NORTHWEST
HEALTHCARE PROPERTIES

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

For the Three and Six Months Ended June 30, 2017
and June 30, 2016
(Unaudited)

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

As at		**June 30, 2017**		December 31, 2016
Assets				
Investment properties (note 7)	**$**	**3,408,309**	$	3,040,354
Investment in associates (note 8)		**507,348**		95,351
Intangible assets (note 9)		**105,033**		103,196
Goodwill		**41,671**		41,671
Financial instruments (note 15)		**3,847**		449
Accounts receivable		**15,767**		7,636
Other assets (note 10)		**16,654**		19,625
Cash and restricted cash (note 11)		**52,567**		20,251
Assets held for sale (note 6)		**10,525**		-
Total assets	**$**	**4,161,721**	$	3,328,533
Liabilities				
Mortgages and loans payable (note 12)	**$**	**1,784,881**	$	1,365,676
Deferred consideration (note 13)		**6,763**		13,119
Convertible debentures (note 14)		**340,897**		331,834
Deferred tax liability		**149,630**		140,150
Financial instruments (note 15)		**14,749**		15,077
Income tax payable		**18,233**		14,230
Accounts payable and other liabilities		**51,479**		45,313
Distributions payable		**5,834**		4,629
Liabilities related to assets held for sale (note 6)		**9,256**		-
		2,381,722		1,930,028
Deferred unit plan liability (note 16)		**17,757**		14,935
Class B exchangeable units (note 17)		**202,899**		193,780
Total liabilities	**$**	**2,602,378**	$	2,138,743
Unitholders' Equity				
Unitholders' equity (note 18)		**959,357**		704,285
Non-controlling interest (note 22)		**599,986**		485,505
Subsequent events (note 27)				
Total liabilities and unitholders' equity	**$**	**4,161,721**	$	3,328,533

The condensed consolidated interim financial statements were approved by the Board on August 10, 2017 and signed on its behalf by:

“Colin Loudon” Trustee
“Paul Dalla Lana” Trustee

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

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	**2017**	2016
Net Property Operating Income				
Revenue from investment properties	**$ 73,134**	$ 64,170	**$ 145,598**	$ 129,075
Property operating costs	**19,003**	18,114	**38,573**	38,312
	54,131	46,056	**107,025**	90,763
Other Income				
Interest	**521**	989	**918**	1,180
Management fees (note 9)	**6,621**	-	**7,484**	-
Share of profit of associate (note 8)	**38,270**	-	**43,681**	-
	45,412	989	**52,083**	1,180
Expenses				
Mortgage and loan interest expense	**22,282**	17,253	**42,621**	36,227
General and administrative expenses	**6,859**	6,478	**12,350**	11,804
Transaction costs	**11,788**	1,013	**11,876**	3,581
Foreign exchange income/(loss)	**6,995**	262	**3,006**	(2,010)
	47,924	25,006	**69,853**	49,602
Income before other finance costs, fair value adjustments, net loss on disposal of investment property and gain on business combination	**51,619**	**22,039**	**89,255**	42,341
Finance Costs				
Amortization of financing costs	**(2,185)**	(966)	**(3,084)**	(1,983)
Amortization of mark-to-market adjustment	**779**	1,638	**1,545**	4,190
Class B exchangeable unit distributions (note 17)	**(3,800)**	(3,800)	**(7,600)**	(7,600)
Fair value adjustment of Class B exchangeable units (note 17)	**(2,470)**	(7,410)	**(9,119)**	(20,898)
Accretion of financial liabilities (notes 12)	**(436)**	(2,954)	**(1,975)**	(5,427)
Fair value adjustment of convertible debentures (note 14)	**(2,495)**	(3,232)	**(9,063)**	(5,553)
Fair value loss on financial instrument (note 15)	**4,496**	(164)	**3,618**	(3,884)
Fair value gain on investment properties (note 7)	**120,226**	37,480	**192,716**	47,915
Net loss on disposal of investment properties (note 5)	**-**	(263)	**-**	(1,680)
Fair value adjustment of deferred unit plan liability (note 15)	**(395)**	(809)	**(818)**	(1,622)
Gain on business combination (note 4)	**-**	53	**-**	53
Income before taxes	**165,339**	41,612	**255,475**	45,852
Income tax expense	**3,540**	15,774	**19,142**	21,200
Net income (loss)	**$ 161,799**	$ 25,838	**$ 236,333**	$ 24,652
Net income (loss) attributable to:				
Unitholders	**$ 63,917**	$ (7,160)	**$ 113,716**	$ (15,209)
Non-controlling interest	**97,882**	32,998	**122,617**	39,861
	$ 161,799	$ 25,838	**$ 236,333**	$ 24,652

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 June 30,		For the six months ended June 30,	
	2017	2016	**2017**	2016
Net income (loss)	**$ 161,799**	$ 25,838	**$ 236,333**	$ 24,652
Other comprehensive income (loss):				
Items that will be reclassified subsequently to income:				
Foreign currency translation adjustment	**$ (49,627)**	$ 5,576	**$ (2,814)**	$ 5,431
Fair value loss on available for sale investments	**-**	(5)	**-**	(5)
Unrealised foreign exchange gains/(losses) on available for sale investments	**-**	27	**-**	27
Realised foreign exchange gains/(losses) on hedges	**(83)**	(1,383)	**(494)**	7,286
Current taxation (expense)/credit	**23**	387	**138**	(2,040)
Unrealised foreign exchange gains/(losses) on hedges	**4,568**	11,244	**1,874**	(553)
Deferred taxation (expense)/credit	**(1,279)**	(3,148)	**(525)**	155
Fair value gain (loss) on net investment hedges	**3,702**	4,980	**(898)**	1,486
Deferred taxation (expense)/credit	**(1,035)**	(1,395)	**253**	(418)
Other comprehensive income (loss), net of tax	**(43,731)**	16,283	**(2,466)**	11,369
Total comprehensive income (loss) for the period	**$ 118,068**	$ 42,121	**$ 233,867**	$ 36,021
Total comprehensive income (loss) attributable to:				
Unitholders	**$ 32,793**	$ 19,257	**$ 109,437**	$ (2,728)
Non-controlling interest	**85,275**	22,864	**124,430**	38,749
	$ 118,068	$ 42,121	**$ 233,867**	$ 36,021

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 Changes in Unitholders' Equity
(in thousands of Canadian dollars)
(Unaudited)

	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, 2015	**453,308**	**39,839**	**(115)**	**(60,136)**	**(3,366)**	**85,948**	**515,478**	**327,483**	**842,961**
Public offering of units (note 18)	75,438	-	-	-	-	-	75,438	(470)	**74,968**
Units issued through distribution reinvestment plan	2,457	-	-	-	-	-	2,457	1,514	**3,971**
Units issued on exercise of deferred units (note 18)	2,953	-	-	-	-	-	2,953	-	**2,953**
Cancellation of REIT units under normal course issuer bid (note 18)	(286)	-	-	-	-	-	(286)	-	**(286)**
Distributions	-	-	-	(22,995)	-	-	(22,995)	(9,760)	**(32,755)**
Foreign currency translation differences	-	-	-	-	11,016	-	11,016	(5,585)	**5,431**
Other comprehensive income (loss)	-	-	-	-	1,465	-	1,465	4,473	**5,938**
Net income (loss) for the period	-	-	-	-	-	(15,209)	(15,209)	39,861	**24,652**
Balance, June 30, 2016	**$ 533,870**	**$ 39,839**	**$ (115)**	**$ (83,131)**	**$ 9,115**	**$ 70,739**	**$ 570,317**	**$ 357,516**	**$ 927,833**
Public offering of units (note 18)	68,357	-	-	-	-	-	68,357	108,305	**176,662**
Units issued through distribution reinvestment plan	2,365	-	-	-	-	-	2,365	2,549	**4,914**
Distributions	-	-	-	(27,726)	-	-	(27,726)	(13,109)	**(40,835)**
Foreign currency translation differences	-	-	-	-	18,417	-	18,417	(3,255)	**15,162**
Other comprehensive income	-	-	-	-	383	-	383	1,192	**1,575**
Net income (loss) for the period	-	-	-	-	-	72,172	72,172	32,307	**104,479**
Balance, December 31, 2016	**$ 604,592**	**$ 39,839**	**$ (115)**	**$ (110,857)**	**$ 27,915**	**$ 142,911**	**$ 704,285**	**$ 485,505**	**$ 1,189,790**
Public offering of units (note 18)	175,266	-	-	-	-	-	175,266	-	**175,266**
Units issued through distribution reinvestment plan	2,918	-	-	-	-	-	2,918	3,017	**5,935**
Units issued on exercise of deferred units (note 18)	561	-	-	-	-	-	561	-	**561**
Distributions	-	-	-	(33,110)	-	-	(33,110)	(12,966)	**(46,076)**
Foreign currency translation differences	-	-	-	-	(4,365)	-	(4,365)	1,551	**(2,814)**
Other comprehensive income (loss)	-	-	-	-	86	-	86	262	**348**
Net income (loss) for the period	-	-	-	-	-	113,716	113,716	122,617	**236,333**
Balance, June 30, 2017	**$ 783,337**	**$ 39,839**	**$ (115)**	**$ (143,967)**	**$ 23,636**	**$ 256,627**	**$ 959,357**	**$ 599,986**	**$ 1,559,343**

