Consolidated Financial Statements
(In Canadian dollars)

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of NorthWest Healthcare
Properties Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of NorthWest Healthcare Properties Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, the consolidated statements of income and comprehensive income, unitholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of NorthWest Healthcare Properties Real Estate Investment Trust as at December 31, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 5, 2013
Toronto, Canada

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(In thousands of Canadian dollars)

December 31, 2012 and 2011

	2012	2011
Assets		
Investment properties (note 4)	$ 1,244,875	$ 985,384
Goodwill (note 5)	4,458	4,458
Loan receivable (note 6)	8,000	8,000
Accounts receivable (note 7)	3,059	4,324
Other assets (note 8)	16,721	5,660
Restricted cash (note 9)	175	175
Cash and cash equivalents (note 10)	4,189	3,716
Total assets	$ 1,281,477	$ 1,011,717
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 11)	$ 626,426	$ 501,757
Loans payable (note 12)	34,796	5,902
Class B exchangeable units (note 13)	95,042	87,503
Other financial instruments	1,047	–
Accounts payable and accrued liabilities	21,820	17,945
Distributions payable	2,567	2,349
Total liabilities	781,698	615,456
Unitholders' equity (note 14)	499,779	396,261
Commitments and contingencies (notes 18 and 21)		
Total liabilities and unitholders' equity	$ 1,281,477	$ 1,011,717

See accompanying notes to consolidated financial statements.

The consolidated financial statements were approved by the Board on March 5, 2013 and signed on its behalf by:

"Michael Knowlton" Trustee

"Peter Riggin" Trustee

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Income and Comprehensive Income
(In thousands of Canadian dollars)

Years ended December 31, 2012 and 2011

	2012	2011
Revenue from operations (note 18)	$ 134,458	$ 118,152
Property operating expenses (note 18)	60,826	53,675
Property operating income	73,632	64,477
Finance cost (note 20)	28,424	23,425
Interest income	(2,002)	(98)
Trust expenses	3,587	3,225
Income before Class B exchangeable units costs and fair value adjustment	43,623	37,925
Finance cost:		
Class B exchangeable unit distributions (note 20)	(6,093)	(6,119)
Fair value adjustment of Class B exchangeable units (notes 13 and 20)	(7,539)	1,509
Fair value adjustment of other financial instruments (note 11)	(1,047)	–
Fair value adjustment of investment properties (note 4)	63,549	45,026
Net income and comprehensive income	$ 92,493	$ 78,341

See accompanying notes to consolidated financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Unitholders' Equity
(In thousands of Canadian dollars)

December 31, 2012	Unit capital	Retained earnings (deficit)	Total
Unitholders' equity, January 1, 2012	$ 355,467	$ 40,794	$ 396,261
Units issued, net of costs (note 14(a))	37,747	–	37,747
Total net income and comprehensive income	–	92,493	92,493
Distributions	–	(29,133)	(29,133)
Distribution reinvestment plan (note 14(b))	2,411	–	2,411
Unitholders' equity, December 31, 2012	$ 395,625	$ 104,154	$ 499,779

December 31, 2011	Unit capital	Retained earnings (deficit)	Total
Unitholders' equity, January 1, 2011	$ 269,760	$ (10,459)	$ 259,301
Public offering, net of costs (note 14(a))	82,440	–	82,440
Exchange of Class B exchangeable units (note 13)	776	–	776
Total net income and comprehensive income	–	78,341	78,341
Distributions	–	(27,088)	(27,088)
Distribution reinvestment plan (note 14(b))	2,491	–	2,491
Unitholders' equity, December 31, 2011	$ 355,467	$ 40,794	$ 396,261

Distributions per unit during the year ended December 31, 2012 were $0.80 (2011 - $0.80).

