

**NORTHWEST HEALTHCARE  
PROPERTIES REAL ESTATE  
INVESTMENT TRUST**

**MANAGEMENT DISCUSSION  
AND ANALYSIS**

FOR THE THREE MONTHS ENDED  
MARCH 31, 2020

MAY 14, 2020



## IMPACTS OF COVID-19

During Q1 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, self-imposed quarantine periods, temporary closures or restrictions of non-essential businesses, limitations on public gatherings, and social distancing guidelines, have caused material disruption to businesses globally resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions, however the success of these interventions is not currently determinable. Further, depending on the duration of the pandemic, or if the pandemic were to worsen, existing emergency measures may be extended, or additional restrictive measures may be implemented, causing further economic impact and uncertainty.

The REIT is actively assessing and responding, where possible, to the effects of the COVID-19 pandemic on its employees, tenants, suppliers and service providers, and evaluating governmental actions being taken to curtail its spread. The REIT's highest priority is the health and safety of its employees and tenants.

The REIT is well positioned with a strong balance sheet and a defensive portfolio that is 97.3% occupied by a diverse 2,034 tenant roster substantially underpinned by public healthcare care funding. Within the REIT's hospital portfolio, governments in Australia, Germany, the Netherlands and UK, have each announced programs to immediately expand capacity of their respective public hospital systems in response to the COVID-19 pandemic by entering into direct arrangements with private hospital operators. Within the REIT's medical office portfolio, the majority of which is located within Canada and Germany, the tenants are comprised primarily of doctors and related medical professionals that are integral to delivery of healthcare which is ultimately funded by governments through those public healthcare systems. While some near-term disruption may result from the COVID-19 pandemic, with more than 85% of the REIT's revenues now provided directly or indirectly by public healthcare funding, the defensiveness of the REIT's income profile remains intact. Moreover, as providers of an essential and inelastic service backed by government funding, healthcare is expected to be amongst the first sectors to return to full capacity following the return to more normal operating conditions.

Temporary rent deferral discussions are in progress, on a case-by-case basis and subject to government programs, with tenants whose current circumstances are impacting their ability to meet rental obligations. The REIT has strong working relationships with tenants and is confident that most deferred rents will be recoverable over time in the vast majority of instances. The introduction of government rent subsidies such as the Canada Emergency Commercial Rent Assistance ("CECRA") program continues to be evaluated by the REIT and may impact completed and on-going rent deferral agreements. As April and May rents have now become due, as of May 14, 2020, tenants representing approximately 93% and 84% of contracted net rent have met or are expected to meet their rental obligations.

Development activity remains on track across most of NorthWest's global portfolio with the exception of in New Zealand which ordered a complete halt to construction. However, on May 4th New Zealand began to re-open its economy and construction activities have since been allowed to resume. To conserve liquidity, the REIT has temporarily paused early stage developments and is actively working to identify opportunities to drive further operational efficiencies.

The REIT continues to monitor the impact of the COVID-19 pandemic on its business and is actively working to increase liquidity and fortify its balance sheet by executing upon its previously announced strategic initiatives which will increase the REIT's current \$219 million of liquidity (inclusive of \$82 million expansion of the revolving credit facility completed on May 14, 2020 - See **SUBSEQUENT EVENTS**) to approximately \$363 million by the end of Q2-2020.

It is impossible to forecast the duration and full scope of the economic impact of COVID-19 and other consequential changes it will have on the REIT's business and operations, both in the short term and in the long term. Certain aspects of the REIT's business and operations that could be potentially impacted include rental income, occupancy, tenant improvements, future demand for space and market rents, which all ultimately impact the underlying valuation of investment property. Refer to **PART VII – RISKS AND UNCERTAINTIES** for a discussion about the risks associated with the COVID-19 pandemic.

## FINANCIAL AND OPERATIONAL SUMMARY

The following is a summary of key financial and operational information for the periods indicated:

<b>FINANCIAL AND OPERATIONAL HIGHLIGHTS</b>						
	<b>As at</b>		<b>As at</b>			
	<b>March 31, 2020</b>		<b>December 31, 2019</b>			
Expressed in thousands of Canadian dollars, except per unit amounts (unaudited)						
<b>Operational Information <sup>(1)</sup></b>						
Number of Properties		183		175		
Gross Leasable Area (sf)		15,119,616		14,488,966		
Occupancy %		97.3%		97.3%		
WALE (Years)		14.4		13.8		
<b>Summary of Financial Information</b>						
Assets Under Management <sup>(3)</sup>	\$	6,627,729	\$	6,462,767		
Gross Book Value <sup>(2)</sup>	\$	5,444,457	\$	5,535,304		
Debt - Declaration of Trust <sup>(3)</sup>	\$	2,428,412	\$	2,354,897		
Debt to Gross Book Value - Declaration of Trust		44.6%		42.5%		
Debt - Including Convertible Debentures <sup>(3)</sup>	\$	2,697,352	\$	2,746,098		
Debt to Gross Book Value - Including Convertible Debentures		49.5%		49.6%		
Percentage of Mortgages and Loans Payable at Fixed Rates <sup>(9)</sup>		67.6%		72.2%		
Weighted Average Interest Rate on Fixed Rate Mortgages and Loans Payable <sup>(9)</sup>		3.57%		3.34%		
Adjusted Units Outstanding - period end <sup>(5)</sup>						
Basic		177,865,190		171,334,731		
		<b>For the three months ended March 31, 2020</b>	<b>For the three months ended March 31, 2019</b>	<b>For the three months ended December 31, 2019</b>		
<b>Operating Results</b>						
Revenue from investment properties	\$	95,594	\$	91,933	\$	91,608
Net Income / (Loss)	\$	116,060	\$	(54,028)	\$	25,909
NOI <sup>(6)</sup>	\$	72,646	\$	69,092	\$	69,494
Funds From Operations ("FFO") <sup>(6)</sup>	\$	38,348	\$	26,756	\$	30,352
Adjusted Funds From Operations ("AFFO") <sup>(6)</sup>	\$	36,207	\$	25,045	\$	31,009
Distributions <sup>(7)</sup>	\$	35,564	\$	26,099	\$	31,474
Interest Coverage <sup>(4)</sup>		2.89		2.02		2.57
<b>Per Unit Amounts <sup>(5)</sup></b>						
FFO per unit - Basic <sup>(8)</sup>	\$	0.22	\$	0.21	\$	0.20
FFO per unit - fully diluted <sup>(8)</sup>	\$	0.21	\$	0.20	\$	0.19
AFFO per unit - Basic	\$	0.21	\$	0.20	\$	0.20
AFFO per unit - fully diluted <sup>(8)</sup>	\$	0.20	\$	0.19	\$	0.20
Distributions per unit	\$	0.20	\$	0.20	\$	0.20
AFFO Payout Ratio		97%		101%		99%
AFFO Payout Ratio - fully diluted <sup>(8)</sup>		100%		104%		102%
<b>Adjusted Weighted Average Units Outstanding <sup>(5)</sup></b>						
Basic		176,400,438		126,547,692		153,331,021
Diluted - FFO <sup>(8)</sup>		199,638,328		156,340,290		183,328,305
Diluted - AFFO <sup>(8)</sup>		199,638,328		146,976,994		183,328,305

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## FINANCIAL AND OPERATIONAL HIGHLIGHTS CONT.

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### Notes

- (1) Operational information includes 100% of Vital Trust and the Australia REIT (including the JV). The REIT has an exposure to an approximate 25% interest in Vital Trust and 30% of the JV in Australia REIT.
  - (2) Gross Book Value is defined as total assets.
  - (3) As defined in Non-IFRS measures used in this MD&A.
  - (4) See Ratios and Covenants for the REIT's calculation of Interest Coverage.
  - (5) Under IFRS the REIT's Class B LP Units are treated as a financial liability rather than equity. The REIT has chosen to present an adjusted basic and diluted per unit measure that includes the Class B LP Units in basic and diluted units outstanding/weighted average units outstanding, which is on a non-IFRS basis. There were 1,710,000 Class B LP Units outstanding as at March 31, 2020 (December 31, 2019 - 17,708,065 Class B LP Units).
  - (6) FFO and AFFO are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. FFO and AFFO as computed by the REIT may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to FFO and AFFO as reported by other such issuers. These terms are defined in this MD&A and reconciled to IFRS-based amounts reported in the consolidated financial statements of the REIT. NOI is an additional IFRS measure and NOI as calculated by the REIT may not be comparable to similar titled measures reported by other issuers.
  - (7) Represents distributions to Unitholders and Class B LP Units on an accrual basis. Distributions are payable as at the end of the period in which they are declared by the Board of Trustees, and are paid on or around the 15th day of the following month.
  - (8) Diluted units includes vested but unissued deferred trust units and the conversion of the REIT's Convertible Debentures that would have a dilutive effect upon conversion at the holders' contractual conversion price. Convertible Debentures are dilutive if the interest (net of tax and other changes in income or expense) per unit obtainable on conversion is less than the basic per unit measure.
  - (9) The REIT classifies variable rate debt hedged with fixed rate swaps as fixed rate debt.
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## HIGHLIGHTS FOR THE QUARTER

### European Investment Property Acquisitions

On January 10, 2020, the REIT completed the property acquisition of a medical clinic located in Germany for approximately \$29.2 million. The acquisition was partially financed by new property specific financing of approximately \$18.9 million, bearing interest of 1.45% and term to maturity of ten years.

On January 30, 2020, the REIT acquired six private hospitals in the United Kingdom for approximately \$180.3 million. The acquisition of the UK Portfolio represents a unique opportunity to enter the UK private hospital market by acquiring a high quality portfolio that is 100% leased on an absolute triple net lease basis to one of the leading private hospital operators in the regions. The leases have a weighted average expiry of 13 years and are subject to annual rent increases based on the UK Retail Price Index.

On February 27, 2020, the REIT completed a property acquisition of a medical clinic investment property located in Germany for approximately \$33.2 million. The acquisition was partially financed by new property specific financing of approximately \$17.5 million, bearing interest of 1.54% and term to maturity of ten years.

### Acquisition of Australian Medical Research Institutes

On February 19, 2020, the REIT's joint venture in Australia ("Australian JV") completed the acquisition of two medical research institutes for \$93.4 million. The buildings are fully leased on a triple net basis with structured 4% fixed annual reviews and 13.1 year WALE.

The REIT has a 30% investment interest in the Australian JV and also acts as the investment manager, for which it earns management fees.

### Redemption of \$93.0 million of Convertible Debentures

On January 17, 2020, the REIT fully repaid \$40.3 million of the principal balance outstanding on the 5.25% convertible debenture.

Of the \$52.1 million outstanding on the 5.5% convertible debenture series, \$47.7 million was converted by the debenture holders into 4,238,308 Trust Units. On January 17, 2020, the REIT fully repaid the remaining principal balance outstanding on the 5.5% convertible debenture series of \$4.4 million.

## **European Joint Venture**

On January 31, 2020 the REIT reached agreement on heads of terms with a global institutional investor to form a new \$3.0 billion joint venture ("European JV") to pursue healthcare real estate acquisitions initially in Germany with infrastructure-like characteristics including long WALE, triple net leases with inflation linked annual rental growth.

The REIT will retain a 30% economic interest in the JV with its partner having a 70% interest. The REIT will act as the investment manager of the European JV and will earn market property, asset and activity based management fees, as well as a potential performance fee. Accordingly, the REIT has established a global management platform ('Global Asset Manager'), inclusive of the existing ANZ Manager. Refer to details under Portfolio Profile under Part II of this MD&A.

The completion of the European JV remains subject to final approvals and documentation. The European Seed Portfolio sale is subject to final due diligence and is expected to close in first half of 2020.

## **Financing Activity**

On February 28, 2020, the REIT extended the term to maturity of a \$39.0 million unsecured corporate facility to January 1, 2021. The corporate facility bears interest greater of 6.0% or BA plus 2.05% up to March 31, 2020 and the greater of 6.5% or BA plus 2.55% commencing April 1, 2020.

On March 10, 2020, Vital Trust amended its debt facilities to include \$90.5 million of additional debt facilities and to extend term on its near-term debt expiries. These enhancements to Vital Trust's financial flexibility and liquidity mean that Vital now has over \$204.5 million in undrawn debt facilities available as at March 31, 2020 and no debt expiring before March 2021 and only \$108.8 million expiring before September 2021.

## **Sale of Australian Assets**

On March 16, 2020, the REIT completed sale of Australian assets to third-parties for \$104.4 million. On March 23, 2020, the REIT completed the sale of three aged-care assets from its wholly-owned Australian REIT to Vital Trust for \$50.7 million. The REIT partially used the proceeds to repay \$89.8 million of Australian term debt bearing interest of 3.61%.

## **Normal Course Issuer Bid**

On March 24, 2020 the TSX approved the REIT's application to proceed with a normal course issuer bid ("NCIB") for a portion of its Units from time to time. Units representing up to 10% of the REIT's public float may be purchased for cancellation under the NCIB, subject to certain maximum daily amounts, over the next 12 months. During the period from March 31, 2020 to April 6, 2020 the REIT purchased 800,207 Trust Units pursuant to its NCIB for cancellation at a weighted average price per unit of \$8.99, for a total cost of \$7.2 million (including commissions).

In connection with the announcement of the NCIB, the REIT suspended its DRIP until further notice. Commencing with the April, 2020 distribution (payable on or about May 15, 2020), unitholders enrolled in the DRIP will receive distribution payments in cash. If the REIT elects to reinstate the DRIP in the future, unitholders that were enrolled in the DRIP at the time of its suspension and remain enrolled at the time of its reinstatement will automatically resume participation in the DRIP.

## **SUBSEQUENT EVENTS**

### **Financing Activity**

On May 14, 2020, the REIT amended its revolving credit facilities to add an additional tranche with availability of \$82 million, maturing in one year, subject to renewal options at lenders' discretion. ("Tranche B"). Tranche B is secured by the six recently acquired UK hospital properties, and draws are permitted in Canadian dollars, at a floating interest rate of prime plus 1.75% or BA Plus 2.75%.

### **Australia REIT Unit Sale**

On May 14, 2020, the REIT entered into a Unit Sale Agreement, to sell 70% of the Units of its wholly-owned Australian REIT, to an institutional investor of the REIT's Australian JV, for a sale price of approximately of \$64 million (A\$70.5 million). The REIT will continue to own the remaining 30% of the Australian REIT Units and certain properties that are not part of this transaction and will provide asset and property management services to the Australian REIT. The transaction is subject to normal course conditions and is expected to close during the second quarter of 2020.

### **Other**

On April 15, 2020, the REIT announced a distribution of \$0.06667 per REIT unit to unitholders of record on April 30, 2020, to be paid on May 15, 2020.

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## PART I - BASIS OF PRESENTATION

This interim Management's Discussion and Analysis of the unaudited results of operations and financial condition ("**MD&A**") of NorthWest Healthcare Properties Real Estate Investment Trust ("**NorthWest**" or the "**REIT**") should be read in conjunction with the REIT's unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2020, prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All amounts are presented in thousands of Canadian dollars, except where otherwise stated. Per unit amounts are presented in Canadian dollars, and are calculated including Class B LP Units (as defined hereafter), except where otherwise stated.

This MD&A should also be read in conjunction with the Annual Information Form of the REIT dated March 30, 2020 (the "**Annual Information Form**"). This MD&A is current as of May 14, 2020 unless otherwise stated. Additional information relating to the REIT, including its continuous disclosure documents required by the securities regulators, is filed as required on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") and can be accessed electronically at [www.sedar.com](http://www.sedar.com).

Throughout this MD&A the following terms have the meanings set forth below, unless otherwise indicated. Words importing the singular include the plural and vice versa:

- "**Convertible Debentures**" has the meaning set out in the Section "**CAPITAL STRUCTURE– Convertible Debentures**" and includes the following series of convertible debentures:
  - a) NWH.DB.E;
  - b) NWH.DB.F;
  - c) NWH.DB.G.
- "**Class B LP Unit**" or "**Exchangeable Unit**" means a Class B limited partnership unit of NWI Healthcare Properties LP ("**NWI LP**"), exchangeable for Trust Units;
- "**Special Voting Unit**" means a special voting unit of the REIT attached to a Class B LP Unit;
- "**Trust Unit**" or "**REIT Trust Unit**" means a trust unit of the REIT; and
- "**Unitholder**" means a holder of Trust Units and any reference to a Unitholder in the context of such Unitholder's right to vote at a meeting of Unitholders also includes reference to a holder of Special Voting Units.

## FORWARD-LOOKING INFORMATION ADVISORY

This MD&A contains forward-looking statements which reflect management's expectations regarding objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities of the REIT. The words "plans", "expects", "does not expect", "scheduled", "estimates", "intends", "anticipates", "does not anticipate", "projects", "believes", "normalized", "run rate", "contracted", "stabilized", or variations of such words and phrases or statements to the effect that certain actions, events or results "may", "will", "could", "would", "might", "occur", "be achieved" or "continue" and similar expressions identify forward-looking statements. Some of the specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to the following:

- the duration and impact of the COVID-19 pandemic on the business, operations and financial condition of the REIT
- the intention of the REIT to pay stable and growing distributions;
- the ability of the REIT to execute its growth strategies;
- the ability of the REIT to refinance maturing debt obligations;
- any projections of financial performance of the REIT for the periods set out herein; including normalized, run-rate, contracted or stabilized metrics;
- development opportunities;
- the expected tax treatment of the REIT's distributions to Unitholders; and
- the expectations regarding real estate, the healthcare industry and demographic trends.

Forward-looking statements are necessarily based on a number of estimates and assumptions that, while considered reasonable by management of the REIT as of the date of this MD&A, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The REIT's estimates, beliefs and assumptions, which may prove to be incorrect, include the various assumptions set forth herein, including, but not limited to, the REIT's future growth potential, results of operations, future prospects and opportunities, demographic and industry trends remaining unchanged, future levels of indebtedness, the ability to access debt and capital markets, the tax laws as currently in effect remaining unchanged, the current economic and political conditions in the countries in which the REIT operates remaining unchanged, anticipated capital expenditures, future general and administrative expenses (including estimated synergies resulting therefrom) and contracted acquisition, disposition and development opportunities.

When relying on forward-looking statements to make decisions, the REIT cautions readers not to place undue reliance on these statements, as forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Risks and Uncertainties" in this MD&A, as well as the section titled "Risk Factors" in the Annual Information Form and the Circular, which are hereby incorporated by reference in this MD&A.

These forward-looking statements are made as of the date of this MD&A and, except as expressly required by applicable law, the REIT assumes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

## MARKET AND INDUSTRY DATA

This MD&A includes market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information. Third-party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information.

Although the third-party sources believe it to be reliable, we have not independently verified any of the data from third-party sources referred to in this MD&A, or analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying economic assumptions relied upon by such sources.

## PERFORMANCE MEASUREMENT

The key performance indicators by which management measures the REIT's performance are as follows:

- Net income (loss);
- Cash flows from operations;
- Funds from operations ("FFO");
- Adjusted funds from operations ("AFFO");
- Normalized AFFO;
- Weighted average lease expiry ("WALE");
- Weighted average interest rate;
- Occupancy levels;
- Assets Under Management ("AUM")
- Debt - Declaration of Trust;
- Debt - Including Convertible Debentures;
- Adjusted EBITDA;
- Net operating income ("NOI");
- Net Asset Value ("NAV") and Net Asset Value per unit ("NAV/unit");

- Adjusted Liabilities;
- Same Property NOI ("**SPNOI**"); and
- Adjusted Same Property NOI ("**Adjusted SPNOI**").

"**WALE**" is a measurement of the average term (expressed in years) remaining in each of the REIT's leases, weighted by the size of the gross leasable area ("**GLA**") each lease represents of the total GLA of the REIT's portfolio. WALE is a common performance measure used in the real estate industry which is useful in measuring the vacancy risk and the stability of future cash flows of the REIT's properties.

"**Occupancy levels**" are presented in different manners depending on its context. It could be presented as a weighted average portfolio occupancy, based on the area weightings, when analyzing the overall operating performance of the REIT's portfolio, or as a point-in-time reference when analyzing future lease expiries, or as an assessment of the performance of each property period over period. Management considers this a useful measure in assessing the overall performance of its portfolio and is an essential tool to determine which properties require further investigation if performance lags.

### **Explanation of Non-IFRS measures used in this MD&A**

FFO and AFFO are not measures recognized under International Financial Reporting Standards ("**IFRS**") and do not have standardized meanings prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. FFO and AFFO are supplemental measures of a Canadian real estate investment trust's performance and the REIT believes that FFO and AFFO, while primarily earnings based measures, also provide relevant measures of its ability to earn and distribute cash returns to Unitholders. FFO and AFFO should not be construed as alternatives to net income (loss), or cash flow from operating activities, determined in accordance with IFRS as indicators of the REIT's performance. The IFRS measurement most directly comparable to FFO and AFFO is net income (loss). The REIT's method of calculating FFO and AFFO may differ from other issuers' methods and accordingly may not be comparable to measures used by other issuers.

