NORTHWEST INTERNATIONAL HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Financial Statements

For the Years Ended December 31, 2013 and 2012

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INDEPENDENT AUDITORS REPORT

The Unitholders of NorthWest International Healthcare Properties
Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of NorthWest International Healthcare Properties Real Estate Investment Trust, which comprise the consolidated statement of financial position as at December 31, 2013 and 2012, the consolidated statements of income and comprehensive income, changes in unitholders' equity and cash flows for the year 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 International Healthcare Properties Real Estate Investment Trust as at December 31, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 23, 2014
Toronto, Canada

NorthWest International Healthcare Properties Real Estate Investment Trust
Consolidated Statements of Financial Position
Audited (Canadian dollars)

As at	**December 31, 2013**	December 31, 2012
Assets		
Investment properties (note 9)	**$ 448,832,353**	$ 205,502,477
Investment in associates (note 10)	**259,502,612**	80,706,461
Intangible asset (note 11)	**14,051,475**	15,612,750
Due from related parties (note 12)	**26,254,047**	42,522,743
Accounts receivable	**1,628,681**	466,683
Other assets (note 13)	**1,574,518**	993,260
Cash and restricted cash (note 14)	**4,414,544**	3,749,911
Total assets	**$ 756,258,230**	$ 349,554,285
Liabilities		
Mortgages and loans payable (note 15)	**$ 357,526,759**	$ 116,497,806
Deferred consideration (note 16)	**70,115,165**	30,993,246
Convertible debentures (note 17)	**35,423,000**	-
Deferred revenue (note 18)	**14,636,638**	18,263,895
Deferred tax liability (note 19)	**9,999,937**	120,920
Derivative financial instruments (note 20)	**659,374**	23,083,107
Income tax payable	**552,098**	-
Accounts payable and accrued liabilities	**8,596,690**	3,060,271
Distributions payable	**733,082**	567,992
	498,242,743	192,587,237
Deferred Unit Plan liability (note 21)	**370,054**	184,998
Class B LP exchangeable units (note 22)	**183,958,006**	114,686,110
Total liabilities	**682,570,803**	307,458,345
Unitholders' Equity		
Unitholders' equity (note 23)	**73,687,427**	42,095,940
Total liabilities and unitholders' equity	**$ 756,258,230**	$ 349,554,285

Subsequent events (notes 12 and 33)

Approved on behalf of the Board

(Signed) “Robert Baron”
Trustee

(Signed) “David Naylor”
Trustee

The accompanying notes are an integral part of these consolidated financial statements

NorthWest International Healthcare Properties Real Estate Investment Trust
Consolidated Statements of Income and Comprehensive Income
Audited (Canadian dollars)

Year Ended December 31,	**2013**	2012
Net Property Income		
Revenue from investment properties	$ **20,177,010**	$ 1,441,552
Property operating costs	**2,150,763**	323,778
	18,026,247	1,117,774
Other Income		
Interest	**1,921,053**	278,092
Management fee participation (note 27 (iii))	**1,749,053**	452,718
Share of profit of associates (note 10)	**10,156,830**	1,168,584
	13,826,936	1,899,394
Expenses		
Mortgage and loan interest expense	**12,100,309**	738,072
General and administrative expenses	**3,180,624**	1,694,883
Transaction costs (note 24)	**468,182**	7,526,686
Incentive fee (note 27(iii))	**4,103,617**	-
Amortization of intangibles (note 11)	**1,561,275**	-
Foreign exchange loss	**2,914,885**	327,804
	24,328,892	10,287,445
Income (loss) before other finance costs and fair value adjustments	**7,524,291**	(7,270,277)
Finance costs:		
Amortization of financing costs	**(638,826)**	(2,819)
Class B LP exchangeable unit distributions	**(12,169,416)**	(2,181,325)
Fair value adjustment of Class B LP exchangeable units (note 22)	**(3,590,248)**	(10,348,250)
Accretion of financial liabilities (notes 15 and 16)	**(6,072,523)**	-
Fair value adjustment of convertible debentures (note 17)	**4,677,000**	-
Convertible debenture issuance costs (note 17)	**(3,566,115)**	-
Fair value gain (loss) on derivative financial instrument (note 20)	**22,983,561**	(13,597,507)
Fair value adjustment of investment properties (note 9)	**24,119,615**	(8,535,836)
Other fair value gains (losses) (note 25)	**(3,763)**	58,274
Income (loss) before taxes and discontinued operations	**33,263,576**	(41,877,740)
Income tax expense (note 19)	**12,186,567**	180,788
Net income (loss) from continuing operations	**21,077,009**	(42,058,528)
Net income from discontinued operations (note 7)	**-**	9,575,061
Net income (loss)	**21,077,009**	(32,483,467)
Other comprehensive income (loss):		
Items that will be reclassified subsequently to income		
Foreign currency translation adjustment	**(2,519,587)**	454,571
Share of other comprehensive loss of associates (note 10)	**(2,081,655)**	(108,737)
Other comprehensive income (loss), net of tax	**(4,666,881)**	345,834
Total comprehensive income (loss) for the year, net of tax	$ **16,475,767**	$ (32,137,633)

The accompanying notes are an integral part of these consolidated financial statements

NorthWest International Healthcare Properties Real Estate Investment Trust
Consolidated Statements of Unitholders' Equity
Audited (Canadian dollars)

	Trust Unit Equity	Contributed Surplus	Reduction on Reclassification to Liabilities	Cumulative Distributions	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Total
Balance, December 31, 2011	**$ 19,916,415**	**$ -**	**$ (114,683)**	**$ (924,190)**	**$ -**	**$ 7,178,545**	**$ 26,056,087**
Units issued pursuant to rights offering	4,193,704	-	-	-	-	-	4,193,704
Conversion of Class B LP units	1,238,875	-	-	-	-	-	1,238,875
Conversion of Deferred Unit Plan units	1,529,727	-	-	-	-	-	1,529,727
Expiry of warrant liability	-	2,345,022	-	-	-	-	2,345,022
Units issued pursuant to equity offering	22,704,819	-	-	-	-	-	22,704,819
Units issued as consideration	18,472,169	-	-	-	-	-	18,472,169
Distributions	-	-	-	(2,306,830)	-	-	(2,306,830)
Foreign currency translation adjustment	-	-	-	-	454,571	-	454,571
Share of other comprehensive loss of associate	-	-	-	-	(108,737)	-	(108,737)
Net income for the year	-	-	-	-	-	(32,483,467)	(32,483,467)
Balance, December 31, 2012	**$ 68,055,709**	**$ 2,345,022**	**$ (114,683)**	**$ (3,231,020)**	**$ 345,834**	**$ (25,304,922)**	**$ 42,095,940**
Units issued pursuant to equity offering	17,626,716	-	-	-	-	-	17,626,716
Units issued through distribution reinvestment plan	288,010	-	-	-	-	-	288,010
Conversion of Class B LP exchangeable units	2,830,000	-	-	-	-	-	2,830,000
Asset management fees paid in units	1,703,545	-	-	-	-	-	1,703,545
Distributions	-	-	-	(7,332,551)	-	-	(7,332,551)
Foreign currency translation adjustment	-	-	-	-	(2,519,587)	-	(2,519,587)
Share of other comprehensive loss of associates	-	-	-	-	(2,081,655)	-	(2,081,655)
Net income for the year	-	-	-	-	-	21,077,009	21,077,009
Balance, December 31, 2013	**$ 90,503,980**	**$ 2,345,022**	**$ (114,683)**	**$ (10,563,571)**	**$ (4,321,047)**	**$ (4,227,913)**	**$ 73,687,427**

The accompanying notes are an integral part of these consolidated financial statements

NorthWest International Healthcare Properties Real Estate Investment Trust
Consolidated Statements of Cash Flows
Audited (Canadian dollars)

Year Ended December 31,		2013		2012
Cash provided by (used in):				
Operating activities				
Income (loss) before taxes from continuing operations for the year	$	**33,263,576**	$	(41,877,740)
Adjustment for:				
Amortization of intangible asset (note 11)		**1,561,275**		-
Mortgage and loan interest		**12,100,309**		738,072
Mortgage and loan interest paid		**(10,077,433)**		(631,299)
Finance costs				
Amortization of financing charges		**638,826**		2,819
Class B LP exchangeable unit distributions		**12,169,416**		2,181,325
Fair value adjustment of Class B exchangeable units		**3,590,248**		10,348,250
Accretion of financial liabilities (notes 15 and 16)		**6,072,523**		-
Fair value adjustment of convertible debentures (note 17)		**(4,677,000)**		-
Share of profit of associates (note 10)		**(10,156,830)**		(1,168,584)
Unrealized foreign exchange loss		**2,769,948**		327,804
Amortization of deferred revenue		**(2,460,557)**		(368,880)
Fair value adjustment of investment properties (note 9)		**(24,119,615)**		8,535,836
Fair value loss (gain) on derivative financial instrument (note 20)		**(22,983,561)**		13,597,507
Other fair value losses (gains)(note 25)		**3,763**		(58,274)
Unit based compensation expense		**181,293**		1,247,862
Income taxes paid		**(1,151,498)**		(59,864)
Changes in non-cash working capital balances (note 26 (i))		**1,446,735**		(816,475)
Cash used in operating activities from continuing operations		**(1,828,583)**		(8,001,641)
Investing activities				
Acquisitions of investment properties (note 8)		**(188,342,745)**		(35,908,468)
Additions to investment properties (note 9)		**(50,852)**		-
Indebtedness acquired on acquisition of investment properties (note 6)		**-**		(254,160)
Additions to investment in associates (note 10)		**(24,607,846)**		-
Distribution income from associates (note 10)		**9,332,519**		-
Cash used in investing activities from continuing operations		**(203,668,924)**		**(36,162,628)**
Financing activities				
New mortgage and loan financing obtained (note 15)		**165,935,000**		-
Issuance of convertible debentures (note 17)		**40,100,000**		-
Proceeds from units issued, net of issue costs (note 23)		**17,626,716**		26,898,523
Repayment of mortgages		**(1,033,794)**		(261,608)
Refinancing of mortgages		**-**		(1,431,916)
Net advances/proceeds of loans payable		**5,511,191**		(3,023,271)
Payment of deferred consideration		**(3,031,364)**		-
Financing fees paid		**(5,089,295)**		-
Net advances from related parties		**5,166,828**		18,414,486
Distributions paid		**(6,879,451)**		(1,814,616)
Class B LP exchangeable units distributions paid		**(11,701,074)**		(1,435,362)
Cash provided by financing activities from continuing operations		**206,604,757**		37,346,236
Net change in cash from continuing operations		**1,107,250**		(6,818,033)
Effect of foreign currency translation		**(442,617)**		(332)
Net change in cash from discontinued operations (note 7)		**-**		8,868,209
Net change in cash		**664,633**		2,049,844
Cash, beginning of year		**3,749,911**		1,700,067
Cash, end of year	$	**4,414,544**	$	3,749,911

Supplemental disclosure relating to non-cash financing and investing activities (note 26 (ii))

The accompanying notes are an integral part of these consolidated financial statements

1. Organization of the Real Estate Investment Trust

NorthWest International Healthcare Properties Real Estate Investment Trust (the “REIT”) is an unincorporated open-ended real estate investment trust governed under the laws of the Province of Ontario pursuant to an amended and restated declaration of trust dated November 16, 2012 (the "Declaration of Trust"), and further amended on January 3rd and February 3rd, 2014. The REIT's trust units (the "Trust Units") trade under the symbol “MOB.UN” on the TSX Venture Exchange (the "TSXV"). The principal, registered and head office of the REIT is located at 284 King Street East, Toronto, Ontario M5A 1K4.

NorthWest Value Partners Inc. (“NWVP”) acquired a controlling interest of the REIT in mid-2012. In a series of transactions, the REIT disposed of its entire portfolio of Canadian medical office buildings to NorthWest Healthcare Properties REIT (“NWHP REIT”), a related party, effective October 1, 2012. In a separate series of transactions, effective October 1, 2012, the REIT acquired a portfolio of international assets from NWVP (the "Initial International Assets"). In conjunction with the acquisition of the Initial International Assets, the REIT and its affiliates entered into a series of agreements with affiliates of NWVP, whereby such affiliates have agreed to act as Property Manager, Asset Manager and Developer for the REIT in respect of the REIT’s investments. On October 30, 2012, the REIT changed its name from “GT Canada Medical Properties Real Estate Investment Trust”, reflecting its new global strategic direction.

The REIT’s consolidated financial statements for the year ended December 31, 2013, were authorized for issue by the Board of Trustees on April 23, 2014.

2. Statement of Compliance

(a) Statement of compliance

The REIT's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

(b) Basis of presentation and measurement

The consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars, which is also the REIT’s functional currency. The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires the REIT’s management to exercise judgment in applying the REIT’s accounting policies.

These consolidated financial statements have been prepared in Canadian dollars on a historical cost basis except for:

i) Investment properties, which are measured at fair value; and
ii) Financial assets and financial liabilities classified as at fair value through profit and loss, derivative financial instruments and Deferred Unit Plan liability, which are measured at fair value.

(c) Critical accounting estimates

The preparation of these consolidated financial statements requires the REIT to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the financial statements. Actual results could differ from those estimates.

(i) Investment properties

Investment properties are re-measured to fair value at each reporting date, determined based either on internal valuation models incorporating available market evidence, or on valuations performed by third-party appraisers. When estimating the fair value of investment properties, the REIT makes estimates and assumptions that have a significant effect on the reported value of investment properties. Estimates used in determining the fair value of the investment properties include capitalization rates, discount rates, inflation rates, vacancy rates, and net operating income.

