

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

**NORTHWEST HEALTHCARE
PROPERTIES REAL ESTATE
INVESTMENT TRUST**

Three months ended March 31, 2015 and 2014
(Unaudited)

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

| | March 31, 2015 | December 31, 2014 |
|--------------------------------|---------------------|----------------------|
| Assets | | |
| Investment properties (note 6) | \$ 1,270,973 | \$ 1,223,429 |
| Loan receivable (note 7) | – | 8,000 |
| Accounts receivable (note 8) | 3,778 | 7,573 |
| Other assets (note 9) | 3,283 | 3,125 |
| Cash and cash equivalents | 274 | 2,514 |
| Total assets | \$ 1,278,308 | \$ 1,244,641 |

Liabilities and Unitholders' Equity

Liabilities:

| | | |
|--|---------------------|---------------------|
| Mortgages payable (note 10) | \$ 655,485 | \$ 631,257 |
| Convertible debentures (note 11) | 41,655 | 40,854 |
| Loans payable (note 12) | 21,828 | 16,529 |
| Class B exchangeable units (note 13) | 68,870 | 70,078 |
| Other financial instruments (note 10) | 2,803 | 1,087 |
| Accounts payable and accrued liabilities | 27,398 | 23,721 |
| Distributions payable | 2,614 | 2,608 |
| Total liabilities | 820,653 | 786,134 |
| Unitholders' equity (note 14) | 457,655 | 458,507 |
| Commitments and contingencies (note 19) | | |
| Total liabilities and unitholders' equity | \$ 1,278,308 | \$ 1,244,641 |

See accompanying notes to condensed consolidated interim financial statements.

The condensed consolidated interim financial statements were approved
by the Board on May 12, 2015 and signed on
its behalf by:

"Colin Loudon" _____ Trustee

"Peter Riggan" _____ Trustee

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

| | Three months ended March 31, | |
|--|---------------------------------|------------------|
| | 2015 | 2014 |
| Revenue from operations | \$ 38,316 | \$ 39,190 |
| Property operating expenses | 18,099 | 19,052 |
| Property operating income | 20,217 | 20,138 |
| Finance costs (note 18) | 7,970 | 8,160 |
| Interest income | (27) | (213) |
| Transaction costs (note 3) | 1,903 | — |
| Trust expenses | 881 | 864 |
| Income before Class B exchangeable unit distributions, fair value adjustments, net loss on disposal of investment property | 9,490 | 11,327 |
| Finance costs (note 18): | | |
| Class B exchangeable unit distributions | (1,510) | (1,510) |
| Fair value adjustment of Class B exchangeable units (note 13) | 1,208 | 6,721 |
| Fair value adjustment of convertible debentures (note 11) | (801) | (201) |
| Fair value adjustment of other financial instruments (note 10) | (1,716) | (1,234) |
| Fair value adjustment of investment properties (note 6) | (272) | (428) |
| Net loss on disposal of investment properties (note 5) | (257) | (349) |
| Net income and comprehensive income | \$ 6,142 | \$ 14,326 |

See accompanying notes to condensed consolidated interim financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity
(In thousands of Canadian dollars, except per unit amounts)
(Unaudited)

| Three months ended March 31, 2015 | Unit capital | Retained earnings | Total |
|---|-------------------|----------------------|-------------------|
| Unitholders' equity, beginning of period | \$ 402,120 | \$ 56,387 | \$ 458,507 |
| Net income and comprehensive income | – | 6,142 | 6,142 |
| Distributions | – | (7,836) | (7,836) |
| Issuance of units under distribution reinvestment plan (notes 14(a) and (b)) | 842 | – | 842 |
| Unitholders' equity, end of period | \$ 402,962 | \$ 54,693 | \$ 457,655 |

| Three months ended March 31, 2014 | Unit capital | Retained earnings | Total |
|---|-------------------|----------------------|-------------------|
| Unitholders' equity, beginning of period | \$ 398,903 | \$ 109,741 | \$ 508,644 |
| Units issued on exercise of deferred units | 70 | – | 70 |
| Net income and comprehensive income | – | 14,326 | 14,326 |
| Distributions | – | (7,765) | (7,765) |
| Issuance of units under distribution reinvestment plan (notes 14(a) and (b)) | 616 | – | 616 |
| Unitholders' equity, end of period | \$ 399,589 | \$ 116,302 | \$ 515,891 |

Distributions per unit during the three months ended March 31, 2015 were \$0.20 (2014 - \$0.20).

