

Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars)

**NORTHWEST HEALTHCARE
PROPERTIES REAL ESTATE
INVESTMENT TRUST**

Three and nine months ended September 30, 2013 and 2012
(Unaudited)

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

	September 30, 2013	December 31, 2012
Assets		
Investment properties (note 5)	\$ 1,294,375	\$ 1,244,875
Goodwill	4,458	4,458
Loan receivable (note 6)	8,000	8,000
Accounts receivable	5,993	3,059
Other assets (note 7)	18,110	16,721
Restricted cash	175	175
Cash and cash equivalents	2,007	4,189
Total assets	\$ 1,333,118	\$ 1,281,477

Liabilities and Unitholders' Equity

Liabilities:

Mortgages payable (note 8)	\$ 653,772	\$ 626,426
Convertible debentures (note 9)	39,445	-
Loans payable (note 10)	11,497	34,796
Class B exchangeable units (note 11)	84,275	95,042
Other financial instruments (note 8)	-	1,047
Accounts payable and accrued liabilities	26,548	21,820
Distributions payable	2,581	2,567
Total liabilities	818,118	781,698
Unitholders' equity (note 12)	515,000	499,779
Commitments and contingencies (note 17)		
Total liabilities and unitholders' equity	\$ 1,333,118	\$ 1,281,477

See accompanying notes to condensed consolidated interim financial statements.

The condensed consolidated interim financial statements were approved by the Board on November 4, 2013 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,	
	2013	2012	2013	2012
Revenue from operations	\$ 37,683	\$ 32,672	\$ 111,685	\$ 97,754
Property operating expenses	16,954	14,518	50,905	44,197
Operating income	20,729	18,154	60,780	53,557
Finance cost (note 16)	10,124	7,075	25,815	20,306
Interest income	(200)	(892)	(620)	(1,500)
Trust expenses	930	879	2,819	2,779
Income before Class B exchangeable unit costs and fair value adjustments	9,875	11,092	32,766	31,972
Finance cost:				
Class B exchangeable unit distributions (notes 11 and 16)	(1,511)	(1,524)	(4,540)	(4,570)
Fair value adjustment of Class B exchangeable units (notes 11 and 16)	2,341	153	9,944	(12,108)
Fair value adjustment of convertible debentures (note 9)	805	–	805	–
Fair value adjustment of other financial instruments (notes 8 and 16)	194	(1,055)	2,609	(1,055)
Fair value adjustment of investment properties (note 4)	(217)	15,460	(5,749)	54,448
Net loss on disposal of investment property (note 4)	–	–	(73)	–
Net income and comprehensive income	\$ 11,487	\$ 24,126	\$ 35,762	\$ 68,687

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, 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 12(b))	1,816	–	1,816
Unitholders' equity, end of period	\$ 398,264	\$ 116,736	\$ 515,000

Nine months ended September 30, 2012	Unit capital	Retained earnings	Total
Unitholders' equity, beginning of period	\$ 355,467	\$ 40,794	\$ 396,261
Units issued, net of costs	16,300	–	16,300
Total net income and comprehensive income	–	68,687	68,687
Distributions	–	(21,553)	(21,553)
Distribution reinvestment plan (note 12(b))	1,863	–	1,863
Unitholders' equity, end of period	\$ 373,630	\$ 87,928	\$ 461,558

