# NORTHWEST HEALTHCARE PROPERTIES
# REAL ESTATE INVESTMENT TRUST

## Consolidated Financial Statements

## For the Years Ended December 31, 2016 and 2015

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# INDEPENDENT AUDITORS' REPORT

To the Unitholders of NorthWest Healthcare Properties
Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of NorthWest Healthcare Properties Real Estate Investment Trust, which comprise the consolidated balance sheet as at December 31, 2016, the consolidated statements of income and comprehensive income, the consolidated statements of changes in unitholders' equity and consolidated statements of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of NorthWest Healthcare Properties Real Estate Investment Trust as at December 31, 2016 and December 31, 2015 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 2, 2017
Toronto, Canada

## NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

**Consolidated Balance Sheet**
**(in thousands of Canadian dollars)**

| As at | | December 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| **Assets** | | | | |
| Investment properties (note 9) | $ | **3,040,354** | $ | 2,491,835 |
| Investment in associates (note 10) | | **95,351** | | - |
| Intangible assets (note 11) | | **103,196** | | 46,757 |
| Goodwill (note 4) | | **41,671** | | 41,671 |
| Due from related party (note 12) | | **315** | | 1,736 |
| Financial instruments (note 20) | | **449** | | 8,506 |
| Accounts receivable | | **6,485** | | 3,919 |
| Income tax receivable | | **836** | | 1,092 |
| Other assets (note 13) | | **19,625** | | 10,903 |
| Cash and restricted cash (note 14) | | **20,251** | | 15,396 |
| Assets held for sale (note 15) | | **-** | | 78,194 |
| **Total assets** | $ | **3,328,533** | $ | 2,700,009 |
| **Liabilities** | | | | |
| Mortgages and loans payable (note 16) | $ | **1,365,676** | $ | 1,252,993 |
| Deferred consideration (note 17) | | **13,119** | | 34,073 |
| Convertible debentures (note 18) | | **331,834** | | 170,094 |
| Deferred revenue | | **573** | | - |
| Deferred tax liability (note 19) | | **140,150** | | 87,633 |
| Financial instruments (note 20) | | **15,077** | | 18,425 |
| Income tax payable | | **14,230** | | 7,373 |
| Accounts payable and accrued liabilities | | **44,740** | | 45,020 |
| Distributions payable | | **4,629** | | 3,513 |
| Liabilities related to assets held for sale (note 15) | | **-** | | 52,674 |
| | | **1,930,028** | | 1,671,798 |
| Deferred unit plan liability (note 21) | | **14,935** | | 15,597 |
| Class B exchangeable units (note 22) | | **193,780** | | 169,653 |
| **Total liabilities** | $ | **2,138,743** | $ | 1,857,048 |
| **Unitholders' Equity** | | | | |
| Unitholders' equity (note 23) | | **704,285** | | 515,478 |
| Non-controlling interest | | **485,505** | | 327,483 |
| Subsequent events (note 33) | | | | |
| **Total liabilities and unitholders' equity** | $ | **3,328,533** | $ | 2,700,009 |

The consolidated financial statements were approved by the Board on March 2, 2017 and signed on its behalf by:

"Colin Loudon" Trustee
"Paul Dalla Lana" Trustee

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

## NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

**Consolidated Statements of Income and Comprehensive Income**
**(in thousands of Canadian dollars)**

| For the Year Ended December 31, | | 2016 | | 2015 |
|---|---|---|---|---|
| **Net Property Operating Income** | | | | |
| Revenue from investment properties | $ | 277,346 | $ | 198,960 |
| Property operating costs | | 74,749 | | 52,999 |
| | | 202,597 | | 145,961 |
| **Other Income** | | | | |
| Interest | | 2,852 | | 912 |
| Management fees (note 11) | | 2,102 | | - |
| Share of profit of associates (note 10) | | 8,679 | | 2,153 |
| | | 13,633 | | 3,065 |
| **Expenses** | | | | |
| Mortgage and loan interest expense | | 75,851 | | 64,297 |
| General and administrative expenses (note 26) | | 19,772 | | 25,121 |
| Transaction costs | | 4,106 | | 10,310 |
| Foreign exchange (income) loss | | 1,465 | | 2,192 |
| | | 101,194 | | 101,920 |
| **Income before other finance costs, fair value adjustments, and net loss on disposal of investment property, and net gain on business combination** | | 115,036 | | 47,106 |
| Finance Costs | | | | |
| Amortization of financing costs | | (4,768) | | (6,907) |
| Amortization of mark-to-market adjustment | | 5,964 | | 6,219 |
| Class B exchangeable unit distributions (note 22) | | (15,199) | | (16,986) |
| Fair value adjustment of Class B exchangeable units (note 22) | | (24,127) | | 13,201 |
| Accretion of financial liabilities (notes 16 and 17) | | (10,053) | | (13,705) |
| Fair value adjustment of convertible debentures (note 18) | | (6,490) | | (3,930) |
| Convertible debenture issuance costs | | (7,064) | | (3,134) |
| Fair value gain (loss) on financial instrument (note 20) | | (1,945) | | (404) |
| Fair value adjustment of investment properties (note 9) | | 136,366 | | 170,301 |
| Net loss on disposal of investment properties (note 8) | | (2,807) | | (1,352) |
| Fair value adjustment of deferred unit plan liability | | (1,451) | | 514 |
| Gain on business combination (notes 5 and 6) | | 53 | | 69,023 |
| **Income before taxes** | | 183,515 | | 259,946 |
| **Income tax expense (note 19)** | | 54,384 | | 42,521 |
| **Net income** | $ | 129,131 | $ | 217,425 |
| **Net income attributable to:** | | | | |
| Unitholders | $ | 56,963 | $ | 116,854 |
| Non-controlling interest | | 72,168 | | 100,571 |
| | $ | 129,131 | $ | 217,425 |

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

## NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

**Consolidated Statements of Income and Comprehensive Income (continued)**
**(in thousands of Canadian dollars)**

| For the Year Ended December 31, | 2016 | 2015 |
|---|---|---|
| **Other comprehensive income (loss):** | | |
| Items that will be reclassified subsequently to income: | | |
| Foreign currency translation adjustment | **$ 20,593** | $ 892 |
| Realised foreign exchange gains/(losses) on hedges | **16,826** | (1,207) |
| Current taxation (expense)/credit | **(4,711)** | 337 |
| Unrealised foreign exchange gains/(losses) on hedges | **(8,560)** | 1,418 |
| Deferred taxation (expense)/credit | **2,397** | (397) |
| Fair value gain (loss) on net investment hedges | **2,168** | (1,750) |
| Deferred taxation (expense)/credit | **(607)** | 287 |
| Current taxation (expense)/credit | **-** | 204 |
| **Other comprehensive income, net of tax** | **28,106** | (216) |
| **Total comprehensive income for the period** | **$ 157,237** | $ 217,209 |
| | | |
| **Total comprehensive income attributable to:** | | |
| Unitholders | **$ 88,244** | $ 115,454 |
| Non-controlling interest | **68,993** | 101,755 |
| | **$ 157,237** | $ 217,209 |

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

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

**Consolidated 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, 2014** | **$ 153,989** | **$ 4,627** | **$ (115)** | **$ (25,635)** | **$ (1,992)** | **$ (30,906)** | **$ 99,968** | **$ -** | **$ 99,968** |
| Units issued through distribution reinvestment plan | 3,394 | - | - | - | - | - | 3,394 | 2,561 | **5,955** |
| Units issued on exercise of deferred units | 1,028 | - | - | - | - | - | 1,028 | - | **1,028** |
| Asset management fees paid in units | 292 | - | - | - | - | - | 292 | - | **292** |
| Issuance of units on merger | 302,197 | - | - | - | - | - | 302,197 | - | **302,197** |
| Unit redemption on merger | (2,593) | - | - | - | - | - | (2,593) | - | **(2,593)** |
| Cancellation of REIT units under normal course issuer bid (note 19) | (6,648) | - | - | - | - | - | (6,648) | - | **(6,648)** |
| Conversion of Class B exchangeable units | 1,649 | - | - | - | - | - | 1,649 | - | **1,649** |
| Capital contribution | - | 35,212 | - | - | - | - | 35,212 | - | **35,212** |
| Acquisition of control of subsidiary | - | - | - | - | - | - | - | 241,912 | **241,912** |
| Distributions | - | - | - | (34,501) | - | - | (34,501) | (18,745) | **(53,246)** |
| Currency translation differences | - | - | - | - | (1,106) | - | (1,106) | 2,024 | **918** |
| Other comprehensive (loss) | - | - | - | - | (268) | - | (268) | (840) | **(1,108)** |
| Net income (loss) for the period | - | - | - | - | - | 116,854 | 116,854 | 100,571 | **217,425** |
| **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 23) | 143,795 | - | - | - | - | - | 143,795 | 107,835 | **251,630** |
| Units issued through distribution reinvestment plan | 4,821 | - | - | - | - | - | 4,821 | 4,063 | **8,884** |
| Units issued on exercise of deferred units (note 23) | 2,953 | - | - | - | - | - | 2,953 | - | **2,953** |
| Cancellation of REIT units under normal course issuer bid (note 23) | (285) | - | - | - | - | - | (285) | - | **(285)** |
| Distributions | - | - | - | (50,721) | - | - | (50,721) | (22,869) | **(73,590)** |
| Currency translation differences | - | - | - | - | 29,433 | - | 29,433 | (8,840) | **20,593** |
| Other comprehensive income | - | - | - | - | 1,848 | - | 1,848 | 5,665 | **7,513** |
| Net income for the period | - | - | - | - | - | 56,963 | 56,963 | 72,168 | **129,131** |
| **Balance, December 31, 2016** | **$ 604,592** | **$ 39,839** | **$ (115)** | **$ (110,857)** | **$ 27,915** | **$ 142,911** | **$ 704,285** | **$ 485,505** | **$ 1,189,790** |

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

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

## Consolidated Statements of Cash Flows

## (in thousands of Canadian dollars)

| For the Year Ended December 31, | | 2016 | | 2015 |
|---|---|---|---|---|
| **Cash provided by (used in):** | | | | |
| **Operating activities** | | | | |
| Net income before taxes | $ | **183,515** | $ | 259,946 |
| Adjustment for: | | | | |
| Amortization | | **750** | | 275 |
| Mortgage and loan interest | | **75,851** | | 64,297 |
| Mortgage and loans interest paid | | **(70,697)** | | (64,582) |
| Finance costs | | | | |
| Amortization of financing costs | | **4,768** | | 6,907 |
| Amortization of mark-to-market adjustment | | **(5,964)** | | (6,219) |
| Class B exchangable unit distributions (note 22) | | **15,199** | | 16,986 |
| Fair value adjustment of Class B exchangable units (note 22) | | **24,128** | | (13,201) |
| Accretion of financial liabilities (notes 16 and 17) | | **10,053** | | 13,705 |
| Fair value adjustment of convertible debentures (note 18) | | **6,490** | | 3,930 |
| Convertible debenture issuance costs | | **7,064** | | 3,133 |
| Share of profit of associate (note 10) | | **(8,679)** | | (2,153) |
| Gain on business combination (note 5 and 6) | | **(53)** | | (69,023) |
| Unrealized foreign exchange (gain)/loss | | **(47)** | | 2,405 |
| Amortization of deferred revenue | | **(1,128)** | | (1,160) |
| Fair value adjustment of investment properties (note 9) | | **(136,366)** | | (170,300) |
| Fair value (gain)/loss on financial instruments (note 20) | | **3,237** | | 825 |
| Net loss on disposal of investment properties (note 8) | | **2,807** | | 1,352 |
| Fair value adjustment of deferred unit plan liability | | **1,451** | | (514) |
| Unit based compensation expense | | **2,122** | | 11,100 |
| Redemption of units issued under deferred unit plan | | **(108)** | | (1,040) |
| Income taxes paid | | **(5,798)** | | (5,109) |
| Changes in non-cash working capital balances (note 24(i)) | | **(6,515)** | | (4,970) |
| **Cash provided by (used in) operating activities** | | **102,080** | | 46,590 |
| | | | | |
| **Investing activities** | | | | |
| Acquisitions of investment properties (note 7) | | **(325,439)** | | (12,346) |
| Additions to investment properties (note 9) | | **(72,188)** | | (81,001) |
| Net proceeds on disposal of investment property (note 8) | | **79,193** | | 20,175 |
| Additions to investment in associate (note 10) | | **(97,252)** | | - |
| Investment in subsidiary (note 6) | | **(56,387)** | | - |
| Working capital acquired on internalization | | **-** | | 468 |
| Cash acquired on acquisition of control | | **2** | | 1,055 |
| Cash acquired on combination transaction (note 3) | | **-** | | 3,217 |
| Distributions from associates (note 10) | | **2,268** | | 3,172 |
| Additions to furnitures and fixtures | | **(765)** | | (230) |
| Receipts (payments) from foreign exchange contracts | | **17,988** | | (541) |
| Net decrease (increase) to restricted cash | | **402** | | 1,650 |
| **Cash provided by (used in) investing activities** | | **(452,178)** | | (64,381) |
| | | | | |
| **Financing activities** | | | | |
| Mortgage and loan proceeds | | **382,151** | | 151,516 |
| Mortgage and loans discharged (note 16) | | **(167,222)** | | (139,137) |
| Repayment of mortgages | | **(18,834)** | | (11,943) |
| Repurchase of units under normal course issuer bid (note 23) | | **(286)** | | (6,648) |
| Net advances (repayments) of loans payable | | **(122,820)** | | 21,159 |
| Issuance of convertible debentures, net of issuance cost (note 18) | | **148,351** | | 49,868 |
| Proceeds from issue of units, net of issue costs (note 23) | | **251,684** | | - |
| Financing fees paid | | **(14,392)** | | (7,884) |
| Net (payments) advances from related parties | | **(362)** | | 32,694 |
| Payment of defered consideration | | **(30,627)** | | - |
| Distributions paid | | **(44,785)** | | (29,187) |
| Class B exchangeable units distributions paid (note 22) | | **(15,199)** | | (29,097) |
| Distributions paid to non-controlling interest | | **(21,387)** | | (17,445) |
| **Cash provided by (used in) financing activities** | | **346,272** | | 13,896 |
| **Net change in cash** | | **(3,826)** | | (3,895) |
| **Effect of foreign currency translation** | | **8,946** | | 360 |
| **Net change in cash** | | **5,120** | | (3,535) |
| **Cash, beginning of period** | | **14,835** | | 18,370 |
| **Cash, end of period** | $ | **19,955** | $ | 14,835 |

Supplemental disclosure relating to non-cash financing and investing activities (note 24(ii))

*The accompanying notes are an integral part of these consolidated 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 284 King Street East, Suite 100, Toronto, Ontario M5A 1K4.