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 June 30,		For the six months ended June 30,	
	2017	2016	**2017**	2016
Cash provided by (used in):				
Operating activities				
Net income before taxes	**$ 165,339**	$ 41,612	**$ 255,475**	$ 45,852
Adjustment for:				
Amortization	**399**	60	**781**	155
Mortgage and loan interest	**22,282**	17,253	**42,621**	36,227
Mortgage and loans interest paid	**(19,879)**	(19,032)	**(38,891)**	(37,998)
Finance costs				
Amortization of financing costs	**2,185**	966	**3,084**	1,983
Amortization of mark-to-market adjustment	**(779)**	(1,638)	**(1,545)**	(4,190)
Class B exchangable unit distributions (note 17)	**3,800**	3,800	**7,600**	7,600
Fair value adjustment of Class B exchangable units (note 17)	**2,470**	7,410	**9,119**	20,898
Accretion of financial liabilities (note 12)	**436**	2,954	**1,975**	5,427
Fair value adjustment of convertible debentures (note 14)	**2,495**	3,232	**9,063**	5,553
Share of profit of associate (note 8)	**(38,270)**	-	**(43,681)**	-
Gain on business combination (note 4)	**-**	(53)	**-**	(53)
Unrealized foreign exchange (gain)/loss	**7,018**	345	**3,039**	(1,942)
Amortization of deferred revenue	**(341)**	(288)	**(648)**	(565)
Fair value adjustment of investment properties (note 7)	**(120,226)**	(37,480)	**(192,716)**	(47,915)
Fair value (gain)/loss on financial instruments (note 15)	**(4,496)**	548	**(3,618)**	4,268
Net loss on disposal of investment properties (note 6)	**-**	263	**-**	1,680
Fair value adjustment of deferred unit plan liability	**395**	809	**818**	1,622
Unit based compensation expense	**1,804**	1,887	**2,993**	3,748
Redemption of units issued under deferred unit plan	**(244)**	(27)	**(456)**	(54)
Income taxes paid	**(2,500)**	(45)	**(3,777)**	(2,869)
Changes in non-cash working capital balances (note 19(i))	**633**	(5,169)	**(3,762)**	(4,168)
Cash provided by (used in) operating activities	**22,521**	17,407	**47,474**	35,259
Investing activities				
Acquisitions of investment properties (note 5)	**(58,014)**	(22,943)	**(126,198)**	(75,620)
Additions to investment properties (note 7)	**(18,968)**	(29,649)	**(38,235)**	(47,331)
Net proceeds on disposal of investment property (note 6)	**-**	4,536	**-**	44,419
Additions to investment in associate (note 8)	**(363,491)**	-	**(376,867)**	-
Investment in subsidiary (notes 3 and 4)	**(618)**	(56,226)	**(618)**	(56,226)
Investment in financial assets (note 15)	**-**	(1,750)	**-**	(1,750)
Cash acquired on acquisition of control (note 3)	**196**	-	**196**	-
Distributions from associates	**5,263**	-	**7,354**	-
Additions to furnitures and fixtures	**(659)**	(16)	**(764)**	(34)
Receipts (payments) from foreign exchange contracts	**84**	(999)	**(292)**	7,540
Net decrease (increase) to restricted cash	**-**	(405)	**-**	(423)
Cash provided by (used in) investing activities	**(436,207)**	(107,452)	**(535,424)**	(129,425)
Financing activities				
Mortgage and loan proceeds	**371,833**	133,686	**377,517**	182,920
Mortgage and loans discharged (note 12)	**(90,623)**	(45,685)	**(90,623)**	(106,303)
Repayment of mortgages	**(5,107)**	(4,703)	**(10,229)**	(9,565)
Repurchase of units under normal course issuer bid (note 18)	**-**	-	**-**	(286)
Net advances (repayments) of loans payable	**77,039**	6,352	**132,890**	43,072
Proceeds from issue of units, net of issue costs (note 18)	**93,139**	75,438	**175,266**	75,438
Financing fees paid	**(6,283)**	(5,105)	**(7,395)**	(6,329)
Net (payments) advances from related parties	**351**	(635)	**351**	(635)
Payment of defered consideration	**(6,057)**	(30,627)	**(6,057)**	(30,627)
Distributions paid	**(15,323)**	(10,610)	**(28,938)**	(19,927)
Class B exchangeable units distributions paid (note 17)	**(3,800)**	(3,800)	**(7,600)**	(7,600)
Distributions paid to non-controlling interest	**(4,848)**	(4,943)	**(9,945)**	(9,580)
Cash provided by (used in) financing activities	**410,321**	109,368	**525,237**	110,578
Net change in cash	**(3,365)**	19,323	**37,287**	16,412
Effect of foreign currency translation	**(5,459)**	1,992	**(4,990)**	2,111
Net change in cash	**(8,824)**	21,315	**32,297**	18,523
Cash, beginning of period	**61,076**	12,043	**19,955**	14,835
Cash, end of period	**$ 52,252**	$ 33,358	**$ 52,252**	$ 33,358

Supplemental disclosure relating to non-cash financing and investing activities (note 19(ii))

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

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 ommitted. 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, 2016.

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.

3. Acquisition of Northwest Healthcare Australia RE Limited (“NWH RE”)

On April 8, 2017 the REIT completed the acquisition of Quay Fund Solutions Limited (subsequently renamed to NWH RE) for gross consideration of $618 (A$606). The REIT determined that the purchase of NWH RE constituted a business acquisition, and accounted in accordance with IFRS 3 - Business Combinations.

The REIT allocated $568 (A$556) of the purchase price to the right to utilize NWH RE as a responsible entity with respect to Generation Healthcare REIT (“GHC”). The responsible entity right has been accounted for as an indefinite life intangible asset (see note 9). The remaining purchase price was allocated to nominal amounts of working capital held by NWH RE on acquisition date, including cash.

Subsequent to June 30, 2017, NWH RE was appointed as the responsible entity of GHC (see note 27(iii)).

(in thousands of Canadian dollars)

4. Acquisition of Generation Healthcare Management ("GHM")

On June 27, 2016, the REIT acquired 100% of GHM, the external asset manager for GHC. The acquisition of GHM is accounted for as a business combination in accordance with IFRS 3 - Business Combinations. The purchase price equation based on the aggregate fair value of the assets acquired and liabilities assumed on the acquisition date, June 27, 2016 is as follows:

Generation Healthcare REIT management rights (note 9)	$	55,969
Performance fee receivable (note 10)		8,343
Transition services (note 9)		504
Working capital		(85)
Deferred income tax liability		(2,503)
Net assets acquired	$	62,228
Consideration comprised		
of: Cash	$	56,387
Deferred consideration (note 13)		5,788
	$	62,175
Net gain on business combination	$	53

The REIT has recognized deferred consideration for the total amounts payable to the seller at the later of the following: (i) collecting the performance fee receivable accrued at acquisition date, (ii) two years after the date of acquisition or (iii) upon occurrence of a 'trigger event' as defined in the acquisition agreement.

As at June 30, 2017, the performance fee receivable had been collected and all deferred consideration has been settled.

5. Property Acquisitions

(a) 2017 Property Acquisitions

Property	Location	Property type	Acquisition date	Total acquisition costs (1)	Property specific debt
Alstadt-Caree Fulda Medical Centre	Fulda, Germany	Medical Office Building	February 1, 2017	$ 11,185	$ 7,417
Medical Care Centre Hamburg-Bergedorf	Hamburg, Germany	Medical Office Building	February 1, 2017	20,228	11,819
Abbotsford Private Hospital(2)	New South Wales, Australia	Hospital	February 27, 2017	21,781	-
Grafton Aged Care Facility(2)(3)	New South Wales, Australia	Residential Aged Care Facilities	March 31, 2017	9,141	-
Epworth Eastern Hospital(2)	Victoria, Australia	Hospital	March 31, 2017	19,500	-
Ormiston Hospital	Auckland, New Zealand	Hospital	April 5, 2017	31,598	-
Hirondelle Private Hospital	New South Wales, Australia	Hospital	June 1, 2017	25,449	-
Other(4)	Various			8,003	-
				$ 146,885	**$ 19,236**

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

(2) Acquired by Vital Trust. The REIT accounts for its approximately 24.8% investment in Vital Trust as a subsidiary and consolidates the financial position and results of Vital Trust.

