

**NORTHWEST HEALTHCARE  
PROPERTIES REAL ESTATE  
INVESTMENT TRUST**

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

FOR THE THREE MONTHS ENDED  
MARCH 31, 2019

(UNAUDITED)



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

<b>As at</b>	<b>Note</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>Assets</b>			
Investment properties	4	\$ 4,704,266	\$ 4,669,802
Investment in associates		274	—
Intangible assets		47,284	47,291
Goodwill		80,932	81,403
Financial instruments	8	131,092	150,534
Accounts receivable		19,365	18,313
Other assets	5	64,624	58,146
Cash and restricted cash	13	94,991	46,159
<b>Total assets</b>		<b>\$ 5,142,828</b>	<b>\$ 5,071,648</b>
<b>Liabilities</b>			
Mortgages and loans payable	6	\$ 2,366,122	\$ 2,409,662
Convertible debentures	7	422,783	401,235
Deferred unit plan liability	9	15,194	13,030
Class B exchangeable units	10	206,476	167,872
Deferred tax liability		281,038	284,187
Financial instruments	8	37,421	23,102
Income tax payable		10,512	8,226
Accounts payable and accrued liabilities		83,342	74,881
Distributions payable		7,824	6,905
<b>Total liabilities</b>		<b>\$ 3,430,712</b>	<b>\$ 3,389,100</b>
<b>Unitholders' Equity</b>			
Unitholders' equity	12	985,417	947,722
Non-controlling interest	16	726,699	734,826
<b>Total liabilities and unitholders' equity</b>		<b>\$ 5,142,828</b>	<b>\$ 5,071,648</b>

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

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

**Unaudited**

For the three months ended March 31,	Note	2019	2018
<b>Net Property Operating Income</b>			
Revenue from investment properties	11	\$ 91,933	\$ 88,248
Property operating costs		22,841	22,071
		<b>69,092</b>	<b>66,177</b>
<b>Other Income</b>			
Interest and other		1,366	3,624
Management fees		2,675	446
Share of profit (loss) of associates		(83)	—
		<b>3,958</b>	<b>4,070</b>
<b>Expenses</b>			
Mortgage and loan interest expense		33,283	31,234
General and administrative expenses		6,796	5,935
Transaction costs		2,113	402
Foreign exchange (income) loss		960	1,123
		<b>43,152</b>	<b>38,694</b>
<b>Income before other finance costs, fair value adjustments, and net loss on disposal of investment property</b>		<b>29,898</b>	<b>31,553</b>
<b>Finance costs</b>			
Amortization of financing costs		(2,822)	(2,860)
Amortization of mark-to-market adjustment		297	616
Class B exchangeable unit distributions	10	(3,542)	(3,542)
Fair value adjustment of Class B exchangeable units	10	(38,604)	1,564
Accretion of financial liabilities	6	(1,300)	(13,340)
Fair value adjustment of convertible debentures	7	(21,555)	2,889
Gain (loss) on financial instrument	8	(8,378)	1,148
Fair value adjustment of investment properties	4	9,730	8,036
Net loss on disposal of investment properties		—	(1,771)
Fair value adjustment of deferred unit plan liability	9	(2,435)	149
<b>Income before taxes</b>		<b>(38,711)</b>	<b>24,442</b>
Income tax expense		15,317	9,979
<b>Net income</b>		<b>\$ (54,028)</b>	<b>\$ 14,463</b>
<b>Net income attributable to:</b>			
Unitholders		\$ (57,988)	\$ 958
Non-controlling interest		3,960	13,505
		<b>\$ (54,028)</b>	<b>\$ 14,463</b>

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

<b>For the three months ended March 31,</b>	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Net income</b>		<b>\$ (54,028)</b>	<b>\$ 14,463</b>
<b>Other comprehensive income ("OCI"):</b>			
Items that will be reclassified subsequently to income:			
Foreign currency translation adjustment		<b>\$ (26,707)</b>	<b>\$ 36,551</b>
Realised foreign exchange gains/(losses) on hedges		<b>4,179</b>	<b>(167)</b>
Current taxation (expense)/credit		<b>(1,170)</b>	<b>191</b>
Unrealised foreign exchange gains/(losses) on hedges		<b>(2,750)</b>	<b>—</b>
Deferred taxation (expense)/credit		<b>1,786</b>	<b>(1,274)</b>
Fair value gain (loss) on net investment hedges		<b>(2,751)</b>	<b>7,548</b>
Deferred taxation (expense)/credit		<b>(245)</b>	<b>(839)</b>
<b>Other comprehensive income (loss), net of tax</b>		<b>(27,658)</b>	<b>42,010</b>
<b>Total comprehensive income for the period</b>		<b>\$ (81,686)</b>	<b>\$ 56,473</b>
<b>Total comprehensive income attributable to:</b>			
Unitholders		<b>\$ (79,593)</b>	<b>\$ 57,604</b>
Non-controlling interest		<b>(2,093)</b>	<b>(1,131)</b>
		<b>\$ (81,686)</b>	<b>\$ 56,473</b>

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

**NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**  
**Condensed Consolidated Interim Statements of Unitholders' Equity**  
(in thousands of Canadian dollars)  
**Unaudited**

	Note	Unitholders' Equity	Contributed Surplus	Reduction on Reclassification to Liabilities	Cumulative Distributions	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Unitholders' Equity	Non-Controlling Interest	Total Equity
<b>Balance, December 31, 2018</b>		\$ 953,169	\$ 39,839	\$ (115)	\$ (264,119)	\$ (57,065)	\$ 276,013	\$ 947,722	\$ 734,826	\$ 1,682,548
Public offering of units	12	136,990	—	—	—	—	—	136,990	—	136,990
Units issued through distribution reinvestment plan		2,303	—	—	—	—	—	2,303	1,317	3,620
Units issued on exercise of deferred units	12	544	—	—	—	—	—	544	—	544
Conversion of convertible debenture	12	7	—	—	—	—	—	7	—	7
Distributions		—	—	—	(22,557)	—	—	(22,557)	(7,350)	(29,907)
Currency translation differences		—	—	—	—	(21,368)	—	(21,368)	(5,339)	(26,707)
Other comprehensive income (loss)		—	—	—	—	(236)	—	(236)	(715)	(951)
Net income (loss) for the period		—	—	—	—	—	(57,988)	(57,988)	3,960	(54,028)
<b>Balance, March 31, 2019</b>		\$ 1,093,013	\$ 39,839	\$ (115)	\$ (286,676)	\$ (78,669)	\$ 218,025	\$ 985,417	\$ 726,699	\$ 1,712,116