On May 15, 2015, the REIT completed a plan of arrangement ("Plan of Arrangement"), whereby the REIT acquired, among other things, all of the assets of NorthWest International Healthcare Properties Real Estate Investment Trust ("NWI"). Under the Plan of Arrangement, unitholders of NWI received 0.208 of a REIT trust unit, for each NWI REIT unit held, on a tax deferred basis. All outstanding NWI deferred units were exchanged on the same basis for REIT deferred units. In addition, NWI's exchangeable units were converted into a new class of limited partnership units using the same exchange ratio of 0.208, which are redeemable, at the option of the holder, for REIT trust units. Upon closing, the former unitholders of NWI owned approximately 52% of the issued and outstanding units of the combined entity. As a result of this and other qualitative considerations, NWI has been identified as the accounting acquirer. Accordingly, these consolidated financial statements are a continuation of the historical financial statements of NWI, with one adjustment, which is to adjust retroactively NWI's trust units, Class B and Class D exchangeable units, deferred units, and warrants (legal capital) to reflect the legal capital of the REIT using an exchange ratio of 0.208. NWI, referenced hereafter as the REIT, include references to NWI prior to the completion of the Plan of Arrangement. The results of operations of the REIT have been consolidated from the date of the combination transaction, May 15, 2015.

With the completion of the transaction, NWI's trust units and convertible debentures (note 18) were delisted from the TSX Venture Exchange at the close of business May 19, 2015. See note 5 for further details.

Until January 28, 2015, affiliates of NorthWest Value Partners Inc. ("NWVP") served as NWI's asset manager, property manager and developer pursuant to certain management and partnership agreements that are filed with the Canadian securities regulatory authorities and available on SEDAR at www.sedar.com. On January 28, 2015, with an effective date of January 1, 2015, the REIT internalized its external management arrangements (the "Internalization Transaction"), terminating the asset management, property management and development functions of NWI previously carried on by affiliates of NWVP. The Internalization Transaction also resulted in the REIT acquiring from NWVP all of the rights and obligations relating to the management of Vital Healthcare Property Trust ("Vital Trust"). See Note 3.

The REIT's consolidated financial statements for the year ended December 31, 2016, were authorized for issue by the Board of Trustees on March 2, 2017.

## 1. Statement of Compliance

(a) Statement of compliance

The REIT's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of presentation and measurement

The consolidated financial statements are prepared on a going concern basis and have been presented in thousands of Canadian dollars, except units and per unit amounts. The Canadian dollar is the REIT's functional currency. The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires the REIT's management to exercise judgment in applying the REIT's accounting policies.

These consolidated financial statements have been prepared in thousands of Canadian dollars on a historical cost basis except for:

*(i)* Investment properties, which are measured at fair value; and

*(ii)* Financial assets and financial liabilities classified as at fair value through profit and loss ("FVTPL"), derivative financial instruments and the deferred unit plan ("DUP") liability, which are measured at fair value.

## 1. Statement of Compliance (continued)

(c) Critical accounting estimates

The preparation of these consolidated financial statements requires the REIT to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the consolidated financial statements. Actual results could differ from those estimates.

*(i) Intangible asset*

Intangible asset represents the REIT's rights and obligations under the contracts between Vital Healthcare Management Limited ("VHML"), a wholly-owned subsidiary of the REIT, and Vital Trust, and the contract between Generation Healthcare Management Pty Limited ("GHM"), a wholly-owned subsidiary of the REIT, and Generation Healthcare REIT ("GHC"). The Vital Trust intangible asset has been measured at its fair value as at the effective date of the Internalization Transaction, January 1, 2015. The GHC intangible had been recorded at its fair value as at the date the REIT acquired GHM (see note 6). When estimating the fair value of the intangible assets, the REIT made estimates and assumptions that have a significant effect on the reported value of the intangible asset. Estimates used in determining the fair value of the intangible asset include management fees, operating expenses, discount rates, capitalization rates, inflation rates, interest rates, taxation rates, foreign currency exchange rates and earnings multiples. See note 3 and note 6.

The contracts that govern the fee streams paid by both Vital Trust and GHC do not expire and therefore, the contracts are deemed indefinite-life intangible assets (note 2(a)).

*(ii) Incentive and performance fee revenues*

At the end of the measurement period, revenues from incentive fees, earned by VHML, and performance fees, earned by GHM, are recorded on the accrual basis based on the estimated amount that would be due under the Vital Trust and GHC fee formula as established by the respective contract. The calculated incentive fee from Vital Trust includes management estimates of capitalization rates, foreign currency exchange rates, and the timing of completion of development activities. The GHC performance fee calculating requires management estimates of rate of return on the units and index, and foreign currency exchange rates.

*(iii) Investment properties*

Investment properties are re-measured to fair value at each reporting date, determined based either on internal valuation models incorporating available market evidence, or on valuations performed by third-party appraisers. When estimating the fair value of investment properties, the REIT makes estimates and assumptions that have a significant effect on the reported value of investment properties. Estimates used in determining the fair value of the investment properties include capitalization rates, discount rates, inflation rates, vacancy rates, net operating income and capital expenditures.

*(iv) Interests in associates*

If it is determined that objective evidence exists that indicate that the REIT's interest in its associates has been impaired, the investment must be written down to its estimated fair value. Estimates used in determining the fair value of the associates include discount rates, inflation rates, net operating income and cash flows.

*(v) Derivative financial instruments*

The measurement of the fair value of the REIT's derivative financial instruments is based on estimates and assumptions that affect the reported amount of the liabilities and the corresponding gain or loss on changes in fair value. Estimates and assumptions used in the valuation for the REIT's derivatives are described in note 20.

## 1. Statement of Compliance (continued)

(d) Critical judgments in applying accounting policies

In the preparation of these consolidated financial statements the REIT has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the consolidated financial statements.

*(i) Leases*

The REIT makes judgments in determining whether leases in which the REIT is the lessor are operating or finance leases, and has determined that all of its leases are operating leases. The accounting treatment of leases as finance leases would have a significant effect on the measurement of transactions and balances in the consolidated financial statements.

*(ii) Investment Acquisitions*

When investments are acquired, the REIT is required to apply judgment as to whether or not the transaction should be accounted for as an asset acquisition or business combination. A transaction is considered to be a business combination if the acquired investment meets the definition of a business in accordance with IFRS 3, "Business Combinations" ("IFRS 3"), being an integrated set of activities and assets that are capable of being managed for the purpose of providing a return.

Business Combinations are measured at fair value on the date of acquisition based on the aggregate of the consideration transferred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at fair value at the acquisition date and acquisition-related costs are recognized in the consolidated statement of income as incurred.

When acquisition of an investment does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values at the acquisition date, and no goodwill is recognized. Acquisition related costs are capitalized to the investment at the time the acquisition is completed.

All of the REIT's property acquisitions, with the exception of any interest in investment properties acquired as a result of the Internalization Transaction (note 3),Combination Transaction (note 5), and Acquisition of GHM (note 6) of have been accounted for as asset acquisitions.

*(iii) Consolidation Vital Trust*

The REIT accounts for its investment in Vital Trust as a subsidiary and consolidates the financial position and results of Vital Trust. The REIT's interest in Vital Trust, as at December 31, 2016, is 24.8%. The REIT assessed it has control over Vital Trust based on the definition of control and certain criteria provided for in IFRS 10-Consolidated Financial Statements. The REIT has assessed it has control over Vital Trust based on the following key observations: i) the REIT controls the external manager of Vital Trust through the 100% indirect ownership of VHML. The ownership of the VHML results in the REIT directing all activities of Vital Trust; ii) the REIT has the right to appoint a majority of directors of the board of Vital Healthcare Management Limited, which acts as the board of directors of Vital Trust; and iii) the 75.2% non-controlling interest of Vital Trust is widely held with no known investor holding more than a 5% interest in Vital Trust, other than the REIT.

*(iv) Income Taxes*

With the exception of subsidiaries that are subject to income taxes, deferred income taxes are not recognized in the consolidated financial statements on the basis that the REIT can deduct distributions paid such that its liability for income taxes is substantially reduced or eliminated for the year. In applying this accounting policy, the REIT has made the judgment that the REIT intends to continue to distribute its taxable income and continue to qualify as a real estate investment trust for the foreseeable future; however, should it no longer qualify it would not be able to flow through its taxable income to unitholders and the REIT would be subject to Canadian taxation on its non-portfolio earnings.

## 2. Summary of Significant Accounting Policies (continued)

(a) Goodwill and intangible assets

The carrying values of identifiable indefinite-life intangible assets and goodwill are tested for impairment annually and whenever there is an indication that the intangible asset may be impaired. A cash generating unit ("CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill and indefinite-life intangible assets are allocated to CGUs for the purpose of impairment testing based on the level at which management monitors them, which is not higher than an operating segment. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose.

As at December 31, 2016, the REIT performed its annual goodwill impairment test. Based on the impairment test performed, the REIT concludes that no goodwill impairment existed as at December 31, 2016.

(i) Principles of consolidation

The consolidated financial statements comprise the financial statements of the REIT and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, which is the date on which the REIT obtains control, and continue to be consolidated until the date that such control ceases. Control exists when the REIT has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

(ii) Functional and presentation currency

The functional and presentation currency of the REIT is the Canadian dollar. Assets and liabilities of subsidiaries and associates having a functional currency other than the Canadian dollar are translated at the rate of exchange at the consolidated statement of financial position dates. Revaluation gains and losses are recognized in other comprehensive income. Revenue and expenses are translated at average rates for the year.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting year, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the consolidated statement of financial position dates. Gains and losses on translation of monetary items are recognized in the consolidated statements of income, except for those related to monetary liabilities qualifying as hedges of the REIT's investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in other comprehensive income.

(iii) Investment properties

Investment properties include properties that are held principally by the REIT to earn rentals, for capital appreciation, or both. Investment properties acquired are recognized initially at cost, which includes all costs directly related to the acquisition of the properties such as legal fees, appraisal fees and land transfer taxes. Subsequent to initial recognition, investment properties are measured at fair value, with changes in fair value recognized in the consolidated statements of income and comprehensive income in the years in which they arise. Subsequent capital expenditures are charged to investment property only when it is probable that the future economic benefits of the expenditure will flow to the REIT and the cost can be measured reliably.

## 2. Summary of Significant Accounting Policies (continued)

(iv) Assets Held for Sale

Investment properties are transferred to assets held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the investment property must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such property, and its sale must be highly probable. Management must be committed to a plan to sell the asset and an active effort to locate a buyer and complete the plan must have been initiated. Furthermore, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value, with the sale expected to be consummated within one year from the date of classification as held for sale. Investment properties classified as assets held for sale are measured at fair value.

(v) Intangible assets

The intangible assets (note 11) relate to the REIT's rights and obligations that VHML and GHM have under their contracts with Vital Trust and GHC respectively. The intangible asset between VHML and Vital Trust has been measured at its fair value as at the effective date of the Internalization Transaction. The contract between GHM and GHC has also been measured at its fair value as at the date the REIT acquired 100% interest in GHM. As both contracts have an indefinite life and do not expire, the intangible assets are not being amortized. The intangible assets are assessed for impairment annually and whenever there is an indication that an intangible asset may be impaired.

(vi) Leases

A lease is classified as a finance lease if it results in a transfer of substantially all the risks and rewards incidental to ownership from the REIT to the lessee. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership to the lessee. All of the leases to which the REIT is the lessor have been determined to be operating leases.

(vii) Revenue recognition

Rental revenue from operating leases is recognized over the lease term on a straight-line basis. The difference between rental revenue recognized and cash flows is recorded as straight-line rent receivable or payable on the consolidated statements of financial position. Rental revenue includes rental income earned from tenants under lease agreements, operating costs and realty tax recoveries, parking income, and incidental income. Operating cost and realty tax recoveries are recognized in the year that recoverable costs are chargeable to tenants.

Other income includes management fees earned from the management contract for GHC as described in note 11. The REIT recognizes management fees to the extent those fees are earned from third-party interest in GHC.

Deferred revenue comprises amounts received in advance related to income from rents relating to future years.

## 2. Summary of Significant Accounting Policies (continued)

### (i) Financial Instruments

The REIT recognizes financial assets and financial liabilities when the REIT becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets and financial liabilities classified as at fair value through profit or loss ("FVTPL"), are measured at fair value plus transaction costs on initial recognition. Financial assets at FVTPL are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Measurement in subsequent years depends on the classification of the financial instrument:

*FVTPL*

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management, or if they are derivative assets. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of income (loss) and comprehensive income (loss).

The REIT has not designated any assets as FVTPL. Certain derivative financial instruments that are considered to be derivative assets are classified as FVTPL by definition.

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the REIT has the ability and the intent to hold until maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, its recoverable amount is determined and any impairment loss is recognized in the consolidated statements of income and comprehensive income. Objective evidence would include a significant or prolonged decline in the fair value of an investment below its original cost.

The REIT does not have any held-to-maturity investments.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated as such by management or not classified in any of the other categories. Available-for-sale financial assets are measured at fair value with changes recognized in other comprehensive income. Upon sale or impairment, the accumulated fair value adjustments recognized in other comprehensive income are recorded in the consolidated statements of income and comprehensive income. If there is objective evidence that an asset is impaired, its recoverable amount is determined and any impairment loss is recognized in the consolidated statements of income and comprehensive income. Objective evidence would include a significant or prolonged decline in the fair value of an asset below its original cost.

The REIT does not have any available-for-sale financial assets.

*Loans and receivables*

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method. If there is objective evidence that an asset is impaired, its recoverable amount is determined and any impairment loss is recognized in the consolidated statements of income and comprehensive income.

Cash, accounts receivable and the balances due from related parties are classified as loans and receivables. Due to the short-term nature of accounts receivable and due to the fact that the balances due from related parties are due on demand, the carrying amounts of these loans and receivables approximate fair values.

## 2. Summary of Significant Accounting Policies (continued)

(i) Financial Instruments (continued)

*Financial liabilities at FVTPL*

Financial liabilities are classified as FVTPL if they are designated as such by management, or they are derivative liabilities. Financial liabilities classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of income and comprehensive income.

The REIT has designated the Class B exchangeable units, convertible debentures, and DUP liability as FVTPL. Certain derivative financial instruments are considered to be derivative liabilities, and are classified as FVTPL by definition.

*Other financial liabilities*

Other financial liabilities are financial liabilities that are not classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The REIT's other financial liabilities include mortgages and loans payable, deferred consideration, accounts payable and accrued liabilities, and distributions payable.

The effective interest method is a method of calculating the amortized cost of an instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or disbursements (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount on initial recognition.

Due to their short-term nature, the carrying value of the deferred consideration, accounts payable and accrued liabilities, income taxes payable, and distributions payable approximates fair value.

(j) Other assets

Other assets include commodity taxes recoverable, acquisition costs and deposits, and prepaid expenses. Acquisition costs and deposits related to future asset acquisitions are capitalized when it is probable that the acquisition will be completed.