(3) Two residential properties adjacent to Grafton Aged Care facility were also acquired for potential future expansion.

(4) Other acquistions include lands and properties acquired for future developments

(in thousands of Canadian dollars)

5. Property Acquisitions (continued)

(b) 2016 Property Acquisitions

Property	Location	Property type	Acquisition date	Total acquisition costs [1]	Property specific debt
Sportsmed Private Hospital[2][3]	Adelaide, Australia	Land	Janaury 20, 2016	$ 5,430	$ -
Hall & Prior Health and Aged Care Group Assets[2]	Perth and Sydney, Australia	Residential Aged Care Facilities	March 1, 2016	43,765	-
Mehrower Allee	Berlin, Germany	Medical Office Buildings	April 14, 2016	23,205	16,203
Boulcott Private Hospital[2]	Lower Hutt, New Zealand	Hospital	July 1, 2016	30,345	-
Hospital Ifor	Sao Paulo, Brazil	Hospital	July 21, 2016	26,323	-
Mons Road Medical Centre[2]	Westmead, Australia	Medical Office Building	September 30, 2016	32,544	-
Hospital Santa Helena	Brasilia, Brazil	Hospital	October 24, 2016	124,557	-
Ekera Medical Centre [2]	Melbourne, Australia	Medical Office Building	November 21, 2016	27,581	-
Other[2]	Various	Land	Various	14,661	-
				$ 328,411	**$ 16,203**

[1] Total acquisition costs includes transaction costs incurred w ith respect to acquiring the asset

[2] Acquired by Vital Trust. The REIT accounts for its approximately 24.8% investment in Vital Trust as a subsidiary and consolidates the financial position and results of Vital Trust.

[3] Acquisition of tw o small parcels of land adjacent to Vital Trust's Sportsmed Private Hospital

6. Property Disposal

As at June 30, 2017, the REIT classified a Canadian investment property with value of $10,525 as held for sale. Liabilities associated with this property as at June 30, 2017 are $9,256, representing a first mortgage secured by the property.

During the year ended December 31, 2016, the REIT completed the sale of all assets it had previously classified as held for sale. The REIT sold 13 medical office buildings located in Canada for gross proceeds of $71,875. As part of the transactions, $51,593 of mortgage debt associated with the investment properties was repaid or assumed by the purchaser. On September 16, 2016 the REIT completed the sale and leaseback of a mid-town Toronto parking garage. The sale generated gross proceeds of $21,225. There were no mortgages associated to the property.

(in thousands of Canadian dollars)

7. Investment Properties

As at		June 30, 2017		December 31, 2016
Balance, beginning of period	**$**	**3,040,354**	$	2,491,835
Acquisition of investment properties (note 5)		**146,885**		328,411
Disposition of investment properties (note 6)		**-**		(21,225)
Additions to investment properties		**38,235**		67,585
Increase in straight line rents		**879**		1,937
Reclassified as assets held for sale (note 6)		**(10,525)**		-
Amortization of deferred revenue		**635**		1,154
Fair value gain (loss)		**192,716**		143,368
Foreign currency translation		**(870)**		27,289
Balance, end of period	**$**	**3,408,309**	$	3,040,354

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

The fair value of the investment properties at June 30, 2017 and December 31, 2016 were determined using both internal valuation models incorporating available market evidence and valuations performed by third-party appraisers. Estimates and assumptions used in determining the fair value of the investment properties include capitalization rates, discount rates, inflation rates, vacancy rates, and property level net operating income.

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

	As at June 30, 2017			
	Canada	Brazil	Germany	Australasia
Discount rate - range	5.8% - 8.8%	8.5%	5.2% - 7.3%	6.5% - 9.5%
Discount rate - weighted average	7.3%	8.5%	6.1%	7.0%
Terminal capitalization rate - range	5.5% - 8.0%	8.0%	5.5% - 8.4%	6.0% - 9.0%
Terminal capitalization rate - weighted average	6.7%	8.0%	6.1%	6.3%
Implied capitalization rate - range	4.3% - 10.3%	8.2%	4.8% - 7.1%	5.3% - 8.0%
Implied capitalization - rate weighted average	6.6%	8.2%	5.8%	6.0%

(in thousands of Canadian dollars)

7. Investment Properties (continued)

	As at December 31, 2016			
	Canada	Brazil	Germany	Australasia
Discount rate - range	5.8% - 8.8%	8.5% - 10.0%	5.2% - 7.3%	7.2% - 9.5%
Discount rate - weighted average	7.1%	8.8%	6.2%	8.0%
Terminal capitalization rate - range	5.5% - 8.0%	8.0% - 10.0%	5.5% - 8.4%	6.5% - 8.9%
Terminal capitalization rate - weighted average	6.5%	8.3%	6.1%	7.0%
Implied capitalization rate - range	5.1% - 10.6%	8.2% - 10.7%	4.8% - 7.1%	6.3% - 8.5%
Implied capitalization - rate weighted average	6.4%	8.5%	5.8%	6.9%

As at, and during the three and six months ended June 30, 2017, investment properties with an aggregate fair value of $1,435,709 and $2,184,909 (as at December 31, 2016 - $1,417,961, during the three and six months ended June 30, 2016 - $864,043 and $1,158,993) were valued by external valuation professionals with recognized and relevant professional qualification.

8. Investment in Associate

As at June 30, 2017 and December 31, 2016, the investment in associate balance entirely consists of the REIT's investment in GHC.

As at	June 30, 2017	December 31, 2016
Balance, beginning of period	**$ 95,351**	$ -
Acquisition of Investment in GHC	**376,867**	92,145
Cash distributions received	**-**	(1,898)
Share of profit for the period	**43,681**	8,679
Eliminations	**(5,455)**	(370)
Foreign exchange	**(3,096)**	(3,205)
Balance, end of period	**$ 507,348**	$ 95,351

In May 2016, the REIT purchased 835,295 GHC units in the open market for $1,750 (A$1,843), representing a 0.38% ownership interest in GHC. On the date that the REIT obtained significant influence these GHC units had a fair value of $1,690 (A$1,712) and were included in the cost of the investment in associate.

On July 26, 2016, the REIT acquired 15,492,061 GHC units for $33,639 (A$34,083) following the exercise of a put option by a counterparty to one of the REIT's GHC put/call option agreements. This acquisition increased the REIT's interest in GHC to approximately 7.5%. It was determined that the REIT had attained significant influence over GHC and the investment was accordingly accounted for using the equity method. The fair value of the option on the date of the exercise was $(2,303) (A$(2,334)) and has been included in the cost of the investment.

(in thousands of Canadian dollars)

8. Investment in Associate (continued)

On August 8, 2016, the REIT exercised its call option with an affiliate of APN to acquire an additional 27,100,380 GHC units for $60,205 (A$59,621). This acquisition of GHC units increased the REIT's interest to approximately 19.8% and was added to the cost of the equity accounted investment. Additionally, the fair value of the option at exercise date of $(2,873) (A$(2,846)) has been included in the cost of the investment.

On December 23, 2016, GHC issued 47,342 GHC Units for $90 (A$92) to the REIT to settle portion of the performance fee receivable. The units increased the REIT's investment in GHC and accordingly are included in the cost of the equity accounted investment.

On March 24, 2017, the REIT acquired 6,700,000 GHC units for $13,392 (A$13,526) under the terms of a forward contact that was entered on December 30, 2016. The acquisition increased the REIT's interest in GHC to approximately 22.7% and was added to the cost of the investment. Also included in the cost of the investment is a gain realized from change in fair value of the forward contract.

On April 24, 2017, the REIT announced an all-cash, unconditional, off-market takeover offer for all outstanding units of GHC that it did not already own (the "GHC Bid"). The offer was A$2.24 per GHC unit outstanding. On May 4, 2017, based on receiving the recommendation of GHC's independent directors, the REIT announced it had increased the offer price to a best and final of A$2.30 per GHC unit. Under the terms of the GHC bid, the REIT purchased an additional 156,434,870 GHC units for $363,475 (A$359,800), increasing the REIT's interest in GHC to 93.6%.

On June 16, 2017, the REIT had acquired more than 90% interest in GHC. Consequently, the REIT dispatched a compulsory acquisition notice under the GHC Bid which suspended the trading of GHC units on Australian Securities Exchange. The REIT completed the compulsory acquisition of all outstanding GHC units subsequent to period end (see note 27(iii)).As at June 30, 2017, the REIT owned a total of 206,609,948 GHC units (December 31, 2016 - 43,475,078 GHC units).

