



**NORTHWEST INTERNATIONAL HEALTHCARE PROPERTIES
REAL ESTATE INVESTMENT TRUST**

Consolidated Financial Statements

For the Years Ended December 31, 2014 and 2013



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INDEPENDENT AUDITORS' REPORT

To 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 statements of financial position as at December 31, 2014 and 2013, the consolidated statements of income (loss) and comprehensive income (loss), changes in unitholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of NorthWest International Healthcare Properties Real Estate Investment Trust as at December 31, 2014 and 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

March 10, 2015
Toronto, Canada

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

As at	December 31, 2014	December 31, 2013
Assets		
Investment properties (note 6)	\$ 524,230,496	\$ 448,832,353
Investment in associates (note 7)	255,930,088	259,502,612
Intangible asset (note 8)	12,490,200	14,051,475
Due from related parties (note 9)	30,207,844	26,254,047
Accounts receivable	1,421,255	1,628,681
Other assets (note 10)	1,043,256	1,574,518
Cash and restricted cash (note 11)	20,947,949	4,414,544
Total assets	\$ 846,271,088	\$ 756,258,230
Liabilities		
Mortgages and loans payable (note 12)	\$ 388,311,734	\$ 357,526,759
Deferred consideration (note 13)	41,280,380	70,115,165
Convertible debentures (note 14)	71,919,510	35,423,000
Deferred revenue (note 15)	12,869,015	14,636,638
Deferred tax liability (note 16)	20,746,578	9,999,937
Derivative financial instruments (note 17)	2,894,313	659,374
Income taxes payable	63,852	552,098
Accounts payable and accrued liabilities	21,810,080	8,596,690
Distributions payable	1,591,392	733,082
	561,486,854	498,242,743
Deferred unit plan liability (note 18)	457,463	370,054
Class B LP and Class D GP exchangeable units (note 19)	184,357,800	183,958,006
Total liabilities	746,302,117	682,570,803
Unitholders' Equity		
Unitholders' equity (note 20)	99,968,971	73,687,427
Subsequent events (note 29)		
Total liabilities and unitholders' equity	\$ 846,271,088	\$ 756,258,230

Approved on behalf of the Board

Robert Baron
Trustee

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 (Loss) and Comprehensive Income (Loss)
(Canadian dollars)

Year Ended December 31,	2014	2013
Net Operating Income		
Revenue from investment properties	\$ 44,083,729	\$ 20,177,010
Property operating costs	4,679,683	2,150,763
	39,404,046	18,026,247
Other Income		
Interest	1,813,114	1,921,053
Management fee participation (note 22 (ii))	2,371,610	1,749,053
Share of profit of associates (note 7)	2,026,935	10,156,830
	6,211,659	13,826,936
Expenses		
Mortgage and loan interest expense	29,312,954	12,100,309
General and administrative expenses	5,804,533	3,180,624
Transaction costs	-	468,182
Incentive fee (note 22(ii))	-	4,103,617
Amortization of intangible asset (note 8)	1,561,275	1,561,275
Foreign exchange loss	1,115,359	2,914,885
	37,794,121	24,328,892
Income (loss) before other finance costs, fair value adjustments, and net loss on disposal of investment property	7,821,584	7,524,291
Finance costs:		
Amortization of financing costs	(10,679,018)	(638,826)
Class B LP and Class D GP exchangeable unit distributions (note 19)	(20,218,567)	(12,169,416)
Fair value adjustment of Class B LP and Class D GP exchangeable units (note 19)	2,014,521	(3,590,248)
Accretion of financial liabilities (notes 12 and 13)	(16,803,642)	(6,072,523)
Fair value adjustment of convertible debentures (note 14)	2,253,490	4,677,000
Convertible debenture issuance costs	(3,044,841)	(3,566,115)
Fair value gain (loss) on derivative financial instruments (note 17)	(3,209,002)	22,983,561
Fair value adjustment of investment properties (note 6)	26,814,224	24,119,615
Net loss on disposal of investment property (note 5)	(98,489)	-
Fair value adjustment of deferred unit plan liability (note 18)	13,132	(3,763)
Income (loss) before taxes	(15,136,608)	33,263,576
Income tax expense (note 16)	11,541,123	12,186,567
Net income (loss)	(26,677,731)	21,077,009
Other comprehensive income (loss):		
Items that will be reclassified subsequently to income		
Foreign currency translation adjustment	3,149,991	(2,519,587)
Share of other comprehensive loss of associates, net of tax (note 7)	(887,143)	(2,081,655)
Other comprehensive income (loss), net of tax	2,262,848	(4,601,242)
Total comprehensive income (loss) for the year	\$ (24,414,883)	\$ 16,475,767

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
(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, 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)	\$ (4,255,408)	\$ (4,227,913)	\$ 73,687,427
Units issued pursuant to equity offering	50,721,163	-	-	-	-	-	50,721,163
Units issued through distribution reinvestment plan	1,016,107	-	-	-	-	-	1,016,107
Conversion of Class D GP exchangeable units	1,689,303	-	-	-	-	-	1,689,303
Asset management fees paid in units	3,287,922	-	-	-	-	-	3,287,922
Units issued pursuant to warrant exercise (note 20(v))	6,771,240	-	-	-	-	-	6,771,240
Contribution of capital (note 9(ii))	-	2,281,589	-	-	-	-	2,281,589
Distributions	-	-	-	(15,070,897)	-	-	(15,070,897)
Foreign currency translation adjustment	-	-	-	-	3,149,991	-	3,149,991
Share of other comprehensive loss of associates	-	-	-	-	(887,143)	-	(887,143)
Net loss for the year	-	-	-	-	-	(26,677,731)	(26,677,731)
Balance, December 31, 2014	\$ 153,989,715	\$ 4,626,611	\$ (114,683)	\$ (25,634,468)	\$ (1,992,560)	\$ (30,905,644)	\$ 99,968,971

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
(Canadian dollars)

Year Ended December 31,	2014	2013
Cash provided by (used in):		
Operating activities		
Income (loss) before taxes for the year	\$ (15,136,608)	\$ 33,263,576
Adjustment for:		
Amortization of intangible asset (note 8)	1,561,275	1,561,275
Mortgage and loan interest	29,312,954	12,100,309
Mortgage and loan interest paid	(28,649,016)	(10,077,433)
Finance costs		
Amortization of financing charges	10,679,018	638,826
Class B LP and Class D GP exchangeable unit distributions	20,218,567	12,169,416
Fair value adjustment of Class B LP and Class D GP exchangeable units	(2,014,521)	3,590,248
Accretion of financial liabilities (notes 12 and 13)	16,803,642	6,072,523
Fair value adjustment of convertible debentures (note 14)	(2,253,490)	(4,677,000)
Convertible debenture issuance costs	3,044,841	3,566,115
Share of profit of associates (note 7)	(2,026,935)	(10,156,830)
Unrealized foreign exchange loss	1,502,939	2,769,948
Amortization of deferred revenue	(1,368,171)	(2,460,557)
Fair value adjustment of investment properties (note 6)	(26,814,224)	(24,119,615)
Fair value loss (gain) on derivative financial instruments (note 17)	3,209,002	(22,983,561)
Net loss on disposal of investment property (note 5)	98,489	-
Fair value adjustment of deferred unit plan liability	(13,132)	3,763
Unit based compensation expense	220,545	181,293
Redemption of units issued under deferred unit plan	(120,003)	-
Income taxes paid	(788,717)	(1,151,498)
Changes in non-cash working capital balances (note 21 (i))	1,612,652	1,446,735
Cash provided by operating activities	9,079,107	1,737,533
Investing activities		
Acquisitions of investment property (note 4)	(70,763,792)	(188,342,745)
Additions to investment properties (note 6)	(983,948)	(50,852)
Net proceeds on disposal of investment properties (note 5)	6,825,097	-
Additions to investment in associates (note 7)	-	(24,607,846)
Distributions from associates (note 7)	15,498,551	9,332,519
Net decrease (increase) in restricted cash	(885,060)	(1,778,685)
Cash used in investing activities	(50,309,152)	(205,447,609)
Financing activities		
Mortgage and loan proceeds	43,881,240	165,935,000
Mortgage discharged (note 12)	(4,886,613)	-
Repayment of mortgages	(1,780,653)	(1,033,794)
Issuance of convertible debentures, net of issuance costs (note 14)	35,705,159	36,533,885
Proceeds from units issued, net of issue costs (note 20)	56,600,376	17,626,716
Net advances (repayments) of loans payable	(15,035,627)	5,511,191
Payment of deferred consideration	(32,780,038)	(3,031,364)
Financing fees paid	(3,565,120)	(5,089,295)
Net advances from related parties	1,668,676	5,166,828
Distributions paid	(13,196,480)	(6,879,451)
Class B LP and Class D GP exchangeable units distributions paid	(8,056,068)	(11,701,074)
Cash provided by financing activities	58,554,852	203,038,642
Net change in cash	17,324,807	(671,434)
Effect of foreign currency translation	(1,590,391)	(442,618)
Net change in cash	15,734,416	(1,114,052)
Cash, beginning of year	2,635,859	3,749,911
Cash, end of year	\$ 18,370,275	\$ 2,635,859

