NORTHWEST INTERNATIONAL HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Financial Statements
Unaudited

For the Three and Six Months Ended June 30, 2014 and 2013

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

As at		**June 30, 2014**		December 31, 2013
Assets				
Investment properties (note 6)	**$**	**521,884,692**	$	448,832,353
Investment in associates (note 7)		**248,520,121**		259,502,612
Intangible asset (note 8)		**13,270,837**		14,051,475
Due from related parties (note 9)		**27,667,409**		26,254,047
Accounts receivable		**1,063,811**		1,628,681
Other assets (note 10)		**2,967,064**		1,574,518
Cash and restricted cash (note 11)		**6,130,045**		4,414,544
Total assets	**$**	**821,503,979**	$	756,258,230
Liabilities				
Mortgages and loans payable (note 12)	**$**	**409,802,529**	$	357,526,759
Deferred consideration (note 13)		**75,643,783**		70,115,165
Convertible debentures (note 14)		**37,253,510**		35,423,000
Deferred revenue (note 15)		**15,247,958**		14,636,638
Deferred tax liability		**12,425,310**		9,999,937
Derivative financial instruments (note 16)		**999,266**		659,374
Income tax payable		**90,079**		552,098
Accounts payable and accrued liabilities		**13,366,892**		8,596,690
Distributions payable		**1,260,396**		733,082
		566,089,723		498,242,743
Deferred Unit Plan liability (note 17)		**474,598**		370,054
Class B LP and Class D GP exchangeable units (note 18)		**188,044,956**		183,958,006
Total liabilities		**754,609,277**		682,570,803
Unitholders' Equity				
Unitholders' equity (note 19)		**66,894,702**		73,687,427
Total liabilities and unitholders' equity	**$**	**821,503,979**	$	756,258,230

Subsequent events (note 27)

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

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

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net Operating Income				
Revenue from investment properties	**$ 10,496,532**	$ 5,040,841	**$ 20,655,160**	$ 9,756,059
Property operating costs	**836,888**	495,149	**1,764,705**	867,304
	9,659,644	4,545,692	**18,890,455**	8,888,755
Other Income (loss)				
Interest	**443,447**	849,834	**881,631**	1,177,967
Management fee participation (note 21 (iii))	**921,964**	410,367	**1,339,055**	810,245
Share of profit (loss) of associates (note 7)	**(7,863,825)**	2,420,961	**(2,981,257)**	3,777,782
	(6,498,414)	3,681,162	**(760,571)**	5,765,994
Expenses				
Mortgage and loan interest expense	**7,159,997**	2,128,851	**14,070,815**	3,778,351
General and administrative expenses	**1,462,795**	865,015	**2,509,201**	1,196,036
Transaction costs	**–**	389,319	**–**	468,182
Amortization of intangible asset (note 8)	**390,319**	390,319	**780,638**	780,638
Foreign exchange loss (gain), net	**(1,322,289)**	(1,150,983)	**2,897,056**	(72,187)
	7,690,822	2,622,521	**20,257,710**	6,151,020
Income (loss) before other finance costs and fair value adjustments	**(4,529,592)**	5,604,333	**(2,127,826)**	8,503,729
Finance costs:				
Amortization of financing costs	**(2,645,266)**	(68,139)	**(4,994,019)**	(135,763)
Class B LP and Class D GP exchangeable unit distributions	**(5,070,413)**	(2,665,873)	**(10,079,079)**	(4,883,583)
Fair value adjustment of Class B LP and Class D GP exchangeable units (note 18)	**10,166,247**	(13,304,371)	**(1,672,635)**	(5,411,614)
Accretion of financial liabilities (notes 12 and 13)	**(3,944,452)**	(1,192,257)	**(9,385,593)**	(2,842,651)
Fair value adjustment of convertible debentures (note 14)	**1,716,490**	1,796,700	**(1,830,510)**	1,796,700
Convertible debenture issuance costs	**–**	(1,693,228)	**(3,232)**	(1,693,228)
Fair value gain (loss) on derivative financial instruments	**(245,791)**	16,621,050	**(350,708)**	23,083,107
Fair value adjustment of investment properties (note 6)	**(3,658,543)**	(16,014)	**(3,542,829)**	(886,774)
Net loss on disposal of investment properties (note 5)	**(8,826)**	–	**(97,595)**	–
Fair value adjustment of Deferred Unit Plan liability	**22,454**	(12,025)	**(1,259)**	(3,700)
Income (loss) before taxes	**(8,197,692)**	5,070,176	**(34,085,285)**	17,526,223
Current income tax expense	**145,357**	408,711	**206,098**	822,924
Deferred income tax expense	**556,862**	492,992	**1,628,208**	932,992
Net income (loss)	**$ (8,899,911)**	**$** 4,168,473	**$ (35,919,591)**	**$** 15,770,307
Other comprehensive income (loss):				
Items that will be reclassified subsequently to income				
Foreign currency translation adjustment	**(2,662,232)**	(2,326,950)	**8,567,812**	(313,013)
Share of other comprehensive income (loss) of associates (note 7)	**279,280**	(722,074)	**(205,307)**	(931,517)
Other comprehensive income (loss), net of tax	**(2,382,952)**	(3,049,024)	**8,362,505**	(1,244,530)
Total comprehensive income (loss) for the period, net of tax	**$ (11,282,863)**	$ 1,119,449	**$ (27,557,086)**	$ 14,525,777