Distributions per unit during the nine months ended September 30, 2013 were \$0.60 (nine months ended September 30, 2012 - \$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,	
	2013	2012	2013	2012
Operating activities:				
Net income	\$ 11,487	\$ 24,126	\$ 35,762	\$ 68,687
Adjustments for:				
Finance cost (note 16)	8,295	9,501	16,997	38,039
Interest income	(200)	(892)	(620)	(1,500)
Fair value adjustment of investment properties	217	(15,460)	5,749	(54,448)
Net loss on disposal of investment property	–	–	73	–
Change in non-cash operating items (note 18)	2,038	405	(409)	867
Cash generated from operating activities	21,837	17,680	57,552	51,645
Interest paid	(8,083)	(7,137)	(24,264)	(20,888)
Interest paid - Class B exchangeable units	(1,511)	(1,524)	(4,545)	(4,570)
Interest received	200	164	620	549
Net cash from operating activities	12,443	9,183	29,363	26,736
Investing activities:				
Acquisition of investment properties (note 3)	(21,413)	(20,977)	(26,045)	(71,668)
Additions to investment properties (note 5)	(7,765)	(5,367)	(19,503)	(14,302)
Net loss on disposal of investment property	–	–	962	–
Notes and loan receivable advances	–	–	–	(41,300)
Acquisition of securities	–	(11,848)	–	(11,848)
Proceeds on securities	249	–	746	–
Deposits on investment properties under contract	200	(5)	320	1,645
Net cash used in investing activities	(28,729)	(38,197)	(43,520)	(137,473)
Financing activities:				
Proceeds from issuance of units, net of issue costs	–	–	–	16,300
Distributions	(7,108)	(6,813)	(21,350)	(19,592)
Mortgage advances	15,750	43,500	81,848	134,355
Repayment of mortgages	(4,046)	(3,012)	(63,339)	(52,786)
Proceeds from issuance of convertible debentures, net of issue costs	38,158	–	38,158	–
Secured credit facility advance	16,500	15,000	60,500	96,000
Secured credit facility repayment	(41,500)	(19,500)	(83,250)	(65,000)
Transaction costs	(164)	(304)	(592)	(1,051)
Net cash from financing activities	17,590	28,871	11,975	108,226
Increase (decrease) in cash and cash equivalents	1,304	(143)	(2,182)	(2,511)
Cash and cash equivalents, beginning of period	703	1,348	4,189	3,716
Cash and cash equivalents, end of period	\$ 2,007	\$ 1,205	\$ 2,007	\$ 1,205

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, 2013 and 2012
(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 September 30, 2013, NorthWest Operating Trust ("NW Trust") and its affiliates controlled approximately 25.7% of the REIT through a combination of REIT units, Class B exchangeable units of NHP Holdings Limited Partnership ("NHP ") and 100% of the special voting units of the REIT which are attached to the Class B exchangeable units of NHP, a subsidiary of the REIT.

1. **Basis of preparation:**

The condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Accounting Standards ("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, 2012, since they do not contain all disclosures required by IFRS for annual financial statements. These unaudited condensed consolidated interim financial statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

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

The condensed consolidated interim financial statements are presented in thousands of Canadian dollars, except for 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, 2013 and 2012
(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, 2012, except as described below:

(a) 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 fair value through profit and loss ("FVTPL").

The convertible debentures are measured at fair value each reporting period with any changes in fair value recognized in the condensed consolidated interim statements of income and comprehensive income as finance cost. The interest on the convertible debentures is accounted for as a finance cost (note 16).

(b) Changes in accounting standards:

- (i) The REIT has adopted IFRS 10, Consolidated Financial Statements ("IFRS 10"), in its condensed consolidated interim financial statements for the three and nine months ended September 30, 2013. IFRS 10 replaces the guidance in IAS 27, Consolidated and Separate Financial Statements, and Standing Interpretation Committee 12, Consolidation - Special Purpose Entities ("SIC-12"). IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC-12. The adoption of IFRS 10 did not have a material impact on the REIT's 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, 2013 and 2012
(Unaudited)

2. Significant accounting policies (continued):

- (ii) The REIT has adopted IFRS 13, Fair Value Measurements ("IFRS 13"), prospectively in its condensed consolidated interim financial statements for the three and nine months ended September 30, 2013 and 2012. IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. The standard also requires disclosures which enable users to assess the methods and inputs used to develop fair value measurements. The adoption of IFRS 13 resulted in additional disclosure of the REIT's various methods in estimating the fair values of assets and liabilities that are measured at fair value on recurring or non-recurring basis in the condensed consolidated interim balance sheets.
- (iii) The REIT has adopted the amendments to IFRS 7, Financial Instruments - Disclosures, in its condensed consolidated interim financial statements for the three and nine months ended September 30, 2013 and 2012. The adoption of the amendments did not have a material impact on the REIT's condensed consolidated interim financial statements.
- (iv) In June 2011, the International Accounting Standards Board published amendments to IAS 1, Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income ("IAS 1"), which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. The REIT has adopted the amendments to IAS 1 in its condensed consolidated interim financial statements for the three and nine months ended September 30, 2013 and 2012. The adoption of the amendments did not have a material impact on the REIT's 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, 2013 and 2012
(Unaudited)