2. Statement of Compliance (continued)

(c) Critical accounting estimates (continued)

(ii) Unit-based compensation liabilities

The measurement of the unit-based compensation liabilities require the REIT to make estimates and assumptions that affect the reported amount of the liabilities and the corresponding gain or loss on changes in fair value. Estimates and assumptions used in determining the fair value of these liabilities include the expected life of the instruments and the volatility of the Trust's Unit prices.

(iii) Interests in associates

If it is determined that objective evidence exists that indicate that the REIT's interest in its associates has been impaired, the investment must be written down to its estimated fair value. Estimates used in determining the fair value of the associates include discount rates, inflation rates, and net operating income.

(iv) Derivative financial instruments

The measurement of the fair value of the REIT's derivative financial instruments is based on estimates and assumptions that affect the reported amount of the liabilities and the corresponding gain or loss on changes in fair value. Estimates and assumptions used in the valuation for the REIT's derivatives are described in note 20.

(d) Critical judgments in applying accounting policies

In the preparation of these consolidated financial statements the REIT has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the financial statements.

(i) Leases

The REIT makes judgments in determining whether leases in which the REIT is the lessor are operating or finance leases, and has determined that all of its leases are operating leases. The accounting treatment of leases as finance leases would have a significant effect on the measurement of transactions and balances in the financial statements.

(ii) Property acquisitions

When investment properties are acquired, the REIT is required to apply judgment as to whether or not the transaction should be accounted for as an asset acquisition or business combination. This assessment impacts the accounting treatment of transaction costs and whether or not goodwill is recognized. All of the REIT's property acquisitions have been accounted for as asset acquisitions.

(iii) Income Tax

With the exception of subsidiaries that are subject to income tax, deferred income taxes are not recognized in the financial statements on the basis that the REIT can deduct distributions paid such that its liability for income taxes is substantially reduced or eliminated for the year. In applying this accounting policy, the REIT has made the judgment that the REIT intends to continue to distribute its taxable income and continue to qualify as a real estate investment trust for the foreseeable future; however, should it no longer qualify it would not be able to flow through its taxable income to unitholders and the REIT would be subject to Canadian taxation on its non-portfolio earnings.

3. Summary of Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements comprise the financial statements of the REIT and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, which is the date on which the REIT obtains control, and continue to be consolidated until the date that such control ceases. 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 benefit from its activities. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

(b) Functional and presentation currency

The functional and presentation currency of the REIT is the Canadian dollar. Assets and liabilities of subsidiaries having a functional currency other than the Canadian dollar are translated at the rate of exchange at the statement of financial position date. Revenues and expenses are translated at average rates for the period.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the consolidated statement of income and comprehensive income, except for those related to monetary liabilities qualifying as hedges of the REIT’s investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in other comprehensive income.

(c) Investment properties

Investment properties include properties that are held principally by the REIT to earn rentals, for capital appreciation, or both. Investment properties acquired are recognized initially at cost, which includes all costs directly related to the acquisition of the properties such as legal fees, appraisal fees and transfer taxes. Subsequent to initial recognition, investment properties are measured at fair value, with changes in fair value recognized in the consolidated statement of income and comprehensive income in the year in which they arise. Fair values are primarily determined by using the capitalized net operating income method which applies a capitalization rate to the future stabilized cash flows of the property. Subsequent capital expenditures are charged to investment property only when it is probable that the future economic benefits of the expenditure will flow to the REIT and the cost can be measured reliably.

(d) Intangible assets

The intangible asset (note 11) represents the REIT’s Management Fee Participation Agreement with its external asset manager as described in note 27(iii). The intangible asset was initially recorded at fair value at the time of acquisition (note 6).

Amortization of the value of the management fee participation intangible is determined using the straight line method over its estimated useful life. The intangible asset is assessed for impairment whenever there is an indication that the intangible asset may be impaired.

(e) Leases

A lease is classified as a finance lease if it results in a transfer of substantially all the risks and rewards incidental to ownership from the REIT to the lessee. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership to the lessee. All of the leases to which the REIT is the lessor have been determined to be operating leases.

3. Summary of Significant Accounting Policies (continued)

(f) Revenue recognition

Rental revenue from operating leases is recognized over the lease term on a straight-line basis. The difference between rental revenue recognized and cash flows is recorded as straight line rent receivable or payable on the statement of financial position. Rental revenue includes rental income earned from tenants under lease agreements, operating costs and realty tax recoveries, parking income, and incidental income. Operating cost and realty tax recoveries are recognized in the period that recoverable costs are chargeable to tenants.

Other income relates to the management fee participation and is recorded as earned pursuant to the REIT's agreement with its external asset manager as described in note 27(iii).

Deferred revenue comprises amounts received in advance related to income from rents relating to future periods.

(g) Financial Instruments

The REIT recognizes financial assets and financial liabilities when the REIT becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets and financial liabilities classified as at fair value through profit or loss, are measured at fair value plus transaction costs on initial recognition. Financial assets at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Measurement in subsequent periods depends on the classification of the financial instrument:

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management, or if they are derivative assets. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of income and comprehensive income.

The REIT does not have any assets at FVTPL.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the REIT has the ability and the intent to hold until maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, its recoverable amount is determined and any impairment loss is recognized in the consolidated statements of income and comprehensive income. Objective evidence would include a significant or prolonged decline in the fair value of an investment below its original cost.

The REIT does not have any held-to-maturity investments.

Available- for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such by management or not classified in any of the other categories. Available-for-sale financial assets are measured at fair value with changes recognized in other comprehensive income. Upon sale or impairment, the accumulated fair value adjustments recognized in other comprehensive income are recorded in the consolidated statements of income and comprehensive income. If there is objective evidence that an asset is impaired, its recoverable amount is determined and any impairment loss is recognized in the consolidated statements of income and comprehensive income. Objective evidence would include a significant or prolonged decline in the fair value of an asset below its original cost.

The REIT does not have any available-for-sale financial assets.

3. Summary of Significant Accounting Policies (continued)

(g) Financial Instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method. If there is objective evidence that an asset is impaired, its recoverable amount is determined and any impairment loss is recognized in the consolidated statements of comprehensive income.

Cash, accounts receivable and the balances due from related parties are classified as loans and receivables. Due to their short-term nature, the carrying amounts of accounts receivable and the balances due from related parties approximate fair value.

Financial liabilities at FVTPL

Financial liabilities are classified as FVTPL if they are designated as such by management, or they are derivative liabilities. Financial liabilities classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of income and comprehensive income.

Management has designated the Class B LP exchangeable units, convertible debentures, and Deferred Unit Plan liability as FVTPL. The derivative financial instruments are considered to be derivative liabilities, and are classified as FVTPL by definition.

Other financial liabilities

Other financial liabilities are financial liabilities that are not classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The REIT's other financial liabilities include mortgage and loans payable, deferred consideration, accounts payable and accrued liabilities, and distributions payable.

The effective interest method is a method of calculating the amortized cost of an instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or disbursements (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount on initial recognition.

Due to their short term nature, the carrying value of the deferred consideration, accounts payable and accrued liabilities, income tax payable, and distributions payable approximates fair value. The carrying values of the mortgages and loans payable and deferred revenue approximate fair value as they bear interest at market rates.

(h) Other assets

Other assets include commodity taxes receivable, acquisition costs and deposits, and prepaid expenses. Acquisition costs and deposits related to future asset acquisitions are capitalized when it is probable that the acquisition will be completed.

3. Summary of Significant Accounting Policies (continued)

(i) Deferred Unit Plan liability

The Deferred Unit Plan units are exchangeable for Trust Units, which in turn are a puttable financial instruments and classified as a liability under International Accounting Standard 32, Financial Instruments: Presentation ("IAS 32"). As such, the Deferred Unit Plan units are classified as a liability. Management designated the Deferred Unit Plan liability as FVTPL; the Deferred Unit Plan liability is re-measured to fair value each reporting date with changes recorded in the consolidated statements of income and comprehensive income.

(j) Derivative financial instruments

(i) Interest rate swap

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

Derivative financial instruments are initially recorded at fair value on the date a derivative contract is entered into and subsequently re-measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative financing 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 an interest rate swap contract to limit its exposure to fluctuations in the interest rates on a variable rate loan. 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.

(ii) Warrant liability

Each whole warrant entities the holder to purchase one Trust Unit of the REIT upon exercise. As the Trust Units of the REIT are puttable financial instruments (note 3 (l)), the warrants meet the definition of a financial liability under IAS 32. The warrants are derivatives and therefore classified as FVTPL. The warrant liability is re-measured to fair value each reporting period, with changes recorded in the consolidated statements of income and comprehensive income.

(k) Class B LP Exchangeable Units

The Class B LP exchangeable units of a subsidiary of the REIT are exchangeable into Trust Units at the option of the holder. The Trust Units meet the definition of a financial liability as disclosed in Note 30. The Class B LP exchangeable units are classified as fair value through profit or loss financial liabilities and are measured at fair value each reporting period with any changes in fair value recognized in the consolidated statement of income and comprehensive income as finance costs. The distributions paid on the Class B LP exchangeable units are accounted for as finance costs.

(l) Trust Units

The Trust Units meet the definition of a financial liability in accordance with IAS 32, as they are redeemable at the option of the holder. The Trust Units are considered to be puttable instruments because of the redemption feature of the Trust Units. There is a limited exemption to allow puttable instruments to be presented as equity provided certain criteria are met.

The Trust Units meet the criteria for this exemption, and accordingly are presented as equity in the consolidated financial statements. Trust Units are recognized at the proceeds received, net of direct issue costs. The distributions on Trust Units are recorded as a reduction in unitholders' equity.

3. Summary of Significant Accounting Policies (continued)

(m) 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 of the REIT ("Unitholders") each year. The REIT is a real estate investment trust if it meets the prescribed conditions under the Income Tax Act (Canada) relating to the nature of its assets and revenues (the “REIT Conditions”). The REIT has reviewed the REIT Conditions and has assessed their interpretation and application to the REIT’s assets and revenues. The REIT intends to ensure that it will meet the REIT Conditions and will make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes.

The REIT’s subsidiaries are subject to income taxes as imposed by the jurisdictions in which they operate, in accordance with the relevant tax laws of such jurisdictions. The provision for income taxes for the period comprises current and deferred income tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates and laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future;
- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Summary of Significant Accounting Policies (continued)

(n) Segmented reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

(o) Investment in associates

Associates are all entities over which the REIT has significant influence but not control. The REIT's investment in associates represents the REIT's approximate 24.11% indirect interest in Vital Healthcare Property Trust ("Vital Trust") and an approximate 26% interest in NorthWest Healthcare Properties REIT ("NWHP REIT"). The REIT has determined that due to its approximately 24.11% interest in Vital Trust (and through the REIT's common external management arrangements with Vital Trust) and 26% interest in NWHP REIT, the REIT has significant influence over the investments and accordingly has accounted for its investments using the equity method of accounting. The investments in Vital Trust and NWHP REIT have been initially recognized at cost on the date at which significant influence was obtained.

The REIT's share of its associates' post-acquisition net income (loss) is recognized in net income (loss), and its share of post-acquisition movements in other comprehensive income (loss) is recognized in other comprehensive income (loss). The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the REIT's share of losses in associates equals or exceeds its interest in the associates, the REIT does not recognize further losses.

Unrealized gains and losses on transactions between the REIT and its associates are eliminated to the extent of the REIT's interest in the associates. Accounting policies of the REIT's associates are consistent with the policies adopted by the REIT.

The REIT assesses at each year-end whether there is any objective evidence that its interest in the associates are impaired. If impaired, the carrying value of the REIT's share of the underlying assets in the associates are written down to its estimated recoverable amount.

(p) Convertible Debentures

The convertible debentures are convertible into Trust Units of the REIT. As the REIT's Trust Units are redeemable at the option of the holder and are therefore considered puttable instruments in accordance with IAS 32, the convertible debentures are considered a liability containing liability-classified embedded derivatives. The REIT has elected to classify and measure its convertible debentures as financial liabilities measured at FVTPL with the changes in fair value being recognized in the consolidated statements of income and comprehensive income.

3. Summary of Significant Accounting Policies (continued)

(q) New Standards effective January 1, 2013

(i) IFRS 7 Offsetting Financial Assets and Liabilities

In December 2011, the IASB made amendments to IFRS 7 *Financial Instruments: Disclosures*. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position; or subject to master netting arrangements or similar arrangements. On January 1, 2013, the REIT adopted this pronouncement and there was no material impact on the REIT's consolidated financial statements.

(ii) IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 10, IFRS 11 and IFRS 12. IFRS 10 replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation Special Purpose Entities, and provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities–Non-monetary Contributions by Venturers, and establishes principles for the financial reporting by parties to a joint arrangement. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. In conjunction with IFRS 10, IFRS 11 and IFRS 12, the IASB also issued amended and retitled IAS 27 - Separate Financial Statements and IAS 28 - Investments in Associates and Joint Ventures. For purposes of this assessment, the REIT determines it controls an entity when:

- It is exposed, or has rights, to variable returns from its involvement with that entity; and
- It has the ability to affect those returns through its power over that entity

On January 1, 2013, the REIT adopted these pronouncements retrospectively and there was no material impact on the REIT's consolidated financial statements.