Supplemental disclosure relating to non-cash financing and investing activities (note 21 (ii))

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

NorthWest International Healthcare Properties Real Estate Investment Trust

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2014 and 2013

(Canadian dollars)

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 and subsequent to year end on January 28, 2015. The REIT's trust units (the "Trust Units") trade under the symbol "MOB.UN" on the TSX Venture Exchange. The principal, registered and head office of the REIT is located at 284 King Street East, Toronto, Ontario M5A 1K4.

As at December 31, 2014, NorthWest Value Partners ("NWVP") indirectly owned approximately 65% (approximately 55% on a fully-diluted basis assuming conversion of the REIT's convertible debentures and redemption of its deferred units) of the REIT through a combination of Trust Units of the REIT and Class B LP and Class D GP exchangeable units of NorthWest International Healthcare Properties LP ("NWI LP"), a subsidiary of the REIT. From the initiation of the REIT, affiliates of NWVP served as the REIT's asset manager, property manager and developer pursuant to certain management and partnership agreements that are filed with the Canadian securities regulatory authorities and available on SEDAR at www.sedar.com.

On April 30, 2014, the REIT announced that it had entered into an agreement with NWVP with respect to the internalization of its external management arrangements (the "Internalization Transaction"). Subsequent to the year ended December 31, 2014, on January 28, 2015 the REIT announced that it had completed the Internalization Transaction with NWVP with an effective date of January 1, 2015. The Internalization Transaction resulted in the REIT terminating the asset management, property management and development functions of the REIT currently carried on by affiliates of NWVP. It also resulted in the REIT acquiring from NWVP all of the rights and obligations relating to the management of Vital Healthcare Property Trust ("Vital Trust"). In consideration for the Internalization Transaction, NWVP received the total amount that would be paid under the existing external management arrangements and fees earned by Vital Healthcare Management Limited, as external manager of Vital Healthcare Property Trust, for the 12 months ending December 31, 2014, adjusted for the full year effect of acquisitions and committed capital. This amount was estimated at approximately \$6.6 million. In connection with the Internalization Transaction, the REIT issued deferred units under its deferred unit plan to new employees of the REIT (other than Paul Dalla Lana) in the amount of approximately \$8.1 million. Accordingly, NWVP issued to the REIT an offsetting \$1.5 million non-interest bearing promissory note, due on demand. The Internalization Transaction did not have a cash impact on the REIT. See "Subsequent Events" (note 29).

The REIT's consolidated financial statements for the year ended December 31, 2014, were authorized for issue by the Board of Trustees on March 10, 2015.

NorthWest International Healthcare Properties Real Estate Investment Trust
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014 and 2013
(Canadian dollars)

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 ("FVTPL"), derivative financial instruments and the deferred unit plan ("DUP") 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 consolidated financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the consolidated 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.

NorthWest International Healthcare Properties Real Estate Investment Trust
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014 and 2013
(Canadian dollars)

2. Statement of Compliance (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 Unit's price.

(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, net operating income and cash flows.

(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 17.

(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 consolidated 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 consolidated 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 Taxes

With the exception of subsidiaries that are subject to income taxes, deferred income taxes are not recognized in the consolidated 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.

NorthWest International Healthcare Properties Real Estate Investment Trust

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2014 and 2013

(Canadian dollars)

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 and associates having a functional currency other than the Canadian dollar are translated at the rate of exchange at the consolidated statement of financial position dates. Revaluation gains and losses are recognized in other comprehensive income. Revenue and expenses are translated at average rates for the year.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting year, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the consolidated statement of financial position dates. Gains and losses on translation of monetary items are recognized in the consolidated statements of 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 statements of income and comprehensive income in the years in which they arise. 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 asset

The intangible asset (note 8) represents the REIT's Management Fee Participation Agreement with its external asset manager as described in note 22(ii). The intangible asset was initially recorded at fair value at the time of acquisition.

Amortization of the value of the management fee participation intangible is determined using the straight-line method over its estimated useful life of 10 years. 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.

NorthWest International Healthcare Properties Real Estate Investment Trust
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014 and 2013
(Canadian dollars)

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 consolidated statements 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 year 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 22(ii).

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

(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 ("FVTPL"), 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 years depends on the classification of the financial instrument:

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.

NorthWest International Healthcare Properties Real Estate Investment Trust
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014 and 2013
(Canadian dollars)

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 income and comprehensive income.

Cash, accounts receivable and the balances due from related parties are classified as loans and receivables. Due to the short-term nature of accounts receivable and due to the fact that the balances due from related parties are due on demand, the carrying amounts of these loans and receivables approximate fair values.

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 and Class D GP exchangeable units, convertible debentures, and DUP 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 mortgages 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 taxes payable, and distributions payable approximates fair value.

(h) Other assets

Other assets include commodity taxes recoverable, 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.

NorthWest International Healthcare Properties Real Estate Investment Trust
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014 and 2013
(Canadian dollars)

3. Summary of Significant Accounting Policies (continued)

(i) DUP liability

The DUP units are exchangeable for Trust Units, which in turn are puttable financial instruments and classified as a liability under International Accounting Standard 32, Financial Instruments - Presentation ("IAS 32"). As such, the DUP units are classified as a liability. Management designated the DUP liability as FVTPL; the DUP 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 swaps

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 interest rate swap contracts to limit its exposure to fluctuations in the interest rates on variable rate loans. Gains or losses arising from the change in fair values of the interest rate swap contracts are recognized in the consolidated statements of income.

(ii) Warrant liability

Each whole warrant entitles 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.

(k) Class B LP and Class D GP Exchangeable Units

The Class B LP and Class D GP exchangeable units of a subsidiary of the REIT are exchangeable into Trust Units at the option of the holder. The Trust Units of the REIT are puttable financial instruments (note 3 (l)). The Class B LP and Class D GP exchangeable units therefore are classified as financial liabilities and have been elected to be measured at fair value through profit and loss each reporting period with any changes in fair value recognized in the consolidated statements of income and comprehensive income as finance costs. The distributions paid on the Class B LP and Class D GP 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.

NorthWest International Healthcare Properties Real Estate Investment Trust

Notes to Consolidated Financial Statements

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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 taxes 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 revenue. 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 year 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.

NorthWest International Healthcare Properties Real Estate Investment Trust
Notes to Consolidated Financial Statements
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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% 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% interest in Vital Trust (and through the REIT's common external management arrangements with Vital Trust) and 25% 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.

NorthWest International Healthcare Properties Real Estate Investment Trust

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2014 and 2013

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3. Summary of Significant Accounting Policies (continued)

(q) New Standards effective January 1, 2014

(i) *Financial Instruments: Presentation ("IAS 32")*

In December 2011, the IASB made amendments to IAS 32. The amendments to IAS 32 clarify the requirements for offsetting financial instruments. The effective date for the amendments, which is to be applied retrospectively, is annual periods beginning on or after January 1, 2014. On January 1, 2014, the REIT adopted this pronouncement and there was no material impact on the REIT's consolidated financial statements.

(ii) *IFRIC 21, Levies ("IFRIC 21")*

In 2013, the IASB issued IFRIC 21. IFRIC 21 addresses accounting for a liability to pay a levy within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of IAS 12, Income Taxes, and fines or other penalties imposed for breaches of the legislation. This interpretation becomes effective for annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. Application of the new interpretation did not have a material impact on the REIT's consolidated financial statements.