2. Significant accounting policies (continued):

- (v) IAS 28, Investments in Associates and Joint Ventures ("IAS 28"), which was amended in 2011, prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IFRS 11, Joint Arrangements ("IFRS 11"), establishes principles for financial reporting by parties to a joint arrangement. The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity-accounted. The REIT has adopted IFRS 11 and IAS 28 for the three and nine months ended September 30, 2013. The adoption of IFRS 11 and the amendments to IAS 28 did not have a material impact on the REIT's condensed consolidated interim financial statements.

- (vi) IFRS 12, Disclosure of Interest in Other Entities ("IFRS 12"), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. Disclosure of information that will assist financial statement users in evaluating the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements is required. The REIT has adopted IFRS 12 for the three and nine months ended September 30, 2013 and 2012. The adoption of IFRS 12 did not have a material impact on the REIT's 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, 2013 and 2012
(Unaudited)

3. Acquisitions:

(a) Acquisition during the nine months ended September 30, 2013:

During the nine months ended September 30, 2013, the REIT acquired five investment properties for net cash consideration of \$26,045. The acquisition of the investment properties and related assets and liabilities have been accounted for as asset purchases. The net assets acquired 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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(b) Acquisitions during the year ended December 31, 2012:

During the year ended December 31, 2012, the REIT acquired 19 investment properties for net cash consideration of \$121,163. The acquisitions of the investment properties and related assets and liabilities have been accounted for as asset purchases.

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, 2013 and 2012
(Unaudited)

3. Acquisitions (continued):

The recognized amounts of assets acquired and liabilities assumed were as follows:

Assets

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

Liabilities

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

Net assets acquired	<hr/> \$ 121,163
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Consideration:	
Cash	\$ 91,163
Note payable	30,000

	<hr/> \$ 121,163
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4. Dispositions:

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.

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, 2013 and 2012
(Unaudited)

5. Investment properties:

Balance, January 1, 2013	\$ 1,244,875
Acquisitions of investment properties (note 3)	35,612
Additions	19,503
Disposition of investment property	(1,035)
Increase in straight-line rents receivable	1,169
Fair value adjustment	(5,749)
Balance, September 30, 2013	\$ 1,294,375
Balance, January 1, 2012	\$ 985,384
Acquisitions of investment properties (note 3)	175,138
Additions	19,063
Increase in straight-line rents receivable	1,741
Fair value adjustment	63,549
Balance, December 31, 2012	\$ 1,244,875

The REIT determined the fair value of each investment property using the discounted cash flow method. The discounted cash flow method discounts the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows (Level 3 inputs, refer to note 19).

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

	September 30, 2013	December 31, 2012
Discount rates - range	6.3% - 10.0%	6.5% - 10.0%
Discount rate - weighted average	7.7%	7.6%
Terminal capitalization rate - range	6.0% - 9.3%	6.0% - 9.3%
Terminal capitalization rate - weighted average	7.2%	7.0%

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, 2013 and 2012
(Unaudited)

5. Investment properties (continued):

The fair values of investment properties are most sensitive to changes in discount rates and terminal capitalization rates. As at September 30, 2013, a 25-basis-point decrease in the weighted average portfolio discount rate and terminal capitalization rate would increase the value of investment property by \$51,450. A 25-basis-point increase in the weighted average portfolio discount rate and terminal capitalization rate would decrease the value of investment property by \$47,720.

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 three months ended September 30, 2013, commercial properties with an aggregate fair value of \$72,550 (December 31, 2012 - \$333,300) were valued by external valuation professionals with recognized and relevant professional qualification.

