

**NORTHWEST HEALTHCARE
PROPERTIES REAL ESTATE
INVESTMENT TRUST**

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS
(IN CANADIAN DOLLARS)**

FOR THE THREE AND NINE MONTHS
ENDED SEPTEMBER 30, 2019

(UNAUDITED)



NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**Condensed Consolidated Interim Balance Sheet****(in thousands of Canadian dollars)****Unaudited**

As at	Note	September 30, 2019	December 31, 2018
Assets			
Investment properties	5	\$ 4,770,677	\$ 4,669,802
Equity accounted investments	6	123,562	—
Intangible assets		47,253	47,291
Goodwill		78,621	81,403
Financial instruments	10	2	150,534
Accounts receivable		15,764	18,313
Other assets	7	71,047	58,146
Cash and restricted cash	15	85,972	46,159
Assets held for sale	4	8,421	—
Total assets		\$ 5,201,319	\$ 5,071,648
Liabilities			
Mortgages and loans payable	8	\$ 2,347,112	\$ 2,409,662
Convertible debentures	9	386,926	401,235
Deferred unit plan liability	11	17,488	13,030
Class B exchangeable units	12	208,424	167,872
Deferred tax liability		288,854	284,187
Financial instruments	10	60,469	23,102
Income tax payable		4,934	8,226
Accounts payable and accrued liabilities		76,140	74,881
Distributions payable		8,835	6,905
Total liabilities		\$ 3,399,182	\$ 3,389,100
Unitholders' Equity			
Unitholders' equity	14	1,032,458	947,722
Non-controlling interest	18	769,679	734,826
Total liabilities and unitholders' equity		\$ 5,201,319	\$ 5,071,648

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST
Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)
(in thousands of Canadian dollars)
Unaudited

	Note	For the three months ended September 30,		For the nine months ended September 30,	
		2019	2018	2019	2018
Net Property Operating Income					
Revenue from investment properties	13	\$ 91,106	\$ 87,044	\$ 274,448	260,449
Property operating costs		21,319	21,831	65,112	63,805
		69,787	65,213	209,336	196,644
Other Income					
Interest and other		2,452	3,183	5,123	10,133
Management fees		2,231	2,485	10,020	3,142
Share of profit (loss) of equity accounted investments	6	2,716	—	(19,002)	—
		7,399	5,668	(3,859)	13,275
Expenses					
Mortgage and loan interest expense		33,804	31,435	98,396	92,127
General and administrative expenses		8,053	5,137	25,098	19,801
Transaction costs		1,419	4,140	11,116	9,103
Foreign exchange (gain) loss		(44)	(783)	(3,162)	2,272
		43,232	39,929	131,448	123,303
Income before other finance costs, fair value adjustments, and net loss on disposal of investment property		33,954	30,952	74,029	86,616
Finance costs					
Amortization of financing costs		(5,453)	(3,800)	(9,591)	(8,454)
Amortization of mark-to-market adjustment		330	500	1,020	1,590
Class B exchangeable unit distributions	12	(3,541)	(3,541)	(10,625)	(10,625)
Fair value adjustment of Class B exchangeable units	12	177	1,417	(40,552)	2,627
Accretion of financial liabilities	8	(130)	(2,740)	(3,978)	(17,504)
Fair value adjustment of convertible debentures	9	(740)	(1,932)	(24,468)	1,480
Loss on financial instrument	10	(11,359)	(12,727)	(28,216)	(17,339)
Impairment loss on goodwill		—	(50,096)	—	(50,096)
Fair value adjustment of investment properties	5	3,069	43,451	140,050	89,916
Net loss on disposal of investment properties	4	—	(917)	(139)	(2,688)
Fair value adjustment of deferred unit plan liability	11	(135)	4	(3,139)	290
Income before taxes		16,172	571	94,391	75,813
Income tax expense (income)		(1,501)	29,040	47,050	50,680
Net income (loss)		\$ 17,673	\$ (28,469)	\$ 47,341	\$ 25,133
Net income (loss) attributable to:					
Unitholders		\$ 18,562	\$ (29,290)	\$ 10,187	\$ (7,029)
Non-controlling interest		(889)	821	37,154	32,162
		\$ 17,673	\$ (28,469)	\$ 47,341	\$ 25,133

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss) (cont.)****(in thousands of Canadian dollars)****Unaudited**

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Net income	\$ 17,673	\$ (28,469)	\$ 47,341	\$ 25,133
Other comprehensive income (loss) ("OCI"):				
Items that will be reclassified subsequently to income:				
Foreign currency translation adjustment	\$ (75,365)	\$ (71,657)	\$ (151,221)	\$ (115,706)
Realised foreign exchange gains/(losses) on hedges	—	17	4,179	(150)
Current taxation (expense)/credit	—	(5)	(1,170)	43
Unrealised foreign exchange gains/(losses) on hedges	—	880	(2,750)	2,097
Deferred taxation (expense)/credit	—	(246)	1,786	(601)
Fair value gain (loss) on net investment hedges	(3,335)	62	(6,349)	1,610
Deferred taxation (expense)/credit	934	(17)	762	(436)
Other comprehensive income (loss), net of tax	(77,766)	(70,966)	(154,763)	(113,143)
Total comprehensive income (loss) for the period	\$ (60,093)	\$ (99,435)	\$ (107,422)	\$ (88,010)
Total comprehensive income (loss) attributable to:				
Unitholders	\$ (74,629)	\$ (98,403)	\$ (153,305)	\$ (115,622)
Non-controlling interest	14,536	(1,032)	45,883	27,612
	\$ (60,093)	\$ (99,435)	\$ (107,422)	\$ (88,010)

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Unitholders' Equity

(in thousands of Canadian dollars)

Unaudited

	Note	Unitholders' Equity	Contributed Surplus	Reduction on Reclassification to Liabilities	Cumulative Distributions	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Unitholders' Equity	Non-Controlling Interest	Total Equity
Balance, December 31, 2018		\$ 953,169	\$ 39,839	\$ (115)	\$ (264,119)	\$ (57,065)	\$ 276,013	\$ 947,722	\$ 734,826	\$ 1,682,548
Public offering of units	14	301,479	—	—	—	—	—	301,479	6,246	307,725
Units issued through distribution reinvestment plan		7,862	—	—	—	—	—	7,862	4,508	12,370
Units issued on exercise of deferred units	14	1,053	—	—	—	—	—	1,053	—	1,053
Conversion of convertible debenture	14	192	—	—	—	—	—	192	—	192
Distributions		—	—	—	(72,544)	—	—	(72,544)	(21,785)	(94,329)
Currency translation differences		—	—	—	—	(162,611)	—	(162,611)	11,390	(151,221)
Other comprehensive income (loss)		—	—	—	—	(882)	—	(882)	(2,660)	(3,542)
Net income (loss) for the period		—	—	—	—	—	10,187	10,187	37,154	47,341
Balance, September 30, 2019		\$ 1,263,755	\$ 39,839	\$ (115)	\$ (336,663)	\$ (220,558)	\$ 286,200	\$ 1,032,458	\$ 769,679	\$ 1,802,137