(k) DUP liability

The DUP units are exchangeable for Trust Units, which in turn are puttable financial instruments and classified as a liability under International Accounting Standard 32, Financial Instruments - Presentation ("IAS 32"). As such, the DUP units are classified as a liability. Management designated the DUP liability as FVTPL; the DUP liability is re-measured to fair value each reporting date with changes recorded in the consolidated statements of income and comprehensive income.

(l) Segmented reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

2. **Summary of Significant Accounting Policies (continued)**

(m) Derivative financial instruments

The REIT uses derivative financial instruments such as interest rate swaps and forward exchange contracts to manage risks from fluctuations in interest rates and foreign exchange rates.

Derivative financial instruments are initially recorded at fair value on the date a derivative contract is entered into and subsequently re-measured at fair value. Gains and losses arising from changes in fair value of a derivative are recognised as they arise in the profit and loss in the statement of comprehensive income unless the derivative is a hedging instrument in a qualifying hedge relationship, in which case the gains and losses are recognised in other comprehensive income.

The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on variable rate loans. These derivative financial instruments are not designated as hedging instruments. Gains or losses arising from the change in fair values of the interest rate swap contracts are recognized in the consolidated statements of income.

The REIT entered into a forward contract to purchase an additional GHC units on February 24, 2017 at a. The REIT determined that the forward contract was derivative financial instrument and has not designated it as a hedging instrument. Gains or losses arising from the change in fair values of the forward contact are recognized in the consolidated statements of income.

*Hedge Accounting*

The REIT, through its investment in Vital Healthcare Property Trust ("Vital Trust"), has entered into certain hedge relationships for hedges of net investments in foreign operations. Hedge relationships are formally documented at the inception of the hedge and this documentation identifies the hedged item, hedging instrument, risks that are being hedged, strategies for undertaking the hedge, and the way effectiveness will be assessed.

In the hedge of a net investment in a foreign operation, the portion of foreign exchange differences arising on the hedging instrument determined to be an effective hedge is recognised directly in other comprehensive income. Any ineffective portion is recognised directly in the profit and loss in the statement of comprehensive income. The REIT, through its investment in Vital Trust, uses derivative financial instruments and non-derivative financial instruments as hedging instruments of a net investment in a foreign operation. On disposal of the foreign operation, the cumulative value of such gains or losses recognised in other comprehensive income is reclassified to profit and loss in the statement of comprehensive income.

(n) Class B Exchangeable Units

The Class B exchangeable units of a subsidiary of the REIT are exchangeable into trust units at the option of the holder. The trust units of the REIT are puttable financial instruments (note 2(o)). The Class B exchangeable units therefore are classified as financial liabilities and have been elected to be measured at fair value through profit and loss each reporting period with any changes in fair value recognized in the consolidated statements of income and comprehensive income as finance costs. The distributions paid on the Class B exchangeable units are accounted for as finance costs.

(o) Trust units

The trust units meet the definition of a financial liability in accordance with IAS 32, as they are redeemable at the option of the holder. The trust units are considered to be puttable instruments because of the redemption feature of the trust units. There is a limited exemption to allow puttable instruments to be presented as equity provided certain criteria are met.

The trust units meet the criteria for this exemption, and accordingly are presented as equity in the consolidated financial statements. Trust units are recognized at the proceeds received, net of direct issue costs. The distributions on trust units are recorded as a reduction in unitholders' equity in the consolidated financial statements. Trust units are recognized at the proceeds received, net of direct issue costs. The distributions on trust units are recorded as a reduction in unitholders' equity.

## 2. Summary of Significant Accounting Policies (continued)

### (p) Income taxes

The REIT is a mutual fund trust and a real estate investment trust pursuant to the Income Tax Act (Canada). Under current tax legislation, a real estate investment trust is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders of the REIT ("Unitholders") each year. The REIT is a real estate investment trust if it meets the prescribed conditions under the Income Tax Act (Canada) relating to the nature of its assets and revenues (the "REIT Conditions"). The REIT has reviewed the REIT Conditions and has assessed their interpretation and application to the REIT's assets and revenue. The REIT intends to ensure that it will meet the REIT conditions and will make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes.

The REIT's subsidiaries are subject to income taxes as imposed by the jurisdictions in which they operate, in accordance with the relevant tax laws of such jurisdictions. The provision for income taxes for the year comprises current and deferred income tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates and laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future;
- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## 2. Summary of Significant Accounting Policies (continued)

(q) Investment in associates

Associates are all entities over which the REIT has significant influence but not control. The REIT's share of its associates' post acquisition net income (loss) is recognized in net income (loss), and its share of post-acquisition movements in other comprehensive income (loss) is recognized in other comprehensive income (loss). The cumulative post acquisition movements are adjusted against the carrying amount of the investments. When the REIT's share of losses in associates equals or exceeds its interest in the associates, the REIT does not recognize further losses. Unrealized gains and losses on transactions between the REIT and its associates are eliminated to the extent of the REIT's interest in the associates. Accounting policies of the REIT's associates are consistent with the policies adopted by the REIT.

The REIT's investment in associates includes the REIT's 19.8% interest in GHC. The REIT has determined it has significant influence, but not control, over the investment based on the presence of qualitative and quantitative indicators under IAS 28-Investments in associates and joint ventures. The REIT considered the following in making its assessment: i) the REIT holds an approximately 20% interest in GHC but does not have representation on the board of APN Funds Management Limited ("APN"), the "Responsible Entity" which acts as the board of directors of GHC ; ii) through its 100% control of GHM, the external asset manager for GHC, the REIT manages the day to day operations of GHC and has the ability to influence decisions, made by the Responsible Entity, surrounding material transactions; iii) the existence of material transactions between the REIT and GHC, including fees earned by GHM for providing GHC with operations management, investment management and administrative services. The REIT has accordingly accounted for its investments using the equity method of accounting. The investment in GHC has been initially recognized at cost on the date at which significant influence was obtained (see note 10).

Prior to the Internalization Transaction and Combination Transaction, the REIT's investment in associates represented the REIT's approximate 24% indirect interest in Vital Trust and an approximate 26% interest in NorthWest Healthcare Properties REIT ("NWHP REIT"). The REIT had determined that due to its approximately 24% interest in Vital Trust (and through the REIT's common external management arrangements with Vital Trust) and 26% interest in NWHP REIT, the REIT had significant influence over the investments and accordingly has accounted for its investments using the equity method of accounting. The investments in Vital Trust and NWHP REIT had been initially recognized at cost on the date at which significant influence was obtained.

(r) Convertible Debentures

The convertible debentures are convertible into trust units of the REIT. As the REIT's trust units are redeemable at the option of the holder and are therefore considered puttable instruments in accordance with IAS 32, the convertible debentures are considered a liability containing liability-classified embedded derivatives. The REIT has elected to classify and measure its convertible debentures as financial liabilities measured at FVTPL with the changes in fair value being recognized in the consolidated statements of income (loss) and comprehensive income (loss).

(s) Future accounting changes

*(i) IFRS 9, Financial Instruments ("IFRS 9")*

In July 2014, the IASB issued IFRS 9, Financial Instruments ("IFRS 9") replacing IAS 39, Financial Instruments - Recognition and Measurement. IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. The standard becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. Early adoption is permitted. The extent of the impact of adoption of the standard has not yet been determined.

## 2. Summary of Significant Accounting Policies (continued)

(s) Future accounting changes (continued)

*(ii) IFRS 15, Revenue from Contracts with Customers ("IFRS 15")*

IFRS 15 was issued in May 2014 and replaces IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue-Barter Transactions Involving Advertising Services. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 provides a single, principle based five-step model that will apply to all contracts with customers with limited exceptions. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The REIT intends to adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

*(iii) IAS 7, Statement of Cash Flows ("IAS 7")*

On January 7, 2016 the IASB issued Disclosure Initiative (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The REIT intends to adopt the amendments of IAS 7 in its financial statements for the annual period beginning on January 1, 2017.

*(iv) IAS 12, Income Taxes ("IAS 12")*

On January 19, 2016 the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The REIT does not expect the amendments to have a material impact on the financial statements.

*(v) IFRS 2, Share-based payment ("IFRS 2")*

On June 20, 2016, the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

*(iv) IFRS 16, Leases ("IFRS 16")*

IFRS 16 was issued on January 13, 2016. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. The REIT intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

## 3. Internalization Transaction

On January 28, 2015 (with an effective date of January 1, 2015) pursuant to the internalization agreement (the "Internalization Agreement") dated January 7, 2015 between the REIT and NWVP, the REIT indirectly acquired the asset management and property management affiliates of NWVP. The REIT also acquired from NWVP all of the rights and obligations relating to the management of Vital Trust. The internalized management functions acquired from NWVP met the definition of a business and therefore the transaction has been accounted for as a common control business combination following the guidance under IFRS 3 - Business Combinations.

As consideration for the Internalization Transaction, NWVP received the total amount that would be paid under the existing external management arrangements and fees earned by VHML, as external manager of Vital Trust, for the 12 months ending December 31, 2014, adjusted for the full year effect of acquisitions and committed capital. This amount was determined to be $6,588. In connection with the Internalization Transaction, the REIT issued (vested and unvested) deferred units under its deferred unit plan to new employees of the REIT having a value of approximately $8,079. Accordingly, NWVP issued to the REIT an offsetting $1,491 non-interest bearing promissory note, due on demand. The Internalization Transaction did not have a cash impact on the REIT.

The purchase equation is summarized as follows:

| | | |
|---|---|---|
| Vital Trust management rights (note 10) | $ | 46,757 |
| Promissory note | | 1,491 |
| Investment in Vital Trust (note 9(i)) | | 575 |
| Furniture and office equipment | | 376 |
| Deferred tax asset | | 45 |
| Working capital [(1)] | | 468 |
| Due to related party (note 11) | | (468) |
| Deferred unit plan liability (note 20) | | (3,596) |
| | $ | 45,648 |
| Consideration comprised of: | | |
| Contribution of capital | $ | 45,648 |

[(1)] As per the Internalization Agreement, the purchase price was adjusted to the extent that the working capital (defined as current assets less current liabilities) of the acquired management entities is greater or less than nil.

During the year ended December 31, 2016, the REIT incurred transaction costs of $nil (December 31, 2015 – $862) related to the Internalization Transaction. These costs have been expensed as incurred in the statement of income (loss) and comprehensive income (loss).

In connection with the Internalization Transaction, NWVP provided NWI with an agreement which committed NWVP, by means of a capital contribution, to support the impact of the internalization from January 1, 2015 to March 31, 2015. For the year ended December 31, 2016, NWI recorded a capital contribution of $nil (2015 - $1,385) to effect the internalization support for the year.

## 4. Acquisition of Control over Vital Trust

On January 1, 2015, in connection with the Internalization Transaction (note 3), 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, it was determined that the REIT obtained control (as defined in IFRS 10 - Consolidated Financial Statements) with respect to its investment in Vital Trust. Accordingly, the acquisition of control of Vital Trust is accounted for as a business combination in accordance with IFRS 3 - Business Combinations. The acquisition of control was treated as a step acquisition by the REIT and effective January 1, 2015, the REIT accounts for its investment in Vital Trust as a subsidiary and consolidates the financial position and results of Vital Trust. The REIT has elected to measure the non-controlling interest at its proportionate interest in the recognized amount of the identifiable net assets of Vital Trust at the acquisition date.

The purchase price equation based on the aggregate fair value of the assets acquired and liabilities assumed on the acquisition date, January 1, 2015, is as follows:

| | | |
|---|---|---|
| Investment properties | $ | 563,212 |
| Derivative financial instruments | | 6,722 |
| Other assets | | 438 |
| Cash | | 1,055 |
| Term loans | | (195,873) |
| Derivative financial instruments | | (12,958) |
| Deferred tax | | (29,653) |
| Accounts payable and accrued liabilities | | (5,602) |
| Income taxes payable | | (8,822) |
| Net assets acquired | $ | 318,519 |
| Non-controlling interest | $ | 241,912 |
| Investment in associate prior to acquisition of control (note 9(i)) | | 118,278 |
| | $ | 360,190 |
| Goodwill | $ | 41,671 |

## 5. Combination Transaction

On May 15, 2015, the REIT completed a Plan of Arrangement, whereby the REIT acquired, among other things, all of the assets of NWI (the "Combination Transaction"). Under the Plan of Arrangement, unitholders of NWI received 0.208 of a REIT unit, for each NWI trust unit held, on a tax deferred basis. All outstanding NWI deferred units were exchanged on the same basis for REIT deferred units. In addition, NWI's exchangeable units were converted into a new class of limited partnership units using the same exchange ratio of 0.208, which are redeemable, at the option of the holder, for REIT units. Upon closing, the former unitholders of NWI owned approximately 52% of the issued and outstanding units of the combined entity. As a result of this and other qualitative considerations, NWI was identified as the accounting acquirer.

The REIT met the definition of a business and therefore the transaction has been accounted for as a business combination. The purchase consideration transferred by NWI is an amount equal to the fair value of the REIT's outstanding units deemed to be issued to outside REIT unitholders prior to the Combination Transaction and the carrying value of the existing 25.42% interest NWI had in the REIT.

As the fair value of the consideration transferred was less than the fair value of the REIT, a gain was recognized on the business combination.

The first component of the purchase consideration of the REIT's net assets acquired by NWI was measured by calculating the number of units that NWI would have had to issue in order to provide the same percentage ownership of the combined entity to the unitholders of the REIT as they would have in the combined entity as a result of the reverse takeover. The fair value of the units used in measuring the purchase price of the business combination by NWI was based on the closing price of the REIT's units on the date just prior to the date of completion of the transaction.

## 5. Combination Transaction (continued)

The second component of the purchase consideration consists of NWI's investment in the REIT prior to the Combination Transaction. Prior to the Combination Transaction, NWI held a 25.42% investment in the REIT, which consisted of 4,345,900 REIT units and 7,551,546 Class B limited partnership units of NHP Holdings Limited Partnership ("NHP LP"), which were exchangeable for REIT units. NWI accounted for its investment in the REIT as an investment in associate using the equity method.

The deemed consideration for the acquisition of the REIT by NWI consists of:

- $302,197 representing the fair value of the outstanding REIT units not owned by NWI immediately before the Combination Transaction, valued at the closing price of the REIT's units of $8.65 per unit on the date prior to the date of the closing of the Combination Transaction; and

- Previously acquired 25.42% interest of the REIT owned by NWI having a carrying value of $137,208.