	Note	Unitholders' Equity	Contributed Surplus	Reduction on Reclassification to Liabilities	Cumulative Distributions	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Unitholders' Equity	Non-Controlling Interest	Total Equity
Balance, December 31, 2017		\$ 924,918	\$ 39,839	\$ (115)	\$ (181,680)	\$ (45,590)	\$ 210,298	\$ 947,670	\$ 707,255	\$ 1,654,925
Units issued through distribution reinvestment plan		1,934	—	—	—	—	—	1,934	1,402	3,336
Units issued on exercise of deferred units	12	858	—	—	—	—	—	858	—	858
Conversion of Class B LP exchangeable units	10	14,874	—	—	—	—	—	14,874	—	14,874
Conversion of convertible debenture	12	57	—	—	—	—	—	57	—	57
Acquisition of control of subsidiary		—	—	—	—	—	—	—	462	462
Distributions		—	—	—	(20,496)	—	—	(20,496)	(7,228)	(27,724)
Foreign currency translation differences		—	—	—	—	55,287	—	55,287	(18,736)	36,551
Other comprehensive income (loss)		—	—	—	—	1,358	—	1,358	4,100	5,458
Net income (loss) for the period		—	—	—	—	—	958	958	13,505	14,463
Balance, March 31, 2018		\$ 942,641	\$ 39,839	\$ (115)	\$ (202,176)	\$ 11,055	\$ 211,256	\$ 1,002,500	\$ 700,760	\$ 1,703,260

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

**NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST**  
**Condensed Consolidated Interim Statements of Cash Flows**  
(in thousands of Canadian dollars)  
**Unaudited**

For the three months ended March 31,	Note	2019	2018
<b>Cash provided by (used in):</b>			
<b>Operating activities</b>			
Net income before taxes		\$ (38,711)	\$ 24,442
Adjustment for:			
Amortization		555	(29)
Mortgage and loan interest		33,283	31,234
Mortgage and loans interest paid		(25,708)	(28,376)
Finance costs	13	67,526	14,673
Interest income		(1,366)	(1,800)
Share of profit of associate		83	—
Unrealized foreign exchange (gain)/loss		2,065	1,136
Amortization of deferred revenue		(42)	—
Amortization of finance leases receivable/payable		(23)	(80)
Fair value adjustment of investment properties	4	(9,730)	(8,036)
Fair value (gain)/loss on financial instruments	8	8,534	(1,004)
Net loss on disposal of investment properties		—	1,771
Fair value adjustment of deferred unit plan liability		2,435	(149)
Unit-based compensation expense	9	954	685
Redemption of units issued under deferred unit plan		(640)	(1,145)
Income taxes paid		(4,613)	(2,823)
Changes in non-cash working capital balances	13	1,836	(9,028)
<b>Cash provided by (used in) operating activities</b>		<b>36,438</b>	<b>21,471</b>
<b>Investing activities</b>			
Acquisitions of investment properties	3	(63,965)	(129,821)
Additions to investment properties	4	(19,524)	(16,937)
Net proceeds on disposal of investment property		—	162,474
Additions to investment in associate		(78)	—
Investment in financial assets		—	(1,082)
Cash interest received		671	1,114
Additions to furnitures and fixtures		(44)	(110)
Net receipts from forward contract		17,157	—
Receipts (payments) from foreign exchange contracts		4,171	18
Net decrease (increase) to restricted cash		—	(58)
<b>Cash provided by (used in) investing activities</b>		<b>(61,612)</b>	<b>15,598</b>
<b>Financing activities</b>			
Mortgage and loan proceeds		98,502	144,936
Mortgage and loans discharged		—	(86,780)
Repayment of mortgages		(6,041)	(5,511)
Net advances (repayments) of loans payable		(118,912)	(61,348)
Proceeds from issuance of units, net of issuance costs	12	136,990	—
Financing fees paid		(1,893)	(1,463)
Net (payments) advances from (to) related parties		(879)	(457)
Settlement of securitization		—	(19,625)
Distributions paid		(19,335)	(18,466)
Class B exchangeable units distributions paid	10	(3,542)	(3,542)
Distributions paid to non-controlling interest		(6,039)	(5,827)
<b>Cash provided by (used in) financing activities</b>		<b>78,851</b>	<b>(58,083)</b>
<b>Net change in cash</b>		<b>53,677</b>	<b>(21,014)</b>
<b>Effect of foreign currency translation</b>		<b>(4,850)</b>	<b>(2,591)</b>
<b>Net change in cash</b>		<b>48,827</b>	<b>(23,605)</b>
<b>Cash, beginning of period</b>		<b>45,808</b>	<b>71,704</b>
<b>Cash, end of period</b>		<b>\$ 94,635</b>	<b>\$ 48,099</b>

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# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Condensed Consolidated Interim Financial Statements

(in thousands of Canadian dollars)

For the three months ended March 31, 2019 and 2018

Unaudited

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

### 1. Basis of Preparation

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

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

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

### 2. Significant Accounting Policies

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

#### Accounting Standards implemented in 2019

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

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

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

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

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

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

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

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

(in thousands of Canadian dollars)

For the three months ended March 31, 2019 and 2018

**Unaudited****3. Property Acquisitions**

## (a) 2019 Property Acquisitions

Property	Location	Property type	Acquisition date	Total acquisition costs <sup>(1)</sup>	Property specific debt
Schmilauer Str. 108 & Röpertsberg 45/47	Ratzeburg, Germany	Hospital and Healthcare Facilities	January 31, 2019	\$ 51,398	\$ 35,431
Demmeringstr. 47-49	Leipzig, Germany	Medical Office Building	March 7, 2019	12,539	—
Other <sup>(2)</sup>	Various			28	—
				<b>\$ 63,965</b>	<b>\$ 35,431</b>