	Note	Unitholders' Equity	Contributed Surplus	Reduction on Reclassification to Liabilities	Cumulative Distributions	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Unitholders' Equity	Non-Controlling Interest	Total Equity
Balance, December 31, 2017		\$ 924,918	\$ 39,839	\$ (115)	\$ (181,680)	\$ (45,590)	\$ 210,298	\$ 947,670	\$ 707,255	\$ 1,654,925
Issue of share capital		—	—	—	—	—	—	—	7,026	7,026
Units issued through distribution reinvestment plan		6,065	—	—	—	—	—	6,065	4,089	10,154
Units issued on exercise of deferred units	14	4,897	—	—	—	—	—	4,897	—	4,897
Conversion of Class B LP exchangeable units	12	14,874	—	—	—	—	—	14,874	—	14,874
Conversion of convertible debenture	14	69	—	—	—	—	—	69	—	69
Acquisition of control of subsidiary		—	—	—	—	—	—	—	438	438
Distributions		—	—	—	(61,739)	—	—	(61,739)	(21,090)	(82,829)
Foreign currency translation differences		—	—	—	—	(109,231)	—	(109,231)	(6,475)	(115,706)
Other comprehensive income (loss)		—	—	—	—	637	—	637	1,926	2,563
Net income (loss) for the period		—	—	—	—	—	(7,029)	(7,029)	32,162	25,133
Balance, September 30, 2018		\$ 950,823	\$ 39,839	\$ (115)	\$ (243,419)	\$ (154,184)	\$ 203,269	\$ 796,213	\$ 725,331	\$ 1,521,544

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST
Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

Unaudited

		For the three months ended September 30,		For the nine months ended September 30,	
	Note	2019	2018	2019	2018
Cash provided by (used in):					
Operating activities					
Net income before taxes		\$ 16,172	\$ 571	\$ 94,391	\$ 75,813
Adjustment for:					
Amortization		493	312	1,619	938
Mortgage and loan interest		33,804	31,435	98,396	92,127
Mortgage and loans interest paid		(31,692)	(26,305)	(92,658)	(82,831)
Finance costs	15	9,357	10,096	88,194	30,886
Interest income		(2,452)	(3,183)	(5,123)	(6,627)
Share of (profit)/loss of equity accounted investments	6	(2,716)	—	19,002	—
Unrealized foreign exchange (gain)/loss		(50)	(913)	(1,264)	2,182
Amortization of deferred revenue		—	—	(42)	—
Amortization of finance leases receivable/payable		(22)	(70)	(67)	(225)
Fair value adjustment of investment properties	5	(3,069)	(43,451)	(140,050)	(89,916)
Fair value (gain)/loss on financial instruments	10	11,222	12,804	28,315	17,643
Impairment loss on goodwill		—	50,096	—	50,096
Net loss on disposal of investment properties	4	—	917	139	2,688
Fair value adjustment of deferred unit plan liability		135	(4)	3,139	(290)
Unit-based compensation expense	11	1,937	647	6,348	3,603
Redemption of units issued under deferred unit plan		(689)	(2)	(3,800)	(2,133)
Income taxes paid		(7,668)	(3,537)	(13,226)	(12,637)
Changes in non-cash working capital balances	15	(27,721)	9,124	(11,533)	(5,713)
Cash provided by (used in) operating activities		(2,959)	38,537	71,780	75,604
Investing activities					
Acquisitions of investment properties	3	(91,814)	(105,770)	(188,263)	(385,263)
Additions to investment properties	5	(29,487)	(23,952)	(66,410)	(59,944)
Net proceeds on disposal of investment property	4	—	214,419	2,112	376,893
Investment in equity accounted investments	6	(77)	—	(152,509)	—
Investment in financial assets		—	—	—	(5,162)
Cash interest received		1,872	2,319	3,029	4,896
Distributions from equity accounted investments	6	2,374	—	4,253	—
Additions to furnitures and fixtures		(113)	(85)	(221)	(352)
Net receipts (payments) from forward contract		—	(3,995)	156,455	(87,381)
Receipts (payments) from foreign exchange contracts		327	(93)	4,531	(157)
Net decrease (increase) to restricted cash		281	—	277	(58)
Cash provided by (used in) investing activities		(116,637)	82,843	(236,746)	(156,528)
Financing activities					
Mortgage and loan proceeds	8	273,062	66,252	395,299	425,041
Mortgage and loans discharged		—	—	—	(86,780)
Repayment of mortgages		(6,360)	(5,488)	(18,735)	(16,037)
Net advances (repayments) of loans payable	8	(195,188)	(161,083)	(316,451)	(152,188)
Redemption of convertible debentures	9	(38,585)	—	(38,585)	—
Proceeds from issuance of units, net of issuance costs	14	164,646	—	301,479	—
Financing fees paid		(10,161)	(277)	(13,018)	(3,453)
Net (payments) advances from (to) related parties		162	(21)	(2,838)	(268)
Settlement of securitization		—	—	—	(19,625)
Distributions paid		(22,464)	(18,515)	(62,749)	(55,528)
Class B exchangeable units distributions paid	12	(3,541)	(3,541)	(10,625)	(10,625)
Distributions paid to non-controlling interest		(5,689)	(5,468)	(17,276)	(17,001)
Cash provided by (used in) financing activities		155,882	(128,141)	216,501	63,536
Net change in cash		36,286	(6,761)	51,535	(17,388)
Effect of foreign currency translation		(1,514)	1,187	(11,426)	(190)
Net change in cash		34,772	(5,574)	40,109	(17,578)
Cash, beginning of period		51,145	59,700	45,808	71,704
Cash, end of period		\$ 85,917	\$ 54,126	\$ 85,917	\$ 54,126

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

NorthWest Healthcare Properties Real Estate Investment Trust (the "REIT"), is a Canadian open-end trust created pursuant to an amended and restated Declaration of Trust dated May 15, 2015. The registered office of the REIT is 180 Dundas Street West, Suite 1100, Toronto, Ontario, M5G 1Z8.

1. Basis of Preparation

The condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Accounting Standard ("IAS") 34: Interim Financial Reporting. Certain information and note disclosure normally included in the annual consolidated financial statements based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS") have been omitted. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the REIT's audited consolidated financial statements for the year ended December 31, 2018.

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

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

2. Significant Accounting Policies

All significant accounting policies have been applied on a basis consistent with those followed in the most recent audited annual consolidated financial statements of the REIT for the year ended December 31, 2018 with the exception of the accounting standards implemented in 2019. Changes to significant accounting policies are described below.

Accounting Standards implemented in 2019

(i) IFRS 16 *Leases* ("IFRS 16")

In January 2016, the IASB issued IFRS 16 replacing IAS 17, "Leases" and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance or operating leases. The REIT adopted IFRS 16 using the modified retrospective method effective January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the REIT's incremental borrowing rate as at January 1, 2019. The REIT elected to measure all its right-of-use assets at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments.

The REIT elected the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognize right-of-use assets and lease liabilities with less than 12 months of lease term;
- Applied the exemption not to recognize right-of-use assets and lease liabilities for low value assets;

As at January 1, 2019, the REIT recognized on its balance sheet lease liabilities of \$9.7 million recorded in mortgage and loan payables and right-of-use assets of \$5.4 million recorded in other assets and \$4.3 million associated to ground leases in investment properties. The nature and timing of the related expenses will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**Notes to Condensed Consolidated Interim Financial Statements**

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited(ii) IFRIC 23 *Uncertainty over Income Tax Treatment* ("IFRIC 23")

On January 1, 2019, the REIT adopted IFRIC 23, which has clarified the application of the recognition and measurement requirements in IAS 12, Income Taxes (IAS 12) for situations where there is uncertainty over income tax treatments. IFRIC 23 specifically addresses whether an entity considers income tax treatments separately; assumptions that an entity makes regarding the examination of tax treatments by taxation authorities; how an entity determines taxable income or loss, tax bases, unused tax losses or credits and tax rates; and how an entity considers changes in facts and circumstances. IFRIC 23 does not apply to taxes or levies outside the scope of IAS 12. IFRIC 23 did not have a material impact on the REIT's condensed consolidated financial statements.

3. Property Acquisitions

(a) 2019 Property Acquisitions

Region	Acquisition Cost ⁽¹⁾	Property specific debt
Europe	\$130,056	\$72,912
Canada	56,870	43,932
Various ⁽²⁾	1,337	—
Total	\$ 188,263	\$ 116,844

(1) Total acquisition costs includes transaction costs incurred with respect to acquiring the asset.

