Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Three months ended September 30, 2011 and 2010
and nine months ended September 30, 2011 and
period from March 25, 2010 to September 30, 2010
(Unaudited)

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

	September 30, 2011	December 31, 2010
Assets		
Investment properties (note 4)	$ 945,042,001	$ 671,033,290
Goodwill (note 5)	4,457,894	4,457,894
Accounts receivable (note 6)	2,835,302	4,537,725
Other assets (note 7)	5,999,715	10,110,599
Restricted cash (note 8)	175,000	175,000
Cash and cash equivalents (note 9)	17,515,748	46,311,722
	$ 976,025,660	$ 736,626,230
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 10)	$ 486,514,552	$ 372,051,861
Class B exchangeable units (note 12)	86,817,224	89,787,921
Accounts payable and accrued liabilities	14,824,593	13,646,227
Distributions payable	2,343,215	1,839,145
	590,499,584	477,325,154
Unitholders' equity	385,526,076	259,301,076
	$ 976,025,660	$ 736,626,230

See accompanying notes to condensed consolidated interim financial statements.

The condensed consolidated interim financial statements were approved by the Board on November 9, 2011 and signed on its behalf by:

"Michael Knowlton" Trustee

"Peter Riggin" Trustee

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Period from March 25, 2010 to September 30, 2010
Revenue from operations (note 17)	$ 30,664,425	$ 20,705,684	$ 86,650,056	$ 41,611,061
Property operating expenses (note 17)	14,027,535	9,472,737	39,186,294	18,648,564
Operating income	16,636,890	11,232,947	47,463,762	22,962,497
Finance cost (note 18)	5,854,479	4,530,491	17,272,335	9,163,263
Interest income	(7,598)	(222,884)	(56,000)	(222,884)
Trust expenses	780,801	435,546	2,377,711	893,980
Income before undernoted items	10,009,208	6,489,794	27,869,716	13,128,138
Finance cost - Class B exchangeable unit distributions (note 18)	(1,523,186)	(1,550,032)	(4,595,638)	(3,216,737)
Finance cost - fair value adjustment of Class B exchangeable units (notes 12 and 18)	4,959,885	(3,487,397)	2,194,817	(12,399,635)
Fair value adjustment of investment properties (note 4)	22,227,605	–	36,025,641	–
Net income (loss) and comprehensive income (loss)	$ 35,673,512	$ 1,452,365	$ 61,494,536	$ (2,488,234)

See accompanying notes to condensed consolidated interim financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statement of Unitholders' Equity
(In Canadian dollars)

Nine months ended September 30, 2011
(Unaudited)

	Unit capital	Retained earnings	Total
Unitholders' equity, beginning of period	$ 256,706,143	$ 2,594,933	$ 259,301,076
Public offering, net of costs	82,439,772	–	82,439,772
Exchange of Class B exchangeable units (note 12)	775,880	–	775,880
Total comprehensive income	–	61,494,536	61,494,536
Distributions	(20,047,413)	–	(20,047,413)
Distribution reinvestment plan (note 13(b))	1,562,225	–	1,562,225
Unitholders' equity, end of period	$ 321,436,607	$ 64,089,469	$ 385,526,076

Distributions per unit during the nine months ended September 30, 2011 - $0.60.

See accompanying notes to condensed consolidated interim financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statement of Unitholders' Equity
(In Canadian dollars)

Period from March 25, 2010 to September 30, 2010
(Unaudited)

	Unit capital	Deficit	Total
Unitholders' equity, beginning of period	$ –	$ –	$ –
Public offering, net of costs	171,735,262	–	171,735,262
Total comprehensive loss	–	(2,488,234)	(2,488,234)
Distributions	(7,782,729)	–	(7,782,729)
Distribution reinvestment plan (note 13(b))	12,270	–	12,270
Unitholders' equity, end of period	$ 163,964,803	$ (2,488,234)	$ 161,476,569

Distributions per unit during the period from March 25, 2010 to September 30, 2010 - $0.415.

See accompanying notes to condensed consolidated interim financial statements.

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Period from March 25, 2010 to September 30, 2010
Operating activities:				
Net income (loss)	$ 35,673,512	$ 1,452,365	$ 61,494,536	$ (2,488,234)
Adjustments for:				
Finance cost	2,417,780	9,567,920	19,673,156	24,779,635
Interest income	(7,598)	(222,884)	(56,000)	(222,884)
Fair value adjustment of investment properties	(22,227,605)	–	(36,025,641)	–
Change in non-cash operating items (note 20)	1,204,179	(1,104,265)	(1,907,963)	(8,140,025)
Cash generated from operating activities	17,060,268	9,693,136	43,178,088	13,928,492
Interest paid	(5,931,671)	(4,566,626)	(17,157,207)	(9,222,661)
Interest paid - Class B exchangeable units	(1,527,533)	(1,550,032)	(4,599,985)	(2,700,060)
Interest received	7,598	222,884	56,000	222,884
Net cash from operating activities	9,608,662	3,799,362	21,476,896	2,228,655
Investing activities:				
Acquisition of a business (note 3)	–	–	–	(105,624,502)
Acquisition of investment properties (note 3)	(20,885,010)	(28,778,601)	(211,044,397)	(29,093,739)
Additions to investment properties (note 4)	(2,901,276)	(2,936,484)	(6,860,480)	(6,075,292)
Deposits on investment properties under contract	499,930	750,000	6,099,720	200,000
Net cash used in investing activities	(23,286,356)	(30,965,085)	(211,805,157)	(140,593,533)
Financing activities:				
Proceeds from issuance of units, net of issue costs	–	(117,669)	82,442,580	171,735,262
Distributions	(6,550,863)	(3,737,917)	(17,981,118)	(6,520,323)
Mortgage advances	51,000,000	14,000,000	155,275,000	14,000,000
Repayment of mortgages	(13,601,258)	(1,523,360)	(57,315,627)	(50,738,456)
Secured credit facility advance	29,000,000	16,500,000	60,500,000	16,500,000
Secured credit facility repayment	(29,000,000)	–	(60,500,000)	–
Secured interim bridge facility advances	–	–	95,000,000	–
Repayment of interim bridge facility	–	–	(95,000,000)	–
Repayment of acquired bank indebtedness	–	–	–	(2,787,672)
Transaction costs	(110,410)	(75,651)	(888,548)	(604,892)
Net cash from financing activities	30,737,469	25,045,403	161,532,287	141,583,919
Increase (decrease) in cash and cash equivalents	17,059,775	(2,120,320)	(28,795,974)	3,219,041
Cash and cash equivalents, beginning of period	455,973	5,339,361	46,311,722	–
Cash and cash equivalents, end of period (note 9)	$ 17,515,748	$ 3,219,041	$ 17,515,748	$ 3,219,041