See accompanying notes to condensed consolidated interim financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Cash Flows
(In thousands of Canadian dollars)
(Unaudited)

| | Three months ended March 31, | |
|--|---------------------------------|-----------|
| | 2015 | 2014 |
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net income | \$ 6,142 | \$ 14,326 |
| Adjustments for: | | |
| Finance cost (note 18) | 10,789 | 4,384 |
| Interest income | (27) | (213) |
| Fair value adjustment of investment properties | 272 | 428 |
| Net loss on disposal of investment properties | 257 | 349 |
| Net decrease in restricted cash | — | (2,089) |
| Change in non-cash operating items (note 20) | 2,975 | (4,798) |
| Cash generated from operating activities | 20,408 | 12,387 |
| Interest paid | (8,715) | (8,352) |
| Interest received | 27 | 213 |
| | 11,720 | 4,248 |
| Investing activities: | | |
| Acquisition of investment properties (note 4) | (17,644) | — |
| Additions to investment properties (note 6) | (7,824) | (2,865) |
| Net proceeds on disposal of investment property | 4,368 | 5,571 |
| | (21,100) | 2,706 |
| Financing activities: | | |
| Distributions paid | (6,988) | (7,145) |
| Class B exchangeable unit distributions | (1,510) | (1,510) |
| Mortgage advances | 70,313 | 13,000 |
| Mortgage principal repayments | (4,279) | (4,138) |
| Mortgage lump sum repayments | (55,260) | (13,150) |
| Repayment of loans payable | (732) | — |
| Secured credit facility advances | 55,500 | 30,000 |
| Secured credit facility repayments | (49,500) | (25,500) |
| Financing costs | (404) | (130) |
| | 7,140 | (8,573) |
| Decrease in cash and cash equivalents | (2,240) | (1,619) |
| Cash and cash equivalents, beginning of period | 2,514 | 1,905 |
| Cash and cash equivalents, end of period | \$ 274 | \$ 286 |
| Supplemental disclosure for non-cash activities: | | |
| Loan receivable settled on acquisition of investment property (notes 7 and 17) | \$ 8,000 | \$ — |
| Mortgage assumed on acquisition of investment properties (note 4) | 13,903 | — |
| Amounts receivable settled on acquisition of investment properties (notes 4, 8 and 17) | 4,406 | — |
| Mortgage assumed by purchaser on disposition of investment property (note 5) | — | 2,430 |

See accompanying notes to condensed consolidated interim financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars)

Three months ended March 31, 2015 and 2014
(Unaudited)

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

At March 31, 2015, NorthWest Operating Trust ("NW Trust") and its affiliates controlled approximately 25.4% (23.8% on a fully diluted basis) of the REIT through a combination of REIT units, Class B exchangeable units of NHP Holdings Limited Partnership ("NHP") and 100% of the special voting units of the REIT, which are attached to the Class B exchangeable units of NHP, a subsidiary of the REIT. At March 31, 2015, NW Trust is indirectly 100% owned by NorthWest International Healthcare Properties Real Estate Investment Trust ("NWI").

1. **Basis of preparation:**

The condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The preparation of these condensed consolidated interim financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS"). The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the notes to the REIT's audited consolidated financial statements for the year ended December 31, 2014, since they do not contain all disclosures required by IFRS for annual financial statements.

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

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

2. Significant accounting policies:

The accounting policies applied by the REIT in these condensed consolidated interim financial statements are the same as those applied by the REIT in its consolidated financial statements as at and for the year ended December 31, 2014.

3. Combination transaction:

On March 10, 2015, the REIT entered into an agreement with NWI to combine and form a single healthcare real estate investment trust (the "Combination Transaction"). The combination will be effected by a plan of arrangement pursuant to which the REIT will, acquire all of the assets of NWI. The unitholders of NWI will receive 0.208 of a REIT unit for each NWI unit held.

The combination was approved by the Board of Trustees (excluding interested 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 is subject to the approval of at least 66 2/3% of the votes cast at separate special meetings of the REIT and the NWI's voting unitholders, as well as the approval of a majority of the votes cast at the REIT special meeting, other than votes held by NWI. NWI indirectly holds an approximate 25.4% interest in the REIT. Northwest Value Partners Inc. ("NWVP"), which currently holds approximately 65% of the NWI's voting units, has entered into a customary voting and support agreement pursuant to which it has agreed to vote its NWI 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.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

3. Combination transaction (continued):

Subsequent to the quarter on May 5, 2015, the Combination Transaction was approved at special meetings of the REIT and NWI's voting unitholders.