6. Loan receivable:

	September 30, 2013	December 31, 2012
Loan	\$ 8,000	\$ 8,000

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

During the nine months ended September 30, 2013, the parties to the loan mutually agreed to extend the maturity date from December 13, 2013 to January 31, 2014.

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, 2013 and 2012
(Unaudited)

6. Loan receivable (continued):

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. Other assets:

	September 30, 2013	December 31, 2012
Prepaid expenses	\$ 3,900	\$ 2,668
Mortgage escrow	436	729
Deposits on investment properties under contract	—	320
Other deposits	754	880
Investments - defeasance	10,855	11,601
Other financial instruments (note 8)	1,562	—
Finance cost (note 10)	105	—
Other	498	523
	\$ 18,110	\$ 16,721

Investments consist of government bonds and cash related to the defeasance of a mortgage associated with one of the REIT's investment properties. Pursuant to the defeasance, the government bonds and cash were held in a securities account and pledged as security for the loan in return for the lender releasing the mortgage on the investment property.

Neither the financial asset nor the loan qualified for derecognition and, as a result, both remain on the condensed consolidated interim balance sheets.

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

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, 2013 and 2012
(Unaudited)

8. Mortgages payable:

All mortgages are secured by first or second charges on specific investment properties, with a carrying value of \$1,173,857 at September 30, 2013 and are repayable as follows:

	Scheduled principal repayments	Debt maturing during the period	Total mortgages payable
2013 remainder	\$ 4,002	\$ 38,547	\$ 42,549
2014	14,865	48,324	63,189
2015	13,917	58,102	72,019
2016	13,369	114,267	127,636
2017	9,662	66,971	76,633
2018	8,847	25,617	34,464
2019	8,321	23,788	32,109
2020	7,956	36,907	44,863
2021	5,786	51,308	57,094
2022	3,968	50,264	54,232
2023 and thereafter	4,244	43,973	48,217
Face value	<u>\$ 94,937</u>	<u>\$ 558,068</u>	653,005
Mark-to-market adjustment			2,178
Unamortized financing costs			(1,411)
Carrying amount			<u>\$ 653,772</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, 2013 and 2012
(Unaudited)

8. Mortgages payable (continued):

	September 30, 2013	December 31, 2012
Mortgages at fixed rates - contractual amount	\$ 550,324	\$ 548,852
Mortgages at variable rates - contractual amount	102,681	75,464
Mark-to-market adjustment	2,178	3,232
Unamortized financing costs	(1,411)	(1,122)
Carrying amount	\$ 653,772	\$ 626,426
Interest rates	2.00% - 6.19%	2.00% - 6.75%
Weighted average interest rate	4.76%	4.93%

The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on \$50,933 of its variable rate mortgages payable as at September 30, 2013. 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, 2013, the REIT recognized a fair value gain of \$194 and \$2,609, respectively, (three and nine months ended September 30, 2012 - fair value loss of \$1,055) and a financial instrument asset of \$1,562 (December 31, 2012 - financial instrument liability of \$1,047).

9. 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 September 30, 2013 was \$98.00.

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, 2013 and 2012
(Unaudited)

9. Convertible debentures (continued):

The REIT has the following series of convertible debentures outstanding:

	Fair value	Principal
5.25% convertible debentures	\$ 39,445	\$ 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.

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.

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, 2013 and 2012
(Unaudited)

10. Loans payable:

	September 30, 2013	December 31, 2012
Secured floating rate revolving credit facility (a)	\$ –	\$ 22,500
Term loan (b)	10,779	11,219
Promissory notes payable	718	1,077
	\$ 11,497	\$ 34,796

(a) Secured floating rate revolving credit facility:

The REIT has a floating rate revolving credit facility of \$50,000 which expires on March 25, 2014. The facility bears interest at banker's acceptance rate plus 2.25% or prime plus 1.25% and is secured by certain investment properties, with a carrying value of \$113,450 and the terms of a general security agreement. As at September 30, 2013, there was nil (December 31, 2012 - \$22,750) outstanding balance on the credit facility net of unamortized financing costs of \$105 (December 31, 2012 - \$250).

