
Repayment of mortgages	(1,470,529)	(49,215,096)
Repayment of acquired bank indebtedness	-	(2,787,672)
Financing costs	(924)	(529,241)
	6,253,159	115,388,488
Investing activities:		
Acquisition of net assets (note 2)	(315,138)	(105,939,640)
Additions to income-producing properties	(1,441,885)	(1,441,885)
Additions to recoverable improvements	(317,188)	(317,188)
Deposits on income-producing properties under contract	(540,000)	(550,000)
	(2,614,211)	(108,248,713)
Increase in cash and cash equivalents	3,075,130	5,339,361
Cash and cash equivalents, beginning of period	2,264,231	-
Cash and cash equivalents, end of period	\$ 5,339,361	\$ 5,339,361

See accompanying notes to interim consolidated financial statements.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

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NorthWest Healthcare Properties Real Estate Investment Trust (the "Trust") is an 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 Trust commenced operations on March 25, 2010 when it issued units for cash pursuant to an initial public offering (the "IPO") and acquired a portfolio of 45 buildings or health care real estate commercial properties (note 2). The Trust invests primarily in real properties operated as medical offices in Canada.

## 1. Significant accounting policies:

### (a) Basis of presentation:

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The consolidated financial statements include the accounts of the Trust and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated.

### (b) Property acquisitions:

Upon the acquisition of income-producing properties, the Trust allocates the purchase price, including acquisition costs, to the fair value of assets and liabilities, including land, buildings, furniture, fixtures and equipment, recoverable improvements and intangible assets, such as the value of the above- and below-market leases, in-place leases and tenant relationships.

### (c) Income-producing properties:

Income-producing properties are recorded at cost less accumulated depreciation. An impairment loss is required to be recognized when the carrying amount of the property exceeds the sum of the undiscounted cash flows expected from its use and disposal. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

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## 1. Significant accounting policies (continued):

Income-producing properties are depreciated on a straight-line basis over their estimated useful lives as follows:

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Buildings	29 - 40 years
Building improvements	5 - 25 years
Recoverable improvements	5 - 30 years
Furniture, fixtures and equipment	5 years

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### (d) Leasing costs:

Leasing commissions and other leasing costs which includes directly attributable internal costs of obtaining and renewing leases are amortized on a straight-line basis over the term of the related lease.

Payments to tenants under lease obligations are characterized either as tenant improvements owned by the landlord or as tenant inducements. When the obligation is determined to be a tenant improvement owned by the Trust, the Trust is considered to have acquired an asset. If the Trust determines that for accounting purposes it is not the owner of the tenant improvements, then the obligations under the lease are treated as tenant inducements. Tenant improvements and tenant inducements are amortized on a straight-line basis over the term of the lease. The amortization of tenant improvements is recorded as amortization expense and the amortization of tenant inducements is treated as a reduction of revenue.

### (e) Goodwill and intangible assets and below-market leases:

Intangible assets are recorded at cost less accumulated amortization and consist of in-place leases, tenant relationships and above-market leases.

Goodwill represents the cost of acquired net assets in excess of their fair values.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

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## 1. Significant accounting policies (continued):

Below-market leases are recorded at cost less accumulated amortization.

The values of the above- and below-market leases are amortized and recorded as either an increase (in the case of below-market leases) or a decrease (in the case of above-market leases) to revenue over the remaining term of the associated tenant occupancy. The value associated with in-place leases, which represents the avoided costs of originating the acquired leases plus the value of lost net rental revenue over the estimated lease-up period of the property, is similarly amortized over the remaining term of the tenant occupancy. The value of tenant relationships is amortized over the remaining term of the associated tenant occupancy plus renewal terms if applicable.

Intangible assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is not amortized, but reviewed for impairment annually, or more frequently if events or changes in circumstances indicate the asset might be impaired, by comparing the carrying value of a reporting unit with its fair value. If a lease is cancelled prior to the maturity date, any associated amounts are written off.

### (f) 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 net realizable value.

### (g) Financing costs:

Financing costs are presented with the related debt and amortized using the effective interest rate over the anticipated life of the related debt.



# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

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## 1. Significant accounting policies (continued):

### (h) Revenue recognition:

The Trust has adopted the straight-line method of recognizing rental revenue, whereby the total amount of rental revenue to be received from leases is accounted for on the straight-line basis over the term of the lease. Accordingly, an accrued rent receivable/payable is recorded from the tenants for the current difference between the straight-line rent recorded as rental revenue and the rent that is contractually due from the tenant.