The combinations is still subject to other customary and regulatory approvals as described above. Subject to reviewing these approvals, the Combination Transaction is expected to close in the second quarter of 2015.

The analysis of the financial reporting implications of the transaction has not been completed at the date that the condensed consolidated interim financial statements have been approved by the Board.

4. Acquisitions:

(a) Acquisitions during the three months ended March 31, 2015:

During the three months ended March 31, 2015, the REIT's subsidiaries acquired two investment properties and two land parcels slated for development for a purchase price of \$43,515 (note 17(j)). The acquisitions of the investment properties and related assets and liabilities have been accounted for as asset purchases. The recognized amount of net assets acquired and liabilities assumed were as follows:

Assets

| | |
|--|--------------|
| Investment properties, including acquisition costs | \$ 44,469 |
| Other assets | 5 |
| | <hr/> 44,474 |

Liabilities

| | |
|--|--------------|
| Accounts payable and accrued liabilities | 521 |
| Assumed mortgages | 13,903 |
| | <hr/> 14,424 |

| | |
|---------------------|-----------------|
| Net assets acquired | <hr/> \$ 30,050 |
|---------------------|-----------------|

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

4. Acquisitions (continued):

| | |
|--|------------------|
| Consideration: | |
| Cash | \$ 17,644 |
| Loan receivable | 8,000 |
| Settlement of amounts receivable from NW Trust and its affiliates | 4,406 |
| | \$ 30,050 |

(b) Acquisitions during the year ended December 31, 2014:

There were no acquisitions during the year ended December 31, 2014.

5. Dispositions:

During the three months ended March 31, 2015, the REIT disposed of one investment property for gross proceeds of \$4,625 and recognized a net loss on sale of \$257 due to transaction costs.

During the three months ended March 31, 2014, the REIT disposed of two investment properties for gross proceeds of \$8,350 and net loss on sale of \$349 related to transaction costs. The purchasers of one investment property assumed \$2,430 of mortgage debt associated with the investment property. No mortgage debt was associated with the remaining property.

6. Investment properties:

| | |
|---------------------------------------|---------------------|
| Balance, January 1, 2015 | \$ 1,223,429 |
| Additions | 7,824 |
| Acquisitions of investment properties | 44,469 |
| Disposition of investment property | (4,625) |
| Increase in straight-line rents | 148 |
| Fair value adjustment | (272) |
| Balance, March 31, 2015 | \$ 1,270,973 |

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

6. Investment properties (continued):

| | |
|--------------------------------------|---------------------|
| Balance, January 1, 2014 | \$ 1,286,843 |
| Additions | 20,169 |
| Disposition of investment properties | (24,977) |
| Increase in straight-line rents | 1,096 |
| Fair value adjustment | (59,702) |
| Balance, December 31, 2014 | \$ 1,223,429 |

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

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

| | March 31, 2015 | December 31, 2014 |
|---|-------------------|----------------------|
| Discount rate - range | 6.0% - 9.8% | 6.0% - 9.8% |
| Discount rate - weighted average | 7.5% | 7.5% |
| Terminal capitalization rate - range | 5.8% - 8.8% | 5.8% - 8.8% |
| Terminal capitalization rate - weighted average | 6.9% | 6.9% |

The fair values of investment properties are most sensitive to changes in discount rates and terminal capitalization rates. As at March 31, 2015, a 25-basis-point decrease in the weighted average portfolio discount rate and terminal capitalization rate would increase the value of investment property by \$50,200. A 25-basis-point increase in the weighted average portfolio discount rate and terminal capitalization rate would decrease the value of investment property by \$47,500.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

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6. Investment properties (continued):

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

During the three months ended March 31, 2015, commercial properties with an aggregate fair value of \$22,600 (year ended December 31, 2014 - \$350,862) were valued by external valuation professionals with recognized and relevant professional qualification.

7. Loan receivable:

| | March 31, 2015 | December 31, 2014 |
|------|-------------------|----------------------|
| Loan | \$ – | \$ 8,000 |

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

The loan receivable had an interest rate of 7.5% and was repayable the earlier of:

- (a) March 31, 2015; or
- (b) the date of the sale of the property.

No principal amounts were due prior to maturity of the loan.