"**FFO**" is defined as net income (computed in accordance with IFRS), excluding: (i) fair value adjustments on investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of tenant incentives; (iv) fair value adjustments and other effects of redeemable units classified as liabilities; (v) revaluation adjustments of financial liabilities; (vi) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; (vii) deferred income tax expense; (viii) convertible debentures issuance costs; (ix) goodwill impairment; (x) internal leasing costs; (xi) transaction costs; (xii) unrealized foreign exchange gains and losses; (xiii) amortization of finance leases; (xiv) amortization on Right of Use ('ROU') assets, net of payments on leases where the REIT is a lessee; and includes (xv) the cash flow benefit to the REIT of certain ANZ Manager fees which are eliminated on consolidation but benefit the REIT to the extent of the non-controlling interest, all after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties.

"**AFFO**" is defined by management as FFO, subject to certain adjustments, including: (i) amortization of fair value mark-to-market adjustments on mortgages acquired; (ii) amortization of transactional deferred financing charges; (iii) compensation expense related to deferred unit incentive plans; (iv) differences, if any, resulting from recognizing property revenues on a straight line basis as opposed to contractual rental amounts, (v) debt repayment costs; and (vi) deducting stabilized amounts for tenant inducements, leasing costs, and sustaining capital expenditures, as determined by the REIT. Other adjustments may be made to AFFO as determined by management at their discretion. Management's definition of AFFO is intended to reflect a stabilized business environment.

In February 2019, the Real Property Association of Canada ("**REALpac**") issued amendments to white papers with recommendations for calculations of FFO and AFFO. The REIT reviewed the REALpac white papers and determined its FFO and AFFO definitions are substantially aligned with the white paper guidelines with some exceptions, which are outlined below.

We have provided an analysis of FFO and AFFO under **PART III - RESULTS FROM OPERATIONS, FUNDS FROM OPERATIONS (“FFO”)** and **ADJUSTED FUNDS FROM OPERATIONS (“AFFO”)**.

**“Normalized AFFO”** is a non-IFRS measure which management believes is relevant in representing its ability to earn and distribute cash returns to Unitholders. In addition to the adjusting items to arrive at AFFO, Normalized AFFO also adjusts for the full year effect of transactions occurring in the reporting period, transactions that have occurred subsequent to the reporting period, and adjusts for other items management believes were non-recurring or seasonal in nature and estimated based on management’s judgment and expectations on a normalized level of activity in a stabilized operating environment. The REIT considers Normalized AFFO to be a meaningful measure because it provides, in management’s view, an estimate of AFFO reflecting the annualized results of the REIT’s stabilized operations at a point in time. There is no standard industry-defined measure of Normalized AFFO. As such, the REIT’s method of calculating Normalized AFFO will differ from other issuers’ methods and, accordingly, will not be comparable to such amounts reported by other issuers. We have provided an analysis of Normalized AFFO under **NORMALIZED AFFO**.

The REIT’s **“Weighted average interest rate”** includes secured debt with fixed interest rates, including variable rate debt hedged with fixed rate swaps, and excludes secured debt with floating interest rates. This calculation is a useful measure because it allows management to compare movements in interest rates period over period and to compare the average rate to the current market rates at that point in time.

**“AUM”** is a non-IFRS financial measure that is key to evaluating trends in earnings. AUM is the main driver for investment property income and management fees. Growth in AUM is driven by the REIT’s direct investments and investments managed on behalf of third-party investors. For reporting purposes, the REIT calculates AUM as the sum of fair value of investment properties and properties under development, loans receivables, finance lease assets, real estate related financial instruments, assets held for sale and the third-party share of investment in the aforementioned.

**“Debt - Declaration of Trust”** is a non-IFRS financial measure that represents the indebtedness definition outlined in the REIT’s Declaration of Trust. It includes the sum of the principal balance of mortgages, securities lending agreements, margin facilities, term loans, line of credit, and deferred consideration and excludes the Class B LP Units and the REIT’s Convertible Debentures. The Debt - Declaration of Trust is measured as a percentage of total assets or Gross Book Value. The REIT’s Declaration of Trust provides an operating guideline that sets a maximum level of indebtedness relative to Gross Book Value of 65%. The REIT measures Debt-Declaration of Trust each reporting period to ensure that the REIT remains compliant with the operating guidelines of the REIT’s Declaration of Trust in respect of indebtedness. The definition of indebtedness and maximum indebtedness ratio relative to Gross Book Value of the REIT’s declaration of trust may differ from the declarations of trust of other issuers and accordingly may not be comparable to similar measures used by other issuers.

**“Debt - Including Convertible Debentures”** is a non-IFRS financial measure and represents the sum of the REIT’s indebtedness as defined by the REIT’s declaration of Trust (Debt - Declaration of Trust, defined above) plus the amount of Convertible Debentures outstanding stated at fair value. The Debt - Including Convertible Debentures amount is intended to measure total leverage which is commonly reported by other issuers in the industry and is used an important measure in the management of debt levels. The Debt - Including Convertible Debentures is also stated as a ratio to total assets or Gross Book Value. The ratio is an important measure in determining the REIT’s capacity for incremental indebtedness to finance operations, maturing obligations or capital expenditures, as required. The definition of Debt - Including Convertible Debentures and its ratio relative to Gross Book Value of the REIT’s Declaration of Trust may differ and may not be comparable to similar measures used by other issuers.

**“EBITDA”** is a non-IFRS measure that is comprised of income (loss) before taxes, excluding mortgage and loan interest expense, distributions on Exchangeable Units and depreciation expense and amortization expense. It is a metric that can be used to determine the REIT’s ability to satisfy its obligations, including servicing its debt; but it may be affected by non-recurring items.

**“Adjusted EBITDA”** is a non-IFRS measure, defined by the REIT as, income (loss) before taxes excluding mortgage and loan interest expense, distributions on Exchangeable Units, other finance costs, depreciation expense and amortization expense, IFRS fair value changes associated with investment properties and financial instruments, DUP Compensation Expense, foreign exchange gains and losses, gains and losses on disposal of investment properties, adjustments for equity accounted investments, as well as, other items that management considers non-operating or non-recurring in nature. It is a metric that can be used to determine the REIT’s ability to satisfy its obligations, including servicing its debt.

**“Net Asset Value”** or **“NAV”** is a non-IFRS measure, defined by the REIT as, total assets less total liabilities and less non-controlling interest, adjusted further to exclude the REIT’s proportionate share of the following: goodwill, DUP Liability, deferred tax liability, accrued Ontario land transfer tax liability, derivative instruments, Class B LP Unit liability and adjusted to reflect the fair value increase of the ANZ Manager intangible asset. **“NAV per Unit”** or sometimes presented as **“NAV/unit”** is an extension of NAV and defined as NAV divided by the number of units outstanding at the end of the period. The REIT considers NAV and NAV per Unit to be meaningful measures because it provides, in management’s view, an estimate of the underlying value of the REIT’s units. There is no standard industry-defined measure of NAV per Unit. As such, the REIT’s method of calculating NAV per Unit will differ from other issuers’ methods, and accordingly, will not be comparable to such amounts reported by other issuers. We have provided an analysis of NAV under **PART IX - NET ASSET VALUE**.

**“Adjusted Liabilities”** is a non-IFRS measure, defined by the REIT as, total liabilities and non-controlling interest, excluding the REIT’s proportionate share of DUP Liability, deferred tax liability, derivative instruments and Class B LP Unit liability. Adjusted Liabilities is deducted from total assets to calculate the REIT’s non-IFRS measure, NAV per Unit, defined above. The REIT considers Adjusted Liabilities to be a meaningful measure because it provides, in management’s view, an estimate of the REIT’s liabilities that are expected to be settled in cash in the near term. Further, management views the Class B LP Unit liability to form part of the REIT’s equity regardless of it being accounted for as a financial liability under IFRS. There is no standard industry-defined measure of Adjusted Liabilities. As such, the REIT’s method of calculating Adjusted Liabilities will differ from other issuers’ methods, and accordingly, will not be comparable to such amounts reported by other issuers.

**“Same Property NOI”** is a non-IFRS measure, defined by the REIT as, NOI for investment properties that were owned for a full quarterly reporting period in both the current and comparative year, and excludes properties held for redevelopment. Management considers Same Property NOI to be a key operating metric used to evaluate same property performance. There is no standard industry-defined measure of Same Property NOI. As such, the REIT’s method of calculating Same Property NOI will differ from other issuers’ methods, and accordingly, will not be comparable to such amounts reported by other issuers.

**“Adjusted Same Property NOI”** is a non-IFRS measure, defined by the REIT as Same Property NOI, subject to certain adjustments including: (i) straight-line rental revenue recognition; (ii) amortization of operating leases; (iii) lease termination fees; and (iv) non-recurring transactions that are not expected to recur.

#### **Explanation of additional IFRS measure used in this MD&A**

**“NOI”** is an industry term in widespread use. NOI as calculated by the REIT may not be comparable to similar titled measures reported by other issuers. The REIT considers NOI a meaningful additional measure of operating performance of its property assets, prior to financing considerations. NOI is defined as income from properties after operating expenses have been deducted, but before deducting interest expense, finance costs, depreciation and amortization expense, general and administrative expenses, income taxes, leasehold improvement and external leasing costs, unrecoverable capital costs, and excluding fair value adjustment of investment properties.

We have provided an analysis of NOI under **PART III - RESULTS FROM OPERATIONS - NET OPERATING INCOME**.

## KEY PERFORMANCE DRIVERS

In addition to monitoring and analyzing the performance of operations through such measures as NOI, FFO and AFFO, management considers the following to be key drivers of current and future financial performance:

- the ability to access equity capital at a competitive/reasonable cost;
- the ability to access debt, including mortgages, credit facilities, and term debt, with terms and conditions that are cost effective; and
- the ability to acquire new properties on a yield accretive basis that enhance the REIT's portfolio.

## PART II – BUSINESS OVERVIEW

### BUSINESS OVERVIEW AND STRATEGIC DIRECTION

#### The REIT

The REIT is a Canadian open-ended trust created pursuant to an amended and restated Declaration of Trust dated May 15, 2015, under the laws of the Province of Ontario (the “**Declaration of Trust**” or “**DOT**”). The REIT completed its initial public offering (“**IPO**”) on March 25, 2010. The REIT Trust Units are listed and publicly traded on the Toronto Stock Exchange (“**TSX**”) under the symbol NWH.UN. The REIT's Convertible Debentures are listed and publicly traded on the TSX under the symbols NWH.DB.E, NWH.DB.F and NWH.DB.G.

The REIT's strategic objectives are to:

- provide sustainable and growing cash distributions through investment in healthcare real estate globally;
- build a diversified global portfolio of healthcare properties concentrated in Australia/New Zealand, Brazil, Canada and Europe;
- capitalize on growth opportunities both within its existing portfolio and through accretive acquisitions in its target markets; and
- grow the value of its assets and maximize the long-term value of its Trust Units through active and efficient management.

#### Declaration of Trust

The investment guidelines of the REIT are outlined in the REIT's Declaration of Trust, a copy of which is filed on SEDAR. Further information regarding the Declaration of Trust can also be located in the REIT's Annual Information Form under the heading “Declaration of Trust”. Some of the main investment guidelines and operating policies in the Declaration of Trust include the following:

#### *Investment Guidelines (condensed summary)*

1. The REIT may only invest directly or indirectly in interests in income-producing real estate and assets ancillary thereto necessary for the operation of such real estate;
2. Provided that the REIT may invest up to 25% of the Gross Book Value of the REIT in investments which do not comply with one or more of the specific investment guidelines set forth in Declaration of Trust; and
3. The REIT shall not hold any investment or take any action that would result in the REIT not qualifying as a “mutual fund trust” or “unit trust” both within the meaning of the Tax Act or the Units not qualifying as qualified investments for Exempt Plans.

### *Operating Policies (condensed summary)*

1. The REIT shall not incur or assume any Indebtedness, as defined, if, after giving effect to the incurrence or assumption of such Indebtedness, the total Indebtedness of the REIT would be more than 65% of Gross Book Value;
2. Subsidiaries of the REIT may engage in construction or development of real property provided such real property meets the REIT's investment guidelines and operating policies; and
3. No guaranteeing of third-party debt outside its existing structure and potential joint venture partner structures, except under certain specific conditions and meeting certain defined criteria.

At March 31, 2020, the REIT was in compliance with all investment guidelines and operating policies stipulated in the Declaration of Trust.

### **RELATIONSHIP WITH NWVP**

As at March 31, 2020, NorthWest Value Partners Inc. ("**NWVP**") indirectly owned approximately 15% (approximately 13% on a fully-diluted basis assuming conversion of the REIT's Convertible Debentures and redemption of its deferred Trust Units) of the REIT through a combination of Trust Units of the REIT and Class B LP Units. Established in 1994, Toronto-based NWVP is one of Canada's leading privately-owned real estate companies. The scope of its business includes real estate, ownership and management, in Canada and internationally with a significant focus on the healthcare sector. The Principal of NWVP serves as the Chief Executive Officer and trustee of the REIT.

### **PORTFOLIO PROFILE**

#### **Summary**

The REIT provides investors with access to a portfolio of high quality healthcare real estate comprised of interests in a diversified portfolio of 183 income-producing properties and 15.1 million square feet of gross leasable area located throughout major markets in Canada, Brazil, Europe, Australia, and New Zealand.

**Canada:** The largest non-government owner/manager of medical office buildings ("MOBs") and healthcare related facilities comprised of high quality real estate with stable cash flow underpinned by tenancies supported by the Canadian publicly funded healthcare system.

**Brazil:** Institutional quality, core healthcare infrastructure assets located in strategic markets including São Paulo, Brasilia and Rio de Janeiro delivering stable cash flow with long-term, triple-net, inflation-indexed leases, providing consistent organic growth.

**Europe:** High quality MOB assets and rehabilitation clinics located in the major markets including Berlin, Hamburg, Frankfurt, Ingolstadt, and Leipzig in Germany; Rotterdam and Brunssum in the Netherlands; and, Greater London and Birmingham in the United Kingdom. The assets are supported by fully integrated property management and asset management capabilities allowing for efficient operation and deal sourcing.

**Australia/New Zealand:** Direct exposure to a portfolio of hospitals, medical centers and aged care facilities through Northwest Healthcare Properties Australia REIT ("Australia REIT"), an approximate 25% interest in New Zealand Stock Exchange ("NZX") listed Vital Healthcare Properties Trust ("Vital Trust") which is consolidated by the REIT for financial reporting purposes, and a 30% interest in a joint venture ("JV") with an institutional investor, which is equity accounted. The Australasian portfolio generates stable and growing cash flows underpinned by tenancies of high quality hospital and healthcare operators with long-term, inflation-indexed leases.

### Global Asset Manager:

The REIT's Global Asset Manager is a fully integrated operation comprised of leading investment, development, asset management and property operations professionals, with offices located in Canada, Europe, Australia and New Zealand. The Global Asset Manager derives fees from \$3.3 billion of third-party assets under management (December 31, 2019 - \$3.3 billion), and is scaled to support the over \$4.7 billion of further capital commitments.

Below summarizes the REIT's managed funds as at March 31, 2020:

FUNDS UNDER MANAGEMENT AND CAPITAL COMMITMENTS					
Cdn\$ Billions	Total Commitment	FV of Assets Under Management	Available Capacity	REIT Ownership	Term
Australian Core Hospital JV	3.2	1.6	1.6	30%	Perpetuity
Vital Trust	1.7	1.7	Open	25%	Perpetuity
European JV	3.1	—	3.1	30%	12 Years
<b>Total</b>	<b>8.0</b>	<b>3.3</b>	<b>4.7</b>		

The following table summarizes the REIT's assets by region as at March 31, 2020:

SUMMARY OF ASSETS						
	Canada	Brazil	Europe	Vital Trust <sup>(1)</sup> (Australasia)	Australia REIT <sup>(2)</sup> (Australasia)	Consolidated Total <sup>(3)</sup>
Number of Properties	57	8	47	48	23	183
Asset Mix	100% MOB	100% Hospital	64% MOB & 36% Hospitals & Healthcare Facilities	24% MOB & 76% Hospitals & Healthcare Facilities	26% MOB & 74% Hospitals & Healthcare Facilities	49% MOB & 51% Hospitals & Healthcare Facilities
Gross Leaseable Area ("GLA") (million sf)	3.6	1.7	4.1	2.8	2.9	15.1
Total Assets (Cdn\$ millions) <sup>(2)</sup>	\$1,208	\$684	\$1,090	\$1,707	\$630	\$5,444
Occupancy	92.1%	100.0%	97.8%	99.4%	99.5%	97.3%
WALE (Years)	5.2	19.1	15.5	18.4	17.6	14.4
Average Building Age (Years)	32	15	27	31	29	28
Weighted Average Implied Cap Rate	6.5%	7.0%	5.7%	5.5%	5.6%	6.0%

Notes

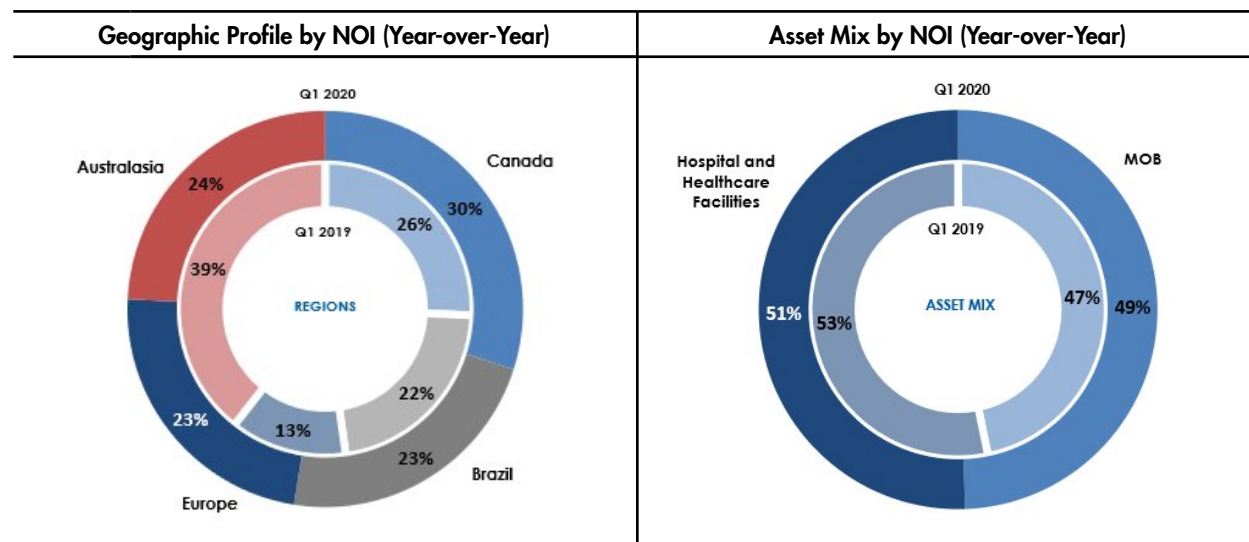
(1) Shown on a 100% basis. The REIT has an approximate 25% interest in Vital Trust and consolidates its investment in Vital Trust.

(2) Except for total assets, which includes amounts otherwise accounted for under the equity method, Australia REIT is shown at 100%, which includes assets held as part of a Joint Venture Agreement ("JV") with an institutional investor. The REIT owns 30% interest in the JV, which includes the investment in the HSO Portfolio.

(3) Consolidated Total Assets includes assets of Global Asset Manager and Corporate, such as working capital and cash.

## Diversification of Assets

The REIT's assets are diversified geographically and by asset type as follows:



Notes

(1) Based on Q1 2020 and Q1 2019 reported NOI.

(2) Vital Trust shown on a proportionate basis of assets held consistent with the REIT's ownership interest. The REIT has an approximate 25% ownership interest in Vital Trust and consolidates its investment in Vital Trust.

(3) Australia REIT is shown at proportionate ownership for assets held as part of Joint Venture Agreements ("JV"). The REIT owns 30% interest in the JV.

**Medical office buildings ("MOBs")** are similar to commercial office buildings, are typically multi-tenant properties and are primarily leased to necessity based healthcare providers.

**Hospital and other healthcare facilities** are typically leased to a single tenant or hospital operator under long-term, inflation indexed, triple net lease structures in which the REIT does not absorb any material property operating cost or CAPEX risk.

### Tenant Mix

The following table summarizes the REIT's 10 largest tenants by percentage of proportionate revenue for the three months ended March 31, 2020:

10 LARGEST TENANTS BY PERCENTAGE OF RENT				
	Tenant	Country	%	# of locations
1	Rede D'Or	Brazil	11.8%	7
2	Healthscope Limited	Australia	5.5%	13
3	Healthe Care	Australia	3.2%	18
4	BMI	Europe	3.1%	6
5	Median Kliniken	Europe	1.6%	4
6	Epworth Foundation	Australia	1.5%	6
7	CISSS / CIUSSS	Canada	1.3%	5
8	Hospital Sabara	Brazil	1.0%	1
9	Bolton Clarke	Australia	1.0%	4
10	Alberta Health Services	Canada	0.8%	6
			<b>30.8%</b>	<b>70</b>

Note:

(1) Vital Trust included on a proportionate ownership basis. The REIT has an approximate 25% interest in Vital Trust and consolidates its investment in Vital Trust.