See accompanying notes to consolidated financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

Years ended December 31, 2012 and 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Net income	$ 92,493	$ 78,341
Adjustments for:		
Finance cost (note 20)	43,103	28,035
Interest income	(2,002)	(98)
Fair value adjustment of investment properties	(63,549)	(45,026)
Change in non-cash operating items (note 22)	1,576	386
Cash generated from operating activities	71,621	61,638
Interest paid	(29,032)	(23,337)
Interest paid - Class B exchangeable units	(6,093)	(6,123)
Interest received	2,017	83
Net cash from operating activities	38,513	32,261
Investing activities:		
Acquisition of investment properties (note 3)	(91,163)	(217,682)
Additions to investment properties (note 4)	(19,063)	(13,069)
Notes and loan receivable advance	(41,300)	(8,000)
Notes and loan receivable repayments	11,300	–
Acquisition of securities	(11,848)	–
Proceeds on securities	247	–
Deposits on investment properties under contract	1,530	5,150
Net cash used in investing activities	(150,297)	(233,601)
Financing activities:		
Proceeds from issuance of units, net of issue costs	37,747	82,443
Distributions	(26,504)	(24,087)
Mortgage advances	141,855	155,275
Repayment of mortgages	(56,425)	(59,946)
Secured credit facility advances	131,500	66,500
Secured credit facility repayments	(114,750)	(60,500)
Secured interim bridge facility advances	–	95,000
Repayment of interim bridge facility	–	(95,000)
Transaction costs	(1,166)	(941)
Net cash from financing activities	112,257	158,744
Increase (decrease) in cash and cash equivalents	473	(42,596)
Cash and cash equivalents, beginning of year (note 10)	3,716	46,312
Cash and cash equivalents, end of year (note 10)	$ 4,189	$ 3,716

See accompanying notes to consolidated financial statements.

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

At December 31, 2012, NorthWest Operating Trust ("NW Trust") and its affiliates controlled approximately 25.9% of the REIT through a combination of REIT units and 100% of the special voting units attached to the Class B exchangeable units of NHP Holdings Limited Partnership ("NHP"), a subsidiary of the REIT.

1. Basis of preparation:

(a) Statement of compliance:

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

(b) Basis of measurement:

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

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

(c) Significant judgments and key estimates:

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

(i) Leases (the REIT as lessor):

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

1. Basis of preparation (continued):

(ii) Property valuations:

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

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

(iii) Accounting for acquisitions:

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

(iv) Goodwill:

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

1. Basis of preparation (continued):

(v) Income taxes:

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

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

2. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the REIT and its consolidated subsidiaries which are the entities over which the REIT has control. Control exists when the REIT has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

2. Significant accounting policies (continued):

(b) Investment properties:

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

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

Leasing costs incurred by the REIT that are incremental and directly attributable to negotiating and arranging tenant leases are added to the carrying value of investment properties. Leasing costs that are not incremental are expensed in the year incurred.

(c) Goodwill:

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

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

2. Significant accounting policies (continued):

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

(d) Cash and cash equivalents:

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

(e) Revenue recognition:

(i) Revenue from investment properties:

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

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

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

2. Significant accounting policies (continued):

(ii) Management fees:

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

(f) Leasing costs:

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

(g) Compensation expense:

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

(h) Unit-based compensation:

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

2. Significant accounting policies (continued):

(i) Income taxes:

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

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

(j) Class B exchangeable units:

The Class B exchangeable units of a subsidiary of the REIT are exchangeable into REIT units at the option of the holder. In accordance with International Accounting Standard ("IAS") 32, Financial Instruments: Presentation, the Class B exchangeable units are considered puttable instruments and are required to be classified as financial liabilities. Further, the Class B exchangeable units are classified as fair value through profit or loss financial liabilities and are measured at fair value each reporting year with any changes in fair value recognized in the consolidated statements of income and comprehensive income as finance cost. The distributions paid on the Class B exchangeable units are accounted for as a finance cost (note 20).

2. Significant accounting policies (continued):

(k) Financial instruments:

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

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

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

Transaction costs on financial assets and liabilities measured at fair value through profit and loss are expensed in the year incurred.

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

2. Significant accounting policies (continued):

(l) Derivative financial instruments and hedging activities:

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

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

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

(m) Unit capital:

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

(n) Future accounting changes:

(i) IFRS 9, Financial Instruments (2010) ("IFRS 9 (2010)"), supersedes IFRS 9 (2009) and is effective for annual years beginning on or after January 1, 2015, with early adoption permitted. For annual periods beginning before January 1, 2015, either IFRS 9 (2009) or IFRS 9 (2010) may be applied.