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

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

## (b) 2018 Property Acquisitions

	Location	Property type	Acquisition date	Total acquisition costs <sup>(1)</sup>	Property specific debt
Fritz-Lang-Platz 6	Berlin, Germany	Medical Office Building	January 31, 2018	\$ 22,175	\$ 14,527
Demmeringstr. 47-49	Bad Kissingen, Germany	Hospital and Healthcare Facilities	February 22, 2018	22,362	14,508
Clinic Bremer Strasse 2	Wilhemshaven, Germany	Hospital and Healthcare Facilities	March 15, 2018	35,069	22,720
Epworth Freemasons Private Hospital (remaining 50%)	Melbourne, Australia	Medical Office Building	March 28, 2018	54,948	—
Landsberger Allee 44 / Matthiasstr 7	Berlin, Germany	Medical Office Building	April 27, 2018	39,283	25,761
Zuyderland Medical Center	Brunssum, the Netherlands	Medical Office Building	June 26, 2018	41,735	23,008
MediMall Rotterdam	Rotterdam, the Netherlands	Medical Office Building	June 29, 2018	101,351	58,794
Hospital São Luiz Morumbi	São Paulo, Brazil	Hospital	September 28, 2018	92,367	—
Epping Medical Centre	Melbourne, Australia	Medical Office Building	October 1, 2018	41,214	—
Klinik Bernkastel & Moselhohe	Bernkastel-Kues, Germany	Medical Office Building	December 21, 2018	36,016	23,957
Allee der Kosmonauten 47	Berlin, Germany	Medical Office Building	December 28, 2018	15,547	9,714
Other	Various			42,215	—
				<b>\$ 544,282</b>	<b>\$ 192,989</b>

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# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Condensed Consolidated Interim Financial Statements

(in thousands of Canadian dollars)

For the three months ended March 31, 2019 and 2018

Unaudited

### 4. Investment Properties

As at	March 31, 2019	December 31, 2018
Balance, beginning of period	\$ 4,669,802	\$ 4,144,789
Acquisition of investment properties (note 3)	63,965	544,282
Disposition of investment properties	—	(207,247)
Additions to investment properties	19,524	94,405
Increase in straight line rents	448	2,139
Settlement of securitization	—	7,945
Right of use asset addition	4,335	—
Fair value gain (loss)	9,730	150,263
Foreign currency translation	(63,538)	(66,774)
<b>Balance, end of period</b>	<b>\$ 4,704,266</b>	<b>\$ 4,669,802</b>

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

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

Fair values are most sensitive to changes in discount rates and terminal capitalization rates. A 0.25% increase in the weighted average portfolio discount rate and terminal capitalization rate would decrease fair value by \$186.5 million and a 0.25% decrease would increase fair value by \$179.2 million.

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

	As at March 31, 2019			
	Canada	Brazil	Europe	Australasia
Discount rate - range	5.3% - 8.5%	7.3% - 8.5%	4.3% - 7.3%	5.8% - 10.8%
Discount rate - weighted average	7.2%	7.8%	6.3%	6.8%
Terminal capitalization rate - range	5.0% - 8.0%	7.0% - 8.0%	5.0% - 7.5%	5.3% - 9.3%
Terminal capitalization rate - weighted average	6.6%	7.4%	5.9%	6.3%
Implied capitalization rate - range	3.8% - 10.2%	7.0% - 8.1%	4.2% - 7.1%	5.0% - 9.5%
Implied capitalization rate - weighted average	6.6%	7.5%	5.8%	5.7%
	As at December 31, 2018			
	Canada	Brazil	Europe	Australasia
Discount rate - range	5.3% - 8.5%	7.3% - 8.5%	5.2% - 7.3%	5.8% - 10.8%
Discount rate - weighted average	7.2%	7.8%	6.3%	6.8%
Terminal capitalization rate - range	4.8% - 8.0%	7.0% - 8.0%	5.0% - 7.5%	5.3% - 9.3%
Terminal capitalization rate - weighted average	6.6%	7.4%	5.9%	6.3%
Implied capitalization rate - range	3.7% - 10.2%	7.0% - 8.1%	4.5% - 7.1%	5.0% - 9.5%
Implied capitalization rate - weighted average	6.5%	7.5%	5.8%	5.7%

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

(in thousands of Canadian dollars)

For the three months ended March 31, 2019 and 2018

**Unaudited**

During the three months ended March 31, 2019, investment properties with an aggregate fair value of \$91.9 million (for the three months ended March 31, 2018 - \$13.3 million) were valued by external valuation professionals with recognized and relevant professional qualification.

**5. Other Assets**

<b>As at</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Acquisition and financing costs (i)	\$ 8,391	\$ 3,403
Prepaid expenses and deposits	5,666	8,759
Furniture and office equipment	3,140	3,314
Loans carried at amortized cost (ii)	34,326	34,453
Finance lease receivable (iii)	6,525	6,560
Right-of-use assets (iv)	5,092	—
Other	1,484	1,657
	\$ 64,624	\$ 58,146

- i. Acquisition and financing costs relate to potential acquisitions and debt refinancing which are currently undergoing due diligence and/or negotiation.
- ii. Loans carried at amortized cost relates to two loans secured by Australian investment properties.
- iii. Finance lease receivable relates to a long-term lease that is a finance lease, bearing a discount rate of 6.5% and remaining term of 68 years.
- iv. Right-of-use assets are net of accumulated amortization of \$0.4 million (December 2018 - \$nil), see note 2 for further details.

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

(in thousands of Canadian dollars)

For the three months ended March 31, 2019 and 2018

**Unaudited****6. Mortgages and Loans Payable**

<b>As at</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Mortgage payable <sup>1</sup>	\$ 839,342	\$ 822,355
Term debt <sup>1</sup>	1,313,622	1,309,104
Credit facilities <sup>1</sup>	200,865	275,241
Lease liabilities	12,293	2,962
<b>Total</b>	<b>\$ 2,366,122</b>	<b>\$ 2,409,662</b>
Less: Current portion	400,714	541,368
<b>Non-current debt</b>	<b>\$ 1,965,408</b>	<b>\$ 1,868,294</b>

(1) All amounts are net of financing costs.