See accompanying notes to condensed consolidated interim financial statements.

NorthWest Healthcare Properties Real Estate Investment Trust (the "REIT") is an 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 commenced operations on March 25, 2010 when it issued units for cash pursuant to an initial public offering (the "IPO") and acquired a portfolio of 45 buildings or healthcare real estate commercial properties (note 3). The REIT invests primarily in real properties operated as medical offices in Canada.

1. Statement of compliance:

(a) Statement of compliance:

The condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") expected to be applicable as at December 31, 2011 and with International Accounting Standards ("IAS") 34, Interim Financial Reporting. These are condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements, and IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), has been applied. The condensed consolidated interim financial statements do not include all the information required for full annual financial statements.

The disclosures required by IFRS 1 concerning the transition from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS are given in note 23. The REIT commenced operations on March 25, 2010 and the date of transition to IFRS is March 25, 2010 (the "Transition Date"). Note 23 includes reconciliations of equity and total comprehensive income for comparative periods reported under Canadian GAAP to amounts reported under IFRS.

1. Statement of compliance (continued):

(b) Basis of measurement:

The preparation of these condensed consolidated interim financial statements is based on accounting policies and practices in accordance with IFRS and should not be compared to those used in the preparation of the audited annual consolidated financial statements, as the annual consolidated financial statements were prepared under accounting policies and practices in accordance with Canadian GAAP. 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, 2010, since they do not contain all disclosures required by IFRS for annual financial statements. These unaudited condensed consolidated interim financial statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

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

The condensed consolidated interim financial statements are presented in Canadian dollars.

(c) Significant judgements and key estimates:

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

(i) Leases (the REIT as lessor):

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

1. Statement of compliance (continued):

(ii) Property valuations:

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

The valuations are based on a number of assumptions, such as appropriate discount rates and estimates of future rental income, operating expenses and capital expenditures. The valuation of investment properties is one of the principal estimates and uncertainties of the REIT.

(iii) Accounting for acquisitions:

Management must assess whether the acquisition of a property should be accounted for as an asset purchase or business combination. This assessment impacts the treatment of transaction costs, the allocation of the cost of the acquisition and whether or not goodwill is recognized. With the exception of the acquisition of the portfolio of 45 properties acquired at the time of the REIT's IPO, which was determined to be a business combination, the REIT's acquisitions are generally determined to be asset purchases as the REIT does not acquire an integrated set of processes as part of the transaction.

(iv) Goodwill:

Estimates are used when testing goodwill for impairment.

1. Statement of compliance (continued):

(v) Income taxes:

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

2. Significant accounting policies:

(a) Basis of consolidation:

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

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

(b) Investment properties:

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

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2. Significant accounting policies (continued):

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

Leasing costs incurred by the REIT that are incremental and directly attributable to negotiating and arranging tenant leases are added to the carrying value of investment properties.

Leasing costs that are not incremental are expensed in the period incurred.

(c) Goodwill:

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

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

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

2. Significant accounting policies (continued):

(d) Cash and cash equivalents:

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

(e) Revenue recognition:

(i) Revenue from investment properties:

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

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

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

(ii) Management fees:

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

2. Significant accounting policies (continued):

(f) Leasing costs:

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

(g) Employee benefits:

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

(h) Unit-based compensation:

The REIT uses the fair value-based method of accounting for its equity awards, under which compensation expense is measured at the grant date and recognized over the vesting period. Unit-based compensation does not qualify as an equity award and is classified as liability. The awards are fair valued every reporting period and the change in fair value recognized as compensation expense.

(i) Income taxes:

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

2. Significant accounting policies (continued):

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

(j) Class B exchangeable units:

The Class B exchangeable units of a subsidiary of the REIT are exchangeable into REIT units at the option of the holder. In accordance with IAS 32, Financial Instruments: Presentation, the Class B exchangeable units are considered puttable instruments and are required to be classified as financial liabilities. Further, the Class B exchangeable units are classified as fair value through profit or loss financial liabilities and are measured at fair value each reporting period with any changes in fair value recorded in profit or loss as finance cost. The distributions paid on the Class B exchangeable units are accounted for as a finance cost (note 18).

(k) Financial instruments:

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

2. Significant accounting policies (continued):

The REIT designated its restricted cash and cash and cash equivalents at fair value through profit and loss; accounts receivable, mortgage escrow, deposits on investment properties under contract and other deposits as loans and receivables; and mortgages payable, loans payable, accounts payable and other liabilities as other liabilities. The Class B exchangeable units are classified as fair value through profit and loss. The REIT has neither available-for-sale nor held-to-maturity instruments.