As at June 30, 2017, included in the investment in GHC are transaction costs of $1,697 (December 31, 2016 - $1,697). During the three and six months ended June 30, 2017, the REIT incurred transaction costs of $11,086 related to the GHC Bid that have been expensed as incurred in the statement of income (loss) and comprehensive income (loss).

A summary of GHC's aggregate assets and liabilities as at June 30, 2017 are as follows:

As at		**June 30, 2017**		**December 31, 2016**
Total assets	**$**	**755,211**	$	601,733
Total liabilites		**259,837**		236,876
Net assets		**495,374**		364,857
Less: Non-controlling interest		**(57,942)**		(37,867)
		437,432		326,990
Ownership Interest		**93.6%**		19.8%
REIT's share of net assets		**409,427**		64,816
Acqusition costs and goodwill		**98,514**		30,668
Eliminations		**(593)**		(133)
Investment in associate	**$**	**507,348**	$	95,351

(in thousands of Canadian dollars)

8. Investment in Associate (continued)

A summary of GHC's net income (loss) and comprehensive income (loss) for the period was as follows:

	For the three months ended June 30, 2017	2016	For the six months ended June 30, 2017	2016
Revenue from investment properties	$ 11,087	$ -	$ 20,419	$ -
Property operating costs	1,750	-	3,552	-
Net Property Operating Income	9,337	-	16,867	-
Interest Income	1,155	-	2,286	-
Expenses				
Mortgage and loan interest expense	2,324	-	4,309	-
General and administrative expenses	10,724	-	11,696	-
Other	3,198	-	2,991	-
Fair value adjustments	(85,647)	-	(115,357)	-
Net income (loss)	$ 79,893	$ -	$ 115,514	$ -
Non-controlling interest	(5,600)	-	(15,409)	-
Net profit attributable to unitholders	74,293	-	100,105	-
Weighted average share of profits	45.0%	n/a	32.5%	n/a
REIT's share of profits	$ 33,437	$ -	$ 38,611	$ -
Intercompany amounts	4,833	-	4,992	-
Changes to associate's equity	-	-	78	-
REIT's adjusted share of profits	$ 38,270	$ -	$ 43,681	$ -

9. Intangible Assets

The REIT's intangible asset relates to the management contracts for Vital Healthcare Property Trust ("Vital Trust"), GHC, and NWH RE. The REIT has the rights to 100% of the management fees paid by Vital Trust through its acquisition of Vital Healthcare Management Limited and related entities (the "Vital Manager"). The REIT assumed the management rights over GHC as a result of acquiring 100% of GHM (note 3). The management rights entitle the REIT to management and performance fees paid by GHC.

As at	**June 30, 2017**	December 31, 2016
Balance, beginning of period	**$ 103,196**	$ 46,757
GHC management rights (note 4)	**-**	55,969
GHM transition services (note 4)	**-**	504
NWH RE Responsible Entity Rights (note 3)	**568**	
Amortization of GHM transition services	**(263)**	(260)
Foreign currency translation	**1,532**	226
	$ 105,033	$ 103,196

(in thousands of Canadian dollars)

9. Intangible Assets (continued)

For the three and six months ended June 30, 2017, management fee income of $6,621 and $7,484, respectively (for both the three and six months ended June 30, 2016 – $nil) was recorded related to the GHC management contact.

10. Other Assets

As at		**June 30, 2017**		December 31, 2016
Acquisition and financing costs	**$**	**7,125**	$	3,936
Prepaid expenses and deposits		**6,475**		5,996
Furniture and office equipment		**2,143**		1,556
Performance fee receivable (note 4)		**-**		7,178
Other		**911**		959
	$	**16,654**	$	19,625

Acquisition and financing costs relate to potential acquisitions and debt refinancing which are currently undergoing due diligence and/or negotiation.

11. Cash and Restricted Cash

As at		**June 30, 2017**		December 31, 2016
Cash	**$**	**52,252**	$	19,955
Restricted Cash		**315**		296
	$	**52,567**	$	20,251

Restricted cash represents cash held in the REIT's designated bank accounts pledged as collateral for the Brazil long-term securitization financings (note 12).

(in thousands of Canadian dollars)

12. Mortgages and Loans Payable

As at		**June 30, 2017**		December 31, 2016
Mortgage payable[1] (i)	**$**	**775,548**	$	771,869
Australasian secured financing[2] (ii)		**270,425**		118,000
Term loans and securitizations[3] (iv)		**518,551**		389,538
Acquisition facility[4] (iii)		**31,592**		17,456
Secured floating revolving line of credit[5] (v)		**188,765**		68,813
Total	**$**	**1,784,881**	$	1,365,676
Less: Current portion		**242,882**		189,136
Non-current debt	**$**	**1,541,999**	$	1,176,540

[1] Net of financing costs of $2,988 (December 31, 2016 - $2,998)
[2] Net of financing costs of $4,951 (December 31, 2016 - $719)
[3] Net of financing costs of $9,951 (December 31, 2016 - $10,836)
[4] Net of financing costs of $408 (December 31, 2016 - $544)
[5] Net of financing costs of $860 (December 31, 2016 - $187)

(i) Mortgages payable

All mortgages are secured by first or second charges on specific investment properties in Canada and Germany, with a carrying value of $1,319,293 at June 30, 2017, and are repayable as follows:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable
2017 (remainder)	$ 10,216	$ -	$ 10,216
2018	20,495	159,649	180,144
2019	18,186	56,192	74,378
2020	16,980	75,433	92,413
2021	11,512	168,999	180,511
2022	8,306	80,752	89,058
2023	5,053	57,931	62,984
2024	3,078	33,150	36,228
2025 and thereafter	4,220	38,797	43,017
Face value	$ 98,046	$ 670,903	$ 768,949
Mark-to-market adjustment			9,587
Unamortized financing costs			(2,988)
Carrying amount			$ 775,548

12. Mortgages and Loans Payable (continued)

On April 12, 2017, the REIT repaid a second mortgage on a Canadian investment property with an outstanding balance of $20,000 and interest rate of 5.75% using proceeds from refinancing of the secured revolving credit facility (note 12(v)).

On May 2, 2017, the REIT entered into a non-revolving secured credit facility with a balance of $51,203, which has a term of one year, subject to renewal options, and bears interest at bank's prime rate plus 1.00% or Bankers' Acceptances plus 2.00%. The non-revolving secured credit facility is secured by three Canadian investment properties, with a carrying value of $67,063 and the terms of a general security agreement. Proceeds from the borrowing were partially used to repay $47,456 of existing first and second Canadian mortgages bearing a weighted average interest rate of 4.43%. Accordingly, the non-revolving secured credit facility balance has been included in Mortgages Payable.

On June 15, 2017, the REIT renegotiated and extended the maturity date of a Canadian second mortgage with a balance of $16,280, secured by three Canadian investment properties, bearing a floating interest rate of prime rate plus 2.75% or floor rate of 5.60%, by one year to July 1, 2018.

On June 30, 2017, the REIT completed, the refinancing of mortgages secured against 12 of the REIT's properties located in Leipzig and Hamburg, Germany. The refinancing replaced current mortgages with an outstanding balance of $20,081 (€13,573), weighted average interest rate of 1.97% and weighted average term to maturity of 2.66 years. The refinancing represents two mortgages totaling $27,222 (€18,400), bearing interest rates ranging from 1.83% to 1.94% (weighted average interest rate of 1.89%) and terms ranging from 5-10 years representing a weighted average term of 7.53 years. Additionally, during the six months period ended June 30, 2017, the REIT also entered or assumed three mortgages for total of $19,221 with respect to acquisition of two investment properties in Germany (see note 5).

As at June 30, 2017, mortgages related to German investment properties had a balance of $122,623 (December 31, 2016 -$92,838). Mortgages related to investment properties located in Canada had balance of $646,326 as at June 30, 2017 (December 31, 2016 - $670,734).

During the year ended December 31, 2016, the REIT completed the refinancing of mortgages secured against six investment properties located in Canada. The refinancing replaced nine, first and second mortgages that were maturing in 2016 and 2017 with an outstanding balance of $77,535 and weighted average interest rate of 5.46%. The new financings represent six first mortgages totaling $84,700, bearing a weighted average interest rate of 3.09% and weighted average term of 5 years.

The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on of its $131,629 of variable rate mortgages payable as at June 30, 2017 (December 31, 2016 - $125,631) (note 15). The interest rate swaps terminate between 2021 and 2027.