**Mortgages**

All mortgages are secured by first or second charges on specific investment properties in Canada and Europe, with a carrying value of \$1.5 billion as at March 31, 2019 (December 31, 2018 - \$1.4 billion).

**Term debt**

As at March 31, 2019, term debt balance includes Brazilian secured debt of \$187.4 million (December 31, 2018 - \$195.1 million); Australian term debt of \$343.7 million (December 31, 2018 - \$298.2 million) secured by assets owned by an Australian subsidiary (excluding the non-controlling interest of the Frankston properties); New Zealand term debts of \$679.1 million (December 31, 2018 - \$679.7 million) secured by Vital Healthcare Property Trust's ("Vital Trust") security trust deed and by a first mortgages ranking over the respective investment properties of Vital Trust; and Australasian secured financing of \$99.9 million (December 31, 2018 - \$100.4 million) secured by 105,977,179 units of Vital Trust held by the REIT and \$14.2 million (December 31, 2018 - 48.1 million) secured by the REIT's investment in Healthscope Ltd. ("HSO").

**Credit facilities**

As at March 31, 2019, the total credit facilities balance consists of \$138.0 million revolving credit facilities with weighted average interest rate of 4.62% (December 31, 2018 - \$244.5 million) and 64.0 million non-revolving credit facilities with weighted average interest rate of 8.20% (December 31, 2018 - \$32.0 million). The revolving credit facility is secured by first and second charges on certain Canadian investment properties with fair value of \$248.3 million, and the terms of a general security agreement.

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

(in thousands of Canadian dollars)

For the three months ended March 31, 2019 and 2018

**Unaudited****Lease liabilities**

The lease of land on which one of the REIT's investment properties is built is accounted for as a finance lease. The remaining term of the lease at March 31, 2019 was 68 years. In addition, as part of the transition to IFRS 16, the REIT recognised lease liabilities for leases of which the REIT act as a lessee. Minimum payments under the lease and their present values are as follows:

<b>As at</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Minimum lease payments payable:		
Not later than one year	\$ 1,715	\$ 129
Later than one year and not later than five years	6,234	554
Later than five years	32,477	28,286
	<b>40,426</b>	<b>28,969</b>
Future finance charges	(28,133)	(26,007)
<b>Present value of minimum lease payments</b>	<b>\$ 12,293</b>	<b>\$ 2,962</b>
Present value of minimum lease payments:		
Not later than one year	1,674	124
Later than one year and not later than five years	5,425	536
Later than five years	5,194	2,302
	<b>\$ 12,293</b>	<b>\$ 2,962</b>

As at March 31, 2019, the scheduled principal repayments and debt maturities are as follows:

	Mortgage Debt	Term Debt	Credit Facilities	Finance Lease	Total
2019	\$ 118,752	\$ 127,986	\$ 138,000	\$ 1,266	<b>\$ 386,004</b>
2020	141,418	225,297	—	1,578	<b>368,293</b>
2021	140,883	194,940	64,000	1,372	<b>401,195</b>
2022	128,302	604,377	—	1,309	<b>733,988</b>
2023	54,597	85,765	—	1,231	<b>141,593</b>
2024 & thereafter	256,009	86,057	—	5,537	<b>347,603</b>
	<b>\$ 839,961</b>	<b>\$ 1,324,422</b>	<b>\$ 202,000</b>	<b>\$ 12,293</b>	<b>\$ 2,378,676</b>
Financing costs	(3,638)	(10,800)	(1,135)	—	<b>(15,573)</b>
Mark-to-market adjustment	3,019	—	—	—	<b>3,019</b>
<b>Total</b>	<b>\$ 839,342</b>	<b>\$ 1,313,622</b>	<b>\$ 200,865</b>	<b>\$ 12,293</b>	<b>\$ 2,366,122</b>

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A summary of the maturity and the weighted average interest rates relating to the mortgages and loans payable outstanding at March 31, 2019 are as follows:

	<b>Maturity</b>	<b>Weighted Average Interest Rate</b>	<b>Carrying Value</b>	<b>Available to be Drawn</b>
<b>Fixed rate</b>				
Mortgage debt	June 2019 - January 2029	3.05%	\$ 756,442	\$ —
Term debt	March 2021 - November 2027	5.46%	775,246	103,889
<b>Total fixed rate debt</b>			<b>\$ 1,531,688</b>	<b>\$ 103,889</b>
<b>Variable Rate</b>				
Mortgage debt	May 2019 - March 2022	4.28%	83,518	—
Term debt	June 2019 - November 2027	4.59%	549,177	71,334
Credit facilities	June 2019 - December 2020	5.75%	202,000	78,500
<b>Total variable rate debt</b>			<b>\$ 834,695</b>	<b>\$ 149,834</b>
<b>Total debt excluding the following:</b>			<b>\$ 2,366,383</b>	<b>\$ 253,723</b>
Finance lease			12,293	
Mark-to-market adjustment			3,019	
Financing costs			(15,573)	
<b>Total debt</b>			<b>\$ 2,366,122</b>	<b>\$ 253,723</b>

The table below summarizes the movements in the REIT's mortgages and loans during the three months ended March 31, 2019:

	<b>Mortgage Debt</b>	<b>Term Debt</b>	<b>Credit Facilities</b>	<b>Total</b>
Opening balance, January 1, 2019	\$822,355	\$1,309,104	\$275,241	<b>\$2,406,700</b>
Principal amortization	(5,721)	—	—	<b>(5,721)</b>
Repayments	—	(159,158)	(223,000)	<b>(382,158)</b>
Refinancing	5,262	—	—	<b>5,262</b>
Advances	30,204	177,390	148,500	<b>356,094</b>
Additional financing fees incurred	(739)	(531)	(623)	<b>(1,893)</b>
Amortization of finance fees	234	1,841	747	<b>2,822</b>
Amortization of mark-to-market	(297)	—	—	<b>(297)</b>
Inflation adjustment	—	1,300	—	<b>1,300</b>
Foreign exchange adjustment	(11,956)	(16,324)	—	<b>(28,280)</b>
Ending balance, March 31, 2019	\$839,342	\$1,313,622	\$200,865	<b>\$2,353,829</b>

During the three months ended March 31, 2019, the REIT refinanced and entered into a mortgage for \$5.2 million (€3.5 million) and \$30.2 million (€20.0 million), respectively, to fund the acquisition of two German healthcare properties. The REIT had term debt advances, net of repayments of \$18.0 million to fund part of the HSO transaction. The REIT had credit facility repayments, net of advances of \$74.5 million, to fund part of the German acquisitions and HSO transaction.