(2) Australia REIT is shown at proportionate ownership basis for assets held as part of Joint Venture Agreements ("JV"). The REIT owns 30% interest in the JV.

Further information on the REIT's five largest tenants is below:

**Rede D'Or** is the largest private hospital operator in Brazil. The company operates 39 hospitals, with 3 under construction, and more than 40 specialized oncology outpatient clinics, comprising over 7,300 inpatient beds - an average of 192 beds per hospital. With more than 40 years of experience in the healthcare business, the company has solid business positions and operational scale in its strategically located key states: Rio de Janeiro, Sao Paulo, Pernambuco, Brasilia, Maranhao and Bahia. Since 2004, the company has grown substantially through a series of strategic partnerships and acquisitions. Since 2015, Rede D'Or has added Carlyle Group and GIC Group as investors and in October, 2017, Fitch increased its credit rating to "AAA" on a national scale.

**Healthscope Limited ("HSO")** is currently the REIT's second largest tenant in three directly held properties and occupying the HSO Portfolio, accounting in total for 5.5% of the REIT's proportionate revenues, consistent with the REIT's ownership level of 30%. HSO, formed in 1985, is a leading private healthcare provider in both Australia and New Zealand. With a portfolio of 43 private hospitals in Australia and 24 laboratories in New Zealand, comprising a market-leading international pathology operation, Healthscope has a presence in every Australian state and territory. Specializing in medical and surgical, mental health, rehabilitation and maternity services, its hospitals are concentrated in large metropolitan centres, constituting 30 acute, 7 mental health and 6 rehabilitation hospitals. In New Zealand, it is the largest provider of human pathology services to New Zealand's District Health Boards and provides veterinary and analytical pathology services through the Gribbles brand. In 2018, Healthscope divested its 39 pathology laboratories in Asia for \$279 million, allowing the company to redirect its focus to its core hospital and pathology operations.

**Health Care Australia** was founded in 2005 and is the third largest private hospital operator in Australia and one of the country's largest privately-owned healthcare organizations. Health Care Australia operates a network of 34 private healthcare facilities, comprising medical and surgical, rehabilitation and mental health hospitals and day surgeries throughout Queensland, New South Wales, Victoria, Tasmania, Western Australia and New Zealand. These include approximately 2,500 beds and 70 operating theatres. The company also provides a range of outpatient services including workplace rehabilitation and community nursing which offer patients flexibility and continuity of care beyond their hospital stay. Health Care is one of the largest private providers of mental health services, with more than 800 mental health beds. The company is a subsidiary of Luye Medical Group, a leading healthcare service provider headquartered in Singapore.

**BMI Healthcare** is the largest independent acute hospital operator in the UK measured by bed-count (~2,400) and 3rd largest measured by revenue, representing 15.8% share of the independent acute market. BMI operates 51 hospitals throughout the UK, and provides surgical, diagnostic and rehabilitative care on an in-patient and out-patient basis to self-payors, those with private medical insurance and those whose treatments are publicly funded by the National Health Service ("NHS"). BMI's revenues are split roughly 50/50 between private (self-pay and PMI) and public funding (NHS). In December, 2019, Circle Health, a competing independent acute hospital provider, agreed to acquire BMI healthcare. The transaction is subject to Competition Market Authority ("CMA") approval, and in April 2020 the CMA issued a preliminary ruling providing that the merger may be approved subject to Circle divesting two of its hospitals (Circle Bath and Circle Birmingham), with a final decision expected on June 23, 2020.

**Median Kliniken** was created in 2015 through the merger of MEDIAN clinics with RHM clinics and nursing homes. Median Kliniken is the largest private operator of rehabilitation facilities in Germany with 18,500 beds in 120 rehabilitation clinics, acute hospitals, therapy centers, outpatient clinics and reintegration facilities. The company, based in Berlin, has expertise in all therapeutic measures and actively helps to shape the development of medical rehabilitation in Germany. The group's approximately 15,000 employees treat and care for around 230,000 patients each year.

## INVESTMENT PROPERTIES

The fair value of investment properties as at March 31, 2020 was \$5.0 billion (December 31, 2019 - \$4.9 billion) representing an implied weighted average capitalization rate of 6.0% (December 31, 2019 - 6.0%).

INVESTMENT PROPERTIES						
Expressed in thousands of Canadian dollars (unaudited)	Three months ended March 31, 2020					
	Income Properties					
	Canada	Brazil	Europe	Vital Trust	Australia REIT	Total
<b>Opening Balance</b>	<b>\$1,170,491</b>	<b>\$ 781,837</b>	<b>\$ 772,909</b>	<b>\$1,601,937</b>	<b>\$ 464,121</b>	<b>\$4,791,295</b>
Acquisitions of investment properties	—	—	242,698	53,720	—	296,418
Disposition of investment properties	—	—	—	—	(50,720)	(50,720)
Addition to investment properties	4,261	—	1,387	1,745	277	7,670
Increase in straight-line rents	323	—	—	—	699	1,022
Transfers from (to) properties under development	—	6,732	—	7,886	—	14,618
Fair value gain (loss)	(22)	4,391	(13,498)	7,590	(1,131)	(2,670)
Foreign currency translation	—	(124,105)	59,838	(68,506)	(21,072)	(153,845)
<b>Closing Balance</b>	<b>\$1,175,053</b>	<b>\$ 668,855</b>	<b>\$1,063,334</b>	<b>\$1,604,372</b>	<b>\$ 392,174</b>	<b>\$4,903,788</b>
	Properties Under Development					
	Canada	Brazil	Europe	Vital Trust	Australia REIT	Total
<b>Opening Balance</b>	<b>\$ 19,253</b>	<b>\$ —</b>	<b>\$ 12,342</b>	<b>\$ 86,969</b>	<b>\$ 18,250</b>	<b>\$ 136,814</b>
Addition to investment properties	1,784	6,732	41	21,746	1,138	31,441
Transfers from (to) income properties	—	(6,732)	—	(7,886)	—	(14,618)
Fair value gain (loss)	—	—	(41)	732	(3,253)	(2,562)
Foreign currency translation	—	—	837	(6,628)	(921)	(6,712)
<b>Closing Balance</b>	<b>\$ 21,037</b>	<b>\$ —</b>	<b>\$ 13,179</b>	<b>\$ 94,933</b>	<b>\$ 15,214</b>	<b>\$ 144,363</b>
	Total					
	Canada	Brazil	Europe	Vital Trust	Australia REIT	Total
<b>Opening Balance</b>	<b>\$1,189,744</b>	<b>\$ 781,837</b>	<b>\$ 785,251</b>	<b>\$1,688,906</b>	<b>\$ 482,371</b>	<b>\$4,928,109</b>
Acquisitions of investment properties	—	—	242,698	53,720	—	296,418
Disposition of investment properties	—	—	—	—	(50,720)	(50,720)
Addition to investment properties	6,045	6,732	1,428	23,491	1,415	39,111
Increase in straight-line rents	323	—	—	—	699	1,022
Fair value gain (loss)	(22)	4,391	(13,539)	8,322	(4,384)	(5,232)
Foreign currency translation	—	(124,105)	60,675	(75,134)	(21,993)	(160,557)
<b>Closing Balance</b>	<b>\$1,196,090</b>	<b>\$ 668,855</b>	<b>\$1,076,513</b>	<b>\$1,699,305</b>	<b>\$ 407,388</b>	<b>\$5,048,151</b>

<b>Investment Properties on Proportionate Basis<sup>(1)</sup></b>	
Expressed in thousands of Canadian dollars	
	<b>March 31, 2020</b>
Total reported investment properties	5,048,151
Proportionate share of the JV investments <sup>(2)</sup>	367,482
NCI share of investment properties	(1,328,941)
<b>Total investment properties at proportionate share</b>	<b>4,086,692</b>

Notes:

(1) Investment Properties on a proportionate basis is a non-IFRS financial measure that presents the value of investment properties at the REIT's effective ownership interest.

(2) Proportionate share of jointly owned investments where the REIT's interest is equity accounted. The JV includes properties that has been accounted on a proportionate basis and the HSO portfolio, which is equity accounted.

See **LEASING COSTS AND CAPITAL EXPENDITURES** for additional information on additions to investment properties.

## 2020 Acquisitions

During the three months ended March 31, 2020, the following investment property acquisitions were completed by the REIT including properties interest acquired in joint ventures with third-parties:

<b>ACQUISITIONS</b>			
<b>Region</b>	<b>Quarter</b>	<b>GLA</b>	<b>Acquisition Cost (in millions)<sup>(1)</sup></b>
Europe	Q1	570,390	\$ 242.7
Australasia <sup>(2)</sup>	Q1	234,712	\$ 30.6
Various		—	\$ 3.0
<b>Total</b>		<b>805,102</b>	<b>\$ 276.3</b>

(1) Acquisition costs includes purchase price of properties and related transaction costs.

(2) Represents 100% GLA related to properties owned through joint venture but managed by the REIT, whereas acquisition costs are shown at the REIT's 30% share of the gross value of the properties.

On March 23, 2020, the REIT completed the sale of three aged-care assets from its wholly-owned Australian REIT to Vital Trust for \$50.7 million. This transaction has been reflected as an acquisition and disposition in Vital Trust and Australia REIT, respectively, in the Investment Properties table above, with no net change on a consolidated basis.

## Valuation of Investment Properties

The estimated fair values of the investment properties at March 31, 2020 were determined based on a combination of internal valuation models incorporating available market evidence. As at March 31, 2020, the weighted average capitalization rate remained steady at 6.0% for the consolidated portfolio as compared to 6.0% as at December 31, 2019.

During the three months ended March 31, 2020, the REIT recorded a fair value loss of \$5.2 million on income producing property. The fair value loss for the three months ended March 31, 2020 was primarily the result of capital expenditure, and transaction costs incurred related to European acquisitions and Australia REIT acquisitions and developments, partially offset by slight fair value gains from inflation indexation of rents in Brazil, and NOI growth at Vital Trust.

## DEVELOPMENT ACTIVITY

The REIT develops new properties and reinvests capital in its existing properties, through expansions and refurbishments, as a way to create value for our tenants and unitholders. It is expected that development activity will become a more important component of the REIT's growth over time, to help our tenants meet the growing healthcare needs of the populations they serve. Meeting these needs is largely contingent upon completing the development projects in the manner contemplated. The most important factor affecting completion will be the successful execution of construction plans, while meeting the timing and cost goals of each project.

The REIT is undertaking the following active development projects which are at various stages of execution ranging from planning to active development:

<b>MAJOR DEVELOPMENT ACTIVITY BY REGION</b>								
Expressed in thousands of Canadian dollars, except percentage amounts								
	Number of Projects	Estimated Completion Date	Estimated Project Costs	Estimated Costs to Complete	% Pre-leased	Anticipated Project Yield	Anticipated Stabilized NOI	Potential value accretion
Australasia	5	Q2 2020 - Q2 2023	235,021	157,712	100%	6.1%	14,387	24,359
Brazil	2	Q2 2020 to Q4 2020	29,986	29,986	100%	7.5%	2,249	2,052
Canada	2	Q2 2020 - Q3 2021	38,000	19,800	61%	7.5%	2,848	5,864
	<u>9</u>		<u>\$ 303,007</u>	<u>\$ 207,498</u>	<u>95%</u>	<u>6.4%</u>	<u>\$ 19,484</u>	<u>\$ 32,275</u>

Anticipated stabilized NOI is Management's estimate of the amount of annual NOI the development activity will generate upon substantial completion and the commencement of rent payments. Estimated total cost includes acquisition cost, estimated total construction and financing costs. The material assumption made in formulating the estimated total cost is that construction and financing costs remain stable for the remainder of the development period in each of the REIT's regions. Estimated project yield on cost is the estimated annual NOI as a percentage of the estimated total cost. Estimated cost to complete is the difference between the estimated total cost and the costs incurred to date. Value accretion is based on stabilized value upon completion less project costs.

The reader is cautioned that the above information is forward-looking and actual results may vary materially. See **FORWARD-LOOKING INFORMATION ADVISORY**.

Vital Trust has five expansion projects with completion dates ranging from the second quarter of 2020 to the second quarter of 2023. The projects include a mix of modernisation and expansion at acute surgical and mental health facilities to meet the growing demand for healthcare services. Expansion projects are with Vital Trust's tenants, Health Care Acurity and Epworth. The developments are expected to be funded through Vital Trust's existing resources and availability on existing debt facilities. Expansion projects are fully leased at premium yields and expected to generate significant NAV growth on completion.

In addition to those projects included in the table above, Vital Trust has an active pipeline of potential expansions and developments that are expected to replace development completions over time.

The Brazilian development activity relates to expansion planned for the REIT's Hospital e Maternidade Brasil ("HMB") and Hospital Sao Luiz Morumbi and is expected to be funded through a combination of existing resources and property financing. The HMB development commitment was partially executed during the quarter.

Canada currently has two medical office properties under development comprising approximately 105,000 square feet. The first in St. Albert, Alberta is under construction and expected to be complete in the second quarter of 2020. Construction is expected to commence at the REIT's Pickering, ON development in the second half of 2020.

## LEASING COSTS AND CAPITAL EXPENDITURES

LEASING COSTS AND CAPITAL EXPENDITURES						
Expressed in thousands of Canadian dollars						
	Three months ended March 31, 2020					
	Canada	Brazil	Europe	Vital Trust	Australia REIT	Total
<b>Additions to investment properties</b>						
Leasing costs <sup>(1)</sup>	\$ 489	\$ —	\$ —	\$ —	\$ 9	\$ 498
Tenant improvements <sup>(2)</sup>	2,133	—	575	1,753	23	4,484
Maintenance capital expenditures	804	—	265	(17)	245	1,297
Other capital expenditures	835	—	546	9	—	1,390
	4,261	—	1,386	1,745	277	7,669
Internal leasing costs expensed	466	—	358	—	—	824
	4,727	—	1,744	1,745	277	8,493
Less:						
Recoverable maintenance capital expenditures	(804)	—	(41)	—	—	(845)
Other value enhancing and non-recurring capital expenditures	(384)	—	(768)	(1,753)	(74)	(2,979)
<b>Leasing costs and non-recoverable maintenance capital expenditures</b>	<b>\$ 3,539</b>	<b>\$ —</b>	<b>\$ 935</b>	<b>\$ (8)</b>	<b>\$ 203</b>	<b>\$ 4,669</b>
<b>AFFO adjustment for leasing costs and non-recoverable maintenance capital expenditures <sup>(3)</sup></b>	<b>\$ 1,954</b>	<b>\$ —</b>	<b>\$ 647</b>	<b>\$ (8)</b>	<b>\$ 203</b>	<b>\$ 2,796</b>
<b>Leasing costs and non-recoverable maintenance capital expenditures in excess of AFFO adjustment</b>	<b>\$ 1,585</b>	<b>\$ —</b>	<b>\$ 288</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,873</b>

### Notes

(1) The leasing costs exclude base salary and benefits of the internal leasing department which have been expensed.

(2) Tenant improvements include tenant allowances and landlord's work.

(3) In Canada and Europe, due to the nature of the portfolios, on a quarterly basis and during portfolio repositioning, leasing costs, tenant improvements and maintenance capital expenditures can fluctuate and as such, should not be regarded as stabilized. As a result, the REIT uses a reserve of 6% of revenue from investment properties in Canada and Europe when determining AFFO. In Brazil and Australasia due to the long term, triple net nature of the leases the REIT uses actual leasing costs and non-recoverable maintenance capital expenditures when determining AFFO.

The REIT's current leasing cost and capital expenditure reserves (the "LC and CAPEX reserve") are based on its views of stabilized, constant-occupancy leasing costs and maintenance capital expenditures. These views are underpinned by both the REIT's 10 plus years of experience as an owner and operator of healthcare real estate (including Canadian and Europe medical office buildings) as well as 5-year forecast expenditures, which incorporate a series of asset and space specific assumptions made by management supported by third party appraisers via valuation reports and engineers via building condition reports. The REIT's 6% LC and CAPEX reserves for Canadian and Europe medical office buildings are based on a 5 year forecast of leasing costs based on historic results, known leasing activity at constant occupancy levels and maintenance requirements as well as forecast market trends. Leases relating to the REIT's investments in Brazil and Australasia are typically structured on a long term (20+ year), triple net basis and as such leasing costs and maintenance capital expenditures are reported on an actual basis.

### Canada

On a quarterly basis and during asset repositioning, leasing costs, tenant improvements and capital expenditures can fluctuate and as such, should not be regarded as stabilized. Further, in accordance with the REIT's strategy of extending average lease term whenever possible, especially for primary medical tenancies, often non-recurring leasing costs are involved.

During the three months ended March 31, 2020 additions for the Canadian investment properties totaled \$4.3 million, of which, \$0.8 million (19%) relates to recoverable maintenance expenditures. During the quarter leasing costs of \$2.6 million included costs attributable to fifteen transactions, of which nine were lease renewal and expansion, with an aggregate WALE of 8.2 years.

Included in other value enhancing and non-recurring capital expenditures for the quarter were primarily costs incurred for non-recurring leasing to lease up never-before-occupied space at a recently developed building.

### **Brazil**

All of the REIT's hospitals in Brazil are leased to single tenants, hospital operators under long-term, inflation indexed, triple net lease structures in which the REIT does not absorb any property operating cost risk. As a result the REIT does not incur any leasing or capital expenditures at the REIT's Brazil hospitals and therefore the REIT uses actual expenditures (if ever applicable) in determining AFFO.

### **Europe**

On a quarterly basis leasing costs, tenant improvements and capital expenditures can fluctuate and as such, should not be regarded as stabilized. Additions to the European investment properties for the three months ended March 31, 2020 were \$1.7 million. Included in the value enhancing and non-recurring capital expenditures for the quarter were primarily tenant fitout and various other repair costs incurred in relation to the Berlin, Hessen and Bayern portfolios.

### **Vital Trust and Australia REIT**

The majority of Vital Trust and Australia REIT's assets represent hospitals leased to single tenant, hospital operators under long-term, inflation indexed, triple net lease structures. As a result, Vital Trust and Australia REIT do not incur significant leasing or maintenance capital expenditures. For Vital Trust and Australia REIT's MOB portfolio and certain hospital assets, leasing costs, tenant improvements and maintenance capital expenditures can be incurred. The REIT has elected to recognize actual leasing and maintenance capital expenditures incurred by Vital Trust and Australia REIT in determining AFFO due to the significant proportion of Vital Trust's and Australia REIT's portfolio comprised of triple net leased hospitals.

During the three months ended March 31, 2020 additions to the Vital Trust and Australia REIT investment properties totaled \$3.2 million. These costs were mainly attributable to fit-out of rentable spaces at Thames Street and various other repair works.

## PART III – RESULTS FROM OPERATIONS

### NET INCOME (LOSS)

The following is a summary of selected financial information from the condensed consolidated interim statements of income (loss) and comprehensive income (loss) for the three months ended March 31, 2020 and 2019:

<b>RESULTS FROM OPERATIONS</b>			
Expressed in thousands of Canadian dollars	Three months ended March 31,		
	2020	2019	Variance
<b>Net Operating Income</b> <sup>(1)</sup>			
Revenue from investment properties	\$ 95,594	\$ 91,933	\$ 3,661
Property operating costs	(22,948)	(22,841)	(107)
	<b>72,646</b>	<b>69,092</b>	<b>3,554</b>
<b>Other income</b>			
Share of profit (loss) from equity accounted investments	7,518	(83)	7,601
Management fees	1,423	2,675	(1,252)
Interest and other	620	1,366	(746)
	<b>9,561</b>	<b>3,958</b>	<b>5,603</b>
	<b>82,207</b>	<b>73,050</b>	<b>9,157</b>
<b>Expenses and Other</b>			
Mortgage and loan interest expense	(24,852)	(33,283)	8,431
General and administrative expenses	(7,019)	(6,796)	(223)
Transaction costs	(16,413)	(2,113)	(14,300)
Other finance costs	108,429	(67,526)	175,955
Foreign exchange gain (loss)	(7,465)	(960)	(6,505)
<b>Income (loss) before the under noted items</b>	<b>134,887</b>	<b>(37,628)</b>	<b>172,515</b>
Fair value adjustment of DUP Liability	3,892	(2,435)	6,327
Fair value adjustment of investment properties	(5,234)	9,730	(14,964)
Gain (loss) on derivative financial instruments	(13,820)	(8,378)	(5,442)
<b>Income (loss) before taxes</b>	<b>119,725</b>	<b>(38,711)</b>	<b>158,436</b>
Income tax expense	(3,665)	(15,317)	11,652
<b>Net income (loss)</b>	<b>\$ 116,060</b>	<b>\$ (54,028)</b>	<b>\$ 170,088</b>
<b>Net income (loss) attributable to:</b>			
Unitholders	\$ 114,717	\$ (57,988)	\$ 172,705
Non-controlling interest	1,343	3,960	(2,617)
	<b>\$ 116,060</b>	<b>\$ (54,028)</b>	<b>\$ 170,088</b>

#### Notes

(1) NOI is an additional IFRS measure presented on the consolidated statement of income and comprehensive income. NOI is defined in this MD&A and analyzed in greater detail in section "Net Operating Income".