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

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

	Trust Unit Equity	Contributed Surplus	Reduction on Reclassification to Liabilities	Cumulative Distributions	Accumulated Other Comprehensive Income (Loss)	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	1,397,490	–	–	–	–	–	1,397,490
Units issued through distribution reinvestment plan	106,958	–	–	–	–	–	106,958
Conversion of Class B LP exchangeable units	2,830,000	–	–	–	–	–	2,830,000
Asset management fees paid in units	900,295	–	–	–	–	–	900,295
Distributions	–	–	–	(3,564,570)	–	–	(3,564,570)
Foreign currency translation adjustment	–	–	–	–	(313,013)	–	(313,013)
Share of other comprehensive loss of associate	–	–	–	–	(931,517)	–	(931,517)
Net income for the period	–	–	–	–	–	15,770,307	15,770,307
Balance, June 30, 2013	**$ 73,290,452**	**$ 2,345,022**	**$ (114,683)**	**$ (6,795,590)**	**$ (898,696)**	**$ (9,534,615)**	**$ 58,291,890**
Units issued pursuant to equity offering	16,229,226	–	–	–	–	–	16,229,226
Units issued through distribution reinvestment plan	181,052	–	–	–	–	–	181,052
Asset management fees paid in units	803,250	–	–	–	–	–	803,250
Distributions	–	–	–	(3,767,981)	–	–	(3,767,981)
Foreign currency translation adjustment	–	–	–	–	(2,206,574)	–	(2,206,574)
Share of other comprehensive loss of associate	–	–	–	–	(1,150,138)	–	(1,150,138)
Net income for the period	–	–	–	–	–	5,306,702	5,306,702
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	22,861,706	–	–	–	–	–	22,861,706
Units issued through distribution reinvestment plan	397,714	–	–	–	–	–	397,714
Asset management fees paid in units	1,553,316	–	–	–	–	–	1,553,316
Conversion of Class D GP exchangeable units	1,689,303	–	–	–	–	–	1,689,303
Contribution of capital (note 9 (ii))	–	913,772	–	–	–	–	913,772
Distributions	–	–	–	(6,651,450)	–	–	(6,651,450)
Foreign currency translation adjustment	–	–	–	–	8,567,812	–	8,567,812
Share of other comprehensive loss of associate	–	–	–	–	(205,307)	–	(205,307)
Net income for the period	–		–	–	–	**(35,919,591)**	**(35,919,591)**
Balance, June 30, 2014	**$ 117,006,019**	**$ 3,258,794**	**$ (114,683)**	**$ (17,215,021)**	**$ 4,107,097**	**$ (40,147,504)**	**$ 66,894,702**

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

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

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash provided by (used in):				
Operating activities				
Income (loss) before taxes for the period	$ **(8,197,692)**	$ 5,070,176	$ **(34,085,285)**	$ 17,526,223
Adjustment for:				
Amortization of intangible asset (note 8)	**390,319**	390,319	**780,638**	780,638
Mortgage and loan interest	**7,159,997**	2,128,851	**14,070,815**	3,778,351
Mortgage and loan interest paid	**(6,461,167)**	(1,464,872)	**(13,977,835)**	(2,740,514)
Finance costs				
Amortization of financing costs	**2,645,266**	68,139	**4,994,019**	135,763
Class B LP and Class D GP exchangeable unit distributions	**5,070,413**	2,665,873	**10,079,079**	4,883,583
Fair value adjustment of Class B LP and Class D GP exchangeable units	**(10,166,247)**	13,304,371	**1,672,635**	5,411,614
Accretion of financial liabilities (notes 12 and 13)	**3,944,452**	1,192,257	**9,385,593**	2,842,651
Fair value adjustment of convertible debentures (note 14)	**(1,716,490)**	(1,796,700)	**1,830,510**	(1,796,700)
Share of loss (profit) of associates (note 7)	**7,863,825**	(2,420,961)	**2,981,257**	(3,777,782)
Unrealized foreign exchange gain (loss)	**(1,290,724)**	(1,177,785)	**3,062,125**	(94,774)
Amortization of deferred revenue	**(112,950)**	(120,713)	**(460,095)**	(1,603,161)
Fair value adjustment of investment properties (note 6)	**3,658,543**	16,014	**3,542,829**	886,774
Fair value loss (gain) on derivative financial instruments	**245,791**	(16,621,050)	**350,708**	(23,083,107)
Net loss on disposal of investment properties (note 5)	**8,826**	–	**97,595**	–
Unit based compensation expense	**56,371**	–	**103,285**	–
Other fair value losses (gains)	**(22,454)**	12,025	**1,259**	3,700
Income taxes paid	**(175,565)**	(425,554)	**(704,626)**	(421,222)
Changes in non-cash working capital balances (note 20 (i))	**1,146,793**	(2,108,814)	**839,361**	(2,251,144)
Cash provided by (used in) operating activities	**4,047,307**	(1,288,424)	**4,563,867**	480,893
Investing activities				
Acquisitions of investment properties	**(52,918,042)**	(40,422)	**(52,918,042)**	(19,736,833)
Additions to investment properties (note 6)	**(136,083)**	(14,256)	**(208,361)**	(36,082)
Net proceeds (redemption) on disposal of investment property (note 5)	**(8,826)**	–	**6,825,991**	–
Additions to investment in associates	–	(121,231)	**–**	(1,286,689)
Distribution income from associates (note 7)	**3,886,931**	1,757,302	**7,809,667**	1,757,302
Net decrease (increase) in restricted cash	**907,596**	–	**(539,626)**	–
Cash provided by (used in) investing activities	**(48,268,424)**	1,581,393	**(39,030,371)**	(19,302,302)
Financing activities				
Mortgage proceeds	**31,286,800**	24,600	**31,286,800**	12,011,400
Mortgage discharged (note 5)	–	–	**(4,886,613)**	–
Issuance of convertible debentures	–	4,109,490	**–**	22,600,000
Proceeds from units issued, net of issue costs (note 19)	**21,243,335**	890,888	**22,861,706**	2,297,785
Net advances (payments) of loans payable	**(218,278)**	191,475	**(1,812,930)**	(3,535,973)
Payment of deferred consideration	**(1,315,066)**	(1,764,184)	**(2,576,765)**	(2,836,293)
Credit facility advances	–	(1,130)	**–**	28,827
Financing fees paid	**(941,812)**	(38,456)	**(1,665,499)**	(151,885)
Net advances from/to related parties	**(288,599)**	(2,626,307)	**1,244,917**	(3,809,963)
Distributions paid	**(3,090,560)**	(1,714,325)	**(5,726,422)**	(3,419,262)
Class B LP and Class D GP exchangeable units distributions paid	**(1,110,942)**	(2,177,352)	**(2,925,247)**	(4,415,242)
Cash provided by (used in) financing activities	**45,564,878**	(3,105,301)	**35,799,947**	18,769,394
Net change in cash	**1,343,761**	(2,812,332)	**1,333,443**	(52,015)
Effect of foreign currency translation	**(286,322)**	(66,010)	**(278,807)**	20,420
Net change in cash	**1,057,439**	(2,878,342)	**1,054,636**	(31,595)
Cash, beginning of period	**2,633,056**	6,596,658	**2,635,859**	3,749,911
Cash, end of period	$ **3,690,495**	$ 3,718,316	$ **3,690,495**	$ 3,718,316

Supplemental disclosure relating to non-cash investing activities (note 20 (ii))

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

1. Organization of the Real Estate Investment Trust

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

As at June 30, 2014, NorthWest Value Partners ("NWVP") indirectly owned approximately 75% (approximately 67% on a fully-diluted basis assuming conversion of the REIT's convertible debentures, exercise of its outstanding warrants and redemption of its deferred Trust 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. Affiliates of NWVP serve 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. Established in 1994, Toronto-based NWVP is a Canadian privately owned healthcare real estate companies. The scope of its business includes real estate development, ownership and management, in Canada and internationally with a significant focus on the healthcare sector. Principals of NWVP serve as officers and trustees of the REIT.