(r) Future accounting changes

(i) *IFRS 9, Financial Instruments ("IFRS 9")*

In July 2014, the IASB issued IFRS 9, Financial Instruments ("IFRS 9") replacing IAS 30, Financial Instruments - Recognition and Measurement. The project had three main phases: classification and measurement, impairment and general hedging. The standard becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. Early adoption is permitted. The REIT has not yet determined the potential impact the adoption of IFRS 9 will have on its consolidated financial statements.

(ii) *IFRS 15, Revenue from Contracts with Customers ("IFRS 15")*

IFRS 15 was issued in May 2014 and replaces IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue-Barter Transactions Involving Advertising Services. IFRS 15 provides a single, principle based five-step model that will apply to all contracts with customers with limited exceptions. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. IFRS 15 is required for annual periods beginning on or after January 1, 2017, however, earlier adoption is permitted. The REIT is in the process of assessing the impact of IFRS 15 on its consolidated financial statements.

(iii) *IAS 1, Presentation of Financial Statements ("IAS 1")*

In December 2014, the IASB issued amendments to IAS1, which are effected for annual periods beginning on or after January 1, 2016 with early adoption permitted. The REIT intends to adopt these amendments in its financial statements for the annual period beginning January 1, 2016 and is currently assessing the impact of the amendments on its consolidated financial statements.

NorthWest International Healthcare Properties Real Estate Investment Trust
Notes to Consolidated Financial Statements
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4. Property Acquisitions

(a) 2014 Property Acquisitions

On August 29, 2014, the REIT completed the acquisition of a medical office complex in Germany (known as "Hohenschoenhausen") for a gross purchase price of \$17,517,325 including transaction costs of \$1,382,067. The REIT's investment was funded from cash on hand including a portion of the proceeds from the issuance of equity pursuant to the exercise of warrants in September 2014 (note 20 (v)), a holdback obligation (note 13) and new mortgage financing from a German lending institution (note 12). The acquisition of Hohenschoenhausen has been treated as an asset purchase.

On June 25, 2014, the REIT completed the acquisition of a portfolio of 13 properties in Germany (the "Core German MOB Portfolio") for a gross purchase price of \$54,950,235 including transaction costs of \$3,546,164. The REIT's investment was funded from cash on hand including a portion of the net proceeds from the equity offering completed in May 2014 (note 20(iv)), a holdback and earnout obligation, and new mortgage financing from a German lending institution (note 12). The acquisition of the Core German MOB Portfolio has been treated as an asset purchase.

(b) 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 13).

5. Property Disposal

On February 17, 2014, the REIT sold its leasehold interest in a building in Marktredwitz, Germany for \$6,923,586 and recognized a net loss on sale of \$98,489 due to transaction costs. The REIT repaid \$4,886,613 of mortgage debt associated with the investment property.

6. Investment Properties

Year ended	2014	2013
Balance, beginning of year	\$ 448,832,353	\$ 205,502,477
Acquisitions of investment properties (note 4)	72,467,560	225,993,435
Disposition of investment property (note 5)	(6,923,586)	-
Additions to investment properties	983,948	50,852
Fair value gain	26,814,224	24,119,615
Foreign currency translation	(17,944,003)	(6,834,026)
Balance, end of year	\$ 524,230,496	\$ 448,832,353

NorthWest International Healthcare Properties Real Estate Investment Trust
Notes to Consolidated Financial Statements
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6. Investment Properties (continued)

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, 2014 and December 31, 2013 were determined using a combination of both valuations performed by third-party appraisers and internal 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, 2014	December 31, 2013
Discount rates - range	6.50 – 10.00%	6.75 - 10.00%
Discount rate - weighted average	9.14%	9.57%
Terminal capitalization rates - range	6.90 – 9.00%	7.25 - 9.00%
Terminal capitalization rate - weighted average	8.57%	8.75%

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 \$9,691,300 and a 0.25% decrease would increase fair value by \$9,748,708.

During the year ended December 31, 2014, properties with an aggregate fair value of \$524,230,496 (2013 - \$404,127,000) were valued by external valuation professionals with recognized and relevant professional qualifications.

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

	December 31, 2014
Less than 1 year	\$ 44,987,832
1 - 5 years	\$ 169,947,070
Longer than 5 years	\$ 631,851,606

NorthWest International Healthcare Properties Real Estate Investment Trust
Notes to Consolidated Financial Statements
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7. Investment in Associates

	Vital Trust (i)	NWHP REIT (ii)	Total
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 year	(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
Cash distributions received	(5,980,119)	(9,518,432)	(15,498,551)
Share of profit for the year	7,707,476	(5,680,541)	2,026,935
Share of other comprehensive loss for the year	(887,143)	-	(887,143)
Foreign exchange	10,786,235	-	10,786,235
As at December 31, 2014	\$ 117,703,394	\$ 138,226,694	\$ 255,930,088

(i) Investment in Vital Healthcare Property Trust

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.

As at December 31, 2014, the REIT's exposure to Vital Trust was 23.97% (December 31, 2013 - 24.11%). During the year ended December 31, 2013, the REIT acquired an additional 22,154,307 units of Vital Trust.

As at December 31, 2014, the REIT had exposure to 81,659,866 units of Vital Trust (December 31, 2013 - 81,659,866). The closing price on the New Zealand Stock Exchange of Vital Trust's units as at December 31, 2014 was \$1.42 (NZ \$1.57) (December 31, 2013 - \$1.12 (NZ \$1.28)).

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

As at	December 31, 2014 (unaudited)	December 31, 2013 (unaudited)
Assets	\$ 579,646,353	\$ 524,803,596
Liabilities	\$ 261,127,477	\$ 222,340,157
% interest held	23.97%	24.11%
Year Ended December 31,	2014 (unaudited)	2013 (unaudited)
Revenues	\$ 61,546,913	\$ 56,647,165
Net income	\$ 31,901,203	\$ 31,039,936
Other comprehensive income (loss)	\$ (4,075,621)	\$ (9,762,820)
Total comprehensive income (loss)	\$ 27,831,582	\$ 21,277,116

NorthWest International Healthcare Properties Real Estate Investment Trust
Notes to Consolidated Financial Statements
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7. Investment in Associates (continued)

(ii) Investment in NorthWest Healthcare Properties REIT

On June 20, 2013, 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 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.

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 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 9 (ii))	1,873,898
	<hr/> 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.

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.

As at December 31, 2014, 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, 2014 was \$9.28 (December 31, 2013 - \$10.44).

NorthWest International Healthcare Properties Real Estate Investment Trust
Notes to Consolidated Financial Statements
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7. Investment in Associates (continued)

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

As at	December 31, 2014	December 31, 2013
Assets	\$ 1,244,641,000	\$ 1,314,992,000
Liabilities	\$ 786,134,000	\$ 806,348,000
% interest held	25.49%	25.68%
	Year ended December 31, 2014	For the period from June 21 to December 31, 2013 ⁽¹⁾
Revenues	\$ 150,429,000	\$ 80,168,967
Net income (loss)	\$ (22,195,000)	\$ 13,799,945
Other comprehensive income	\$ -	\$ -
Total comprehensive income (loss)	\$ (22,195,000)	\$ 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.

8. Intangible Asset

In conjunction with the acquisition of certain international assets on November 16, 2012 from NWVP (the "Initial International Assets"), the REIT indirectly acquired rights under a Management Fee Participation Agreement (note 22(ii)). 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,	2014	2013
Balance, beginning of year	\$ 14,051,475	\$ 15,612,750
Amortization	(1,561,275)	(1,561,275)
Balance, end of year	\$ 12,490,200	\$ 14,051,475

NorthWest International Healthcare Properties Real Estate Investment Trust
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9. Due from Related Parties

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

As at	December 31, 2014	December 31, 2013
Working capital and closing adjustment receivable -		
Initial International Assets (i)	\$ 16,966,652	\$ 18,236,652
Interest rate subsidy (ii)	4,155,487	1,873,898
Instalment note receivable (iii)	1,385,555	1,369,191
Vital Management Fee Participation (note 22(ii))	4,702,285	2,296,860
Interest (ii) (note 22 (v))	2,940,957	2,431,781
Other (iv)	56,908	45,665
	\$ 30,207,844	\$ 26,254,047

(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, 2014, repayments of the working capital and closing adjustment receivable were received in the amount of \$1,270,000 (December 31, 2013 - \$9,063,359). The working capital and closing adjustment receivable is unsecured and 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 (note 22 (v)).