The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on its \$747.8 million variable rate debt as at March 31, 2019 (December 31, 2018 - \$839.7 million) (note 8). The interest rate swaps terminate between 2021 and 2028.

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**7. Convertible Debentures**

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

<b>As at</b>		<b>March 31, 2019</b>		<b>December 31, 2018</b>
Balance, beginning of period	\$	<b>401,235</b>	\$	296,857
Issuance of convertible debenture		—		125,000
Conversion to REIT units (note 12)		(7)		(69)
Change in fair value of convertible debentures		<b>21,555</b>		(20,553)
	\$	<b>422,783</b>	\$	401,235

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

<b>As at</b>		<b>March 31, 2019</b>		<b>December 31, 2018</b>
NWH.DB	\$	<b>40,657</b>	\$	39,445
NWH.DB.C		<b>39,137</b>		38,749
NWH.DB.D		<b>56,207</b>		51,711
NWH.DB.E		<b>76,992</b>		74,003
NWH.DB.F		<b>82,915</b>		78,890
NWH.DB.G		<b>126,875</b>		118,437
Fair Value	\$	<b>422,783</b>	\$	401,235
Current		<b>39,137</b>		38,749
Non-Current		<b>383,646</b>		362,486
	\$	<b>422,783</b>	\$	401,235

<b>Debentures Series</b>	<b>Conversion price per Unit (\$)</b>	<b>Maturity</b>	<b>Interest rate</b>	<b>Interest payment</b>	<b>Interest payment dates</b>
NWH.DB	\$14.20	September 30, 2020	5.25%	Semi-annual	March 31 and September 30
NWH.DB.C	\$12.50	October 31, 2019	7.25%	Semi-annual	April 30 and October 31
NWH.DB.D	\$11.25	October 31, 2020	5.50%	Semi-annual	April 30 and October 31
NWH.DB.E	\$12.75	July 31, 2021	5.25%	Semi-annual	January 31 and July 31
NWH.DB.F	\$12.80	December 31, 2021	5.25%	Semi-annual	June 30 and December 31
NWH.DB.G	\$13.35	December 31, 2023	5.50%	Semi-annual	June 30 and December 31

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**8. Financial Instruments**

As at	March 31, 2019	December 31, 2018
Financial assets:		
Forward contract <sup>(i)</sup>	\$ 132,509	\$ 130,396
Option contracts <sup>(i)</sup>	(1,394)	12,920
Interest rate swaps <sup>(ii)</sup>	(195)	535
Foreign exchange contracts <sup>(iii)</sup>	172	6,683
<b>Total financial assets</b>	<b>131,092</b>	<b>150,534</b>
Financial liabilities:		
Interest rate swaps <sup>(ii)</sup>	37,421	23,094
Foreign exchange contracts <sup>(iii)</sup>	—	8
<b>Total financial liabilities</b>	<b>\$ 37,421</b>	<b>\$ 23,102</b>

## Derivative financial asset

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

The forward contemplates physical settlement but may be net settled in certain circumstances. Under the forward contract the REIT is entitled to receive dividend equivalents declared by HSO and it pays variable interest on the underlying embedded funding contained in the forward contract at Bank Bill Swap Bid Rate ("BBSY") plus 3% to 3.5%.

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

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

## Derivative financial liability

- (ii) The REIT has entered into interest rate swap contracts with respect to certain Canadian and German mortgages, and portions of the Vital Trust and Australia REIT term loans (note 6). The interest rate derivatives mature over the next one to 10 years and have fixed interest rates ranging from 1.42% to 4.88%.

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

<b>For the three months ended March 31,</b>	<b>2019</b>	<b>2018</b>
Fair value adjustment - interest rate swaps	\$ (15,321)	\$ 232
Receipts/(payments) under transaction hedging foreign exchange contracts	156	144
Fair value adjustment - foreign exchange contracts	95	772
Fair value adjustment - forward contracts	18,139	—
Fair value adjustment - option contracts	(14,331)	—
Distribution equivalent - forward contract	7,669	—
Finance costs - embedded funding contained in forward contract	(4,785)	—
	<b>\$ (8,378)</b>	<b>\$ 1,148</b>

**9. Deferred Unit Plan ("DUP") Liability**

The REIT's DUP became effective in March 2010 and was re-approved at the annual general meeting of Unitholders in 2018. The DUP is administered by the Compensation, Governance and Nominating Committee. The purpose of the DUP is to promote a greater alignment of interests between the Trustees, officers and certain other participants of the REIT and the Unitholders. Under the plan, the maximum number of units authorized for issuance shall not exceed 5% of the units issued and outstanding at any given time. The deferred units can be settled at the holders' option in units or cash subject to the REIT's approval and are treated as a liability until redeemed.

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

(a) Liability:

<b>As at</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Balance, beginning of period	\$ 13,030	\$ 18,009
Unit based compensation expense	954	4,759
Exercised and paid in cash	(640)	(2,399)
Exercised and settled in Trust Units	(544)	(5,103)
Fair value adjustment	2,435	(2,235)
FX adjustment	(41)	(1)
Balance, end of period	<b>\$ 15,194</b>	<b>\$ 13,030</b>

The balance of the DUP liability at March 31, 2019 consists of \$13.1 million related to the REIT's DUP and \$2.1 million related to Vital Trust's DUP (December 31, 2018 - \$11.1 million related to the REIT's DUP and \$1.9 million related to Vital Trust's DUP).