The loan was secured by a pledge of the partnership interest of the joint venture partners and guaranteed by the partners; each limited to 50% of the obligations under the loan; and was subject to a certain property value threshold determined by external valuation professionals.

Under the terms of the loan, the REIT had a right of first offer to acquire the property. During the three months ended March 31, 2015, the REIT acquired the property for a purchase price of \$23,000. The loan receivable was settled as part of the purchase consideration (note 17).

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

8. Accounts receivable:

| | March 31, 2015 | December 31, 2014 |
|--|-------------------|----------------------|
| Tenant and other receivables | \$ 3,778 | \$ 3,167 |
| Due from NW Trust and its affiliates (note 17) | – | 4,406 |
| | \$ 3,778 | \$ 7,573 |

9. Other assets:

| | March 31, 2015 | December 31, 2014 |
|------------------|-------------------|----------------------|
| Prepaid expenses | \$ 1,762 | \$ 1,364 |
| Mortgage escrow | 190 | 395 |
| Other deposits | 638 | 645 |
| Other | 693 | 721 |
| | \$ 3,283 | \$ 3,125 |

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

10. Mortgages payable:

All mortgages are secured by first or second charges on specific investment properties, with a carrying value of \$1,147,348 at March 31, 2015, and are repayable as follows:

| | Scheduled principal payments | Debt maturing during the year | Total mortgages payable |
|-----------------------------|------------------------------------|--|-------------------------------|
| 2015 remainder | \$ 13,138 | \$ – | \$ 13,138 |
| 2016 | 17,550 | 110,863 | 128,413 |
| 2017 | 14,238 | 62,343 | 76,581 |
| 2018 | 13,590 | 91,612 | 105,202 |
| 2019 | 11,109 | 61,179 | 72,288 |
| 2020 | 9,851 | 47,266 | 57,117 |
| 2021 | 7,626 | 51,308 | 58,934 |
| 2022 | 5,881 | 50,264 | 56,145 |
| 2023 | 3,467 | 43,979 | 47,446 |
| 2024 | 2,085 | 14,224 | 16,309 |
| 2025 and thereafter | 2,697 | 22,173 | 24,870 |
| Face value | <u>\$ 101,232</u> | <u>\$ 555,211</u> | 656,443 |
| Mark-to-market adjustment | | | 997 |
| Unamortized financing costs | | | (1,955) |
| Carrying amount | | | <u>\$ 655,485</u> |

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

10. Mortgages payable (continued):

| | March 31, 2015 | December 31, 2014 |
|--|-------------------|----------------------|
| Mortgages at fixed rates - contractual amount | \$ 607,474 | \$ 582,459 |
| Mortgages at variable rates - contractual amount | 48,969 | 49,303 |
| Mark-to-market adjustment | 997 | 1,150 |
| Unamortized financing costs | (1,955) | (1,655) |
| Carrying amount | \$ 655,485 | \$ 631,257 |

| | March 31, 2015 | December 31, 2014 |
|--------------------------------|-------------------|----------------------|
| Interest rates | 2.00% - 6.15% | 2.00% - 6.15% |
| Weighted average interest rate | 4.39% | 4.62% |

The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on \$48,969 of its variable rate mortgages payable as at March 31, 2015. Gains or losses arising from the change in fair values of the interest rate swap contracts are recognized in the condensed consolidated interim statements of income and comprehensive income and during the three months ended March 31, 2015, the REIT recognized a fair value loss of \$1,716 (three months ended March 31, 2014 - \$1,234) and a financial instrument liability of \$2,803 (December 31, 2014 - \$1,087).

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

11. Convertible debentures:

The REIT has designated convertible debentures as fair value through profit or loss. Fair value is determined using the market prices for these listed convertible debentures. The market price of the 5.25% convertible debentures at March 31, 2015 was \$103.49 (December 31, 2014 - \$101.50).

The REIT has the following series of convertible debentures outstanding:

| | Fair value | Principal |
|------------------------------|------------|-----------|
| 5.25% convertible debentures | \$ 41,655 | \$ 40,250 |

The debentures bear interest at 5.25% per annum, payable semi-annually on March 31 and September 30 each year and mature on September 30, 2020. The debentures are convertible at the debenture holder's option into fully paid REIT units at any time prior to the earlier of the maturity date and the date fixed for redemption at a conversion price of \$14.20 per unit.