(ii) Interest rate subsidy

As part of the acquisition of the investment in NWHP REIT (note 7(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.

During 2014, NWVP and the REIT agreed to extend and amend the interest rate subsidy, with an effective date of January 1, 2014, such that the effective interest rate payable by the REIT on the assumed margin facilities shall not exceed 4.25% up to December 31, 2014. The interest rate subsidy has been recorded as a capital contribution on the condensed consolidated interim statement of unitholders' equity.

NorthWest International Healthcare Properties Real Estate Investment Trust
Notes to Consolidated Financial Statements
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9. Due from Related Parties (continued)

(iii) 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 from an affiliate of NWVP, two instalment note receipts - on April 2, 2013 (extended to April 2, 2014) and April 2, 2014 respectively. 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.

(iv) 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 7(ii)), the REIT has amounts owing to and from NWVP and affiliates. These amounts are current receivables and are non-interest bearing.

10. Other Assets

As at	December 31, 2014	December 31, 2013
Commodity taxes recoverable	\$ 74,773	\$ 262,823
Acquisition costs and deposits	888,204	1,284,640
Prepaid expenses	80,279	27,055
	\$ 1,043,256	\$ 1,574,518

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

11. Cash and Restricted Cash

As at	December 31, 2014	December 31, 2013
Cash	\$ 18,370,275	\$ 2,635,859
Restricted Cash	2,577,674	1,778,685
	\$ 20,947,949	\$ 4,414,544

Restricted cash represents cash held in the REIT's designated bank accounts pledged as collateral for the Brazil term loans and a margin facility related to the REIT's investment in NWHP REIT (note 12).

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12. Mortgages and Loans Payable

As at	December 31, 2014	December 31, 2013
Mortgages payable (net of financing costs of \$1,070,122, 2013 - \$263,024)	\$ 75,553,610	\$ 41,996,473
Securities lending agreement (net of financing costs of \$nil, 2013 - \$8,220)	-	36,836,914
Margin facilities (net of financing costs of \$1,005,050, 2013 - \$306,648)	113,423,583	82,254,834
Term loans (net of financing costs of \$3,789,866, 2013 - \$7,964,505)	176,308,978	173,793,462
Acquisition Facility (net of financing costs of \$974,437, 2013 - \$1,458,067)	23,025,563	22,541,933
Line of credit	-	103,143
Total	388,311,734	357,526,759
Less: Current portion	233,636,209	294,311,880
Non-current debt	\$ 154,675,525	\$ 63,214,879

Mortgages payable

In August 2014 in connection with the acquisition of Hohenschoenhausen (note 4), the REIT obtained new mortgage financing of \$11,175,840 (net of transaction costs of \$81,373) with a term of 3.5 years, a fixed interest rate of 1.65%, and a 40 year amortization period.

In June and November 2014, in connection with the acquisition of the Core German MOB Portfolio (note 4), the REIT obtained new mortgage financing of \$31,801,066 (net of transaction costs of \$904,334) with terms between 5 and 7 years, variable interest rates, and a 26 year amortization period. To limit exposure to fluctuations in interest rates on the mortgages obtained for the Core German MOB Portfolio, the REIT also entered into interest rate swaps on the full mortgage balance to fix the interest rates between 2.13% and 2.58% for the terms of the loans (note 17 (i)).

In February 2014, in connection with the disposition of one of the German investment properties (note 5), the REIT repaid \$4,886,613 of mortgage debt associated with the investment property.

During the year ended December 31, 2013, the REIT obtained new mortgage financing on the acquisition of the Fulda Property (note 4) 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.

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

In November 2012, NWI LP 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.

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12. Mortgages and Loans Payable (continued)

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 (see "Margin facilities").

Margin facilities

(i) NWHP REIT

The debt assumed on acquisition of the interest in NWHP REIT (note 7(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. The margin facilities require a minimum loan-to-fair market value of the NWHP REIT units pledged of 50%-68%.

During 2014, the three margin facilities related to the REIT's investment in NWHP REIT were renewed, which extended the maturity to September 1, 2015 and November 1, 2015.

During the year ended December 31, 2014, the REIT made net repayments on its margin facilities related to its investment in NWHP REIT in the amount of \$6,480,885.

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, 2014, the principal balance outstanding on the remaining margin facilities with respect to the REIT's investment in NWHP REIT was \$67,927,408 (December 31, 2013 - 74,408,293).

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 9 (ii)). Throughout 2014, NWVP and the REIT agreed to extend and amend the interest rate subsidy, with an effective date of January 1, 2014, such that the effective interest rate payable by the REIT on the assumed margin facilities shall not exceed 4.25% up to December 31, 2014.

(ii) Vital Trust

On March 21, 2014, the Vital SLA with an outstanding balance of approximately \$39,353,000 (NZ\$42,107,000), was terminated and settled 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 total borrowings available under this facility is approximately \$38,161,000 (NZ\$42,200,000). On October 28, 2014 the REIT renewed the Macquarie Margin Facility (defined herein) which was to mature on December 31, 2014. The renewal extends the maturity of this margin facility to December 31, 2015.

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.

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12. Mortgages and Loans Payable (continued)

As at December 31, 2014, the REIT has pledged 81,659,865 (December 31, 2013 - 81,659,865) units of Vital Trust as security for the margin facilities.

As at December 31, 2014, the principal balance outstanding on the margin facilities with respect to the REIT's investment in Vital Trust was \$46,501,224 (December 31, 2013 - \$44,998,322)

Interest on the margin facilities is calculated daily and ranges from 4.86% to 6.89% per annum.

The REIT has entered into an interest rate swap with respect to one of the margin facilities secured by the Vital Trust units to limit its exposure to fluctuations in the interest rates on approximately \$4,250,000 (NZ \$4,700,000) of the outstanding loan balance (note 17 (i)). The interest rate swap fixes the interest rate at 4.03% and terminates on March 29, 2016.

Term Loans

In December 2014, the REIT entered into contracts to refinance the existing Brazil term loans for approximately \$172,000,000 (R\$395,000,000) for one year maturing between December 22, 2015 and January 2, 2016. The term loans are interest-only and bear a floating interest rate of CDI plus 0.75%. The REIT entered into swap arrangements that fix the interest rate to 7.30% annually plus an IPCA (the consumer price inflation measure used by the Central Bank of Brazil for guiding monetary policy) adjustment to the loan balance at the time the swaps mature, March 31, 2015 and April 1, 2015.

On December 20, 2013, in connection the Rede D'Or Hospital Portfolio Acquisition (note 4), the REIT obtained an interest-only term loan from a Brazilian lending institution which had a principal of \$121,581,000 and bore 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 matured on December 22, 2014.

On maturity, the principal balance of the term loans are adjusted by IPCA. For the year ended December 31, 2014, accretion expense of \$13,028,170 was recorded to account for the related IPCA adjustment for the year (2013 - \$4,137,363).

Acquisition Facility

On December 19, 2013, in connection with the Rede D'Or Hospital Portfolio Acquisition (note 4), 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 entitled 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 September 2, 2014, the REIT received notice from the holder in respect of the early exercise of the 3,000,000 warrants (note 17(ii)).

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, 2014, the REIT extinguished its operating line of credit as the line of credit was secured by the building in Marktredwitz, Germany which was sold in February 2014 (note 5).

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12. 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, 2014 are as follows:

	Maturity	Weighted Average Interest Rate	Carrying Value
Fixed rate			
Mortgage debt	November 30, 2017 - June 30, 2021	2.35%	\$ 75,553,610
Term loans	December 22, 2015 - January 2, 2016	7.30% ⁽¹⁾	176,308,978
Total fixed rate debt			\$ 251,862,588
Variable rate			
Margin facilities	September 1, 2015 - August 23, 2018	8.05% ⁽²⁾	\$ 113,423,583
Acquisition facility	January 1, 2017	8.20%	23,025,563
Total variable rate debt			\$ 136,449,146
Total debt			\$ 388,311,734

⁽¹⁾ The REIT entered into swap arrangements that fix the interest rate to 7.30%

⁽²⁾ The effective interest expense on the margin facilities relating 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 9(ii)). During 2014, NWVP and the REIT agreed to extend and amend the interest rate subsidy, with an effective date of January 1, 2014, such that the effective interest rate payable by the REIT on the assumed margin facilities shall not exceed 4.25% up to December 31, 2014.