(b) Term loan:

During the year ended December 31, 2012, the REIT defeased a mortgage associated with one of its investment properties (note 8). Following the defeasance, the underlying term loan did not qualify for derecognition. The term loan has a contractual interest rate of 6.53%, matures on November 1, 2013, and is recognized at an amortized cost of \$10,779 as at September 30, 2013.

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, 2013 and 2012
(Unaudited)

11. 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 exchangeable 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
Units issued, January 1, 2013	7,615,546	\$ 95,042
Fair value adjustment of Class B exchangeable units	–	(9,944)
Class B exchangeable units converted to REIT units	(64,000)	(823)
Class B exchangeable units outstanding, September 30, 2013	7,551,546	\$ 84,275
Units issued, January 1, 2012	7,615,546	\$ 87,503
Fair value adjustment of Class B exchangeable units	–	7,539
Class B exchangeable units issued, December 31, 2012	7,615,546	\$ 95,042

During the three and nine months ended September 30, 2013, the REIT recognized \$1,511 and \$4,540, respectively (three and nine months ended September 30, 2012 - \$1,524 and \$4,570, respectively), of distributions declared on Class B exchangeable units as finance cost.

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, 2013 and 2012
(Unaudited)

12. 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, 2013 and 2012
(Unaudited)

12. Unitholders' equity (continued):

(a) Units outstanding:

	Units	Amount
Units issued, January 1, 2013	38,499,903	\$ 395,625
Units issued in exchange for Class B exchangeable units	64,000	823
Distribution reinvestment plan	156,626	1,816
Units issued, September 30, 2013	38,720,529	\$ 398,264
Units outstanding, January 1, 2012	35,232,023	\$ 355,467
Private placements	3,070,000	37,799
Distribution reinvestment plan	197,880	2,411
Units issued	38,499,903	395,677
Less issue costs	-	52
Units outstanding, December 31, 2012	38,499,903	\$ 395,625

(b) Distribution reinvestment plan:

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

(a) Liability:

January 1, 2013	\$ 1,847
Unit-based compensation expense	591
Exercised and paid	(18)
September 30, 2013	\$ 2,420
January 1, 2012	\$ 743
Unit-based compensation expense	1,104
December 31, 2012	\$ 1,847

(b) Units outstanding:

January 1, 2013	177,135
Granted	96,848
Exercised and paid	(1,453)
Forfeit	(8,006)
Distribution entitlement	12,228
September 30, 2013	276,752
Vested, but not issued, September 30, 2013	–
January 1, 2012	92,719
Granted	75,113
Distribution entitlement	9,303
December 31, 2012	177,135
Vested, but not issued, December 31, 2012	–

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

For the nine months ended September 30, 2013, 96,848 units were granted under the deferred unit plan at an average unit price of \$12.40.

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

14. 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.

15. Transactions with related parties:

The REIT is the ultimate Canadian parent entity.

The condensed consolidated interim financial statements as at September 30, 2013 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

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)
(Expressed in thousands of Canadian dollars)

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(Unaudited)

15. Transactions with related parties (continued):

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Revenue from investment properties:				
Head lease income (a)	\$ 432	\$ 471	\$ 1,295	\$ 1,617
Rental income (b)	223	234	715	707
Management fee revenue:				
Leasing and construction supervision services (b), (c)	206	–	211	17
Management services and cost sharing (d)	97	98	297	292
Support services provided (e)	23	19	65	33
Property operating and trust expenses:				
Support services provided (e)	64	–	64	(72)
Rental expense (f)	77	77	235	258
Interest income:				
Interest (a), (b)	8	–	26	–
Loan receivable interest (g)	76	76	224	233
Promissory notes interest (h)	–	728	–	966
Finance cost:				
Class B exchangeable unit distributions	1,511	1,524	4,540	4,570
Leasing costs reimbursement (a), (b)	1,179	3	1,217	91
			September 30, 2013	December 31, 2012
Balance sheet balances:				
Accounts receivable			\$ 2,115	\$ 24
Working capital adjustment payable			92	92
Loan receivable (g)			4,000	4,000