On April 30, 2014, the REIT announced that it had entered into an agreement with NorthWest Value Partners ("NWVP") with respect to the internalization of its external management arrangements (the "Internalization"). The Internalization will result in the REIT terminating the asset management, property management and development functions of the REIT currently carried on by affiliates of NWVP. It will also result 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, NWVP will receive a one-time payment equal to the amounts that would be paid under the REIT's existing external management arrangements and the fees earned by Vital Healthcare Management Limited (the manager of Vital Trust) for the 12 months ending December 31, 2014, adjusted for the full year effect of acquisitions and committed capital expenditures. The consideration will be payable in equity of the REIT of NWI LP valued at $2.05, except for amounts required to pay liabilities arising from the Internalization. The Internalization is expected to close on or before December 31, 2014, subject to certain conditions including, but not limited to, the entering into of a definitive binding implementation agreement and the receipt of all necessary approvals. A special committee of independent trustees was established by the REIT for the purpose of considering the Internalization. The special committee retained independent legal and financial advisors in connection with the transaction.

On April 30, 2014, the REIT announced plans to seek a listing on the Toronto Stock Exchange (the "TSX") and concurrently expand the size of its board of trustees. The REIT continues to work towards the completion of this objective.

The REIT's condensed consolidated interim financial statements for the three and six months ended June 30, 2014, were authorized for issue by the Board of Trustees on August 14, 2014.

2. Statement of Compliance

The REIT's unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under International Accounting Standard ("IAS") 34, Interim Financial Reporting.

These unaudited condensed consolidated interim financial statements do not include all the information and notes required by IFRS for annual financial statements and therefore, should be read in conjunction with the audited consolidated financial statements and notes for the REIT as at and for the year ended December 31, 2013, which are available on SEDAR at www.sedar.com.

3. Summary of Significant Accounting Policies

All significant accounting policies have been applied on a basis consistent with those followed in the most recent audited annual consolidated financial statements, except as noted below. The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and outstanding as at June 30, 2014.

(a) Accounting Judgments and Use of Estimates

The preparation of condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from estimates and such differences could be material. The significant estimates and judgments made by management are the same as those discussed in the audited annual consolidated financial statements for the year ended December 31, 2013.

(b) Changes to Accounting Standards

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board ("IASB") or IFRS Interpretations Committee that are mandatory for fiscal periods beginning January 1, 2014 or later.

(i) The REIT had adopted IAS 32, Financial Instruments: Presentation ("IAS 32"), in its condensed consolidated interim financial statements for the three and six months ended June 30, 2014. The adoption of the amendments to IAS 32 did not have a significant impact on the REIT's condensed consolidated interim financial statements.

(ii) In 2013, the IASB issued IFRIC 21, Levies ("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 condensed consolidated interim financial statements.

(iii) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), was issued in May 2014 and replaces IAS 11, Construction Contracts, IAS 18, Revenue Recognition, 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 condensed consolidated interim financial statements.

Unaudited (Canadian dollars)

4. Property Acquisitions

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 $54,129,307 including transaction costs of $3,470,644. 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 19(i)), holdback and earnout obligation (note 13) 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.

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 $97,595 due to transaction costs. The REIT repaid $4,886,613 of mortgage debt associated with the investment property.

6. Investment Properties

As at	**June 30, 2014**	December 31, 2013
Balance, beginning of the period	**$ 448,832,353**	$ 205,502,477
Acquisition of investment property (note 4)	**54,129,307**	225,993,435
Disposition of investment property (note 5)	**(6,923,586)**	–
Additions to investment properties	**208,361**	50,852
Fair value (loss) gain	**(3,581,748)**	24,119,615
Foreign currency translation	**29,220,005**	(6,834,026)
Balance, end of the period	**$ 521,884,692**	$ 448,832,353

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 June 30, 2014 and December 31, 2013 were determined using valuation models incorporating available market evidence. Estimates and assumptions used in determining the fair value of the investment properties include capitalization rates, discount rates, inflation rates, vacancy rates, and property level net operating income.

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

	June 30, 2014	December 31, 2013
Discount rates - range	**6.75 - 11.60%**	6.75 - 10.00%
Discount rate - weighted average	**9.64%**	9.57%
Terminal capitalization rates - range	**7.00 - 9.00%**	7.25 - 9.00%
Terminal capitalization rate - weighted average	**8.70%**	8.75%

Unaudited (Canadian dollars)

6. Investment Properties (continued)

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 $14,004,200 and a 0.25% decrease would increase fair value by $13,975,684.

During the six months ended June 30, 2014, investment properties with an aggregate fair value of $nil (year ended December 31, 2013 - $404,127,000) were valued by external valuation professionals with recognized and relevant professional qualification.

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 period	(2,081,655)	–	(2,081,655)
Foreign exchange	35,311	–	35,311
As at December 31, 2013	**$ 106,076,945**	**$ 153,425,667**	**$ 259,502,612**
Cash distributions received	(3,050,450)	(4,759,217)	(7,809,667)
Share of profit (loss) for the period	4,690,742	(7,671,999)	(2,981,257)
Share of other comprehensive loss for the period	(205,307)	–	(205,307)
Foreign exchange	13,740	–	13,740
As at June 30, 2014	**$ 107,525,670**	**$ 140,994,451**	**$ 248,520,121**

(i) Investment in Vital Healthcare Property Trust ("Vital 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 June 30, 2014, the REIT's exposure to Vital Trust was 24.03% (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 June 30, 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 June 30, 2014 was $1.26 (NZ $1.35).