As at December 31, 2014, the scheduled principal repayments and debt maturities are as follows:

	Mortgage Debt	Margin Facilities	Term Loans	Acquisition Facility	Total
2015	\$ 2,095,382	\$ 106,003,392	\$ 125,536,344	\$ -	\$ 233,635,118
2016	2,131,783	-	54,562,500	-	56,694,283
2017	44,390,507	-	-	24,000,000	68,390,507
2018	1,000,601	8,425,241	-	-	9,425,842
2019	7,593,631	-	-	-	7,593,631
2020 & thereafter	19,411,828	-	-	-	19,411,828
	76,623,732	114,428,633	180,098,844	24,000,000	395,151,209
Financing costs	(1,070,122)	(1,005,050)	(3,789,866)	(974,437)	(6,839,475)
	\$ 75,553,610	\$ 113,423,583	\$ 176,308,978	\$ 23,025,563	\$ 388,311,734

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13. Deferred Consideration

The following table summarizes the deferred consideration payable:

As at	December 31, 2014	December 31, 2013
Holdback payable – Brazil (i)	\$ 33,059,902	\$ 57,206,112
Accrued transaction costs - Brazil	8,023,946	12,909,053
Holdback payable – Germany (ii)	196,532	-
	\$ 41,280,380	\$ 70,115,165

- (i) In connection with the acquisition of Hospital e Maternidade Brasil ("HMB") on December 27, 2012 and the Rede D'Or Hospital Acquisition on December 23, 2013, the REIT held back a portion of the purchase price until the vendor complies with conditions related to certain title and zoning matters.

On maturity, the holdback payable related to the acquisition of HMB was adjusted by the accumulated variation of the CDI (Brazil's equivalent of a prime rate) from the date of acquisition to December 30, 2012 and accumulated variation of the CDI +2.5% from December 31, 2012 until the payment date. During the year ended December 31, 2013, payment of 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. In June 2014, the REIT was notified by the vendor that all of the conditions had been fulfilled, resulting in the holdback being payable on September 1, 2014. In August 2014, the purchase and sale agreement was further amended resulting in the holdback being payable on October 1, 2014. On October 1, 2014, the holdback plus accrued CDI adjustments related to HMB was paid in full, totaling \$27,081,980 (R\$59,377,287).

On October 17, 2014, the purchase and sale agreement with respect to the Rede D'Or Hospital Acquisition on December 23, 2013 was amended to extend the payment date of the holdback related to Hospital Caxias D'Or to the later of December 15, 2015 or 180 days after the completion of certain conditions by the vendor. Effective from the date of amendment (October 17, 2014) to the payment date the holdback will be adjusted by the variation of the CDI plus 7.34% annually. The amendment provides that should the vendor not complete the required conditions to resolve the title matters by January 15, 2015, the amount of the inflation adjustment to the holdback shall be limited to nil between January 15, 2015 and the date the vendor conditions are resolved. On January 15, 2015, the REIT was notified that the required conditions related to the Hospital Caxias D'Or holdback were not resolved.

For the year ended December 31, 2014, accretion expense of \$3,775,472 (December 31, 2013 - \$1,935,160) was recorded to account for the related CDI adjustments on the holdbacks payable which has been recorded as finance costs in the consolidated statement of income (loss) and comprehensive income (loss).

- (ii) In connection with the acquisition of the Hohenschoenhausen property (note 4), the REIT held back a portion of the purchase price for potential working capital adjustments and information deficiencies. Settlement of the holdback is due no later than 1 year from closing.

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14. Convertible Debentures

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

Year Ended December 31,	2014	2013
Balance, beginning of year	\$ 35,423,000	\$ -
Issuance of convertible debentures - Series MOB.DB	-	22,600,000
Issuance of convertible debentures - Series MOB.DB.A	-	17,500,000
Issuance of convertible debentures - Series MOB.DB.B	38,750,000	-
Decrease in fair value of convertible debentures	(2,253,490)	(4,677,000)
Balance, end of year	\$ 71,919,510	\$ 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:

As at	December 31, 2014	December 31, 2013
Series MOB.DB	\$ 20,342,260	\$ 19,323,000
Series MOB.DB.A	17,477,250	16,100,000
Series MOB.DB.B	34,100,000	-
	\$ 71,919,510	\$ 35,423,000

	Series MOB.DB	Series MOB.DB.A	Series MOB.DB.B
Conversion price per Unit (\$)	\$2.85	\$2.40	\$2.60
Maturity	March 31, 2018	September 30, 2018	October 31, 2019
Interest rate	6.50%	7.50%	7.25%
Interest payment	Semi-annual	Semi-annual	Semi-annual
Interest payment dates	September 30 and March 31	September 30 and March 31	October 31 and April 30

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14. Convertible Debentures (continued)

Between September 23, 2014 and October 3, 2014, the REIT issued \$38,750,000 principal amount of unsecured convertible subordinated debentures (the "Series MOB.DB.B Debentures"). The Series MOB.DB.B Debentures bear interest at 7.25% per annum, payable semi-annually on April 30 and October 31 each year, and mature on October 31, 2019. Each Series MOB.DB.B Debenture is convertible at any time by the debenture holder into 384.6154 Trust Units per one thousand dollars of face value, representing a conversion price of \$2.60 per Trust Unit. On and after October 31, 2017, and prior to October 31, 2018, the Series MOB.DB.B 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 October 31, 2018 and prior to the maturity date of October 31, 2019, the Series MOB.DB Debentures may be redeemed by the REIT at a price equal to the principal amount plus accrued and unpaid interest.

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.

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.

15. Deferred Revenue

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.

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16. 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,	2014	2013
Current income tax	\$ 268,960	\$ 1,678,626
Deferred income tax, relating to origination of temporary differences	11,272,163	10,507,941
	\$ 11,541,123	\$ 12,186,567

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:

As at	December 31, 2014	December 31, 2013
Deferred tax liability related to difference in tax and book basis of investment properties	\$ 20,746,578	\$ 9,999,937
Total deferred income tax liabilities	\$ 20,746,578	\$ 9,999,937

Reconciliation of effective tax rate:

Year Ended December 31,	2014	2013
Income (loss) before income taxes	\$ (15,136,608)	\$ 33,263,576
Tax calculated at tax rates applicable to undistributed profits in Canada of 48%	(7,265,572)	15,966,516
Increase (decrease) resulting from		
Effect of different tax rates in countries in which the group operates	(5,171,726)	(4,008,816)
Current year finance costs and tax losses for which no deferred tax asset recognized	11,665,273	3,681,472
Non-deductible finance costs	8,546,257	7,384,337
Non-deductible fair value losses (gains)	900,913	(11,030,303)
Non-deductible unit-based compensation	105,861	87,021
Taxable amounts from associates	3,347,497	-
Other	(587,380)	106,340
Income taxes	\$ 11,541,123	\$ 12,186,567

Deferred tax assets have not been recognized in respect of approximately \$5,893,000 of tax losses of the REIT which will expire between 2033 and 2034.

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17. Derivative Financial Instruments

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

As at	December 31, 2014	December 31, 2013
Interest rate swaps (i)	\$ 2,894,313	\$ 8,170
Warrant liability (ii)	-	651,204
	\$ 2,894,313	\$ 659,374

- (i) The REIT has entered into an interest rate swap contract with respect to a margin facility secured by the Vital Trust units (note 12), the mortgages obtained on acquisition of the Core German MOB portfolio (note 12) and the Brazil term loans (note 12). Gains or losses arising from the change in fair values of the interest rate swap contracts are recognized in the consolidated statements of income (loss) and comprehensive income (loss). During the year ended December 31, 2014, the REIT recognized a fair value loss of \$2,976,349 (for the year ended December 31, 2013 - \$8,170).
- (ii) On December 19, 2013, the REIT entered into an Acquisition Facility (note 12), which resulted in the lender receiving a compensatory payment of warrants to acquire 3,000,000 Trust Units.

Each whole warrant entitled 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.