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

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

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

(l) Unit capital:

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

2. Significant accounting policies (continued):

(m) Future accounting changes:

(i) The following new or amended IFRS have been issued by the International Accounting Standards Board ("IASB"): IFRS 7, Financial Instruments: Disclosures; IFRS 9, Financial Instruments; IFRS 10, Consolidated Financial Statements; IFRS 11, Joint Arrangements; and IFRS 13, Fair Value Measurements. The REIT is assessing the impact of these new standards, but does not expect them to have a significant effect on the condensed interim consolidated financial statements.

(ii) The IASB has published some limited scope amendments to IAS 12, Income Taxes ("IAS 12"), which are relevant only when an entity uses the fair value model for measurement in IAS 40, Investment Property. Under IAS 12, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. To provide a practical approach in such cases, the amendment introduces a presumption that an investment property is recovered entirely through sale. This policy is effective for fiscal years after January 1, 2012; however, earlier adoption is permitted, including on transition to IFRS. The REIT has applied this policy effective March 25, 2010.

(In Canadian dollars)

3. Acquisitions:

(a) Acquisitions during the nine months ended September 30, 2011:

During the nine months ended September 30, 2011, the REIT acquired six investment properties for net cash consideration of $211,044,397. The acquisitions of the investment properties, and related assets and liabilities have been accounted for as asset purchases. The net assets acquired were as follows:

Assets	
Investment properties	$ 230,208,876
Accounts receivable and other assets	271,820
	230,480,696
Liabilities	
Accounts payable and accrued liabilities	1,773,088
Assumed mortgages, including mark-to-market adjustment	17,663,211
	19,436,299
Net assets acquired for cash	$ 211,044,397

(In Canadian dollars)

3. Acquisitions (continued):

(b) Acquisitions during the period from March 25, 2010 to December 31, 2010:

(i) On March 25, 2010, subsidiaries of the REIT indirectly acquired from NorthWest Operating Trust ("NW Operating Trust") 45 commercial properties through its acquisition of Healthcare Properties LP ("HPLP") for a net purchase price of $171,899,206. The net assets acquired have been accounted for as a business combination using the acquisition method of accounting. The fair value of consideration has been allocated to the identifiable assets acquired and liabilities assumed, based on their fair values at the date of acquisition, with the excess recognized as goodwill. The value of goodwill at the date of acquisition relates to the portfolio premium, attributed to acquiring an integrated portfolio in a single transaction, and the management platform that includes acquisitions, leasing, management, finance and accounting personnel systems. The net assets acquired are as follows:

Assets	
Investment properties	$ 538,390,331
Plant and equipment	305,020
Goodwill	4,457,894
Other assets	4,822,912
	547,976,157
Liabilities	
Bank indebtedness	2,787,672
Assumed mortgages, including mark-to-market adjustments	358,487,430
Accounts payable and accrued liabilities	14,309,659
Unearned revenue	492,190
	376,076,951
Net assets acquired	$ 171,899,206
Consideration given indirectly by the REIT:	
Class B exchangeable units of NHP Holdings Limited Partnership ("NHP") (note 12)	$ 77,497,720
Cash	105,624,502
Due from NW Operating Trust	(11,223,016)
Total consideration paid	$ 171,899,206

(In Canadian dollars)

3. Acquisitions (continued):

The amount due from NW Operating Trust has been settled.

Immediately following the acquisition of HPLP, the REIT repaid $47,744,567 of the assumed mortgages.

(ii) During the period from March 25, 2010 to December 31, 2010, the REIT acquired five investment properties and two pieces of land adjacent to investment properties owned by the REIT for net consideration of $66,780,084. Included in this amount is net consideration of $28,831,278 related to the acquisition of one investment property and adjacent land from an affiliate of NW Operating Trust. The acquisition of investment properties and the related assets and liabilities have been recorded as asset purchases. The net assets acquired were as follows:

Assets	
Investment properties	$ 121,652,060
Other assets	317,322
	121,969,382
Liabilities	
Bank indebtedness	3,115
Assumed mortgages, including mark-to-market adjustments	52,613,675
Account payable and accrued liabilities	2,572,508
	55,189,298
Net assets acquired	$ 66,780,084
Consideration given by the REIT:	
REIT units	$ 14,725,000
Cash	52,706,731
Due from NW Operating Trust (note 16)	(651,647)
Total consideration paid	$ 66,780,084

The amount due from NW Operating Trust has been settled.

(In Canadian dollars)

4. Investment properties:

Balance, January 1, 2011	$ 671,033,290
Acquisitions of investment properties	230,208,876
Additions	6,860,480
Increase in straight-line rents	913,714
Fair value adjustment	36,025,641
Balance, September 30, 2011	$ 945,042,001
Balance, March 25, 2010	$ –
Acquired in a business combination	538,390,331
Acquisitions of investment properties	121,652,060
Additions	9,589,107
Increase in straight-line rents	568,550
Fair value adjustment	833,242
Balance, December 31, 2010	$ 671,033,290

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:

	September 30, 2011	December 31, 2010
Discount rates - range	7.1% - 11.0%	7.8% - 11.0%
Discount rate - weighted average	8.4%	8.9%
Terminal capitalization rate - range	6.1% - 10.3%	7.0% - 10.3%
Terminal capitalization rate - weighted average	7.6%	8.1%

(In Canadian dollars)

4. Investment properties (continued):

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

Commercial properties with an aggregate fair value of nil at September 30, 2011 (December 31, 2010 - nil; March 25, 2010 - nil) were valued by external valuation professionals with recognized and relevant professional qualification.