(2) Other acquisitions include land and properties acquired for future developments.

(b) 2018 Property Acquisitions

Region	Acquisition Cost ⁽¹⁾	Property specific debt
Europe	\$ 313,538	\$ 192,989
Australasia	96,162	—
Brazil	92,367	—
Various	42,215	—
Total	\$ 544,282	\$ 192,989

4. Property Disposals

During the nine months ended September 30, the REIT disposed the following property:

Region	Location	Property type	Gross Proceeds	Property specific debt settled	
490 Harwood Boulevard ⁽ⁱ⁾	Canada	Vaudreuil-Dorion, Quebec	Medical Office Building	\$ 2,251	\$ —
			\$ 2,251	\$ —	

(i) Proceeds excludes disposition costs of \$0.1 million

As at September 30, 2019, the REIT had classified a medical office building with fair value of \$8.4 million located in NSW, Australia, as held for sale (December 31, 2018 - \$nil properties with fair value of \$nil).

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

5. Investment Properties

As at	September 30, 2019	December 31, 2018
Balance, beginning of period	\$ 4,669,802	\$ 4,144,789
Acquisition of investment properties (note 3)	188,263	544,282
Disposition of investment properties (note 4)	(2,251)	(207,247)
Additions to investment properties	66,410	94,405
Increase in straight line rents	2,675	2,139
Reclassified as assets held for sale (note 4)	(8,421)	—
Settlement of securitization	—	7,945
Right of use asset addition	7,720	—
Fair value gain	140,050	150,263
Foreign currency translation	(293,571)	(66,774)
Balance, end of period	\$ 4,770,677	\$ 4,669,802

Investment properties are carried at fair value. The investment properties are re-measured to fair value at each reporting date, determined either using internal valuation models incorporating available market evidence, or using valuations performed by third-party appraisers.

The fair values of the investment properties at September 30, 2019 and December 31, 2018 were determined using a combination of both valuations performed by third-party appraisers and internal valuation models incorporating available market evidence. Estimates and assumptions used in determining the fair value of the investment properties include capitalization rates, discount rates, inflation rates, vacancy rates, market rents, property level capital expenditures, and net operating income.

Fair values are most sensitive to changes in discount rates and terminal capitalization rates. A 0.25% increase in the weighted average portfolio discount rate and terminal capitalization rate would decrease fair value by \$190.1 million and a 0.25% decrease would increase fair value by \$206.7 million.

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

	As at September 30, 2019			
	Canada	Brazil	Europe	Australasia
Discount rate - range	5.3% - 8.5%	6.8% - 8.0%	4.0% - 7.3%	6.0% - 10.8%
Discount rate - weighted average	7.2%	7.3%	6.2%	6.7%
Terminal capitalization rate - range	5.0% - 8.0%	6.5% - 7.5%	5.0% - 7.5%	5.3% - 9.3%
Terminal capitalization rate - weighted average	6.6%	6.9%	5.9%	6.3%
Implied capitalization rate - range	3.4% - 9.7%	6.6% - 7.7%	4.1% - 7.0%	4.4% - 9.5%
Implied capitalization rate - weighted average	6.4%	7.0%	5.7%	5.6%
	As at December 31, 2018			
	Canada	Brazil	Europe	Australasia
Discount rate - range	5.3% - 8.5%	7.3% - 8.5%	5.2% - 7.3%	5.8% - 10.8%
Discount rate - weighted average	7.2%	7.8%	6.3%	6.8%
Terminal capitalization rate - range	4.8% - 8.0%	7.0% - 8.0%	5.0% - 7.5%	5.3% - 9.3%
Terminal capitalization rate - weighted average	6.6%	7.4%	5.9%	6.3%
Implied capitalization rate - range	3.7% - 10.2%	7.0% - 8.1%	4.5% - 7.1%	5.0% - 9.5%
Implied capitalization rate - weighted average	6.5%	7.5%	5.8%	5.7%

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NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**Notes to Condensed Consolidated Interim Financial Statements**

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

During the three and nine months ended September 30, 2019, investment properties with an aggregate fair value of \$0.3 billion and \$2.3 billion, respectively (for the three and nine months ended September 30, 2018 - \$nil and \$1.9 billion, respectively) were valued by external valuation professionals with recognized and relevant professional qualification.

6. Equity Accounted Investments

On June 6, 2019, the REIT completed the acquisition of 30% interest in a joint arrangement with an institutional partner. The REIT determined the arrangement is a joint venture under IFRS 11 *Joint arrangements* based on the following: i) the REIT has joint control over the arrangement; ii) the arrangement is structured as a separate vehicle; and ii) the REIT only has rights to and is liable for the net assets of the arrangement. Therefore, the REIT accounted for the JV using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures*.

As at September 30, 2019, the total equity commitment to the joint ventures is approximately \$3.4 billion, including 30% participation by the REIT.

Equity Accounted Investments	Location	Principal activity
NorthWest Australia HSO Trust	Australia	Own, acquire and develop investment properties
NorthWest Australia Hospital Investment Trust	Australia	Own, acquire and develop investment properties

The following table shows the changes in the carrying value of the equity accounted investments:

As at	September 30, 2019	December 31, 2018
Balance, beginning of period	\$ —	\$ —
Contributions	152,791	—
Share of loss for the period	(19,002)	—
Distributions	(4,253)	—
Foreign exchange	(5,974)	—
Balance, end of period	\$ 123,562	\$ —

The following tables summarized financial information of the REIT's interest in equity accounted investments:

As at	September 30, 2019	December 31, 2018
Total assets	\$ 1,133,415	\$ —
Total liabilities	(722,463)	—
Net assets	410,952	—
Ownership Interest	30%	n/a
Equity Accounted Investments	\$ 123,562	\$ —

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NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**Notes to Condensed Consolidated Interim Financial Statements**

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Total revenue	18,606	—	24,126	—
Expenses				
Operating costs	(525)	—	(874)	—
Mortgage and loan interest expense	(5,004)	—	(7,032)	—
General and administrative expenses	(1,343)	—	(1,374)	—
Other	(94)	—	(124)	—
Fair value adjustments and transaction costs	(3,986)	—	(85,726)	—
Net income (loss)	\$ 7,654	\$ —	\$ (71,004)	\$ —
Net profit attributable to unitholders	7,654	—	(71,004)	—
Weighted average share of profits	30%	n/a	30%	n/a
REIT's share of profits	\$ 2,296	\$ —	\$ (21,301)	\$ —
Intercompany amounts	420	—	2,299	—
REIT's adjusted share of profits	\$ 2,716	\$ —	\$ (19,002)	\$ —

7. Other Assets

As at	September 30, 2019	December 31, 2018
Acquisition and financing costs (i)	\$ 16,721	\$ 3,403
Prepaid expenses and deposits	6,251	8,759
Furniture and office equipment	3,023	3,314
Loans carried at amortized cost (ii)	32,874	34,453
Finance lease receivable (iii)	6,221	6,560
Right-of-use assets (iv)	4,603	—
Other	1,354	1,657
	\$ 71,047	\$ 58,146

- i. On September 30, 2019 the REIT made a deposit of \$13.1 million held in escrow with a third party, which were used to close the acquisition of two medical office buildings located in the Netherlands subsequent to the period end.
- ii. Loans carried at amortized cost relates to two loans secured by Australian investment properties.
- iii. Finance lease receivable relates to a long-term lease that is a finance lease, bearing a discount rate of 6.5% and remaining term of 68 years.
- iv. Right-of-use assets are net of accumulated amortization of \$1.1 million (December 2018 - \$nil), see note 2 for further details.