The debentures are not redeemable prior to September 30, 2016. On or after October 1, 2016 to, and including September 30, 2018, the debentures may be redeemed, in whole or in part, at the REIT option, provided that the market price for the REIT unit is not less than 125% of the conversion price. On or after October 1, 2018 and prior to the maturity date, the debentures may be redeemed in whole or in part, at the REIT's option, at a price equal to the principal amount plus accrued interest.

The REIT may satisfy its obligation to repay the principal amounts of the debentures, in whole or in part, by issuing REIT units. In the event the REIT elects to satisfy its obligation to repay the principal with REIT units, it must deliver that number of REIT units equal to 95% of the market price for the unit at that time.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

12. Loans payable:

| | March 31, 2015 | December 31, 2014 |
|---|-------------------|----------------------|
| Secured floating rate revolving credit facility (a) | \$ 21,828 | \$ 15,800 |
| Promissory notes payable | – | 729 |
| | <u>\$ 21,828</u> | <u>\$ 16,529</u> |

(a) Secured floating rate revolving credit facility:

The REIT has a floating rate revolving credit facility of \$50,000 and a \$5,000 letter of credit facility, which expire on March 25, 2016. The facilities bear interest at banker's acceptance rate plus 2.00% or prime plus 1.00% and are secured by certain investment properties, with a carrying value of \$98,043, and the terms of a general security agreement. As at March 31, 2015, there was a \$22,000 (December 31, 2014 - \$16,000) outstanding balance on the credit facility, net of unamortized financing costs of \$172 (December 31, 2014 - \$200).

13. Class B exchangeable units:

Each Class B exchangeable unit of NHP, a subsidiary of the REIT, is exchangeable into one unit of the REIT. These Class B exchangeable units are economically equivalent to REIT units and are entitled only to receive distributions equal to those provided to holders of REIT units.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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Three months ended March 31, 2015 and 2014
(Unaudited)

13. Class B exchangeable units (continued):

Class B exchangeable units outstanding:

| | Units | Amount |
|--|-----------|-----------|
| Class B exchangeable units outstanding, January 1, 2015 | 7,551,546 | \$ 70,078 |
| Fair value adjustment of Class B exchangeable units | – | (1,208) |
| Class B exchangeable units outstanding, March 31, 2015 | 7,551,546 | \$ 68,870 |

| | Units | Amount |
|--|-----------|-----------|
| Class B exchangeable units outstanding, January 1, 2014 | 7,551,546 | \$ 78,838 |
| Fair value adjustment of Class B exchangeable units | – | (8,760) |
| Class B exchangeable units outstanding, December 31, 2014 | 7,551,546 | \$ 70,078 |

During the three months ended March 31, 2015, the REIT recognized \$1,510 (three months ended March 31, 2014 - \$1,510) of distributions declared on Class B exchangeable units as finance cost.

14. Unitholders' equity:

The REIT is authorized to issue two categories of equity: (a) REIT units of the REIT; and (b) special voting units attached to the exchangeable Class B exchangeable units of NHP, a subsidiary of the REIT.

The REIT is authorized to issue an unlimited number of REIT units without par value. Each unit represents a single vote at any meeting of unitholders and entitles the unitholder to receive a pro rata share of all distributions. The unitholders have the right to require the REIT to redeem their units on demand. Upon receipt of the redemption notice by the REIT, all rights to and under the units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per unit ("Redemption Price"), as determined by a market formula.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
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14. Unitholders' equity (continued):

The Redemption Price will be paid in accordance with the conditions provided for in the Declaration of Trust.

The special voting units are only issued in tandem with Class B exchangeable units and are not transferable separately from the Class B exchangeable units to which they are attached. As Class B exchangeable units are exchanged or surrendered for REIT units, the corresponding special voting units will be cancelled for no consideration. Special voting units have no economic entitlement in the REIT, but entitle the holder to one vote per special voting unit at any meeting of the unitholders.

The REIT's Trustees have discretion in declaring distributions.