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

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(b) Units outstanding:

<b>As at March 31, 2019</b>	<b>REIT</b>	<b>Vital Trust</b>
Balance, beginning January 1, 2019	1,339,924	2,071,319
Granted	13,303	—
Exercised and paid in cash	(43,691)	(137,173)
Exercised and paid in REIT units	(56,726)	—
Forfeited	—	—
Distribution entitlement	24,454	20,597
Balance, as at March 31, 2019	1,277,264	1,954,743
Units vested but not exercised	776,307	290,628

  

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

For the three months ended March 31, 2019, the REIT and Vital Trust combined granted or issued 13,303 DUP units with a value of \$0.2 million (for the three months ended March 31, 2018 - 31,231 DUP units with a fair value of \$0.2 million).

**10. 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 March 31, 2019, there were 17,708,065 Class B exchangeable units (December 31, 2018 - 17,708,065) of NorthWest International Healthcare Properties LP ("NWI LP") issued and outstanding with a fair value of \$206.5 million (December 31, 2018 - \$167.9 million).

Distributions declared on the Class B exchangeable units of NWI LP totaled \$3.5 million for the three months ended March 31, 2019 (for the three months ended March 31, 2018 - \$3.5 million) and have been accounted for as finance costs.

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

	<b>Units</b>	<b>Amount</b>
<b>Balance, December 31, 2017</b>	18,998,065	\$ 216,008
Converted to Trust units	(1,290,000)	(14,874)
Fair value adjustment	—	(33,262)
<b>Balance, December 31, 2018</b>	17,708,065	\$ 167,872
Fair value adjustment	—	38,604
<b>Balance, March 31, 2019</b>	<b>17,708,065</b>	<b>\$ 206,476</b>

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**11. Rental Revenue**

The components of rental revenue are as follows:

For the three months ended March 31,	2019	2018
Rental income	\$ 69,105	\$ 65,957
Operating cost recoveries	15,157	14,835
Tax and insurance recoveries	4,648	4,727
Other revenue	3,023	2,729
<b>Rental revenue</b>	<b>\$ 91,933</b>	<b>\$ 88,248</b>

**12. Unitholders' Equity**

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

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

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

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

The following table shows the changes in REIT units:

	REIT units	Amount
<b>Balance, December 31, 2017</b>	<b>101,039,187</b>	<b>\$ 924,918</b>
Units issued through distribution reinvestment plan (i)	762,436	8,205
Conversion of convertible debentures (note 7)	5,866	69
Units issued under deferred unit plan (note 9)	472,758	5,103
Units issued pursuant to Class B conversion (note 10)	1,290,000	14,874
<b>Balance, December 31, 2018</b>	<b>103,570,247</b>	<b>\$ 953,169</b>
Units issued through distribution reinvestment plan (i)	219,522	2,303
Conversion of convertible debentures (note 7)	622	7
Units issued under deferred unit plan (note 9)	56,726	544
Units issued pursuant to equity offering (ii)	13,501,000	143,786
Units issuances costs (ii)	—	(6,796)
<b>Balance, March 31, 2019</b>	<b>117,348,117</b>	<b>\$ 1,093,013</b>

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

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- (ii) On February 26, 2019, the REIT completed a public offering of 13,501,000 units at a price of \$10.65 per unit for gross proceeds of approximately \$143.8 million, which included the exercise in full of the over-allotment option granted to the underwriters, whereby an additional 1,761,000 units were issued at a price of \$10.65 per unit.

**13. Supplemental Cash Flow Information**

## (i) Cash and Restricted Cash

<b>As at</b>	<b>March 31, 2019</b>		<b>December 31, 2018</b>	
Cash	\$	<b>94,635</b>	\$	45,808
Restricted cash		<b>356</b>		351
	\$	<b>94,991</b>	\$	46,159

Restricted cash represents cash held in the REIT's designated bank accounts pledged as collateral for the Brazil long-term financings (note 6).

As at March 31, 2019, included in cash is \$47.5 million (A\$50.0 million) deposit for a letter of credit to a seller in support of acquiring 11 freehold hospital property assets (see Note 21).

## (ii) Changes in Non-Cash Working Capital Balances

<b>For the three months ended March 31,</b>	<b>2019</b>		<b>2018</b>	
Accounts receivable	\$	<b>3,040</b>	\$	(5,910)
Other assets		<b>(2,698)</b>		(701)
Accounts payable and accrued liabilities		<b>1,494</b>		(2,417)
	\$	<b>1,836</b>	\$	(9,028)

## (iii) Non-Cash Financing and Investing Activities

<b>For the three months ended March 31,</b>	<b>2019</b>		<b>2018</b>	
Non cash distributions to Unitholders under the DRIP (note 12)	\$	<b>2,303</b>	\$	1,934
Units issued under deferred unit plan (note 9)		<b>544</b>		858
Non-cash conversion of convertible debentures		<b>7</b>		57
Non-cash conversion of Class B exchangeable units (note 10)		<b>—</b>		14,874

## (iv) Finance costs

<b>For the three months ended March 31,</b>	<b>2019</b>		<b>2018</b>	
Distributions on Exchangeable Units	\$	<b>3,542</b>	\$	3,542
Loss on revaluation of financial liabilities		<b>1,300</b>		13,340
Amortization of deferred financing costs		<b>2,822</b>		2,860
Amortization of marked to market adjustment		<b>(297)</b>		(616)
Fair value adjustment of Convertible Debentures		<b>21,555</b>		(2,889)
Fair value adjustment of Class B exchangeable units		<b>38,604</b>		(1,564)
	\$	<b>67,526</b>	\$	14,673

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**14. Related Party Transactions**