5. Goodwill:

Balance, September 30, 2011 and January 1, 2011	$ 4,457,894

Balance, March 25, 2010	$ –
Arising on business combination	4,457,894
Balance, December 31, 2010	$ 4,457,894

(In Canadian dollars)

6. Accounts receivable:

	September 30, 2011	December 31, 2010
Tenant and other receivables	$ 2,835,302	$ 2,842,486
Due from NW Operating Trust (note 16)	–	1,695,239
	$ 2,835,302	$ 4,537,725

7. Other assets:

	September 30, 2011	December 31, 2010
Prepaid expenses	$ 3,167,405	$ 1,394,981
Mortgage escrow	604,212	603,954
Deposits on investment properties under contract	900,280	7,000,000
Other deposits	839,862	815,116
Other	487,956	296,548
	$ 5,999,715	$ 10,110,599

8. Restricted cash:

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

(In Canadian dollars)

9. Cash and cash equivalents:

	September 30, 2011	December 31, 2010
Cash at bank	$ 3,023,648	$ 2,740,352
Short-term deposits	14,492,100	43,571,370
	$ 17,515,748	$ 46,311,722

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

10. Mortgages payable:

All mortgages are secured by first or second charges on specific investment properties and are repayable as follows:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable
2011 remainder	$ 2,638,359	$ –	$ 2,638,359
2012	10,921,618	10,028,231	20,949,849
2013	10,678,531	50,341,521	61,020,052
2014	9,578,135	47,594,815	57,172,950
2015	8,440,792	49,630,869	58,071,661
2016	7,926,122	94,029,878	101,956,000
2017 and thereafter	16,534,614	166,030,391	182,565,005
Face value	$ 66,718,171	$ 417,655,705	484,373,876
Mark-to-market adjustment			2,552,082
Unamortized financing costs			(411,406)
Carrying amount			$ 486,514,552

(In Canadian dollars)

10. Mortgages payable (continued):

	September 30, 2011	December 31, 2010
Mortgages at fixed rates - face value	$ 484,373,876	$ 369,730,062
Mark-to-market adjustment	2,552,082	2,445,647
Unamortized financing costs	(411,406)	(123,848)
Carrying amount	$ 486,514,552	$ 372,051,861
Interest rates	3.40% - 6.53%	4.77% - 6.53%
Weighted average interest rate	5.21%	5.54%

11. Loans payable:

(a) Secured floating rate revolving credit facility:

The REIT has a floating rate revolving credit facility of $35,000,000 which expires on March 25, 2013. The facility bears interest at banker's acceptance plus 2.75% or prime plus 1.75% and is secured by certain investment properties and the terms of a general security agreement. As at September 30, 2011, there was a nil outstanding balance on the credit facility. Unamortized financing costs of $118,094 related to the credit facility are included in prepaid expenses as at September 30, 2011.

The credit facility was renegotiated and extended during the three months ended March 31, 2011. Prior to the extension, the credit facility of $35,000,000 bore interest at banker's acceptance rate plus 3.5% or prime plus 2.5% and expired on March 25, 2011. As at December 31, 2010, there was nil outstanding balance on the credit facility. Unamortized financing costs of $125,113 related to the credit facility are included in prepaid expenses as at December 31, 2010.

(In Canadian dollars)

11. Loans payable (continued):

(b) Senior secured interim bridge facility:

During the three months ended March 31, 2011, the REIT had obtained an $85 million non-revolving senior secured interim bridge facility to fund the acquisition of certain investment properties. The interim bridge facility bore interest at the banker's acceptance rate plus 3.5% or prime plus 2.5% and was secured by certain acquired properties. During the three months ended March 31, 2011, the REIT repaid $80 million of the facility. The interim bridge facility was then amended such that the total commitment was reduced to $15 million and the lender re-advanced $10 million. During the three months ended June 30, 2011, the REIT repaid $15 million of the facility. As at September 30, 2011, there was no outstanding balance on the secured bridge facility, net of unamortized financing costs of nil.

12. Class B exchangeable units:

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

Class B exchangeable units outstanding:

	Units	Amount
Units issued, January 1, 2011	7,680,746	$ 89,787,921
Fair value adjustment of Class B exchangeable units	–	(2,194,817)
Class B exchangeable units exchanged for REIT units	(65,200)	(775,880)
Class B exchangeable units issued, September 30, 2011	7,615,546	$ 86,817,224

(In Canadian dollars)

12. Class B exchangeable units (continued):

	Units	Amount
Class B exchangeable units issued, March 25, 2010	–	$ –
Class B exchangeable units of NHP issued	7,749,772	77,497,720
Fair value adjustment of Class B exchangeable units	–	13,083,309
Class B exchangeable units exchanged for REIT units	(69,026)	(793,108)
Units issued, December 31, 2010	7,680,746	$ 89,787,921

During the nine months ended September 30, 2011, the REIT recognized $4,595,638 (period from March 25, 2010 to September 30, 2010 - $3,216,737) of distributions declared on Class B exchangeable units as finance cost.

13. 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.

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

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

(In Canadian dollars)

13. Unitholders' equity (continued):

The REIT's Trustees have discretion in declaring distributions.

(a) Units outstanding:

	Units	Amount
Units issued, January 1, 2011	27,585,791	$ 269,759,615
Follow-on equity offering	6,400,000	75,200,000
Follow-on equity offering over-allotment option	960,000	11,280,000
Units issued on exchange of Class B exchangeable units	65,200	775,880
Distribution reinvestment plan	135,478	1,562,225
Units issued	35,146,469	358,577,720
Less issue costs	–	4,040,228
Units issued, September 30, 2011	35,146,469	$ 354,537,492

	Units	Amount
Units issued, March 25, 2010	–	$ –
Issuance of units through initial public offering	17,500,000	175,000,000
Issuance of units over-allotment option	1,250,000	12,500,000
Follow-on equity offering	6,495,000	75,017,250
Follow-on equity offering over-allotment option	974,250	11,252,588
Units issued on acquisition of investment property	1,274,891	14,725,000
Units issued on exchange of Class B exchangeable units	69,026	793,108
Distribution reinvestment plan	22,624	253,035
Units issued	27,585,791	289,540,981
Less issue costs	–	19,781,366
Units issued, December 31, 2010	27,585,791	$ 269,759,615

13. Unitholders' equity (continued):

(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%.