(a) Units outstanding:

| | Units | Amount |
|--|-------------------|-------------------|
| Units outstanding, January 1, 2015 | 39,117,912 | \$ 402,120 |
| Issuance of units under distribution reinvestment plan | 92,756 | 842 |
| Units outstanding, March 31, 2015 | 39,210,668 | \$ 402,962 |

| | Units | Amount |
|--|-------------------|-------------------|
| Units outstanding, January 1, 2014 | 38,783,403 | \$ 398,903 |
| Issuance of units under deferred unit plan | 40,442 | 400 |
| Issuance of units under distribution reinvestment plan | 294,067 | 2,817 |
| Units outstanding, December 31, 2014 | 39,117,912 | \$ 402,120 |

(b) Distribution reinvestment plan:

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

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15. Deferred unit plan:

(a) Liability:

| | |
|---------------------------------|-----------------|
| January 1, 2015 | \$ 3,091 |
| Unit-based compensation expense | 205 |
| Exercised and paid in cash | (524) |
| March 31, 2015 | \$ 2,772 |

| | |
|-------------------------------------|-----------------|
| January 1, 2014 | \$ 2,631 |
| Unit-based compensation expense | 1,371 |
| Exercised and paid in cash | (511) |
| Exercised and settled in REIT units | (400) |
| December 31, 2014 | \$ 3,091 |

(b) Units outstanding:

| | |
|--|----------------|
| January 1, 2015 | 360,388 |
| Granted | 93,928 |
| Exercised and paid in cash | (53,630) |
| Distribution entitlement | 2,324 |
| March 31, 2015 | 403,010 |
| Vested, but not issued, March 31, 2015 | 67,814 |

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
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15. Deferred unit plan (continued):

| | |
|---|----------|
| January 1, 2014 | 289,879 |
| Granted | 140,797 |
| Exercised and paid in cash | (51,789) |
| Exercised and settled in REIT units | (40,442) |
| Forfeited | (7,005) |
| Distribution entitlement | 28,948 |
| <hr/> | |
| December 31, 2014 | 360,388 |
| <hr/> | |
| Vested, but not issued, December 31, 2014 | 91,273 |

For the three months ended March 31, 2015, 93,928 units were granted under the deferred unit plan at an average unit price of \$9.07.

For the year ended December 31, 2014, 140,797 units were granted under the deferred unit plan at an average unit price of \$9.80.

16. Segment disclosure:

All of the REIT's assets and liabilities are in, and its revenue derived from, the Canadian real estate industry segment. No single tenant accounts for 10% or more of the REIT's rental revenue.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

17. Transactions with related parties:

The condensed consolidated interim financial statements as at March 31, 2015 include the accounts of the REIT and all its subsidiaries. The subsidiaries of the REIT are listed below:

| | |
|---|---|
| NHP Holdings Limited Partnership | NWH (Tawa) LP |
| NHP Holdings Inc. | NWH (Tawa) GP Inc. |
| Healthcare Properties LP | NWH (Sunpark) LP |
| Healthcare Properties Holdings Ltd. | NWH (Sunpark) GP Inc. |
| NorthWest Healthcare Properties P1 Ltd. | NWH (Portage) LP |
| 1201 Glenmore LP | NWH (Portage) Inc. |
| 1201 Glenmore GP Inc. | GT Canada Medical Properties Inc. |
| 2675-36 th Street NE LP | NorthWest Healthcare Properties Corporation |
| 2675-36 th Street NE GP Inc. | NWH C-Management Corporation |
| HealthPark Medical Clinic Inc. | |

Related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties.

| | Three months ended March 31, | |
|---|---------------------------------|--------|
| | 2015 | 2014 |
| Revenue from investment properties: | | |
| Head lease income (a) | \$ 376 | \$ 402 |
| Rental income (b) | – | 171 |
| Management fee revenue: | | |
| Leasing and construction supervision services (c) | – | – |
| Management services and cost-sharing (d) | – | 2 |
| Support services provided (e) | 12 | 33 |
| Property operating and trust expenses: | | |
| Support services provided (e) | 148 | 108 |
| Rental expense (f) | 96 | 77 |
| Management fee expense (i) | 14 | – |
| Interest income: | | |
| Interest (h) | 23 | 43 |
| Loan receivable interest (g) | – | 74 |
| Finance cost: | | |
| Class B exchangeable units distributions | 1,510 | 1,510 |
| Leasing costs reimbursement (a), (b) | – | 2 |

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

17. Transactions with related parties (continued):

| | March 31, 2015 | December 31, 2014 |
|------------------------------------|-------------------|----------------------|
| Balance sheet balances: | | |
| Accounts receivable | \$ — | \$ 4,406 |
| Working capital adjustment payable | — | 92 |
| Loan receivable (g) | — | 4,000 |