Unaudited (Canadian dollars)

7. Investment in Associates (continued)

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

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

As at	**June 30, 2014**	December 31, 2013
Assets	**$ 575,683,693**	$ 524,803,596
Liabilities	**$ 245,283,901**	$ 222,340,157
% interest held	**24.03%**	24.11%

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	**Six months Ended June 30, 2014**	Six months Ended June 30, 2013
Revenues	**$ 15,215,672**	$ 14,215,873	**$ 30,537,460**	$ 28,693,141
Net income	**$ 14,474,932**	$ 10,091,203	**$ 19,495,078**	$ 16,949,687
Other comprehensive income (loss)	**$ 1,170,725**	$ (3,607,744)	**$ (840,658)**	$ (4,666,440)
Total comprehensive income	**$ 15,645,657**	$ 6,483,459	**$ 18,654,420**	$ 12,283,247

(ii) Investment in NorthWest Healthcare Properties REIT ("NWHP REIT")

The investment in NWHP REIT is accounted for using the equity method as it was established that the REIT has significant influence with respect to this investment.

As at June 30, 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 June 30, 2014 was $10.00.

Unaudited (Canadian dollars)

7. Investment in Associates (continued)

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

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

As at	**June 30, 2014**	December 31, 2013
Assets	**$ 1,254,849,000**	$ 1,314,992,000
Liabilities	**$ 790,385,000**	$ 806,348,000
% interest held	**25.60%**	25.68%

	Three Months Ended June 30 2014	**Six months Ended June 30, 2014**	For the period from June 21 to June 30, 2013[1]
Revenues	**$ 37,411,000**	**$ 76,601,000**	$ 4,052,967
Net income (loss)	**$ (44,315,000)**	**$ (29,989,000)**	$ 1,554,945
Other comprehensive income (loss)	**$ –**	**$ –**	$ –
Total comprehensive income (loss)	**$ (44,315,000)**	**$ (29,989,000)**	$ 1,554,945

[1]NWHP REIT's results have been prorated for the 10 day period from June 21 to June 30, 2013 to represent the income attributable to the period from acquisition by the REIT.

8. Intangible Asset

The REIT's intangible asset relates to the indirectly acquired rights under a Management Fee Participation Agreement (note 21 (iii)). At the time of acquisition, the value ascribed to the agreement was $15,612,750. The intangible asset is being amortized on a straight-line basis over its determined useful life of 10 years.

	June 30, 2014	December 31, 2013
Balance, beginning of the period	**$ 14,051,475**	$ 15,612,750
Amortization	**(780,638)**	(1,561,275)
Balance, end of the period	**$ 13,270,837**	$ 14,051,475

Unaudited (Canadian dollars)

9. Due from Related Parties

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

As at	June 30, 2014	December 31, 2013
Working capital and closing adjustment receivable - Initial International Assets (i)	**$ 16,966,652**	$ 18,236,652
Interest rate subsidy (ii)	**2,787,670**	1,873,898
Instalment note receivable (iii)	**1,385,555**	1,369,191
Vital Management Fee Participation (note 21 (iii))	**3,792,940**	2,296,860
Interest (note 21 (v))	**3,111,781**	2,431,781
Other (iv)	**(377,189)**	45,665
	$ 27,667,409	$ 26,254,047

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

The working capital and closing adjustment receivable from a subsidiary of North West Value Partners ("NWVP") arises as a result of the differences in the values of the working capital and debt indirectly assumed on acquisition of the portfolio of international assets acquired October 1, 2012 (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 six months ended June 30, 2014, repayments of the working capital and closing adjustment receivable were received in the amount of $1,270,000.

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 21 (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.

In May 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 June 30, 2014. The interest rate subsidy has been recorded as a capital contribution on the condensed consolidated interim statement of unitholders' equity.

Unaudited (Canadian dollars)

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 and will earn from an affiliate of NWVP, two instalment note receipts - on April 2, 2013 (extended to April 2, 2014) and April 2, 2014 respectively, as detailed below. The Instalment Note receipts remain outstanding and are now due on demand. The Instalment Note is non-interest bearing. The receipt of the principal portion of the installment receipts will be recorded as a reduction of the Instalment Note and is, therefore, not recorded as revenue. The Instalment Note is recorded at the present value of the future cash flows.

The below table summarizes the scheduled instalment receipts and the present value discount applied as at June 30, 2014:

April 2, 2013, extended to April 2, 2014	$	526,835
April 2, 2014		858,720
Balance, June 30, 2014	**$**	**1,385,555**

(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/payables and are non-interest bearing.

10. Other Assets

As at		**June 30, 2014**		December 31, 2013
Commodity taxes recoverable	**$**	**321,578**	$	262,823
Acquisition costs and deposits		**2,522,732**		1,284,640
Prepaid expenses		**122,754**		27,055
	$	**2,967,064**	$	1,574,518

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

Unaudited (Canadian dollars)

11. Cash and Restricted Cash

As at	June 30, 2014	December 31, 2013
Cash	**$ 3,690,495**	$ 2,635,859
Restricted Cash	**2,439,550**	1,778,685
	$ 6,130,045	$ 4,414,544

12. Mortgages and Loans Payable

As at	June 30, 2014	December 31, 2013
Mortgages payable (net of financing costs of $1,120,082)	**$ 66,858,850**	$ 41,996,473
Securities lending agreement	**–**	36,836,914
Margin facilities (net of financing costs of $504,154)	**120,994,588**	82,254,834
Term loans (net of financing costs of $4,344,912)	**199,164,146**	173,793,462
Acquisition facility (net of financing costs of $1,215,055)	**22,784,945**	22,541,933
Line of credit	**–**	103,143
Total	**409,802,529**	357,526,759
Less: Current portion	**317,261,194**	294,311,880
Non-current debt	**$ 92,541,335**	$ 63,214,879

Mortgages payable

In June 2014, in connection with the acquisition of the Core German MOB Portfolio (note 4), the REIT obtained new mortgage financing of $30,395,233 (net of transaction costs of $891,567) 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 2.23% and 2.58% for the terms of the loans (note 16 (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

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

Securities lending agreement

On 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").