## Revenue from investment properties

Revenue from investment properties for the three months ended March 31, 2020 was \$95.6 million as compared to \$91.9 million for the three months ended March 31, 2019. The increase of \$3.7 million is primarily driven by a \$4.6 million increase in European rents related to acquisition activity, including the acquisition of a hospital portfolio in the UK (see **Highlights for the Quarter**); an increase in Canadian revenues of \$1.1 million primarily as a result of acquisition and leasing activity during second half of 2019; and an increase in Australia REIT revenue of \$0.2 million driven by development activity, partially offset by decrease in revenue from sale of investment properties. These improvements were partially offset by a decrease in Brazilian revenues of \$1.5 million as a result of the weakening of the Brazilian Real; and a decrease in Vital Trust revenue of \$0.7 million primarily as a result of the weakening of New Zealand dollar.

See also **NET OPERATING INCOME**.

## Property operating costs

In Canada, Europe and Australasia, property operating costs are comprised of amounts recoverable from tenants (including property taxes, maintenance, utilities and insurance) and non-recoverable expenses including certain property management costs. The nature of the leases in Brazil is such that the tenant is responsible for all operating costs of the property.

Property operating costs for the three months ended March 31, 2020 were \$22.9 million as compared to \$22.8 million for the three months ended March 31, 2019. Of the \$0.1 million increase, the operating cost increase in Canadian of \$0.8 million was driven by increase in non-recoverable expenses. The increase was partially offset by decreases in European, Vital Trust and Australia REIT operating costs of \$0.3 million, \$0.2 million and \$0.2 million, respectively due to weakening of respective functional currencies relative to the Canadian dollar.

See also **NET OPERATING INCOME**.

## Share of profit (loss) of equity accounted investments

SHARE OF PROFIT/LOSS IN EQUITY ACCOUNTED INVESTMENTS			
Expressed in thousands of Canadian dollars	For the three months ended March 31,		
	2020	2019	Variance
<b>Total revenues</b>	<b>17,622</b>	<b>—</b>	<b>17,622</b>
<b>Expenses</b>			
Operating costs	(1,645)	—	(1,645)
Mortgage and loan interest expense	(4,245)	(275)	(3,970)
General and administrative expenses	(109)	—	(109)
Other	(112)	—	(112)
Fair value adjustments and transaction costs	13,547	—	13,547
<b>Net income (loss)</b>	<b>\$ 25,059</b>	<b>\$ (275)</b>	<b>\$ 25,334</b>
<b>Weighted average share of profits (loss)</b>	<b>30%</b>	<b>30%</b>	
<b>REIT's share of income (loss)</b>	<b>\$ 7,518</b>	<b>\$ (83)</b>	<b>\$ 7,601</b>

Share of profit (loss) of associate for the three months ended March 31, 2020 represents the REIT's share of profit (loss) in the Australasian JV with a institutional partner, including the HSO Portfolio and properties subsequently acquired or vended in. The share of profit (loss) of associate for the three months ended March 31, 2020 includes

the REIT's share of the revaluation of investment property \$13.5 million related to rent indexation for the HSO Portfolio, partially offset by the write off of transaction costs related to new property acquired during the quarter.

Interest expense for the three months ended March 31, 2020 relates to the JV's unsecured debt facilities of approximately \$803.6 million which bears interest at 2.1%.

## Management Fees

In exchange for its services, the Global Asset Manager earns management fees, activity-based fees for acquisitions and development activity, as well as an incentive fee from Vital Trust and joint arrangements.

On October 31, 2019, a new governance and fees structure was approved for Vital Trust. Under the new fee structure, base management fees are calculated on tiered basis as follows:

- .65% up to \$1bn of Vital's gross asset value ('GAV');
- .55% from \$1bn to \$2bn of GAV;
- .45% from \$2bn to \$3bn of GAV;
- .40% over \$3bn of GAV.

Incentive fee under the new fee structure are calculated as 10% of the average annual increase in Vital Trust net tangible assets, as defined in Vital Trust's fee schedule, over the respective financial year and the two preceding financial years. The new governance and fee structure also includes various activity based fees, including an acquisition fee of 1.5% of purchase price and development fee 4% of committed spend.

With respect to investment and property management services rendered to joint arrangements, the REIT is entitled to various market-based fees.

The following table summarizes the management fees earned by Global Asset Manager for the three months ended March 31, 2020 and 2019:

<b>GLOBAL MANAGEMENT FEES</b>			
Expressed in thousands of Canadian dollars			
	<b>Three months ended March 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>Variance</b>
Base fee	\$ 4,814	\$ 3,581	\$ 1,233
Incentive and performance fee	1,926	4,869	(2,943)
Trustee fees	188	186	2
Project and Acquisition fees	1,551	4,578	(3,027)
<b>Total Management Fees</b>	<b>\$ 8,479</b>	<b>\$ 13,214</b>	<b>\$ (4,735)</b>
less: inter-company elimination <sup>(1)</sup>	(7,056)	(10,539)	3,483
<b>Consolidated Management Fees</b> <sup>(2)</sup>	<b>\$ 1,423</b>	<b>\$ 2,675</b>	<b>\$ (1,252)</b>
add: fees charged to non-controlling interest	4,841	7,911	(3,070)
<b>Proportionate Management Fees</b> <sup>(3)</sup>	<b>\$ 6,264</b>	<b>\$ 10,586</b>	<b>\$ (4,322)</b>
<b>Notes</b>			
(1) Management fees charged to Vital Trust and the Australian REIT are eliminated on consolidation as an inter-company transaction.			
(2) Represents the reported consolidated management fees.			
(3) Represents the REIT's total management fees earned from third parties			

Consolidated management fees for the three months ended March 31, 2020, decreased by \$1.3 million partially driven by incentive fee and activity based fees from Vital Trust which are lower compared to the three months ended March 31, 2019.

The Global Asset Manager fees to Vital Trust are eliminated on consolidation as inter-company transactions but the REIT receives the benefit of approximately 75% of the fees; representing the non-controlling interest ownership in Vital Trust. Management fees charged to the JV are eliminated to the extent of the REIT's 30% interest in the JV.

## Interest and other

For the three months ended March 31, 2020 and 2019, the REIT recorded interest and other income of \$0.6 million and \$1.4 million. The decrease from the comparable prior year period is attributable to \$0.6 of interest income earned in Australia REIT related to a loan receivable, which was sold to the JV and converted into direct interest in the underlying property security during the fourth quarter of 2019; and \$0.2 million relates to a decrease in interest earned by Global Asset Manager on cash balances on hand.

## Mortgage and loan interest expense

The mortgage and loan interest expense for the three months ended March 31, 2020 was \$24.9 million, a decrease of \$8.4 million over the prior year period.

The composition of mortgage and loan interest expense for the three months ended March 31, 2020 and 2019 is as follows:

<b>MORTGAGE AND LOAN INTEREST EXPENSE</b>			
Expressed in thousands of Canadian dollars	Three months ended March 31,		
	2020	2019	Variance
<b>Canada</b>			
Mortgages <sup>(1)</sup>	\$ 4,480	\$ 4,714	\$ 234
<b>Brazil</b>			
Brazil debt	2,529	3,399	870
<b>Europe</b>			
Mortgages	2,333	2,080	(253)
<b>Australasia</b>			
Term loans	9,931	11,808	1,877
<b>Corporate</b>			
Australasian Secured Financing	1,097	1,669	572
Corporate credit facilities	2,002	4,155	2,153
Convertible Debentures	3,988	5,635	1,647
	7,087	11,459	4,372
less: capitalized interest	(1,527)	(177)	1,350
add: prepayment penalties	19	—	(19)
<b>Total mortgage and loan interest expense</b>	<b>\$ 24,852</b>	<b>\$ 33,283</b>	<b>\$ 8,431</b>

### Notes

(1) Includes interest from the non-revolving secured credit facility.

For additional information on the REIT's debt see **CAPITAL STRUCTURE – Debt**.

## Canada

Mortgage interest expense for the three months ended March 31, 2020 has decreased \$0.2 million over the three months ended March 31, 2019. The decrease in mortgage interest expense over the comparable prior year period primarily reflects a lower average mortgage balance and a lower weighted average interest rate. The decrease in mortgage balance is attributable to the repayment of \$51.0 million debt during fourth quarter of 2019. The weighted average interest rate of the Canadian mortgage portfolio as at March 31, 2020 decreased slightly to 3.64% compared to 3.83% as at March 31, 2019.

### Brazil

Mortgage interest expense for the three months ended March 31, 2020 decreased by \$0.9 million over the three months ended March 31, 2019. The decrease in interest expense over comparable prior year period is primarily due to a decrease in the weighted average interest rate of the Brazilian debt from March 31, 2019 (7.27%) to March 31, 2020 (4.53%), resulting from refinancing activity completed in Q3 2019.

### Europe

Mortgage interest expense for the three months ended March 31, 2020 has increased by \$0.3 million over the three months ended March 31, 2019. The increase over the comparable prior year period is due to interest on the mortgage associated with property acquisitions that occurred throughout 2019 and the first quarter of 2020, partially offset by a weakening of the Euro by approximately 1.5% against the Canadian dollar over the prior period.

The weighted average interest rate of the German mortgages was 2.15% as at March 31, 2020, which is a decrease from 2.23% as at March 31, 2019.

### Australasia

Mortgage interest expense for the three months ended March 31, 2020 has decreased by \$1.9 million over the three months ended March 31, 2019. The decrease over the comparable prior year period is attributable to the repayment of term loans related to the sale of investment properties as well as a decrease in weighted average interest rates. The weighted average interest rate as at March 31, 2020 decreased to 3.68% compared to 4.50% as at March 31, 2019.

### Corporate

The decrease in the interest expense for the three months ended March 31, 2020 over the comparable prior year period is primarily due to refinancing and partial repayment of a corporate facilities and convertible debentures.

For additional information on the REIT's Convertible Debentures and associated interest rates see **CAPITAL STRUCTURE - Debt**.

### **General and administrative expenses ("G&A")**

G&A expenses for the three months ended March 31, 2020 were \$7.0 million as compared to \$6.8 million for the three months ended March 31, 2019. G&A for the three months ended March 31, 2020 includes DUP Compensation Expense (as defined under **ADJUSTED FUNDS FROM OPERATIONS ("AFFO") - DUP Compensation Expense**) of \$1.1 million (three months ended March 31, 2019 - \$1.0 million). G&A, excluding amounts associated with DUP Compensation Expenses, increased \$0.1 million over the prior year period primarily as a result of the growth of the portfolio and related platform costs.

DUP expense for the three months ended March 31, 2020 has increased over the prior year period; which is primarily a result of inclusion of additional employees to the DUP plan resulting in higher amortization expense during the three months ended March 31, 2020.

### **Transaction costs**

For the three months ended March 31, 2020, the REIT incurred transaction costs of \$16.4 million (three months ended March 31, 2019 - \$2.1 million) which primarily consisted of CEO management services (See **RELATED PARTY TRANSACTIONS**) and costs related to acquisition and investment opportunities and capital raising initiatives being explored by the REIT.

## Other Finance costs

Other finance costs for the three months ended March 31, 2020 and 2019 consisted of the following:

OTHER FINANCE COSTS	Three months ended March 31,		
	2020	2019	Variance
Distributions on Exchangeable Units	\$ 2,475	\$ 3,542	\$ 1,067
Loss on revaluation of financial liabilities	2,702	1,300	(1,402)
Amortization of deferred financing costs	1,246	2,822	1,576
Amortization of marked to market adjustment	(291)	(297)	(6)
Fair value adjustment of Convertible Debentures	(26,210)	21,555	47,765
Fair value adjustment of Exchangeable Units	(88,351)	38,604	126,955
<b>Total Finance Costs</b>	<b>\$ (108,429)</b>	<b>\$ 67,526</b>	<b>\$ 175,955</b>

### Loss on revaluation of financial liabilities

The outstanding balances of the Brazil Securitization Financings are adjusted by the inflation rate (the consumer price inflation measure used by the Central Bank of Brazil for guiding monetary policy ("IPCA").

For the three months ended March 31, 2020, accretion expense of \$2.7 million (for the three months ended March 31, 2019 - \$1.3 million) was recorded to account for the related IPCA adjustments on the Brazil debt. The annual inflation rate for March 31, 2020 was 3.30% as compared to 4.58% for March 31, 2019.

### Amortization of deferred financing costs

For the three months ended March 31, 2020, the REIT recorded amortization of deferred financing fees of \$1.2 million (for the three months ended March 31, 2019 - \$2.8 million). The decrease in amortization during the three months ended March 31, 2020 was primarily attributable to accelerated amortization of deferred financing fees in 2019 related to refinancing activities.

### Fair value adjustment of Convertible Debentures

Under IFRS, the REIT has elected to measure Convertible Debentures at fair value. The fair value of the Convertible Debentures is based on the closing trading price of the REIT's Convertible Debentures as at the reporting date. The following table summarizes the closing prices of the REIT's Convertible Debentures at each quarter end for the last six quarters:

CLOSING PRICE OF CONVERTIBLE DEBENTURES	Mar-20	Dec-19	Sept-19	Jun-19	Mar-19
Month-end closing price (Canadian \$)					
NWH.DB.E	975.60	1,043.30	1,040.00	1,027.50	1,030.00
NWH.DB.F	960.00	1,057.60	1,030.40	1,030.00	1,030.00
NWH.DB.G	950.00	1,059.80	1,035.00	1,029.90	1,015.00

An increase in the price of a convertible debenture results in a fair value loss to the REIT and a decrease in the price of a convertible debenture results in a fair value gain to the REIT.

### Foreign exchange gain (loss)

The REIT and its subsidiaries financial assets and liabilities denominated in foreign currencies are revalued at the end of each period at the prevailing balance sheet rate. For the three months ended March 31, 2020, the REIT recorded a foreign exchange loss of \$7.5 million, which includes unrealized exchange loss of \$7.4. The REIT's unrealized foreign exchange gain (loss) for the period relates primarily to revaluation of third-party debt and intercompany loans between subsidiaries of the REIT that are denominated in foreign currencies. For the three months ended March 31, 2020, the REIT recorded a nominal realized foreign exchange gain, related primarily to the settlement of certain intercompany loans between the REIT's subsidiaries.

See also **FOREIGN EXCHANGE AND CURRENCY MANAGEMENT**.

### Fair value adjustment of DUP Liability

Under IFRS, the REIT's unit-based deferred unit compensation liability ("**DUP Liability**") is measured at fair value each reporting period. The fair value of the DUP Liability mirrors the trading price of the REIT Trust Units for deferred units exchangeable into REIT Trust Units, and the trading price of Vital Trust units for deferred units exchangeable into Vital Trust units.

The fair value adjustment on revaluation of the DUP Liability for the three months ended March 31, 2020 was a gain of \$3.9 million, as compared to a loss of \$2.4 for the three months ended March 31, 2019. The increase in the fair value adjustment related to the DUP liability over the comparable prior year periods reflects changes in the trading price of the REIT's Trust Units and Vital Trust's units during the period.

### Fair value adjustment of investment properties

For the three months ended March 31, 2020, the REIT recorded a fair value gain on investment properties of \$5.2 million consisting of a nil revaluation loss related to the Canadian properties, a \$4.4 million revaluation increase of the Brazil portfolio, a \$13.5 million revaluation loss of the European portfolio, a \$8.3 increase in the Vital Trust investment properties and a \$4.4 million revaluation loss in the Australia REIT portfolio. The revaluation of the Brazil portfolio during the three months ended March 31, 2020 is driven by rental growth resulting from the change in the IPCA index across all assets and tightening of valuation parameters. The revaluation loss on the European portfolio during the three months ended March 31, 2020 is driven primarily by the write off of capital expenditures, and transaction costs related to acquisition activity. The increase in the Vital Trust portfolio is attributable to NOI growth from rent reviews during the quarter. The decrease in AREIT fair value is mainly driven by the write-off of costs related to development activities.

For the three months ended March 31, 2020 included in share of profit (loss) of associate is the REIT's share of the joint venture's revaluation gain of \$13.5 million, driven primarily by rent growth resulting from the change in rent indexation . See **Share of profit (loss) of equity accounted investments**.

See also **INVESTMENT PROPERTIES**.

## Gain/Loss on derivative financial instruments

Gain/loss on derivative financial instruments for the three months ended March 31, 2020 and 2019 consisted of the following:

GAIN (LOSS) ON DERIVATIVE FINANCIAL INSTRUMENTS	Three months ended March 31,		
	2020	2019	Variance
Expressed in thousands of Canadian dollars			
<b>Canada</b>			
Interest rate swaps	\$ (1,548)	\$ (729)	\$ (819)
<b>Europe</b>			
Interest rate swaps	(477)	(795)	318
<b>Australasia</b>			
Interest rate swaps	(12,164)	(13,797)	1,633
Foreign exchange contracts	369	251	118
Gain (loss) on HSO derivative	—	6,692	(6,692)
<b>Total gain (loss) on derivative financial instruments</b>	<b>\$ (13,820)</b>	<b>\$ (8,378)</b>	<b>\$ (5,442)</b>

During the second quarter of 2019, the REIT net settled the HSO derivatives for \$143.9 million and utilized its investment in HSO towards acquisition of the HSO Portfolio.

## Income tax expense

The combined current tax and deferred tax expense of the REIT for the three months ended March 31, 2020 was \$3.7 million.

For the three months ended March 31, 2020, the REIT recognized current income tax expense of \$17.1 million (three months ended March 31, 2019 - \$2.4 million). The current taxes relate primarily to a taxable capital gain in Australia as a result of disposition activity during the quarter as well as normal course income taxes payable by the Global Asset Manager on management fees earned. The variability of current taxes payable by Vital Trust reflect taxes on foreign currency derivatives utilized in Vital Trust's hedging program.

The REIT records deferred tax liabilities in Europe, Brazil, Vital Trust and the Australia REIT arising primarily due to the difference between the carrying value for accounting purposes and tax cost of its investment properties. The deferred tax recovery for the three months ended March 31, 2020 of \$13.5 million (for the three months ended March 31, 2019 - \$12.9 million) was primarily comprised of the deferred tax recovery in Australia REIT of \$15.2 million as result of reversing previously recorded deferred tax liability on properties disposed of in the period, deferred tax recovery related to Vital Trust of \$1 million, and deferred tax recovery related to Europe of \$1.8 million; partially offset by deferred tax expense of Brazil of \$4.5 million.

## NET OPERATING INCOME

NOI is an additional IFRS measure of the REIT's operating performance. NOI is defined as income from properties after operating expenses have been deducted, computed in accordance with IFRS, but before deducting interest expense, finance costs, depreciation and amortization expense, general and administrative expenses, income taxes, leasehold improvement and leasing costs, and unrecoverable capital costs. The REIT uses NOI to assess its property operating performance on an unleveraged basis. Same Property NOI for the three months ended March 31, 2020 represents income from currently owned investment properties, excluding properties held for redevelopment, acquired prior to January 1, 2018.

The REIT's same property NOI for the three months ended March 31, 2020 and 2019 is summarized in the tables below in Canadian dollars and in source currency:

<b>SAME PROPERTY NOI</b>			
In thousands of CAD	Three months ended March 31,		
	2020	2019	Var %
<b>Same property NOI <sup>(1)</sup></b>			
Canada	\$ 16,189	\$ 16,723	(3.2)%
Brazil	12,863	14,366	(10.5)%
Europe	8,033	7,851	2.3 %
Vital Trust	20,721	22,090	(6.2)%
Australia REIT	4,794	4,704	1.9 %
<b>Same property NOI <sup>(1)</sup></b>	<b>\$ 62,600</b>	<b>\$ 65,734</b>	<b>(4.8)%</b>
Developments	1,597	868	
Acquisitions	5,998	501	
Dispositions	2,114	2,367	
Intercompany/Elimination	337	(377)	
<b>NOI <sup>(1)</sup></b>	<b>\$ 72,646</b>	<b>\$ 69,093</b>	<b>5.1 %</b>

Notes:

(1) NOI is an additional IFRS measure presented on the consolidated statement of income and comprehensive income. NOI is defined in this MD&A.

<b>ADJUSTED SAME PROPERTY NOI</b>			
In thousands of CAD	Three months ended March 31,		
	2020	2019	Var \$ Var %
<b>Same property NOI <sup>(1)</sup></b>	<b>\$ 62,600</b>	<b>\$ 65,734</b>	<b>\$(3,134) (4.8)%</b>
<b>Adjustments</b>			
Straight-line rental revenue recognition	(314)	(479)	165
Amortization of operating leases	95	244	(149)
Lease termination fees	(6)	(74)	68
Other transactions	465	(473)	938
<b>Adjusted same property NOI <sup>(2)</sup></b>	<b>\$ 62,840</b>	<b>\$ 64,952</b>	<b>\$(2,112) (3.3)%</b>

Notes:

(1) NOI is an additional IFRS measure presented on the consolidated statement of income and comprehensive income. NOI is defined in this MD&A.