(iii) IFRS 13 Fair Value Measurement

On May 12, 2011, the IASB issued IFRS 13 Fair Value Measurement (IFRS 13). IFRS 13 defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. On January 1, 2013, the REIT adopted this pronouncement on a prospective basis. The adoption of IFRS 13 resulted in the REIT changing its methodology for determining fair value of the Class B LP exchangeable units and unit-based compensation liabilities and resulted in increased disclosures about the REIT’s various methods in estimating the fair values of assets and liabilities measured at fair value on a recurring or nonrecurring basis in the statement of financial position. As allowed under IFRS 13, if an asset or liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value. The REIT has chosen to use closing market prices as a practical expedient for fair value measurement for its Class B LP exchangeable units and unit-based compensation liabilities.

(iv) IAS 1 Presentation of Financial Statements

Amendments to IAS 1, “Presentation of Financial Statements” (“IAS 1”), provide guidance on the presentation of items contained in other comprehensive income, including a requirement to separate items presented in other comprehensive income into two groups based on whether or not they may be recycled to profit or loss in the future. On January 1, 2013, the REIT adopted this pronouncement and there was no material impact on the REIT's consolidated financial statements.

3. Summary of Significant Accounting Policies (continued)

(r) Future accounting changes

IAS 32 *Offsetting Financial Assets and Liabilities*

In December 2011, the IASB made amendments to IAS 32, Financial Instruments: Presentation. The amendments to IAS 32 clarify the requirements for offsetting financial instruments. The effective date for the amendments, which is to be applied retrospectively, to IAS 32 is annual periods beginning on or after January 1, 2014. Management has not yet determined the potential impact the adoption of IAS 32 will have on the REIT's consolidated financial statements.

IFRS 9 *Financial Instruments*

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 Financial Instruments (IFRS 9) as a first phase in its ongoing project to replace IAS 39.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. Management has not yet determined the potential impact the adoption of IFRS 9 will have on the REIT's consolidated financial statements.

IFRIC 21 *Levies*

In 2013, the IASB issued IFRIC 21: Levies ("IFRIC 21"). The IFRIC addresses accounting for a liability to pay a levy within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"). A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of IAS 12, Income Taxes, and fines or other penalties imposed for breaches of the legislation. This interpretation becomes effective for annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. The REIT is currently assessing the impact of the new interpretation on its consolidated financial statements.

4. Acquisition of Control

On April 16, 2012, the REIT announced it had entered into a support agreement (the "Support Agreement") with NorthWest Value Partners ("NWVP") whereby NWVP would offer to acquire all of the Units for $2.05 per Trust Unit (the “NWVP Offer”) by way of a take-over bid. The NWVP Offer was subject to a number of conditions including acceptance of the NWVP Offer by the holders of at least 66 2/3% of the issued and outstanding Trust Units. In addition, in connection with the NWVP Offer, all the REIT’s existing properties were to be sold to a subsidiary of NorthWest Healthcare Properties Real Estate Investment Trust ("NWHP REIT") for $87,370,000. The REIT’s Trustees unanimously resolved to recommend that Unitholders tender their units to the NWVP Offer and support of the sale of the REIT’s existing properties to NWHP REIT.

As a result of the issuance of all of the Trust Units under the Rights Offering (see note 23 (i)), the NWVP Offer price was adjusted from $2.05 per Trust Unit to $1.87. NWVP’s take-over bid circular and the REIT’s Trustees' circular were mailed to unitholders on April 27, 2012 and April 20, 2012, respectively.

On June 11, 2012, after the extension of the initial expiry date of the NWVP Offer of May 24, 2012, 18,481,046 Trust Units had been tendered to the NWVP Offer, representing approximately 91% of the total outstanding Trust Units and approximately 68% of the fully diluted Trust Units. As disclosed in the takeover bid circular mailed in connection with the NWVP Offer, and for purposes of ensuring that the REIT continued to meet the ongoing listing requirements of the TSX-V, NWVP sold 1,321,000 Trust Units deposited under the NWVP Offer.

5. Dispositions of Canadian Investment Properties

In connection with the NWVP Offer, the REIT agreed to sell its portfolio of twelve Canadian investment properties (the "Existing Portfolio") to NWHP REIT in two separate transactions. The first transaction resulting in the REIT's property in Port Hope (the "Port Hope Property") being conveyed, with the second transaction resulting in the conveyance of the balance of the Existing Portfolio.

Sale of Port Hope Property

On November 14, 2012, with an effective date of October 1, 2012, the REIT completed the sale of the Port Hope Property to a subsidiary of NWHP REIT pursuant to an acquisition agreement dated June 19, 2012 (the “Port Hope Acquisition Agreement”) between the GT Canada General Partner Inc., in its capacity as the general partner of GT Operating Partnership (I) LP ("GT LP"), and NHP Holdings Inc. (“NHP GP”), in its capacity as the general partner of NHP Holdings Limited Partnership (“NHP Partnership”); both NHP Holdings Inc. and NHP Partnership being subsidiaries of NWHP REIT. Pursuant to the Port Hope Acquisition Agreement, GT LP sold its interest in Port Hope Limited Partnership to NHP Partnership, which effectively resulted in the transfer of the Port Hope Property to NHP Partnership.

Pursuant to the Port Hope Acquisition Agreement, the purchase price for the Port Hope Property was $7,875,000, and was satisfied by the assumption of mortgage debt on the Port Hope Property by NHP Partnership in the amount of approximately $4,979,000, and the balance of $2,896,000 by cash.

Sale of Balance of Existing Portfolio

On November 16, 2012, with an effective date of October 1, 2012, the REIT completed the sale of the balance of the Existing Portfolio to a subsidiary of NWHP REIT pursuant to an acquisition agreement dated May 31, 2012 (the “Portfolio Acquisition Agreement”) between the REIT, NWHP REIT and NHP GP, in its capacity as the general partner of NHP Partnership. Pursuant to the Portfolio Acquisition Agreement, the REIT sold its interest in GT LP to NHP Partnership, which effectively resulted in the transfer of the balance of the Portfolio to NHP Partnership.

Pursuant to the Portfolio Acquisition Agreement, the purchase price for the balance of the Existing Portfolio was $79,620,000, and was satisfied by the assumption of mortgage debt of $43,316,000, a $30,000,000 promissory note (the “NHP Promissory Note”), and the balance of $6,304,000 by cash. The NHP Promissory Note was payable on demand and carried an interest rate of 8% per annum (see note 12 (ii)).

Audited (Canadian dollars)

5. Dispositions of Canadian Investment Properties (continued)

	Port Hope	Existing Portfolio	Total
Consideration			
Cash received	$ 2,896,000	$ 6,304,000	**$ 9,200,000**
Mortgages and loans payable	4,979,000	43,316,009	**48,295,009**
Mortgages and loans payable	-	30,000,000	**30,000,000**
Working capital adjustment receivable	47,446	30,132	**77,578**
Total consideration	**7,922,446**	**79,650,141**	**87,572,587**
Net Assets Sold			
Investment properties	7,770,160	76,224,840	**83,995,000**
Prepaid expenses and deposits	41,559	325,001	**366,560**
Accounts receivable	28,583	101,882	**130,465**
Other assets	18,500	324,527	**343,027**
Cash	37,001	236,043	**273,044**
Accounts payable	(78,198)	(733,042)	**(811,240)**
Total net assets sold	**7,817,605**	**76,479,251**	**84,296,856**
Total gain on sale	**$ 104,841**	**$ 3,170,890**	**$ 3,275,731**

6. Acquisition of Initial International Assets

On November 16, 2012 (with an effective date of October 1, 2012), pursuant to the definitive agreement dated October 23, 2012 between the REIT and NWVP (the "Definitive Agreement"), the REIT indirectly acquired a portfolio of five medical office buildings in Germany, the land and buildings of Sabará Children's Hospital in Brazil, and a 19.66% interest in Vital Trust (collectively, the "Initial International Assets") from NWVP and affiliates. In connection with the acquisition of the Initial International Assets, the REIT also entered into a Management Fee Participation Agreement (note 27(iii)) and a Put/Call Agreement (note 10(ii)). The total purchase price for the transaction was $123,088,279, including acquisition costs of $10,000,000. The acquisition of the investment properties has been treated as asset purchases and the acquisition of the investment in Vital Trust has been treated as an acquisition of an investment in associate (see note 10(i)). As a result, acquisition costs of $10,000,000 were capitalized to the assets acquired based on their relative fair values at the date of acquisition.

The consideration for the Initial International Assets consisted of 9,878,165 Trust Units of the REIT and 55,944,444 Class B LP exchangeable units. The consideration was ascribed a value of $1.87 per Trust Unit and $1.87 per Class B LP exchangeable unit.

Audited (Canadian dollars)

6. Acquisition of Initial International Assets (continued)

The following summarizes the recognized amounts of identifiable assets acquired and liabilities assumed measured at their respective fair values:

Assets	
Investment properties (note 9)	$ 84,412,292
Investment in associate (note 10)	79,638,912
Intangible asset (note 11)	15,612,750
Due from related party (note 12(i))	31,141,756
	210,805,710
Liabilities	
Mortgage and loans payable	59,688,832
Deferred revenue (note 18)	17,569,492
Derivative financial instrument (note 20(i))	9,485,600
Working capital (i)	973,507
	87,717,431
Net assets acquired	**123,088,279**
Consideration transferred by the REIT:	
Trust Units	18,472,169
Class B LP exchangeable units	104,616,110
Total consideration transferred	**$ 123,088,279**

(i) As per the Definitive Agreement, the purchase price is to be adjusted to the extent that the working capital (defined as cash, accounts receivable, and prepaid expenses less accounts payable and accrued liabilities) of the Initial International Assets is greater or less than nil.

Audited (Canadian dollars)

7. Discontinued Operations

The REIT sold all of its Canadian medical office buildings ("the Existing Portfolio") effective October 1, 2012 as part of the repositioning of the REIT to focus on international assets, as described in note 1. As a result, the REIT has classified the income, expenses and cash flows associated with the Canadian medical office buildings as discontinued operations.

Year Ended December 31,		2012
Net Operating Income		
Revenue from investment properties	$	7,011,675
Property operating costs		2,859,625
		4,152,050
Expenses		
Mortgage and loan interest expense		1,640,527
Income before other finance costs and fair value adjustments		2,511,523
Amortization of deferred financing costs		(54,961)
Gain on disposal of investment properties (note 5)		3,275,731
Fair value gain on investment properties		3,842,768
Net income from discontinued operations	$	9,575,061

Details of cash flows relating to discontinued operations are as follows:

Year Ended December 31,		2012
Cash provided by operating activities	$	2,738,210
Cash used in investing activities		3,096,969
Cash provided by financing activities		3,033,030
Net change in cash from discontinued operations	$	8,868,209

Audited (Canadian dollars)

8. Property Acquisitions

i) 2013 Property Acquisitions

On March 31, 2013, the REIT completed the acquisition of a medical office complex in Fulda, Germany (the "Fulda Property") for a gross purchase price of $19,513,141 including transaction costs of $873,683. The REIT's investment was funded from cash and new mortgage financing from a German lending institution for $11,804,379 (net of transaction costs of $71,121) with a five year term, a fixed interest rate of 2.37% per annum and a 40 year amortization period.

On December 23, 2013, the REIT completed the acquisition of three private hospitals in Brazil (the “Rede D’Or Hospital Portfolio Acquisition”) for a gross purchase price of $206,480,294 including transaction costs of $5,216,746. The REIT’s investment was funded from cash, a new term loan from a Brazilian lending institution for $113,939,317 (net of transaction costs of $7,641,683) which matures in December 2014, and a new acquisition facility of $22,205,512 (net of transaction costs of $1,794,488) from a Canadian lending institution which matures in December 2016, and $37,650,690 of deferred consideration (note 16).

ii) 2012 Property Acquisitions

On December 27, 2012, the REIT indirectly acquired the land and buildings constituting Hospital e Maternidade Brasil (“HMB”), located in suburban Sao Paulo, Brazil for $128,212,296, which included approximately $6,664,509 of transaction costs and $24,295,000 of deferred consideration (note 16). The REIT’s investment was funded from existing resources and new term loan of $60,737,500.

These acquisitions have been treated as asset purchases.

9. Investment Properties

As at	**December 31, 2013**	December 31, 2012
Balance, beginning of year	**$ 205,502,477**	$ 61,332,333
Continuing operations		
Acquisitions of Initial International Assets (note 6)	**-**	84,412,292
Acquisition of investment property (note 8)	**225,993,435**	128,212,296
Additions to investment properties	**50,852**	-
Fair value gain (loss)	**24,119,615**	(8,535,836)
Foreign currency translation	**(6,834,026)**	1,413,725
	243,329,876	205,502,477
Discontinued operations		
Acquisitions of investment properties	**-**	18,764,618
Additions to investment properties	**-**	71,240
Fair value gain	**-**	3,842,768
Amortization of leasing costs and tenant inducements	**-**	(15,959)
Disposal of investment properties	**-**	(83,995,000)
	-	(61,332,333)
Balance, end of year	**$ 448,832,353**	$ 205,502,477

Audited (Canadian dollars)

9. Investment Properties (continued)

The Fulda Property was acquired on March 31, 2013 for $19,513,141 (including transaction costs) and the Rede D'Or Hospital Portfolio Acquisition was acquired on December 23, 2013 for $206,480,294 (including transaction costs) (note 8). As at December 31, 2013, the value of investment properties decreased by $6,834,026 attributable to the weakening of the Brazilian Real offset partially by the strengthening of the Euro relative to the Canadian dollar. The fair value of investment properties increased by $24,119,615 as a result of: a fair value gain on the Brazilian portfolio ($30,731,548); a fair value loss as a result of the write-off of transaction costs capitalized on acquisition of the Fulda Property ($873,683) and the Rede D'Or Hospital Portfolio Acquisition ($5,216,746); and a fair value loss on the revaluation of the REIT's German portfolio ($521,504).