The purchase equation is summarized as follows:

| | | |
|---|---|---|
| Investment properties | $ | 1,281,174 |
| Due from NWI | | 58,991 |
| Accounts receivable | | 3,229 |
| Other assets | | 3,290 |
| Cash and cash equivalents | | 3,217 |
| Mortgages payable | | (769,615) |
| Convertible debentures | | (41,244) |
| Derivative financial instruments | | (1,863) |
| Accounts payable and accrued liabilities | | (26,047) |
| Distributions payable | | (2,704) |
| | $ | 508,428 |
| Consideration comprised of: | | |
| Deemed consideration issued to outside REIT unitholders | $ | 302,197 |
| 25.42% interest in the REIT held by NWI | | 137,208 |
| | $ | 439,405 |
| Net gain on business combination | $ | 69,023 |

The fair value of the interest of the REIT owned by NWI on the date of acquisition was $128,641, therefore, included in the gain on business combination is a loss of $8,567 related to the revaluation of the interest of the REIT held by NWI immediately prior to the Combination Transaction.

During the year ended December 31, 2016, the REIT incurred transaction costs of $nil (December 31, 2015 - $9,130) related to the Combination Transaction. These costs have been expensed as incurred in the statement of income (loss) and comprehensive income (loss).

## 6. Acquisition of Generation Healthcare Management

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 preliminary 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 11) | $ | 55,969 |
| Performance fee receivable (note 13) | | 8,343 |
| Transition services (note 11) | | 504 |
| Working capital | | (85) |
| Deferred income tax liability | | (2,503) |
| Net assets acquired | $ | 62,228 |
| Consideration comprised of: | | |
| Cash | $ | 56,387 |
| Deferred consideration | | 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.

For the year ended December 31, 2016, transaction costs of $1,299 related to acquisition of GHM have been expensed in the statement of comprehensive income (loss).

## 7. Property Acquisitions

(a) 2016 Property Acquisitions

During the year ended December 31, 2016, the REIT completed the acquisition of a two-property medical office complex in Berlin, Germany (the “Mehrower Allee complex”) for a purchase price of $19,687 (€13,519) before transaction costs of $3,518 (€ 2,441). The REIT financed the purchase through a new first mortgage of $16,203 (€11,200) from a German lending institution, a holdback of $22 (€ 15) and cash on hand.

The REIT also completed the acquisition of two hospital properties in Brazil. Hospital Ifor, located in Sao Paulo, Brazil, was acquired for $26,323 (R$65,757). Hospital Ifor has been leased for an initial term of 25 years, on a fully net basis, to Rede D’Or, Brazil's largest private hospital operator and the REIT’s largest tenant. Hospital Santa Helena, a general hospital, located in Brasilia, Brazil was acquired for $129,288 (R$319,308) and is also entirely occupied by Rede D'Or, who has entered into a new, fully net, 25-year lease.

Vital Trust acquired two small parcels of land in Australia at Sportsmed Private Hospital in Adelaide for $5,430 (A$5,480) and will undertake construction of a stand-alone medical consulting building at one of the properties. Vital Trust also completed the acquisition of four residential aged care assets in Australia for $43,765 (A$44,172). The residential aged care assets are leased for 20 years to the Hall & Prior Health and Aged Care Group, one of Australia’s leading private residential aged care operators. Additionally, Vital Trust completed the acquisition of Mons Road Medical Centre, a modern, multi-tenanted, four-level medical office building in Westmead, Australia for $32,544 (A$32,922). Vital Trust completed the acquisition of Ekera Medical Centre, multi-tenanted four level medical office building located at Box Hill in Melbourne, Australia for $27,581 (A$27,562). Vital has a controlling interest in Ekera Medical Centre with a small number of individual strata units remaining in the private ownership of a select group of consultants, surgeons and doctors who practice from the units.

## 7. Property Acquisitions

Also acquired were five strategic properties in Australia, situated adjacent to existing properties for future development.

In New Zealand, Vital Trust completed the acquisition of Boulcott Private Hospital located in Lower Hutt for $30,345 (NZ$32,217). Boulcott Private Hospital property is leased to Australian Securities Exchange (“ASX”) listed Pulse Health Group on a 22-year lease.

(b) 2015 Property Acquisitions

On April 1, 2015, the REIT completed the acquisition of a parking lot in Berlin, Germany ("Rubenstrasse") for a gross purchase price of $1,052 including transaction costs of $58. The REIT's investment was funded from cash on hand.

On July 22, 2015, Vital Trust completed the acquisition of a parcel of vacant land in Toronto, New South Wales, Australia ("Toronto") for a gross purchase price of $302 including transaction costs

On November 25, 2015, Vital Trust also completed the acquisition of a 29,000 square foot property at 27 Hopkins Street, Merewether, Newcastle in NSW. 27 Hopkins Street was acquired for of $7,842 (NZ$8,801) including transaction costs.

On December 4, 2015 Vital Trust settled the acquisition of 6 Lingard Street, Merewether, Newcastle in NSW, opposite Lingard Private Hospital for $3,151 (NZ$3,536).

## 8. Property Disposal

(a) 2016 Property Disposals

During the year ended December 31, 2016, the REIT completed the sale of all assets it had classified as held for sale as at December 31, 2015. The REIT sold 13 investment properties 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 located on 30 Merton Street. The sale generated gross proceeds of $21,225. There were no mortgages associated to the property.

For the year ended December 31, 2016, the REIT recognized a net loss on disposal of investment properties of $2,807.

(b) 2015 Property Disposals

During the year ended December 31, 2015, the REIT completed the sale of four investment properties located in Canada for gross proceeds of $26,426. As part of the transactions, $11,244 of mortgage debt associated with the investment properties was repaid and $4,938 was assumed by purchasers.

## 9. Investment Properties

| As at | | **December 31, 2016** | | December 31, 2015 |
|---|---|---|---|---|
| Balance, beginning of period | **$** | **2,491,835** | $ | 524,230 |
| Acquisition of investment properties (note 7) | | **328,411** | | 12,347 |
| Disposition of investment properties (note 8) | | **(21,225)** | | - |
| Acquired on acquisition of control | | **-** | | 563,212 |
| Acquired on business combination (note 3) | | **-** | | 1,281,174 |
| Additions to investment properties | | **67,585** | | 80,168 |
| Increase in straight line rents | | **1,937** | | 1,763 |
| Reclassified as assets held for sale (note 15) | | **-** | | (103,036) |
| Reclassification of deferred revenue | | **-** | | (11,816) |
| Amortization of deferred revenue | | **1,154** | | 1,134 |
| Fair value gain (loss) | | **143,368** | | 169,477 |
| Foreign currency translation | | **27,289** | | (26,818) |
| **Balance, end of period** | **$** | **3,040,354** | $ | 2,491,835 |

Investment properties are carried at fair value. The fair value of the investment properties at December 31, 2016 and December 31, 2015 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, and property level capital expenditures and net operating income.

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

| | **As at December 31, 2016** | | | |
|---|---|---|---|---|
| | Canada | Brazil | Germany | Australasia |
| Discount rate - range | 5.8%-8.8% | 9.5%-10.0% | 5.2%-7.3% | 7.2%-9.5% |
| Discount rate - weighted average | 7.1% | 9.5% | 6.2% | 8.0% |
| Terminal capitalization rate - range | 5.5%-8.0% | 9.0%-10.0% | 5.5%-8.4% | 6.5%-8.9% |
| Terminal capitalization rate - weighted average | 6.5% | 9.0% | 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% |

## 9. Investment Properties (continued)

| | As at December 31, 2015 | | | |
|---|---|---|---|---|
| | Canada | Brazil | Germany | Australasia |
| Discount rate - range | 6.0% - 8.8% | 9.5% | 5.8% - 6.8% | 6.9% - 11.4% |
| Discount rate - weighted average | 7.5% | 9.5% | 6.2% | 8.3% |
| Terminal capitalization rate - range | 5.8% - 8.0% | 9.0% | 6.3% - 7.5% | 6.6% - 10.5% |
| Terminal capitalization rate - weighted average | 6.9% | 9.0% | 6.7% | 7.5% |
| Implied capitalization rate - range | 5.3% - 9.5% | 9.2% | 5.2% - 7.5% | 6.8% - 10.8% |
| Implied capitalization - rate weighted average | 6.6% | 9.2% | 6.4% | 7.6% |

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 $105,246 and a 0.25% decrease would increase fair value by $112,057.

As at December 31, 2016, investment properties with fair value of $227,694 (December 31, 2015 – nil) were valued by external valuation professionals with recognized and relevant professional qualifications. During the year ended December 31, 2016, properties with an aggregate fair value of $1,417,961 (December 31, 2015- $1,430,725) were valued by external appraisals.

Future minimum contractual rent (excluding service charges) under operating leases is as follows:

| | December 31, 2016 |
|---|---|
| Less than 1 year | $ 178,895 |
| 1 - 5 years | $ 654,554 |
| Longer than 5 years | $ 1,913,577 |

## 10. Investment in Associates

| | GHC (i) | Vital Trust (ii) | NWHP REIT (ii) | Total |
|---|---|---|---|---|
| Balance, beginning of period | $ - | $ 117,703 | $ 138,227 | $ 255,930 |
| Assumption of units on business combination (note 3) | - | 575 | - | 575 |
| Acquisition of control | - | (118,278) | - | (118,278) |
| Distributions | - | - | (3,172) | (3,172) |
| Share of profits for the period | - | - | 2,153 | 2,153 |
| Business combination | - | - | (137,208) | (137,208) |
| **As at December 31, 2015** | $ - | $ - | $ - | $ - |
| Acquisition of investment in GHC | 92,145 | - | - | 92,145 |
| Distributions | (1,898) | - | - | (1,898) |
| Share of profits for the period | 8,679 | - | - | 8,679 |
| Eliminations | (370) | - | - | (370) |
| Foreign Exchange | (3,205) | - | - | (3,205) |
| **As at December 31, 2016** | $ 95,351 | $ - | $ - | $ 95,351 |

## 10. Investment in Associates (continued)

*(i) Investment in Generation Healthcare REIT*

May 2016, the REIT had purchased 835,295 units of GHC from the open market for $1,750 (A$1,843), representing 0.38% ownership interest in GHC. On the date at which 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 equity method accounted investment.

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.

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 (see note 13). The units increased the REIT's investment in GHC and accordingly are included in the cost of the equity accounted investment.

As at December 31, 2016, included in the investment in GHC are transaction costs of $1,697.

The closing price on the Australian Securities Exchange of GHC's units as at December 31, 2016 was $1.86 (A$1.92). As at December 31, 2016, the REIT had exposure in total to 43,475,078 GHC units.

*(i) Investment in Vital Healthcare Property Trust and NorthWest Healthcare Properties REIT*

Prior to the Internalization Transaction, the REIT's investment in Vital Trust was accounted for using the equity method. Upon internalization, the REIT acquired all of the rights and obligations relating to the management of Vital Trust, and therefore it was deemed, among other factors, that the REIT obtained control with respect to this investment. As of January 1, 2015, the REIT accounts for its investment in Vital Trust as a subsidiary and consolidates the financial position and results of Vital Trust.

Prior to the Combination Transaction (see note 3), NWI's investment in the REIT was accounted for using the equity method. Upon combination on May 15, 2015, the REIT's financial results and financial position are consolidated with NWI.

A summary of each associates aggregate assets and liabilities, and net income (loss) and comprehensive income (loss) for the period was as follows:

## 10. Investment in Associates (continued)

| | | GHC | Vital Trust | NWHP REIT | | Total |
|---|---|---|---|---|---|---|
| **As at December 31, 2016** | | | | | | |
| Total assets | $ | 601,733 | - | - | $ | **601,733** |
| Total liabilities | | 236,876 | - | - | | **236,876** |
| Net assets | $ | 364,857 | - | - | $ | **364,857** |
| Less: Non-controlling interest | | (37,867) | - | - | | **(37,867)** |
| | $ | 326,990 | - | - | $ | **326,990** |
| Ownership Interest | | 19.8% | n/a | n/a | | |
| REIT's share of net assets | $ | 64,816 | n/a | n/a | $ | **64,816** |
| Acquisition costs | | 30,668 | - | - | | **30,668** |
| Eliminations | | (133) | - | - | | **(133)** |
| Investment in associate | $ | 95,351 | n/a | n/a | $ | **95,351** |

As at December 31, 2015, the REIT had nil investments in associates for which it accounted by applying equity method.

| **Year ended December 31, 2016** | | **GHC** | **Vital Trust** | **NWHP REIT** | | **Total** |
|---|---|---|---|---|---|---|
| Revenue from investment properties | **$** | **19,022** | **-** | **-** | **$** | **19,022** |
| Property operating costs | | **3,015** | **-** | **-** | | **3,015** |
| **Net Property Operating Income** | | **16,007** | **-** | **-** | | **16,007** |
| **Interest Income** | | **1,924** | **-** | **-** | | **1,924** |
| **Expenses** | | | | | | |
| Mortgage and loan interest expense | | **(3,799)** | **-** | **-** | | **(3,799)** |
| General and administrative expenses | | **(1,758)** | **-** | **-** | | **(1,758)** |
| Other | | **164** | **-** | **-** | | **164** |
| Fair value adjustments | | **36,368** | **-** | **-** | | **36,368** |
| **Net income (loss)** | **$** | **48,906** | **-** | **-** | **$** | **48,906** |
| **Non-controlling interest** | | **(5,226)** | **-** | **-** | | **(5,226)** |
| **Net profit attributable to unitholders** | | **43,680** | **-** | **-** | | **43,680** |
| **Weighted average ownership** | | **19.0%** | **n/a** | **n/a** | | |
| **REIT's share of profits** | **$** | **8,318** | **-** | **-** | **$** | **8,318** |
| Intercompany amounts | | **237** | **-** | **-** | | **237** |
| Changes to associate's equity | | **124** | **-** | **-** | | **124** |
| **REIT's adjusted share of profits** | **$** | **8,679** | **-** | **-** | **$** | **8,679** |

## 10. Investment in Associates (continued)

| Year ended December 31, 2015 | GHC | Vital Trust | NWHP REIT | Total |
|---|---|---|---|---|
| Revenue from investment properties | $ - | $ - | $ 56,389 | $ 56,389 |
| Property operating costs | - | - | 26,900 | 26,900 |
| **Net Property Operating Income** | - | - | 29,489 | 29,489 |
| **Interest Income** | - | - | 37 | 37 |
| **Expenses** | | | | |
| Mortgage and loan interest expense | - | - | (11,747) | (11,747) |
| General and administrative expenses | - | - | (1,181) | (1,181) |
| Finance costs | - | - | 2,385 | 2,385 |
| Fair value adjustments | - | - | (6,527) | (6,527) |
| Transaction costs | - | - | (3,992) | (3,992) |
| **Net income (loss)** | $ - | $ - | $ 8,464 | $ 8,464 |
| **Ownership interest** | n/a | n/a | 25.4% | |
| **REIT's share of net income (loss)** | $ - | $ - | $ 2,153 | $ 2,153 |

## 11. Intangible Asset

The REIT's intangible asset relates to the management contracts for Vital Trust and GHC.