2. Significant accounting policies (continued):

The REIT intends to adopt IFRS 9 (2010) in its consolidated financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

(ii) The REIT does not expect the amendments to IFRS 7, Disclosures - Transfers of Financial Assets ("IFRS 7"), to have a material impact on the consolidated financial statements because of the nature of the REIT's operations and the types of financial assets that it holds.

(iii) The REIT intends to adopt IFRS 10, Consolidated Financial Statements ("IFRS 10"), in its consolidated financial statements for the annual period beginning on January 1, 2013. The REIT does not expect IFRS 10 to have a material impact on the consolidated financial statements.

(iv) The REIT intends to adopt IFRS 12, Disclosure of Interest in Other Entities, in its consolidated financial statements for the annual period beginning on January 1, 2013. The REIT does not expect the amendments to have a material impact on the consolidated financial statements because of the nature of the REIT's interests in other entities.

(v) The REIT intends to adopt IFRS 13, Fair Value Measurements ("IFRS 13"), prospectively in its consolidated financial statements for the annual period beginning on January 1, 2013. The REIT does not expect IFRS 13 to have material impact on the consolidated financial statements.

(vi) The REIT intends to adopt the amendments to IAS 1, Presentation of Financial Statements, in its consolidated financial statements for the annual period beginning on January 1, 2013. The REIT does not expect the amendments to have a material impact on the consolidated financial statements.

(vii) The REIT intends to adopt the amendments to IAS 32, Financial Instruments - Presentation ("IAS 32"), and IFRS 7 in its consolidated financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its consolidated financial statements for the annual period beginning on January 1, 2014. The REIT does not expect the amendments to have a material impact on the consolidated financial statements.

(In thousands of Canadian dollars)

3. Acquisitions:

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

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

Assets	
Investment properties	$ 175,138
Accounts receivable and other assets	808
	175,946
Liabilities	
Accounts payable and accrued liabilities	1,245
Assumed loans and mortgages, including mark-to-market adjustment	53,538
	54,783
Net assets acquired	$ 121,163
Consideration:	
Cash	$ 91,163
Note payable (the "GT Note")	30,000
	$ 121,163

See note 17(i) and (j).

(In thousands of Canadian dollars)

3. Acquisitions (continued):

(b) Acquisitions during the year ended December 31, 2011:

During the year ended December 31, 2011, the REIT's subsidiaries acquired nine investment properties for net cash consideration of $217,682. The acquisitions of the investment properties, and related assets and liabilities have been accounted for as asset purchases. The recognized amount of assets acquired and liabilities assumed were as follows:

Assets	
Investment properties	$ 255,058
Accounts receivable and other assets	314
	255,372
Liabilities	
Accounts payable and accrued liabilities	1,896
Assumed mortgages, including mark-to-market adjustment	35,794
	37,690
Net assets acquired for cash	$ 217,682

(In thousands of Canadian dollars)

4. Investment properties:

Balance, January 1, 2012	$ 985,384
Acquisitions of investment properties	175,138
Additions	19,063
Increase in straight-line rents	1,741
Fair value adjustment	63,549
Balance, December 31, 2012	$ 1,244,875
Balance, January 1, 2011	$ 671,033
Acquisitions of investment properties	255,058
Additions	13,069
Increase in straight-line rents	1,198
Fair value adjustment	45,026
Balance, December 31, 2011	$ 985,384

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

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

	2012	2011
Discount rates - range	6.5% - 10.0%	7.0% - 11.0%
Discount rate - weighted average	7.6%	8.0%
Terminal capitalization rate - range	6.0% - 9.3%	6.0% - 10.3%
Terminal capitalization rate - weighted average	7.0%	7.1%

The fair values of investment properties are most sensitive to changes in discount rates and terminal capitalization rates. As at December 31, 2012, a 25-basis-point movement in the weighted average portfolio discount rate and terminal capitalization rate, would change the value of investment property by $49,700. As at December 31, 2011, a 25-basis-point movement in the weighted average portfolio discount rate and terminal capitalization rate, would change the value of investment property by $36,000.