- (a) In conjunction with its Initial Public Offering, the REIT entered into head leases, originally with NW Trust, and subsequently assigned to an affiliate of NW Trust on three properties. The head leases commenced March 25, 2010 and expired March 24, 2015 subject to certain rights of termination upon third party leasing of such space. The tenant was responsible for any leasing costs incurred in leasing this space and reimbursed the REIT for leasing costs incurred.
- (b) The REIT earned rental revenue from a tenant which is an affiliate of NW Trust. The lease was surrendered on September 1, 2013 and the tenant was responsible for any rental shortfall derived from the new tenant as compared to the rent that would have been paid by the tenant for the period from September 1, 2013 to December 31, 2018, the original expiry date of the lease held by the tenant. As part of the acquisition of various development properties from affiliates of NW Trust (note 17(j)), the REIT released the tenant from future rental shortfall amounts due, if any, under the lease surrender agreement.
- (c) The REIT had entered into a Leasing and Construction Supervision Services Agreement, originally with NW Trust, and subsequently assigned to an affiliate of NW Trust, for the provision of supervision and leasing services at the properties subject to the head leases for a period of five years that expired on March 24, 2015.
- (d) The REIT had a Management and Cost-Sharing Agreement with NW Trust for the REIT to provide property management services for one property for a period of five years commencing March 25, 2010. This agreement was terminated by the related party during the year ended December 31, 2013 following the sale of the property.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

17. Transactions with related parties (continued):

- (e) The REIT has entered into a Support Services Agreement with an affiliate of NW Trust for certain general management and administrative support services for a fee based on cost-sharing.
- (f) The REIT has a monthly Sublease Agreement with an affiliate of NW Trust for the REIT to lease its head office premises.
- (g) The REIT earned interest on the Loan Receivable (note 7).
- (h) The REIT charges interest on net amounts receivables relating to (a), (b), (c) and (e).
- (i) The REIT paid a management fee during the three months ended March 31, 2015, to an affiliate of NW Trust, following acquisition of an investment property and prior to internalizing management of the property (note 17(j)).
- (j) During the three months ended March 31, 2015, the REIT completed a series of transactions with affiliates of NW Trust, which were approved by the Board of Trustees based on a review and recommendation from the Special Committee of the REIT, consisting of three independent Trustees. The transactions are as follows:
 - (i) The REIT acquired the investment property over which it had a right of first offer for \$23,000 (note 4). Consideration included the assumption of a mortgage secured by the property for \$13,903 and settlement of the \$8,000 loan receivable (note 7) with remaining amounts paid in cash.
 - (ii) The REIT purchased an acquisition right to acquire a two-building investment property and two parcels of land from affiliates of NW Trust for \$10,000. The consideration of this amount was partially settled by \$4,406 receivable due from NW Trust and its affiliates. The REIT then exercised the option to acquire the two-building investment property for an additional \$10,515.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

17. Transactions with related parties (continued):

- (iii) Concurrent with these acquisitions, the REIT ended its development relationship with NWVP, an affiliate of NW Trust, and hired NWVP's development employees. As a result, the REIT is no longer required to sever and sell the development land portion of an investment property to NW Trust for \$2,950 in the event a development agreement is not reached.
- (iv) As part of the agreement, the REIT also settled amounts due under head leases, originally due from NW Trust, and subsequently assigned to an affiliate of NW Trust (note 17(a)) for \$430. The REIT also released an affiliate of NW Trust from future rental shortfall amounts due, if any, under a lease surrender agreement (note 17(b)).

The REIT is the ultimate Canadian parent entity.

18. Finance cost:

| | Three months ended March 31, | |
|--|---------------------------------|----------|
| | 2015 | 2014 |
| Interest on convertible debentures | \$ 521 | \$ 524 |
| Interest on fixed rate debt | 7,274 | 7,561 |
| Interest on floating rate debt | 189 | 179 |
| Amortization of debt premiums | (150) | (216) |
| Amortization of transaction costs | 136 | 112 |
| | 7,970 | 8,160 |
| Class B exchangeable unit distributions | 1,510 | 1,510 |
| Fair value adjustment of Class B exchangeable units | (1,208) | (6,721) |
| Fair value adjustment of convertible debentures | 801 | 201 |
| Fair value adjustment of other financial instruments | 1,716 | 1,234 |
| | \$ 10,789 | \$ 4,384 |

During the three months ended March 31, 2015, the REIT capitalized \$60 (three months ended March 31, 2014 - nil) of interest expense incurred related to active developments.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