As at December 31, 2012, the value of the investment properties increased by $1,413,725 attributable to the strengthening of the Euro and Brazilian Real relative to the Canadian dollar and decreased by $8,535,836 attributable to variances against appraised values of the Initial International Assets.

Investment properties are carried at fair value. The investment properties are re-measured to fair value at each reporting date, determined either on internal valuation models incorporating available market evidence, or on valuations performed by third-party appraisers.

The fair value of the investment properties at December 31, 2013 and December 31, 2012 were determined using valuation models incorporating available market evidence. Estimates and assumptions used in determining the fair value of the investment properties include capitalization rates, discount rates, inflation rates, vacancy rates, and property level net operating income.

The key valuation metrics for investment properties are set out in the following table:

	December 31, 2013	December 31, 2012
Discount rates - range	6.75 - 10.00%	6.75 - 11.50%
Discount rate – weighted average	9.57%	10.50%
Terminal capitalization rates - range	7.25 - 9.00%	7.25 - 10.00%
Terminal capitalization rate - weighted average	8.75%	8.86%

Fair values are most sensitive to changes in discount rates and terminal capitalization rates. A 0.25% increase in the weighted average portfolio discount rate and terminal capitalization rate would decrease fair value by $12,016,426 and a 0.25% decrease would increase fair value by $11,883,235.

During the year ended December 31, 2013, properties with an aggregate fair value of approximately $404,127,000 (2012 – $205,502,477) were valued by external valuation professionals with recognized and relevant professional qualification.

Future minimum contractual rent (excluding service charges) under operating leases is as follows:

	December 31, 2013
Less than 1 year	$ 38,770,089
1 - 5 years	$ 148,604,518
Longer than 5 years	$ 625,720,093

Audited (Canadian dollars)

10. Investment in Associates

	Vital Trust (i)	NWHP REIT (ii)	Total
As at December 31, 2011	$ -	$ -	$ -
Acquisition of equity investment	79,638,912	-	79,638,912
Share of profit for the period	1,168,584	-	1,168,584
Share of other comprehensive loss for the period	(108,737)	-	(108,737)
Foreign exchange	7,702	-	7,702
As at December 31, 2012	**$ 80,706,461**	**$ -**	**$ 80,706,461**
Acquisition of equity investment	-	155,429,531	155,429,531
Additional units purchased	24,588,653	-	24,588,653
Cash distributions received	(3,780,167)	(5,552,352)	(9,332,519)
Share of profit for the period	6,608,342	3,548,488	10,156,830
Share of other comprehensive loss for the period	(2,081,655)	-	(2,081,655)
Foreign exchange	35,311	-	35,311
As at December 31, 2013	**$ 106,076,945**	**$ 153,425,667**	**$ 259,502,612**

(i) Investment in Vital Healthcare Property Trust

On November 16, 2012 (with an effective date of October 1, 2012), the REIT acquired an investment in Vital Healthcare Property Trust ("Vital Trust") which was subject to a securities lending arrangement. The investment in Vital Trust is accounted for using the equity method as it was established that the REIT has significant influence with respect to this investment.

During the year ended December 31, 2013, the REIT acquired an additional 22,154,307 units of Vital Trust to bring its respective cumulative exposure to Vital Trust to 24.11%.

As at December 31, 2013, the REIT had exposure to 81,659,866 units of Vital Trust. The closing price on the New Zealand Stock Exchange ("NZX") of Vital Trust's units as at December 31, 2013 was $1.12 (NZ $1.28).

A summary of Vital Trust's aggregate assets and liabilities and net income for the period was as follows:

As at	**December 31, 2013 (unaudited)**	December 31, 2012 (unaudited)
Assets	**$ 524,803,596**	$ 515,968,581
Liabilities	**$ 222,340,157**	$ 268,987,487
% interest held	**24.11%**	19.66%

	Year Ended December 31, 2013 (unaudited)	For the period from October 1 to December 31, 2012 [(1)] (unaudited)
Revenues	**$ 56,647,165**	$ 42,514,578
Net income	**$ 31,039,936**	$ 24,314,013
Other comprehensive income (loss)	**$ (9,762,820)**	$ (7,816,743)
Total comprehensive income (loss)	**$ 21,277,116**	$ 16,497,270

Audited (Canadian dollars)

10. Investment in Associates (continued)

(i) Investment in Vital Healthcare Property Trust (continued)

(1) To compute the revenues and income of Vital Trust for the period from October 1, 2012 to December 31, 2012, as Vital Trust has a June 30 fiscal year end, the revenue and net income for the six month period ended December 31, 2012 has been pro-rated.

(ii) Investment in NorthWest Healthcare Properties REIT

Pursuant to the exercise of a put right held by NWVP under the Put/Call Agreement (defined herein), the REIT indirectly acquired an approximate 26% interest in NorthWest Healthcare Properties REIT ("NWHP REIT") from NWVP and affiliates. The interest acquired by the REIT consists of 4,345,900 units of NWHP REIT and 7,551,546 class B limited partnership units of NHP Holdings Limited Partnership ("NHP LP"), which are exchangeable for trust units of NWHP REIT. The investment in NWHP REIT is accounted for using the equity method as it was established that the REIT has significant influence with respect to this investment.

Pursuant to the terms of the Put/Call Agreement, the REIT acquired the NWHP REIT securities at a price of $13.22 per unit, for total gross consideration of $157,284,236 less $73,772,588 of third party debt (note 15) that was indirectly assumed by the REIT. The purchase price includes acquisition costs of $19,193.

The acquisition of the investment in NWHP REIT is summarized as follows:

	Net assets acquired
Investment in associate	$ 155,410,338
Due from related party - Interest Rate Subsidy (note 12 (iii))	1,873,898
	157,284,236
Loan payable	(73,772,588)
Net assets acquired	**83,511,648**
Class B units issued as consideration	68,511,648
Settlement of promissory note receivable	15,000,000
Total consideration	**$ 83,511,648**

The REIT's indirect acquisition of the NWHP REIT securities and debt assumed were effected by a subsidiary of the REIT acquiring holding entities from NWVP. One of the entities acquired by the REIT was NorthWest Operating Trust ("NWOT") which is party to contractual arrangements with NWHP REIT that grant NWOT certain governance rights with respect to NWHP REIT, including board appointment rights, certain pre-emptive rights and registration rights.

As per the Put/Call Implementation Agreement, the purchase price payable by the REIT for the investment in NWHP REIT was to be adjusted upwards to the extent that there was positive working capital, or downwards to the extent that there was negative working capital, in any of the entities acquired, directly or indirectly, by the REIT. During the year ended December 31, 2013, the working capital at closing was agreed upon and as a result, the REIT owes to NWVP $206,221, which has been netted against amounts owing from NWVP at December 31, 2013 (note 12(v)).

Audited (Canadian dollars)

10. Investment in Associates (continued)

(ii) Investment in NorthWest Healthcare Properties REIT (continued)

As at December 31, 2013, the REIT had exposure to 11,897,446 units of NWHP REIT. The closing price on the Toronto Stock Exchange of NWHP REIT's units as at December 31, 2013 was $10.44.

A summary of NWHP REIT's aggregate assets and liabilities and net income for the period was as follows:

As at	**December 31, 2013 (audited)**
Assets	$ 1,314,992,000
Liabilities	$ 806,348,000
% interest held	25.68%

	For the period from June 21 to December 31, 2013 (1) (unaudited)
Revenues	$ 80,168,967
Net income	$ 13,799,945
Other comprehensive income	$ -
Total comprehensive income	$ 13,799,945

(1) NWHP REIT's results have been prorated for the 10 day period from June 21 to June 30, 2013 and then were added to results for the six months ended December 31, 2013 to represent the income attributable to the period from acquisition by the REIT.

11. Intangible Asset

In conjunction with the acquisition of the Initial International Assets, the REIT indirectly acquired rights under a Management Fee Participation Agreement (note 27(iii)). At the time of acquisition, the value ascribed to the agreement was $15,612,750. The intangible asset is being amortized on a straight line basis over its determined useful life of 10 years.

Year Ended December 31,	**2013**	2012
Balance, beginning of year	**$ 15,612,750**	$ -
Acquisition	**-**	15,612,750
Amortization	**(1,561,275)**	-
Balance, end of year	**$ 14,051,475**	$ 15,612,750

Audited (Canadian dollars)

12. Due from Related Parties

The following table summarizes the balance owing from/(to) NWVP and its subsidiaries:

As at	**December 31, 2013**	December 31, 2012
Working capital and closing adjustment receivable - Initial International Assets (i)	**$ 18,236,652**	$ 27,300,011
Promissory note receivable (ii)	**-**	15,000,000
Interest rate subsidy (iii)	**1,873,898**	-
Instalment note receivable (iv)	**1,369,191**	1,296,755
Vital Management Fee Participation (note 27(iii))	**2,296,860**	456,009
Interest (ii) (note 27 (vi))	**2,431,781**	269,589
Other (v)	**45,665**	(1,799,621)
	$ 26,254,047	$ 42,522,743

(i) Working capital and closing adjustment receivable - Initial International Assets

The working capital and closing adjustment receivable from a subsidiary of NWVP arises as a result of the differences in the values of the working capital and debt indirectly assumed on acquisition of the Initial International Assets as compared to the values assigned at the time of the signing of the agreement entered into in connection with the acquisition. During the year ended December 31, 2013, repayments of the working capital and closing adjustment receivable were received in the amount of $9,063,359. On January 2, 2014, subsequent to year end, a further repayment of $1,270,000 was received. The working capital and closing adjustment receivable is unsecured was previously due on December 31, 2013, however, as it remains unpaid, it is now due on demand. The working capital and closing adjustment receivable accrues an approximate economic return of 8% per annum when permissible (see note 27 (vi)).

(ii) Promissory note receivable

The promissory note receivable arose from the sale of the Existing Portfolio (note 7) and was due from an affiliate of NWVP. In connection with the completion of the acquisition of the investment in NWHP REIT (note 10(ii)), NWVP settled the promissory note in full on June 21, 2013. The promissory note was unsecured, repayable on demand at any time and bore interest at a rate of 8% per annum, payable quarterly in arrears.

Interest earned on the promissory note for the year ended December 31, 2013 from an affiliate of NWVP was $562,192 (2012 - $269,589).

(iii) Interest rate subsidy

As part of the acquisition of the investment in NWHP REIT (note 10(ii)), NWVP has committed, by means of a capital contribution, that the effective interest rate payable by the REIT on the assumed margin facilities shall not exceed (a) 4.25% for the balance of 2013, and (b) 6.00% for the first three months of 2014. At the date of acquisition the present value of the interest rate subsidy was $1,873,898 and has been recorded as a receivable from NWVP, and subsequent cash payments by NWVP will be recorded as a reduction of the receivable balance.

Audited (Canadian dollars)

12. Due from Related Parties (continued)

(iv) Instalment note receivable

In connection with the REIT's acquisition of the Initial International Assets, the REIT entered into an arrangement with an affiliate of NWVP to partially compensate the REIT for assuming obligations associated with the Sabará Children's Hospital in Brazil (the "Instalment Note"). Pursuant to the Instalment Note, the REIT earned and will earn from an affiliate of NWVP, two instalment note receipts – on April 2, 2013 (extended to April 2, 2014) and April 2, 2014 respectively, as detailed below. The Instalment Note receipts remain outstanding and are now due on demand. The Instalment Note is non-interest bearing. The receipt of the principal portion of the installment receipts will be recorded as a reduction of the Instalment Notes and is, therefore, not recorded as revenue. The Instalment Note is recorded at the present value of the future cash flows.

The below table summarizes the scheduled instalment receipts and the present value discount applied as at December 31, 2013:

April 2, 2013, extended to April 2, 2014	$	526,835
April 2, 2014		858,720
Present value adjustment		(16,364)
Balance, December 31, 2013	**$**	**1,369,191**

(v) Other

In the normal course of operations, through various agreements with its external managers and through the post-closing adjustment related to the investment in NWHP REIT (note 10(ii)), the REIT has amounts owing to and from NWVP and affiliates. These amounts are current receivables and are non-interest bearing.

13. Other Assets

As at		**December 31, 2013**		December 31, 2012
Commodity taxes recoverable	**$**	**262,823**	$	149,839
Acquisition costs and deposits		**1,284,640**		822,557
Prepaid expenses		**27,055**		20,864
	$	**1,574,518**	$	993,260

Acquisition costs and deposits on investment properties relate to potential acquisitions which are currently undergoing due diligence.

14. Cash and Restricted Cash

As at		**December 31, 2013**		December 31, 2012
Cash	**$**	**2,635,859**	$	3,142,536
Restricted Cash		**1,778,685**		607,375
	$	**4,414,544**	$	3,749,911

Audited (Canadian dollars)

15. Mortgages and Loans Payable

As at	**December 31, 2013**	December 31, 2012
Mortgages payable (net of financing costs of $263,024, 2012 - $180,400)	**$ 41,996,473**	$ 26,831,512
Securities lending agreement (net of financing costs of $8,220, 2012 - $473,178)	**36,836,914**	29,393,937
Margin facilities (net of financing costs of $306,648)	**82,254,834**	-
Term loans (net of financing costs of $7,964,505)	**173,793,462**	60,264,322
Acquisition Facility (net of financing costs of $1,458,067)	**22,541,933**	
Line of credit	**103,143**	8,035
Total	**357,526,759**	116,497,806
Less: Current portion	**294,311,880**	30,163,316
Non-current debt	**$ 63,214,879**	$ 86,334,490

Mortgages payable

During the year ended December 31, 2013, the REIT obtained new mortgage financing on the acquisition of the Fulda Property (note 8) for $11,804,379 (net of transaction costs of $71,121) with a five year term, a fixed interest rate of 2.37% per annum and a 40 year amortization period.