The REIT assumed the management rights over GHC as a result of acquiring 100% of GHM (note 6). The management rights entitle the REIT to management and performance fees paid by GHC. In conjunction with the Internalization Transaction, the REIT acquired 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").

For the year-ended December 31, 2016, management fee income of $2,102 was recorded related to the GHC management contact.

| As at | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Balance, beginning of period | **$ 46,757** | $ 12,490 |
| Settlement of existing arrangement[1] | **-** | (12,490) |
| Acquisition of Vital Trust management rights | **-** | 46,757 |
| GHC management rights (note 6) | **55,969** | - |
| GHM transition services (note 6) | **504** | - |
| Amortization of GHM transition services | **(260)** | - |
| Foreign currency translation | **226** | - |
| | **$ 103,196** | $ 46,757 |

[1] The settlement of NWI's Vital Management Fee Participation Agreement in conjunction with the Internatization Transaction was recorded as a capital contribution transaction in the condensed consolidated interim statement of changes in unitholder's equity.

## 12. Due from Related Parties

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

| As at | | **December 31, 2016** | | December 31, 2015 |
|---|---|---|---|---|
| Interest rate subsidy (i) | **$** | **-** | $ | 669 |
| Receivable from NWVP (ii) | | **-** | | 1,385 |
| Other (iii) | | **315** | | (318) |
| | **$** | **315** | $ | 1,736 |

*(i) Interest rate subsidy*

NWVP committed, by means of a capital contribution, that the effective interest rate payable by the REIT on assumed margin facilities shall not exceed (a) 4.25% for the balance of 2013, and (b) 6.00% for the first three months of 2014. At the date of acquisition the present value of the interest rate subsidy was $1,874 and had been recorded as a receivable from NWVP, and subsequent cash payments by NWVP would have been recorded as a reduction of the receivable balance.

During 2014, NWVP and the REIT agreed to extend and amend the interest rate subsidy, with an effective date of January 1, 2014, such that the effective interest rate payable by the REIT on the assumed margin facilities shall not exceed 4.25% up to December 31, 2014.

NWVP and the REIT agreed to further extend and amend the interest rate subsidy, with an effective date of January 1, 2015, such that the effective interest rate payable by the REIT on the assumed margin facilities shall not exceed 4.25% up to March 31, 2015. For the year ended December, 2016 the interest rate subsidy was $nil (December 31, 2015 - $669).The interest rate subsidy has been recorded as a capital contribution on the consolidated statement of unitholders' equity.

In connection with the Combination Transaction the margin facilities related to the REIT’s investment in NWHP REIT were repaid in full and cancelled.

*(ii) Internalization contribution*

As a result of costs incurred by the REIT following completion of the Internalization Transaction (note 3), NWVP committed to make a capital contribution to the REIT. For the year ended December 31, 2016, the REIT recorded a capital contribution of $nil (December 31, 2015 – $1,385). The capital contribution is recorded on the consolidated statement of unitholders' equity.

*(iii) Other*

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. Separately, included in accounts payable and accrued liabilities on the consolidated balance sheet is a non-interest bearing current liability owing to NWVP as at December 31 2016 of $45 (December 31, 2015 – $nil).

## 13. Other Assets

| As at | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Acquisition and financing costs | $ 3,936 | $ 6,902 |
| Prepaid expenses and deposits | 5,996 | 2,093 |
| Furniture and office equipment | 1,556 | 1,149 |
| Mortgage escrow | - | 126 |
| Performance fee receivable (note 6) | 7,178 | - |
| Other | 959 | 633 |
| | $ 19,625 | $ 10,903 |

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

The performance fee receivable represents performance fee owed and unpaid to GHM by GHC at the time of the REIT's acquisition of GHM (note 6). The performance fee is paid semi-annually, and is subject to an annual cap on fees (base management fee and performance fee) paid to GHM of 1.5% of GHC's monthly average gross assets, with amounts in excess of the cap being rolled forward to future periods and payable subject to GHC's total return for that period being positive and available room under the fee cap. Subsequent to the closing of the GHM acquisition, the REIT collected $90 of the performance fee receivable in GHC Units (see note 10). As at December 31, 2016, the outstanding balance was recorded at its fair value of $7,178 (December 31, 2015 – $nil).

Included in prepaid expenses and deposits at December 31, 2016 is $1,582 (December 31, 2015 – nil) of below market rent asset related to leaseback of a mid-town Toronto, Canada parking garage located on 30 Merton Street (see note 8). The purchaser is seeking the necessary approvals for a large mixed-use development which will include, in addition to a large residential component, a segregated underground commercial parking garage which the REIT will repurchase at construction cost following completion. The REIT has leased and will continue to operate the existing parking garage until the redevelopment commences.

## 14. Cash and Restricted Cash

| As at | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Cash | $ 19,955 | $ 14,835 |
| Restricted Cash | 296 | 561 |
| | $ 20,251 | $ 15,396 |

Restricted cash represents cash held in the REIT's designated bank accounts pledged as collateral for the Brazil term loans (note 16)

## 15. Assets Held for Sale

As at December 31, 2016, there are no properties classified as held for sale (December 31, 2015 – 13 properties with fair value of $78,194). Liabilities associated with these assets at December 31, 2016 are $nil (December 31, 2015 - $52,674), representing mortgages secured by the investment properties. During the year ended December 31, 2016, the REIT recognized a fair value loss of $7,002 related to the assets held for sale (December 31, 2015 – $793)

## 16. Mortgages and Loans Payable

| As at | | December 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Mortgage payable[1] (i) | **$** | **771,869** | $ | 761,100 |
| Australasian secured financing[2] (ii) | | **118,000** | | 48,717 |
| Term loans and securitizations[3] (iv) | | **389,538** | | 323,437 |
| Acquisition facility[4] (iii) | | **17,456** | | 23,492 |
| Secured floating revolving line of credit[5] (v) | | **68,813** | | 96,247 |
| Total | **$** | **1,365,676** | $ | 1,252,993 |
| Less: Current portion | | **189,136** | | 140,395 |
| **Non-current debt** | **$** | **1,176,540** | $ | 1,112,598 |

[1] Net of financing costs of $2,998 (December 31, 2015 - $2,924)

[2] Net of financing costs of $719 (December 31, 2015 - $122)

[3] Net of financing costs of $10,836 (December 31, 2015 - $3,228)

[4] Net of financing costs of $544 (December 31, 2015 - $508)

[5] Net of financing costs of $187 (December 31, 2015 - $253)

(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 $1,246,150 at December 31, 2016, and are repayable as follows:

| | Scheduled principal payments | Debt maturing during the year | Total mortgages payable |
|---|---|---|---|
| 2017 | $ 19,781 | $ 89,254 | $ 109,035 |
| 2018 | 19,762 | 88,895 | 108,657 |
| 2019 | 17,312 | 62,988 | 80,300 |
| 2020 | 15,995 | 70,068 | 86,063 |
| 2021 | 10,629 | 168,166 | 178,795 |
| 2022 | 7,341 | 73,353 | 80,694 |
| 2023 | 4,144 | 57,931 | 62,075 |
| 2024 | 2,326 | 26,264 | 28,590 |
| 2025 and thereafter | 2,753 | 26,609 | 29,362 |
| Face value | $ 100,043 | $ 663,528 | $ 763,571 |
| Mark-to-market adjustment | | | 11,296 |
| Unamortized financing costs | | | (2,998) |
| Carrying amount | | | $ 771,869 |

(a) 2016 Mortgages and Loans Financing Activities

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.

## 16. Mortgages and Loans Payable (continued)

(b) 2015 Mortgages and Loan Financing Activities

During the year-ended December 31, 2015, the REIT completed the refinancing of mortgages secured against five of the REIT's properties located in Berlin and Fulda, Germany. The refinancing replaced the previous mortgages with an outstanding balance of $49,086 (€32,209), weighted average interest rate of 2.27% and weighted average term to maturity of 2.42 years. The new financing represents five first mortgages totaling $53,121 (€34,857), bearing interest rates ranging from 1.42% to 2.11% (weighted average interest rate of 1.65%) and terms ranging from 5-10 years representing a weighted average term of 6.67 years.

As at December 31, 2016, mortgaged related to German investment properties had a balance of $92,838 (€65,596) (December 31, 2015 - $84,691 (€55,990)). Mortgages related to investment properties located in Canada had balance of $670,734 as at December 31, 2016 (December 31, 2015 - $714,746).

Canadian and German mortgages totaling $125,631 (December 31, 2015 – $80,179) have interest rates fixed through interest rate swap contracts with an equivalent notional value, maturing between 2019 and 2023 (see note 20).

(ii) Australasian Secured Financing

On July 15, 2016, the REIT completed new financing, representing a margin facility secured by 103,099,451 units Vital Trust and 43,427,736 units of GHC held by the REIT (the “Australasian Secured Financing”). The financing is a combined New Zealand Dollar and Australian Dollar facility and bears an interest rate equal to the one-month bank bill reference rate of Australia or New Zealand, where applicable, plus 325 to 500 basis points. The facility has a term of two years expiring July 15, 2018.

The Australasian Secured Financing allows a maximum loan-to-fair market value of the Vital Trust units and GHC units pledged of 45% and if such margin is exceeded the REIT is required to provide additional security or reduce the loan.

The net proceeds from the Australasian Secured Financing were partially used to repay the REIT’s two Vital Trust margin facilities, which pledged 81,659,865 (December 31, 2015 - 81,659,865) units of Vital Trust held by the REIT totaling $47,383 (NZ$51,447). The REIT closed out the related interest rate swap with a notional value of $4,329 (NZ $4,700) on July 15, 2016, for a nominal cost.

As at December 31, 2016, the principal balance outstanding on the Australasian Secured Financing with respect to the REIT's investment in Vital Trust and GHC was $118,719 (NZ$90,343 and A$35,541) (December 31, 2015 - $48,839 (NZ$51,447)). Subsequent to December 31, 2016, the REIT contributed approximately $35,017 (A$35,000) as a cash collateral towards the Australasian Secured Financing that can be withdrawn by the REIT at any time (see note 33).

Immediately prior to the Combination Transaction (note 5), NWI's margin facilities secured by units of the REIT were repaid in full and cancelled.

(iii) Acquisition Facility

On December 16, 2016, the REIT renegotiated terms of its acquisition facility, increasing the facility from $24,000 to $32,000 and extended the maturity date to December 31, 2018. As at December 31, 2016, the REIT had balance outstanding on the acquisition facility of $18,000 (December 31, 2015 - $24,000).

## 16. Mortgages and Loans Payable (continued)

(iv) Term Loans and securitization financings

*(a) Brazil term loans and long-term securitization financings*

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 fix the interest rate to 10.30% (December 31, 2015 - 10.30%). The term loans were repaid with net proceeds from the issuance of Series NWH.DB.F Debentures (see note 18). As at December 31, 2016, the REIT has no term loans in Brazil and as a result has a principal balance on Brazil terms loans of $nil (December 31, 2015 - $56,058).

In May 2016, the REIT completed a financing with a term of 10 years in respect of its Hospital e Maternidade Brasil asset ("HMB"). The financing, representing the securitization of 85% of future rents during a ten year term, generated a principal balance of $70,939 (R$191,315) (the "HMB Securitization Financing"). The HMB Securitization Financing bears an interest rate of 8.28% per year plus annual IPCA adjustments to the principal balance. On August 31, 2016, the REIT completed the securitization of an additional 15% of future rents generating proceeds of $12,287 (R$33,135) after financing costs. The incremental HMB Securitization Financing with a term of 10 years bears an interest rate of 9.09% plus annual IPCA adjustments to the principal balance. During the year ended December 31, 2016, the REIT paid financing fees of $5,481 (R$12,288 and CAD$937) relating to the HMB Securitization Financing.

In December 2016, the REIT completed another securitization financing with a term of 10 years with respect to Caxias Hospital ("Caxias") asset in Brazil. The financing securitized approximately 97.5% of future rents for a ten year term, generated a principal balance of $64,517 (R$151,448) (the "Caxias Securitization Financing"). During the year ended December 31, 2016, the REIT paid financing fees of $4,015 (R$10,519) relating to the Caxias Securitization Financing. The Caxias Securitization Financing bears an interest rate of 7.0363% per year plus annual IPCA adjustments to the principal balance.

For the year ended December 31, 2016, the REIT recorded IPCA related accretion expense of $8,331 with respect to the term loans and securitization financings.

*(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 $412,000 (A$425,000) multi-currency facility is split between Tranche A: approximately $121,000 (A$125,000) and Tranche B: approximately $97,000 (A$100,000) which are due to expire on March 31, 2019, and Tranche C: approximately $97,000 (A$100,000), Tranche D: approximately $97,000 (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 December 31, 2016, Vital Trust had borrowings on the term loan facilities totalling $243,341 (December 31, 2015 - $270,608).

Borrowings are secured by a security trust deed dated April 1, 2003 and as amended and restated on 29 November 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.

16. **Mortgages and Loans Payable (continued)**

(v) Secured Floating Rate Revolving Credit Facility

In March 2016, the REIT negotiated terms of its revolving credit facility, increasing the facility from $75,000 to $80,000 (both including a $5,000 letter of credit facility) expiring November 2, 2017. The REIT also has an option to expand the facility to $100,000 and an option to extend for a further one year period, each subject to terms and conditions satisfactory to the lenders. 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 facilities are secured by certain Canadian investment properties, with a carrying value of $122,285 and the terms of a general security agreement.

On December 21, 2015, the REIT amended and expanded the facility, adding a short-term tranche of $25,000 at the same terms as the existing facility except it matured on March 31, 2016. On March 10, 2016, the REIT extended the term of the remaining balance of the short-term tranche to September 30, 2016. The

REIT repaid in full the outstanding balance of the short-term tranche on April 20, 2016 and cancelled the short-term tranche component of the credit facility.