14. Deferred unit plan:

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

(a) 50% of the deferred units on the third anniversary of the award date;

(b) 25% of the deferred units on the fourth anniversary of the award date; and

(c) 25% of the deferred units on the fifth anniversary of the award date.

For the nine months ended September 30, 2011, 73,353 units were granted under the deferred unit plan at an average unit price of $11.60. For the period from March 25, 2010 to September 30, 2010, there were 3,876 units granted under the deferred unit plan at an average unit price of $11.03.

The deferred units can be settled at the holders' option in equity or cash and are treated as a liability until redeemed.

The liability for deferred units at fair value based on the closing price of the REIT unit on the condensed consolidated interim balance sheet dates is $462,502 and $69,732 as at September 30, 2011 and December 31, 2010, respectively.

15. 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.

16. Transactions with related parties:

The condensed consolidated interim financial statements as at September 30, 2011 include the accounts of the REIT and all its subsidiaries. The significant subsidiaries of the REIT are listed below and are wholly owned unless otherwise noted:

NHP Holdings Limited Partnership
NHP Holdings Inc.
Healthcare Properties Limited Partnership
Healthcare Properties Holdings Ltd.
1201 Glenmore Limited Partnership
1201 Glenmore GP Inc.
2675 St. NE (Sunridge) Limited Partnership
2675 St. NE (Sunridge) GP Inc.
NorthWest Healthcare Properties Corporation
NWH (Tawa) GP Inc.
NWH (Tawa) LP

(In Canadian dollars)

16. Transactions with related parties (continued):

The REIT is the ultimate Canadian parent entity.

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Period from March 25, 2010 to September 30, 2010
Related party transactions and balances:				
Minimum rent, operating cost recoveries parking income (included in revenue)	$ 828,145	$ 1,158,932	$ 2,789,596	$ 2,372,955
Fee income and cost recovery (included in revenue)	119,097	209,074	377,130	437,814
Cost recovery (offset against operating expenses and trust expenses)	–	188,072	102,700	318,162
Head office rent expense (included in operating expenses and trust expenses)	102,227	–	306,681	106,074
Leasing costs	43,844	522,779	2,243,332	971,319
Accounts receivable, end of period	–	14,959,886	–	14,959,886

Accounts receivable at the end of period include nil and $13,430,871 related to the working capital adjustments and accrued interest on acquisitions from NW Operating Trust (note 3) for September 30, 2011 and September 30, 2010. These amounts have been settled in full.

(In Canadian dollars)

17. Property operations:

The components of revenue are as follows:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Period from March 25, 2010 to September 30, 2010
Revenue from investment properties	$ 30,545,328	$ 20,496,612	$ 86,272,926	$ 41,173,249
Management fee revenue	119,097	209,072	377,130	437,812
Revenue from operations	$ 30,664,425	$ 20,705,684	$ 86,650,056	$ 41,611,061

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

Property operating expenses include ground lease expense for the three months and nine months ended September 30, 2011 of $56,250 and $168,750 (three months ended September 30, 2010 and period from March 25, 2010 to September 30, 2010 - $56,250 and $116,875), respectively, representing rent expense associated with an operating lease for land on which one of the REIT's properties is situated. The ground lease expires on September 30, 2036, with monthly payments of $18,750.

(In Canadian dollars)

18. Finance cost:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Period from March 25, 2010 to September 30, 2010
Interest on fixed rate debt	$ 5,892,506	$ 4,333,739	$ 16,399,662	$ 8,904,326
Interest on floating rate debt	150,737	232,887	1,137,001	318,335
Amortization of debt premiums	(236,172)	(174,855)	(877,638)	(340,329)
Amortization of transaction costs	47,408	138,720	613,310	280,931
	5,854,479	4,530,491	17,272,335	9,163,263
Distributions on Class B exchangeable units	1,523,186	1,550,032	4,595,638	3,216,737
Fair value adjustment of Class B exchangeable units	(4,959,885)	3,487,397	(2,194,817)	12,399,635
	$ 2,417,780	$ 9,567,920	$ 19,673,156	$ 24,779,635

19. Commitments and contingencies:

(a) The REIT has entered into fixed-price utility contracts with a third-party supplier in the amount of $409,720 to provide electricity and gas for its own use at its investment properties.

(b) The REIT entered into an agreement related to the acquisition of one of the investment properties where it has agreed to pay the original vendor an additional $700,000 plus accrued interest upon obtaining municipal approval to introduce paid parking within a period of five years from the closing date.

(c) 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.

(In Canadian dollars)

19. Commitments and contingencies (continued):

(d) As part of the purchase and sale agreement with an affiliate of NW Operating Trust related to the acquisition of an investment property, the REIT agreed that in the event a development agreement is not achieved with NW Operating Trust, the REIT would sever and sell the development land portion of the investment property to NW Operating Trust for $2,950,000.

20. Change in non-cash operating items:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Period from March 25, 2010 to September 30, 2010
Decrease (increase) in accounts receivable	$ 1,135,112	$ (1,461,172)	$ 1,795,941	$ (3,383,519)
Increase in straight-line rents	(250,030)	(191,070)	(913,714)	(376,938)
Decrease (increase) in other assets, excluding deposits	623,135	535,451	(1,817,553)	(607,753)
Increase (decrease) in accounts payable and accrued liabilities	(304,038)	12,526	(972,637)	(3,771,815)
	$ 1,204,179	$ (1,104,265)	$ (1,907,963)	$ (8,140,025)

21. Fair values:

The fair values of the REIT's financial assets, which include accounts 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 value of the REIT's mortgages payable at September 30, 2011 is $514,104,117. The fair values have been estimated based on the current market rates for mortgages with similar terms and conditions.