On November 27, 2012, the REIT refinanced four of its German properties. The REIT entered into a new mortgage for approximately $22,694,000, with a five year term maturing in November 2017, a fixed interest rate of 2.50% per annum and a 40 year amortization period. The proceeds from this mortgage, along with approximately $1,400,000 of cash, were used to repay the existing mortgage financing.

The entire mortgage payable balance relates to the German properties, and as such, the investment properties in Germany are pledged as collateral for the mortgages payable.

Securities lending agreement

On November 22, 2012, NWI Healthcare Properties LP ("NWI LP"), a current subsidiary of the REIT, entered into a Global Master Securities Lending Agreement (the "Vital SLA") with a Canadian financial institution (the "SLA Counterparty").

Pursuant to the Vital SLA, NWI LP has transferred (or "loaned") the Vital Trust Units to the SLA Counterparty in return for the SLA Counterparty paying to it an amount of cash collateral (the "SLA Collateral"). The SLA Collateral that the SLA Counterparty must deposit with the REIT is calculated by reference to the value of the Vital Trust Units from time to time. If the value of the Vital Trust Units increases, the SLA Counterparty will be required to deposit additional SLA Collateral to NWI LP, while NWI LP will be required to return part of the SLA Collateral to the SLA Counterparty if the value of the Vital Trust Units declines. NWI LP must pay interest on the SLA Collateral it holds to the SLA Counterparty.

The Vital SLA was due to terminate on November 15, 2013; however, during the year ended December 31, 2013, the maturity of the Vital SLA was extended to February 28, 2014. On March 21, 2014, the Vital SLA was terminated by means of a new margin facility with Macquarie Bank Limited executed on February 28, 2014 (note 33(e)).

On termination of the Vital SLA, the SLA Counterparty is generally required to deliver to the REIT a number of units in Vital Trust equal to the Vital Trust Units, and the REIT is required to repay the SLA Collateral.

The obligations of the NWI LP in respect of Vital SLA have been guaranteed by the REIT pursuant to a Deed of Guarantee and Indemnity entered into by the REIT and the SLA Counterparty.

15. Mortgages and Loans Payable (continued)

The REIT pays interest on the SLA Collateral it holds to the SLA Counterparty at a rate that fluctuates with the New Zealand dollar LIBOR rate. As at December 31, 2013, the interest rate on the Vital SLA was approximately 6.41% (2012 – 5.15%).

During the year ended December 31, 2013, in relation to the REIT's increase in its investment in Vital Trust, the REIT increased its borrowings under the Vital SLA by approximately $7,451,200. As at December 31, 2013, the REIT has drawn $36,845,134 against the facility and has pledged 67,547,578 Vital Trust units as collateral (2012 - $29,393,937 drawn and 59,505,559 Vital Trust units pledged as collateral).

Margin facilities

During the year ended December 31, 2013 the following margin facilities were obtained:

(i) NWHP REIT

The debt assumed on acquisition of the interest in NWHP REIT (note 10(ii)) consists of various revolving margin facilities with two separate financial institutions. The margin facilities allow the REIT to borrow funds against the market value of the units of NWHP REIT. The REIT has pledged 4,345,900 units of NWHP REIT and 7,551,546 class B limited partnership units of NHP LP as security for the margin facilities.

On November 8, 2013, the REIT repaid one margin facility with an outstanding balance of $8,516,491 and entered into a new margin facility with a limit of $15,000,000 and term of one year, bearing interest at prime plus 1.25% or the Banker's Acceptance rate plus 2.25% and a commitment fee on any unused portion of 0.5625%. As at December 31, 2013, the principal balance outstanding on this facility was $9,415,491.

As at December 31, 2013, the principal balance outstanding on the remaining margin facilities with respect to the REIT's investment in NWHP REIT was $64,992,802.

Interest on the margin facilities is calculated daily and ranges from 4.25% to 10.75% per annum. As part of the acquisition, NWVP has committed, by means of a capital contribution, that the effective interest rate payable by the REIT on the assumed margin facilities shall not exceed (a) 4.25% for the balance of 2013, and (b) 6.00% for the first three months of 2014, which has been recorded as a receivable from NWVP at the date of acquisition of the investment in NWHP REIT (note 12(iii)).

The margin facilities mature between January 15, 2014 and November 8, 2014. The margin facilities maturing on January 15, 2014 were extended to September 1, 2014 (see note 33).

(ii) Vital Trust

During the year ended December 31, 2013, in connection with its participation in the Vital Rights Offering, the REIT obtained a margin facility that provides for a maximum loan of $13,126,500 (NZ $15,000,000). The margin facility bears interest at the New Zealand benchmark rate plus 110 bps on the drawn balance as well as 110 bps on the total facility and matures August 23, 2018. As of December 31, 2013, the REIT has drawn approximately $8,153,000 (NZ $9,317,000) against the facility and has pledged 14,122,287 Vital Trust units as collateral.

In December 2013, the REIT entered into an interest rate swap with respect to the margin facility secured by the Vital Trust units to limit its exposure to fluctuations in the interest rates on approximately $4,113,000 (NZ $4,700,000) of the outstanding loan balance (note 20 (ii)). The interest rate swap fixes the interest rate at 4.03% and terminates on March 29, 2016.

15. Mortgages and Loans Payable (continued)

Term Loans

On December 20, 2013, in connection the Rede D'Or Hospital Portfolio Acquisition (note 8), the REIT obtained an interest-only term loan from a Brazilian lending institution which has a principal of $121,581,000 and bears interest at a fixed rate of 7.00%, payable monthly. The term loan related to the Rede D'Or Hospital Portfolio Acquisition is secured by the future rental income stream of the properties and matures December 22, 2014.

During the year ended December 31, 2012, in connection with its acquisition of HMB (note 8), the REIT obtained an interest-only term loan from a Brazilian lending institution which has a principal of $56,287,500 and bears interest at a fixed rate of 6.60%, payable monthly. The term loan related to HMB is secured by the future rental income stream of the properties and matures December 23, 2014.

On maturity, the principal balance of the term loans will be adjusted by IPCA (the consumer price inflation measure used by the Central Bank of Brazil for guiding monetary policy). For the year ended December 31, 2013, accretion expense of $4,137,363 was recorded to account for the related IPCA adjustment for the year (2012 - $nil).

Acquisition Facility

On December 19, 2013, in connection with the Rede D'Or Hospital Portfolio Acquisition (note 8), the REIT obtained an interest-only loan facility (the "Acquisition Facility") which has a principal of $24,000,000. The Acquisition Facility bears interest at the greater of 8.20% per annum or the Canadian prime rate plus 4.00% per annum, payable monthly. In addition, the lender was granted warrants to acquire 3,000,000 Trust Units. Each whole warrant entitles the holder to acquire one Trust Unit of the REIT at an exercise price of $2.15 per Trust Unit at any time until January 2, 2017 (note 20). The Acquisition Facility is secured by a general security agreement (with the exclusion of certain specific assets) and matures on January 1, 2017.

Line of Credit

During the year ended December 31, 2012, the REIT obtained an operating line of credit available of up to $163,975. The line of credit bears interest at 6% on the balance outstanding. As at December 31, 2013 the balance outstanding on this line of credit was $103,143 (2012 - $8,035). The line of credit is secured by one of the German investment properties.

Audited (Canadian dollars)

15. Mortgages and Loans Payable (continued)

A summary of the maturity and effective interest rates relating to the components of mortgages and loans payable outstanding at December 31, 2013 are as follows:

	Maturity	Weighted Average Interest Rate	Carrying Value
Fixed rate			
Mortgage debt	November 30, 2017	2.46%	$ 37,240,036
Term loans	December 22 - 23, 2014	6.87%	173,793,462
Line of credit	September 30, 2014	6.00%	103,143
Total fixed rate debt			$ 211,136,641
Variable rate			
Mortgage debt	June 30, 2017 - March 31, 2018	3.50%	4,756,437
Securities lending agreement	February 28, 2014	6.41%	36,836,914
Margin facilities	January 15, 2014 - August 23, 2018	8.51% [(1)]	82,254,834
Acquisition facility	January 1, 2017	8.20%	22,541,933
Total variable rate debt			$ 146,390,118
Total debt			**$ 357,526,759**

[(1)] The effective cash interest expense on the margin facilities related to the REIT's investment in NWHP REIT is 4.25% to December 31, 2013 and 6.00% to March 31, 2014 as a result of the interest rate subsidy from NWVP (note 12(iii)).

As at December 31, 2013, the scheduled principal repayments and debt maturities are as follows:

	Mortgage Debt	Securities Lending Agreement	Margin Facilities	Term Loans	Acquisition Facility	Line of Credit	Total
2014	$ 1,197,288	$ 36,845,134	$ 74,408,293	$ 181,757,967	$ -	$ 103,143	**$ 294,311,825**
2015	1,205,601	-	-	-	-	-	**1,205,601**
2016	1,214,209	-	-	-	-	-	**1,214,209**
2017	34,992,208	-	-	-	24,000,000	-	**58,992,208**
2018	217,649	-	8,153,189	-	-	-	**8,370,838**
2019 & thereafter	3,432,542	-	-	-	-	-	**3,432,542**
	42,259,497	**36,845,134**	**82,561,482**	**181,757,967**	**24,000,000**	**103,143**	**367,527,223**
Financing costs	(263,024)	(8,220)	(306,648)	(7,964,505)	(1,458,067)	-	**(10,000,464)**
	$ 41,996,473	**$ 36,836,914**	**$ 82,254,834**	**$ 173,793,462**	**$ 22,541,933**	**$ 103,143**	**$ 357,526,759**

Audited (Canadian dollars)

16. Deferred Consideration

The following table summarizes the deferred consideration payable in connection with the acquisition of HMB on December 27, 2012 and the Rede D'Or Hospital Portfolio Acquisition on December 23, 2013:

As at	**December 31, 2013**	December 31, 2012
Holdback payable	**$ 57,206,112**	$ 24,295,000
Transaction costs payable	**12,909,053**	6,698,246
	$ 70,115,165	$ 30,993,246

On maturity, the holdback payable related to the acquisition of HMB will be adjusted by the accumulated variation of the CDI (Brazil's equivalent of a prime rate) from the date of acquisition to the payment date. For the year ended December 31, 2013, accretion expense of $1,935,160 was recorded to account for the related CDI adjustment for the year which has been recorded as finance costs in the consolidated statement of comprehensive income.

During the year ended December 31, 2013 the holdback with respect to the acquisition of HMB was extended to the later of June 30, 2014 or 90 days after the completion of certain conditions by the vendor. From January 1, 2014 until the date of payment the balance of the holdback will be adjusted by the variation of the CDI plus 2.5% annually.

The holdback and related transaction costs payable with respect to the Rede D'Or Hospital Portfolio Acquisition are also current as they are due within 12 months from the date of purchase (December 23, 2013).

Audited (Canadian dollars)

17. Convertible Debentures

The movements in fair value of convertible debentures were as follows:

	December 31, 2013	December 31, 2012
Balance, beginning of year	**$ -**	$ -
Issuance of convertible debentures - Series MOB.DB	**22,600,000**	-
Issuance of convertible debentures - Series MOB.DB.A	**17,500,000**	-
Decrease in fair value of convertible debentures	**(4,677,000)**	-
	$ 35,423,000	$ -

The fair values of convertible debentures, determined on the basis of the closing market price as at the reporting date, are as follows:

	December 31, 2013	December 31, 2012
Series MOB.DB	**$ 19,323,000**	$ -
Series MOB.DB.A	**16,100,000**	-
	$ 35,423,000	$ -
Current	**$ -**	$ -
Non-Current	**35,423,000**	-
	$ 35,423,000	$ -

	Series MOB.DB	**Series MOB.DB.A**
Conversion price per Unit ($)	$2.85	$2.40
Maturity	March 31, 2018	September 30, 2018
Interest rate	6.50%	7.50%
Interest payment	Semi-annual	Semi-annual
Interest payment dates	September 30 and March 31	September 30 and March 31

Between March 25, 2013 and April 3, 2013, the REIT issued $22,600,000 principal amount of unsecured convertible subordinated debentures (the "Series MOB.DB Debentures"). The Series MOB.DB Debentures bear interest at 6.50% per annum, payable semi-annually on September 30 and March 31 each year, and mature on March 31, 2018. Each Series MOB.DB Debenture is convertible at any time by the debenture holder into 350.877 Trust Units per one thousand dollars of face value, representing a conversion price of $2.85 per Trust Unit. On and after March 31, 2016, and prior to March 31, 2017, the Series MOB.DB Debentures may be redeemed by the REIT, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice, provided that the volume weighted average trading price for the REIT's Trust Units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. On and after March 31, 2017 and prior to the maturity date of March 31, 2018, the Series MOB.DB Debentures may be redeemed by the REIT at a price equal to the principal amount plus accrued and unpaid interest.