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**Notes to Condensed Consolidated Interim Financial Statements**

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited**8. Mortgages and Loans Payable**

As at	September 30, 2019	December 31, 2018
Mortgage payable ¹	\$ 907,315	\$ 822,355
Term debt ¹	1,238,360	1,309,104
Credit facilities ¹	189,751	275,241
Lease liabilities	11,686	2,962
Total	\$ 2,347,112	\$ 2,409,662
Less: Current portion	329,476	541,368
Non-current debt	\$ 2,017,636	\$ 1,868,294

(1) All amounts are net of financing costs.

Mortgages

All mortgages are secured by first or second charges on specific investment properties in Canada and Europe, with a carrying value of \$1.6 billion as at September 30, 2019 (December 31, 2018 - \$1.4 billion).

Term debt

As at September 30, 2019, term debt balance includes Brazilian secured debt of \$240.0 million (December 31, 2018 - \$195.1 million); Australian term debt of \$333.1 million (December 31, 2018 - \$298.2 million) secured by assets owned by an Australian subsidiary (excluding the non-controlling interest of the Frankston properties); New Zealand term debts of \$573.1 million (December 31, 2018 - \$679.7 million) secured by Vital Healthcare Property Trust's ("Vital Trust") security trust deed and by a first mortgages ranking over the respective investment properties of Vital Trust; and Australasian secured financing of \$103.7 million (December 31, 2018 - \$100.4 million) secured by 108,823,293 units of Vital Trust held by the REIT.

Credit facilities

As at September 30, 2019, the total credit facilities balance consists of \$143.5 million revolving credit facilities with weighted average interest rate of 4.33% (December 31, 2018 - \$244.5 million) and \$47.0 million non-revolving credit facilities with weighted average interest rate of 8.34% (December 31, 2018 - \$32.0 million). The revolving credit facility is secured by first and second charges on certain Canadian investment properties with fair value of \$251.4 million, and the terms of a general security agreement.

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**Notes to Condensed Consolidated Interim Financial Statements**

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited**Lease liabilities**

The lease of land on which one of the REIT's investment properties is built is accounted for as a finance lease. The remaining term of the lease at September 30, 2019 was 68 years. In addition, as part of the transition to IFRS 16, the REIT recognised lease liabilities for leases of which the REIT act as a lessee. Minimum payments under the lease and their present values are as follows:

As at	September 30, 2019		December 31, 2018	
Minimum lease payments payable:				
Not later than one year	\$	1,706	\$	129
Later than one year and not later than five years		5,984		554
Later than five years		30,315		28,286
		38,005		28,969
Future finance charges		(26,319)		(26,007)
Present value of minimum lease payments	\$	11,686	\$	2,962
Present value of minimum lease payments:				
Not later than one year		1,659		124
Later than one year and not later than five years		5,247		536
Later than five years		4,780		2,302
	\$	11,686	\$	2,962

As at September 30, 2019, the scheduled principal repayments and debt maturities are as follows:

	Mortgage Debt		Term Debt		Credit Facilities		Finance Lease		Total	
2019	\$	34,276	\$	104,503	\$	143,500	\$	460	\$	282,739
2020		209,036		212,891		—		1,623		423,550
2021		152,063		136,962		47,000		1,417		337,442
2022		128,151		548,361		—		1,351		677,863
2023		56,703		89,288		—		1,270		147,261
2024 & thereafter		328,293		157,764		—		5,565		491,622
	\$	908,522	\$	1,249,769	\$	190,500	\$	11,686	\$	2,360,477
Financing costs		(3,503)		(11,409)		(749)		—		(15,661)
Mark-to-market adjustment		2,296		—		—		—		2,296
Total	\$	907,315	\$	1,238,360	\$	189,751	\$	11,686	\$	2,347,112

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

A summary of the maturity and the weighted average interest rates relating to the mortgages and loans payable outstanding at September 30, 2019 are as follows:

	Maturity	Weighted Average Interest Rate	Carrying Value	Available to be Drawn
Fixed rate				
Mortgage debt	November 2019 - January 2029	3.00%	\$ 826,300	\$ —
Term debt	March 2021 - November 2027	4.63%	802,172	98,989
Total fixed rate debt			\$ 1,628,472	\$ 98,989
Variable Rate				
Mortgage debt	July 2020 - March 2022	4.20%	82,222	—
Term debt	March 2021 - November 2027	3.18%	447,597	53,535
Credit facilities	November 2019 - December 2020	5.32%	190,500	40,000
Total variable rate debt			\$ 720,319	\$ 93,535
Total debt excluding the following:			\$ 2,348,791	\$ 192,524
Finance lease			11,686	—
Mark-to-market adjustment			2,296	—
Financing costs			(15,661)	—
Total debt			\$ 2,347,112	\$ 192,524

The table below summarizes the movements in the REIT's mortgages and loans during the nine months ended September 30, 2019:

	Mortgage Debt	Term Debt	Credit Facilities	Total
Opening balance, January 1, 2019	\$822,355	\$1,309,104	\$275,241	\$2,406,700
Principal amortization	(17,939)	—	—	(17,939)
Repayments	1,616	(460,235)	(261,500)	(720,119)
Refinancing	5,262	—	—	5,262
Advances	123,799	494,406	175,500	793,705
Additional financing fees incurred	(1,122)	(6,609)	(1,851)	(9,582)
Amortization of finance fees	651	6,647	1,721	9,019
Amortization of mark-to-market	(1,020)	—	—	(1,020)
Inflation adjustment	—	4,044	—	4,044
Foreign exchange adjustment	(26,287)	(108,997)	640	(134,644)
Ending balance, September 30, 2019	\$907,315	\$1,238,360	\$189,751	\$2,335,426

The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on its \$708.8 million variable rate debt as at September 30, 2019 (December 31, 2018 - \$839.7 million) (note 10). The interest rate swaps terminate between 2021 and 2029.

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**Notes to Condensed Consolidated Interim Financial Statements**

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited**9. Convertible Debentures**

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

As at	September 30, 2019		December 31, 2018	
Balance, beginning of period	\$	401,235	\$	296,857
Issuance of convertible debenture		—		125,000
Conversion to REIT units (note 14)		(192)		(69)
Convertible debenture redeemed		(38,585)		—
Change in fair value of convertible debentures		24,468		(20,553)
	\$	386,926	\$	401,235

The fair values of convertible debentures, determined on the basis of the closing market price as at the reporting date, are as follows:

As at	September 30, 2019		December 31, 2018	
NWH.DB	\$	40,653	\$	39,445
NWH.DB.C		—		38,749
NWH.DB.D		56,212		51,711
NWH.DB.E		77,740		74,003
NWH.DB.F		82,947		78,890
NWH.DB.G		129,374		118,437
Fair Value	\$	386,926	\$	401,235
Current		40,653		38,749
Non-Current		346,273		362,486
	\$	386,926	\$	401,235

Debentures Series	Conversion price per Unit (\$)	Maturity	Interest rate	Interest payment	Interest payment dates
NWH.DB	\$14.20	September 30, 2020	5.25%	Semi-annual	March 31 and September 30
NWH.DB.D	\$11.25	October 31, 2020	5.50%	Semi-annual	April 30 and October 31
NWH.DB.E	\$12.75	July 31, 2021	5.25%	Semi-annual	January 31 and July 31
NWH.DB.F	\$12.80	December 31, 2021	5.25%	Semi-annual	June 30 and December 31
NWH.DB.G	\$13.35	December 31, 2023	5.50%	Semi-annual	June 30 and December 31

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**Notes to Condensed Consolidated Interim Financial Statements**

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

10. Financial Instruments

As at	September 30, 2019	December 31, 2018
Financial assets:		
Forward contract ⁽ⁱ⁾	\$ —	\$ 130,396
Option contracts ⁽ⁱ⁾	—	12,920
Interest rate swaps ⁽ⁱⁱⁱ⁾	—	535
Foreign exchange contracts ⁽ⁱⁱ⁾	2	6,683
Total financial assets	2	150,534
Financial liabilities:		
Interest rate swaps ⁽ⁱⁱⁱ⁾	60,121	23,094
Foreign exchange contracts ⁽ⁱⁱ⁾	348	8
Total financial liabilities	\$ 60,469	\$ 23,102

Derivative financial asset

- (i) In 2018 and in the first quarter of 2019, the REIT entered into derivative contracts with Deutsche Bank AG ("DB") which gave the REIT an economic interest equivalent up to 13% of the outstanding shares of HSO by way of a forward contract to acquire HSO shares and an option contract (the terms of which minimize the underlying margin requirements associated with the forward contract). The forward gave the REIT the ability to acquire, and DB the obligation to deliver, a minimum of 231,387,330 HSO shares at a price of A\$2.36 per share. The REIT prepaid \$81.0 million (A\$85.3 million) of the \$394.3 million (A\$415.1 million) notional amount of the forward contract.