21. Fair values (continued):

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

22. Subsequent events:

Subsequent to September 30, 2011, the REIT entered into an agreement to transfer a $5.4 million mortgage between properties.

During the period from October 1, 2011 to November 1, 2011, the REIT declared distributions of $0.0667 per unit or $2.3 million.

23. Explanation of transition to IFRS:

As stated in note 1, these are condensed consolidated interim financial statements for part of the period covered by the first IFRS annual consolidated financial statements are prepared in accordance with IFRS. The accounting policies adopted under IFRS have been applied in preparing the condensed consolidated interim financial statements for the three months and nine months ended September 30, 2011, the comparative information for the three months ended September 30, 2010 and period from March 25, 2010 to September 30, 2010, the financial statements for the year ended December 31, 2010, and the preparation of an opening IFRS balance sheet at March 25, 2010. The REIT commenced operations on March 25, 2010 and the Transition Date to IFRS is March 25, 2010. However, since the REIT had no assets or liabilities on March 25, 2010, a reconciliation between IFRS and Canadian GAAP has not been presented as at that date.

The REIT's IFRS adoption date is January 1, 2011. The REIT has adjusted amounts previously reported in financial statements and interim reports prepared in accordance with its previous basis of accounting, Canadian GAAP.

(In Canadian dollars)

23. Explanation of transition to IFRS (continued):

An explanation of how the transition from Canadian GAAP to IFRS has affected the REIT's financial position and performance is set out in the tables below and the notes accompanying them.

Reconciliation of equity as at September 30, 2010:

Canadian GAAP presentation	Note	Canadian GAAP	IFRS adjustments	IFRS	IFRS presentation
Assets					**Assets**
Income-producing properties	(a)	$ 514,436,928	$ 73,848,700	$ 588,285,628	Investment properties
Goodwill and intangible assets	(a)	70,940,827	(66,482,933)	4,457,894	Goodwill
Due from related party	(d)	13,430,871	(13,430,871)	–	
Accounts receivable	(a) (d)	3,233,970	13,053,933	16,287,903	Accounts receivable
Leasing costs	(a) (c)	3,845,593	(3,845,593)	–	
Other assets	(a) (d)	3,626,377	281,394	3,907,771	Other assets
Restricted cash		175,000	–	175,000	Restricted cash
Cash and cash equivalents		3,219,041	–	3,219,041	Cash and cash equivalents
		$ 612,908,607	$ 3,424,630	$ 616,333,237	
Liabilities and Unitholders' Equity					**Liabilities and Unitholders' Equity**
Mortgages payable		$ 334,990,409	$ –	$ 334,990,409	Mortgages payable
Loan payable		16,239,824	–	16,239,824	Loan payable
	(b)	–	89,897,355	89,897,355	Class B exchangeable units
Accounts payable and accrued liabilities	(b) (d)	11,941,271	537,673	12,478,944	Accounts payable and accrued liabilities
Below-market leases	(a) (d)	8,155,612	(8,155,612)	–	
Distribution payable	(b)	1,766,813	(516,677)	1,250,136	
		373,093,929	81,762,739	454,856,668	
Unitholders' equity	(a) (b) (c)	239,814,678	(78,338,109)	161,476,569	Unitholders' equity
		$ 612,908,607	$ 3,424,630	$ 616,333,237	

(In Canadian dollars)

23. Explanation of transition to IFRS (continued):

Reconciliation of equity as at December 31, 2010:

Canadian GAAP presentation	Note	Canadian GAAP	IFRS adjustments	IFRS	IFRS presentation
Assets					**Assets**
Income-producing properties	(a)	$ 584,479,525	$ 86,553,765	$ 671,033,290	Investment properties
Goodwill and intangible assets	(a)	72,343,718	(67,885,824)	4,457,894	Goodwill
Accounts receivable	(a)	5,106,275	(568,550)	4,537,725	Accounts receivable
Leasing costs	(a) (c)	6,501,046	(6,501,046)	–	
Other assets	(a)	9,814,051	296,548	10,110,599	Other assets
Restricted cash		175,000	–	175,000	Restricted cash
Cash and cash equivalents		46,311,722	–	46,311,722	Cash and cash equivalents
		$ 724,731,337	$ 11,894,893	$ 736,626,230	
Liabilities and Unitholders' Equity					**Liabilities and Unitholders' Equity**
Mortgages payable		$ 372,051,861	$ –	$ 372,051,861	Mortgages payable
	(b)	–	89,787,921	89,787,921	Class B exchangeable units
Accounts payable and accrued liabilities	(b) (d)	13,134,151	512,076	13,646,227	Accounts payable and accrued liabilities
Below-market leases	(a)	7,494,276	(7,494,276)	–	
Distributions payable	(b) (d)	2,351,220	(512,075)	1,839,145	Distributions payable
		395,031,508	82,293,646	477,325,154	
Unitholders' equity	(a) (b) (c)	329,699,829	(70,398,753)	259,301,076	Unitholders' equity
		$ 724,731,337	$ 11,894,893	$ 736,626,230	

(In Canadian dollars)

23. Explanation of transition to IFRS (continued):

Reconciliation of comprehensive income for the three months ended September 30, 2010:

Canadian GAAP presentation	Note	Canadian GAAP	IFRS adjustments	IFRS	IFRS presentation
Revenue	(a) (d)	$ 21,233,833	$ (528,149)	$ 20,705,684	Revenue from operations
Expenses:					
Property operating	(a) (c) (d)	6,180,716	3,292,021	9,472,737	Property operating expenses
Property taxes	(d)	2,852,592	(2,852,592)	–	
				11,232,947	Operating income
	(d)	–	(222,884)	(222,884)	Interest income
Mortgage and facility interest		4,530,491	–	4,530,491	Finance cost
Trust expenses		435,546	–	435,546	Trust expenses
Depreciation of income-producing properties	(a)	2,489,842	(2,489,842)	–	
Amortization of leasing costs	(a)	69,263	(69,263)	–	
Amortization of in-place leases and tenant relationship	(a)	4,036,869	(4,036,869)	–	
		20,595,319			
				6,489,794	Income before undernoted items
	(b)	–	(1,550,032)	(1,550,032)	Finance cost - Class B exchangeable unit distributions
	(b)	–	(3,487,397)	(3,487,397)	Finance cost - fair value adjustment of Class B exchangeable units
Net income and total comprehensive income		$ 638,514	$ 813,851	$ 1,452,365	Net income and total comprehensive income

(In Canadian dollars)

23. Explanation of transition to IFRS (continued):

Reconciliation of comprehensive income for the period from March 25, 2010 to September 30, 2010:

Canadian GAAP presentation	Note	Canadian GAAP	IFRS adjustments	IFRS	IFRS presentation
Revenue	(a) (d)	$ 42,603,011	$ (991,950)	$ 41,611,061	Revenue from operations
Expenses:					
Property operating	(a) (c) (d)	11,996,598	6,651,966	18,648,564	Property operating expenses
Property taxes	(d)	5,785,777	(5,785,777)	–	
				22,962,497	Operating income
Mortgage and facility interest		9,163,263	–	9,163,263	Finance cost
	(d)	–	(222,884)	(222,884)	Interest income
Trust expenses		893,980	–	893,980	Trust expenses
Depreciation of income-producing properties	(a)	5,257,580	(5,257,580)	–	
Amortization of leasing costs	(a)	114,197	(114,197)	–	
Amortization of in-place leases and tenant relationship	(a)	7,843,720	(7,843,720)	–	
		41,055,115			
				13,128,138	Income before undernoted items
	(b)	–	(3,216,737)	(3,216,737)	Finance cost - Class B exchangeable unit distributions
	(b)	–	(12,399,635)	(12,399,635)	Finance cost - fair value adjustment of Class B exchangeable units
Net income and total comprehensive income		$ 1,547,896	$ (4,036,130)	$ (2,488,234)	Net loss and total comprehensive loss

(In Canadian dollars)

23. Explanation of transition to IFRS (continued):

Reconciliation of comprehensive income for the period from March 25, 2010 to December 31, 2010:

Canadian GAAP presentation	Note	Canadian GAAP	IFRS adjustments	IFRS	IFRS presentation
Revenue	(a) (d)	$ 64,973,645	$ (1,505,832)	$ 63,467,813	Revenue from operations
Expenses:					
Property operating	(a) (c) (d)	18,772,521	10,044,008	28,816,529	Property operating expenses
Property taxes	(d)	8,752,797	(8,752,797)	–	
				34,651,284	Operating income
Mortgage and facility interest		13,788,126	–	13,788,126	Finance cost
	(d)	–	(564,168)	(564,168)	Interest income
Trust expenses		1,820,159	–	1,820,159	Trust expenses
Depreciation of income-producing properties	(a)	8,110,978	(8,110,978)	–	
Amortization of leasing costs	(a)	333,558	(333,558)	–	
Amortization of in-place leases and tenant relationship	(a)	12,344,265	(12,344,265)	–	
		63,922,404			
				19,607,167	Income before undernoted items
	(b)	–	(4,762,167)	(4,762,167)	Finance cost - Class B exchangeable unit distributions
	(b)	–	(13,083,309)	(13,083,309)	Finance cost - fair value adjustment of Class B exchangeable units
	(a)	–	833,242	833,242	Fair value adjustment of investment properties
Net income and total comprehensive income		$ 1,051,241	$ 1,543,692	$ 2,594,933	Net income and total comprehensive income

23. Explanation of transition to IFRS (continued):

Reconciliation of statement of cash flows from Canadian GAAP to IFRS:

Consistent with the REIT's accounting policy choice under IAS 7, Statement of Cash Flows, interest paid, interest received and income taxes paid have moved into the body of the statement of cash flows, whereas they were previously disclosed as supplementary information. There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP.

Notes to reconciliation:

IFRS 1 sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively with all adjustments to assets and liabilities taken to retained earnings unless certain optional exemptions are elected and mandatory exceptions are applied.

In preparing its first IFRS interim financial statements, the REIT has applied the mandatory exception from full retrospective application of IFRS for estimates. This mandatory exception requires that estimates made at the Transition Date, and in the comparative reporting periods, be consistent with estimates made under Canadian GAAP, unless either the estimates are adjusted to reflect a revised accounting policy or there is objective evidence that the estimates made under Canadian GAAP were in error. The REIT has, however, not elected any optional exemptions from the general requirement for retrospective application of IFRS.

(a) Investment properties:

Under IAS 40, Investment Properties, the REIT may elect subsequent to initial recognition to account for investment property using either the fair value model or the cost model. The REIT has elected the fair value model to account for its investment properties subsequent to initial recognition. Under the fair value model, investment properties are carried on the condensed consolidated interim balance sheets at fair value. The properties are not depreciated and changes in the fair value of the properties are recognized in income in the period in which they occur. Under Canadian GAAP, the REIT's income-producing properties and certain intangibles were carried on the condensed consolidated interim balance sheets at cost less accumulated depreciation and amortization.