(ii) Australasian Secured Financings

On July 15, 2016, the REIT completed new financing, representing a combined New Zealand Dollar and Australian Dollar margin facility secured by units of Vital Trust and units of GHC held by the REIT (the "Australasian Secured Financing"), that was partially used to repay the REIT's two Vital Trust margin facilities of $47,383 (NZ$51,447).

On April 23, 2017, the REIT amended and restated the terms of the Australasian Secured Financing to, among other things, increase loan availability thereunder by up to $17,920 (A$18,000). The amended and restated Australasian Secured Financing matures July 15, 2018 and bears an interest rate equal to the one-month bank bill reference rate of New Zealand, where applicable, plus 275 to 600 basis points depending on loan-to-fair market value of the Vital Trust units pledged.

12. Mortgages and Loans Payable (continued)

As at June 30, 2017, the principal balance outstanding on the Australasian Secured Financing was $104,133 (NZ$109,729 and A$ nil) secured by 105,977,179 units of Vital Trust held by the REIT (December 31, 2016 - $118,719 (NZ$90,343 and A$35,541)) secured by 105,977,178 units of Vital Trust and 43,475,078 units of GHC).

On April 23, 2017, the REIT entered into an Australasian Secured Acquisition Facility with loan availability of up to $171,243 (A$172,000), subject to certain conditions relating to the GHC Bid (see note 8). The facility bears interest equal to the one-month bank bill reference rate of Australia plus 450 basis points for the first 12 months and 700 basis points for the following 12 months, payable semi-annually. The Australasian Secured Acquisition Facility has a term of two years subject to certain conditions which if not satisfied could result in certain mandatory partial repayments prior to maturity of the two year loan term.

As at June 30, 2017 the REIT had a principal balance outstanding on the Australasian Secured Acquisition Facility of $171,243 ($A172,000) secured by 206,609,948 GHC units held by the REIT (December 31, 2016 - $nil).

(iii) Acquisition Facility

As at June 30, 2017, the REIT had a balance outstanding on the acquisition facility of $32,000 (December 31, 2016 - $18,000). The facility has a maturity date of December 31, 2018.

(iv) Term loans and securitizations

(a) Brazil term loans and securitization financings

As at June 30, 2017, the REIT has no term loans in Brazil and as a result has a principal balance on Brazil terms loans of nil. The outstanding balance of the three securitization financings relating to the Hospital Caxias D'Or and HMB assets was $146,383 (R$372,474) (December 31, 2016 - $157,035 (R$379,772)), with terms maturing between May 7, 2026 and December 6, 2026 and bearing a weighted average interest rate of 7.84% (December 31, 2016 - 7.84%)

In December 2016, the REIT repaid in full upon their maturity, two Brazilian term loans with an outstanding balance of $69,689 (R$172,328), including the IPCA (the consumer price inflation measure used by the Central Bank of Brazil for guiding monetary policy) portion relating to the term loans totaling $4,911 (R$12,865). The REIT also closed out the interest rate swaps with respect to the two Brazilian term loans that fixed the interest rate to 10.30%.

For the three and six months ended June 30, 2017, the REIT recorded IPCA related accretion expense of $436 and $1,975, respectively (for the three and six ended June 30, 2016 - $2,130 and $3,705, respectively) with respect to the term loans and securitization financings.

12. Mortgages and Loans Payable (continued)

(b) Vital Trust term loans

Vital Trust has a syndicated revolving multi-currency facility with ANZ Bank New Zealand Limited, Australia and New Zealand Banking Group Limited and Bank of New Zealand. The approximately $421,000 (A$425,000) facility, a multi-currency facility, is split between Tranche A: approximately $124,000 (A$125,000) and Tranche B: approximately $99,000 (A$100,000) which are due to expire on March 31, 2019, and Tranche C: approximately $99,000 (A$100,000), Tranche D: approximately $99,000 (A$100,000) plus the New Zealand Dollar Facility: approximately $19,000 (NZ$20,000) which are due to expire on October 30, 2020.

As at June 30, 2017, Vital Trust had borrowings on the term loan facilities totalling $382,113 (December 31, 2016 - $243,340).

Borrowings are secured by a security trust deed dated April 1, 2003 and as amended and restated on November 29, 2016. Pursuant to the deed, a security interest has been granted of first ranking mortgages over the respective investment properties by a general security deed over the assets and undertakings of Vital Trust.

(v) Secured Floating Rate Credit Facilities

On April 12, 2017 the REIT negotiated terms of its revolving secured credit facility, increasing the facility from $80,000 to $100,000 and extending expiry date from November 2, 2017 to November 2, 2019. The revolving credit facility bears interest at rates ranging from the bank's prime rate plus 0.85% to 1.00% or Bankers' Acceptances plus 1.85% to 2.00%.

The revolving credit facility is secured by first charge on certain Canadian investment properties with carrying value of $136,566,second charge on a Canadian investment properties with carrying value of $199,236, and the terms of a general security agreement.

On May 26, 2017, the REIT further amended and expanded the facility, adding an additional tranche of $125,000 with initial term expiring November 27, 2017, subject to two three month renewal terms at the REIT's option, in order to finance in part the purchases of GHC Units under the GHC Bid (note 8). During the initial term, the additional tranche of the revolving secured credit facility bears interest at rates ranging from the bank's prime rate plus 3.5% or Bankers' Acceptances plus 4.5%. As at June 30, 2017, the REIT had drawn $107,125 against the additional tranche with all proceeds being used to settle the acquisition of GHC units.

(in thousands of Canadian dollars)

12. Mortgages and Loans Payable (continued)

A summary of the maturity and effective interest rates relating to the mortgages and loans payable outstanding at June 30, 2017 are as follows:

	Maturity	Weighted Average Interest Rate	Carrying Value
Fixed rate			
Mortgage debt	March 2018 - January 2029	3.45%	$ **708,268**
Term loans and securitizations	March 2019 - December 2026	5.31%	**518,551**
Total fixed rate debt			$ **1,226,819**
Variable Rate			
Mortgage debt	May 2018 - July 2018	3.55%	$ **67,280**
Australasian secured financing	July 2018	6.20%	**270,425**
Acquisition facility	December 2018	8.20%	**31,592**
Secured floating revolving line of credit	November 2019	4.92%	**188,765**
Total variable rate debt			$ **558,062**
Total debt			$ **1,784,881**

As at June 30, 2017, the scheduled principal repayments and debt maturities are as follows:

	Mortgage Debt	Australasian Secured Financing	Term Loans and Securtizations	Acquisition Facility	Secured Floating Revolving Line of Credit	Total
2017 (remainder)	$ 10,216	-	$ 5,643	$ -	$ 107,125	$ 122,984
2018	180,144	104,133	11,931	32,000	-	328,208
2019	74,378	171,243	237,041	-	82,500	565,162
2020	92,413	-	171,819	-	-	264,232
2021	180,511	-	14,970	-	-	195,481
2022 & thereafter	231,287	-	87,098	-	-	318,385
	$ 768,949	$ 275,376	$ 528,502	$ 32,000	$ 189,625	$ 1,794,452
Financing costs	(2,988)	(4,951)	(9,951)	(408)	(860)	(19,158)
Mark-to-market adjustment	9,587	-	-	-	-	9,587
	$ 775,548	$ 270,425	$ 518,551	$ 31,592	$ 188,765	$ 1,784,881

(in thousands of Canadian dollars)

13. Deferred Consideration

The following table summarizes the deferred consideration payable:

As at		June 30, 2017		December 31, 2016
Accrued transaction costs - Brazil (i)		**6,726**		7,287
Consideration for acquisition (note 3)		**-**		5,810
Holdback payable - Germany (ii)		**37**		22
	$	**6,763**	$	13,119

(i) As at June 30, 2017, the REIT has recorded deferred consideration of $6,726 (R$17,115) (December 31, 2016 - $7,287 (R$17,623)) with respect to property transfer taxes payable in connection with the acquisition of investment properties in Brazil.

(ii) In connection with the acquisition of the properties in Germany, the REIT held back $54 (€38) of the purchase price for potential working capital adjustments and information deficiencies. As at June 30, 2017, $37 (€25) (December 31, 2016 - $22(€15)) remained unsettled.

14. Convertible Debentures

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

As at		June 30, 2017		December 31, 2016
Balance, beginning of period		**331,834**	$	170,094
Issuance of covertible debenture		-		155,250
Change in fair value of convertible debentures		**9,063**		6,490
	$	**340,897**	$	331,834

On July 25, 2016, the REIT completed the public offering for aggregate gross proceeds of approximately $141,243. The offer comprised of the issuance of $74,750 aggregate principal amount of 5.25% convertible unsecured subordinated debentures (the "Series NWH.DB.E Debentures"), and 6,785,000 REIT units at a price of $9.80 per unit (see note 17(iii)), including units and debentures issued pursuant to the exercise in full of the over-allotment options granted to the underwriters. The series NWH.DB.E Debentures are convertible at the holder's option into 78.4314 REIT units per one thousand dollars of face, at conversion price of $12.75 per unit and mature on July 31, 2021.