A summary of the maturity and effective interest rates relating to the mortgages and loans payable outstanding at December 31, 2016 are as follows:

| | Maturity | Weighted Average Interest Rate | | Carrying Value |
|---|---|---|---|---|
| Fixed rate | | | | |
| Mortgage debt | April 2017 - January 2029 | 3.58% | $ | **727,728** |
| Term loans and securitizations | March 2019 - December 2026 | 5.91% | | **389,538** |
| Total fixed rate debt | | | $ | **1,117,266** |
| Variable Rate | | | | |
| Mortgage debt | June 2017 - August 2017 | 5.67% | $ | **44,141** |
| Australasian secured financing | July 2018 | 5.86% | | **118,000** |
| Acquisition facility | December 2018 | 8.20% | | **17,456** |
| Secured floating revolving line of credit | November 2017 | 3.01% | | **68,813** |
| Total variable rate debt | | | $ | **248,410** |
| **Total debt** | | | **$** | **1,365,676** |

As at December 31, 2016, the scheduled principal repayments and debt maturities are as follows:

| | Mortgage Debt | Margin Facilities | Term Loans | Acquisition Facility | Credit Facility | Total |
|---|---|---|---|---|---|---|
| 2017 | $ 109,035 | $ - | $ 11,100 | $ - | $ 69,000 | $ 189,135 |
| 2018 | 108,657 | 118,718 | 12,371 | 18,000 | - | 257,746 |
| 2019 | 80,300 | 1 | 207,019 | - | - | 287,320 |
| 2020 | 86,063 | - | 64,056 | - | - | 150,119 |
| 2021 | 178,795 | - | 15,524 | - | - | 194,319 |
| 2022 & thereafter | 200,721 | - | 90,304 | - | - | 291,025 |
| | $ 763,571 | $ 118,719 | $ 400,374 | $ 18,000 | $ 69,000 | $ 1,369,664 |
| Financing costs | (2,998) | (719) | (10,836) | (544) | (187) | (15,284) |
| Mark-to-market adjustment | 11,296 | - | - | - | - | 11,296 |
| | $ 771,869 | $ 118,000 | $ 389,538 | $ 17,456 | $ 68,813 | $ 1,365,676 |

## 17. Deferred Consideration

The following table summarizes the deferred consideration payable:

| As at | | **December 31, 2016** | | December 31, 2015 |
|---|---|---|---|---|
| Holdback payable - Brazil (i) | **$** | **-** | $ | 27,429 |
| Accrued transaction costs - Brazil | | **7,287** | | 6,432 |
| Consideration for acquisition (note 6) | | **5,810** | | - |
| Holdback payable - Germany (ii) | | **22** | | 212 |
| | **$** | **13,119** | $ | 34,073 |

(i) In connection with the acquisition of three hospitals from Rede D'Or (the "Rede D'Or Hospital Acquisition") on December 23, 2013, the REIT held back a portion of the purchase price until the vendor complies with conditions related to certain title and zoning matters.

On October 17, 2014, the purchase and sale agreement with respect to the Rede D'Or Hospital Acquisition was amended to extend the payment date of the holdback related to Hospital Caxias D'Or to the later of December 15, 2015 or 180 days after the completion of certain conditions by the vendor. Effective from the date of amendment (October 17, 2014) to the payment date, the holdback will be adjusted by the variation of the CDI plus 7.34% annually. The amendment provides that should the vendor not complete the required conditions to resolve the title matters by January 15, 2015, the amount of the inflation adjustment to the holdback shall be limited to nil between January 15, 2015 and the date the vendor conditions are resolved. On January 15, 2015, the REIT was notified that the required conditions related to the Hospital Caxias D'Or holdback were not resolved. As such, since January 15, 2015, no inflation adjustment had been recognized in respect of the holdback. On October 16, 2015 the REIT was notified that the vendor conditions were resolved and therefore the holdback became payable on April 15, 2016. In March 2016, the REIT extended the maturity date of the Caxias D’Or holdback to June 15, 2016. The REIT accrued inflation for the period from October 16, 2015 to the repayment date, June 15, 2016. The balance outstanding on June 15, 2016 was $30,643 (R$83,180), which was repaid in full.

For the year ended December 31, 2016, accretion expense of $1,722 (December 31, 2015 - $970) was recorded to account for the related CDI adjustments on the holdbacks payable which has been recorded as finance costs in the consolidated statement of income (loss).

(ii) As at December 31, 2016, the REIT has recorded deferred consideration of $7,287 (R$17,623) (December 31, 2015 – 6,432 (R$18,382)) with respect to property transfer taxes payable in connection with the acquisition of investment properties in Brazil (see note 7).

(iii) In connection with the acquisition of the Hohenschoenhausen property in Germany on August 29, 2014, the REIT held back a portion of the purchase price for potential working capital adjustments and information deficiencies. Settlement of the holdback is currently being negotiated and is expected to be settled in the next 12 months.

## 18. Convertible Debentures

In connection with the Combination Transaction (note 5) the NWI's convertible debentures, previously trading under the symbols MOB.DB, MOB.DB.A and MOB.DB.B, were assumed by the REIT. These convertible debentures ceased to trade on the TSX Venture Exchange at the close of business on May 19, 2015 and commenced trading on the TSX under the symbols NWH.DB.A, NWH.DB.B and NWH.DB.C, respectively, on May 20, 2015. The conversion provisions for each series of debentures were adjusted whereby the series NWH.DB.A convertible debentures are convertible at a price of $13.70 per unit being a ratio of 72.9927 per $1,000 principal amount of debentures, the series NWH.DB.B convertible debentures are convertible at a price of $11.54 per unit being a ratio of 86.6551 per $1,000 principal amount of debentures, and the series NWH.DB.C convertible debentures are convertible at a price of $12.50 per unit being a ratio of 80.0000 per $1,000 principal amount of debentures.

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 23), 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 and after July 31, 2019, and prior to July 31, 2020, the Series NWH.DB.E Debentures may be redeemed by the REIT, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice, provided that the volume weighted average trading price for the REIT's Units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. On and after August 1, 2020 and prior to the maturity date, the Series NWH.DB.E Debentures may be redeemed by the REIT at a price equal to the principal amount plus accrued and unpaid interest.

On December 15, 2016, and on December 21, 2016 pursuant to the exercise of the over-allotment option, the REIT issued $80,500 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. Each Series NWH.DB.F Debenture is convertible at any time by the debenture holder into 78.125 REIT Units per one thousand dollars of face value, representing a conversion price of $12.80 per REIT unit. On and after December 31, 2019, and prior to December 31, 2020, the Series NWH.DB.F Debentures may be redeemed by the REIT, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice, provided that the volume weighted average trading price for the REIT's units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. On and after January 1, 2021 and prior to the maturity date of December 31, 2021, the Series NWH.DB.F Debentures may be redeemed by the REIT at a price equal to the principal amount plus accrued and unpaid interest.

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

| As at | | **December 31, 2016** | | December 31, 2015 |
|---|---|---|---|---|
| Balance, beginning of period | **$** | **170,094** | $ | 71,920 |
| Issuance of covertible debenture | | **155,250** | | 53,000 |
| Convertible debenture assumed on Combination Transaction (note 3) | | **-** | | 41,244 |
| Change in fair value of convertible debentures | | **6,490** | | 3,930 |
| | **$** | **331,834** | $ | 170,094 |

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

## 18. Convertible Debentures (continued)

| As at | | December 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| NWH.DB | **$** | **40,954** | $ | 39,043 |
| NWH.DB.A (formerly MOB.DB) | | **23,052** | | 22,826 |
| NWH.DB.B (formerly MOB.DB.A) | | **17,850** | | 17,535 |
| NWH.DB.C (formerly MOB.DB.B) | | **39,719** | | 38,750 |
| NWH.DB.D | | **54,060** | | 51,940 |
| NWH.DB.E | | **75,498** | | - |
| NWH.DB.F | | **80,701** | | - |
| Fair Value | **$** | **331,834** | $ | 170,094 |
| | | | | |
| Current | | **-** | | - |
| Non-Current | | **331,834** | | 170,094 |
| | **$** | **331,834** | $ | 170,094 |

| 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 (formerly MOB.DB) | $13.70 | March 31, 2018 | 6.50% | Semi-annual | March 31 and September 30 |
| NWH.DB.B (formerly MOB.DB.A) | $11.54 | September 30, 2018 | 7.50% | Semi-annual | March 31 and September 30 |
| NWH.DB.C (formerly MOB.DB.B) | $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 |

## 19. Income Taxes

The REIT qualifies as a mutual fund trust and a real estate investment trust for Canadian income tax purposes. The REIT expects to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes.

Accordingly, no provision for current and deferred income tax payable is required, except for amounts in respect of its incorporated subsidiaries in foreign jurisdictions, as follows:

| **Year Ended December 31,** | | **2016** | | 2015 |
|---|---|---|---|---|
| Current income tax | **$** | **8,235** | $ | 2,684 |
| Deferred income tax, relating to origination of temporary differences | | **46,149** | | 39,837 |
| | **$** | **54,384** | $ | 42,521 |

*Deferred taxes*

Deferred income taxes reflect the net effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Deferred income tax liabilities consist of the following:

| As at | | **December 31, 2016** | | December 31, 2015 |
|---|---|---|---|---|
| Deferred tax liability related to difference in tax and book basis of: | | | | |
| Investment properties | **$** | **135,690** | $ | 84,446 |
| Mortgage and loans payables | | **6,915** | | 6,380 |
| Unit based compensation | | **286** | | 237 |
| Other | | **2,095** | | 14 |
| **Total deferred income tax liabilities** | **$** | **144,986** | $ | 91,077 |
| Deferred tax asset related to difference in tax and book basis of: | | | | |
| Derivative financial instruments | **$** | **2,626** | $ | 954 |
| Other | | **2,210** | | 2,490 |
| **Total deferred income tax assets** | **$** | **4,836** | $ | 3,444 |
| **Net deferred income tax liability** | **$** | **140,150** | $ | 87,633 |

*Reconciliation of effective tax rate:*

| **Year Ended December 31,** | | **2016** | | 2015 |
|---|---|---|---|---|
| **Income (loss) before income taxes** | **$** | **185,907** | $ | 259,946 |
| Income tax expense calculated at the domestic rates applicable to profits in the country concerned | | **52,886** | | 45,502 |
| Increase (decrease) resulting from | | | | |
| Foreign tax exempt income | | **(2,158)** | | (3,938) |
| Current-year losses for which no deferred tax asset is recognized | | **807** | | 5,067 |
| Other | | **2,849** | | (4,110) |
| **Income taxes** | **$** | **54,384** | $ | 42,521 |

## 20. Financial Instruments

| As at | | December 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Financial assets (a): | | | | |
| Foreign exchange contracts | **$** | **236** | $ | 8,433 |
| Interest rate swaps | | **213** | | 73 |
| **Total financial assets** | **$** | **449** | $ | 8,506 |
| Financial liabilities (b): | | | | |
| Interest rate swaps | **$** | **14,413** | $ | 18,425 |
| Forward contracts | | **651** | | - |
| Foreign exchange contracts | | **13** | | - |
| **Total financial liabilites** | **$** | **15,077** | $ | 18,425 |

(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 $14,413 (December 31, 2015 -$18,425).

The REIT has entered into interest rate swap contracts with respect to certain Canadian and German mortgages (note 15(a)) and the Vital Trust term loans (note 15(c)). The interest rate derivatives mature over the next 1 to 7 years and have fixed interest rates ranging from 2.13% to 4.32%.

On December 30, 2016 the REIT entered into a forward contract to purchase an additional 6,700,000 GHC units at a forward price of $2.0377 per unit. The REIT determined that the forward contract was derivative financial instrument and accordingly, recorded a forward contract liability as at December 31, 2016 of $651 (December 31, 2015 - $nil).

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

| Year ended December 31, | | 2016 | | 2015 |
|---|---|---|---|---|
| Put/Call (note 10) | **$** | **(5,037)** | $ | - |
| Fair value adjustment - interest rate swaps | | **3,721** | | (754) |
| Receipts/(payments) under transaction hedging foreign exchange contracts | | **1,227** | | 421 |
| Fair value adjustment -foreign exchange contracts | | **-** | | (71) |
| Fair value adjustment -forward contracts | | **(651)** | | - |
| Fair value adjustment - financial asset (note 10) | | **(125)** | | - |
| Performance fee recievable (note 11) | | **(1,080)** | | - |
| | **$** | **(1,945)** | $ | (404) |

## 21. Deferred Unit Plan ("DUP") Liability

In connection with the Combination Transaction, the combined entity adopted the REIT's DUP which 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.

In connection with the Internalization Transaction (note 3), NWI adopted a second amended and restated deferred unit plan (the "Amended Plan"). The Amended Plan provided for the issuance of up to 17,898,368 NWI Trust units (approximately 10% of the issued and outstanding voting units of NWI at the time), which was an increase from the 2,021,909 NWI Trust units reserved for issuance under NWI's previous deferred unit plan (the "Previous Plan"). As a result of the REIT terminating all external asset management agreements in connection with the Internalization Transaction (note 3), and having previously terminated its unit option plan, the Amended Plan was NWI's only equity-based compensation plan.

As part of the Internalization Transaction, the REIT issued 3,989,735 deferred units of NWI to the new employees of the REIT. Of these, 1,711,412 NWI deferred units were fully vested and the balance is subject to future vesting conditions. Following the Internalization Transaction, the REIT issued an additional NWI 5,764,494 deferred units to new employees as future equity incentives (all of which are subject to vesting conditions) and 75,000 NWI deferred units to the REIT's independent trustees in recognition of their efforts on behalf of the special committee that was formed for considering and negotiating the Internalization Agreement on behalf of the REIT.

The REIT also assumed the deferred unit plan liabilities of the Vital Manager through the Internalization Transaction (note 3). On closing of the Internalization Transaction, the REIT assumed 813,637 unvested deferred units of Vital Trust.

In connection with the Combination Transaction, the NWI's deferred units outstanding immediately prior to the transaction, were exchanged at a ratio of 0.208 of a REIT deferred unit for each deferred unit. In total, 10,562,434 NWI deferred units were converted to 2,196,979 deferred units of the REIT on May 15, 2015. The REIT may not issue any additional deferred units under this former NWI deferred unit plan. The outstanding Vital Trust deferred units did not get exchanged and continue to be redeemable (upon vesting) into units of Vital Trust.

(a) Liability:

| As at | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Balance, beginning of period | **$ 15,597** | $ 457 |
| Liability assumed on Internalization Transaction | **-** | 3,596 |
| Liability assumed on Combination Transaction (Note 3) | **-** | 2,704 |
| Unit based compensation expense | **2,123** | 11,179 |
| Exercised and paid in cash | **(1,550)** | (817) |
| Exercised and settled in Trust Units | **(2,953)** | (1,048) |
| Fair value adjustment | **1,717** | (513) |
| FX adjustment | **1** | 39 |
| Balance, end of period | **$ 14,935** | $ 15,597 |

At December 31, 2016, the balance of the DUP liability related to the REIT's DUP is $13,445 and $1,490 is related to Vital Trust's DUP (December 31, 2015 - $14,919 related to the REIT and 678 related to Vital Trust).

## 21. Deferred Unit Plan ("DUP") Liability (continued)

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, 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 |

| As at, December 31, 2015 | REIT | Vital Trust |
|---|---|---|
| Balance, beginning of the period | 47,577 | - |
| Assumed on Internalization Transaction | 829,865 | 813,637 |
| Assumed on Combination Transaction (note 3) | 409,222 | - |
| Granted | 1,272,626 | 144,116 |
| Exercised and paid in cash | (98,861) | - |
| Exercised and paid in REIT units | (130,245) | - |
| Distribution entitlement | 256,425 | 44,827 |
| Balance, end of period | 2,586,609 | 1,002,580 |
| Units vested but not excercised | 395,682 | 40,030 |

For the year ended December 31, 2016, the REIT granted or issued 177,643 DUP units with a value of $1,736 (December 31, 2015 - 1,272,626 DUP units with a value of $12,340).