23. Explanation of transition to IFRS (continued):

The REIT commenced operations on March 25, 2010, and pursuant to the commencement of its operations, the REIT's investment properties were assessed to be at fair value by management. At the commencement of operations, the values assigned to investment properties under IFRS are the same as the total of the values assigned to income-producing properties and certain intangibles under Canadian GAAP.

As at September 30, 2010, the REIT has reclassified intangibles related to in-place leases ($37,451,821), tenant relationships ($23,778,811), above-market leases ($5,252,301) and below-market leases ($8,155,612) to investment properties.

As at December 31, 2010, the REIT has reclassified intangibles related to in-place leases ($38,042,869), tenant relationships ($24,706,517), above-market leases ($5,136,438) and below-market leases ($7,494,276) to investment properties.

As at September 30, 2010 and December 31, 2010, the REIT reclassified straight-line rents receivable from accounts receivable to investment properties to conform with the REIT's presentation under IFRS.

As at September 30, 2010 and December 31, 2010, the REIT reclassified $281,394 and $296,548, respectively, of furniture and equipment from income-producing properties to other assets to conform with the REIT's presentation under IFRS. During the three months ended September 30, 2010 and the periods from March 25, 2010 to September 30, 2010 and March 25, 2010 to December 31, 2010, the REIT eliminated depreciation and amortization of $6,566,826, $13,165,774 and $20,725,386, respectively, recognized under Canadian GAAP, to conform to the fair value method under IFRS. In addition, $29,148, $49,723 and $63,415 of depreciation on furniture and equipment was reclassified to property operating expenses for the three months ended September 30, 2010 and the periods from March 25, 2010 to September 30, 2010 and March 25, 2010 to December 31, 2010, respectively.

During the three months ended September 30, 2010 and the periods from March 25, 2010 to September 30, 2010 and March 25, 2010 to December 31, 2010, the REIT eliminated the net amortization of $305,265, $769,066 and $941,664, respectively, of above-market and below-market leases to reflect the elimination of the related intangibles under IFRS.

23. Explanation of transition to IFRS (continued):

During the three months ended September 30, 2010 and the periods from March 25, 2010 to September 30, 2010 and March 25, 2010 to December 31, 2010, the REIT recognized fair value increase on investment properties of nil, nil and $833,242, respectively.

The changes to unitholders' equity in the reconciliation of Canadian GAAP to IFRS reflect the elimination of accumulated depreciation on income-producing properties, recognized under Canadian GAAP, and the changes in the fair values of investment properties subsequent to initial recognition under IFRS. In addition, certain intangible assets disclosed separately under Canadian GAAP have been reclassified to investment properties under IFRS and are no longer amortized.

(b) Classification of Class B exchangeable units:

Under Canadian GAAP, the REIT's Class B exchangeable units are presented as equity on the consolidated balance sheets. However, under IFRS, the Class B exchangeable units are classified as a liability and measured at fair value. Changes in value are recognized in income in the period in which they arise and distributions on the Class B exchangeable units are recorded as finance cost rather than distributions.

Under IFRS, for the three months ended September 30, 2010 and the periods from March 25, 2010 to September 30, 2010 and March 25, 2010 to December 31, 2010, the REIT recognized: (i) a charge to income of $3,487,397, $12,399,635 and $13,083,309, respectively, representing the increase in the fair value of the Class B exchangeable units; and (ii) $1,550,032, $3,216,737 and $4,762,167, respectively, representing distributions to the Class B exchangeable units that is recorded as a finance cost.

As at September 30, 2010 and December 31, 2010, the carrying value of the Class B exchangeable units under Canadian GAAP of $77,497,720 and $76,807,460, respectively, was reclassified from unitholders' equity to a liability for Class B exchangeable units. Under IFRS, the carrying value of the Class B exchangeable units was adjusted to $89,897,355 and $89,787,921 as at September 30, 2010 and December 31, 2010, respectively, to reflect the fair value of the Class B exchangeable units.

23. Explanation of transition to IFRS (continued):

Distributions payable of $516,677 and $512,075 were reclassified from distributions payable to accounts payable and accrued liabilities as at September 30, 2010 and December 31, 2010, respectively, to reflect the treatment of distributions on the Class B exchangeable units as a finance cost under IFRS.

(c) Internal leasing costs:

IAS 17, Leases, requires certain internal initial direct costs incurred by lessors in negotiating and arranging an operating lease previously capitalized and amortized on a straight-line basis over the term of the lease under Canadian GAAP to be expensed. As a result, the REIT has charged $410,281, $816,466 and $1,227,796 of leasing costs to property operating expenses for the three months ended September 30, 2010 and the periods from March 25, 2010 to September 30, 2010 and March 25, 2010 to December 31, 2010, respectively.

As at September 30, 2010 and December 31, 2010, the REIT reclassified $3,845,593 and $6,501,046, respectively, of leasing costs, net of amounts charged to property operations expenses, to investment properties.

(d) Other reclassifications:

During the three months ended September 30, 2010 and the periods from March 25, 2010 to September 30, 2010 and March 25, 2010 to December 31, 2010, the REIT reclassified $222,884, $222,884 and $564,168, respectively, of interest income from revenue to interest income to conform with the REIT's presentation under IFRS.

During the three months ended September 30, 2010 and the periods from March 25, 2010 to September 30, 2010 and March 25, 2010 to December 31, 2010, the REIT reclassified $2,852,592, $5,785,777 and $8,752,797, respectively, of property taxes from property taxes to property operating expenses to conform with the REIT's presentation under IFRS.

As at September 30, 2010, the REIT reclassified an amount due from a related party of $13,430,871 to accounts receivable to conform with the REIT's presentation under IFRS.

23. Explanation of transition to IFRS (continued):

As at September 30, 2010, the REIT reclassified $20,996 from unitholders' equity to accounts payable and accrued liabilities to reflect the classification of unit-based compensation.