(a) In conjunction with its Initial Public Offering, the REIT entered into head leases with NW Trust on three properties in which NW Trust is the tenant. 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. NW Trust is responsible for any leasing costs incurred in leasing this space and reimburses the REIT for leasing costs incurred.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

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(Unaudited)

15. Transactions with related parties (continued):

- (b) The REIT earned rental revenue from a tenant which is an affiliate of NW Trust. The lease was surrendered on September 1, 2013 and the tenant is responsible for any rental shortfall as discussed below.
- (c) The REIT has entered into a Leasing and Construction Supervision Services Agreement with 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.
- (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 earned interest in 2012 on two promissory notes related to a portfolio acquisition from an affiliate of NW Trust; these notes were fully repaid in 2012.

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 tenant 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 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.

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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(Unaudited)

16. Finance cost:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Interest on convertible debentures	\$ 110	\$ –	\$ 110	\$ –
Interest on other fixed rate debt	7,839	6,791	22,788	19,861
Interest on floating rate debt	254	490	1,297	1,148
Amortization of debt premiums	(297)	(310)	(1,078)	(951)
Amortization of transaction costs	126	104	398	248
Convertible debenture issuance costs	2,092	–	2,092	–
Debt repayment costs	–	–	208	–
	10,124	7,075	25,815	20,306
Class B exchangeable unit distributions	1,511	1,524	4,540	4,570
Fair value adjustment of Class B exchangeable units	(2,341)	(153)	(9,944)	12,108
Fair value adjustment of convertible debentures	(805)	–	(805)	–
Fair value adjustment of other financial instruments	(194)	1,055	(2,609)	1,055
	\$ 8,295	\$ 9,501	\$ 16,997	\$ 38,039

Debt repayment costs include the difference between the carrying amount of mortgages payable that were settled during the three months ended September 30, 2013, including unamortized mark-to-market adjustments written off on the debt extinguishments of \$492, and the settlement amount, prepayment penalty of \$82, and mark-to-market adjustments of \$618 recognized on the refinancing of existing mortgages.

17. Commitments and contingencies:

(a) The REIT has entered into fixed-price utility contracts with a third-party supplier in the amount of \$4,079 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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17. 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, 2013, the REIT has a total of \$284 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.

18. Change in non-cash operating items:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Decrease (increase) in accounts receivable	\$ (2,905)	\$ 822	\$ (2,896)	\$ 1,979
Increase in straight-line rents	(485)	(541)	(1,169)	(1,298)
Decrease (increase) in other assets, excluding deposits	3,665	1,039	(757)	(872)
Increase (decrease) in accounts payable and accrued liabilities	1,763	(915)	4,413	1,058
	\$ 2,038	\$ 405	\$ (409)	\$ 867

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

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19. 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.

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, 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 and deferred units.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

19. 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, 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	653,772	–	657,822	–
Loans payable	11,497	–	11,497	–

The fair values and levels within the fair value hierarchy for assets and liabilities measured at fair value as at September 30, 2013 are as follows:

	Carrying value	Fair value		
		Level 1	Level 2	Level 3
Financial assets:				
Derivative financial instruments	\$ 1,562	\$ –	\$ 1,562	\$ –
Other assets:				
Investment properties	1,294,375	–	–	1,294,375
Financial liabilities:				
Deferred units	2,420	2,420	–	–
Class B exchangeable units	84,275	84,275	–	–
Convertible debentures	39,445	39,445	–	–

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Subsequent to September 30, 2013, the REIT issued a repayment notice to repay \$13,000 of mortgage debt.

During the period from October 1, 2013 to November 4, 2013, the REIT has entered into commitments to refinance one of its investment properties for \$50,000 at an interest rate of 3.57%.

During the period from October 1, 2013 to November 4, 2013, the REIT declared distributions of \$0.0667 per unit or \$2,370.