Revenue from income-producing properties includes rents earned from tenants under lease agreements, parking, realty tax and operating cost recoveries and other incidental income. Lease related revenue is recognized as revenue over the term of the underlying leases. Other revenue is recognized at the time the service is provided.

### (i) Unit-based compensation:

The Trust uses the fair value based method of accounting for its equity awards, under which compensation expense is measured at the grant date and recognized over the vesting period.

### (j) Income taxes:

The Trust is an unincorporated open-ended investment trust created by the Declaration of Trust. The Trust will be taxed as a mutual fund trust for income tax purposes. Pursuant to the terms of the Declaration of Trust, the Trust intends to make distributions not less than the amount necessary to ensure that the Trust will not be liable to pay income taxes.

On June 22, 2007, new legislation relating to the federal income taxation of a specified investment flow-through trust or partnership ("SIFT") received royal assent (the "SIFT Rules").

Under the SIFT Rules, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital will not be subject to the tax.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

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## 1. Significant accounting policies (continued):

Under the SIFT rules, the new taxation regime will not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The Trust has reviewed the SIFT rules and has assessed their interpretation and application to the Trust's assets and revenue, and it has determined that it meets the REIT condition for the period ended June 30, 2010. Accordingly, no net current income tax expense or future income tax assets or liabilities have been recorded in the interim consolidated financial statements.

### (k) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. In determining the fair value of assets and liabilities of businesses it acquires, the estimated useful lives and net recoverable amounts for income-producing properties, the net realizable value of properties held for and under development, as well as the fair value of goodwill, if any, the Trust relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the uncertainty of predictions concerning future events. By nature, asset valuations are subjective and do not necessarily result in precise determinations. Actual results could differ from those estimates.

### (l) Financial instruments:

Financial instruments are classified as one of the following: (i) held-to-maturity, (ii) loans and receivables, (iii) held-for-trading, (iv) available-for-sale, or (v) other liabilities. Financial assets and liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in the interim consolidated statement of operations. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are measured at amortized cost. Available-for-sale financial instruments are measured at fair value and any unrealized gains and losses will be recognized in the interim consolidated statement of comprehensive income.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

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## 1. Significant accounting policies (continued):

The Trust designated its restricted cash, cash and cash equivalents as held-for-trading; accounts receivable and other receivables as loans and receivables; and mortgages payable, bank indebtedness, accounts payable and other liabilities as other liabilities. The Trust has neither available-for-sale nor held-to-maturity instruments.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset's or liability's carrying value at inception.

### (m) Comprehensive income:

The Trust has determined that there are no comprehensive income items that should be included in an interim consolidated statement of comprehensive income and, consequently, no such statement is presented.

### (n) Future changes in accounting policies:

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards ("IFRS") will, for public entities, replace Canadian GAAP effective for fiscal periods beginning on or after January 1, 2011, with comparative figures presented on the same basis. The Canadian Securities Administrators have provided issuers with option of early adopting IFRS for Canadian reporting purposes. The Trust does not intend to prematurely adopt IFRS at this time. The Trust is currently evaluating the impact of adopting IFRS and its primary accounting principles and developing its changeover plan.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

## 2. Acquisition:

On March 25, 2010, subsidiaries of the Trust indirectly acquired from NorthWest Operating Trust ("NW Operating Trust") 45 commercial properties through its acquisition of Healthcare Properties LP ("HPLP") for a net purchase price of \$171,899,206. The net assets acquired have been accounted for using the purchase method of accounting. The purchase price has been allocated to the assets and liabilities assumed, based on their fair values at the date of acquisition, as follows:

### Assets

Income-producing properties	\$ 483,207,826
Intangible assets	70,672,023
Other assets	4,665,725
	<hr/> 558,545,574

### Liabilities

Bank indebtedness	2,787,672
Assumed mortgages, including mark-to-market adjustments	358,198,259
Accounts payable and accrued liabilities	14,309,659
Unearned revenue	492,190
Below-market leases	10,858,588
	<hr/> 386,646,368

Net assets acquired	<hr/> \$ 171,899,206
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Consideration given indirectly by the Trust:

Class B LP units of NHP Holdings Limited Partnership ("NHP") (note 11)	\$ 77,497,720
Cash	105,624,502
Due from NW Operating Trust (note 5)	(11,223,016)

Total consideration paid	<hr/> \$ 171,899,206
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The Trust is in the process of completing the valuation of the net assets acquired and the purchase price allocation may be adjusted in future periods and, accordingly, depreciation and amortization expense may be adjusted.