4. Investment properties (continued):

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

Commercial properties with an aggregate fair value of $278,500 at December 31, 2012 (2011 - $263,450) were valued by external valuation professionals with recognized and relevant professional qualification.

5. Goodwill:

Balance, December 31, 2012 and 2011	$ 4,458

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

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

(In thousands of Canadian dollars)

6. Notes and loan receivable:

	2012	2011
Loan	$ 8,000	$ 8,000

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

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

(i) June 21, 2013; or

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

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.

(b) On June 1, 2012, the REIT advanced $41,300 through two promissory notes, $16,300 and $25,000, respectively, bearing interest at 7%, issued by a subsidiary of Northwest Value Partners Inc. ("NWVP"), an affiliate of NW Trust.

The principal and applicable interest on the promissory notes was fully repaid to the REIT in cash and the set-off of the GT Note (note 17(j)).

(In thousands of Canadian dollars)

7. Accounts receivable:

	2012	2011
Tenant and other receivables	$ 3,033	$ 3,360
Due from NW Trust (note 17)	26	964
	$ 3,059	$ 4,324

8. Other assets:

	2012	2011
Prepaid expenses	$ 2,668	$ 1,866
Mortgage escrow	729	604
Deposits on investment properties under contract	320	1,850
Other deposits	880	840
Other	523	500
Investments - defeasance	11,601	–
	$ 16,721	$ 5,660

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

Neither the financial asset nor the loan qualified for derecognition, and as a result, both remain on the consolidated 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%.

9. Restricted cash:

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

10. Cash and cash equivalents:

	2012	2011
Cash at bank	$ 4,189	$ 1,716
Short-term deposits	–	2,000
	$ 4,189	$ 3,716

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

(In thousands of Canadian dollars)

11. Mortgages payable:

All mortgages are secured by first or second charges on specific investment properties, with a carrying value of $1,128,772 at December 31, 2012, and are repayable as follows:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable
2013	$ 13,877	$ 63,318	$ 77,195
2014	13,105	65,417	78,522
2015	11,671	61,031	72,702
2016	10,900	117,994	128,894
2017	7,099	66,971	74,070
2018	6,170	25,617	31,787
2019	5,955	–	5,955
2020	5,919	36,907	42,826
2021	3,654	51,308	54,962
2022	1,737	50,264	52,001
2023	19	5,383	5,402
Face value	$ 80,106	$ 544,210	624,316
Mark-to-market adjustment			3,232
Unamortized financing costs			(1,122)
Carrying amount			$ 626,426

	2012	2011
Mortgages at fixed rates - contractual amount	$ 548,852	$ 499,160
Mortgages at variable rates - contractual amount	75,464	–
Mark-to-market adjustment	3,232	3,067
Unamortized financing costs	(1,122)	(470)
Carrying amount	$ 626,426	$ 501,757
Interest rates	2.00% - 6.75%	3.40% - 6.53%
Weighted average interest rate	4.93%	5.22%

(In thousands of Canadian dollars)

11. Mortgages payable (continued):

The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on $51,839 of its variable rate mortgages payable as at December 31, 2012. Gains or losses arising from the change in fair values of the interest rate swap contracts are recognized in the consolidated statements of income and comprehensive income and during the 12 months ended December 31, 2012, the REIT recognized a fair value loss of $1,047 and a financial instrument liability of $1,047.

12. Loans payable:

	2012	2011
Secured floating rate revolving credit facility	$ 22,500	$ 5,902
Term loan	11,219	–
Promissory notes payable	1,077	–
	$ 34,796	$ 5,902

(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 $108,631 and the terms of a general security agreement. As at December 31, 2012, there was a $22,500 outstanding balance on the credit facility (net of unamortized financing costs of $250).

The credit facility was renegotiated, expanded and extended during the three months ended March 31, 2012. Prior to the extension, the credit facility of $35,000 bore interest at the banker's acceptance rate plus 2.75% or prime plus 1.75% expiring on March 25, 2013. As at December 31, 2011, there was a $5,902 outstanding balance on the credit facility (net of unamortized financing costs of $98).