On September 2, 2014, the REIT received notice from the holder in respect of the early exercise of the 3,000,000 warrants. The warrants were exercised at a price of \$2.15 for total cash proceeds to the REIT of \$6,450,000. At the date of exercise, it was determined the value of the warrants was \$892,027. The fair value of the warrant liability was estimated using the Black-Scholes option pricing model using a risk free interest rate of 1.10% over the remaining life of 2.35 years with an expected volatility rate of 38% and an expected dividend yield of 9.78%. Upon exercise, the warrant liability together with the proceeds received was credited directly to unitholders' equity.

During the year ended December 31, 2014, the REIT recognized a fair value loss of \$232,653, related to the warrants (for the year ended December 31, 2013 - \$91,376).

18. Deferred Unit Plan ("DUP") liability

For the year ended December 31, 2014, the REIT granted or issued 81,619 DUP units with a fair value of \$171,750 (2013 - 82,973 DUP units with a fair value of \$165,945).

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, 2014, the REIT granted an additional 23,032 DUP units with a fair value of \$48,794 (2013 - 7,723 DUP units with a fair value of \$15,348) in respect of distributions earned on outstanding DUP units.

During the year ended December 31, 2014, 59,115 DUP units with a fair value of \$120,003 were redeemed (December 31, 2013 - nil).

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18. Deferred Unit Plan ("DUP") liability (continued)

As at December 31, 2014, there were 228,731 DUP units (2013 - 183,195) of the REIT issued and outstanding with a fair value of \$457,463 (2013 - \$370,054). 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 number of DUP units:

Balance, December 31, 2012	92,499
Granted	82,973
Reinvestment of distributions	7,723
<hr/>	
Balance, December 31, 2013	183,195
Granted	81,619
Reinvestment of distributions	23,032
Redeemed	(59,115)
<hr/>	
Balance, December 31, 2014	228,731

19. Class B LP and Class D GP Exchangeable Units

The Class B LP and Class D GP 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 and Class D GP exchangeable unit liability is determined with reference to the market price of the REIT's Trust Units at the reporting date.

The following table summarizes the Class B LP and Class D GP exchangeable unit liability:

As at	December 31, 2014	December 31, 2013
Class B LP exchangeable units (i)	\$ 182,136,640	\$ 183,958,006
Class D GP exchangeable units (ii)	2,221,160	-
<hr/>		
	\$ 184,357,800	\$ 183,958,006

(i) Class B LP Exchangeable Units

As at December 31, 2014, there were 91,068,320 Class B LP exchangeable units of NWI LP issued and outstanding with a fair value of \$182,136,640 (2013 - 91,068,320 units with a fair value of \$183,958,006). 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 \$20,034,666 for the year ended December 31, 2014 (2013 - \$12,169,416) and have been accounted for as finance costs.

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19. Class B LP and Class D GP Exchangeable Units (continued)

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

	Units	Amount
Balance, December 31, 2012	55,944,444	\$ 114,686,110
Converted to Trust Units (note 20 (ii))	(1,513,369)	(2,830,000)
Units issued as consideration for acquisition of investment in NWHP REIT (note 7 (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
Fair value adjustment of Class B LP exchangeable units	-	(1,821,366)
Balance, December 31, 2014	91,068,320	\$ 182,136,640

(ii) Class D GP Exchangeable Units

In April 2014, the independent trustees of the REIT determined that the Class C Amount, as defined in the NWI LP Agreement, representing an incentive amount, for the 2013 financial year was \$4,103,618. An affiliate of NWVP elected to receive such Class C Amount in the form of Class D GP exchangeable units of NWI LP, which resulted in the issuance of 1,891,068 Class D GP exchangeable units on April 23, 2014.

Each Class D GP exchangeable unit is exchangeable for one Trust Unit and carries one Trust level voting right. On April 23, 2014 and on May 15, 2014, 744,187 and 36,301, respectively, for a total of 780,488 of the Class D GP exchangeable units were exchanged into Trust Units.

As at December 31, 2014 there were 1,110,580 Class D GP exchangeable units of NWI LP issued and outstanding with a fair value of \$2,221,160.

Distributions declared on the Class D LP exchangeable units of NWI LP totaled \$183,901 for the year ended December 31, 2014 (2013 - nil) and have been accounted for as finance costs.

The following table shows the continuity of the Class D GP exchangeable units:

	Units	Amount
Balance, December 31, 2013 and 2012	-	\$ -
Units issued as settlement of Class C Amount	1,891,068	4,103,618
Converted to Trust Units	(780,488)	(1,689,303)
Fair value adjustment of Class D GP exchangeable units	-	(193,155)
Balance, December 31, 2014	1,110,580	\$ 2,221,160

20. 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.

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20. Trust Units (continued)

The REIT's trustees have sole discretion in declaring distributions.

The following table shows the changes in Trust Units:

	Trust Units	Amount
Balance - December 31, 2012	42,597,260	\$ 68,055,709
Units issued pursuant to equity offering (i)	9,850,900	19,701,800
Unit issue costs - cash (i)	-	(2,075,084)
Units issued through distribution reinvestment plan	151,618	288,010
Conversion of Class B LP exchangeable units (ii)	1,513,369	2,830,000
Asset management fees paid in units (iii)	865,238	1,703,545
Balance - December 31, 2013	54,978,385	90,503,980
Units issued pursuant to equity offering (iv)	26,025,583	54,705,242
Units issued pursuant to exercise of warrants (v)	3,000,000	7,342,027
Unit issue costs - cash (iv) and (v)	-	(4,554,866)
Units issued through distribution reinvestment plan	494,113	1,016,107
Conversion of Class D GP exchangeable units (note 19 (ii))	780,488	1,689,303
Asset management fees paid in units (vi)	1,526,212	3,287,922
Balance - December 31, 2014	86,804,781	\$ 153,989,715

- (i) 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.

- (ii) On March 11, 2013, NWVP converted 1,513,369 Class B LP exchangeable units into 1,513,369 Trust Units.
- (iii) 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 22 (ii)).
- (iv) 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. Costs associated with the exercise of the overallotment option in January 2014 totaled \$85,769 which have been charged directly to equity.

On May 21, 2014, the REIT closed an equity offering of 11,219,513 Trust Units. The Trust Units were issued at a price of \$2.05 per Trust Unit, for gross proceeds of \$23,000,002, which included the exercise of the overallotment option in full. Costs associated with the equity offering in May 2014 totaled \$1,880,141 which have been charged directly to equity.

On November 25, 2014, the REIT closed an equity offering of 13,954,000 Trust Units. The Trust Units were issued at a price of \$2.15 per Trust Unit, for gross proceeds of \$30,001,100. Costs associated with the equity offering in November 2014 totaled \$2,018,169 which have been charged directly to equity.

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20. Trust Units (continued)

- (v) On September 2, 2014, the REIT received notice from the holder in respect of the early exercise of the 3,000,000 warrants. The warrants were exercised at a price of \$2.15 for total cash proceeds to the REIT of \$6,450,000. At the time of exercise, the REIT had a liability associated with warrant liability in the amount of \$892,027. Upon exercise of the warrants, the liability was charged directly to equity. Costs associated with the exercise of the warrants totaled \$570,787 which have been charged directly to equity.
- (vi) During the year ended December 31, 2014, the REIT issued 1,526,212 units to settle outstanding asset management fees owing to a subsidiary of NWVP (note 22 (ii)).

21. Supplemental Cash Flow Information

(i) Changes in Non-Cash Working Capital Balances

Year Ended December 31,	2014	2013
Accounts receivable	\$ 228,511	\$ (1,124,870)
Other assets	383,145	(534,478)
Accounts payable and accrued liabilities	1,000,996	3,106,083
	\$ 1,612,652	\$ 1,446,735

(ii) Non-Cash Financing and Investing Activities

Year Ended December 31,	2014	2013
Supplemental disclosure relating to non-cash financing and investing activities:		
Non-cash addition to investment in associate through discharge of promissory note receivable (note 7 (ii))	\$ -	\$ 15,000,000
Non-cash addition to investment in associate through issuance of Class B LP Exchangeable Units (note 7(ii) and note 19(i))	\$ -	\$ 68,511,648
Assumption of margin facilities on acquisition of investment in associate (note 7(ii))	\$ -	\$ 73,772,588
Asset management fees settled through issuance of units (note 20)	\$ 3,287,922	\$ 1,703,545
Non-cash distributions to Unitholders under the DRIP (note 20)	\$ 1,016,107	\$ 288,010

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22. Related Party Transactions

- (i) As at December 31, 2014, NWVP indirectly owned approximately 65% (approximately 55% on a fully-diluted basis assuming conversion of the REIT's convertible debentures and redemption of its deferred units) of the REIT through a combination of Trust Units of the REIT and Class B LP and Class D GP exchangeable units of NWI LP. 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 Co-President of the REIT, serves as Senior Vice-President of NWVP. Teresa Neto, Chief Financial Officer of the REIT, served as Chief Financial Officer of NWVP up to December 31, 2014. Paul Dalla Lana, Robert Baron and Bernard Crotty, all Trustees of the REIT, also serve as trustees of NWHP REIT.
- (ii) The REIT and its affiliates entered into a series of agreements with affiliates of NWVP, whereby such affiliates agreed to act as Property Manager, Asset Manager and Development Manager for the REIT.