Immediately following the acquisition of HPLP, the Trust repaid \$47,744,567 of the assumed mortgages.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

## 2. Acquisition (continued):

During the period from March 25, 2010 to June 30, 2010, the Trust acquired a piece of land adjacent to an income-producing property owned by the Trust for net cash consideration of \$315,138. The acquisition of the property and the related assets and liabilities has been recorded by the purchase method. The net assets acquired were as follows:

<b>Assets</b>	
Income-producing properties	\$ 319,305
<b>Liabilities</b>	
Accounts payable and accrued liabilities	4,167
<b>Net assets acquired for cash</b>	<b>\$ 315,138</b>

## 3. Income-producing properties:

	Cost	Accumulated depreciation	Net book value
Land	\$ 92,642,131	\$ —	\$ 92,642,131
Buildings and building improvements	387,255,517	2,666,243	384,589,274
Recoverable improvements	5,068,473	80,920	4,987,553
Furniture, fixtures and equipment	320,083	20,575	299,508
	<b>\$ 485,286,204</b>	<b>\$ 2,767,738</b>	<b>\$ 482,518,466</b>

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

## 4. Goodwill and intangible assets:

	Cost	Accumulated amortization	Net book value
In-place leases	\$ 47,077,950	\$ 3,163,840	\$ 43,914,110
Tenant relationships	15,548,000	643,011	14,904,989
Above-market leases	4,361,858	295,741	4,066,117
Goodwill	3,684,215	–	3,684,215
	<b>\$ 70,672,023</b>	<b>\$ 4,102,592</b>	<b>\$ 66,569,431</b>

## 5. Due from related party:

Due from NW Operating Trust	\$ 13,214,016
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The balance represents the following: (a) the working capital deficiency of HPLP (note 2) of \$11,223,016 on the date of acquisition which, under the terms of the acquisition agreement, is to be funded by NW Operating Trust; and (b) the issue costs of \$1,991,000 related to the issuance of units (note 11) which were assumed by the Trust to be reimbursed by NW Operating Trust.

## 6. Leasing costs:

	Cost	Accumulated amortization	Net book value
Leasing costs	\$ 1,800,983	\$ 44,934	\$ 1,756,049

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

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## 7. Other assets:

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Prepaid expenses	\$ 2,369,062
Mortgage escrow	603,793
Deposits on income-producing properties under contract	750,000
Other deposits	791,597
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	\$ 4,514,452

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## 8. Restricted cash:

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Restricted cash	\$ 175,000
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Restricted cash represents an earn-out reserve on a first mortgage on one of the Trust's properties.

## 9. Mortgages payable:

The Trust has various first mortgage facilities and one second mortgage at fixed rates ranging from 4.77% to 6.53% with terms ranging from four months to seven years. One first mortgage totalling \$1,365,000 requires no principal repayments until maturity. The weighted average interest rate is 5.58%.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

## 9. Mortgages payable (continued):

All mortgages are secured by first or second charges on specific facilities and are repayable as follows:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable
2010 remainder	\$ 3,002,537	\$ 1,365,000	\$ 4,367,537
2011	6,259,052	—	6,259,052
2012	6,444,219	10,028,231	16,472,450
2013	6,538,633	17,228,510	23,767,143
2014	5,974,551	35,864,975	41,839,526
2015	4,824,589	49,630,869	54,455,458
2016	4,130,496	94,029,887	98,160,383
2017	620,524	60,939,080	61,559,604
	<u>\$ 37,794,601</u>	<u>\$ 269,086,552</u>	306,881,153
Mark-to-market adjustment			1,936,537
Unamortized financing costs			(387,030)
			<u>\$ 308,430,660</u>

Mortgage interest expense for the period from March 25, 2010 to June 30, 2010 was \$4,570,587.

The Trust also has a floating rate revolving credit facility of \$35.0 million which expires on March 25, 2011 subject to an extension term of one year. The facility bears interest at banker's acceptance plus 350 basis points or prime plus 2.5% and is secured by certain income-producing properties and the terms of a general security agreement. As at June 30, 2010, there was no outstanding balance on the credit facility. The commitment fee of \$306,250 related to this facility is included in financing costs and is amortized over a year, which is the term of the facility.



# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

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## 10. Below-market leases:

	Cost	Accumulated amortization	Net book value
Below-market leases	\$ 10,858,588	\$ 759,542	\$ 10,099,046

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## 11. Unitholders' equity:

The Trust is authorized to issue an unlimited number of units. 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 Trust to redeem their units on demand. Upon receipt of the redemption notice by the Trust, 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 Trust's unitholders' equity is represented by two categories of equity: trust units of the Trust and exchangeable units of NHP, a subsidiary of the Trust. Each Class B unit of NHP is exchangeable into one unit of the Trust. As at June 30, 2010, there were 7,749,772 exchangeable units issued and outstanding by NHP with a stated value of \$77,497,720. These exchangeable units are economically equivalent to trust units and are entitled only to receive distributions equal to those provided to holders of trust units. As a result, the unitholders' equity includes the issued and outstanding units of the Trust and the exchangeable units of subsidiary of the Trust.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

## 11. Unitholders' equity (continued):

The Trust's Trustees have discretion in declaring distributions.

### (a) Units outstanding:

	Units	Amount
Units issued, beginning of period	–	\$ –
Issuance of units initial public offering	17,500,000	175,000,000
Issuance of units over-allotment option	1,250,000	12,500,000
Class B LP units of NHP issued	7,749,772	77,497,720
Units issued	26,499,772	264,997,720
Less issue costs	–	(15,647,069)
Units issued, net of issue cost, end of period	26,499,772	\$ 249,350,651

### (b) Deferred unit plan:

In order to align the interest between the trustees and certain officers of the Trust, 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:

- (i) 50% of the deferred units on the third anniversary of the award date;
- (ii) 25% of the deferred units on the fourth anniversary of the award date; and
- (iii) 25% of the deferred units on the fifth anniversary of the award date.

For the period from March 25, 2010 to June 30, 2010, 3,808 units were granted under the deferred unit plan at an average unit price of \$11.027.

### (c) Per unit calculation:

Per unit information is calculated based on the weighted average number of units outstanding for the period. The weighted average number of basic and diluted units outstanding for the period from March 25, 2010 to June 30, 2010 is 26,333,956.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

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## 12. Segment disclosure:

All of the Trust'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 Trust's rental revenue.

## 13. Related party transactions and balances:

Except as disclosed elsewhere in the financial statements, the following are the related party transactions:

- (a) The Trust has entered into head leases with NW Operating Trust on three properties. The annual minimum rent for the head leases totals \$2,169,242 plus an annual parking supplement of \$334,800. 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.

For the period from March 25, 2010 to June 30, 2010, the Trust earned a total of \$827,756 (three months ended June 30, 2010 - \$772,322) of minimum rent, operating cost recoveries and parking income related to the head leases.

NW Operating Trust is responsible for all leasing costs incurred in leasing the head lease spaces. For the period from March 25, 2010 to June 30, 2010, the Trust has incurred leasing costs of \$448,540 (three months ended June 30, 2010 - \$448,540) to be reimbursed by NW Operating Trust.

As of June 30, 2010, accounts receivable includes \$406,268 pertaining to head lease rents and leasing cost reimbursements.

- (b) NW Operating Trust has committed to pay rent on a property until the tenant begins paying rent under their lease agreement. For the period from March 25, 2010 to June 30, 2010, the Trust earned \$135,179 (three months ended June 30, 2010 - \$125,548) of related revenue.
- (c) The Trust earned revenue from a tenant which is owned and operated by a related party. For the period from March 25, 2010 to June 30, 2010, the Trust earned revenue of \$251,088 (three months ended June 30, 2010 - \$232,968) related to the tenant.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

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## 13. Related party transactions and balances (continued):

- (d) The Trust has entered into Management and Cost Sharing Agreements with NW Operating Trust to provide property management services for two properties for a period of five years commencing March 25, 2010 for \$418,630 per annum plus reimbursement of expenditures based on standard commercial terms provided by the Trust. During the period from March, 25, 2010 to June 30, 2010, the Trust recovered costs of \$211,391 (three months ended June 30, 2010 - \$197,243). \$73,706 (three months ended June 30, 2010 - \$73,706) has been recorded on a cost recovery basis against operating expenses, with the remainder recorded as revenue. \$76,488 is included in accounts receivable at June 30, 2010.
- (e) The Trust has entered into a Leasing and Construction Supervision Services Agreement with NW Operating Trust to provide supervision and leasing services at the properties subject to the head leases for a period of five years, commencing March 25, 2010. During the period from March, 25, 2010 to June 30, 2010, the Trust earned supervision and leasing fees of \$91,054 (three months ended June 30, 2010 - \$91,054). This amount is included in revenue and accounts receivable.
- (f) The Trust has entered into a sublease agreement with an affiliate of NW Operating Trust to lease its head office premises. The sublease term is for the period from March 25, 2010 to December 31, 2010. This sublease was amended during the three months ended June 30, 2010 for rent charges. The Trust is to pay an annual minimum rent of \$200,000 plus additional rents. For the period from March 25, 2010 to June 30, 2010, \$109,922 (three months ended June 30, 2010 - \$109,922) was incurred for this lease.
- (g) The Trust has entered into a Support Services agreement with NW Operating Trust to provide NW Operating Trust certain support services for a fee based on an allocation of the relevant costs of the support services incurred by the Trust. For the period from March 31, 2010 to June 30, 2010, the Trust recovered \$56,384 (three months ended June 30, 2010 - \$56,384) from NW Operating Trust related to these services. This amount has been recorded on a cost recovery basis against operating expenses and is included in accounts receivable at June 30, 2010.