(In thousands of Canadian dollars)

12. Loans payable (continued):

(b) Term loan:

During the year ended December 31, 2012, the REIT defeased a mortgage associated with one of its investment properties (see 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 $11,219 as at December 31, 2012.

(c) Promissory notes payable:

During the year ended December 31, 2012, the REIT assumed debt of $1,077, including mark-to-market adjustment, in the form of unsecured promissory notes on the acquisition of three investment properties. The promissory notes are interest only, with a fixed interest rate of 2.00% and maturity dates between May 1, 2013 and April 1, 2015.

13. 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
Class B exchangeable units outstanding, January 1, 2012	7,615,546	$ 87,503
Fair value adjustment of Class B exchangeable units	–	7,539
Class B exchangeable units outstanding, December 31, 2012	7,615,546	$ 95,042

(In thousands of Canadian dollars)

13. Class B exchangeable units (continued):

	Units	Amount
Class B exchangeable units outstanding, January 1, 2011	7,680,746	$ 89,788
Fair value adjustment of Class B exchangeable units	–	(1,509)
Class B exchangeable units issued in exchange for REIT units	(65,200)	(776)
Class B exchangeable units outstanding, December 31, 2011	7,615,546	$ 87,503

During the year ended December 31, 2012, the REIT recognized $6,093 (2011 - $6,119) of distributions declared on Class B exchangeable units as finance cost.

14. 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 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.

(In thousands of Canadian dollars)

14. Unitholders' equity (continued):

The REIT's Trustees have discretion in declaring distributions.

(a) Units outstanding:

	Units	Amount
Units outstanding, January 1, 2012	35,232,023	$ 355,467
Units issued (note 17(k))	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

	Units	Amount
Units issued, January 1, 2011	27,585,791	$ 269,760
Follow-on equity offering	6,400,000	75,200
Follow-on equity offering over-allotment option	960,000	11,280
Units issued on exchange of Class B exchangeable units	65,200	776
Distribution reinvestment plan	221,032	2,491
Units issued	35,232,023	359,507
Less issue costs	–	4,040
Units issued, December 31, 2011	35,232,023	$ 355,467

(b) Distribution reinvestment plan:

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

(In thousands of Canadian dollars)

15. Deferred unit plan:

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

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

(a) Liability:

January 1, 2012	$ 743
Unit-based compensation expense	1,104
December 31, 2012	$ 1,847
January 1, 2011	$ 70
Unit-based compensation expense	673
December 31, 2011	$ 743

(In thousands of Canadian dollars)

15. Deferred unit plan (continued):

(b) Units outstanding:

January 1, 2012	92,719
Granted during the year	75,113
Distribution entitlement	9,303
December 31, 2012	177,135
Vested, but not issued, December 31, 2012	–
January 1, 2011	10,806
Granted during the year	78,061
Distribution entitlement	3,852
December 31, 2011	92,719
Vested, but not issued, December 31, 2011	–

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. For the year ended December 31, 2011, there were 78,061 units granted under the deferred unit plan at an average unit price of $11.55.

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

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

16. 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.

17. Transactions with related parties:

The REIT is the ultimate Canadian parent entity.

The consolidated financial statements as at December 31, 2012 include the accounts of the REIT and all its subsidiaries. The significant subsidiaries of the REIT include NHP Holdings Limited Partnership, Healthcare Properties LP and Northwest Healthcare Properties Corporation.

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

(a) The REIT has entered into head leases with NW Trust on three properties. The annual minimum rent for the head leases, including parking, totals $2,504. 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 costs incurred.

(b) NW Trust leased space in one property owned by the REIT for the period from August 1, 2010 to April 30, 2011, respectively.

(c) The REIT earned revenue from a tenant which is owned by NW Trust.

(d) The REIT has entered into Management and Cost Sharing Agreements with NW Trust to provide property management services for one property for a period of five years commencing March 25, 2010 for $216 per annum plus reimbursement of expenditures based on standard commercial terms provided by the REIT.

17. Transactions with related parties (continued):

(e) The REIT has entered into a Leasing and Construction Supervision Services Agreement with NW 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.