Under the forward contract the REIT was entitled to receive dividend equivalents declared by HSO and it paid variable interest on the underlying embedded funding contained in the forward contract at Bank Bill Swap Bid Rate ("BBSY") plus 3% to 3.5%.

The zero cost option contract for 173,970,330 options limited the benefits to the REIT of HSO share price appreciation above A\$2.60 and limited the REIT's exposure to HSO share price depreciation below A\$2.00 down to A\$1.25 per share. The option contract also provided that the REIT will reimburse DB for its costs should DB be required to borrow HSO stock to fulfill its obligations under the forward contract.

During the second quarter of 2019, the REIT net settled the forward contract and utilized proceeds from the sale of its investment in HSO towards the acquisition of a 30% interest in a joint arrangement (note 6).

- (ii) The derivative financial instrument asset relates to foreign exchange contracts and interest rate swaps in place at Vital Trust. The forward exchange contracts are measured using a valuation model based on the applicable forward price curves derived from observable forward prices.

Derivative financial liability

- (ii) The REIT has entered into interest rate swap contracts with respect to certain Canadian and German mortgages, and portions of the Vital Trust and Australia REIT term loans (note 8). The interest rate derivatives mature over the next one to 10 years and have fixed interest rates ranging from 1.71% to 4.32%.

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NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**Notes to Condensed Consolidated Interim Financial Statements**

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

The components of the gain/(loss) on derivative financial instruments are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Fair value adjustment - interest rate swaps	\$ (11,269)	\$ 1,464	\$ (42,380)	\$ 215
Receipts/(payments) under transaction hedging foreign exchange contracts	(144)	76	90	303
Fair value adjustment - foreign exchange contracts	54	—	95	(15)
Fair value adjustment - forward contracts	—	(20,007)	39,352	(37,171)
Fair value adjustment - option contracts	—	3,911	(24,658)	20,871
Fair value adjustment - financial asset	—	—	—	(903)
Distribution equivalent - forward contract	—	5,818	7,669	5,818
Finance costs - embedded funding contained in forward contract	—	(3,989)	(8,384)	(6,457)
	\$ (11,359)	\$ (12,727)	\$ (28,216)	\$ (17,339)

11. Deferred Unit Plan ("DUP") Liability

The REIT's DUP became effective in March 2010 and was re-approved at the annual general meeting of Unitholders in 2019. The DUP is administered by the Compensation, Governance and Nominating Committee. The purpose of the DUP is to promote a greater alignment of interests between the Trustees, officers and certain other participants of the REIT and the Unitholders. Under the plan, the maximum number of units authorized for issuance shall not exceed 5% of the units issued and outstanding at any given time. The deferred units can be settled at the holders' option in units or cash subject to the REIT's approval and are treated as a liability until redeemed.

Deferred unit plan liabilities of ANZ Manager are related to deferred units of Vital Trust.

(a) Liability:

As at	September 30, 2019	December 31, 2018
Balance, beginning of period	\$ 13,030	\$ 18,009
Unit based compensation expense	6,348	4,759
Exercised and paid in cash	(3,800)	(2,399)
Exercised and settled in Trust Units	(1,053)	(5,103)
Fair value adjustment	3,139	(2,235)
FX adjustment	(176)	(1)
Balance, end of period	\$ 17,488	\$ 13,030

The balance of the DUP liability at September 30, 2019 consists of \$15.9 million related to the REIT's DUP and \$1.6 million related to Vital Trust's DUP (December 31, 2018 - \$11.1 million related to the REIT's DUP and \$1.9 million related to Vital Trust's DUP).

Unit-based compensation expense is measured at the service commencement date, based on the fair market value of a REIT unit or Vital Trust unit, as applicable, and amortized over the vesting year. Unit-based compensation does not qualify as an equity award and is classified as a liability. The awards are measured at fair-value each reporting period, based on the fair market value of a REIT unit or Vital Trust unit, as applicable, and the change in fair value is recognized as compensation expense.

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**Notes to Condensed Consolidated Interim Financial Statements**

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

(b) Units outstanding:

As at September 30, 2019	REIT	Vital Trust
Balance, beginning January 1, 2019	1,339,924	2,071,319
Granted	564,901	—
Exercised and paid in cash	(265,829)	(212,173)
Exercised and paid in REIT units	(100,373)	—
Forfeited	—	(583,577)
Distribution entitlement	76,337	31,506
Balance, as at September 30, 2019	1,614,960	1,307,075
Units vested but not exercised	973,375	217,651

As at December 31, 2018	REIT	Vital Trust
Balance, beginning January 1, 2018	1,936,429	1,819,014
Granted	248,198	626,995
Exercised and paid in cash	(155,361)	(461,913)
Exercised and paid in REIT units	(472,758)	—
Forfeited	(330,031)	—
Distribution entitlement	113,447	87,223
Balance, December 31, 2018	1,339,924	2,071,319
Units vested but not exercised	823,682	297,020

For the three and nine months ended September 30, 2019, the REIT and Vital Trust combined granted or issued 88,066 and 564,901 DUP units with a value of \$0.9 million and \$6.4 million (for the three and nine months ended September 30, 2018 - 15,133 and 860,828 DUP units with a fair value of \$0.2 million and \$4.0 million, respectively).

12. Class B Exchangeable Units

The Class B exchangeable units are economically equivalent to REIT units and are entitled to receive distributions equal to those provided to holders of REIT units. The fair value of the Class B exchangeable unit liability is determined with reference to the market price of the REIT's units at the reporting date.

As at September 30, 2019, there were 17,708,065 Class B exchangeable units (December 31, 2018 - 17,708,065) of NorthWest International Healthcare Properties LP ("NWI LP") issued and outstanding with a fair value of \$208.4 million (December 31, 2018 - \$167.9 million).

Distributions declared on the Class B exchangeable units of NWI LP totaled \$3.5 million and \$10.6 million for the three and nine months ended September 30, 2019, respectively (for the three and nine months ended September 30, 2018 - \$3.5 million and \$10.6 million, respectively) and have been accounted for as finance costs.