## 14. Commitments and contingencies:

- (a) The Trust has assumed an obligation with respect to one ground lease. The lease expires on June 30, 2036, with monthly payments of \$18,750.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

## 14. Commitments and contingencies (continued):

- (b) The Trust entered into an agreement related to the acquisition of one of the properties where it has agreed to pay the original vendor an additional \$700,000 plus accrued interest upon obtaining municipal approval to introduce paid parking within a period of five years from the closing date.
- (c) The Trust is involved in litigation and claims in relation to the income-producing 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 interim consolidated financial statements.

## 15. Change in non-cash operating items:

	Three months ended June 30, 2010	Period from March 25, 2010 to June 30, 2010
Increase in due from related party	\$ (1,991,000)	\$ (1,991,000)
Decrease in accounts receivable	(81,702)	68,653
Increase in other assets, excluding deposits	(1,112,772)	(1,148,716)
Increase in straight-line rents	(174,524)	(185,868)
Decrease in accounts payable and accrued liabilities	(1,997,520)	(3,805,337)
	<b>\$ (5,357,518)</b>	<b>\$ (7,062,268)</b>

## 16. Capital management:

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

The Trust considers its capital to be its unitholders' equity and mortgages payable. The Trust 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 Trust will make adjustments to its capital based on its investment strategies and changes to economic conditions.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

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## 16. Capital management (continued):

The Trust'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 Trust's operating policies as outlined in the Amended and Restated Declaration of Trust includes requirements that the Trust 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 Trust to exceed 65% of Gross Book Value as defined.

In addition, the Trust 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 1.50; and
- (d) a minimum Adjusted Unitholders' Equity of not less than the aggregate of (i) \$200,000,000; and (ii) 75% of net proceeds in connection with equity offerings after June 30, 2010.

The Trust complied with all financial covenants during the period from March 25, 2010 to June 30, 2010.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

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## 17. Risk management and fair values:

### (a) Risk management:

In the normal course of business, the Trust 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 Trust at risk that interest rates may rise before long-term fixed rate debt is arranged. At June 30, 2010, none of the Trust's mortgages bear interest at floating rates. The Trust staggers the maturities of its mortgages payable in order to minimize the exposure to future interest rate fluctuations.

#### (ii) Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the Trust by failing to discharge its obligations. The Trust is exposed to credit risk on all financial assets and its exposure is generally limited to the carrying amount on the interim consolidated balance sheet. The Trust 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.

#### (iii) Liquidity risk:

Liquidity risk is the risk that the Trust will encounter difficulty in meeting its financial obligations when they come due. Managements' 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 Trust, whenever possible, enters into long-term leases with creditworthy tenants which assist in maintaining a predictable cash flow. The Trust's policy is to ensure adequate funding is available from operations, established lending facilities and other sources as required.

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements (continued)

Three months ended June 30, 2010 and period from March 25, 2010 to June 30, 2010  
(Unaudited)

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## 17. Risk management and fair values (continued):

### (iv) Market risk:

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

### (b) Fair values:

The fair values of the Trust's financial assets, which include accounts 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 values due to their short-term nature. The fair values of the Trust's mortgages payable at June 30, 2010 is \$312,499,854. The fair values have been estimated based on the current market rates for mortgages with similar terms and conditions.

## 18. Subsequent event:

The Trust has entered into binding purchase and sale agreements to acquire three additional income-producing properties for aggregate consideration of \$42,900,000. One acquisition of an income-producing property closed on July 7, 2010 for a gross purchase price of \$21,200,000, and was financed through a draw on the credit facility of \$18,000,000 and surplus cash on hand.