For the year ended December 31, 2016, Vital Trust granted or issued 664,218 DUP units with a value of $1,253 (December 31, 2015 - 144,116 DUP units with a value of $217).

## 22. 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 December 31, 2016, there were 18,998,065 Class B (2015 – 18,998,065) exchangeable units of NWI LP issued and outstanding with a fair value of $193,780 (2015 – $169,653).

Distributions declared on the Class B exchangeable units of NWI LP totaled $15,199 for the year ended December 31, 2016 (December 31, 2015 - $16,986) 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, 2014 | 18,942,211 | $ | 182,137 |
| Class D converted to Class B (note 19 (ii)) | 245,852 | | 2,366 |
| Converted to Trust Units (note 20) | (189,998) | | (1,649) |
| Fair value adjustment | - | | (13,201) |
| Balance, December 31, 2015 | 18,998,065 | $ | 169,653 |
| Fair value adjustment | - | $ | 24,127 |
| **Balance, December 31, 2016** | **18,998,065** | **$** | **193,780** |

## 23. 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.

## 23. Unitholders' Equity (continued)

The REIT's Trustees have discretion in declaring distributions.

The following table shows the changes in REIT Units:

| | REIT units | | Amount |
|---|---|---|---|
| **Balance - December 31, 2014** | **18,055,395** | **$** | **153,989** |
| Units issued on Combination Transaction (note 5) | 34,936,028 | | 302,197 |
| Units issued through distribution reinvestment plan (i) | 420,229 | | 3,394 |
| Conversion of Class B exchangeable units (note 22) | 189,998 | | 1,649 |
| Units issued under deferred unit (note 21) | 128,921 | | 1,028 |
| Asset management fees paid in units (ii) | 29,856 | | 292 |
| Units redeemed on business combination (iii) | (246,384) | | (2,593) |
| Units cancelled pursuant to NCIB (iv) | (822,100) | | (6,648) |
| **Balance - December 31, 2015** | **52,691,943** | **$** | **453,308** |
| Units issued through distribution reinvestment plan (i) | 516,574 | | 4,821 |
| Units issued under deferred unit plan (note 21) | 348,491 | | 2,953 |
| Units cancelled pursuant to NCIB (iv) | (34,500) | | (285) |
| Units issued pursuant to equity offering (v) | 15,914,660 | | 150,792 |
| Units issuance cost (v) | - | | (6,997) |
| **Balance - December 31, 2016** | **69,437,168** | **$** | **604,592** |

(i) The REIT has established a distribution reinvestment plan for its unitholders, which allows participants to reinvest their monthly cash distributions in additional units at an effective discount of 3%.

(ii) During the year ended December 31, 2015, the REIT issued 29,856 REIT units (143,538 NWI Trust units at the 0.208 conversion ratio) to settle outstanding asset management fees owing to a subsidiary of NWVP (note 25).

(iii) In connection with the Combination Transaction (note 5), the REIT received notices of dissent from unitholders. As such, 1,184,526 NWI trust units (an equivalent of 246,384 REIT units) were cancelled and accordingly a liability equal to the fair market value of the units on the date prior to the closing of the Combination Transaction had been accrued. A settlement with the dissenting unitholders was achieved and the related liability was settled prior to December 31, 2015. An additional 14,560 REIT units were also cancelled for those NWI units converted upon Combination Transaction but notices of dissent from unitholder had been previously received.

(iv) 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.

Pursuant to the NCIB, the REIT intends to acquire up to a maximum of 4,762,579 of its Units, or approximately 10% of its public float as of July 10, 2015, for cancellation over the following 12 months.

Purchases under the normal course issuer bid were made through the facilities of the TSX or through a Canadian alternative trading system and in accordance with applicable regulatory requirements at a price per Unit representative of the market price at the time of acquisition. The number of Units that could be purchased pursuant to the bid were subject to a current daily maximum of 18,054 Units (which is equal to 25% of 72,218, being the average daily trading volume from January 1, 2015 through to June 30, 2015), subject to the REIT's ability to make one block purchase of Units per calendar week that exceeds such limits. Any Units purchased under the normal course issuer bid were to be cancelled upon their purchase. The REIT intended to fund the purchases out of its available resources.

## 23. Unitholders' Equity (continued)

The REIT began to purchase Units on July 16, 2015 and the bid was to terminate 12 months from such date, or such earlier time as the REIT completed its purchases pursuant to the bid or provided notice of termination.

The REIT also announced that it adopted an automatic securities purchase plan in connection with its NCIB that contains strict parameters regarding how its Units may be repurchased during times when it would ordinarily not be permitted to purchase Units due to regulatory restrictions or self-imposed blackout periods. The automatic securities purchase plan was effective from July 16, 2015 and had an initial term of three months, which expired on October 16, 2015, but then was further extended to February 15, 2016

During the year ended December 31, 2016, the REIT made repurchases of 34,500 units at a weighted average price per unit of $8.19, respectively, including broker commissions (December 31, 2015 - 822,100 units at a weighted average price per unit of $8.03 including broker commissions). The NCIB expired on July 15, 2016.

(v) 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.

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.

## 24. Supplemental Cash Flow Information

(i) Changes in Non-Cash Working Capital Balances

| For the year ended December 31, | | **2016** | | 2015 |
|---|---|---|---|---|
| Accounts receivable | **$** | **(3,985)** | $ | 934 |
| Other assets | | **2,013** | | (7,339) |
| Accounts payable and accrued liabilities | | **(4,543)** | | 1,435 |
| | **$** | **(6,515)** | $ | (4,970) |

(ii) Non-Cash Financing and Investing Activities

| For the year ended December 31, | | **2016** | | 2015 |
|---|---|---|---|---|
| Non-cash business combination | **$** | **-** | $ | 33,158 |
| Non-cash acquisition of control | | **-** | | 241,912 |
| Non-cash business combination (note 3) | | **-** | | 302,197 |
| Asset management fees settled through issuance of units (note 23) | | **-** | | 292 |
| Non-cash investment in subsidiary | | **5,788** | | - |
| Non cash distributions to Unitholders under the DRIP (note 23) | | **4,847** | | 3,394 |
| Non-cash consideration received from sale of investment property | | **1,725** | | - |
| Units issued under deferred unit plan (note 21) | | **2,953** | | - |

## 25. Related Party Transactions

(a) As at December 31, 2016, NWVP indirectly owned approximately 29.5% of the outstanding REIT units (approximately 22.7% 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. Bernard Crotty, a Trustee of the REIT, served as Senior Vice-President of NWVP up to December 31, 2014. Teresa Neto, Chief Financial Officer of the REIT up to September 23, 2016, served as Chief Financial Officer of NWVP up to December 31, 2014.

(b) Prior to January 28, 2015, The REIT and its affiliates entered into a series of agreements with affiliates of NWVP, whereby such affiliates agreed to act as Property Manager, Asset Manager and Development Manager for the REIT.

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

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

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

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

An affiliate of NWVP served as general partner of NWI LP, and in such capacity was entitled to an annual incentive fee payment based on Gross All In Returns (being distributions plus the growth of the REIT's net asset value), referred to as the "Class C Amount". The Class C Amount was equal to (i) 15% of Gross All In Return in excess of 8%, and (ii) 20% of Gross All In Return in excess of 12%. For purposes of the Class C Amount, "Gross All In Return" meant the annual increase in the REIT's net asset value of the REIT over the relevant year. The increase was measured between the first and last days of each year. Should there have been a distribution of capital, such distribution would be added back for the purposes of this calculation. Should there been any issuances of capital during the year, such amounts would be excluded for the purposes of this calculation. The REIT's net asset value (for purpose of determining excess Gross All In Return) would be subject to a three year trailing "high water mark".

On January 28, 2015, the REIT completed the Internalization Transaction with NWVP with an effective date of January 1, 2015. The Internalization Transaction resulted in the REIT terminating the asset management, property management and development functions of the REIT currently carried on by affiliates of NWVP as noted above. See note 3.

## 25. Related Party Transactions (continued)

The following table summarizes the related party transactions with NWVP and its subsidiaries related to the Asset Management Agreement, Property Management Agreement, Development Agreement, Management Fee Participation Agreement and cost-sharing and sublease agreements with the REIT, during the current and prior year:

| **Year ended December 31,** | | **2016** | | 2015 |
|---|---|---|---|---|
| Reimbursement for out-of-pocket costs - completed transactions | **$** | **430** | $ | 743 |
| Cost-sharing and sublease agreements | | **696** | | 248 |
| Interest on working capital receivable | | **-** | | 305 |
| | **$** | **1,126** | $ | 1,296 |

(c) At December 31, 2016, 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, 2015 - $1,267), which were settled subsequent to year end.

(d) Key Management Compensation

Compensation for the REIT's key management personnel was as follows:

| **Year Ended December 31,** | | **2016** | | 2015 |
|---|---|---|---|---|
| Short-term compensation | **$** | **3,896** | $ | 2,308 |
| Unit-based long-term incentives [1] | | **2,708** | | 259 |
| | **$** | **6,604** | $ | 2,567 |

[1] Deferred units granted vest up to five years, depending on the grant. Of the total deferred units, 50% vest in three years and 25% in the fourth and fifth years. Amounts are determined based on the grant date fair value of deferred units multiplied by the number of deferred units granted in the year.

Key management personnel of the REIT throughout the period include the Chief Executive Officer, Chief Financial Officers, President & Chief Investment Officer, Executive Vice President and General Counsel, President, Canada, Managing Director, Germany, Managing Director, Brazil and Chief Executive Officer, Vital.

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

## 25. Related Party Transactions (continued)

(f) Subsidiaries

The consolidated financial statements include the accounts of the REIT and all its subsidiaries.

Significant subsidiaries of the REIT are listed below:

| Name of subsidiary | Place of operation | Holding<br>December 31, 2016 | <br>December 31, 2015 |
|---|---|---|---|
| NHP Holdings Limited Partnership | Canada | 100% | 100% |
| Healthcare Properties LP | Canada | 100% | 100% |
| NorthWest Healthcare Properties Corporation | Canada | 100% | 100% |
| NWI Healthcare Properties LP | Canada | 100% | 100% |
| NWI Asset Management Inc. | Canada | 100% | 100% |
| NWI Gesundheitsimmobilien GmbH & Co KG | Germany | 100% | 100% |
| NWI Management GmbH | Germany | 100% | 100% |
| NWI Healthcare Properties LLC | USA | 100% | 100% |
| Northwest International Investmentos Imobiliar SA | Brazil | 100% | 100% |
| Northwest International II Investimentos Imobiliar SA | Brazil | 100% | 100% |
| Fundo De Investimenttno Imobiliário NorthWest Investmentos Fund I Imobiliários Em Saúde | Brazil | 100% | - |
| NorthWest Investmentos Em Saúde Fund I Fundo de Investimento Multimercado | Brazil | 100% | - |
| Vital Healthcare Property Trust | New Zealand | 24.8% | 24.4% |
| NWI NZ Management Company Limited | New Zealand | 100% | 100% |
| Vital Healthcare Management Ltd. | Australia | 100% | 100% |
| Generation Healthcare Management Pty Ltd. | Australia | 100% | - |

## 26. Employee Benefits Expense

| Year Ended December 31, | 2016 | 2015 |
|---|---|---|
| Short-term employee benefits | $ 21,480 | $ 15,538 |
| Unit-based compensation expense | 2,359 | 9,772 |
| | $ 23,839 | $ 25,310 |

Short-term employee benefits include salaries, bonuses, commissions and other short-term benefits.

For the year ended December 31, 2016, total short-term employee benefits of $10,801 (2015 – $6,958) are included in ‘Property operating costs’ and $7,849 (2015 – $6,646) are included in ‘General and administrative expenses’. During the year ended December 31, 2016, the REIT capitalized $2,626 of employee benefits to investment properties (2015 - $1,934).

## 27. Segmented Information

The REIT operated in one industry segment being the real estate industry segment; however the REIT monitors and operates its German, Brazilian, Canadian and Australia/New Zealand operations separately. The CEO assesses the performance of each of the operating segments based on a measure of operating income. The accounting policies for each of the segments are the same as those for the REIT. The REIT's trust and corporate 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 year ended December 31, 2016, two tenants in the Brazil operating segment accounted for 13% (December 31, 2015 - 15%) of the total revenue from investment properties.

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

| As at December 31, 2015 | Germany | Brazil | Australasia | Canada | Total |
|---|---|---|---|---|---|
| Investment properties | $ 159,817 | $ 343,724 | $ 792,958 | $ 1,195,336 | $ 2,491,835 |
| Morgages and loans payable | $ 82,833 | $ 54,128 | $ 269,309 | $ 846,723 | $ 1,252,993 |

| Year ended December 31, 2016 | Germany | Brazil | Australasia | Canada | Total |
|---|---|---|---|---|---|
| Revenue from investment properties | $ 15,245 | $ 37,063 | $ 86,490 | $ 138,548 | $ 277,346 |
| Property operating costs | 4,136 | - | 8,307 | 62,306 | 74,749 |
| **Net property operating income** | 11,109 | 37,063 | 78,183 | 76,242 | 202,597 |
| Other income | | | | | |
| Interest | - | 2,589 | 142 | 121 | 2,852 |
| Management fee | - | - | 2,102 | - | 2,102 |
| Share of (profit) loss of associate | | - | 8,679 | - | 8,679 |
| | - | 2,589 | 10,923 | 121 | 13,633 |
| Mortgage and loan interest expense | 1,855 | 10,254 | 13,258 | 50,484 | 75,851 |
| General and administrative expenses | 2,884 | 2,133 | 7,770 | 6,985 | 19,772 |
| Transaction Costs | - | - | 290 | 3,816 | 4,106 |
| Foreign exchange (gain) loss | (2) | 560 | 1,225 | (318) | 1,465 |
| | 4,737 | 12,947 | 22,543 | 60,967 | 101,194 |
| **Operating income (loss)** | $ 6,372 | $ 26,705 | $ 66,563 | $ 15,396 | $ 115,036 |