- (a) As at March 31, 2019, Northwest Value Partners Inc. ("NWVP") indirectly owned approximately 18.7% of the outstanding REIT units (approximately 15.5% on a fully diluted basis assuming conversion of the REIT's convertible debentures and redemption of its deferred units) of the REIT through a combination of units of the REIT and Class B exchangeable units of NWI LP. Paul Dalla Lana, Chairman of the Board of Trustees and Chief Executive Officer of the REIT, is the sole shareholder, sole director and President of NWVP.
- (b) In the normal course of operations the REIT has amounts owing to and from NWVP and affiliates. As at March 31, 2019, these non-interest bearing amounts combined included in accounts receivable are a net asset of \$1.1 million (December 31, 2018 - \$0.2 million).
- (c) At March 31, 2019, included in accounts payable and accrued liabilities are Class B exchangeable unit distributions payable owing to NWVP and affiliates in the amount of \$1.2 million (December 31, 2018 - \$1.2 million), which were settled subsequent to period end.
- (d) The following table summarizes the related party transactions with NWVP and its subsidiaries related to cost-sharing and sublease agreements with the REIT:

For the three months ended March 31,	2019	2018
Reimbursement for out-of-pocket costs	\$ 124	\$ (463)
Cost-sharing and sublease agreements	3	—
	\$ 127	\$ (463)

**15. Segmented Information**

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

During the three months ended March 31, 2019, two tenants in Brazil accounted for 16% (for the three months ended March 31, 2018 - 16%), and one tenant in Australasia operating segment accounted for 15% respectively (for the three months ended March 31, 2018 - 13%) of the total revenue from investment properties.

As at March 31, 2019	Europe	Brazil	Australasia	Canada	Total
Investment properties	\$ 640,565	\$ 753,846	\$ 2,195,549	\$ 1,114,306	\$ 4,704,266
Mortgages and loans payable	\$ 349,314	\$ 180,041	\$ 1,025,216	\$ 811,551	\$ 2,366,122
As at December 31, 2018	Europe	Brazil	Australasia	Canada	Total
Investment properties	\$ 599,257	\$ 761,112	\$ 2,206,694	\$ 1,102,739	\$ 4,669,802
Mortgages and loans payable	\$ 327,870	\$ 186,902	\$ 977,519	\$ 917,371	\$ 2,409,662

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For the three months ended March 31, 2019	Europe	Brazil	Australasia	Canada	Total
<b>Operating Income</b>					
Revenue from investment properties	\$ 11,805	\$ 14,366	\$ 34,288	\$ 31,474	\$ 91,933
Property operating costs	3,457	—	4,633	14,751	22,841
<b>Net property operating income</b>	<b>8,348</b>	<b>14,366</b>	<b>29,655</b>	<b>16,723</b>	<b>69,092</b>
Other income					
Interest and other	65	47	1,192	62	1,366
Management fee	—	—	2,675	—	2,675
Share of profit of associate	—	—	(83)	—	(83)
	65	47	3,784	62	3,958
Mortgage and loan interest expense	2,080	3,399	11,648	16,156	33,283
General and administrative expenses	1,090	601	2,826	2,279	6,796
Transaction costs	17	5	1,762	329	2,113
Foreign exchange (gain) loss	2	553	(896)	1,301	960
	3,189	4,558	15,340	20,065	43,152
<b>Operating income (loss)</b>	<b>\$ 5,224</b>	<b>\$ 9,855</b>	<b>\$ 18,099</b>	<b>\$ (3,280)</b>	<b>\$ 29,898</b>
For the three months ended March 31, 2018	Europe	Brazil	Australasia	Canada	Total
<b>Operating Income</b>					
Revenue from investment properties	\$ 6,041	\$ 14,048	\$ 35,381	\$ 32,778	\$ 88,248
Property operating costs	1,668	—	4,696	15,707	22,071
<b>Net property operating income</b>	<b>4,373</b>	<b>14,048</b>	<b>30,685</b>	<b>17,071</b>	<b>66,177</b>
Other income					
Interest and other	1	2,275	1,288	60	3,624
Management fee	—	—	446	—	446
	1	2,275	1,734	60	4,070
Mortgage and loan interest expense	821	3,926	10,845	15,642	31,234
General and administrative expenses	709	592	1,947	2,687	5,935
Transaction costs	—	—	138	264	402
Foreign exchange (gain) loss	—	1,779	(4,504)	3,848	1,123
	1,530	6,297	8,426	22,441	38,694
<b>Operating income</b>	<b>\$ 2,844</b>	<b>\$ 10,026</b>	<b>\$ 23,993</b>	<b>\$ (5,310)</b>	<b>\$ 31,553</b>

### 16. Non-wholly Owned Subsidiary

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

As at March 31, 2019	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
<b>Ownership interest</b>	24.9%	56.9%	5.1%	
<b>Total assets</b>	\$ 1,695,928	\$ 170,408	\$ 20,934	\$ 1,887,270
<b>Total liabilities</b>	809,103	44,743	10,602	864,448
<b>Net assets</b>	\$ 886,825	\$ 125,665	\$ 10,332	\$ 1,022,822
<b>Attributable to:</b>				
<b>Unitholders of the REIT</b>	214,751	71,516	9,856	296,123
<b>Non-controlling interest</b>	672,074	54,149	476	726,699
	\$ 886,825	\$ 125,665	\$ 10,332	\$ 1,022,822