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

	Units	Amount
Balance, December 31, 2018	17,708,065	\$ 167,872
Fair value adjustment	—	40,552
Balance, September 30, 2019	17,708,065	\$ 208,424

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**Notes to Condensed Consolidated Interim Financial Statements**

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

13. Rental Revenue

The components of rental revenue are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Rental income	\$ 68,378	\$ 66,325	\$ 206,505	\$ 198,122
Operating cost recoveries	14,074	13,207	43,676	39,808
Tax and insurance recoveries	6,320	4,424	17,228	12,891
Other revenue	2,334	3,088	7,039	9,628
Rental revenue	\$ 91,106	\$ 87,044	\$ 274,448	\$ 260,449

14. Unitholders' Equity

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

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

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

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

The following table shows the changes in REIT units:

	REIT units	Amount
Balance, December 31, 2017	101,039,187	\$ 924,918
Units issued through distribution reinvestment plan (i)	762,436	8,205
Conversion of convertible debentures (note 9)	5,866	69
Units issued under deferred unit plan (note 11)	472,758	5,103
Units issued pursuant to Class B conversion (note 12)	1,290,000	14,874
Balance, December 31, 2018	103,570,247	\$ 953,169
Units issued through distribution reinvestment plan (i)	707,236	7,862
Conversion of convertible debentures (note 9)	15,422	192
Units issued under deferred unit plan (note 11)	100,373	1,053
Units issued pursuant to equity offering (ii)	28,129,000	316,396
Units issuances costs (ii)	—	(14,917)
Balance, September 30, 2019	132,522,278	\$ 1,263,755

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**Notes to Condensed Consolidated Interim Financial Statements**

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

- (i) The REIT has established a distribution reinvestment plan ("DRIP") for its unitholders, which allows participants to reinvest their monthly cash distributions in additional units at an effective discount of 3%.
- (ii) On February 26, 2019, the REIT completed a public offering of 13,501,000 units at a price of \$10.65 per unit for gross proceeds of approximately \$143.8 million, which included the exercise in full of the over-allotment option granted to the underwriters, whereby an additional 1,761,000 units were issued at a price of \$10.65 per unit.

On July 31, 2019, the REIT completed a public offering of 14,628,000 units at a price of \$11.80 per unit for gross proceeds of approximately \$172.6 million, which included the exercise in full of the over-allotment option granted to the underwriters, whereby an additional 1,908,000 units were issued at a price of \$11.80 per unit.

15. Supplemental Cash Flow Information

(i) Cash and Restricted Cash

As at	September 30, 2019		December 31, 2018	
Cash	\$	85,917	\$	45,808
Restricted cash		55		351
	\$	85,972	\$	46,159

Restricted cash represents cash held in the REIT's designated bank accounts pledged as collateral for the Brazil long-term financings (note 8).

(ii) Changes in Non-Cash Working Capital Balances

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Accounts receivable	\$ (1,937)	\$ (1,148)	\$ 6,908	\$ (6,799)
Other assets	(14,687)	7,186	(12,722)	2,176
Accounts payable and accrued liabilities	(11,097)	3,086	(5,719)	(1,090)
	\$ (27,721)	\$ 9,124	\$ (11,533)	\$ (5,713)

(iii) Non-Cash Financing and Investing Activities

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Non cash distributions to Unitholders under the DRIP (note 14)	\$ 3,022	\$ 2,130	\$ 7,862	\$ 6,065
Units issued under deferred unit plan (note 11)	202	—	1,053	4,897
Non-cash conversion of convertible debentures	165	12	192	69
Non-cash conversion of Class B exchangeable units (note 12)	—	—	—	14,874

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**Notes to Condensed Consolidated Interim Financial Statements**

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

(iv) Finance costs

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Distributions on Exchangeable Units	\$ 3,541	\$ 3,541	\$ 10,625	\$ 10,625
Loss on revaluation of financial liabilities	130	2,740	3,978	17,504
Amortization of deferred financing costs	5,453	3,800	9,591	8,454
Amortization of marked to market adjustment	(330)	(500)	(1,020)	(1,590)
Fair value adjustment of Convertible Debentures	740	1,932	24,468	(1,480)
Fair value adjustment of Class B exchangeable units	(177)	(1,417)	40,552	(2,627)
	\$ 9,357	\$ 10,096	\$ 88,194	\$ 30,886

16. Related Party Transactions

- (a) As at September 30, 2019, Northwest Value Partners Inc. ("NWVP") indirectly owned approximately 16.8% of the outstanding REIT units (approximately 13.8% 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 units of the REIT and Class B exchangeable units of NWI LP. Paul Dalla Lana, Chairman of the Board of Trustees and Chief Executive Officer of the REIT, is the sole shareholder, sole director and President of NWVP.
- (b) In the normal course of operations the REIT has amounts owing to and from NWVP and affiliates. As at September 30, 2019, these non-interest bearing amounts without repayment terms are representative of a net asset included in accounts receivable totaling \$3.0 million (December 31, 2018 - \$0.2 million).
- (c) At September 30, 2019, included in accounts payable and accrued liabilities are Class B exchangeable unit distributions payable owing to NWVP and affiliates in the amount of \$1.2 million (December 31, 2018 - \$1.2 million), which were settled subsequent to period end.
- (d) The following table summarizes the related party transactions with NWVP and its subsidiaries related to cost-sharing and sublease agreements with the REIT:

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Reimbursement for out-of-pocket costs	\$ 164	\$ 335	\$ 668	\$ 492
Cost-sharing and sublease agreements	2	(10)	7	(10)
	\$ 166	\$ 325	\$ 675	\$ 482

17. Segmented Information

The REIT operates in one industry segment being the real estate industry segment; however the REIT monitors and operates its European, Brazilian, Canadian, and Australasian operations separately. The CEO assesses the performance of each of the operating segments based on a measure of operating income (loss). The accounting policies for each of the segments are the same as those for the REIT. The REIT's trust and general and administrative expenses are managed centrally in Canada and are not allocable to operating segments, however certain operating segments incur general and administrative expenses specific to their segment.

During the three and nine months ended September 30, 2019, two tenants in Brazil accounted for 15% (for the three and nine months ended September 30, 2018 - 13% and 15%, respectively), and one tenant in Australasia

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

operating segment accounted for 15% (for the three and nine months ended September 30, 2018 - 14% and 15%, respectively) of the total revenue from investment properties.

As at September 30, 2019	Europe	Brazil	Australasia	Canada	Total
Investment properties	\$ 674,376	\$ 755,671	\$ 2,152,942	\$ 1,187,688	\$ 4,770,677
Mortgages and loans payable	\$ 373,001	\$ 231,949	\$ 908,615	\$ 833,547	\$ 2,347,112
As at December 31, 2018	Europe	Brazil	Australasia	Canada	Total
Investment properties	\$ 599,257	\$ 761,112	\$ 2,206,694	\$ 1,102,739	\$ 4,669,802
Mortgages and loans payable	\$ 327,870	\$ 186,902	\$ 977,519	\$ 917,371	\$ 2,409,662
For the three months ended September 30, 2019	Europe	Brazil	Australasia	Canada	Total
Operating Income (Loss)					
Revenue from investment properties	\$ 12,604	\$ 13,523	\$ 35,056	\$ 29,923	\$ 91,106
Property operating costs	2,836	—	5,329	13,154	21,319
Net property operating income	9,768	13,523	29,727	16,769	69,787
Other income					
Interest	132	1,339	893	88	2,452
Management fee	—	—	2,231	—	2,231
Share of profit of associate	—	—	2,716	—	2,716
	132	1,339	5,840	88	7,399
Mortgage and loan interest expense	2,189	7,238	10,073	14,304	33,804
General and administrative expenses	929	595	3,050	3,479	8,053
Transaction costs	—	970	411	38	1,419
Foreign exchange (gain) loss	(22)	(19)	4,073	(4,076)	(44)
	3,096	8,784	17,607	13,745	43,232
Operating income (loss)	\$ 6,804	\$ 6,078	\$ 17,960	\$ 3,112	\$ 33,954
For the three months ended September 30, 2018	Europe	Brazil	Australasia	Canada	Total
Operating Income (Loss)					
Revenue from investment properties	\$ 10,516	\$ 11,489	\$ 35,667	\$ 29,372	\$ 87,044
Property operating costs	3,311	—	4,789	13,731	21,831
Net property operating income	7,205	11,489	30,878	15,641	65,213
Other income					
Interest	76	1,671	1,387	49	3,183
Management fee	—	—	2,485	—	2,485
	76	1,671	3,872	49	5,668
Mortgage and loan interest expense	1,574	3,210	11,879	14,772	31,435
General and administrative expenses	804	390	2,763	1,180	5,137
Transaction costs	8	92	2,394	1,646	4,140
Foreign exchange (gain) loss	21	(596)	28	(236)	(783)
	2,407	3,096	17,064	17,362	39,929
Operating income (loss)	\$ 4,874	\$ 10,064	\$ 17,686	\$ (1,672)	\$ 30,952