(2) Adjusted same property NOI is a non-IFRS measure defined in this MD&A.

## CONSTANT CURRENCY ADJUSTED SAME PROPERTY NOI

In thousands of CAD, in constant currency

	Three months ended March 31,		
	2020	2019	Var %
<b>Adjusted same property NOI <sup>(1)</sup></b>			
Canada	\$ 16,245	\$ 16,100	0.9%
Brazil	12,839	12,277	4.6%
Europe	8,110	7,902	2.6%
Vital Trust	21,040	20,519	2.5%
Australia REIT	4,606	4,275	7.7%
<b>Constant currency Adjusted SPNOI <sup>(2)</sup></b>	<b>\$ 62,840</b>	<b>\$ 61,073</b>	<b>2.9%</b>

Notes:

(1) These include adjustment for straight-line rental revenue recognition, lease termination fees and allowance for doubtful accounts.

(2) The constant currency adjusted same property NOI change is calculated by converting the comparative same property NOI at current FX rates.

### Canada

Same Property NOI for the three months ended March 31, 2020 decreased by 3.2% over the comparable prior year period, mainly due to lower supervisory fees on tenant work's, lower transient parking income due to COVID-19 business closures in March, and lower straight-line rent adjustments.

Excluding lower parking income due to COVID-19 business closures in March, Adjusted Same Property NOI for the three months ended March 31, 2020 increased by 0.9% over the comparable prior year period.

### Brazil

Same Property NOI for the three months ended March 31, 2020 in BRL increased by 4.5% (decreased by 10.5% in C\$) over the comparable prior year period mainly due to inflationary adjustment on rents of approximately 3.6% and the remaining increase is primarily attributable to the rentalization of the expansion at HMB (see **Development Activity**).

Adjusted same property NOI for the three months ended March 31, 2020 in BRL increased by 4.6% (decreased by 10.4% in C\$) over the comparable prior year period mainly due to inflationary adjustment on rents of approximately 3.6% and the remaining increase is attributable to the rentalization of the expansion at HMB (see **Development Activity**).

### Europe

Same Property NOI for the three months ended March 31, 2020 in Euros increased by 4.4% (increased by 2.3% in C\$) over the comparable prior year period, mainly due to an increase in rental revenue due to favorable leasing and indexation increases and the impact of recovery adjustments in 2019.

Adjusted Same Property NOI for the three months ended March 31, 2020 in Euros, increased by 2.6% (decreased by 0.6% in C\$) over the comparable prior year period due to favourable leasing and indexation increases.

### Vital Trust

Same Property NOI for the three months ended March 31, 2020 in New Zealand dollars decreased by 0.2% (decreased by 6.2% in C\$) over the comparable prior year period, mainly driven by indexed rental increases and favorable leasing, offset by Ascot hospital fitout rent amortization ceasing, and weakening of Australian dollar over the New Zealand dollar by 0.8%.

Adjusted Same Property NOI for the three months ended March 31, 2020 in New Zealand dollars over the comparable prior year period increased by 2.5% (decreased by 3.7% in C\$) over the comparable prior year period driven by development rentalization and favorable leasing.

#### Australia REIT

Same property NOI for the three months ended March 31, 2020 increased by 10.0% (increased by 1.9% in C\$) over the comparable prior year period, mainly driven by favorable leasing at Epping Medical Centre.

Adjusted Same Property NOI for the three months ended March 31, 2020 in Australian dollars over the comparable prior year period increased by 7.7% (decreased by 0.2% in C\$) attributable to new leasing post development and favourable leasing at Epping Medical Centre.

## LEASING

### Lease Maturities

The REIT's asset diversification is complemented by a long term maturity profile, with a weighted average lease expiry of 14.4 years as at March 31, 2020. Below is a table of the percentage of leases of expiring by year by region.

	2020	2021	2022	2023	2024	2025	2026	2027	Thereafter	Total
Canada	7.9%	10.0%	12.6%	14.2%	11.7%	7.6%	5.3%	7.3%	23.4%	100.0%
Brazil	—%	—%	—%	—%	6.1%	—%	—%	—%	93.9%	100.0%
Europe	6.4%	5.1%	3.8%	2.8%	2.8%	4.9%	1.3%	0.9%	72.0%	100.0%
Australasia	1.3%	0.7%	4.6%	2.9%	1.8%	1.1%	7.5%	1.0%	79.1%	100.0%
Total Portfolio	4.0%	3.9%	5.6%	5.0%	4.7%	3.4%	4.5%	2.2%	66.7%	100.0%

#### Notes:

- As at March 31, 2020.
- Australia REIT is shown at 100% ownership for assets held as part of Joint Venture Agreements ("JV"). The REIT owns 30% interest in the JV.

The REIT's expiry profile benefits from its Australian and Brazilian properties which are subject to long term leases. The eight Brazil hospitals are each occupied by single tenants that are leading hospital operators, and have leases expiring between September 30, 2024 and November 14, 2043. The expiry profile also reflects the longer term nature of many of the hospital tenants within the Vital Trust portfolio which has a WALE of 18.4 years and the Australia REIT which has a WALE of 17.6 years.

The below table summarizes the REIT's WALE allocated by asset type as at March 31, 2020:

	Asset Mix		WALE		Total
	MOB	Hospitals & Healthcare Facilities	MOB	Hospitals & Healthcare Facilities	
Canada <sup>1</sup>	100%	—%	5.2	—	5.2
Brazil	—%	100%	—	19	19
Europe	64%	36%	6.0	22.6	15.5
Vital <sup>1</sup>	24%	76%	6.3	19.9	18.4
Australia REIT <sup>1,2</sup>	26%	74%	12.1	19.0	17.6

#### Notes

1 Excluding development projects.

2 Australia REIT is shown at 100% ownership for assets held as part of Joint Venture Agreements ("JV"). The REIT owns 30% interest in the JV.

### Lease Indexation

As at March 31, 2020, over 73.5% of the REIT's revenue (96.1% of the International Portfolio) is subject to inflationary adjustments and market reviews. The below table summarizes the percentage of revenue by region which receives the benefit of regular inflationary adjustments:

Revenue Subject to Inflationary/Market Based Adjustments	
As at March 31, 2020	% of Revenue <sup>(1)</sup>
Canada	—%
Brazil	100.0%
Europe	94.1%
Vital	94.0%
Australia REIT <sup>(2)</sup>	98.8%
<b>International Total/Weighted Average</b>	<b>96.1%</b>
<b>Portfolio Total / Weighted Average</b>	<b>73.5%</b>

#### Notes

(1) Includes revenue which is subject to inflationary adjustments and market reviews.

(2) Australia REIT is shown at proportionate share ownership for assets held as part of Joint Venture Agreements ("JV"). The REIT owns 30% interest in the JV.

## Leasing Activity

LEASING ACTIVITY						
Three months ended March 31, 2020						
in thousands of square feet	Canada	Brazil	Europe	Vital Trust <sup>(1)</sup>	Australia REIT <sup>(2)</sup>	Total
Opening Occupancy	93.0%	100.0%	97.3%	99.6%	99.0%	97.3%
<b>Opening Balance</b>	<b>3,338</b>	<b>1,723</b>	<b>3,419</b>	<b>2,576</b>	<b>3,013</b>	<b>14,069</b>
Acquisition	—	—	573	223	249	1,045
Disposition	—	—	—	—	(399)	(399)
Transfers from/(to) Properties under Development	—	50	—	—	—	50
Expiries and Early Terminations	(116)	—	(106)	(339)	(2)	(563)
Renewal	58	—	98	330	—	486
New Leasing	18	—	18	2	3	41
Other <sup>(3)</sup>	14	—	—	—	—	14
Closing Balance	<u>3,312</u>	<u>1,773</u>	<u>4,002</u>	<u>2,792</u>	<u>2,864</u>	<u>14,743</u>
<b>Closing Occupancy</b>	<b>92.1%</b>	<b>100.0%</b>	<b>97.8%</b>	<b>99.4%</b>	<b>99.4%</b>	<b>97.3%</b>

### Notes

(1) Shown on a 100% basis. The REIT has an approximate 25% interest in Vital Trust and acts as manager of Vital Trust, it therefore consolidates Vital Trust.

(2) Australia REIT is shown at 100% ownership for assets held as part of Joint Venture Agreements ("JV"). The REIT owns 30% interest in the JV.

(3) Other includes remeasurements and month-to-month leases.

## Canada

During the quarter, the REIT completed 58 thousand square feet of renewal leasing representing a 53% renewal rate. 23 thousand square feet or 21% of the expiries in the quarter remain occupied and are expected to renew. The REIT completed the renewals at an initial net rent of \$15.08 per square foot versus an expiring net rent per square foot of \$15.36 per square foot, a decrease of \$0.28 per square foot or 1.8%. The decrease was primarily attributable to the renewals in the West driven by market conditions in that region.

During the quarter, the REIT also completed 18 thousand square feet of new leasing at an initial net rent of \$14.18 per square foot.

As at March 31, 2020, the REIT had 166 thousand square feet of committed leasing against future expiries at an initial net rent of \$17.16 per square foot versus expiring net rent per square foot of \$17.17, essentially flat. The REIT also had 44 thousand square feet of committed leasing against vacant space at an initial net rent of 15.38 per square foot.

Expiring net rent increased to \$18.34 per square foot in the first quarter 2020, from \$18.23 per square foot in the fourth quarter of 2019, mainly due to conversion of gross to net leases and move out of tenants at lower than average net rent.

EXPIRING NET RENT (\$PSF)	
March 31, 2020	
Canada	
Month-to-Month	\$ 15.05
2020	\$ 17.22
2021	\$ 17.71
2022	\$ 16.16
2023	\$ 14.82
2024	\$ 18.40
2025+	\$ 20.64
<b>Total Expires</b>	<b>\$ 18.34</b>

### Brazil

The REIT's Brazil properties are subject to long term leases (portfolio WALE of 19.1 years). There was no leasing activity during the quarter.

### Europe

During the quarter, the REIT completed 98 thousand square feet of renewal leasing representing a 94.2% renewal rate. These renewals were completed at an initial net rent of €10.21 per square foot versus an expiring net rent per square foot of €10.09, an increase of 1.1%.

During the quarter, the REIT completed 18 thousand square feet of new leasing at an initial average net rent of €12.86 per square foot.

EXPIRING NET RENT (€PSF)	
March 31, 2020	
Europe	
Month-to-Month	€ 10.47
2020	€ 11.78
2021	€ 13.05
2022	€ 11.88
2023	€ 11.81
2024	€ 11.37
2025+	€ 9.82
<b>Total Expires</b>	<b>€ 10.27</b>

### Vital Trust

Vital Trust's properties are generally subject to long term leases.

During the quarter, Vital Trust completed 330 thousand square feet representing a 100% renewal rate. 319 thousand square feet was a 25-year renewal secured with Australian Hospital Care at The Southport Private Hospital. The renewals were a result of tenants exercising their renewal options and were completed at an initial net rent per square foot of NZ\$8.84 versus expiring net rent of NZ\$9.6, a decrease of 7.82%.

During the quarter, Vital Trust also completed 2 thousand square feet of new leasing at an initial average net rent of NZ\$41.81 per square foot.

### Australia REIT

Australia REIT properties are generally subject to long term leases, and as such there was no material leasing activity.

During the quarter there were no renewals. REIT has completed 3 thousand square feet of new leasing at initial rate of A\$47.55.

## FUNDS FROM OPERATIONS ("FFO")

FFO is a supplemental non-IFRS industry wide financial measure of a REIT's operating performance. The REIT calculates FFO based on certain adjustments to net income (computed in accordance with IFRS) as detailed below. Other adjustments may be made to FFO as determined by management at their discretion. REALpac has established a standardized definition of FFO in a White Paper dated February 2019 ("REALpac Guidance"). The REIT's FFO definition differs from the REALpac Guidance in that the REIT excludes the revaluation of financial liabilities and convertible debenture issuance cost in its calculation of FFO.

### FUNDS FROM OPERATIONS

Expressed in thousands of Canadian dollars, except per unit amounts

	Three months ended March 31,		
	2020	2019	Variance
<b>Net income (loss) attributable to unitholders</b>	<b>\$ 114,717</b>	<b>\$ (57,988)</b>	<b>\$ 172,705</b>
<b>Add / (Deduct):</b>			
(i) Fair market value losses (gains)	(99,399)	61,242	(160,641)
Less: Non-controlling interests' share of fair market value losses (gains)	(2,532)	(1,764)	(768)
(ii) Finance cost - Exchangeable Unit distributions	2,475	3,542	(1,067)
(iii) Revaluation of financial liabilities	2,702	1,300	1,402
(iv) Unrealized foreign exchange loss (gain)	7,442	2,065	5,377
Less: Non-controlling interests' share of unrealized foreign exchange loss (gain)	870	(124)	994
(v) Deferred taxes	(13,476)	12,901	(26,377)
Less: Non-controlling interests' share of deferred taxes	1,374	1,543	(169)
(vi) Transaction costs	31,509	2,113	29,396
Less: Non-controlling interests' share of transaction costs	(5,084)	(192)	(4,892)
(vii) Net adjustments for equity accounted investments	(4,065)	—	(4,065)
(viii) Internal leasing costs	824	454	370
(ix) Net adjustment for lease amortization	(65)	(160)	95
(x) Other FFO adjustments	1,056	1,824	(768)
<b>Funds From Operations ("FFO") <sup>(1)</sup></b>	<b>\$ 38,348</b>	<b>\$ 26,756</b>	<b>\$ 11,592</b>
FFO per Unit - Basic	\$ 0.22	\$ 0.21	\$ 0.01
FFO per Unit - fully diluted <sup>(3)</sup>	\$ 0.21	\$ 0.20	\$ 0.01
<b>Adjusted weighted average units outstanding <sup>(2)</sup></b>			
Basic	176,400,438	126,547,692	49,852,746
Diluted <sup>(3)</sup>	199,638,328	156,340,290	43,298,038

#### Notes

- (1) FFO is not a measure recognized under IFRS and does not have standardized meanings prescribed by IFRS. FFO as computed by the REIT may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to FFO as reported by other such issuers. FFO is defined in this MD&A and reconciled to the consolidated financial statements of the REIT.
- (2) Under IFRS the REIT's Class B LP Units are treated as a financial liability rather than equity. The REIT has chosen to present an adjusted basic and diluted per unit measure that includes the Class B LP Units in basic and diluted units outstanding/weighted average units outstanding. There were 1,710,000 Class B LP Units outstanding as at March 31, 2020 and 17,708,065 outstanding as at March 31, 2019.
- (3) Diluted units includes vested but unissued deferred trust units and the conversion of the REIT's Convertible Debentures that would have a dilutive effect upon conversion at the holders' contractual conversion price. Convertible Debentures are dilutive if the interest (net of tax and other changes in income or expense) per unit obtainable on conversion is less than the basic per unit measure.

Additional details on the adjustments to the REIT's net income to arrive at FFO are below:

(i) **Fair market value losses (gains)**

<b>FAIR MARKET VALUE LOSSES (GAINS)</b>			
Expressed in thousands of Canadian dollars			
	Three months ended March 31,		
	2020	2019	Variance
<b>Fair market value losses (gains)</b>			
Fair value adjustment of Convertible Debentures	\$ (26,210)	\$ 21,555	\$ (47,765)
Fair value adjustment of Exchangeable Units	(88,351)	38,604	(126,955)
Fair value adjustment of investment properties	5,234	(9,730)	14,964
Loss (Gain) on derivative financial instruments	13,820	8,378	5,442
Fair value adjustment of DUP liability	(3,892)	2,435	(6,327)
<b>Total</b>	<b>\$ (99,399)</b>	<b>\$ 61,242</b>	<b>\$ (160,641)</b>

Additional details are below:

a. Convertible Debentures

Under IFRS the REIT's Convertible Debentures are classified as financial liabilities measured at fair value through profit and loss and any related unrealized fair value changes in re-measuring the financial liability impact net income. Consistent with the REALpac Guidance and in order to enhance the usefulness and comparability of FFO as a supplemental measure of the operating performance of the REIT, fair value changes related to the Convertible Debentures have been added back to the REIT's net income (loss).

b. Exchangeable Units and DUP Liability

Under IFRS the REIT's Exchangeable Units and DUP Liability are classified as financial liabilities and any related unrealized fair value changes in re-measuring the financial liability impact net income. Consistent with REALpac Guidance and in order to enhance the usefulness and comparability of FFO as a supplemental measure of the operating performance of the REIT, fair value changes related to Exchangeable Units and DUP Liability have been added back to the REIT's net income (loss).

c. Investment properties

Under IFRS the REIT has elected to use the fair value model to account for its investment properties. Under the fair value model, investment properties are carried on the consolidated balance sheet at fair value. The properties are not depreciated and changes in the fair value of the investment properties are recognized in income in the period in which they occur. Consistent with REALpac Guidance and in order to enhance the usefulness and comparability of FFO as a supplemental measure of the operating performance of the REIT, fair value changes related to investment properties have been added back to the REIT's net income (loss).

d. Derivative financial instruments

Under IFRS derivative financial instruments are measured at fair value and any related unrealized fair value changes in re-measuring the derivative financial instrument impact net income. Consistent with the REALpac Guidance and in order to enhance the usefulness and comparability of FFO as a supplemental measure of the operating performance of the REIT, unrealized fair value changes related to derivative financial instruments have been added back to the REIT's net income (loss).

(ii) **Finance cost - Exchangeable Unit distributions**

Under IFRS the REIT's Exchangeable Units are classified as financial liabilities and any related distributions on the Exchangeable Units are regarded as finance costs. Consistent with REALpac Guidance and in order to enhance the usefulness and comparability of FFO as a supplemental measure of the operating performance of the REIT, distributions related to the Exchangeable Units have been added back to the REIT's net income (loss).

(iii) **Revaluation of financial liabilities**

Over the term of the loan, the Brazil Securitization Financings are adjusted by the inflation rate (IPCA) from the date of inception of these liabilities to their respective maturities. The accretion expense is treated as a fair value adjustment to the Brazil Securitization Financings and therefore adjusted for when calculating FFO. Although this adjustment is not consistent with REALpac Guidance, the REIT believes the adjustment is consistent with industry practice.

(iv) **Unrealized foreign exchange loss (gain)**

Under IFRS, financial assets and liabilities denominated in foreign currencies are revalued at the end of each period at the prevailing balance sheet rate. The REIT's unrealized foreign exchange movements for the periods relate primarily to the revaluation of the Australasian debt which are denominated in Australian and/or New Zealand dollars and held by a Canadian and/or New Zealand subsidiary of the REIT, and revaluation of short-term loans with subsidiaries of the REIT that are denominated in a different source currency than the functional currency of the subsidiary. Consistent with REALpac Guidance, the foreign exchange movements on the indebtedness and intercompany transactions have been added back to the REIT's net income.

(v) **Deferred taxes**

Under IFRS, the REIT has recorded deferred tax liabilities in Europe, Brazil, Vital Trust and the Australia REIT arising primarily due to the difference between the book value and tax cost of its investment properties. Consistent with REALpac Guidance and in order to enhance the usefulness and comparability of FFO as a supplemental measure of the operating performance of the REIT, deferred taxes have been added back to its net income (loss).

(vi) **Transaction costs**

Under IFRS the REIT expensed transaction costs related to acquisitions which have been determined to be business combinations. In accordance with the REALpac Guidance, to allow for consistent treatment of transaction costs incurred whether a transaction is recorded as an asset acquisition or business combination, and to enhance the usefulness and comparability of FFO as a supplemental measure of the operating performance of the REIT, costs related to the REIT's strategic transactions have been added back to net income (loss).

Included in transaction costs are costs related to establishing joint arrangements, including those incurred with respect to building relationship with healthcare operators and institutional investors. The REIT has also adjusted Australian capital gains and withholding taxes of \$15.1 million during the three months ended March 31, 2020 (three months ended March 31, 2019 - nil) in connection with sale of investment properties and resulting distribution of proceeds (see **Net Income**).

(vii) **Net adjustments for equity accounted investments**

Under IFRS the REIT's investment in joint ventures is accounted for using the equity method of accounting. As such, the REIT's share of post acquisition net income (loss) was recognized in its net income (loss), and its share of post-acquisition movements in other comprehensive income (loss) was recognized in other comprehensive income (loss). Consistent with REALpac Guidance and in order to enhance the usefulness and comparability of FFO as a supplemental measure of the operating performance of the REIT, the REIT's share of its equity accounted investment's post-acquisition net income (loss) is added/(deducted) to/(from) net income and FFO is presented after including the REIT's proportionate share of the equity accounted investment's FFO.

<b>Funds From Operations of Equity Accounted Investments</b>			
Expressed in thousands of Canadian dollars	<b>Three months ended March 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>Variance</b>
<b>Share of profit (loss) of Equity Accounted Investments</b>	\$ 7,518	\$ (83)	\$ 7,601
<b>Add/(Deduct):</b>			
Fair market value losses (gains)	(4,065)	—	(4,065)
<b>Net FFO Adjustment for Equity Accounted Investments</b>	<b>\$ (4,065)</b>	<b>\$ —</b>	<b>\$ (4,065)</b>
<b>Proportionate share of Equity Accounted Investments FFO</b>	<b>\$ 3,453</b>	<b>\$ (83)</b>	<b>\$ 3,536</b>

**(viii) Internal leasing costs**

In accordance with IFRS, internal leasing costs that are not incremental are expensed. These amounts include the base salary and benefits of the internal leasing department. Consistent with REALpac Guidance, costs that can be reasonably and directly attributed to signed leases, and that would otherwise be capitalized if incurred from external sources, are added back to net income in determining FFO.