12. Mortgages and Loans Payable (continued)

Margin facilities

During the six months ended June 30, 2014 the following changes to the REIT's borrowings under margin facilities secured by its investments in associates occurred:

(i) NWHP REIT

On February 19, 2014, two of the margin facilities related to the REIT's investment in NWHP REIT were renewed, which extended the maturity to September 1, 2014. At June 30, 2014, the principal balance outstanding on the facilities expiring on September 1, 2014 is $64,115,802.

During the six months ended June 30, 2014, the REIT made net repayments on its margin facilities related to its investment in NWHP REIT in the amount of $970,000.

As at June 30, 2014, the REIT has pledged 4,345,900 units of NWHP REIT and 7,551,546 Class B limited partnership units of NHP Holdings LP as security for the margin facilities.

As at June 30, 2014, the principal balance outstanding on the margin facilities with respect to the REIT's investment in NWHP REIT was $73,438,293.

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)). In May 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 June 30, 2014.

(ii) Vital Trust

On March 21, 2014, the Vital SLA 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 margin facility matures on December 31, 2014.

Unaudited (Canadian dollars)

12. Mortgages and Loans Payable (continued)

(ii) Vital Trust (continued)

As at June 30, 2014, the REIT has pledged 81,659,865 units of Vital Trust as security for the margin facilities.

As at June 30, 2014, the principal balance outstanding on the margin facilities with respect to the REIT's investment in Vital Trust was $48,060,449.

Interest on the margin facilities is calculated daily and ranges from 4.03% to 7.18% 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 $4,393,000 (NZ $4,700,000) of the outstanding loan balance (note 16 (i)). The interest rate swap fixes the interest rate at 4.03% and terminates on March 29, 2016.

Term loans

On maturity, the principal balance of the term loans will be adjusted by IPCA (the consumer price inflation measure used by the Central Bank of Brazil for guiding monetary policy). For the three and six months ended June 30, 2014, accretion expense of $3,111,589 and $7,801,867 (for the three and six months ended June 30, 2013 - $741,632 and $1,969,617) was recorded to account for the related IPCA adjustment for the period.

Line of credit

During the six months ended June 30, 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).

A summary of the maturity and effective interest rates relating to the components of mortgages and loans payable outstanding at June 30, 2014 are as follows:

	Maturity	Weighted Average Interest Rate	Carrying Value
Fixed rate			
Mortgage debt	November 30, 2017	2.46%	$ 66,858,850
Term loans	December 22 - 27, 2014	6.87%	199,164,146
Total fixed rate debt			$ 266,022,996
Variable rate			
Margin facilities	September 1, 2014 - August 23, 2018	8.07%[(1)]	120,994,588
Acquisition facility	January 1, 2017	8.20%	22,784,945
Total variable rate debt			$ 143,779,533
Total debt			**$ 409,802,529**

[(1)]The effective cash interest expense on the margin facilities related to the REIT's investment in NWHP REIT is 4.25% to December 31, 2013 and 6.00% to March 31, 2014 as a result of the interest rate subsidy from NWVP (note 9 (ii)). In May 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 June 30, 2014.

Unaudited (Canadian dollars)

12. Mortgages and Loans Payable (continued)

As at June 30, 2014, the scheduled principal repayments and debt maturities are as follows:

	Mortgage debt	Margin facilities	Term loans	Acquisition facility	Total
2014 remainder	$ 915,264	$ 112,791,200	$ 203,509,058	$ –	**$ 317,215,522**
2015	1,859,028	–	–	–	**1,859,028**
2016	1,893,739	–	–	–	**1,893,739**
2017	35,485,841	–	–	24,000,000	**59,485,841**
2018	998,351	8,707,542	–	–	**9,705,893**
2019 & thereafter	26,826,709	–	–	–	**26,826,709**
	67,978,932	121,498,742	203,509,058	24,000,000	**416,986,732**
Financing costs	(1,120,082)	(504,154)	(4,344,912)	(1,215,055)	**(7,184,203)**
	$ 66,858,850	**$ 120,994,588**	**$ 199,164,146**	**$ 22,784,945**	**$ 409,802,529**

13. Deferred Consideration

The following table summarizes the deferred consideration payable:

As at	**June 30, 2014**	December 31, 2013
Holdback payable - Brazil (i)	**$ 63,154,576**	$ 57,206,112
Accrued transaction costs - Brazil	**11,278,357**	12,909,053
Holdback payable - Germany (ii)	**487,759**	–
Earnout obligation - Germany (iii)	**723,091**	–
	$ 75,643,783	$ 70,115,165

(i) In connection with the acquisition of Hospital e Maternedade 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 will be adjusted by the accumulated variation of the CDI (Brazil's equivalent of a prime rate) from the date of acquisition to the payment date. 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. Subsequent to June 30, 2014, the purchase and sale agreement was further amended resulting in the holdback being payable on October 1, 2014. From January 1, 2014 until the date of payment the balance of the holdback will be adjusted by the variation of the CDI plus 2.5% annually. For the three and six months ended June 30, 2014, accretion expense of $832,863 and $1,583,726 (for the three and six months ended June 30, 2013 - $450,625 and $873,034) was recorded to account for the related CDI adjustment for the year which has been recorded as finance costs in the condensed consolidated interim statement of income and comprehensive income.

(ii) In connection with the acquisition of the Core German MOB Portfolio (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.

Unaudited (Canadian dollars)

13. Deferred Consideration (continued)

(iii) The REIT has recorded an earnout obligation related to the acquisition of the Core German MOB Portfolio (note 4). As a condition of the purchase and sale agreement, the vendor was required to complete leasing of specific vacant units, and upon doing so, the REIT will pay additional consideration to the vendor, net of any unpaid leasing costs and tenant improvements. At the time of closing, leases had been signed for all of the specific units, and in accordance with the purchase and sale agreement, the REIT paid 50% of the earnout obligation, with the remaining 50% to be paid when the tenants take occupancy.