The Asset Manager was 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 was 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 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 provides 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 9).

An affiliate of NWVP served as general partner of NWI LP, and in such capacity was 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 was 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%.

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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22. Related Party Transactions (continued)

Subsequent to the year ended December 31, 2014, on January 28, 2015 the REIT announced that it had completed the Internalization Transaction with NWVP with an effective date of January 1, 2015. The Internalization Transaction resulted in the REIT terminating the asset management, property management and development functions of the REIT currently carried on by affiliates of NWVP. See "Subsequent Events" (note 29).

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,	2014	2013
Base asset management fees ⁽¹⁾	\$ 3,318,974	\$ 1,964,328
Incentive fee ⁽²⁾	-	4,103,617
Property management fees	990,921	177,048
Management fee participation	(2,371,610)	(1,749,053)
Reimbursement of out-of-pocket costs - completed transactions	1,412,340	1,268,497
	\$ 3,350,625	\$ 5,764,437

(1) During the year ended December 31, 2014, the REIT issued 1,526,212 units to settle outstanding asset management fees owing to a subsidiary of NWVP (2013 - 865,238).

(2) As at December 31, 2013 the incentive fee payable remained outstanding and is included in accounts payable and accrued liabilities. The incentive fee was settled through the issuance of 1,891,068 Class D GP units of a general partner of NWI LP which is also a subsidiary of NWVP Inc. Each Class D GP unit is exchangeable for one Trust Unit and carries one REIT level voting right.

- (iii) 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 and it is included as a reduction in general and administrative costs. No such adjustment was provided during the year ended December 31, 2014.
- (iv) Included in accounts payable and accrued liabilities is an amount totaling \$338,167 owing to NWHP REIT and a subsidiary of NWVP related to the transactions that transpired in 2012 related to the sale of the existing portfolio to NWHP REIT.
- (v) To provide the REIT with an effective economic return on the working capital and closing adjustment receivable (note 9(i)), NWVP has agreed to pay interest of \$1,360,000 for the year ended December 31, 2014 (for the year ended December 31, 2013 - \$1,100,000).
- (vi) At December 31, 2014, included in accounts payable and accrued liabilities are Class B LP and Class D GP exchangeable unit distributions payable owing to NWVP and affiliates in the amount of \$13,376,804.

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22. Related Party Transactions (continued)

(vii) Key Management Compensation

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

Year Ended December 31,	2014	2013
Short-term compensation	\$ 336,610	\$ 334,401
Unit-based incentives ⁽¹⁾	1,672,254	165,945
Unit-based long-term incentives ⁽²⁾	9,815,932	-
	\$ 11,824,796	\$ 500,346

(1) Deferred units granted that are fully vested and redeemable.

(2) Deferred units granted vest over two or five years, depending on the grant. For deferred units vesting over two years, one-half of the deferred units vest each year. For the deferred units vesting over five years, 50% vest in three years and 25% in the fourth and fifth years. Amounts are determined based on the grant date fair value of deferred units multiplied by the number of deferred units granted in the year.

Key management personnel of the REIT include the Trustees and the Chief Executive Officer, Co-President, Chief Financial Officer, and Co-President & Chief Investment Officer. Compensation expense of \$336,610 (2013 - \$334,401) relating to the Chief Executive Officer, Co-President, Chief Financial Officer, and the Co-President & Chief Investment Officer were provided by a subsidiary of NWVP under the REIT's asset management arrangements, up until December 31, 2014.

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

23. 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 Australia/New Zealand 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, however certain operating segments incur general and administrative expenses specific to their segment.

During the year ended December 31, 2014, two tenants in the Brazil operating segment accounted for 79% (2013 - 74%) of the total revenue from investment properties.

As at December 31, 2014

	Germany	Brazil	Australia/ New Zealand	Canada	Total
Investment properties	\$ 137,979,502	\$ 386,250,994	\$ -	\$ -	\$ 524,230,496
Investment in associates	\$ -	\$ -	\$ 117,703,394	\$ 138,226,694	\$ 255,930,088
Mortgages and loans payable	\$ 75,553,610	\$ 176,308,977	\$ 46,333,904	\$ 90,115,243	\$ 388,311,734

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23. Segmented Information (continued)

Year ended December 31, 2014

	Germany	Brazil	Australia/ New Zealand	Canada	Total
Operating Income (Loss)					
Net Operating Income					
Revenue from investment properties	\$ 9,135,023	\$ 34,948,706	\$ -	\$ -	\$ 44,083,729
Property operating costs	2,654,530	2,025,153	-	-	4,679,683
	6,480,493	32,923,553	-	-	39,404,046
Other Income					
Interest	-	409,381	-	1,403,733	1,813,114
Management fee participation	-	-	2,371,610	-	2,371,610
Share of profit (loss) of associates	-	-	7,707,476	(5,680,541)	2,026,935
	-	409,381	10,079,086	(4,276,808)	6,211,659
Expenses					
Mortgage and loan interest expense	1,442,334	12,592,283	3,315,492	11,962,845	29,312,954
General and administrative expenses	102,578	732,031	-	4,969,924	5,804,533
Transaction costs	-	-	-	-	-
Incentive fee	-	-	-	-	-
Amortization of intangible asset	-	-	-	1,561,275	1,561,275
Foreign exchange loss (gain)	1,284	(434,075)	-	1,548,150	1,115,359
	1,546,196	12,890,239	3,315,492	20,042,194	37,794,121
Operating income (loss)	\$ 4,934,297	\$ 20,442,695	\$ 6,763,594	\$ (24,319,002)	\$ 7,821,584

As at December 31, 2013

	Germany	Brazil	Australia/ New Zealand	Canada	Total
Investment properties	\$ 65,442,205	\$ 383,390,148	\$ -	\$ -	\$ 448,832,353
Investment in associates	\$ -	\$ -	\$ 106,076,945	\$ 153,425,667	\$ 259,502,612
Mortgages and loans payable	\$ 42,099,617	\$ 173,793,462	\$ 44,769,103	\$ 96,864,577	\$ 357,526,759

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23. Segmented Information (continued)

Year ended December 31, 2013

	Germany	Brazil	Australia/ New Zealand	Canada	Total
Operating Income (Loss)					
Net Operating Income					
Revenue from investment properties	\$ 5,201,265	\$ 14,975,745	\$ -	\$ -	\$ 20,177,010
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 associates	-	-	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	-	2,656,377	3,180,624
Transaction costs	4,106	-	-	464,076	468,182
Incentive fee	-	-	-	4,103,617	4,103,617
Amortization of intangible asset	-	-	-	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)	\$ 2,380,790	\$ 10,004,543	\$ 6,404,092	\$ (11,265,134)	\$ 7,524,291

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24. 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.

25. 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 6 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 and Class D GP exchangeable units, DUP liability 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 approximate their recorded fair values due to their short-term nature.

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25. 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, 2014 is as follows:

	Carrying Value	Fair Value		
		Level 1	Level 2	Level 3
Assets measured at fair value:				
Investment properties	\$ 524,230,496	\$ -	\$ -	\$ 524,230,496
Liabilities measured at fair value:				
Derivative financial instruments	2,894,313	-	2,894,313	-
Convertible debentures	71,919,510	71,919,510	-	-
Class B LP and Class D GP exchangeable units	184,357,800	184,357,800	-	-
Deferred unit plan liability	457,463	457,463	-	-
Financial liabilities recorded at amortized cost:				
Mortgages and loans payable	388,311,734	396,052,302	-	-

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	Level 2	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 liability	370,054	370,054	-	-
Financial liabilities recorded at amortized cost:				
Mortgages and loans payable	357,526,759	361,572,241	-	-

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26. Capital Management

The REIT considers its capital to be its unitholders' equity, Class B LP and Class D GP 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.