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

For the nine months ended September 30, 2019	Europe	Brazil	Australasia	Canada	Total
Operating Income					
Revenue from investment properties	\$ 36,587	\$ 41,749	\$ 104,715	\$ 91,397	\$ 274,448
Property operating costs	9,133	—	14,594	41,385	65,112
Net property operating income	27,454	41,749	90,121	50,012	209,336
Other income					
Interest and other	283	1,508	3,130	202	5,123
Management fee	—	—	10,020	—	10,020
Share of loss of associate	—	—	(19,002)	—	(19,002)
	283	1,508	(5,852)	202	(3,859)
Mortgage and loan interest expense	6,359	13,860	32,593	45,584	98,396
General and administrative expenses	2,939	1,750	8,604	11,805	25,098
Transaction costs	—	984	9,221	911	11,116
Foreign exchange gain	(23)	(1,197)	3,674	(5,616)	(3,162)
	9,275	15,397	54,092	52,684	131,448
Operating income (loss)	\$ 18,462	\$ 27,860	\$ 30,177	\$ (2,470)	\$ 74,029
For the nine months ended September 30, 2018	Europe	Brazil	Australasia	Canada	Total
Operating Income					
Revenue from investment properties	\$ 23,617	\$ 37,921	\$ 106,893	\$ 92,018	\$ 260,449
Property operating costs	6,727	—	13,943	43,135	63,805
Net property operating income	16,890	37,921	92,950	48,883	196,644
Other income					
Interest and other	77	5,886	3,993	177	10,133
Management fee	—	—	3,142	—	3,142
	77	5,886	7,135	177	13,275
Mortgage and loan interest expense	3,566	10,689	34,133	43,739	92,127
General and administrative expenses	2,393	1,513	7,837	8,058	19,801
Transaction costs	8	741	6,249	2,105	9,103
Foreign exchange loss	22	2,183	90	(23)	2,272
	5,989	15,126	48,309	53,879	123,303
Operating income (loss)	\$ 10,978	\$ 28,681	\$ 51,776	\$ (4,819)	\$ 86,616

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NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

18. Non-wholly Owned Subsidiaries

The following tables present summarized accounts for Vital Trust, Divine, and Fritz-Lang-Platz 6 based on the portion attributable to the non-controlling interest and the REIT:

As at September 30, 2019	Vital Trust		Divine		Fritz-Lang-Platz 6		Total	
Ownership interest	24.9%		56.9%		94.9%			
Total assets	\$	1,591,487	\$	162,925	\$	20,141	\$	1,774,553
Total liabilities		716,762		43,258		9,859		769,879
Net assets	\$	874,725	\$	119,667	\$	10,282	\$	1,004,674
Attributable to:								
Unitholders of the REIT		157,139		68,041		9,815		234,995
Non-controlling interest		717,586		51,626		467		769,679
	\$	874,725	\$	119,667	\$	10,282	\$	1,004,674
As at December 31, 2018								
Ownership interest	24.9%		56.9%		5.1%			
Total assets	\$	1,710,785	\$	172,256	\$	21,884	\$	1,904,925
Total liabilities		802,055		44,741		11,160		857,956
Net assets	\$	908,730	\$	127,515	\$	10,724	\$	1,046,969
Attributable to:								
Unitholders of the REIT		229,351		72,554		10,238		312,143
Non-controlling interest		679,379		54,961		486		734,826
	\$	908,730	\$	127,515	\$	10,724	\$	1,046,969
For the three months ended September 30, 2019								
	Vital Trust		Divine		Fritz-Lang-Platz 6		Total	
Revenue from investment properties	\$	25,109	\$	1,902	\$	382	\$	27,393
	\$	23,907	\$	1,940	\$	406	\$	26,253
Net income attributable to:								
Unitholders of the REIT		(513)		908		358		753
Non-controlling interest		(1,576)		677		10		(889)
Net income	\$	(2,089)	\$	1,585	\$	368	\$	(136)
	\$	(1,506)	\$	1,678	\$	30	\$	202
For the three months ended September 30, 2018								
	Vital Trust		Divine		Fritz-Lang-Platz 6		Total	
Total comprehensive income attributable to:		5,049		(937)		(121)		3,991
Unitholders of the REIT		15,252		(710)		(6)		14,536
Non-controlling interest		(1,282)		(1,680)		(112)		(3,074)
Total comprehensive income (loss)	\$	20,301	\$	(1,647)	\$	(127)	\$	18,527
	\$	(1,035)	\$	(2,953)	\$	(118)	\$	(4,106)
Distributions attributable to non-controlling interest	\$	6,460	\$	724	\$	(6)	\$	7,178
	\$	6,352	\$	413	\$	—	\$	6,765

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

	For the nine months ended September 30, 2019				For the nine months ended September 30, 2018			
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Revenue from investment properties	\$ 74,436	\$ 5,706	\$ 1,144	\$ 81,286	\$ 72,322	\$ 5,856	\$ 1,200	\$ 79,378
Net income attributable to:								
Unitholders of the REIT	11,421	3,430	339	15,190	10,357	(188)	332	10,501
Non-controlling interest	34,445	2,691	18	37,154	32,291	(145)	16	32,162
Net income (loss)	\$ 45,866	\$ 6,121	\$ 357	\$ 52,344	\$ 42,648	\$ (333)	\$ 348	\$ 42,663
Total comprehensive income attributable to:								
Unitholders of the REIT	15,588	(1,709)	(140)	13,739	10,032	(3,259)	33	6,806
Non-controlling interest	47,185	(1,295)	(7)	45,883	30,080	(2,470)	2	27,612
Total comprehensive income (loss)	\$ 62,773	\$ (3,004)	\$ (147)	\$ 59,622	\$ 40,112	\$ (5,729)	\$ 35	\$ 34,418
Distributions attributable to non-controlling interest	\$ 19,633	\$ 2,153	\$ (1)	\$ 21,785	\$ 19,194	\$ 1,896	\$ —	\$ 21,090
	For the three months ended September 30, 2019				For the three months ended September 30, 2018			
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Cash flow activities:								
Operating	\$ (1,743)	\$ 3,947	\$ 144	\$ 2,348	\$ 2,736	\$ 896	\$ (74)	\$ 3,558
Investing	(12,382)	(1,858)	—	(14,240)	(23,159)	(8)	(113)	(23,280)
Financing	11,980	(3,042)	(121)	8,817	19,590	(2,341)	17	17,266
Effect of foreign currency translation	(1,174)	914	3	(257)	1,064	1,492	—	2,556
Net change in cash	\$ (3,319)	\$ (39)	\$ 26	\$ (3,332)	\$ 231	\$ 39	\$ (170)	\$ 100
	For the nine months ended September 30, 2019				For the nine months ended September 30, 2018			
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Cash flow activities:								
Operating	\$ 18,996	\$ 9,132	\$ 346	\$ 28,474	\$ 2,215	\$ (1,048)	\$ 2,510	\$ 3,677
Investing	(22,899)	(1,858)	—	(24,757)	(40,436)	5,445	(113)	(35,104)
Financing	838	(6,326)	(495)	(5,983)	34,931	(5,846)	(2,383)	26,702
Effect of foreign currency translation	(2,707)	(968)	5	(3,670)	(972)	1,492	(1)	519
Net change in cash	\$ (5,772)	\$ (20)	\$ (144)	\$ (5,936)	\$ (4,262)	\$ 43	\$ 13	\$ (4,206)

The REIT is subject to restrictions over the extent to which it can access funds of Fritz-Lang-Platz 6, Vital Trust, and Divine in the form of cash distributions, or use assets and liabilities as a result of borrowing arrangements, regulatory restrictions and the REIT's economic interest in Fritz-Lang-Platz 6, Vital Trust, and Divine being limited to approximately 94.9%, 25.0% and 56.9%, respectively.