On December 15, 2016, and on December 21, 2016 pursuant to the exercise of the over-allotment option, the REIT issued $80,500 combined principal amount of unsecured convertible subordinated debentures (the "Series NWH.DB.F Debentures"). The Series NWH.DB.F Debentures bear interest at 5.25% per annum, payable semi-annually on June 30 and December 31 each year, and mature on December 31, 2021

(in thousands of Canadian dollars)

14. Convertible Debentures (continued)

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		**June 30, 2017**		December 31, 2016
NWH.DB	**$**	**41,256**	$	40,954
NWH.DB.A		**22,668**		23,052
NWH.DB.B		**17,894**		17,850
NWH.DB.C		**40,711**		39,719
NWH.DB.D		**55,253**		54,060
NWH.DB.E		**79,235**		75,498
NWH.DB.F		**83,880**		80,701
Fair Value	**$**	**340,897**	$	331,834
Current		**22,668**		-
Non-Current		**318,229**		331,834
	$	**340,897**	$	331,834

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.A	$13.70	March 31, 2018	6.50%	Semi-annual	March 31 and September 30
NWH.DB.B	$11.54	September 30, 2018	7.50%	Semi-annual	March 31 and September 30
NWH.DB.C	$12.50	October 31, 2019	7.25%	Semi-annual	April 30 and October 31
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

(in thousands of Canadian dollars)

15. Financial Instruments

As at		June 30, 2017		December 31, 2016
Financial assets (a):				
Foreign exchange contracts	$	2,424	$	236
Interest rate swaps		1,423		213
Total financial assets	$	3,847	$	449
Financial liabilities (b):				
Interest rate swaps	$	14,212	$	14,413
Forward contracts		537		651
Foreign exchange contracts		-		13
Total financial liabilites	$	14,749	$	15,077

(a) Derivative financial instrument (asset)

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.

(b) Derivative financial instrument (liability)

The derivative financial instrument liability relates to interest rate swaps with a value of $14,212 (December 31, 2016 -$14,413) and forward exchange contracts of $nil (December 31, 2016 - $13).

The REIT has entered into interest rate swap contracts with respect to certain Canadian and German mortgages (note 12(i)) and the Vital Trust term loans (note 12(iv)). The interest rate derivatives mature over the next one to 10 years and have fixed interest rates ranging from 1.71% to 4.32%.

On May 16, 2017, the REIT entered into a foreign exchange forward arrangement with respect to purchases of GHC units under the GHC Bid (see note 8). The REIT has recorded a derivative liability of $537 related to this contract.

On December 30, 2016, the REIT entered into a forward contract to purchase an additional 6,700,000 GHC units, which was settled on March 24, 2017. Fair value of the forward contract as at the exercise date has been included in the cost of the investment in GHC (see note 8).

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

	For the three months ended June 30,			For the six months ended June 30,			
		2017	2016		2017		2016
Fair value adjustment - interest rate swaps		2,339	(1,695)	$	1,664	$	(5,350)
Receipts/(payments) under transaction hedging foreign exchange contracts		(18)	384		-		319
Put/Call (note 8)		-	1,147		-		1,147
Fair value adjustment -foreign exchange contracts		1,751	-		363		-
Fair value adjustment - forward contracts		(720)	-		(54)		-
Fair value adjustment - financial asset		172	-		172		-
Performance fee recievable (note 4)		972	-		1,473		-
	$	4,496 $	(164)	$	3,618	$	(3,884)

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

(in thousands of Canadian dollars)

16. 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 2013. 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.

Upon acquisition of Vital Manager, the REIT also assumed the deferred unit plan liabilities of Vital Manager related to deferred units of Vital Trust.

(a) Liability:

As at	**June 30, 2017**	December 31, 2016
Balance, beginning of period	**$ 14,935**	$ 15,597
Unit based compensation expense	**2,993**	2,123
Exercised and paid in cash	**(456)**	(1,550)
Exercised and settled in Trust Units	**(561)**	(2,953)
Fair value adjustment	**818**	1,717
FX adjustment	**28**	1
Balance, end of period	**$ 17,757**	$ 14,935

The balance of the DUP liability at June 30, 2017 consists of $14,617 related to the REIT's DUP and $3,140 related to Vital Trust's DUP (December 31, 2016 - $13,445 related to the REIT's DUP and $1,490 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 every 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.

(b) Units outstanding:

As at, June 30, 2017	**REIT**	**Vital Trust**
Balance, beginning of the period	**1,814,558**	**1,670,650**
Granted	**148,480**	**727,729**
Exercised and paid in cash	**(43,571)**	**-**
Exercised and paid in REIT units	**(53,253)**	**-**
Forfeited	**(16,415)**	**-**
Distribution entitlement	**72,130**	**49,498**
Balance, end of period	**1,921,929**	**2,447,877**
Units vested but not excercised	**655,682**	**607,544**

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

(in thousands of Canadian dollars)

16. Deferred Unit Plan ("DUP") Liability (continued)

As at, December 31, 2016	REIT	Vital Trust
Balance, beginning of the period	**2,586,609**	**1,002,580**
Granted	**177,643**	**664,218**
Exercised and paid in cash	**(160,565)**	**69,581**
Exercised and paid in REIT units	**(348,491)**	**(65,729)**
Forfeited	**(637,825)**	**-**
Distribution entitlement	**197,187**	**-**
Balance, end of period	**1,814,558**	**1,670,650**
Units vested but not excercised	**563,467**	**75,626**

For the three and six months ended June 30, 2017, the REIT granted or issued 137,994 and 148,480 DUP units with a value of $1,471 and $1,583, respectively (for the three and six month ended June 30, 2016 - 149,501 and 161,143 DUP units with a fair value of $1,400 and $1,512, respectively).

For the three and six months ended June 30, 2017, Vital Trust granted or issued 17,153 and 727,729 DUP units with a value of $68 and $1,410 (for the three and six months ended June 30, 2016 - nil and 664,218 DUP units with a fair value of $1,224).

17. 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 June 30, 2017, there were 18,998,065 Class B (December 31, 2016 - 18,998,065) exchangeable units of Northwest Healthcare Properties LP (“NWI LP”) issued and outstanding with a fair value of $202,898 (December 31, 2016 - $193,780).

Distributions declared on the Class B exchangeable units of NWI LP totaled $3,800 and $7,600 for the three and six months ended June 30, 2017 (for the three and six months ended June 30, 2016 - $3,800 and $7,600) 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, 2015	18,998,065	$	169,653
Fair value adjustment	-		24,127
Balance, December 31, 2016	18,998,065	$	193,780
Fair value adjustment	-		9,119
Balance, June 30, 2017	**18,998,065**	**$**	**202,899**

(in thousands of Canadian dollars)

18. Unitholders' Equity

The REIT is authorized to issue two categories of equity: (a) REIT units of the REIT; and (b) special voting units attached to the exchangeable Class B exchangeable units of 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, 2015	**52,691,943**	**$**	**453,308**
Units issued through distribution reinvestment plan (i)	516,574		4,821
Units issued under deferred unit plan (note 16)	348,491		2,953
Units cancelled pursuant to NCIB (ii)	(34,500)		(285)
Units issued pursuant to equity offering (iii)	15,914,660		150,792
Units issuance cost (iii)	-		(6,997)
Balance - December 31, 2016	**69,437,168**	**$**	**604,592**
Units issued through distribution reinvestment plan (i)	289,811		2,918
Units issued under deferred unit plan (note 16)	53,253		561
Units issued pursuant to equity offering (iii)	17,723,800		184,060
Units issuance cost (iii)	-		(8,794)
Balance - June 30, 2017	**87,504,032**	**$**	**783,337**

(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 June 29, 2015 the REIT announced that it intended to make a normal course issuer bid ("NCIB") for a portion of its Trust Units as appropriate opportunities arose from time to time. On July 13, 2015 the REIT announced that the TSX had approved the REIT's NCIB.

(in thousands of Canadian dollars)

18. Unitholders' Equity (continued)

The REIT began to purchase Units on July 16, 2015 and the bid was set to expire on October 16, 2015, but then was further extended to February 15, 2016. During the year ended December 31, 2016, the REIT had repurchased of 34,500 units at a weighted average price per unit of $8.19, respectively, including broker commissions.