19. Commitments and contingencies:

- (a) The REIT has entered into fixed-price utility contracts with a third-party supplier in the amount of \$2,110 to provide electricity and gas for its own use at its investment properties for 2015 and 2016.
- (b) The REIT is involved in litigation and claims in relation to the investment properties that arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies would not have a significant adverse effect on the condensed consolidated interim financial statements.
- (c) The REIT obtains letters of credit to support its obligations with respect to construction work on its investment properties and satisfying mortgage financing requirements. As at March 31, 2015, the REIT has a total of \$610 in outstanding letters of credit related to construction work that is being performed on investment properties. The REIT does not believe that any of these standby letters of credit are likely to be drawn upon.
- (d) Pursuant to the sale of two of the REIT's investment properties, the existing mortgages were assumed by the purchasers. In the event of default, the REIT has guaranteed the outstanding balance of the mortgages of \$8,472 as at March 31, 2015.
- (e) Pursuant to the Combination Transaction, in the event that the transaction is not completed by one of the parties, either of NWH and NWI, in certain specified circumstances, may be required to pay the other a termination fee of \$17,000 (note 3).
- (f) The REIT has entered into a construction agreement on a development property and is committed to construction costs of \$11,734 as at March 31, 2015.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

20. Change in non-cash operating items:

| | Three months ended March 31, | |
|--|---------------------------------|-------------------|
| | 2015 | 2014 |
| Increase in accounts receivable | \$ (611) | \$ (918) |
| Increase in straight-line rents | (148) | (403) |
| Increase in other assets | (153) | (776) |
| Increase (decrease) in accounts payable and accrued liabilities | 3,887 | (2,701) |
| | <u>\$ 2,975</u> | <u>\$ (4,798)</u> |

21. Fair values:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The REIT uses various methods in estimating the fair values of assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the condensed consolidated interim balance sheets. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 - fair value is based on unadjusted quoted prices trades in active markets for identical instruments;
- Level 2 - fair value is based on models using significant market-observable inputs other than quoted prices for the instruments; and
- Level 3 - fair value is based on models using significant inputs that are not based on observable market data.

The REIT determined the fair value of each investment property using the discounted cash flow method. The discounted cash flow method discounts the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. Note 6 outlines the key assumption used by the REIT in determining fair value of its investment properties (Level 3 inputs).

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

21. Fair values (continued):

Derivatives instruments valued using a valuation technique with market-observable inputs (Level 2) include interest rate swap contracts. The most frequently applied valuation technique includes forward pricing models, using present value calculations. The models incorporate various inputs, including forward rates and interest rate curves.

As allowed under IFRS 13, Fair Value Measurement, if an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The REIT has chosen to use closing market price as a practical expedient for fair value measurement for its Class B exchangeable units, convertible debentures and deferred units (Level 1 inputs).

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

The carrying values of the REIT's financial assets, which include accounts receivable, loan receivable, mortgage escrow, deposits, restricted cash and cash and cash equivalents, as well as financial liabilities, which include accounts payable and accrued liabilities, approximate their recorded fair values due to their short-term nature.

The fair values and levels within the fair value hierarchy for financial assets and liabilities measured at amortized cost as at March 31, 2015 are as follows:

| | Carrying value | Fair value | | |
|------------------------|----------------|------------|------------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Financial liabilities: | | | | |
| Mortgage payable | \$ 655,485 | \$ – | \$ 687,837 | \$ – |
| Loans payable | 21,828 | 21,828 | – | – |

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

21. Fair values (continued):

The fair values and levels within the fair value hierarchy for financial assets and liabilities measured at amortized cost as at December 31, 2014 are as follows:

| | Carrying value | Fair value | | |
|------------------------|----------------|------------|---------|----------|
| | | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | |
| Loan receivable | \$ 8,000 | \$ – | \$ – | \$ 8,000 |
| Financial liabilities: | | | | |
| Mortgages payable | 631,257 | – | 653,626 | – |
| Loans payable | 16,529 | – | 16,529 | – |

22. Subsequent events:

(a) Subsequent to the quarter, on May 5, 2015, the Combination Transaction was approved at special meetings of the REIT and NWI's voting unitholders. The Combination Transaction is expected to close in the second quarter of 2015, subject to other customary and regulatory approvals as outlined in note 3.

(b) During the period from March 31, 2015 to May 1, 2015, the REIT declared distributions of \$0.06667 per unit, or \$2,614.