**(ix) Amortization of finance leases**

Consistent with REALpac Guidance, where the REIT is accounting for operating leases under IFRS 16, the REIT has adjusted FFO to reflect the principal payments that are amortized against the lease liability. For Right of Use ("ROU") assets that are being measured at cost and amortized, the amortization is added back as prescribed by the REALpac Guidance.

The Australia REIT has one long term lease receivable and one long term ground lease payable which have been recorded, in accordance with IFRS, as a finance lease payable and receivable respectively. An adjustment has been made to FFO to adjust for the net cash impact of the finance leases.

**(x) Other FFO adjustments**

For the three months ended March 31, 2020, other FFO adjustments includes the impact of certain ANZ Manager fees that are capitalized by Vital Trust related primarily to acquisition and development activities. The adjustments reflect the cash flow benefit to the REIT of the capitalized fees funded by the non-controlling interest of Vital Trust.

In addition to the above adjustments, other FFO adjustments for the three months ended March 31, 2019 include the amortization of the free rent asset associated with the sale and lease back of the mid-town Toronto parking garage.

## ADJUSTED FUNDS FROM OPERATIONS ("AFFO")

AFFO is a supplemental non-IFRS financial measure of a REIT's operating performance and is intended to reflect a stabilized business environment. The REIT calculates AFFO as FFO, plus/minus certain adjustments as detailed below. Other adjustments may be made to AFFO as determined by management at their discretion.

In February 2019, REALpac issued an amended White Paper with recommendations for the calculation of AFFO. The REIT's AFFO definition differs from the recently-issued REALpac Guidance in that the REIT excludes the revaluation of financial liabilities, amortization of transactional deferred financing charges, debt mark-to-market adjustments, DUP compensation expense, and debt repayment costs in its AFFO calculations.

<b>ADJUSTED FUNDS FROM OPERATIONS</b>			
Expressed in thousands of Canadian dollars, except per unit amounts			
	<b>Three months ended March 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>Variance</b>
<b>Funds From Operations ("FFO") <sup>(1)</sup></b>	<b>\$ 38,348</b>	<b>\$ 26,756</b>	<b>\$ 11,592</b>
<b>Add / (Deduct):</b>			
(i) Amortization of marked to market adjustment	(291)	(297)	6
(ii) Amortization of transactional deferred financing charges	206	1,534	(1,328)
(iii) Straight-line revenue	(183)	(432)	249
Less: non-controlling interests' share of straight-line revenue	(161)	(48)	(113)
(iv) Leasing costs and non-recoverable maintenance capital expenditures	(2,796)	(3,790)	994
Less: non-controlling interests' share of actual capex and leasing costs	—	368	(368)
(v) DUP Compensation Expense	1,074	954	120
(vi) Debt repayment costs	19	—	19
(vii) Net adjustments for equity accounted investments	(9)	—	(9)
<b>Adjusted Funds From Operations ("AFFO") <sup>(1)</sup></b>	<b>\$ 36,207</b>	<b>\$ 25,045</b>	<b>\$ 11,162</b>
AFFO per Unit - Basic	\$ 0.21	\$ 0.20	\$ 0.01
AFFO per Unit - fully diluted <sup>(3)</sup>	\$ 0.20	\$ 0.19	\$ 0.01
Distributions per Unit - Basic	\$ 0.20	\$ 0.20	\$ —
<b>Adjusted weighted average units outstanding: <sup>(2)</sup></b>			
Basic	176,400,438	126,547,692	49,852,746
Diluted <sup>(3)</sup>	199,638,328	146,976,994	52,661,334

### Notes

(1) FFO and AFFO are not measures recognized under IFRS and does not have standardized meanings prescribed by IFRS. FFO and AFFO as computed by the REIT may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to FFO and AFFO as reported by other such issuers. FFO and AFFO are defined in this MD&A and reconciled to the consolidated financial statements of the REIT.

(2) Under IFRS the REIT's Class B LP Units are treated as a financial liability rather than equity. The REIT has chosen to present an adjusted basic and diluted per unit measure that includes the Class B LP Units in basic and diluted units outstanding/weighted average units outstanding. There were 1,710,000 Class B LP Units outstanding as at March 31, 2020 and 17,708,065 outstanding as at March 31, 2019.

(3) Diluted units includes vested but unissued deferred trust units and the conversion of the REIT's Convertible Debentures that would have a dilutive effect upon conversion at the holders' contractual conversion price. Convertible Debentures are dilutive if the interest (net of tax and other changes in income or expense) per unit obtainable on conversion is less than the basic per unit measure.

Additional details on the adjustments to the REIT's net income to arrive at AFFO are below:

(i) **Amortization marked to market adjustment**

Under IFRS, the REIT has amortized the debt premium on mortgages assumed at fair value on acquisition. As the amortization is a non-cash item, the REIT has included an adjustment in AFFO.

(ii) **Amortization of transactional deferred financing charges**

Under IFRS, the REIT has recorded amortization of deferred financing charges. The REIT believes the amortization of deferred financing charges to be a proxy for the financing fees incurred over the term of the related debt and thus does not make an adjustment to AFFO for amortization financing charges, except for the amortization of fees related to short-term transaction related financings and the write off of financing fees for which debt has been repaid in advance of its maturity, which the REIT adds back to AFFO to reflect a stabilized business environment.

(iii) **Straight-line revenue**

Under IFRS rental revenue from operating leases is recognized over the lease term on a straight-line basis. The difference between rental revenue recognized and cash flows is recorded as straight-line rent receivable or payable. Consistent with the REALpac Guidance, to account for the non-cash nature of these differences the REIT has included an adjustment in AFFO.

(iv) **Leasing costs and non-recoverable maintenance capital expenditures**

In Canada and Europe, due to the nature of the portfolios, on a quarterly basis and during portfolio repositioning, leasing costs, tenant improvements and maintenance capital expenditures can fluctuate and as such, should not be regarded as stabilized. As a result the REIT uses a reserve of 6% of revenue from the medical office properties in Canada and Europe when determining AFFO. In Brazil and Australasia due to the long term, triple net nature of the leases in those regions the REIT uses actual leasing costs and non-recoverable maintenance capital expenditures when determining AFFO.

For additional information see **Leasing Costs and Capital Expenditures**.

(v) **DUP Compensation Expense**

The REIT's unit-based deferred unit compensation expense is measured at the service commencement date, based on the fair market value of a REIT Trust Unit or Vital Trust unit, as applicable, and this value is amortized to income over the vesting period ("DUP Compensation Expense"). Unit-based compensation does not qualify as an equity award and is classified as a liability. As a result the DUP Liability is measured at fair-value every reporting period, based on the fair market value of a REIT Trust Unit or Vital Trust unit at the reporting date, and the change in fair value is also recognized in income.

The period over period change in fair value of the DUP Liability is added back to income when determining FFO in accordance with REALpac Guidance. However, as the DUP Compensation Expense may be settled units classified as equity, at the REIT's option, the REIT has added back DUP Compensation Expense to income when determining AFFO.

(vi) **Debt repayment costs**

For the three months ended March 31, 2020, the REIT incurred nominal debt repayment costs related to the refinancing of a corporate facility.

(vii) **Net adjustments for equity accounted investments**

Under IFRS the REIT's investment in associate is accounted for using the equity method of accounting. As such, the REIT's share of its associate's post acquisition net income (loss) was recognized in its net income (loss), and its share of post-acquisition movements in other comprehensive income (loss) was recognized in other comprehensive income (loss). In order to enhance the usefulness and comparability of AFFO as a supplemental measure of the operating performance of the REIT, the REIT's share of its equity accounted investment's post acquisition net income (loss) is added/(deducted) to/(from) net income and AFFO is presented after including the REIT's proportionate share of the equity accounted investment's AFFO.

<b>Adjusted Funds From Operations of Equity Accounted Investments</b>			
Expressed in thousands of Canadian dollars	Three months ended March 31,		
	2020	2019	Variance
<b>Proportionate share of Equity Accounted Investments FFO</b>	<b>\$ 3,453</b>	<b>\$ (83)</b>	<b>\$ 3,536</b>
<u>Add / (Deduct):</u>			
Straight-line revenue	(9)	—	(9)
<b>Net AFFO adjustment</b>	<b>\$ (9)</b>	<b>\$ —</b>	<b>\$ (9)</b>
<b>Proportionate share of Equity Accounted Investments AFFO</b>	<b>\$ 3,444</b>	<b>\$ (83)</b>	<b>\$ 3,527</b>

## **NORMALIZED AFFO**

In the schedule below we present the REIT's reported AFFO as well as the REIT's Normalized AFFO (both defined in **PART I - BASIS OF PRESENTATION - PERFORMANCE MEASUREMENT**). Normalized AFFO provides, in management's view, an annualized view of the REIT's AFFO, adjusted for the full year effect of transactions occurring in the current quarter, transactions that have occurred subsequent to the quarter, and adjusted for other items management believes are non-recurring or seasonal in nature and estimated based on management's expectations on a normalized level of activity.

The below Normalized AFFO information is not necessarily indicative of what the REIT's financial position or results of operations will be in future periods. Certain of the adjustments in the table above may be considered to be forward-looking in nature, including, without limitation, the estimated impact of increased revenues due to accrued indexation on Brazil leases, increased management fees expected to be earned by the ANZ Manager, interest savings resulting from debt optimization both during and subsequent to quarter end, and items relating to expected amounts for normalized revenues and general and administrative expenses. As a result, the discussion in this section is qualified in its entirety by the forward-looking statements set out under **PART I - BASIS OF PRESENTATION - FORWARD-LOOKING INFORMATION ADVISORY**.

Expressed in thousands of Canadian dollars, except per unit amounts

	Q1 2020	Q1 2020	Q1 2020	Annualized
		Per Unit	Annualized	Per Unit
<b>AFFO as reported</b>	\$ 36,207	\$ 0.21	\$ 144,828	
Normalization adjustments <sup>(1)</sup> :				
(1) Acquisition and disposition activities			6,005	
(2) Accrued indexation related to Brazil and HSO leases			942	
(3) ANZ manager base management fee			36	
(4) Interest expenses on completed financing activities during the quarter			240	
(5) Potential debt optimization post quarter			12,904	
(6) Non-recurring fees and transactions			(4,225)	
(7) On-going developments			2,021	
<b>Normalized AFFO on an annualized basis</b>			<b>\$ 162,751</b>	<b>\$ 0.92</b>
Weighted average units outstanding during the current three month reporting period (000s)				176,400
(8) Normalization adjustment				1,465
Normalized Units Outstanding (000s)				177,865

Details of adjustments from AFFO to Normalized AFFO are as follows:

- (1) To reflect the impact of the REIT's net investment activity completed during and post quarter as disclosed in **HIGHLIGHTS FOR THE QUARTER, SUBSEQUENT EVENTS** and **INVESTMENT PROPERTIES**, and investments activity for which close was still pending at reporting date.
- (2) To reflect the estimated impact of contracted inflation (IPCA) indexation on current net rents of Brazilian leases based on the actual YTD IPCA of 3.3% and Q1 2020 average exchange rates and the impact of contractual rent growth from HSO.
- (3) To annualize the impact of recurring asset management and property management fees recorded by the Global Manager. Fees also reflect recurring base fees on acquisitions still pending at reporting date.

- (4) To reflect the impact of the REIT's net financing activity completed during and post quarter as disclosed in **HIGHLIGHTS FOR THE QUARTER, SUBSEQUENT EVENTS** and **CAPITALIZATION AND LIQUIDITY** as summarized below:

Expressed in thousands of Canadian dollars						
	Value	Interest Rate %	Normalized interest expense	Reported interest expense	Quarterly interest savings	Annualized interest savings
<b>Adjustments to reflect full quarter activity:</b>						
Repayment of Convertible Debenture	(93,010)	—%	—	1,269	1,269	5,075
Draws on corporate credit facility	113,718	4.25%	1,208.75	—	(1,209)	(4,835)
<b>Total</b>	<b>\$ 20,708</b>	<b>\$ 0.0425</b>	<b>\$ 1,209</b>	<b>\$ 1,269</b>	<b>\$ 60</b>	<b>\$ 240</b>

- (5) To reflect the estimated impact of debt optimization that occurred post-quarter and potential future debt optimization as summarized below:

<b>Debt Optimization</b>						
Expressed in thousands of Canadian dollars						
	Value	Interest Rate %	Normalized interest expense	Reported interest expense	Quarterly interest savings	Annualized interest savings
<b>Adjustments to reflect potential debt optimization post quarter:</b>						
Repayment of high cost debt	(151,785)	7.18%	—	2,724	2,724	10,897
Draws on Corporate Facilities	82,000	3.13%	479	—	(479)	(1,917)
Repayment of Convertible Debentures	(74,750)	5.25%	—	981	981	3,924
<b>Total</b>	<b>\$(144,535)</b>		<b>\$ 479</b>	<b>\$ 3,705</b>	<b>\$ 3,226</b>	<b>\$ 12,904</b>

- (6) To eliminate the annualized impact of non-recurring items during the quarter related to reversal of current tax provision as result of final filings.
- (7) To reflect the estimated impact of the completion of Canadian and Australia REIT's development activity as discussed under **DEVELOPMENT ACTIVITY**.
- (8) To adjust unit count to period end number of units outstanding.

## DISTRIBUTIONS

For the three months ended March 31, 2020, the REIT declared a total of \$35.6 million in distributions, including distributions on Exchangeable Units (for the three months ended March 31, 2019 - \$27.0 million). These distributions reflect an annualized distribution rate of \$0.80 per unit per annum (For the three months ended March 31, 2019 - \$0.80 per unit per annum).

### Distribution Reinvestment Plan

Participants in the REIT's distribution reinvestment plan (the "DRIP") have their distribution entitlement used to purchase Trust Units and also receive a "bonus distribution" of Trust Units equal in value to 3% of each distribution.

On March 24, 2020, in response to market volatility caused by the COVID-19 pandemic the Board approved the elimination of the 3% bonus distribution under the DRIP, commencing with the April 2020 distribution. The DRIP will remain suspended until further notice.

During the three months ended March 31, 2020, a total of 383,495 trust units were issued under the DRIP (three months ended March 31, 2019, a total of 219,522 Trust Units).

For the three months ended March 31, 2020 the REIT's DRIP participation rate was 13.5% (for the three months ended March 31, 2019 - 10.3%).

As required by National Policy 41-201 "Income Trusts and Other Indirect Offerings", the following table outlines the differences between cash flow from operating activities and cash distributions, as well as the differences between net income and cash distributions, in accordance with the guidelines:

<b>DIFFERENCES BETWEEN CASH FLOW FROM OPERATIONS/NET INCOME AND CASH DISTRIBUTIONS</b>		
Expressed in thousands of Canadian dollars	<b>Three months ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Net income (loss) attributable to unitholders	\$ 114,717	\$ (57,988)
Add: Finance cost - Exchangeable Unit distributions	2,475	3,542
Adjusted net income (loss)	<u>\$ 117,192</u>	<u>\$ (54,446)</u>
Cash flow from operating activities attributable to unitholders	\$ 32,118	\$ 27,326
Distributions paid and payable		
Trust Units	\$ 33,089	\$ 23,503
Exchangeable Units	2,475	3,542
	<u>\$ 35,564</u>	<u>\$ 27,045</u>
Surplus (shortfall) of adjusted net income (loss) attributable to unitholders over distributions paid and payable	<u>\$ 81,628</u>	<u>\$ (81,491)</u>
Surplus (shortfall) of cash flow from operating activities attributable to unitholders over distributions paid and payable	<u>\$ (3,446)</u>	<u>\$ 281</u>

For the three months ended March 31, 2020, the table above identifies a shortfall in cash flows from operating activities attributable to unitholders over distributions paid and payable of \$3.4 million. For the three months ended March 31, 2020, the shortfall is primarily driven by working capital and transaction costs related to investing activities. Working capital can fluctuate from quarter to quarter depending on timing of cash receipts/payments. The REITS cash flow from operating activities includes transaction costs related to acquisition and investment opportunities being explored by the REIT, which are reported under cash flow from operating activities in the financial statements. Cash flow from operating activities attributable to unitholders excludes the distribution income from the REIT's investments in its JVs. The distributions earned from its JV investments are considered by management to be an integral part of the REIT's cash flow from operations due to the strategic nature of the equity invested. Remaining shortfall were financed by DRIP. As demonstrated in the table below, cash flows from operating activities adjusted for the aforementioned were sufficient to fund distributions paid and payable to unitholders for the three months ended March 31, 2020 and March 31, 2019.

**ADJUSTED CASH SURPLUS (SHORTAGE) FROM OPERATING ACTIVITIES TO DISTRIBUTIONS**

Expressed in thousands of Canadian dollars	Three months ended March 31,	
	2020	2019
Surplus (shortfall) of cash flow from operating activities		
attributable to unitholders over distributions paid and payable	\$ (3,446)	\$ 281
Add: Value of Trust Units issued pursuant to the DRIP	4,296	2,303
Add: Distribution income from equity accounted associates	2,973	—
Add: Investing related cash flow classified as operating activities attributable to unitholders	11,329	1,921
Adjusted surplus (shortfall) of cash flow from operating activities attributable to unitholders over distributions paid and payable	\$ 15,152	\$ 4,505

During the three months ended March 31, 2020, there was \$4.3 million in value of Trust Units issued under the DRIP (three months ended March 31, 2019, there was \$2.3 million). While reducing the cash required to settle the REIT's distributions, the Trust Units issued, pursuant to the DRIP, may in future result in additional cash distributions, should the holders of these Trust Units opt out of the DRIP.

See section **PART IV - CAPITALIZATION AND LIQUIDITY**.

For the three months ended March 31, 2020 the REIT had a surplus between adjusted net income and distributions paid to unitholders of \$81.6 million. Adjusted net income attributable to unitholders for the period reflects material non-cash items such as fair value adjustments to investment properties, financial instruments and deferred taxes, which do not impact cash flows and are not considered in the REIT's distribution policy. In establishing distribution payments, the REIT does not take fluctuations in working capital into consideration.

In assessing its distribution policy, the REIT considers not only cash flows from operating activities (attributable to unitholders) but also AFFO. Due to the timing of cash receipts relating to certain adjustments affecting AFFO and the fact that certain AFFO adjustments are non-cash, a portion of the 2020 distributions were funded by financing activities. The REIT believes that it is able to sustain distributions in the near term as the REIT measures distributions in relation to AFFO and the REIT believes it will be able to obtain new financing to meet its cash flow requirements due to the timing of cash receipts relating to certain adjustments affecting AFFO.

REIT's distributions during 2019 were deemed a 59% return of capital and 41% other income for tax purposes. The composition for tax purposes may change over time thus affecting the after-tax return to a Unitholder. The REIT has chosen to make distributions partly representing an economic return on capital for tax purposes as its distribution policy is based on AFFO earned rather than the expected tax attributes of the distributions.

The REIT believes that distributions can continue to be funded from a combination of cash flows from operations, the cash distributions received from Vital Trust and JVs, future financing activities or asset sales. However, the REIT has at times paid cash distributions which exceed cash flows from operating activities and distribution income earned from its strategic investments in Vital Trust and the JVs. Distributions paid at times to unitholders have therefore been an economic return of capital. At times the REIT may be required to use additional debt capacity to finance its distributions, which would represent a further economic return of capital, or alternatively reduce distributions. The REIT's distribution policy is based on the REIT's AFFO. AFFO has exceeded actual cash flows from operations available to the REIT from time to time because of the recognition of certain items in AFFO that provide an economic benefit to the REIT but the timing of the realization of the cash flow associated with such economic benefit differs, such as the recognition of the REIT's proportionate share of Vital Trust's AFFO which is less than cash distributions received, and the exclusion of certain cash items in AFFO that affects cash flows from operations but to which management does not consider part of AFFO, such as debt repayment costs and the amortization of financing fees, as well as other items such as tenant allowances, leasing costs and capital

expenditures in excess of stipulated reserves identified by the REIT in its calculation of AFFO. The REIT may be required to use part of its debt capacity, issue new equity or to reduce distributions in order to accommodate such items in the future. The REIT anticipates temporarily funding such items, if necessary, through new financing or asset sales, which the REIT has a demonstrated history of executing.

The REIT's Board of Trustees has targeted payment of distributions at: (i) 80-95% of the REIT's AFFO; and (ii) an amount at least equal to the net income and net realized capital gains of the REIT as is necessary to ensure that the REIT will not be liable for ordinary income taxes on such income. The amount of future distributions and the declaration and payment thereof is at the discretion of the Board of Trustees and will be based upon the REIT's financial position, results of operations, cash flow, capital requirements and restrictions under the REIT's debt obligations, as well as broader market and economic conditions, among other factors, and shall be in compliance with applicable Law.