Audited (Canadian dollars)

17. Convertible Debentures (continued)

On August 29, 2013, the REIT issued $17,500,000 principal amount of unsecured convertible subordinated debentures (the “Series MOB.DB.A Debentures”). The Series MOB.DB.A Debentures bear interest at 7.50% per annum, payable semi-annually on September 30 and March 31 each year, and mature on September 30, 2018. Each Series MOB.DB.A Debenture is convertible at any time by the debenture holder into 416.6667 Trust Units per one thousand dollars of face value, representing a conversion price of $2.40 per Trust Unit. On and after September 30, 2016, and prior to September 30, 2017, the Series MOB.DB.A Debentures may be redeemed by the REIT, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest on not more than 60 days’ and not less than 30 days’ prior written notice, provided that the volume weighted average trading price for the REIT’s Trust Units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. On and after September 30, 2017 and prior to the maturity date of September 30, 2018, the Series MOB.DB.A Debentures may be redeemed by the REIT at a price equal to the principal amount plus accrued and unpaid interest.

18. Deferred Revenue

As at	**December 31, 2013**	December 31, 2012
Securitized rental income (i)	**$ 14,636,638**	$ 17,226,215
Rental income received in advance	**-**	1,037,680
	$ 14,636,638	$ 18,263,895

(i) At the same time the lease was signed with Sabará Children’s Hospital, the former owner of the Hospital Sabará property securitized 78.75% of the future rents receivable over a 15 year term in return for a lump sum payment. At the time of securitization, deferred revenue was recorded equal to the present value of the proceeds received upon the securitization. The deferred revenue is amortized into revenue from investment properties on a straight line basis over the term of the lease.

Audited (Canadian dollars)

19. Income Taxes

The REIT qualifies as a mutual fund trust and a real estate trust for Canadian income tax purposes. The REIT expects to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes.

Accordingly, no provision for current and deferred income tax payable is required, except for amounts in respect of its incorporated subsidiaries, as follows:

Year Ended December 31,	**2013**	2012
Current income tax	**1,678,626**	61,414
Deferred income tax, relating to origination of temporary differences	**10,507,941**	119,374
	$ 12,186,567	$ 180,788

Deferred taxes

Deferred income taxes reflect the net effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Deferred income tax liabilities consist of the following:

	2013	2012
Deferred tax liability related to difference in tax and book basis of investment properties	**$ 9,999,937**	$ 120,920
Total deferred income tax liabilities	**$ 9,999,937**	$ 120,920

Reconciliation of effective tax rate:

Year Ended December 31,	**2013**	2012
Income (loss) before income taxes	**$ 33,263,576**	$ (32,302,679)
Tax calculated at tax rates applicable to undistributed profits in Canada of 48%	**15,966,516**	(16,750,001)
Increase (decrease) resulting from		
Effect of different tax rates in countries in which the group operates	**(4,008,816)**	(120,330)
Current year finance costs and tax losses for which no deferred tax asset recognized	**3,681,472**	-
Non-deductible finance costs	**7,384,337**	6,014,196
Non-deductible fair value losses (gains)	**(11,030,303)**	11,840,749
Non-deductible transaction costs	**-**	805,833
Non-deductible unit-based compensation	**87,021**	231,839
Income of trust taxed directly to unitholders	**-**	(1,769,991)
Other	**106,340**	(71,507)
Income taxes	**$ 12,186,567**	$ 180,788

Deferred tax assets have not been recognized in respect of approximately $4,104,000 of tax losses of the REIT which will expire in 2033.

Audited (Canadian dollars)

20. Derivative Financial Instruments

The following table summarizes the REIT's derivative financial instruments:

	2013	2012
Put/Call (i)	**$ -**	$ 23,083,107
Interest rate swap (ii)	**8,170**	-
Warrant liability (iii)	**651,204**	-
	$ 659,374	$ 23,083,107

(i) In conjunction with the acquisition of the Initial International Assets (note 6), the REIT entered into a Put/Call Agreement with NWVP with respect to Trust Units and/or securities exchangeable into Trust Units of NWHP REIT (the "Option Units") owned by NWVP.

Pursuant to the Put/Call Agreement, the REIT has granted NWVP and its affiliates the right (the "Put Right") to sell to the REIT any or all of up to 12,500,000 Option Units held by NWVP and its affiliates, at a price per Option Unit equal to the 20-day volume weighted average price of the NWHP REIT units on the date the Put Right is exercised; provided that if the Put Right is exercised by May 16, 2013, the price per Option Unit was $13.22.

Pursuant to the Put/Call Agreement, NWVP has granted the REIT the right (the "Call Right"), following the unanimous approval of all of the trustees of the REIT, to acquire any or all of the Option Units at a price per Option Unit equal to the 20-day volume-weighted average price of the NWHP REIT units on the date the Call Right is exercised; provided that if the Call Right is exercised by May 16, 2013, the price per Option Unit was $13.22.

On June 21, 2013, NWVP exercised its put right which resulted in the REIT acquiring 4,345,900 units of NWHP REIT and 7,551,546 class B limited partnership units of NHP LP (note 10(ii)). As at December 31, 2013, 602,554 Option Units remain. The Put/Call rights expire on November 16, 2014 if not otherwise exercised.

As at December 31, 2013, the 602,554 Option Units outstanding under the Put/Call arrangement have been determined to have no value as the Option Units are exercisable at the market price.

(ii) On December 17, 2013, the REIT entered into an interest rate swap with respect to the margin facility secured by the Vital Trust units (Note 15) to limit its exposure to fluctuations in the interest rates on approximately $4,113,000 (NZ $4,700,000) of the outstanding loan balance. 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 year ended and as at December 31, 2013, the REIT recognized a fair value loss of $8,170 and a financial instrument liability of $8,170, respectively.

Audited (Canadian dollars)

20. Derivative Financial Instruments (continued)

(iii) On December 19, 2013, the REIT entered into an Acquisition Facility (note 15), which resulted in the lender receiving a compensatory payment of warrants to acquire 3,000,000 Trust Units.

Each whole warrant entitles the holder to acquire one Trust Unit of the REIT at an exercise price of $2.15 per Trust Unit at any time until January 2, 2017. On the issue date, the value of the warrants was established using the Black-Scholes option pricing model using a risk free interest rate of 1.10% over the expected life of 3.04 years with an expected volatility rate of 40% and an expected dividend yield of 11.28%. Upon issuance, the value of the warrants in the amount of $559,828 was recognized as a financing fee.

At December 31, 2013, the fair value of the warrant liability was estimated using the Black-Scholes option pricing model using a risk free interest rate of 1.21% over the expected life of 3.01 years with an expected volatility rate of 40% and an expected dividend yield of 10.89%. The amount of the warrant liability was $651,204 at December 31, 2013.

21. Deferred Unit Plan ("DUP") liability

On April 21, 2011 the REIT adopted the DUP to promote a greater alignment of interests between the trustees and management of the REIT and unitholders. Under the terms of the DUP, participants have the right to receive a percentage of their annual remuneration in the form of deferred units. For the year ended December 31, 2013, the REIT granted or issued 82,973 DUP units with a fair value of $165,945 (2012 - 712,248 DUP units with a cost of $1,247,862).

The DUP states that whenever cash distributions are paid on the REIT's Trust Units, whether vested or unvested, additional deferred units will be credited to the participant's deferred unit account equal to the value of the cash distributions divided by the market value of a Trust Unit on the date of the distribution. The additional deferred units shall vest at the same time as the underlying deferred units. For the year ended December 31, 2013, the REIT granted an additional 7,723 DUP units with a fair value of $15,348 (2012 – nil) in respect of distributions earned on outstanding DUP units.

As at December 31, 2013, there were 183,195 DUP units (2012 - 92,449) of the REIT issued and outstanding with a fair value of $370,054 (2012 - $184,998). The fair value of the DUP Liability is determined with reference to the market price of the REIT's Trust Units at the reporting date.

The following table shows the continuity of the DUP units:

Balance, December 31, 2011	**198,287**
Granted	303,230
Issued as a result of the change of control	409,018
Converted to REIT Units	(818,036)
Balance, December 31, 2012	**92,499**
Granted	82,973
Reinvestment of distributions	7,723
Balance, December 31, 2013	**183,195**

Audited (Canadian dollars)

22. Class B LP Exchangeable Units

As at December 31, 2013, there were 91,068,320 Class B LP exchangeable units of NWI Healthcare Properties LP ("NWI LP") issued and outstanding with a fair value of $183,958,006 (December 31, 2012 – 55,944,444 units with a fair value of $114,686,110). These Class B LP exchangeable units are economically equivalent to Trust Units and are entitled to receive distributions equal to those provided to holders of Trust Units. The fair value of the Class B LP exchangeable unit liability is determined with reference to the market price of the REIT's Trust Units at the reporting date.

Distributions declared on the Class B LP exchangeable units of NWI LP totaled $12,169,416 for the year ended December 31, 2013 (2012 - $2,181,325) and have been accounted for as finance costs.

The following table shows the continuity of the Class B LP exchangeable units:

	Units	Amount
Balance, December 31, 2011	**662,500**	**$ 960,625**
Converted to Trust Units (note 23)	(662,500)	(1,238,875)
Units issued as consideration for acquisition of the Initial International Assets (note 6)	55,944,444	104,616,110
Fair value adjustment of Class B LP exchangeable units	-	10,348,250
Balance, December 31, 2012	**55,944,444**	**114,686,110**
Converted to Trust Units (note 23)	(1,513,369)	(2,830,000)
Units issued as consideration for acquisition of investment in NWHP REIT (note 10(ii))	36,637,245	68,511,648
Fair value adjustment of Class B LP exchangeable units	-	3,590,248
Balance, December 31, 2013	**91,068,320**	**$ 183,958,006**

23. Trust Units

The REIT is authorized to issue an unlimited number of Trust Units. Each Trust 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 REIT's trustees have sole discretion in declaring distributions.

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23. Trust Units (continued)

The following table shows the changes in Trust Units:

	Trust Units	Amount
Balance - December 31, 2011	**14,858,347**	**$ 19,916,415**
Units issued pursuant to rights offering (i)	3,880,212	4,462,244
Unit issue costs - cash (i)	-	(268,540)
Conversion of Class B LP exchangeable units (ii)	662,500	1,238,875
Conversion of Deferred Unit Plan units (iii)	818,036	1,529,727
Units issued as consideration for acquisition of the Initial International Assets (iv)	9,878,165	18,472,169
Units issued pursuant to equity offering (v)	12,500,000	25,000,000
Unit issue costs - cash (v)	-	(2,295,181)
Balance - December 31, 2012	**42,597,260**	**$ 68,055,709**
Units issued pursuant to equity offering (vi)	9,850,900	19,701,800
Unit issue costs - cash (vi)	-	(2,075,084)
Units issued through distribution reinvestment plan (vii)	151,618	288,010
Conversion of Class B LP exchangeable units (viii)	1,513,369	2,830,000
Asset management fees paid in units (ix)	865,238	1,703,545
Balance - December 31, 2013	**54,978,385**	**$ 90,503,980**

(i) On April 24, 2012, the REIT completed its' offering of rights (the "Rights Offering") to acquire up to 3,880,212 units of the REIT to unitholders of record on March 30, 2012 at a price of $1.15 per unit. Pursuant to the Rights Offering, the REIT issued a total of 3,880,212 units of the REIT for gross proceeds of $4,462,244.

(ii) On May 31, 2012, the REIT converted 662,500 Class B LP exchangeable units into 662,500 Trust Units at a fair value of $1,238,875 in conjunction with the NWVP Offer described in note 4.

(iii) On May 31, 2012, the REIT converted 818,036 DUP units into 818,036 Trust Units at a fair value of $1,529,727 in conjunction with the NWVP Offer described in note 4.

(iv) On November 16, 2012 (with an effective date of October 1, 2012), pursuant to the Definitive Agreement, in exchange for the acquisition of the Initial International Assets, the REIT issued 9,878,165 Units at a deemed price of $1.87 per Unit (see note 6).

(v) On December 20, 2012, the REIT completed an equity offering of 12,500,000 units of the REIT at a price of $2.00 per unit. Pursuant to the equity offering, the REIT issued a total of 12,500,000 units of the REIT for gross proceeds of $25,000,000.

(vi) On January 14, 2013, the underwriters exercised their overallotment option and completed their purchase of 850,900 additional Trust Units of the REIT at a price of $2.00 per Trust Unit for gross proceeds of $1,701,800.

On December 18, 2013, the REIT completed an equity offering of 9,000,000 units of the REIT at a price of $2.00 per unit. Pursuant to the Offering, the REIT issued a total of 9,000,000 units of the REIT for gross proceeds of $18,000,000.

Costs associated with the exercise of the overallotment option in January 2013 and the equity offering in December 2013 totaled $2,075,084 which has been charged directly to equity.

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23. Trust Units (continued)

(vii) On January 23, 2013, the REIT announced it had implemented a distribution reinvestment plan (the "DRIP") starting with the distribution that was payable on February 15, 2013 to those unitholders of record on January 31, 2013.

(viii) On March 11, 2013, NWVP converted 1,513,369 Class B LP exchangeable units into 1,513,369 Trust Units.

(ix) During the year ended December 31, 2013, the REIT issued 865,238 units to settle outstanding asset management fees owing to a subsidiary of NWVP (note 27 (iii)).

24. Transaction Costs

The REIT incurred transaction costs in relation to the following:

Year Ended December 31,	2013	2012
Strategic transaction costs (a)		
Professional advisory and other costs	**$ 468,182**	$ 4,664,359
Management and Trustee compensation (i)	-	1,876,250
DUP units issued (note 21 and (i))	-	914,864
	468,182	7,455,473
Abandoned acquisition transaction costs (b)	-	71,213
	$ 468,182	$ 7,526,686

(a) The REIT incurred professional advisory fees and other costs in connection with the REIT's consideration of strategic alternatives, the evaluation and negotiation of those strategic transactions with NWVP (described in note 4), as well as the repositioning of the REIT to focus on international healthcare real estate and evaluation of the acquisition of the Initial International Assets from NWVP (as described in note 6).