(f) The REIT has a monthly Sublease Agreement with an affiliate of NW Trust to lease its head office premises. The REIT is to pay an annual minimum rent of $133 plus additional rents.

(g) The REIT has entered into a Support Services Agreement with NW Trust to provide NW Trust certain support services for a fee based on an allocation of the relevant costs of the support services incurred by the REIT.

(h) On December 24, 2010, the REIT acquired an investment property from an affiliate of NW Trust for net consideration of $28,831. The REIT and an affiliate of NW Trust have agreed to negotiate a development agreement respecting the prospective future development of the excess land associated with this property on mutually acceptable terms and conditions. The purchase agreement allows NW Trust to repurchase the development land at $2,950 if agreement is not reached within a period of six months of the acquisition date or a period mutually agreed by the REIT and an affiliate of NW Trust. This period has been mutually agreed to be extended to March 31, 2013.

(i) On November 14, 2012, the REIT acquired an investment property from a subsidiary of NorthWest International Healthcare Properties REIT, formerly GT Canada Medical Properties REIT ("GT REIT"), controlled by NWVP, by way of share and unit transactions, with an effective date of October 1, 2012. The property was purchased for $2,900, plus the assumption of mortgage debt of approximately $5,000.

(j) On November 16, 2012, the REIT acquired eleven investment properties in Ontario from a subsidiary of GT REIT, by way of share and unit transactions, with an effective date of October 1, 2012. The purchase price, as adjusted on closing, together with reimbursement of certain transaction costs, was $36,300, plus the assumption of mortgage debt of approximately $43,300. The purchase price, as adjusted, and transaction costs were satisfied by a cash payment of $6,300 and the GT Note in the amount of $30,000 bearing interest at 8%. During the quarter, the GT Note was set-off against an amount receivable from a subsidiary of NWVP (note 6(b)).

(In thousands of Canadian dollars)

17. Transactions with related parties (continued):

(k) On June 1, 2012, the REIT issued 1,323,858 REIT units to NWVP in a private placement at a subscription price of $12.3125 per REIT unit.

On November 16, 2012, the REIT issued 1,746,142 REIT units to NW Trust in a private placement at a subscription price of $12.3125 per REIT unit.

The following table summarizes the transactions with related parties noted in note 17(a) to (k) and discloses the amounts of outstanding balances, respectively:

	2012	2011
Consolidated statements of income and comprehensive income:		
Minimum rent, operating cost recoveries, parking income (included in revenue)	$ 3,020	$ 3,591
Interest revenue (note 6(a) and (b))	1,581	7
Fee income and cost recovery (included in revenue)	461	488
Cost recovery	72	103
Head office rent expense (included in operating expenses and trust expenses)	335	409
Leasing costs reimbursed	136	2,333
Interest on fixed rate debt (note 17(j))	296	–
Consolidated balance sheets:		
Accounts receivable at year end	26	964
Working capital adjustment payable (note 17(j))	92	–
Loan receivable at year end (note 6(a))	4,000	4,000

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

	2012	2011
Compensation expense	$ 1,138	$ 1,114
Unit-based compensation expense (note 15)	843	538
	$ 1,981	$ 1,652

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

(In thousands of Canadian dollars)

18. Property operations:

The components of revenue are as follows:

	2012	2011
Revenue from investment properties	$ 133,980	$ 117,664
Management fee revenue	478	488
Revenue from operations	$ 134,458	$ 118,152

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

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

2013	$ 64,323
2014 - 2017	182,630
2018 and thereafter	110,527
	$ 357,480

Property operating expenses include ground lease expense for the year ended December 31, 2012 of $225 and December 31, 2011 of $225, representing rent expense associated with an operating lease for land on which one of the REIT's properties is situated. The ground lease expires on September 30, 2036, with monthly payments of $19.

Included in revenue from investment properties are realty tax and operating cost recoveries for the year ended December 31, 2012 of $53,250 and December 31, 2011 of $46,891. There were no material contingent rents during the year.