14. Convertible Debentures

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

	June 30, 2014	December 31, 2013
Balance, beginning of the period	**$ 35,423,000**	$ –
Issuance of convertible debentures - Series MOB.DB	–	22,600,000
Issuance of convertible debentures - Series MOB.DB.A	–	17,500,000
Increase (decrease) in fair value of convertible debentures	**1,830,510**	(4,677,000)
Balance, end of the period	**$ 37,253,510**	$ 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:

	June 30, 2014	December 31, 2013
Series MOB.DB	**$ 20,455,260**	$ 19,323,000
Series MOB.DB.A	**16,798,250**	16,100,000
	$ 37,253,510	$ 35,423,000
Current	**$ –**	$ –
Non-Current	**37,253,510**	35,423,000
	$ 37,253,510	$ 35,423,000

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

Unaudited (Canadian dollars)

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.

16. Derivative Financial Instruments

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

As at	**June 30, 2014**	December 31, 2013
Interest rate swaps (i)	**$ 456,873**	$ 8,170
Warrant liability (ii)	**542,393**	651,204
	$ 999,266	$ 659,374

(i) The REIT has entered into an interest rate swap contracts with respect to both a margin facility secured by the Vital Trust units and the mortgages obtained on acquisition of the Core German MOB portfolio (note 12). Gains or losses arising from the change in fair values of the interest rate swap contracts are recognized in the condensed consolidated interim statements of income and comprehensive income and during the three and six months ended June 30, 2014, the REIT recognized a fair value loss of $245,791 and $350,708, respectively (for the three and six months ended June 30, 2013 - $nil and $ nil).

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

At June 30, 2014, the fair value of the warrant liability was estimated using the Black-Scholes option pricing model using a risk free interest rate of 1.17% over the expected life of 2.51 years with an expected volatility rate of 36% and an expected dividend yield of 10.78%. The amount of the warrant liability was $542,393 at June 30, 2014. Gains or losses arising from the change in fair values of the warrants are recognized in the condensed interim consolidated statements of income and comprehensive income and during the three and six months ended June 30, 2014, the REIT recognized a fair value loss of $223,404 and a gain of $108,811, respectively (for the three and six months ended June 30, 2013 - $nil and $nil).

Unaudited (Canadian dollars)

17. Deferred Unit Plan ("DUP") liability

For the three and six months ended June 30, 2014, the REIT granted or issued 22,168 and 39,182 DUP units with a fair value of $45,001 and $81,751. No DUP units were issued in the comparative period.

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 three and six months ended June 30, 2014, the REIT granted an additional 5,510 and 10,269 DUP units with a fair value of $11,370 and $21,534 in respect of distributions earned on outstanding DUP units.

As at June 30, 2014, there were 232,646 DUP units of the REIT issued and outstanding with a fair value of $474,598 (December 31, 2013 - 183,195 DUP units with a fair value of $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 DUP units:

Balance, December 31, 2012	**92,499**
Granted	82,973
Reinvestment of distributions	7,723
Balance, December 31, 2013	**183,195**
Granted	39,182
Reinvestment of distributions	10,269
Balance, June 30, 2014	**232,646**

18. 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	**June 30, 2014**	December 31, 2013
Class B LP exchangeable units (i)	**$ 185,779,373**	$ 183,958,006
Class D GP exchangeable units (ii)	**2,265,583**	–
	$ 188,044,956	$ 183,958,006

Unaudited (Canadian dollars)

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

(i) Class B LP Exchangeable Units

As at June 30, 2014, there were 91,068,320 Class B LP exchangeable units of NWI LP issued and outstanding with a fair value of $185,779,373.

Distributions declared on the Class B LP exchangeable units of NWI LP totaled $5,008,666 and $10,017,333 for the three and six months ended June 30, 2014 (three and six months ended June 30, 2013 - $2,665,873 and $4,883,583) and have been accounted for as finance costs.

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

	Units	Amount
Balance, December 31, 2012	**55,944,444**	**$ 114,686,110**
Converted to Trust Units	(1,513,369)	(2,830,000)
Units issued as consideration for acquisition of investment in NWHP REIT	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	–	1,821,367
Balance, June 30, 2014	**91,068,320**	**$ 185,779,373**

(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 units of NWI LP, which resulted in the issuance of 1,891,068 Class D GP units on April 23, 2014.

Each Class D GP 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 units were exchanged into Trust Units.

As at June 30, 2014, there were 1,110,580 Class D GP exchangeable units of NWI LP issued and outstanding with a fair value of $2,265,583.

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	–	(148,732)
Balance, June 30, 2014	**1,110,580**	**$ 2,265,583**

Unaudited (Canadian dollars)

19. Trust Units

The REIT is authorized to issue an unlimited number of Trust Units. Each Trust Unit represents a single vote at any meeting of unitholders and entitles the unitholder to receive a pro rata share of all distributions. The unitholders have the right to require the REIT to redeem their units on demand. Upon receipt of the redemption notice by the REIT, all rights to and under the units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per unit ("Redemption Price") as determined by a market formula. The Redemption Price will be paid in accordance with the conditions provided for in the Declaration of Trust.

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

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	9,850,900	19,701,800
Unit issue costs - cash	–	(2,075,084)
Units issued through distribution reinvestment plan	151,618	288,010
Conversion of Class B LP exchangeable units	1,513,369	2,830,000
Asset management fees paid in units	865,238	1,703,545
Balance - December 31, 2013	**54,978,385**	**$ 90,503,980**
Units issued pursuant to equity offering (i)	12,071,583	24,704,142
Unit issue costs - cash (i)	–	(1,842,436)
Units issued through distribution reinvestment plan	196,682	397,714
Asset management fees paid in units (ii)	722,958	1,553,316
Conversion of Class D GP units (note 18 (ii))	780,488	1,689,303
Balance - June 30, 2014	**68,750,096**	**$ 117,006,019**

(i) 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 over-allotment option in full. Costs associated with the equity offering in May 2014 totaled $1,756,667 which have been charged directly to equity.

(ii) During the six months ended June 30, 2014, the REIT issued 722,958 units to settle outstanding asset management fees owing to a subsidiary of NWVP (note 21 (iii)).