At December 31, 2014, the REIT is in compliance with its debt-to-gross book value ratio of the Declaration of Trust at 51.6% (2013 - 57.9%). The debt-to-gross book value including convertible debentures is 60.1% (2013 - 62.6%). Calculations are as follows:

As at	December 31, 2014	December 31, 2013
Debt		
Gross value of secured debt ⁽¹⁾	\$ 436,431,589	\$ 437,642,388
Gross value of total debt ⁽²⁾	\$ 508,351,099	\$ 473,065,388
Gross Book Value of Assets		
Total assets	\$ 846,271,088	\$ 756,258,230
Debt-to-Gross Book Value (Declaration of Trust)	51.6%	57.9%
Debt-to-Gross Book Value (including convertible debentures)	60.1%	62.6%

⁽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.

The REIT's capital management is also impacted by various financial covenants in certain loan agreements. As at December 31, 2014, the REIT is in compliance with all such financial covenants.

27. 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.

Credit Risk

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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27. 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, 2014:

	Accounts Receivable	Due from Related Parties	Total
Less than 30 days	\$ 141,014	\$ 952,604	\$ 1,093,618
31 to 60 days	49,602	-	49,602
61 to 90 days	82,806	-	82,806
More than 90 days	66,220	29,255,240	29,321,460
Total billed	339,642	30,207,844	30,547,486
Unbilled	1,081,613	-	1,081,613
	\$ 1,421,255	\$ 30,207,844	\$ 31,629,099

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, distribution income earned from the REIT's investments in associates, and new financing. 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 2015 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	2015	2016	2017	2018	2019	Thereafter
Accounts payable and accrued liabilities	\$ 21,810,080	\$ 21,810,080	\$ 21,810,080	\$ -	\$ -	\$ -	\$ -	\$ -
Income taxes payable	63,852	63,852	63,852	-	-	-	-	-
Distributions payable	1,591,392	1,591,392	1,591,392	-	-	-	-	-
Mortgages and loans payable	388,311,734	421,347,893	249,257,290	59,705,169	71,255,594	11,052,823	8,966,273	21,110,744
Deferred consideration	41,280,380	41,280,380	41,280,380	-	-	-	-	-
Convertible debentures	71,919,510	94,887,103	4,120,093	5,590,875	5,590,875	42,675,885	36,909,375	-
Total	\$ 524,976,948	\$ 580,980,700	\$ 318,123,087	\$65,296,044	\$76,846,469	\$ 53,728,708	\$ 45,875,648	\$ 21,110,744

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28. 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, 2014, \$138,091,833 (2013 - \$146,629,155) 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 impact the net income (loss) and comprehensive income (loss) by \$1,380,918 annually with all other variables held constant (2013 - \$1,446,292).

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 statements of income and comprehensive income 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 (loss) and comprehensive income (loss), 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 statements of income (loss) and comprehensive income (loss) of foreign subsidiaries, assuming all other variables remain unchanged:

Year Ended December 31,	2014	2013
Germany	\$ (1,206,278)	\$ 17,305
Brazil	\$ (894,154)	\$ (2,734,760)
New Zealand	\$ (1,007,909)	\$ (838,764)

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 and may also impact the amount available under related margin facilities. 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, and may require the REIT to repay amounts owing under its related margin facilities.

NorthWest International Healthcare Properties Real Estate Investment Trust
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(Canadian dollars)

29. Subsequent Events

- (a) On January 15, 2014, the REIT declared a distribution of \$0.018333 per Trust Unit to unitholders of record on January 30, 2015, payable February 16, 2015. On February 18, 2015, the REIT declared a distribution of \$0.018333 per Trust Unit to unitholders of record on February 27, 2015, payable March 16, 2015.
- (b) In January 2015, the REIT issued an additional 145,538 Trust Units to settle outstanding asset management fees owing to a subsidiary of NWVP. As at March 10, 2015, NWVP has an economic interest of approximately 65% of the REIT.
- (c) On January 28, 2015 the REIT closed a transaction with NWVP to internalize the external management of the REIT (the "Internalization Transaction") effective January 1, 2015. The REIT internalized the asset management, property management and development functions of the REIT previously carried on by affiliates of NWVP. The REIT also acquired from NWVP all of the rights and obligations relating to the management of Vital Trust. In consideration for the Internalization Transaction assets transferred to the REIT, NWVP received the total amount that would be paid under the previous external management arrangements between the REIT and NWVP and fees earned by Vital Healthcare Management Limited, as external manager of Vital Trust, for the 12 months ending December 31, 2014, adjusted for the full year effect of acquisitions and committed capital. This amount was estimated at approximately \$6,588,000 and will be adjusted following the issuance of the REIT's 2014 financial statements in accordance with the terms of the Internalization Agreement. In connection with the Internalization Transaction, the REIT issued deferred units to former employees of NWVP and its affiliates (other than Paul Dalla Lana) valued at approximately \$8,068,612. Accordingly, NWVP issued to the REIT an offsetting non-interest bearing promissory note in the amount of \$1,480,612, due on demand. The Internalization Transaction did not have a cash impact on the REIT.
- (d) In connection with the Internalization Transaction, the REIT adopted a second amended and restated deferred unit plan (the "Amended DUP"). The Amended DUP provides for the issuance of up to 17,898,368 trust units (approximately 10% of the issued and outstanding voting units of the REIT at that time), which is an increase from the 2,021,909 trust units reserved for issuance under the REIT's previous deferred unit plan (the "Previous DUP"), dated January 28, 2014. In connection with the Internalization Transaction, the REIT issued up to 3,989,735 deferred units to the former employees of NWVP and its affiliates. Of these, 1,711,412 are fully vested and the balance of deferred units are subject to future vesting conditions. Following the Internalization Transaction, the REIT issued an additional 5,764,494 deferred units to new employees of the REIT as a future equity incentive (all of which are subject to certain vesting conditions) and 75,000 deferred units to the REIT's independent trustees in recognition of their efforts on behalf of the special committee that was formed for considering and negotiating the Internalization Transaction on behalf of the REIT. In accordance with the policies of the TSX Venture Exchange, the Amended DUP and the issuance of deferred units thereunder that exceed the number of deferred units authorized for issuance under the Previous DUP are to be considered, and if deemed advisable approved, by disinterested unitholders at the next unitholder meeting of the REIT. If the requisite unitholder approval is not obtained, the Amended DUP will terminate (the REIT will revert to the Previous DUP), and any deferred units that were granted under the Amended DUP which could not have been granted under the Previous DUP will be terminated.

NorthWest International Healthcare Properties Real Estate Investment Trust
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29. Subsequent Events (continued)

- (e) On March 10, 2015, the REIT announced that it has entered into an agreement with NWHP REIT to combine and form a single healthcare real estate investment trust. The combination will be effected by a plan of arrangement pursuant to which NWHP REIT will acquire all of the assets of the REIT. The unitholders of the REIT will receive 0.208 of a NWHP REIT trust unit for each REIT trust unit held, on a tax-deferred basis.

The combination, which was approved by the REIT's Board of Trustees based on a recommendation by an independent committee of the Board of Trustees of the REIT, after consultation with the independent committee's financial and legal advisors. The transaction will be subject to the approval of at least 66 2/3% of the votes cast at special meetings of NWHP REIT and the REIT's voting unitholders, as well as the approval of a majority of the votes cast at the NWHP REIT special meeting, other than votes held by the REIT. The REIT holds an approximate 25.5% indirect interest in NWHP REIT. NWVP, which currently holds approximately 65% of the REIT's voting units, has entered into a customary voting and support agreement pursuant to which, among other things, it has agreed to vote its REIT voting units in favour of the transaction. The combination is also subject to other customary regulatory approvals for transactions of this nature, including approvals from the TSX-V and TSX, Competition Act (Canada) authorities, the Australia's Foreign Investment Review Board and New Zealand's Overseas Investment Office, as well as other conditions. The analysis of the financial reporting implications of the transaction has not been completed as at the date the financial statements have been approved.