Pursuant to National Policy 41-201 "Income Trusts and Other Indirect Offerings", the following table, Table 12, reconciles the REIT's cash flow from operations to AFFO:

<b>RECONCILIATION OF CASH FLOW FROM OPERATIONS TO AFFO</b>			
Expressed in thousands of Canadian dollars			
	<b>Three months ended March 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>Variance</b>
<b>Cash flow from operating activities</b>	<b>\$ 38,520</b>	<b>\$ 36,438</b>	<b>\$ 2,082</b>
Add (deduct):			
Non-cash interest expense	(436)	(7,575)	7,139
Non-cash current taxes	(10,424)	2,197	(12,621)
Changes in non-cash working capital balances	(18,657)	(1,836)	(16,821)
AFFO of equity accounted entities	(4,074)	—	(4,074)
Other FFO adjustments	1,056	1,824	(768)
Internal leasing costs	824	454	370
Amortization of recurring financing charges	(1,040)	(1,288)	248
Transaction costs	31,509	2,113	29,396
Leasing costs and non-recoverable maintenance capital expenditures	(2,796)	(3,790)	994
Amortization of lease liabilities	(65)	(302)	237
Interest income and other	620	1,366	(746)
Amortization of deferred revenue	—	42	(42)
Straight-line revenue	(183)	(432)	249
Redemption of units issued under the DUP	1,077	640	437
Amortization of furniture and office equipment	(407)	(555)	148
Foreign exchange	22	9	13
Debt repayment costs	19	—	19
Share of profit (loss) from equity accounted investments	7,518	(83)	7,601
AFFO attributable to non-controlling interest	(6,876)	(4,177)	(2,699)
	<u>\$ (2,313)</u>	<u>\$ (11,393)</u>	<u>\$ 9,080</u>
<b>AFFO</b>	<b><u>\$ 36,207</u></b>	<b><u>\$ 25,045</u></b>	<b><u>\$ 11,162</u></b>

## QUARTERLY PERFORMANCE

The following is a summary of results for each of the last eight quarterly periods.

QUARTERLY PERFORMANCE								
Expressed in thousands of Canadian dollars								
except per unit amounts	Q1-20	Q4-19	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18	Q2-18
<b>Summary of Financial Information</b>								
Gross Book Value ("GBV") <sup>(1)</sup>	\$ 5,444,457	\$ 5,535,304	\$ 5,201,319	\$ 5,170,776	\$ 5,142,828	\$ 5,071,648	\$ 4,679,638	\$ 4,940,139
Debt - Declaration of Trust <sup>(2)</sup>	\$ 2,428,412	\$ 2,354,897	\$ 2,360,477	\$ 2,353,433	\$ 2,378,676	\$ 2,423,137	\$ 2,311,377	\$ 2,478,536
Debt to GBV - Declaration of Trust	44.6%	42.5%	45.4%	45.5%	46.3%	47.8%	49.4%	50.2%
Debt - Including Convertible Debentures <sup>(2)</sup>	\$ 2,697,352	\$ 2,746,098	\$ 2,747,403	\$ 2,778,369	\$ 2,801,459	\$ 2,824,372	\$ 2,606,685	\$ 2,771,924
Debt to GBV - Incl. Convertible Debentures	49.5%	49.6%	52.8%	53.7%	54.5%	55.7%	55.7%	56.1%
<b>Operating Results</b>								
Revenue from investment properties	\$ 95,594	\$ 91,608	\$ 91,106	\$ 91,409	\$ 91,933	\$ 89,143	\$ 87,044	\$ 85,157
Net income (loss)	\$ 116,060	\$ 25,909	\$ 17,673	\$ 83,696	\$ (54,028)	\$ 103,607	\$ (28,469)	\$ 39,139
NOI <sup>(3)</sup>	\$ 72,646	\$ 69,494	\$ 69,787	\$ 70,457	\$ 69,092	\$ 66,802	\$ 65,213	\$ 65,254
FFO <sup>(3)</sup>	\$ 38,348	\$ 30,352	\$ 26,494	\$ 31,147	\$ 26,756	\$ 26,525	\$ 24,504	\$ 24,601
AFFO <sup>(3)</sup>	\$ 36,207	\$ 31,009	\$ 31,286	\$ 30,360	\$ 25,045	\$ 24,569	\$ 24,294	\$ 24,392
Distributions <sup>(4)</sup>	\$ 35,564	\$ 31,474	\$ 30,025	\$ 27,045	\$ 26,099	\$ 24,244	\$ 24,196	\$ 24,128
<b>Per Unit Amounts <sup>(5)</sup></b>								
FFO per unit - Basic	\$ 0.22	\$ 0.20	\$ 0.18	\$ 0.23	\$ 0.21	\$ 0.22	\$ 0.20	\$ 0.20
AFFO per unit - Basic	\$ 0.21	\$ 0.20	\$ 0.22	\$ 0.22	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20
Distributions	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20
<b>Adjusted Weighted Average Units Outstanding <sup>(5)</sup></b>								
Basic	176,400,438	153,331,021	145,301,905	135,178,069	126,547,692	121,169,117	120,955,418	120,551,483

### Notes

(1) Gross Book Value is defined as total assets.

(2) As defined in Non-IFRS measures used in this MD&A.

(3) FFO and AFFO are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. FFO and AFFO as computed by the REIT may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to FFO and AFFO as reported by other such issuers. These terms are defined in this MD&A and reconciled to IFRS-based amounts reported in the consolidated financial statements of the REIT. NOI is an additional IFRS measure and NOI as calculated by the REIT may not be comparable to similar titled measures reported by other issuers.

(4) Represents distributions to Unitholders and Class B LP Units on an accrual basis. Distributions are payable as at the end of the period in which they are declared by the Board of Trustees, and are paid on or around the 15th day of the following month.

(5) Under IFRS the REIT's Class B LP Units are treated as a financial liability rather than equity. The REIT has chosen to present an adjusted basic and diluted per unit measure that includes the Class B LP Units in basic and diluted units outstanding/weighted average units outstanding.

## PART IV – CAPITALIZATION AND LIQUIDITY

### CAPITAL STRUCTURE

The REIT, as is common in the real estate industry, considers its capitalization to consist of debt and equity capital. The REIT actively manages both its debt and equity capital with the objective of ensuring that the REIT can continue to grow and operate its business.

The REIT monitors its debt regularly for compliance with debt covenants contained in its loan agreements. At the date of this MD&A, the REIT is in compliance with its loan covenants.

The following table shows the REIT's total capital as at March 31, 2020 and December 31, 2019:

<b>CAPITAL STRUCTURE</b>		
Expressed in thousands of Canadian dollars	<b>As at March 31, 2020</b>	<b>As at December 31, 2019</b>
<b>Debt - Declaration of Trust <sup>(1)</sup></b>	<b>2,428,412</b>	<b>2,354,897</b>
Convertible Debentures at Fair Value	268,940	391,201
<b>Debt - Including Convertible Debentures <sup>(1)</sup></b>	<b>2,697,352</b>	<b>2,746,098</b>
Mortgages and loans payable - marked to market	1,710	2,000
Mortgages and loans payable - unamortized financing costs	(14,451)	(15,506)
Total Debt	2,684,611	2,732,592
DUP Liability	15,242	19,656
Class B LP Exchangeable Units	16,519	211,257
Unitholders' equity	1,523,655	1,319,307
<b>Total Capitalization</b>	<b>\$ 4,240,027</b>	<b>\$ 4,282,812</b>
<b>Notes</b>		
(1) As defined in Non-IFRS measures used in this MD&A.		

### Unitholders' Equity

The following table reconciles the movements in the units outstanding for the three months ended March 31, 2020:

<b>UNITS OUTSTANDING</b>	
<b>Trust Units outstanding, December 31, 2019</b>	<b>153,626,666</b>
Issuance of Trust Units pursuant to equity offering	2,049,180
Issuance of Trust Units under the DRIP	383,495
Issuance of Trust Units under the DUP	48,004
Issuance of Trust Units pursuant to conversion of Convertible Debentures	4,244,780
Issuance of Trust Units pursuant to conversion of Exchangeable Units	15,998,065
Cancellation of Trust Units pursuant to NCIB	(195,000)
<b>Trust Units outstanding, March 31, 2020</b>	<b>176,155,190</b>

On January 31, 2020, the REIT completed a private placement of 2,049,180 Trust Units to NWVP for gross proceeds of approximately \$25.0 million.

On March 24, 2020 the TSX approved the REIT's application to proceed with a normal course issuer bid ("NCIB") for a portion of its Trust Units from time to time. Trust Units representing up to 10% of the REIT's public float may be purchased for cancellation under the NCIB, subject to certain maximum daily amounts, over the next 12 months.

During the period from March 31, 2020 to April 6, 2020 the REIT purchased 800,207 Trust Units pursuant to its NCIB for cancellation at a weighted average price per unit of \$8.99, for a total cost of \$7.2 million (including commissions).

## Class B LP Units

Under IFRS the REIT's Exchangeable Units are treated as a financial liability rather than equity. As the Exchangeable Units are convertible into Trust Units at the option of the holder, the REIT considers the Exchangeable Units equity for capital management purposes.

On March 23, 2020, 15,998,065 Exchangeable Units held by NWVP were converted to Trust Units. As at March 31, 2020 there were 1,710,000 Exchangeable Units outstanding (December 31, 2019 - 17,708,065).

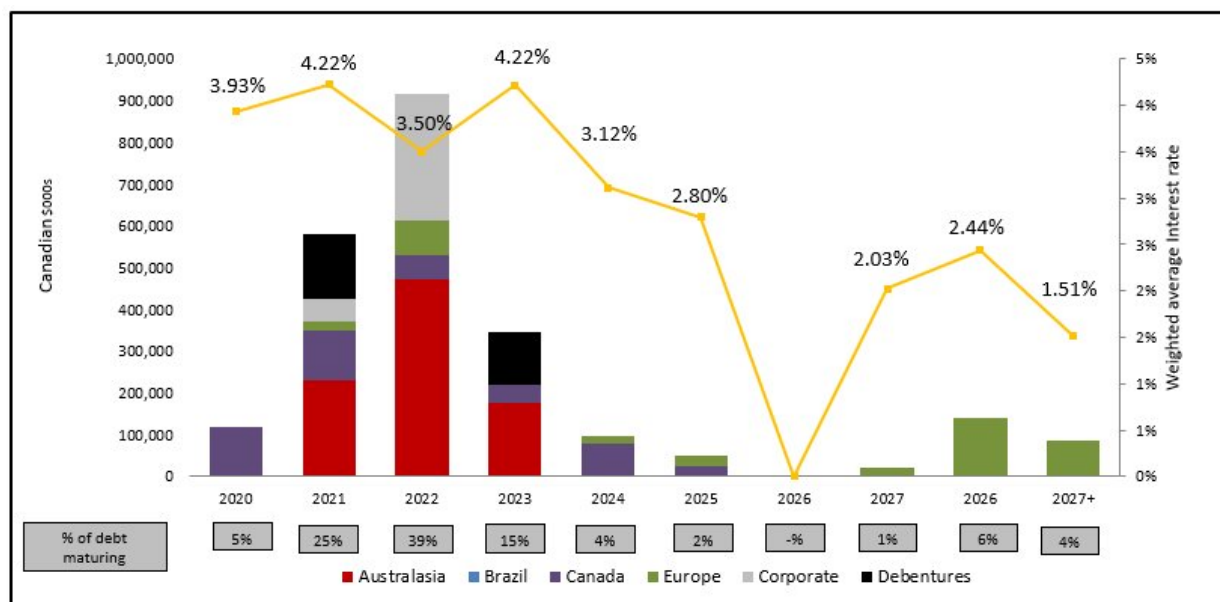
## Debt

<b>DEBT</b>						
Expressed in thousands of Canadian dollars						
<b>As at March 31, 2020</b>						
	<b>Weighted Average Interest Rate <sup>(1)</sup></b>	<b>Outstanding Balance</b>	<b>Marked to Market</b>	<b>Unamortized Financing Costs</b>	<b>Balance</b>	<b>Maturity</b>
Canada mortgages	3.64%	\$ 481,715	\$ 1,710	\$ (962)	\$ 482,463	October 2020 - January 2029
Brazil debt <sup>(2)</sup>	4.53%	204,601	—	(6,596)	198,005	November 2027 - June 2031
Europe mortgages	2.15%	491,745	—	(2,615)	489,130	January 2021 - March 2034
Australasia term loans	3.68%	880,008	—	(2,498)	877,510	March 2021 - October 2023
Corporate debt	3.74%	359,494	—	(1,780)	357,714	January 2021 - November 2022
	<b>3.44%</b>	<b>\$ 2,417,563</b>	<b>\$ 1,710</b>	<b>\$ (14,451)</b>	<b>\$ 2,404,822</b>	
Finance Lease		10,849	—	—	10,849	
<b>Total Mortgages and Loans Payable</b>	<b>3.43%</b>	<b>\$ 2,428,412</b>	<b>\$ 1,710</b>	<b>\$ (14,451)</b>	<b>\$ 2,415,671</b>	
Deferred consideration	n/a	—	—	—	—	n/a
<b>Total Debt excluding Convertible Debentures</b>	<b>3.43%</b>	<b>\$ 2,428,412</b>	<b>\$ 1,710</b>	<b>\$ (14,451)</b>	<b>\$ 2,415,671</b>	
Convertible Debentures (Corporate)	5.36%	280,250	(11,310)	—	268,940	July 2021 - December 2023
<b>Total Debt</b>	<b>3.63%</b>	<b>\$ 2,708,662</b>	<b>\$ (9,600)</b>	<b>\$ (14,451)</b>	<b>\$ 2,684,611</b>	

(1) Weighted average interest rate of total debt has been calculated excluding deferred consideration.

(2) The Brazil debt fully amortizes over a ten year period.

The following chart summarizes, as at March 31, 2020, the REIT's debt maturities:



Additional details on the maturities of the REIT's mortgages and loans payable are detailed below:

DEBT MATURITIES										
Expressed in thousands of Canadian dollars	Canada		Brazil		Europe		Australasia		Corporate	
	Total debt payable	WAIR	Total debt payable	WAIR	Total debt payable	WAIR	Total debt payable	WAIR	Total debt payable	WAIR
2020 (remainder)	\$ 129,422	3.93%	\$ 13,321	—%	\$ 9,045	—%	\$ —	—%	\$ —	—%
2021	125,957	3.20%	17,250	—%	35,585	2.46%	231,847	3.81%	54,000	6.00%
2022	67,107	3.81%	18,063	—%	92,706	2.45%	471,767	3.75%	305,493	3.34%
2023	49,727	4.16%	18,951	—%	10,928	—%	176,394	3.33%	—	—%
2024	81,102	3.45%	19,771	—%	30,426	1.80%	—	—%	—	—%
2025	26,627	3.50%	20,735	—%	33,175	2.02%	—	—%	—	—%
2026	541	—%	21,763	—%	9,913	—%	—	—%	—	—%
2027	572	—%	20,595	—%	29,416	2.03%	—	—%	—	—%
2028	606	—%	14,755	—%	146,985	2.44%	—	—%	—	—%
2029 and thereafter	54	—%	39,397	—%	93,566	1.51%	—	—%	—	—%
	<u>\$ 481,715</u>	<u>3.64%</u>	<u>\$ 204,601</u>	<u>4.53%</u>	<u>\$ 491,745</u>	<u>2.15%</u>	<u>\$ 880,008</u>	<u>3.68%</u>	<u>\$ 359,493</u>	<u>4.30%</u>
Marked to market premium	1,710	(0.99)%	—	—	—	—	—	—	—	—
	<u>\$ 483,425</u>	<u>2.65%</u>	<u>\$ 204,601</u>	<u>4.53%</u>	<u>\$ 491,745</u>	<u>2.15%</u>	<u>\$ 880,008</u>	<u>3.68%</u>	<u>\$ 359,493</u>	<u>4.30%</u>
Unamortized financings costs	(962)		(6,596)		(2,615)		(2,498)		(1,779)	
<b>Total</b>	<u>\$ 482,463</u>		<u>\$ 198,005</u>		<u>\$ 489,130</u>		<u>\$ 877,510</u>		<u>\$ 357,714</u>	

The table below summarizes the movements in the REIT's mortgages and loans during the three months ended March 31, 2020:

DEBT CONTINUITY						
	Canada Mortgages	Brazil Debt	Europe Mortgages	Australasia Term Loans	Corporate Debt	Total <sup>(1)</sup>
Opening balance, January 1, 2020	\$ 484,813	\$ 236,705	\$ 424,336	\$ 936,346	\$ 247,868	\$ 2,330,068
Principal amortization	(3,778)	—	(2,689)	—	—	(6,467)
Repayments	—	(4,428)	—	(92,603)	—	(97,031)
Refinancing	1,780	—	—	—	—	1,780
Advances	—	—	37,000	75,714	113,718	226,432
Additional financing fees incurred	(193)	—	(202)	(387)	(409)	(1,191)
Amortization of finance fees	132	328	190	271	324	1,245
Amortization of mark-to-market	(291)	—	—	—	—	(291)
Inflation adjustment	—	2,606	—	—	—	2,606
Foreign exchange adjustment	—	(37,206)	30,495	(41,831)	(3,787)	(52,329)
Ending balance, March 31, 2020	\$ 482,463	\$ 198,005	\$ 489,130	\$ 877,510	\$ 357,714	\$ 2,404,822

(1) Total debt excluding finance lease

During the three months ended March 31, 2020, the REIT entered into new European mortgages of \$37.0 million to fund the acquisition of two medical clinics in Germany (see **Highlights for the Quarter**). The REIT also had Australian term loan repayments, net of advances of \$16.9 million using proceeds from dispositions of investment properties (see **Highlights for the Quarter**). Lastly, the REIT made net withdrawals of \$113.7 million on its facilities, which was used primarily to repay the NWH.DB convertible debentures, and to partially fund the purchase of six private hospitals in the United Kingdom (see **Highlights for the Quarter**).

### Finance Lease Payable

The lease of land on which one of Australia REIT's investment properties is built is accounted for as a finance lease. The remaining term of the lease at March 31, 2020 was 68 years. There is no purchase option.

### Convertible Debentures

The following table summarizes, as at March 31, 2020, the REIT's Convertible Debentures:

CONVERTIBLE DEBENTURES						
Expressed in thousands of Canadian dollars	Fair Value <sup>(1)</sup>	Face Value	Interest Rate	Conversion Price per Unit	Maturity Date	Interest Payment Dates
<b>As at March 31, 2020</b>						
Series NWH.DB.E	72,910	74,733	5.25%	\$ 12.75	July 31, 2021	January 31, July 31
Series NWH.DB.F	77,280	80,500	5.25%	\$ 12.80	December 31, 2021	June 30, December 31
Series NWH.DB.G	118,750	125,000	5.50%	\$ 13.35	December 31, 2023	June 30, December 31
	<u>\$ 268,940</u>	<u>\$ 280,233</u>	<u>5.36%</u>			

#### Notes

(1) The fair value of the Convertible Debentures is based on the closing trading price of the REIT's Convertible Debentures as at the reporting date.

On January 17, 2020, the REIT fully repaid \$40.3 million of the principal balance outstanding on the NWH.DB 5.25% convertible debenture. Of the \$52.1 million outstanding on the NWH.DB.D 5.5% convertible debenture series, \$47.7 million was converted by the debenture holders into 4,238,308 trust units. On January 17, 2020, the REIT fully repaid the remaining principal balance outstanding on the 5.5% convertible debenture series of \$4.4 million.

## DUP Liability

Under IFRS, the REIT's DUP Liability is measured at fair value each reporting period. The fair value of the DUP Liability mirrors the trading price of the REIT Trust Units. As at March 31, 2020 the DUP Liability is \$15.2 million (December 31, 2019 - \$19.7 million) representing 2,539,593 deferred units of which 1,199,043 are vested but not exercised (December 31, 2019 - 2,910,365 deferred units of which 1,706,779 are vested but not exercised).

## RATIOS AND COVENANTS

Pursuant to the Declaration of Trust the REIT shall not incur or assume any indebtedness, as defined, if, after giving effect to the incurrence or assumption of such indebtedness, the total indebtedness of the REIT would be more than 65% of GBV.