Unaudited (Canadian dollars)

20. Supplemental Cash Flow Information

(i) Changes in Non-Cash Working Capital Balances

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	**2014**	2013
Accounts receivable	**$ 449,383**	$ (1,199,489)	**$ 603,291**	$ (1,491,473)
Other assets	**4,516,382**	(277,429)	**(1,488,784)**	(390,799)
Accounts payable and accrued liabilities	**(3,818,972)**	(631,896)	**1,724,854**	(368,872)
	$ 1,146,793	$ (2,108,814)	**$ 839,361**	$ (2,251,144)

(ii) Non-Cash Financing and Investing Activities

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	**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	**$ –**	$ 15,000,000	**$ –**	$ 15,000,000
Non-cash addition to investment in associate through issuance of Class B LP Exchangeable Units	**$ –**	$ 68,511,649	**$ –**	$ 68,511,649
Assumption of margin facilities on acquisition of investment in associate	**$ –**	$ 73,772,588	**$ –**	$ 73,772,588
Asset management fees settled through issuance of units (note 19 (ii))	**$ 770,964**	$ 900,295	**$ 1,553,316**	$ 900,295
Non-cash distributions to Unitholders under the DRIP (note 19)	**$ 245,839**	$ 63,494	**$ 397,714**	$ 85,226
Issuance of Class D GP exchangeable units (note 18 (ii))	**$ 4,103,618**	$ –	**$ 4,103,618**	$ –
Conversion of Class D GP exchangeable units to Trust Units (note 18 (ii))	**$ 1,689,303**	$ –	**$ 1,689,303**	$ –

21. Related Party Transactions

(i) As at June 30, 2014, NWVP indirectly owned approximately 75% (approximately 67% on a fully-diluted basis assuming conversion of the REIT's convertible debentures, exercise of its outstanding warrants and redemption of its deferred Trust 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 President of the REIT, serves as Senior Vice-President of NWVP. Teresa Neto, Chief Financial Officer of the REIT, serves as Chief Financial Officer of NWVP.

(ii) In conjunction with the acquisition of the Initial International Assets, the REIT entered into a Put/Call Agreement. Pursuant to the Put/Call Agreement, the REIT had granted NWVP the Put Right to sell to the REIT any or all of up to 12,500,000 NWHP trust units and/or securities exchangeable into Option Units held by NWVP to the REIT. NWVP had granted the REIT the Call Right to acquire any or all of the Option Units. The Put/Call Agreement specifies the price at which the Option Units may be purchased/sold and the put/call rights expire on November 16, 2014. As at June 30, 2014, there remains put/call rights in respect of 602,554 Option Units under the Put/Call Agreement. Paul Dalla Lana, Robert Baron and Bernard Crotty, all Trustees of the REIT, also serve as trustees of NWHP REIT.

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

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

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

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

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

Unaudited (Canadian dollars)

21. Related Party Transactions (continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	**2014**	2013
Base asset management fees	**$ 791,659**	$ 465,460	**$ 1,574,011**	$ 900,295
Property management fees	**81,500**	33,629	**135,299**	64,674
Management fee participation	**(921,964)**	(410,367)	**(1,339,055)**	(810,245)
Reimbursement of out-of-pocket costs - completed transactions	**64,401**	–	**814,554**	54,571
Reimbursement of out-of-pocket costs - in-progress transactions	**591,413**	425,224	**591,413**	425,224
	$ 607,009	$ 513,946	**$ 1,776,222**	$ 634,519

On April 30, 2014, the REIT announced that it had entered into an agreement with NWVP with respect to the internalization (note 1).

(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 $340,000 and $680,000, respectively, for the three and six months ended June 30, 2014 (for the three and six months ended June 30, 2013 - $550,000).

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

22. 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.

Unaudited (Canadian dollars)

22. Segmented Information (continued)

During the three and six months ended June 30, 2014, two tenants in the Brazil operating segment accounted for 86% and 86% respectively (three and six months ended June 30, 2013 - 74% and 77%), of the total revenue from investment properties.

As at June 30, 2014

	Germany	Brazil	Australia/ New Zealand	Canada	**Total**
Investment properties	**$ 109,376,305**	**$ 412,508,387**	**$ –**	**$ –**	**$ 521,884,692**
Investment in associates	**$ –**	**$ –**	**$ 107,525,670**	**$ 140,994,451**	**$ 248,520,121**
Mortgages and loans payable	**$ 66,858,850**	**$ 199,164,146**	**$ 47,817,230**	**$ 95,962,303**	**$ 409,802,529**

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

Unaudited (Canadian dollars)

22. Segmented Information (continued)

For the Three Months Ended June 30, 2014

	Germany	Brazil	Australia/ New Zealand	Canada	**Total**
Operating Income (Loss)					
Net Operating Income					
Revenue from investment properties	$ 1,425,882	$ 9,070,650	$ –	$ –	**$ 10,496,532**
Property operating costs	311,037	525,851	–	–	**836,888**
	1,114,845	8,544,799	–	–	**9,659,644**
Other Income (Loss)					
Interest	–	93,197	–	350,250	**443,447**
Management fee participation	–	–	921,964	–	**921,964**
Share of profit (loss) of associate	–	–	3,481,221	(11,345,046)	**(7,863,825)**
	–	93,197	4,403,185	(10,994,796)	**(6,498,414)**
Expenses					
Mortgage and loan interest expense	259,791	3,271,683	829,291	2,799,232	**7,159,997**
General and administrative expenses (income)	(67,752)	114,107	–	1,416,440	**1,462,795**
Transaction costs	–	–	–	–	**–**
Amortization of intangible asset	–	–	–	390,319	**390,319**
Foreign exchange loss (gain), net	–	82,362	–	(1,404,651)	**(1,322,289)**
	192,039	3,468,152	829,291	3,201,340	**7,690,822**
Operating income (loss)	**$ 922,806**	**$ 5,169,844**	**$ 3,573,894**	**$ (14,196,136)**	**$ (4,529,592)**

Unaudited (Canadian dollars)

22. Segmented Information (continued)

For the Three Months Ended June 30, 2013

	Germany	Brazil	Australia/ New Zealand	Canada	**Total**
Operating Income (Loss)					
Net Operating Income					
Revenue from investment properties	$ 1,321,788	$ 3,719,053	$ –	$ –	**$ 5,040,841**
Property operating costs	359,404	135,745	–	–	**495,149**
	962,384	3,583,308	–	–	**4,545,692**
Other Income					
Interest	–	16,410	–	833,424	**849,834**
Management fee participation	–	–	410,367	–	**410,367**
Share of profit of associate	–	–	2,420,961	–	**2,420,961**
	–	16,410	2,831,328	833,424	**3,681,162**
Expenses					
Mortgage and loan interest expense	254,005	1,009,693	339,599	525,554	**2,128,851**
General and administrative expenses	42,346	75,554	–	747,115	**865,015**
Transaction costs	8	–	–	389,311	**389,319**
Amortization of intangible asset	–	–	–	390,319	**390,319**
Foreign exchange loss (gain), net	–	43,043	–	(1,194,026)	**(1,150,983)**
	296,359	1,128,290	339,599	858,273	**2,622,521**
Operating income (loss)	**$ 666,025**	**$ 2,471,428**	**$ 2,491,729**	**$ (24,849)**	**$ 5,604,333**