(i) As a consequence of the acquisition of control arising from the completion of the NWVP Offer, senior management of the REIT received severance payments. The REIT also established a Special Committee of the Board to respond to the NWVP Offer. The members of the Special Committee received additional compensation for their participation.

(b) The REIT expensed professional fees and other costs in connection with the REIT's evaluation of potential acquisitions of investment properties which have been abandoned.

25. Other Fair Value Gains (Losses)

Year Ended December 31,	2013	2012
Incentive unit options	**$ -**	$ 108,099
Compensation related warrant liability	**-**	129,521
DUP liability (note 21)	**(3,763)**	(179,346)
	$ (3,763)	$ 58,274

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26. Supplemental Cash Flow Information

(i) Changes in Non-Cash Working Capital Balances

Year Ended December 31,	**2013**	2012
Accounts receivable	**$ (1,124,870)**	$ (280,818)
Other assets	**(534,478)**	(617,641)
Accounts payable and accrued liabilities	**3,106,083**	81,984
	$ 1,446,735	$ (816,475)

(ii) Non-Cash Financing and Investing Activities

Year Ended December 31,	**2013**	2012
Supplemental disclosure relating to non-cash financing and investing activities:		
Non-cash addition to investment in associate through discharge of promissory note receivable (note 10 and note 12 (ii))	**$ 15,000,000**	$ -
Non-cash addition to investment in associate through issuance of Class B LP Exchangeable Units (note 10 and note 22)	**$ 68,511,649**	$ -
Assumption of margin facilities on acquisition of investment in associate (note 15)	**$ 73,772,588**	$ -
Asset management fees settled through issuance of units (note 23 (ix))	**$ 1,703,545**	$ -
Non-cash distributions to Unitholders under the DRIP (note 23(vii))	**$ 288,101**	$ -

27. Related Party Transactions

(i) As at December 31, 2013, NWVP indirectly owned approximately 82% of the outstanding Trust Units (approximately 60% on a fully-diluted basis). Paul Dalla Lana, Chairman of the Board of Trustees and Chief Executive Officer of the REIT, is the sole shareholder, sole director and President of NWVP.. Bernard Crotty, a Trustee and President of the REIT, serves as Senior Vice-President of NWVP. Teresa Neto, Chief Financial Officer of the REIT, serves as Chief Financial Officer of NWVP.

(ii) On November 16, 2012 with an effective date of October 1, 2012 the REIT acquired the Initial International Assets from NWVP and affiliates (note 1). In conjunction with the acquisition of the Initial International Assets, the REIT entered into a Put/Call Agreement. Pursuant to the Put/Call Agreement, the REIT had granted NWVP the Put Right to sell to the REIT any or all of up to 12,500,000 NWHP trust units and/or securities exchangeable into Option Units held by NWVP to the REIT. NWVP had granted the REIT the Call Right to acquire any or all of the Option Units. The Put/Call Agreement specifies the price at which the Option Units may be purchased/sold and the put/call rights expire on November 16, 2014. On June 21, 2013, the REIT acquired 11,897,446 Option Units under the Put/Call Agreement (note 10(ii)). As at December 31, 2013, there remains put/call rights in respect of 602,554 Option Units under the Put/Call Agreement. Paul Dalla Lana, Robert Baron and Bernard Crotty, all Trustees of the REIT, also serve as trustees of NWHP REIT.

(iii) The REIT and its affiliates entered into a series of agreements with affiliates of NWVP, whereby such affiliates have agreed to act as Property Manager, Asset Manager and Development Manager for the REIT.

27. Related Party Transactions (continued)

The Asset Manager is entitled to receive a base annual management fee calculated and payable on a monthly basis, equal to 0.50% of the sum of (a) the historical purchase price of the REIT's assets, and (b) the cost of any capital expenditures incurred by the REIT or its affiliates in respect of the assets subject to the Asset Management Agreement. The foregoing amounts are payable, at the option of the Asset Manager, in either cash, Deferred Units (which would vest immediately), Trust Units or securities of the REIT or its subsidiaries that may be convertible into Trust Units.

Pursuant to the Asset Management Agreement, the REIT must reimburse the Asset Manager for all reasonable and necessary actual out-of-pocket costs and expenses paid by the Asset Manager in connection with the performance of the services under the Asset Management Agreement, including, but without limitation, the costs and expenses incurred by the Asset Manager for travel, lodging and reasonable and necessary costs for experts and consultants reasonably required by the Asset Manager and approved by the REIT.

Pursuant to the Property Management Agreement, the Property Manager is entitled to receive a market-based management fee for each property as appropriate for the specific properties and specific markets the properties are located in, which fee may include compensation for building operations, property administration, leasing, construction management and any other reasonable property management service that is required in the context of managing the properties.

The REIT also entered into an agreement whereby an affiliate of NWVP has agreed to pay the REIT, in consideration for certain management services rendered, a fee equal to the difference between all management fees paid by Vital Trust to NWVP (or any of its wholly-owned subsidiaries) and the amount that Vital Trust would have paid should it have been wholly-owned and subject to the REIT's Asset Management Agreement described above (the "Management Fee Participation Agreement"). NWVP's management arrangements with Vital Trust currently provide for a base management fee of 0.75% (as opposed to the 0.50% payable under the Asset Management Agreement), as well as an opportunity to earn certain transaction fees and an incentive fee (note 11).

An affiliate of NWVP serves as general partner of NWI LP, and in such capacity is entitled to an annual incentive fee payment based on Gross All In Returns (being distributions plus the growth of the REIT's net asset value), referred to as the "Class C Amount". The Class C Amount is equal to (a) 15% of Gross All In Return in excess of 8%, and (b) 20% of Gross All In Return in excess of 12%. Should there be a substantial change to the REIT's operating policies (including but not limited to: (i) leverage, (ii) payout ratio, and (iii) corporate structure) ("Operating Policies"), the Class C Amount shall be adjusted to provide for an amount equal to what the Class C Amount would have been had the REIT's Operating Policies remained consistent with the prior year (note 33).

For purposes of the Class C Amount, "Gross All In Return" means the annual increase in the REIT's net asset value of the REIT over the relevant year. The increase shall be measured between the first and last days of each year. Should there be a distribution of capital, such distribution shall be added back for the purposes of this calculation. Should there be any issuances of capital during the year, such amounts shall be excluded for the purposes of this calculation. The REIT's net asset value (for purpose of determining excess Gross All In Return) shall be subject to a three year trailing "high water mark".

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27. Related Party Transactions (continued)

The following table summarizes the related party transactions with NWVP and its subsidiaries related to the Asset Management Agreement, Property Management Agreement, Development Agreement and Management Fee Participation Agreement during the year:

Year Ended December 31,	**2013**	2012
Base asset management fees [1]	**$ 1,964,328**	$ 300,139
Incentive fee [2]	**4,103,617**	-
Property management fees	**177,048**	29,027
Management fee participation	**(1,749,053)**	(452,718)
Reimbursement of out-of-pocket costs - completed transactions	**660,595**	3,189,259
Reimbursement of out-of-pocket costs - in-progress transactions	**607,902**	618,820
	$ 5,764,437	$ 3,684,527

(1) During the year ended December 31, 2013, the REIT issued 865,238 units to settle outstanding asset management fees owing to a subsidiary of NWVP (2012 – nil). (2) As at December 31, 2013 the incentive fee payable remains outstanding and is included in accounts payable and accrued liabilities. The incentive fee shall be settled through the issuance of 1,891,068Class D GP units of a general partner of NWI LP which is also a subsidiary of NVWP Inc. Each Class D GP unit is exchangeable for one Trust Unit and carries one REIT level voting right.

(iv) The Asset Manager has agreed to an adjustment of $500,000 for travel and other out of pocket costs for the year ended December 31, 2013 (2012 - $nil) and it is included as a reduction in general and administrative costs.

(v) On November 16, 2012, with an effective date of October 1, 2012, the REIT sold the Existing Portfolio to NWHP REIT (note 1). As part of the post-closing adjustment, the REIT has made an accrual of an amount owing to NWHP REIT of $488,167 for estimated post-closing working capital related items. During the year ended December 31, 2013, the REIT made an advance to NWHP REIT of $150,000 to reduce the working capital balance owing. As at December 31, 2013, the remaining amount of $338,167 is included in accounts payable and accrued liabilities.

(vi) To provide the REIT with an effective economic return on the working capital and closing adjustment receivable (note 12(i)), NWVP has agreed to pay interest of $1,100,000 for the year ended December 31, 2013.

(vii) Key Management Compensation

Compensation for the REIT's key management personnel was as follows:

Year Ended December 31,	**2013**	2012
Compensation expense	**$ 334,401**	$ 56,250
Unit-based payments	**165,945**	184,998
	$ 500,346	$ 241,248

Key management personnel of the REIT include the Trustees and the Chief Executive Officer, President and Chief Financial Officer. Compensation expense of $334,401 (2012 - $56,250) relating to the Chief Executive Officer, President and the Chief Financial Officer are provided by a subsidiary of NWVP under the REIT's asset management arrangements.

(viii) Transactions with related parties disclosed above are recorded at the transaction amount, being the price agreed between the parties.

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28. Segmented Information

The REIT operated in one industry segment being the real estate industry segment; however the REIT monitors and operates its German, Brazilian, Canadian and Australasian operations separately. The CEO assesses the performance of each of the operating segments based on a measure of operating income. The accounting policies for each of the segments are the same as those for the REIT. The REIT's trust and general and administrative expenses are managed centrally in Canada and are not allocable to operating segments. The REIT has only computed segmented information for its income from continuing operations as prior to the acquisition of the Initial International Assets the REIT only had one operating segment.

During the year ended December 31, 2013, two tenants in the Brazil operating segment accounted for 74% (2012 – 40%) of the total revenue from investment properties.

As at December 31, 2013

	Germany	Brazil	Australia/ New Zealand	Canada	**Total**
Investment properties	**$ 65,442,205**	**$ 383,390,148**	**$ -**	**$ -**	**$ 448,832,353**
Mortgages and loans payable	**$ 42,099,617**	**$ 173,793,462**	**$ 44,769,103**	**$ 96,864,577**	**$ 357,526,759**

Year ended December 31, 2013

	Germany	Brazil	Australia/ New Zealand	Canada	**Total**
Operating Income (Loss) from Continuing Operations					
Net Property Income					
Revenue from investment properties	$ 5,201,265	$ 14,975,745	$ -	$ -	**$ 20,117,010**
Property operating costs	1,604,148	546,615	-	-	**2,150,763**
	3,597,117	14,429,130	-	-	**18,026,247**
Other Income					
Interest	-	182,514	-	1,738,539	**1,921,053**
Management fee participation	-	-	1,749,053	-	**1,749,053**
Share of profit of associate	-	-	6,608,343	3,548,487	**10,156,830**
	-	182,514	8,357,396	5,287,026	**13,826,936**
Expenses					
Mortgage and loan interest expense	976,030	4,189,978	1,953,304	4,980,997	**12,100,309**
General and administrative expenses	236,191	288,056	-	2,656,275	**3,180,522**
Transaction costs	4,106	-	-	464,178	**468,284**
Incentive fee	-	-	-	4,103,617	**4,103,617**
Amortization of intangibles	-	-	-	1,561,275	**1,561,275**
Foreign exchange loss	-	129,067	-	2,785,818	**2,914,885**
	1,216,327	4,607,101	1,953,304	16,552,160	**24,328,892**
Operating income (loss) from continuing operations	**$ 2,380,790**	**$ 10,004,543**	**$ 6,404,092**	**$ (11,265,134)**	**$ 7,524,291**

Audited (Canadian dollars)

28. Segmented Information (continued)

As at December 31, 2012

	Germany	Brazil	Australia/ New Zealand	Canada	**Total**
Investment properties	**$ 40,512,634**	**$ 164,989,843**	**$ -**	**$ -**	**$ 205,502,477**
Mortgages and loans payable	**$ 26,839,547**	**$ 60,264,322**	**$ 29,393,937**	**$ -**	**$ 116,497,806**

Year ended December 31, 2012

	Germany	Brazil	Australia/ New Zealand	Canada	**Total**
Operating Income (Loss) from Continuing Operations					
Net Property Income					
Revenue from investment properties	$ 869,146	$ 572,406	$ -	$ -	**$ 1,441,552**
Property operating costs	302,885	20,893	-	-	**323,778**
	566,261	551,513	-	-	**1,117,774**
Other Income					
Interest	-	-	-	278,092	**278,092**
Management fee participation	-	-	452,718	-	**452,718**
Share of profit of associate	-	-	1,168,584	-	**1,168,584**
	-	-	1,621,302	278,092	**1,899,394**
Expenses					
Mortgage and loan interest expense	224,083	(18,802)	521,959	10,832	**738,072**
General and administrative expenses	57,197	42,640	-	1,595,046	**1,694,883**
Transaction costs	-	-	-	7,526,686	**7,526,686**
Amortization of intangibles	-	-	-	-	**-**
Foreign exchange loss	-	-	-	327,804	**327,804**
	281,280	23,838	521,959	9,460,368	**10,287,445**
Operating income (loss) from continuing operations	**$ 284,981**	**$ 527,675**	**$ 1,099,343**	**$ (9,182,276)**	**$ (7,270,277)**

29. Contingent Liabilities

(a) The REIT indemnifies individuals who have acted at the REIT's request to be a trustee and/or director and/or officer of the REIT (and/or one or more of its direct and indirect subsidiaries), to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The claims covered by such indemnifications are subject to statutory and other legal limitation periods. The nature of the indemnification agreements prevents the REIT from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements.