The REIT's overall borrowing policy is to obtain secured mortgage financing on a primarily fixed rate basis, with a term to maturity that is appropriate having regard to the lease maturity profile for each property and which allows the REIT to (i) achieve and maintain staggered debt maturities to lessen exposure to interest rate fluctuations and re-financing risk in any particular period and (ii) fix the rates and extend loan terms as long as possible when borrowing conditions are favourable. The following summarizes the status of these key ratios as at and for the three months ended March 31, 2020 and 2019:

<b>RATIOS <sup>(1)</sup></b>			
Expressed in thousands of Canadian dollars			
		<b>As at March 31, 2020</b>	<b>As at December 31, 2019</b>
Gross book value <sup>(1)</sup>		\$ 5,444,457	\$ 5,535,304
Debt - declaration of trust <sup>(1)</sup>		\$ 2,428,412	\$ 2,354,897
<b>Debt to Gross Book Value - Declaration of Trust</b>		<b>44.6%</b>	<b>42.5%</b>
Debt - including convertible debentures <sup>(1)</sup>		\$ 2,697,352	\$ 2,746,098
<b>Debt to Gross Book Value - Including Convertible Debentures</b>		<b>49.5%</b>	<b>49.6%</b>
	<b>Three months ended March 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>Variance</b>
<b>Income (Loss) before taxes</b>	\$ 119,725	\$ (38,711)	\$ 158,436
<b>Add (deduct):</b>			
Mortgage and loan interest expense	24,852	33,283	(8,431)
Distributions on Exchangeable Units	2,475	3,542	(1,067)
Amortization of deferred financing costs	1,246	2,822	(1,576)
Amortization of marked to market adjustment	(291)	(297)	6
<b>EBITDA</b>	<b>\$ 148,007</b>	<b>\$ 639</b>	<b>\$ 147,368</b>
Loss on revaluation of financial liabilities	2,702	1,300	1,402
Fair market value losses (gains)	(99,399)	61,242	(160,641)
DUP compensation expense	1,074	954	120
Foreign exchange loss (gain)	7,465	960	6,505
Transaction costs	16,413	2,113	14,300
Less: share of (profit) loss of equity accounted investments	(7,518)	83	(7,601)
Add: distribution income from equity accounted investments	2,973	—	2,973
<b>Adjusted EBITDA</b>	<b>\$ 71,717</b>	<b>\$ 67,291</b>	<b>\$ 4,426</b>
Mortgage and loan interest expense	\$ 24,852	\$ 33,283	\$ 8,431
Less: debt repayment costs	(19)	—	19
<b>Adjusted mortgage and loan interest expense</b>	<b>\$ 24,833</b>	<b>\$ 33,283</b>	<b>\$ 8,450</b>
<b>Interest coverage</b>	<b>2.89</b>	<b>2.02</b>	<b>0.87</b>
<b>Notes</b>			
(1) As defined in Non-IFRS measures used in this MD&A.			

## LIQUIDITY AND CASH RESOURCES

### Cash Resources and Liquidity

<b>CASH AND LIQUIDITY</b>			
Expressed in thousands of Canadian dollars			
	<b>As at March 31, 2020</b>	<b>As at December 31, 2019</b>	
Cash and cash equivalents	\$ 96,386	\$ 45,808	
Restricted Cash	51	351	
<b>Total</b>	<b>\$ 96,437</b>	<b>\$ 46,159</b>	

The REIT also has Credit Facilities that provide for additional liquidity. As at March 31, 2020, the drawn balance on the Credit Facilities was \$199.7 million of the \$218.0 million available to be drawn. On May 13, 2020 the REIT expanded its Credit Facilities to add an additional tranche with availability of \$82 million, maturing in one year, subject to renewal options at lenders' discretion. ("Tranche B"). The Tranche B is secured by the six recently acquired UK hospital properties, and draws are permitted in Canadian dollars, at a floating interest rate of prime plus 1.75% or BA Plus 2.75%. As a result of the incremental tranche, the REIT has \$300.0 million total availability on its credit facilities.

The liquidity of the Australasian secured financing fluctuates based on the market price (as defined in the agreement) of the pledged units securing the facilities and is currently fully drawn.

On the assumption that occupancy levels remain strong, and that the REIT will be able to obtain financing on reasonable terms, the REIT anticipates meeting all current and future obligations as they come due. Management expects to refinance maturing debt and finance future acquisitions from: (i) existing cash balances, and (ii) a mix of mortgage debt secured by investment properties, acquisition facilities, operating facilities, issuance of equity and convertible/unsecured debentures, and select asset sales. Cash flow generated from operating activities and distribution income received from the REIT's investment in Vital Trust are sources of liquidity to service debt (except maturing debt), sustain maintenance capital expenditures, leasing costs and unit distributions.

#### Contractual cash flows

Liquidity risk arises from the REIT's financial obligations and in the management of its assets, liabilities and capital structure. This risk is managed by regularly evaluating the liquid financial resources available to fund current and long-term obligations and to meet the REIT's capital commitments in a cost-effective manner. The REIT expects to be able to meet all of its obligations as they become due and have sufficient liquidity from the following sources: (i) cash flow from operating activities; (ii) distribution income received from its investment in Vital Trust; (iii) financing available through both conventional mortgage debt secured by income producing properties, as well as unsecured debt; (iv) the issuance of new equity and debt securities; and (v) to the extent necessary, the sale of assets.

The following table sets out the REIT's contractual cash flows as at March 31, 2020:

<b>CONTRACTUAL CASH FLOWS</b>								
Expressed in thousands of Canadian dollars	<b>Carrying amount</b>	<b>Contractual cash flow</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>Thereafter</b>
Accounts payable and accrued liabilities	\$ 97,221	\$ 97,221	\$ 97,221	\$ —	\$ —	\$ —	\$ —	\$ —
Distributions payable	11,744	11,744	11,744	—	—	—	—	—
Income tax payable	36,859	36,859	36,859	—	—	—	—	—
Convertible debentures	268,940	319,441	10,415	170,276	6,875	131,875	—	—
Finance lease payable	10,849	10,849	1,554	1,433	1,368	1,265	829	4,400
Mortgages and loans payable	2,404,822	2,556,633	176,373	489,771	975,344	273,024	144,384	497,737
<b>Total</b>	<b>\$2,830,435</b>	<b>\$ 3,032,747</b>	<b>\$334,166</b>	<b>\$661,480</b>	<b>\$ 983,587</b>	<b>\$406,164</b>	<b>\$145,213</b>	<b>\$ 502,137</b>

The REIT currently intends to distribute a high percentage of its AFFO to Unitholders. As such, the REIT will not retain a material amount, or possibly none of operating cash flows or any cash distributions received from its investments in Vital Trust, to finance other capital requirements, such as acquisitions, maturing debt principal and significant capital expenditures. Instead, the REIT intends to finance such initiatives through the issuance of additional equity or debt securities. From time to time, the REIT may also consider other financing initiatives, such as the refinancing of mortgages on existing properties and entering into additional credit facilities.

The REIT's current liabilities totaled \$474.0 million, exceeding current assets of \$133.1 million, resulting in a working capital deficiency of \$340.8 million as at March 31, 2020.

Current liabilities include:

- Vital Trust term debt with an outstanding balance of \$78.3 million at a weighted average rate of 3.81%, maturing March 31, 2021. The REIT currently expects these term debt facilities will be refinanced on or before maturity.
- Canadian dollar denominated non-revolving unsecured facility with a balance of \$54.0 million, maturing January 2021. The REIT currently expects to either repay or refinance the facility on or before its maturity.
- \$154.9 million of Canadian mortgage maturities. Subsequent to the period, the REIT completed refinancing on \$115.4 million of the maturing Canadian mortgages. The REIT expects to refinance the remainder in normal course as they mature.

There are no assurances that the timing, amounts and/or terms of any refinancing, or other efforts will be on terms favourable or otherwise satisfactory to the REIT. If the terms of any such refinancing or other efforts are less favourable than the terms of the existing loans, then the financial condition of the REIT, as well as the REIT's ability to continue to meet required interest and principal payments, meet capital commitments, or to continue to make distributions at current levels, may be materially adversely affected.

## Changes in Cash

The following table sets out the REIT's net change in cash and cash equivalents:

<b>NET CHANGE IN CASH <sup>(1)</sup></b>			
Expressed in thousands of Canadian dollars	<b>Three months ended March 31, 2020</b>		
	<b>2020</b>	<b>2019</b>	<b>Variance</b>
<b>Cash provided by / (used in):</b>			
Operating activities	\$ 38,520	\$ 36,438	\$ 2,082
Investing activities	(188,160)	(61,612)	(126,548)
Financing activities	66,158	78,851	(12,693)
<b>Net increase / (decrease) in cash during the period</b>	<b>(83,482)</b>	<b>53,677</b>	<b>(137,159)</b>
Effect of foreign currency translation	(12,282)	(4,850)	(7,432)
<b>Net increase / (decrease) in cash during the period</b>	<b>\$ (95,764)</b>	<b>\$ 48,827</b>	<b>\$ (144,591)</b>

### Operating activities

Cash generated by operating activities totaled \$38.5 million for the three months ended March 31, 2020 as compared to \$36.4 million for the three months ended March 31, 2019, an increase of \$2.1 million. This increase is primarily related to a \$16.8 million positive working capital movement, \$1.3 million decrease in mortgage and loan interest paid, and a \$3.6 million improvement in NOI, partially offset by an increase to taxes paid of \$2.1 million, a \$1.1 million decrease in realized foreign exchanges gains, a \$1.3 million a decrease in management fees and a \$14.3 million increase in strategic transaction costs.

### Investing activities

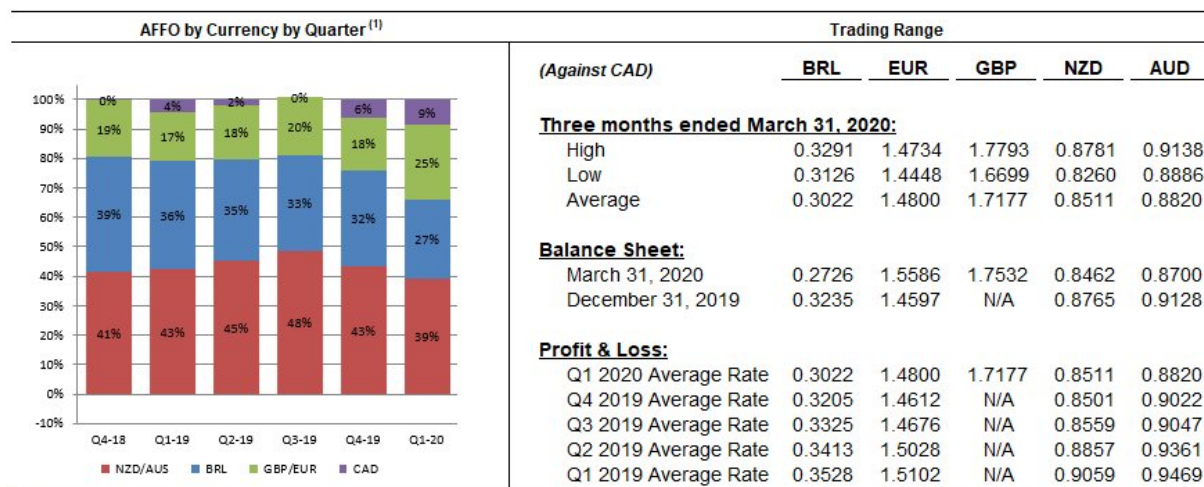
Cash used by investing activities totaled \$188.2 million for the three months ended March 31, 2020, which is attributable to \$245.7 million of acquisition activity, \$39.1 million of additions to investment properties, and investments in joint ventures of \$10.3 million, partially offset by cash provided of \$103.4 million from dispositions of investment property, and interest income and distributions received of \$3.0 million and \$0.5 million, respectively.

### Financing activities

For the three months ended March 31, 2020, financing activities generated cash of \$66.2 million as compared to \$78.9 million during the three months ended March 31, 2019. The REIT received net proceeds from the issuance of trust units of \$23.2 million, and net mortgages, loans payable and credit facilities proceeds of \$124.7 million, partially offset by cash used for repayment of convertible debentures of \$44.6 million, advances to related parties of \$0.3 million, payment of financing fees of \$1.2 million, payment of distributions to REIT unitholders of \$27.3 million and payment of distributions to non-controlling unitholders of \$6.0 million.

## FOREIGN EXCHANGE AND CURRENCY MANAGEMENT

For the three months ended March 31, 2020, approximately 91% of the REIT's AFFO, including Corporate costs such as certain general and administrative expenses, interest expenses and interest income that were denominated in Canadian dollars, was conducted in currencies other than Canadian dollars while its distributions to Unitholders were denominated only in Canadian dollars. A summary of the REIT's currency exposure by quarter for the last five quarters is presented below:



### Notes

(1) Canadian Dollar AFFO represents the Canadian region AFFO and Corporate interest income less interest expense paid on Canadian-denominated debt and certain general and administrative expenses.

For the three months ended March 31, 2020, a portion of the AFFO generated in foreign currencies was retained in those foreign currencies to provide funds for operations, future investments in those foreign jurisdictions and to minimize currency conversion costs, while a portion has been repatriated back to Canada to fund distributions, interest payments and other corporate expenses.

For the three months ended March 31, 2020, Canadian dollar AFFO was \$3.1 million while Canadian dollar distributions paid in cash to unitholders totaled \$35.6 million. Deficiencies were funded from cash repatriated to Canada from Brazil, Europe, Australia, and New Zealand as well as the draws on Corporate credit facilities in the normal course of operations.

As at March 31, 2020, the REIT held approximately \$17.0 million of cash and receivables denominated in Canadian Dollars.

The REIT monitors its foreign exchange exposure and its hedging strategy on an ongoing basis. The REIT has not executed any derivative foreign currency hedging arrangements in the past year, and Vital Trust suspended their foreign exchange hedging policy in May 2019.

The REIT intends to implement its formal hedging policy, when necessary, practicable and economically feasible to do so, to mitigate the impact of foreign currency fluctuations and to provide more certainty regarding the payment of distributions to unitholders if the Canadian dollar increases in value compared to foreign currencies. The REIT's current hedging arrangements include natural currency hedges through local-currency denominated debt, inflation-indexed leases that provide protection against currency devaluation, and exposure to a diversified basket of currencies. Future hedging arrangements may include implementing specific foreign currency hedging derivatives.

The REIT does not currently have any specific foreign currency hedging derivatives in place.

Among the REIT's global currencies, compared to December 31, 2019, the BRL, Euro, NZD and AUD were down relative to the Canadian dollar by 15.7%, 6.8%, 3.5% and 4.7%, respectively.

## **PART V – RELATED PARTY TRANSACTIONS**

- a) On January 31, 2020, the REIT completed a private placement of 2,049,180 Trust Units to NWVP for gross proceeds of approximately \$25.0 million. On March 23, 2020, 15,998,065 Exchangeable Units held by NWVP were converted to Trust Units.

As at March 31, 2020, NWVP indirectly owned approximately 15.3% (approximately 13.1% on a fully-diluted basis assuming conversion of the REIT's Convertible Debentures and redemption of its deferred units) of the REIT through a combination of Trust Units of the REIT and Class B LP Units. Paul Dalla Lana, Chairman of the Board of Trustees and Chief Executive Officer ("CEO") of the REIT, is the sole shareholder, sole director and President of NWVP.

- b) In the normal course of operations the REIT has amounts owing to and from NWVP and affiliates, which includes compensation for CEO management services and related expense reimbursements. As at March 31, 2020, these non-interest bearing amounts without repayment terms are representative of a net asset included in other assets totaling \$3.0 million (December 31, 2019 - \$2.7 million). Subsequent to quarter end, the balance was settled in full.
- c) At March 31, 2020, included in accounts payable and accrued liabilities are Class B exchangeable unit distributions payable owing to NWVP and affiliates in the amount of \$0.1 million (December 31, 2019 - \$1.2 million), which were settled subsequent to period end.
- d) In the normal course of operations the REIT entered into related party transactions with NWVP and affiliates in the amount of \$10.2 million during the three months ended March 31, 2020 (three months ended March 31, 2019 - \$0.1 million) relating to CEO management services (including a \$7.0 million bonus paid), cost-sharing and sublease agreements and reimbursement for out-of-pocket costs.

## **PART VI – CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

All significant accounting policies have been applied on a basis consistent with those followed in the most recent audited annual consolidated financial statements of the REIT for the year ended December 31, 2019 with the exception of the accounting standards implemented in 2019, which are described in note 2 of the REIT's condensed consolidated interim financial statements for the three months ended March 31, 2020.

The preparation of financial statements in conformity with IFRS requires the REIT to make judgments, estimates, and assumptions that affect the reported amounts recognized in the financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the financial statements. Actual results could differ from estimates. Please refer to note 1 in the REIT's audited consolidated financial statements and accompanying notes for the year ended December 31, 2019.

## **PART VII – RISKS AND UNCERTAINTIES**

There are certain risks inherent in an investment in the Trust Units and the Convertible Debentures and in the activities of the REIT which current and prospective Unitholders and current or prospective investors in Convertible Debentures should carefully consider. The REIT's Annual Information Form, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com), contains a detailed summary, under "Risk Factors", of the risk factors pertaining to the REIT and its business. In addition, the REIT has identified a new risk factor related to the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", which is further discussed below.

## **COVID-19**

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The duration and impact of COVID-19 on the REIT is unknown at this time. As such, it is not possible to reliably estimate the length and severity of COVID-19-related impacts on the financial results and operations of the REIT.

The extent to which COVID-19 and its effect on the economy will impact our business is highly uncertain. As a result, while management expects that our financial results for 2020 will be negatively impacted by continued COVID-19-related disruptions, we cannot currently estimate the severity of any such impact, which may be material. The overall severity and duration of COVID-19-related adverse impacts on our business will depend on future developments which cannot currently be predicted, including directives of government and public health authorities, the speed at which our tenants can return to operating their businesses in a profitable manner and the ability to staff our operations and facilities. Even after the COVID-19 outbreak has subsided, we may continue to experience material adverse impacts to our businesses as a result of its global economic impact, including any related recession.

## **PART VIII – CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

The REIT's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, the REIT's disclosure controls and procedures (as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, adopted by the Canadian Securities Administrators ("NI 52-109")) to provide reasonable assurance that: (i) material information relating to the REIT, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the filings are being prepared; and (ii) material information required to be disclosed in the filings or other reports filed or submitted by the REIT under securities legislation is recorded, processed, summarized and reported on a timely basis and within the time period specified by securities legislation.

### **Changes in Internal Controls Over Financial Reporting**

There were no significant changes made in internal controls over financial reporting during the three months ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting.

## PART IX – NET ASSET VALUE

Expressed in thousands of Canadian dollars, except per unit amounts

	<b>Q1 2020</b>
<b>Total Assets</b>	<b>\$ 5,444,457</b>
less Total Liabilities	(3,200,440)
less Non-controlling interest	(720,362)
<b>Unitholders' equity</b>	<b>1,523,655</b>
Add/(deduct):	
Goodwill	(41,671)
Deferred unit plan liability	15,242
Deferred tax liability	277,115
less NCI	<u>(59,699)</u>
	217,416
Financial instruments - net	60,974
less NCI	<u>(39,519)</u>
	21,455
Exchangeable Units	16,519
ANZ Manager valuation adjustment	476,318
<b>Net Asset Value ("NAV")</b>	<b>\$ 2,228,934</b>
Adjusted Units Outstanding (000s)- period end <sup>(1)</sup>	177,865
<b>NAV per Unit</b>	<b>\$ 12.53</b>

### Notes

- (1) Under IFRS the REIT's Class B LP Units are treated as a financial liability rather than equity. The REIT has chosen to present an adjusted basic per unit measure that includes the Class B LP Units in basic units outstanding/weighted average units outstanding.

## CORPORATE INFORMATION

### Head Office

NorthWest Healthcare Properties Real Estate  
Investment Trust  
180 Dundas Street West, Suite 1100  
Toronto, Ontario  
M5G 1Z8  
Phone: 416-366-2000  
Fax: 416-366-2433

### Transfer Agent

Computershare Trust Company of Canada  
100 University Avenue, 8th Floor  
Toronto, Ontario M5J 2Y1

### Auditors

KPMG LLP  
333 Bay Street, Suite 4600  
Bay Adelaide Centre  
Toronto, Ontario  
M5H 2S5

### Corporate Counsel

Goodmans LLP  
333 Bay St, Suite 3400  
Toronto ON M5H 2S7

### Investor Relations

Shailen Chande, Chief Financial Officer  
Phone: 416-366-2000 X1002  
E-mail: [shailen.chande@nwhreit.com](mailto:shailen.chande@nwhreit.com)  
Website: [www.nwhreit.com](http://www.nwhreit.com)

### Stock Exchange Listing

Toronto Stock Exchange (TSX)

Listing symbols:

REIT Trust Units - NWH.UN  
5.25% convertible debentures - NWH.DB.E  
5.25% convertible debentures - NWH.DB.F  
5.50% convertible debentures - NWH.DB.G

## Distribution Reinvestment Plan

Participants in the REIT's distribution reinvestment plan may elect to have all cash distributions of the REIT automatically reinvested in additional Trust Units at a price per Trust Unit calculated by reference to the weighted average of the trading price for the Trust Units on the TSX for the five trading days immediately preceding the relevant distribution date. Unitholders who so elect will receive a further distribution of Trust Units equal to 3% of each distribution that was reinvested by them.

On March 24, 2020, in response to market volatility caused by the COVID-19 pandemic the Board approved the elimination of the 3% bonus distribution under the DRIP, commencing with the April 2020 distribution. The DRIP will remain suspended until further notice.



NorthWest Healthcare Properties  
Real Estate Investment Trust  
180 Dundas Street West, Suite 1100  
Toronto, Ontario  
M5G 1Z8  
Phone 416 366 2000  
Fax 416 366 2433