(In thousands of Canadian dollars)

19. Employee costs:

	2012	2011
Compensation expense	$ 11,780	$ 10,601
Unit-based compensation expense (note 15)	1,104	673
	$ 12,884	$ 11,274

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

During the year ended December 31, 2012, the REIT capitalized $767 of compensation expense to investment properties (2011 - $662).

20. Finance cost:

	2012	2011
Interest on fixed rate debt	$ 27,907	$ 22,671
Interest on floating rate debt	1,506	1,205
Amortization of debt premiums	(1,363)	(1,100)
Amortization of transaction costs	374	649
	28,424	23,425
Class B exchangeable unit distributions	6,093	6,119
Fair value adjustment of Class B exchangeable units	7,539	(1,509)
Fair value adjustment of other financial instruments	1,047	–
	$ 43,103	$ 28,035

(In thousands of Canadian dollars)

21. Commitments and contingencies:

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

(a) The REIT has entered into fixed-price utility contracts with a third-party supplier in the amount of $1,892 to provide electricity and gas for its own use at its investment properties.

(b) The REIT is involved in litigation and claims in relation to the investment properties that arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies would not have a significant adverse effect on the consolidated financial statements.

(c) As part of the purchase and sale agreement with an affiliate of NW Trust related to the acquisition of an investment property, the REIT agreed that in the event a development agreement is not achieved with NW Trust, the REIT would sever and sell the development land portion of the investment property to NW Trust for $2,950.

22. Change in non-cash operating items:

	2012	2011
Decrease in accounts receivable	$ 1,340	$ 322
Increase in straight-line rents	(1,741)	(1,198)
Increase in other assets, excluding deposits	(272)	(557)
Increase in accounts payable and accrued liabilities	2,249	1,819
	$ 1,576	$ 386

23. Capital management:

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

23. Capital management (continued):

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

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

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

(a) incur or assume indebtedness on properties in excess of 75% of the property's market value; and

(b) incur or assume indebtedness which would cause the total indebtedness of the REIT to exceed 65% of Gross Book Value as defined.

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

(a) a Debt to Gross Book Value ratio of not more than 65%;

(b) an Interest Coverage Ratio of not less than 1.75%;

(c) a Debt Service Coverage Ratio of not less than 1.50; and

(d) a minimum Adjusted Unitholders' Equity of not less than the aggregate of: (i) $310,000; and (ii) 75% of net proceeds in connection with equity offerings after December 31, 2011.

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

The REIT complied with all financial covenants during the year ended December 31, 2012.

24. Risk management and fair values:

(a) Risk management:

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

(i) Interest rate risk:

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

(ii) Credit risk:

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

(In thousands of Canadian dollars)

24. Risk management and fair values (continued):

(iii) Liquidity risk:

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

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

2013	$ 105,748
2014	103,519
2015	93,190
2016	146,433
2017	84,350
2018 and thereafter	219,944
	$ 753,184

(iv) Market risk:

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

24. Risk management and fair values (continued):

(b) Fair values:

The REIT uses various methods in estimating the fair values of financial instruments recognized in the consolidated financial statements. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 - quoted prices in active markets;
- Level 2 - inputs other than quoted prices in the active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 - valuation technique for which significant inputs are not based on observable market data.

The fair value of the REIT's mortgages payable at December 31, 2012 is $652,223 (2011 - $531,397). The fair values have been estimated based on the current market rates for mortgages with similar terms and conditions (Level 2).

The REIT's Class B exchangeable units are carried at fair value and the fair value of the Class B exchangeable units has been determined with reference to the trading price of the REIT's units on the consolidated balance sheet dates (Level 1).

The fair value of the deferred units is determined with reference to the trading price of the REIT's units on the consolidated balance sheet dates (Level 1).

The REIT's interest rate swap contracts are carried at fair value and the fair value of the swap contracts has been determined based on a valuation technique with inputs based on observable market data (Level 2).

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.

25. Subsequent events:

On February 28, 2013 the REIT repaid $1,037 of mortgage debt.

On March 1, 2013 the REIT sold one investment property for $1,260 and repaid the mortgage debt thereon.

During the period from January 1, 2013 to March 5, 2013 the REIT declared distributions of $0.13334 per unit or $5,136.