Unaudited (Canadian dollars)

22. Segmented Information (continued)

For the Six Months Ended June 30, 2014

	Germany	Brazil	Australia/ New Zealand	Canada	**Total**
Operating Income (Loss)					
Net Operating Income					
Revenue from investment properties	$ 2,922,530	$ 17,732,630	$ –	$ –	**$ 20,655,160**
Property operating costs	736,720	1,027,985	–	–	**1,764,705**
	2,185,810	16,704,645	–	–	**18,890,455**
Other Income (Loss)					
Interest	–	169,630	–	712,001	**881,631**
Management fee participation	–	–	1,339,055	–	**1,339,055**
Share of profit (loss) of associate	–	–	4,690,742	(7,671,999)	**(2,981,257)**
	–	169,630	6,029,797	(6,959,998)	**(760,571)**
Expenses					
Mortgage and loan interest expense	517,960	6,365,998	1,602,363	5,584,494	**14,070,815**
General and administrative expenses (income)	(35,566)	187,395	–	2,357,372	**2,509,201**
Transaction costs	–	–	–	–	**–**
Amortization of intangible asset	–	–	–	780,638	**780,638**
Foreign exchange loss (gain), net	–	(45,711)	–	2,942,767	**2,897,056**
	482,394	6,507,682	1,602,363	11,665,271	**20,257,710**
Operating income (loss)	**$ 1,703,416**	**$ 10,366,593**	**$ 4,427,434**	**$ (18,625,269)**	**$ (2,127,826)**

Unaudited (Canadian dollars)

22. Segmented Information (continued)

For the Six Months Ended June 30, 2013

	Germany	Brazil	Australia/ New Zealand	Canada	**Total**
Operating Income (Loss)					
Net Operating Income					
Revenue from investment properties	$ 2,195,400	$ 7,560,659	$ –	$ –	$ 9,756,059
Property operating costs	591,340	275,964	–	–	867,304
	1,604,060	7,284,695	–	–	8,888,755
Other Income					
Interest	–	23,207	–	1,154,760	1,177,967
Management fee participation	–	–	810,245	–	810,245
Share of profit of associate	–	–	3,777,782	–	3,777,782
	–	23,207	4,588,027	1,154,760	5,765,994
Expenses					
Mortgage and loan interest expense	439,583	2,062,840	725,442	550,486	3,778,351
General and administrative expenses	68,906	128,120	–	999,010	1,196,036
Transaction costs	4,004	–	–	464,178	468,182
Amortization of intangible asset	–	–	–	780,638	780,638
Foreign exchange loss (gain), net	–	35,108	–	(107,295)	(72,187)
	512,493	2,226,068	725,442	2,687,017	6,151,020
Operating income (loss)	**$ 1,091,567**	**$ 5,081,834**	**$ 3,862,585**	**$ (1,532,257)**	**$ 8,503,729**

23. 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 condensed consolidated interim financial statements.

24. 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.

Derivative instruments are valued using a valuation technique with market-observable inputs (Level 2) and include 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 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 (Level 1) as a practical expedient for fair value measurement for its Class B LP and Class D GP exchangeable units, DUP liability, deferred units and convertible debentures.

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

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

Unaudited (Canadian dollars)

24. Fair Values (continued)

The fair value hierarchy of assets and liabilities measured at fair value on the condensed consolidated interim statements of financial position or disclosed in the notes to the condensed consolidated interim financial statements as at June 30, 2014 is as follows:

		Fair Value		
	Carrying Value	**Level 1**	**Level 2**	**Level 3**
Assets measured at fair value:				
Investment properties	$ 521,884,692	$ –	$ –	$ 521,884,692
Liabilities measured at fair value:				
Derivative financial instruments	999,266	–	999,266	–
Convertible debentures	37,253,510	37,253,510	–	–
Class B LP and Class D GP exchangeable units	188,044,956	188,044,956	–	–
Deferred unit plan liabilities	474,598	474,598	–	–
Assets for which fair values are disclosed:				
Investment in associates (note 7)	248,520,121	–	222,005,529	–
Financial liabilities recorded at amortized cost:				
Mortgages and loans payable	409,802,529	–	410,938,311	–

25. 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.

Unaudited (Canadian dollars)

25. Capital Management (continued)

At June 30, 2014, the REIT is in compliance with its debt-to-gross book value ratio of the Declaration of Trust at 60.0% (December 31, 2013 - 57.9%). The debt-to-gross book value including convertible debentures is 64.5% (December 31, 2013 - 62.6%). Calculations are as follows:

As at	**June 30, 2014**	December 31, 2013
Debt		
Gross value of secured debt [1]	**$ 492,630,516**	$ 437,642,388
Gross value of total debt [2]	**$ 529,884,026**	$ 473,065,388
Gross Book Value of Assets		
Total assets	**$ 821,503,979**	$ 756,258,230
Debt-to-Gross Book Value (Declaration of Trust)	**60.0%**	57.9%
Debt-to-Gross Book Value (including convertible debentures)	**64.5%**	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

26. Financial Risks

In the normal course of business, the REIT is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are consistent with those disclosed in the consolidated financial statements as at and for the year ended to December 31, 2013.

27. Subsequent Events

(a) On July 18, 2014, the REIT declared a distribution of $0.018333 per Trust Unit to unitholders of record on July 31, 2014, payable August 15, 2014. On August 14, 2014, the REIT declared a distribution of $0.018333 per Trust Unit to unitholders of record on August 29, 2014, payable September 15, 2014

(b) Between July 1, 2014 and August 1, 2014, the REIT issued an additional 270,228 Trust Units to settle outstanding asset management fees owing to a subsidiary of NWVP. As at August 14, 2014 NWVP has an economic interest of approximately 75% of the REIT.