(iii) On April 6, 2017, the REIT completed a public offering of 9,179,300 REIT units, including 1,197,300 units issued pursuant the exercise in full of an over-allotment option, at a price of $10.65 per unit, representing gross proceeds of $97,761. Issue costs of $4,622 were recognized in relation to this equity issuance.

On January 31, 2017, the REIT completed the public offering of 8,544,500 REIT units, including the exercise in full of an over-allotment option, at price of $10.10 per unit representing total gross proceeds of $86,299. Issue costs of $4,172 were recognized in relation to this equity issuance.

On July 25, 2016, the REIT completed the public offering for aggregate gross proceeds of approximately $66,493. The offer comprised of the issuance of 6,785,000 REIT units at a price of $9.80 per unit. Concurrently, NWVP, purchased, on a private placement basis, an aggregate of 510,204 units for gross proceeds of approximately $5,000 at the offering price. Issue cost of $3,136 were recognized in relation to this equity issuance.

On April 20, 2016 and April 25, 2016, the REIT completed a public offering of 7,532,500 REIT units, including the exercise in full of an over-allotment option, at a price of $9.20 per unit, representing gross proceeds of $69,299. Concurrently, NWVP, purchased, on a private placement basis, an aggregate of 1,086,956 REIT units for gross proceeds of approximately $10,000 at the offering price. Issue costs of $3,861 were recognized in relation to this equity issuance.

19. Supplemental Cash Flow Information

(i) Changes in Non-Cash Working Capital Balances

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	**2017**	2016
Accounts receivable	**$ 856**	$ (10,939)	**$ (2,424)**	$ (12,056)
Other assets	**(731)**	1,391	**(4,081)**	1,585
Accounts payable and accrued liabilities	**508**	4,379	**2,743**	6,303
	$ 633	$ (5,169)	**$ (3,762)**	$ (4,168)

(ii) Non-Cash Financing and Investing Activities

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	**2017**	2016
Non cash distributions to Unitholders under the DRIP (note 18)	**$ 1,544**	$ 1,179	**$ 2,918**	$ 2,454
Non-cash investment in subsidiary	**-**	5,787	**-**	5,787
Units issued under deferred unit plan (note 16)	**343**	-	**561**	2,953

(in thousands of Canadian dollars)

20. Related Party Transactions

(a) As at June 30, 2017, NWVP indirectly owned approximately 24.6% of the outstanding REIT units (approximately 19.6% 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, through shared services arrangements with affiliates of NWVP, the REIT has amounts owing to and from NWVP and affiliates. As at June 30, 2017, these non-interest bearing amounts combined included in accounts payable and other liabilities are a net liability of $36 (December 31, 2016 - net asset of $315 included under accounts receivable)

(c) At June 30, 2017, included in accounts payable and accrued liabilities are Class B exchangeable unit distributions payable owing to NWVP and affiliates in the amount of $1,267 (December 31, 2016 - $1,267), 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 June 30,		For the six months ended June 30,	
	2017	2016	**2017**	2016
Reimbursement for out-of-pocket costs	**$ 121**	52	**$ 794**	$ 210
Cost-sharing and sublease agreements	**24**	165	**127**	359
	$ 145	$ 217	**$ 921**	$ 569

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

21. Segmented Information

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

During the three and six months ended June 30, 2017, two tenants in the Brazil and one tenant in Australasia operating segment accounted for 18% and 12% respectively (for the three and six months ended June 30, 2016 - 13% and 12%, respectively) of the total revenue from investment properties.

(in thousands of Canadian dollars)

21. Segmented Information (continued)

As at June 30, 2017	Germany	Brazil	Australasia	Canada	Total
Investment properties	$ 230,454	$ 645,472	$ 1,307,763	$ 1,224,620	$ 3,408,309
Mortgages and loans payable	$ 121,140	$ 137,169	$ 381,383	$ 1,145,189	$ 1,784,881

As at December 31, 2016	Germany	Brazil	Australasia	Canada	Total
Investment properties	$ 189,432	$ 642,901	$ 997,739	$ 1,210,282	$ 3,040,354
Mortgages and loans payable	$ 91,236	$ 147,088	$ 242,451	$ 884,901	$ 1,365,676

For three months ended June 30, 2017	Germany	Brazil	Australasia	Canada	Total
Revenue from investment properties	$ 4,533	$ 13,452	$ 20,771	$ 34,378	$ 73,134
Property operating costs	1,317	-	2,395	15,291	19,003
Net property operating income	3,216	13,452	18,376	19,087	54,131
Other income					
Interest	2	385	19	115	521
Management fee	-	-	6,621	-	6,621
Share of profit of associate	-	-	38,270	-	38,270
	2	385	44,910	115	45,412
Mortgage and loan interest expense	720	2,888	3,972	14,702	22,282
General and administrative expenses	701	492	3,297	2,369	6,859
Transaction Costs	-	-	132	11,656	11,788
Foreign exchange (gain) loss	-	12	2,666	4,317	6,995
	1,421	3,392	10,067	33,044	47,924
Operating income (loss)	$ 1,797	$ 10,445	$ 53,219	$ (13,842)	$ 51,619

For three months ended June 30, 2016	Germany	Brazil	Australasia	Canada	Total
Operating Income (Loss)					
Revenue from investment properties	$ 3,731	$ 8,313	$ 17,669	$ 34,457	$ 64,170
Property operating costs	1,026	-	1,935	15,153	18,114
Net Operating Income	2,705	8,313	15,734	19,304	46,056
Other income					
Interest	-	908	51	30	989
	-	908	51	30	989
Mortgage and loan interest expense	471	1,911	3,353	11,518	17,253
General and administrative expenses	624	487	1,980	3,387	6,478
Transaction Costs	-	-	-	1,013	1,013
Foreign exchange (gain) loss	-	87	(946)	1,121	262
	1,095	2,485	4,387	17,039	25,006
Operating income (loss)	$ 1,610	$ 6,736	$ 11,398	$ 2,295	$ 22,039

(in thousands of Canadian dollars)

21. Segmented Information (continued)

For six months ended June 30, 2017	Germany	Brazil	Australasia	Canada	Total
Revenue from investment properties	$ 8,768	$ 26,968	$ 40,877	$ 68,985	$ 145,598
Property operating costs	2,463	-	5,087	31,023	38,573
Net property operating income	6,305	26,968	35,790	37,962	107,025
Other income					
Interest	2	659	32	225	918
Management fee	-	-	7,484	-	7,484
Share of (profit) loss of associate	-	-	43,681	-	43,681
	2	659	51,197	225	52,083
Mortgage and loan interest expense	1,228	5,862	7,225	28,306	42,621
General and administrative expenses	1,237	948	5,767	4,398	12,350
Transaction Costs	68	-	132	11,676	11,876
Foreign exchange (gain) loss	5	6	(2,567)	5,562	3,006
	2,538	6,816	10,557	49,942	69,853
Operating income (loss)	$ 3,769	$ 20,811	$ 76,430	$ (11,755)	$ 89,255

For six months ended June 30, 2016	Germany	Brazil	Australasia	Canada	Total
Operating Income (Loss)					
Revenue from investment properties	$ 7,307	$ 15,971	$ 35,348	$ 70,449	$ 129,075
Property operating costs	1,954	-	4,327	32,031	38,312
Net Operating Income	5,353	15,971	31,021	38,418	90,763
Other income					
Interest	-	1,077	70	33	1,180
	-	1,077	70	33	1,180
Mortgage and loan interest expense	914	3,256	6,992	25,065	36,227
General and administrative expenses	1,384	848	3,199	6,373	11,804
Transaction Costs	-	-	-	3,581	3,581
Foreign exchange (gain) loss	(2)	143	(632)	(1,519)	(2,010)
	2,296	4,247	9,559	33,500	49,602
Operating income (loss)	$ 3,057	$ 12,801	$ 21,532	$ 4,951	$ 42,341

22. Non-wholly Owned Subsidiary

On January 1, 2015, the REIT acquired all of the rights and obligations relating to the management of Vital Trust. As a result of the acquisition of the management rights and other factors, it was determined that the REIT obtained control (as defined in IFRS 10 - Consolidated Financial Statements) with respect to its approximately 24.8% investment in Vital Trust.