(b) The REIT is subject to legal and other claims in the normal course of business. Management and the REIT's legal counsel evaluate all claims. In the opinion of management these claims are generally covered by the REIT's insurance policies and any liability from such claims would not have a significant effect on the REIT's consolidated financial statements.

30. Fair Values

Estimated 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 a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value of financial instruments and investment properties. The classifications are as follows: the use of quoted market prices for identical assets or liabilities (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3).

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 9 outlines the key assumptions used by the REIT in determining fair value of its investment properties.

Derivatives instruments are valued using a valuation technique with market-observable inputs (Level 2) and include the Put/Call option, the interest rate swap, and the warrant liability. 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 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 (Level 1) as a practical expedient for fair value measurement for its Class B LP exchangeable units, DUP liability, deferred units and convertible debentures.

The fair value of the REIT's mortgages and loans payable and deferred consideration are determined using present value calculations based on market-observable interest rates for mortgages and loans with similar terms and conditions (Level 2).

The carrying values of the REIT's financial assets, which include accounts receivable, other assets, and cash and restricted cash, as well as financial liabilities, which includes accounts payable and accrued liabilities, distributions payable, and income tax payable approximate their recorded fair values due to their short-term nature.

Audited (Canadian dollars)

30. Fair Values (continued)

The fair value hierarchy of assets and liabilities measured at fair value on the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements as at December 31, 2013 is as follows:

	Carrying Value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Assets measured at fair value:				
Investment properties	$ 448,832,353	$ -	$ -	$ 448,832,353
Liabilities measured at fair value:				
Derivative financial instruments	659,374	-	659,374	-
Convertible debentures	35,423,000	35,423,000	-	-
Class B LP exchangeable units	183,958,006	183,958,006	-	-
Deferred unit plan liabilities	370,054	370,054	-	-
Assets for which fair values are disclosed:				
Investment in associates (note 10)	259,502,612	217,678,838	-	-

The fair value hierarchy of assets and liabilities measured at fair value on the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements as at December 31, 2012 is as follows:

	Carrying Value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Assets measured at fair value:				
Investment properties	$ 205,502,477	$ -	$ -	$ 205,502,477
Liabilities measured at fair value:				
Derivative financial instruments	23,083,107	23,083,107	-	-
Class B LP exchangeable units	114,686,110	114,686,110	-	-
Deferred unit plan liabilities	184,998	184,998	-	-
Assets for which fair values are disclosed:				
Investment in associate	80,706,461	61,653,591	-	-

31. Capital Management

The REIT considers its capital to be its unitholders' equity, Class B LP exchangeable units, and debt. 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 Declaration of Trust. The requirements of the REIT's operating policies as outlined in the Declaration of Trust include the requirement that the REIT will not incur or assume indebtedness which would cause the total indebtedness of the REIT to exceed 65% of Gross Book Value as defined. Indebtedness as defined in the Declaration of Trust excludes unsecured debt which includes convertible debentures.

Audited (Canadian dollars)

31. Capital Management (continued)

At December 31, 2013, the REIT is in compliance with its debt-to-gross book value ratio of the Declaration of Trust at 57.9% (December 31, 2012 - 42.4%). The debt-to-gross book value including convertible debentures is 62.6% (December 31, 2012 - 42.4%). Calculations are as follows:

As at	**December 31, 2013**	December 31, 2012
Debt		
Gross value of secured debt (1)	**$ 437,642,388**	$ 148,144,630
Gross value of total debt (2)	**$ 473,065,388**	$ 148,144,630
Gross Book Value of Assets		
Total assets	**$ 756,258,230**	$ 349,554,285
Debt-to-Gross Book Value (Declaration of Trust)	**57.9%**	42.4%
Debt-to-Gross Book Value (including convertible debentures)	**62.6%**	42.4%

(1) represents the principal balance of mortgages, securities lending agreement, margin facilities, term loan, line of credit and deferred consideration

(2) represents the principal balance of mortgages, securities lending agreement, margin facilities, term loan, line of credit, convertible debentures (at fair value) and deferred consideration

32. Risk Management

The REIT's activities expose it to a variety of financial risks, including interest rate risk, credit risk, currency risk, price risk and liquidity risk. The REIT's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the REIT's financial performance.

<u>Credit Risk</u>

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments resulting in the REIT incurring a financial loss. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The REIT's credit risk is primarily attributable to cash and accounts receivable. Cash consists of cash on hand with reputable financial institutions which are closely monitored by management. Financial instruments included in accounts receivable consist of rental income receivable from its commercial tenant base for monthly rental charges and interest receivable from the term deposit. Management believes that the potential loss from credit risk with respect to financial instruments included in cash and accounts receivable is minimal.

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32. Risk Management (continued)

The following is an aging analysis of accounts receivable past due, net of allowance for doubtful accounts as well as balances due from related parties as at December 31, 2013:

	Accounts Receivable	Due from Related Parties	**Total**
Less than 30 days	$ 79,531	$ 1,738,885	**$ 1,818,416**
31 to 60 days	84,782	-	**84,782**
61 to 90 days	12,533	-	**12,533**
More than 90 days	266,216	24,515,162	**24,781,378**
Total billed	443,062	26,254,047	**26,697,109**
Unbilled	1,185,619	-	**1,185,619**
	$ 1,628,681	$ 26,254,047	**$ 27,882,728**

Liquidity Risk

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to the REIT to fund future growth, refinance debts as they mature or meet the REIT's payment obligations as they arise. Furthermore, liquidity risk also arises from the REIT not being able to obtain financing or refinancing on favourable terms.

The REIT's main liquidity requirements arise from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures on existing properties, property acquisitions and distributions to unitholders. All of the aforementioned liquidity requirements, except for debt repayment obligations at maturity and property acquisitions, are generally funded from cash flows from operations. Debt repayment obligations are generally funded from refinancing the related debt and property acquisitions are generally funded from the issuance of equity as well as obtaining debt financing on the related property.

The REIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing/refinancing or cost-effective financing/refinancing, or if it were unable to meet its other liquidity requirements from ongoing operating cash flows.

The REIT expects to refinance all debt maturing in 2014 when due. The REIT is currently reviewing all options available to refinance the debt. These options include but are not limited to refinancing with existing lenders or with new lenders, issuing unsecured debt securities and/or additional trust units, or the securitization of rents. There are no assurances that the timing, amounts and terms of any refinancing, or other efforts will be favourable or satisfactory to the REIT's liquidity.

The following table sets out the REIT's contractual cash flows which includes fixed interest rate payments on its mortgages and loans payable and convertible debentures:

	Carrying amount	Contractual cash flow	2014	2015	2016	2017	2018	Thereafter
Accounts payable and accrued liabilities	$ 8,596,690	$ 8,596,690	$ 8,596,690	$ -	$ -	$ -	$ -	$ -
Income tax payable	552,098	552,098	552,098	-	-	-	-	-
Distributions payable	733,082	733,082	733,082	-	-	-	-	-
Mortgages and loans payable	357,526,759	383,246,076	307,467,775	2,107,103	2,093,333	59,774,486	217,648	11,585,731
Deferred consideration	70,115,165	70,115,165	70,115,165	-	-	-	-	-
Convertible debentures	35,423,000	47,900,625	2,086,125	2,781,500	2,781,500	2,781,500	37,470,000	-
Total	$ 472,946,794	$511,143,736	$389,550,935	$ 4,888,603	$ 4,874,833	$ 62,555,986	$ 37,687,648	$ 11,585,731

32. Risk Management (continued)

Interest Rate Risk

The majority of the REIT's debt is financed at fixed rates with maturities staggered over a number of years, thereby mitigating its exposure to changes in interest rates and financing risks. At December 31, 2013, approximately $146,053,697 (December 31, 2012 - $33,854,000) of the REIT's debt associated with investment properties and investment in associate is financed at variable rates exposing the REIT to interest rate risk on such debt. Sensitivity to a plus 1% change in the interest rate would decrease the net income and comprehensive income by approximately $1,446,292 annually with all other variables held constant, while a 1% decrease in the interest rate would increase the net income and comprehensive income by approximately $368,476.

Currency Risk

The REIT has operating subsidiaries in Germany, Brazil, and New Zealand and, therefore, has exposure to currency risk. There is significant exposure to foreign exchange translation risk on the consolidation of the REIT's foreign subsidiaries.

Assets and liabilities of the REIT's foreign subsidiaries are translated at the period end exchange rate, and therefore have different values depending on exchange rate fluctuations and the effects of such fluctuations are recognized in other comprehensive income (loss). The statement of income and comprehensive income (loss) of the foreign subsidiaries are translated into Canadian dollars using the period's average exchange rate and, accordingly, exchange rate fluctuations impact revenue, net income and comprehensive income, denominated in Canadian dollars.

The REIT monitors its foreign exchange exposure and its hedging strategy on an ongoing basis.

The following table summarizes the effect of a 10% strengthening of the Canadian dollar on the REIT's net income/loss as a result of translating the statement of comprehensive income of foreign subsidiaries, assuming all other variables remain unchanged:

Year Ended December 31,	**2013**	2012
Germany	$ 17,305	$ (12,900)
Brazil	$ (2,734,760)	$ (36,600)
New Zealand	$ (838,764)	$ (162,100)

A 10% weakening of the Canadian Dollar would have an equal but opposite effect on the above currencies to the amounts shown above, assuming all other variables remain unchanged.

Price Risk

Price risk is the risk that changes in market prices for the REIT's securities may impact the REIT's ability to access capital, and that changes in the market prices of the units underlying the REIT's investments in associates may impact the value of its investments. The market price for the REIT's Trust Units, the REIT's convertible debentures, and the units of NWHP REIT and Vital Trust, may be volatile and subject to wide fluctuations in response to numerous factors, many of which may be beyond the REIT's control including general market sentiment. The market price of the REIT's securities and investments may decline even if the REIT's operating results, underlying asset values, or prospects have not changed. A decrease in the REIT's Trust Unit price impacts the cost of raising new capital. A decline in the market price of the units of NWHP REIT and Vital Trust may impact the value of the REIT's investments which may result in impairment losses.

33. Subsequent Events

(a) On January 14, 2014, the REIT announced that pursuant to the December 2013 equity offering, the underwriters partially exercised the overallotment option and 852,070 additional units of the REIT were issued at a price of $2.00 per unit for gross proceeds of $1,704,140.

(b) On January 15, 2014, the REIT declared a distribution of $0.018333 per Trust Unit to unitholders of record on January 31, 2014, payable February 17, 2014. On February 20, 2014, the REIT declared a distribution of $0.018333 per Trust Unit to unitholders of record on February 28, 2014, payable March 17, 2014. On March 6, 2014, the REIT declared a distribution of $0.018333 per Trust Unit to unitholders of record on March 31, 2014, payable April 15, 2014. On April 23, 2014, the REIT declared a distribution of $0.018333 per Trust Unit to unitholders of record on April 30, 2014, payable May 15, 2014.

(c) On February 17, 2014, the REIT sold its leasehold interest in a building in Marktredwitz, Germany for approximately $6,884,000. The REIT realized net proceeds of approximately $1,883,000 after the repayment of the mortgage relating to the property in the amount of approximately $4,913,000 and selling cost of approximately $88,000.

(d) Between January 1 and April1, 2014, the REIT issued an additional 475,945 Trust Units to settle outstanding asset management fees owing to a subsidiary of NWVP. Also, in March 2014, NWVP disposed of 1,021,094 Trust Units in settlement of staff-related liabilities. As at April 23, 2014, NWVP has an economic interest of approximately 80% of the REIT.

(e) On March 21, 2014, the Vital SLA was terminated by means of a new margin facility with Macquarie Bank Limited executed on February 28, 2014. The margin facility bears interest at a rate that fluctuates with the one-month rate for New Zealand dollar bills of exchange (the "BKBM" rate) and requires a minimum loan-to-fair market value of the Vital Trust units pledged of 50%. The margin facility matures on December 31, 2014.

(f) On February 19, 2014, two of the margin facilities related to the REIT's investment in NWHP REIT were renewed, which extended the maturity to September 1, 2014.

(g) In February 2014, the REIT announced that it had entered into agreements to acquire 16 German medical office buildings in two separate transactions located in the major markets of Berlin, Ingolstadt and Leipzig. At approximately 500,000 square feet, the portfolio was 96.0% occupied with a weighted average lease expiry of 7.0 years at the time of the announcement. The purchase price of approximately $98,000,000 (€65,000,000) represents an approximate 8.0% stabilized cap rate and may be adjusted further based on incremental leasing of 1,613 square meters or 17,356 square feet. The REIT's investment is expected to be funded from new mortgage facilities aggregating approximately $64,000,000 (€43,000,000), existing resources and new financing yet to be determined. The mortgage facilities are expected to have a weighted average interest rate of approximately 3.0%, terms of approximately 5-10 years and a weighted average amortization period of approximately 30 years. The REIT currently expects to close the transaction in three stages during the second quarter of 2014, subject to customary closing conditions.

(h) In April 2014, the independent trustees of the REIT determined that the Class C Amount for the 2013 financial year was $4,103,617. The NWVP affiliate elected to receive such Class C Amount in the form of Class D GP units from a general partner of NWI LP which is also an affiliate of NWVP, which will result in the issuance of 1,891,068 Class D GP units. Each Class D GP unit is exchangeable for one Trust Unit and carries one Trust level voting right.