## 27. Segmented Information (continued)

| Year ended December 31, 2015 | | Germany | | Brazil | | Australasia | | Canada | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue from investment properties | $ | 13,155 | $ | 30,611 | $ | 60,746 | $ | 94,448 | $ | 198,960 |
| Property operating costs | | 3,935 | | - | | 6,996 | | 42,068 | | 52,999 |
| **Net property operating income** | | 9,220 | | 30,611 | | 53,750 | | 52,380 | | 145,961 |
| Other income | | | | | | | | | | |
| Interest | | - | | 434 | | 133 | | 346 | | 913 |
| Management fee participation | | - | | - | | - | | - | | - |
| Share of (profit) loss of associate | | - | | - | | - | | 2,153 | | 2,153 |
| | | - | | 434 | | 133 | | 2,499 | | 3,066 |
| Mortgage and loan interest expense | | 1,746 | | 13,063 | | 11,545 | | 37,943 | | 64,297 |
| General and administrative expenses | | 2,292 | | 2,633 | | 5,166 | | 15,030 | | 25,121 |
| Transaction Costs | | 302 | | - | | - | | 10,009 | | 10,311 |
| Amortization of intangible asset | | - | | - | | - | | - | | - |
| Foreign exchange (gain) loss | | 2 | | (141) | | 36 | | 2,295 | | 2,192 |
| | | 4,342 | | 15,555 | | 16,747 | | 65,277 | | 101,921 |
| **Operating income (loss)** | $ | 4,878 | $ | 15,490 | $ | 37,136 | $ | (10,398) | $ | 47,106 |

## 28. Non-wholly Owned Subsidiary

On January 1, 2015, in connection with the Internalization Transaction, 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

| As at | | **December 31, 2016** | | December 31, 2015 |
|---|---|---|---|---|
| **Total assets** | **$** | **1,005,348** | $ | 808,938 |
| **Total liabilites** | | **340,774** | | 355,785 |
| **Net assets** | **$** | **664,574** | $ | 453,153 |
| **Attributable to:** | | | | |
| **Non-controlling interest** | | **485,505** | | 327,483 |
| **Unitholders of the REIT** | | **179,069** | | 125,670 |
| | **$** | **664,574** | $ | 453,153 |

## 28. Non-wholly Owned Subsidiary (continued)

| **Year ended December 31,** | | **2016** | | 2015 |
|---|---|---|---|---|
| **Revenue from investment properties** | **$** | **86,490** | $ | 60,746 |
| Net income (loss) attributable to: | | | | |
| Non-controlling interest | **$** | **72,168** | $ | 100,403 |
| Unitholders of the REIT | | **22,310** | | 32,623 |
| **Net income (loss)** | | **94,478** | $ | 133,026 |
| Total comprehensive income (loss) attributable to: | | | | |
| Non-controlling interest | **$** | **68,993** | $ | 101,587 |
| Unitholders of the REIT | | **21,158** | | 33,000 |
| **Total comprehensive income (loss)** | **$** | **90,151** | $ | 134,587 |
| **Distributions attributable to non-controlling interest** | **$** | **22,869** | $ | 18,744 |

| **Year ended December 31,** | | **2016** | | 2015 |
|---|---|---|---|---|
| Cash flow activites: | | | | |
| Operating | **$** | **45,027** | $ | 24,723 |
| Investing | | **(154,827)** | | (63,728) |
| Financing | | **104,717** | | 40,606 |
| Effect of foreign currency translation | | **5,831** | | 959 |
| **Net change in cash** | **$** | **748** | $ | 2,560 |

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%**.**

## 29. Contingent Liabilities

(a) The REIT has entered into fixed-price utility contracts with a third-party supplier in the amount of $2,203 to provide electricity and gas for its own use at its investment properties for 2016 to 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 December 31, 2016, the REIT has a total of $1,050 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 three of the REIT's investment properties (two of which were disposed prior to the Combination Transaction), the existing mortgages were assumed by the purchasers. In the event of default, the REIT has guaranteed the outstanding balance of the mortgages of $19,565 as at December 31, 2016.

(d) The REIT has entered into construction agreements on development properties and is committed to development costs of $21,042 as at December 31, 2016.

## 29. Contingent Liabilities (continued)

(e) 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.

(f) 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.

## 30. 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 8 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, the interest rate swap, and the warrant liability. The most frequently applied valuation technique includes forward pricing models, using present value calculations. The models incorporate various inputs including forward rates and interest rate curves.

As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid 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 and Class D 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 December 31, 2016 and December 31, 2015 are as follows:

## 30. Fair Values (continued)

| | | Fair Value | | |
|---|---|---|---|---|
| | Carrying value | Level 1 | Level 2 | Level 3 |
| Assets measured at fair value: | | | | |
| Investment properties | $ 3,040,354 | $ - | $ - | $ 3,040,354 |
| Financial instruments | 449 | - | 449 | - |
| Performance fee receivable | 7,178 | - | 7,178 | - |
| Assets held for sale | - | - | - | - |
| Liabilities measured at fair value: | | | | |
| 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 | - |

| | | Fair Value | | |
|---|---|---|---|---|
| | Carrying value | Level 1 | Level 2 | Level 3 |
| Assets measured at fair value: | | | | |
| Investment properties | $ 2,491,835 | $ - | $ - | $ 2,491,835 |
| Derivative financial instruments | 8,506 | - | 8,506 | - |
| Assets held for sale | 78,194 | - | - | 78,194 |
| Liabilities measured at fair value: | | | | |
| Derivative financial instruments | 18,425 | - | 18,425 | - |
| Convertible debentures | 170,094 | 170,094 | - | - |
| Class B LP exchangeable units | 169,653 | 169,653 | - | - |
| Deferred unit plan liability | 15,597 | 15,597 | - | - |
| Financial Liabilites recorded at amortized cost: | | | | |
| Mortgage and loans payable | 1,252,993 | - | 1,269,191 | - |
| Liabilities related to assets held for sale | 52,674 | - | 52,850 | - |

## 31. Capital Management

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

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

## 31. Capital Management (continued)

At December 31, 2016, the REIT is in compliance with its debt-to-gross book value ratio of the Declaration of Trust at 41.5% (December 31, 2015 - 49.2%). The debt-to-gross book value including convertible debentures is 51.5% (December 31, 2015 - 55.5%). Calculations are as follows:

| As at | | December 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| **Debt** | | | | |
| Gross Value of Secured Debt [(1)] | **$** | **1,382,785** | $ | 1,329,514 |
| Gross Value of total debt [(2)] | **$** | **1,714,619** | $ | 1,499,608 |
| **Gross Book Value of Assets** | | | | |
| Total Assets | **$** | **3,328,533** | $ | 2,700,009 |
| **Debt-to-Gross Book Value (Declaration of Trust)** | | **41.5%** | | 49.2% |
| **Debt-to-Gross Book Value (including convertible debentures)** | | **51.5%** | | 55.5% |

[(1)] represents the principal balance of mortgages, margin facilities, term loans, and deferred consideration

[(2)] represents the principal balance of mortgages, margin facilities, term loans, 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 December 31, 2016, the REIT is in compliance with all such financial covenants.

## 32. Risk Management

The REIT's activities expose it to a variety of financial risks, including interest rate risk, credit risk, currency risk, price risk and liquidity risk. The REIT's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the REIT's financial performance.

Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments resulting in the REIT incurring a financial loss. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The REIT's credit risk is primarily attributable to cash and accounts receivable. Cash consists of cash on hand with reputable financial institutions which are closely monitored by management. Financial instruments included in accounts receivable consist of rental income receivable from its commercial tenant base for monthly rental charges and interest receivable from the term deposit. Management believes that the potential loss from credit risk with respect to financial instruments included in cash and accounts receivable is minimal.

## 32. Risk Management (continued)

The following is an aging analysis of accounts receivable past due, net of allowance for doubtful accounts as well as balances due from related parties as at December 31, 2016:

| | Accounts Receivable | Due from Related Parties | **Total** |
|---|---|---|---|
| Less than 30 days | $ 3,326 | $ - | **$ 3,326** |
| 31 to 60 days | 242 | - | **242** |
| 61 to 90 days | (4) | - | **(4)** |
| More than 90 days | 1,323 | 315 | **1,638** |
| Total billed | 4,887 | 315 | **5,202** |
| Unbilled | 1,598 | - | **1,598** |
| | $ 6,485 | $ 315 | **$ 6,800** |

Liquidity Risk

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to the REIT to fund future growth, refinance debts as they mature or meet the REIT's payment obligations as they arise. Furthermore, liquidity risk also arises from the REIT not being able to obtain financing or refinancing on favourable terms.

The REIT's main liquidity requirements arise from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures on existing properties, property acquisitions and distributions to unitholders. All of the aforementioned liquidity requirements, except for debt repayment obligations at maturity and property acquisitions, are generally funded from cash flows from operations, distribution income earned from the REIT's investments in associates, and new financing. Debt repayment obligations are generally funded from refinancing the related debt and property acquisitions are generally funded from the issuance of equity as well as obtaining debt financing on the related property.

The REIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing/refinancing or cost-effective financing/refinancing, or if it were unable to meet its other liquidity requirements from ongoing operating cash flows.

The REIT expects to refinance all debt maturing in 2016 when due. The REIT is currently reviewing all options available to refinance the debt. These options include but are not limited to refinancing with existing lenders or with new lenders, issuing unsecured debt securities and/or additional trust units, or the securitization of rents. There are no assurances that the timing, amounts and terms of any refinancing, or other efforts will be favourable or satisfactory to the REIT's liquidity.

The following table sets out the REIT's contractual cash flows which includes fixed interest rate payments on its mortgages and loans payable and convertible debentures:

| | Carrying Amount | Contractual Cash Flows | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter |
|---|---|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | 44,740 | 44,740 | 44,740 | - | - | - | - | - |
| Income tax payable | 14,230 | 14,230 | 14,230 | - | - | - | - | - |
| Distributions payable | 4,629 | 4,629 | 4,629 | - | - | - | - | - |
| Mortgages and loans payable | 1,365,676 | 1,516,237 | 226,543 | 286,512 | 312,884 | 168,429 | 208,141 | 313,728 |
| Deferred consideration | 13,119 | 13,119 | 13,119 | - | - | - | - | - |
| Convertible debentures | 331,834 | 401,639 | 18,937 | 58,135 | 54,738 | 106,429 | 163,400 | - |
| | 1,774,228 | 1,994,594 | 322,198 | 344,647 | 367,622 | 274,858 | 371,541 | 313,728 |

## 32. Risk Management (continued)

Interest Rate Risk

The majority of the REIT's debt is financed at fixed rates with maturities staggered over a number of years, thereby mitigating its exposure to changes in interest rates and financing risks. At December 31, 2016, $248,410 (December 31, 2015 - $233,024) of the REIT's debt associated with investment properties and investment in associate is financed at variable rates exposing the REIT to interest rate risk on such debt. Sensitivity to a plus 1% change in the interest rate would impact the net income (loss) and comprehensive income (loss) by $2,484 annually with all other variables held constant (December 31, 2015 - $2,330).

Currency Risk

The REIT has exposure to currency risk as a result of Australasian Secured Financing (see note 16) denominated in Australian and New Zealand dollars. The REIT’s margin facility balance and related interest are subject to fluctuations depending on exchange rates. The effects of such fluctuations are recognized in the statement of income and comprehensive income.

The REIT has operating subsidiaries in Germany, Brazil, and New Zealand (with operating subsidiaries in Australia translated into New Zealand dollars), and as a result has exposure to currency risk. There is significant exposure to foreign exchange translation risk on the consolidation of the REIT's foreign subsidiaries.

Assets and liabilities of the REIT's foreign subsidiaries are translated at the period end exchange rate, and therefore have different values depending on exchange rate fluctuations and the effects of such fluctuations are recognized in other comprehensive income (loss). The statements of income and comprehensive income of the foreign subsidiaries are translated into Canadian dollars using the period's average exchange rate and, accordingly, exchange rate fluctuations impact revenue, net income (loss) and comprehensive income (loss), denominated in Canadian dollars.

The REIT monitors its foreign exchange exposure and its hedging strategy on an ongoing basis.

The following table summarizes the effect of a 10% strengthening of the Canadian dollar on the REIT's net income/loss as a result of translating the statements of income (loss) and comprehensive income (loss) of foreign subsidiaries, assuming all other variables remain unchanged:

| **Year Ended December 31,** | | **2016** | | 2015 |
|---|---|---|---|---|
| Germany | **$** | **(1,527)** | $ | (908) |
| Brazil | **$** | **(5,828)** | $ | (4,485) |
| New Zealand | **$** | **(10,167)** | $ | (13,589) |
| Australia | **$** | **(855)** | $ | - |

A 10% weakening of the Canadian Dollar would have an equal but opposite effect on the above currencies to the amounts shown above, assuming all other variables remain unchanged.

Price Risk

Price risk is the risk that changes in market prices for the REIT's securities may impact the REIT's ability to access capital, and that changes in the market prices of the units underlying the REIT's investments in associates may impact the value of its investments and may also impact the amount available under related Australasian Secured Financing. The market price for the REIT's trust units, the REIT's convertible debentures, and the units of NWHP REIT and Vital Trust, may be volatile and subject to wide fluctuations in response to numerous factors, many of which may be beyond the REIT's control including general market sentiment. The market price of the REIT's securities and investments may decline even if the REIT's operating results, underlying asset values, or prospects have not changed. A decrease in the REIT's Trust Unit price impacts the cost of raising new capital. A decline in the market price of the units of Vital Trust and GHC may impact the value of the REIT's investments which may result in impairment losses, and may require the REIT to repay amounts owing under its related Australasian Secured Financing.

## 33. Subsequent Events

(i) On January 13, 2017, the REIT declared a distribution of $0.06667 per REIT unit to unitholders of record on January 31, 2017, paid February 15, 2017. On February 9, 2017, the REIT declared a distribution of $0.06667 per REIT unit to unitholders of record on February 28, 2017, payable March 15, 2017.

(ii) On January 31, 2017, the REIT completed the public offering for aggregate gross proceeds of approximately $86,299. The offer comprised of the issuance of 8,544,500 REIT units at a price of $10.10 per unit, including 1,114,500 units issued pursuant to the exercise in full of the over-allotment options granted to the underwriters.

(iii) On January 31, 2017, the REIT partially repaid the balance outstanding on its acquisitions facility, net of additional draws made subsequent to December 31, 2016, of $10,000 using the net proceeds from the January equity offering.

(iv) On February 3, 2017, the REIT contributed approximately $35,017 (A$35,000) as a cash collateral towards the Australasian Secured Financing using the net proceeds from the January equity offering. The REIT is able withdraw the funds being used as cash collateral at any time.

(v) On February 1, 2017, the REIT closed the acquisition of two medical office buildings, totalling 91,000 square feet, in the cities of Hamburg and Fulda, Germany for total gross proceeds of $29,450 (€20,808). The REIT financed the purchases through new first mortgages of approximately $19,107 (€13,500) from German lending institutions and net proceeds from the January equity offering (see note 33(ii)).

(vi) On February 27, 2017, Vital Trust purchased a 30-bed private mental health, Abbotsford Private Hospital, in Western Australia for approximately $19,382 (A$20,000). Separately, Vital Trust also completed the acquisition of a private surgical hospital, Ormiston Hospital, located in Auckland, New Zealand for $30,785 (NZ$33,000).