The following tables present summarized accounts for Vital Trust based on the portion attributable to the non-controlling interest and the REIT

(in thousands of Canadian dollars)

22. Non-wholly Owned Subsidiary (continued)

As at	June 30, 2017	December 31, 2016
Total assets	**$ 1,321,482**	$ 1,005,348
Total liabilites	**481,345**	340,774
Net assets	**$ 840,137**	$ 664,574
Attributable to:		
Non-controlling interest	**599,986**	485,505
Unitholders of the REIT	**240,151**	179,069
	$ 840,137	$ 664,574

	For the three months ended June 30, 2017	2016	For the six months ended June 30, 2017	2016
Revenue from investment properties	**$ 20,771**	$ 17,669	**$ 40,877**	$ 35,348
Net income attributable to:				
Non-controlling interest	**$ 97,882**	$ 32,998	**$ 122,617**	$ 39,861
Unitholders of the REIT	**30,798**	9,929	**38,490**	12,119
Net income	**$ 128,680**	$ 42,927	**161,107**	$ 51,980
Total comprehensive income attributable to:				
Non-controlling interest	**$ 85,275**	$ 22,864	**$ 124,430**	$ 38,749
Unitholders of the REIT	**26,683**	6,799	**39,162**	11,557
Total comprehensive income	**$ 111,958**	$ 29,663	**$ 163,592**	$ 50,306
Distributions attributable to non-controlling interest	**$ 6,493**	$ 4,943	**$ 12,966**	$ 9,760

	For the three months ended June 30, 2017	2016	For the six months ended June 30, 2017	2016
Cash flow activites:				
Operating	**$ 6,524**	$ 9,912	**$ 9,858**	$ 17,278
Investing	**(70,761)**	(13,124)	**(137,195)**	(59,554)
Financing	**69,764**	12,012	**129,478**	50,996
Effect of foreign currency translation	**(1,540)**	291	**(2,248)**	676
Net change in cash	**$ 3,987**	$ 9,091	**$ (107)**	$ 9,396

The REIT is subject to restrictions over the extent to which it can access funds of Vital Trust 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 Vital Trust being limited to approximately 24.8%**.**

23. Commitments and Contingent Liabilities

(a) The REIT has entered into fixed-price utility contracts with a third-party supplier in the amount of $1,652 to provide electricity and gas for its own use at its investment properties until 2018.

(b) 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 June 30, 2017, the REIT has a total of $1,049 in outstanding letters of credit related to construction work that is being performed on investment properties. The REIT does not believe that any of these standby letters of credit are likely to be drawn upon.

(c) Pursuant to the sale of four 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 $11,344 as at June 30, 2017.

(d) The REIT has entered into construction agreements on development properties and is committed to construction costs of $44,007 as at June 30, 2017.

(e) On June 16, 2017, the REIT despatched a compulsory acquisition notice under the GHC Bid (see note 8) which suspended the trading of GHC units on Australian Securities Exchange. Upon completion of the compulsory acquisition, the REIT will purchase 14,132,399 GHC units for approximately $33,008 (A$32,505) (note 27(iii)).

(f) 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.

(g) 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.

24. Fair Values

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

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

The REIT determined the fair value of each investment property using the discounted cash flow method or the overall capitalization rate 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. Under the overall capitalization rate method, the net operating income is capitalized at the requisite capitalization rate. Note 7 outlines the key assumptions used by the REIT in determining fair value of its investment properties.

(in thousands of Canadian dollars)

24. Fair Values (continued)

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

As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid 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 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 June 30, 2017 is as follows:

		Fair Value		
	Carrying value	**Level 1**	**Level 2**	**Level 3**
Assets measured at fair value:				
Investment properties	$ 3,408,309	$ -	$ -	$ 3,408,309
Financial instruments	3,847	-	3,847	-
Assets held for sale	10,525	-	-	10,525
Liabilities measured at fair value:				
Financial instruments	14,749	-	14,749	-
Convertible debentures	340,897	340,897	-	-
Class B LP exchangeable units	202,899	202,899	-	-
Deferred unit plan liability	17,757	17,757	-	-
Financial Liabilites recorded at amortized cost:				
Mortgage and loans payable	1,784,881	-	1,802,906	-
Liabilities related to assets held for sale	9,256	-	9,258	-

(in thousands of Canadian dollars)

24. Fair Values (continued)

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, 2016 is as follows:

	Carrying value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Assets measured at fair value:				
Investment properties	$ 3,040,354	$ -	$ -	$ 3,040,354
Derivative financial instruments	449	-	449	-
Performance fee receivable	7,178	-	7,178	-
Liabilities measured at fair value:				
Derivative financial instruments	15,077	-	15,077	-
Convertible debentures	331,834	331,834	-	-
Class B LP exchangeable units	193,780	193,780	-	-
Deferred unit plan liability	14,935	14,935	-	-
Financial Liabilites recorded at amortized cost:				
Mortgage and loans payable	1,365,676	-	1,385,023	-

25. 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 June 30, 2017, the REIT is in compliance with its debt to gross book value ratio of the Declaration of Trust at 43.5% (December 31, 2016 - 41.5%) and 51.7% (December 31, 2016 - 51.5%). The debt to gross book value including convertible debentures calculations are as follows:

(in thousands of Canadian dollars)

25. Capital Management (continued)

As at		June 30, 2017		December 31, 2016
Debt				
Gross value of secured debt [1]	**$**	**1,810,466**	$	1,382,784
Gross value of total debt [2]		**2,151,363**		1,714,618
Gross Book Value of Assets				
Total assets	**$**	**4,161,721**	$	3,328,533
Debt-to-Gross Book Value (Declaration of Trust)		**43.5%**		41.5%
Debt-to-Gross Book Value (including convertible debentures)		**51.7%**		51.5%

[1] represents the principal balance of mortgages, mortgages related to related to assets held for sale, credit facility, Australasian Secured Financings, term loans, securtizations and deferred consideration

[2] represents the principal balance of mortgages, mortgages related to related to assets held for sale, credit faciltiy, Australasian Secured Financings, term loans, securtizations, convertible debentures (at fair value) and deferred consideration

The REIT's capital management is also impacted by various financial covenants in certain loan agreements. As at June 30, 2017, the REIT is in compliance with all such financial covenants.

26. 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 to December 31, 2016.

27. Subsequent Events

(i) On July 5, 2017, the REIT amended the terms of its revolving secured credit facility to increase the allowable borrowings by $5,000.

(ii) On July 14, 2017, the REIT announced a distribution of $0.06667 per REIT unit to unitholders of record on July 31, 2017, payable August 15, 2017. On August 10, 2017, the REIT declared a distribution of $0.06667 per REIT unit to unitholders of record on August 31, 2017, payable September 15, 2017.

(iii) On July 14, 2017, the REIT passed a resolution to appoint NWH RE as the responsible entity of GHC. Then, on July 17, 2017, the REIT completed the compulsory acquisition of all outstanding units of GHC by purchasing 14,132,399 GHC units for approximately $33,008 (A$32,505). Consequently, the REIT determined that it had obtained control as defined under IFRS 10 – Consolidate Financial Statements and will subsequently apply business combination accounting with respect to its interest in GHC in accordance with IFRS 3 - Business Combinations.

(in thousands of Canadian dollars)

27. Subsequent Events (continued)

The determination of the purchase equation has been calculated provisionally using the June 30, 2017 fair values of GHC REIT as a proxy for the closing date of July 14, 2017. The preliminary purchase equation using step-acquisition accounting is as follows:

Investment properties	$	691,674
Loans receivable		35,026
Other assets		45,755
Mortgages and loans payable		(234,333)
Financial instruments		(8,777)
Other liabilities		(16,726)
Non-controlling interest		(57,942)
Net assets acquired	$	454,677
Consideration:		
Fair value of the REIT's interest in GHC	$	473,112
Additional interest acquired from compulsory acqusition		32,361
	$	505,473
Goodwill	**$**	**50,796**

Included in Other Liabilities are amounts payable by GHC to the REIT, for which the REIT has recorded a receivable of $10,985 as at June 30, 2017.

The following pro forma supplemental information presents certain results of operations as if GHC had been consolidated from the beginning of the fiscal period presented:

	For the three months ended June 30, 2017		For the six months ended June 30, 2017	
	As reported	**Pro forma**	**As reported**	**Pro forma**
Revenues	$ 73,134	$ 84,221	$ 145,598	$ 166,017
Net income attributable to unitholders	63,917	69,059	113,716	139,144

The pro forma supplemental information is based on estimates and assumptions which are believed to be reasonable. The pro forma supplemental information is not necessarily indicative of the REIT's consolidated financial results in future periods or the results that would have been realized had GHC been consolidated at the beginning of the period presented. The pro forma supplemental information excludes business integration costs and opportunities.

(iv) On August 1, 2017, Vital Trust settled the previously announced acquisition of The Hills Clinic located in Sydney, Australia for approximately $30,167 (A$30,300). The Hills Clinic is a two-level purpose-built private mental health hospital with 59 beds, 8 consulting rooms and approximately 30 referring clinicians. The weighted average lease expiry at The Hills Clinic is 30 years.