19. Commitments and Contingent Liabilities

- (a) The REIT obtains letters of credit to support its obligations with respect to construction work on its investment properties and satisfying mortgage financing requirements. As at September 30, 2019, the REIT has a total of \$0.5 million in outstanding letters of credit, under the REIT's secured revolving floating rate credit facility, related to construction work that is being performed on investment properties. The REIT does not believe that any of these standby letters of credit are likely to be drawn upon.

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

- (b) Pursuant to the sale of two of the REIT's investment properties, the existing mortgages were assumed by the purchasers. In the event of default, the REIT has guaranteed the outstanding balance of the mortgages of \$1.2 million as at September 30, 2019 (December 31, 2018 - \$6.3 million).
- (c) The REIT has entered into acquisitions and construction agreements on development properties and is committed to costs of \$292.4 million as at September 30, 2019 (December 31, 2018 - \$272.1 million).
- (d) The REIT indemnifies individuals who have acted at the REIT's request to be a trustee and/or director and/or officer of the REIT (and/or one or more of its direct and indirect subsidiaries), to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The claims covered by such indemnifications are subject to statutory and other legal limitation periods. The nature of the indemnification agreements prevents the REIT from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements.
- (e) The REIT is subject to legal and other claims in the normal course of business. Management and the REIT's legal counsel evaluate all claims. In the opinion of management these claims are generally covered by the REIT's insurance policies and any liability from such claims would not have a significant effect on the REIT's consolidated financial statements.

20. Fair Values

Estimated fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The REIT uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value of financial instruments and investment properties. The classifications are as follows: the use of quoted market prices for identical assets or liabilities (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3).

The REIT determined the fair value of each investment property using the discounted cash flow method. The discounted cash flow method discounts the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. Note 5 outlines the key assumptions used by the REIT in determining fair value of its investment properties.

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

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

The fair value of the REIT's mortgages and loans payable and deferred consideration are determined using present value calculations based on market-observable interest rates for mortgages and loans with similar terms and conditions (Level 2). The carrying values of the REIT's financial assets, which include accounts receivable, other assets, and cash and restricted cash, as well as financial liabilities, which includes accounts payable and accrued liabilities, distributions payable approximate their recorded fair values due to their short-term nature.

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**Notes to Condensed Consolidated Interim Financial Statements**

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

The fair value hierarchy of assets and liabilities measured at fair value on the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements as at September 30, 2019 is as follows:

	Carrying value	Fair Value		
		Level 1	Level 2	Level 3
Assets measured at fair value:				
Investment properties	\$ 4,770,677	\$ —	\$ —	\$ 4,770,677
Financial instruments	2	—	2	—
Liabilities measured at fair value:				
Financial instruments	60,469	—	60,469	—
Convertible debentures	386,926	386,926	—	—
Class B LP exchangeable units	208,424	208,424	—	—
Deferred unit plan liability	17,488	17,488	—	—
Financial liabilities recorded at amortized cost:				
Mortgage and loans payable	2,347,112	—	2,357,281	—

The fair value hierarchy of assets and liabilities measured at fair value on the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements as at December 31, 2018 is as follows:

	Carrying value	Fair Value		
		Level 1	Level 2	Level 3
Assets measured at fair value:				
Investment properties	\$ 4,669,802	\$ —	\$ —	\$ 4,669,802
Derivative financial instruments	150,534	—	150,534	—
Liabilities measured at fair value:				
Derivative financial instruments	23,102	—	23,102	—
Convertible debentures	401,235	401,235	—	—
Class B LP exchangeable units	167,872	167,872	—	—
Deferred unit plan liability	13,030	13,030	—	—
Financial liabilities recorded at amortized cost:				
Mortgage and loans payable	2,409,662	—	2,420,314	—

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NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

21. Capital Management

The REIT considers its capital to be its unitholders' equity, Class B exchangeable units, and debt. The REIT is free to determine the appropriate level of capital in context with its cash flow requirements, overall business risks and potential business opportunities. As a result of this, the REIT will make adjustments to its capital based on its investment strategies and changes to economic conditions.

The REIT's strategy is also driven by policies as set out in the Declaration of Trust. The requirements of the REIT's operating policies as outlined in the Declaration of Trust include the requirement that the REIT will not incur or assume indebtedness which would cause the total indebtedness of the REIT to exceed 65% of Gross Book Value as defined. Indebtedness as defined in the Declaration of Trust excludes deferred revenue, and unsecured debt which includes convertible debentures.

At September 30, 2019, the REIT is in compliance with its debt to gross book value ratio of the Declaration of Trust at 45.4% (December 31, 2018 - 47.8%).

As at	September 30, 2019	December 31, 2018
Debt		
Gross value of debt excluding convertible debentures ⁽¹⁾	\$ 2,360,477	\$ 2,423,137
Gross value of total debt ⁽²⁾	2,747,403	2,824,372
Gross Book Value of Assets		
Total assets	\$ 5,201,319	\$ 5,071,648
Debt-to-Gross Book Value (Declaration of Trust)	45.4%	47.8%
Debt-to-Gross Book Value (including convertible debentures)	52.8%	55.7%

(1) represents the principal balance of mortgages, credit facilities, term debt and finance lease.

(2) represents the principal balance of mortgages, credit facilities, term debt, finance lease and convertible debentures (at fair value).

The REIT's capital management is also impacted by various financial covenants in certain loan agreements. As at September 30, 2019, the REIT is in compliance with all such financial covenants.

22. Risk Management

In the normal course of business, the REIT is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2018.

23. Subsequent Events

- (i) On October 1, 2019, the REIT completed property acquisitions of two healthcare investment properties located in the Netherlands for a combined purchase price of approximately \$29.4 million. The acquisitions were partially financed by new property specific mortgages of \$18.0 million, bearing interest of 1.86% with term to maturity of 3 years.
- (ii) On October 1, 2019, the REIT completed refinancing of mortgages related four German properties. The new mortgages are in aggregate approximately \$39.5 million, bear interest rate ranging from 1.30% to 1.44%, and have a term to maturity of 10 years. Proceeds from the refinancing were partially used to repay existing mortgages on the four properties of approximately \$31.1 million, bearing interest rate ranging from 1.42% to 1.70%.

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NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**Notes to Condensed Consolidated Interim Financial Statements**

(in thousands of Canadian dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

- (iii) On October 31, 2019, the REIT completed property acquisition of a German healthcare investment property for purchase price of approximately \$23.3 million. The acquisition was partially financed by new property specific mortgage of \$15.9 million, bearing interest of 2.05% with term to maturity of 15 years.
- (iv) On October 31, 2019, Vital Trust held its annual meeting where 99.9% of Vital Trust voting Unitholders approved amendments to Vital Trust deed including changes to the Manager's fees.
- (v) On November 1, 2019, the REIT amended and refinanced the terms of its existing revolving and non-revolving credit facilities into a new combined revolving facility with a term to maturity of three years. Draws under the amended revolving credit facility are permitted in Canadian dollars, Euros, British pound, Australian dollars and US dollars at floating interest rate based on CDOR, EURIBOR, LIBOR, BBSY, and Fed Effective Rate, respectively, with a 0.0% floor and a margin ranging from 0.7% to 1.7%. The availability on the new combined revolving credit facility was increased to \$218.0 million and is secured by 15 Canadian investment properties.
- (vi) On October 11, 2019, the REIT announced a distribution of \$0.06667 per REIT unit to unitholders of record on October 31, 2019, will be payable on November 15, 2019.

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



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