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

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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As at December 31, 2018	Vital Trust		Divine		Fritz-Lang-Platz 6		Total	
Ownership interest	24.9%		56.9%		5.1%			
Total assets	\$	1,710,785	\$	172,256	\$	21,884	\$	1,904,925
Total liabilities		802,055		44,741		11,160		857,956
Net assets	\$	908,730	\$	127,515	\$	10,724	\$	1,046,969
Attributable to:								
Unitholders of the REIT		229,351		72,554		10,238		312,143
Non-controlling interest		679,379		54,961		486		734,826
	\$	908,730	\$	127,515	\$	10,724	\$	1,046,969
<b>Three months ended March 31, 2019</b>								
	<b>Three months ended March 31, 2019</b>				<b>Three months ended March 31, 2018</b>			
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Revenue from investment properties	\$ 24,750	\$ 1,864	\$ 394	\$ 27,008	\$ 24,439	\$ 2,000	\$ 402	\$ 26,841
Net income attributable to:								
Unitholders of the REIT	1,136	741	(14)	1,863	4,355	891	141	5,387
Non-controlling interest	3,432	525	3	3,960	12,823	675	7	13,505
Net income (loss)	\$ 4,568	\$ 1,266	\$ (11)	\$ 5,823	\$ 17,178	\$ 1,566	\$ 148	\$ 18,892
<b>Total comprehensive income attributable to:</b>								
Unitholders of the REIT	(652)	(150)	16	(786)	(744)	1,632	189	1,077
Non-controlling interest	(1,980)	(114)	1	(2,093)	(2,377)	1,236	10	(1,131)
Total comprehensive income (loss)	\$ (2,632)	\$ (264)	\$ 17	\$ (2,879)	\$ (3,121)	\$ 2,868	\$ 199	\$ (54)
Distributions attributable to non-controlling interest	\$ 6,653	\$ 692	\$ 5	\$ 7,350	\$ 6,480	\$ 748	n/a	\$ 7,228
<b>Three months ended March 31, 2019</b>								
	<b>Three months ended March 31, 2019</b>				<b>Three months ended March 31, 2018</b>			
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
<b>Cash flow activities:</b>								
Operating	\$ 14,965	\$ 1,518	\$ 51	\$ 16,534	\$ 7,672	\$ 2,047	\$ 2,132	\$ 11,851
Investing	(4,791)	—	—	(4,791)	(10,840)	—	—	(10,840)
Financing	(7,580)	(1,589)	(219)	(9,388)	2,272	(1,808)	(1,440)	(976)
Effect of foreign currency translation	(1,763)	(4)	1	(1,766)	(2,234)	(128)	15	(2,347)
Net change in cash	\$ 831	\$ (75)	\$ (167)	\$ 589	\$ (3,130)	\$ 111	\$ 707	\$ (2,312)

The REIT is subject to restrictions over the extent to which it can access funds of Fritz-Lang-Platz 6, Vital Trust, and Divine in the form of cash distributions, or use assets and liabilities as a result of borrowing arrangements, regulatory restrictions and the REIT's economic interest in Fritz-Lang-Platz 6, Vital Trust, and Divine being limited to approximately 5.1%, 24.9% and 56.9%, respectively.

## 17. Commitments and Contingent Liabilities

- (a) The REIT obtains letters of credit to support its obligations with respect to construction work on its investment properties and satisfying mortgage financing requirements. As at March 31, 2019, the REIT has a total of \$0.5 million in outstanding letters of credit, under the REIT's secured revolving floating rate credit facility, related to construction work that is being performed on investment properties. The REIT does not believe that any of these standby letters of credit are likely to be drawn upon.

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# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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- (b) Pursuant to the sale of two of the REIT's investment properties, the existing mortgages were assumed by the purchasers. In the event of default, the REIT has guaranteed the outstanding balance of the mortgages of \$6.2 million as at March 31, 2019 (December 31, 2018 - \$6.3 million).
- (c) The REIT has entered into acquisitions and construction agreements on development properties and is committed to costs of \$267.9 million as at March 31, 2019 (December 31, 2018 - \$272.1 million).
- (d) The REIT indemnifies individuals who have acted at the REIT's request to be a trustee and/or director and/or officer of the REIT (and/or one or more of its direct and indirect subsidiaries), to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The claims covered by such indemnifications are subject to statutory and other legal limitation periods. The nature of the indemnification agreements prevents the REIT from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements.
- (e) The REIT is subject to legal and other claims in the normal course of business. Management and the REIT's legal counsel evaluate all claims. In the opinion of management these claims are generally covered by the REIT's insurance policies and any liability from such claims would not have a significant effect on the REIT's consolidated financial statements.

### 18. 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 4 outlines the key assumptions used by the REIT in determining fair value of its investment properties.

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

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

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

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

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

(in thousands of Canadian dollars)

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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 March 31, 2019 is as follows:

	Carrying value	Fair Value		
		Level 1	Level 2	Level 3
Assets measured at fair value:				
Investment properties	\$ 4,704,266	\$ —	\$ —	\$ 4,704,266
Financial instruments	131,092	—	131,092	—
Liabilities measured at fair value:				
Financial instruments	37,421	—	37,421	—
Convertible debentures	422,783	422,783	—	—
Class B LP exchangeable units	206,476	206,476	—	—
Deferred unit plan liability	15,194	15,194	—	—
Financial liabilities recorded at amortized cost:				
Mortgage and loans payable	2,366,122	—	2,378,821	—

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

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

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### 19. Capital Management

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

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

At March 31, 2019, the REIT is in compliance with its debt to gross book value ratio of the Declaration of Trust at 46.3% (December 31, 2018 - 47.8%).

As at	March 31, 2019	December 31, 2018
<b>Debt</b>		
Gross value of debt excluding convertible debentures <sup>(1)</sup>	\$ 2,378,676	\$ 2,423,137
Gross value of total debt <sup>(2)</sup>	2,801,459	2,824,372
<b>Gross Book Value of Assets</b>		
Total assets	\$ 5,142,828	\$ 5,071,648
<b>Debt-to-Gross Book Value (Declaration of Trust)</b>	<b>46.3%</b>	<b>47.8%</b>
<b>Debt-to-Gross Book Value (including convertible debentures)</b>	<b>54.5%</b>	<b>55.7%</b>

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

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

The REIT's capital management is also impacted by various financial covenants in certain loan agreements. As at March 31, 2019, the REIT is in compliance with all such financial covenants.

### 20. Risk Management

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

### 21. Subsequent Events

- (i) On April 15, 2019, the REIT completed property acquisition of a German healthcare investment property for purchase price of approximately \$26.8 million (€17.8 million). The acquisition was partially financed by new property specific mortgage of \$16.5 million (€11.0 million), bearing interest of 2.18% with term to maturity of 10 years.
- (ii) With respect of the previously announced agreement to acquire 11 freehold hospital property assets, on April 15, 2019, the REIT met the first funding milestone of \$277.2 million (A\$291.8 million), with the institutional investor providing guarantee of its proportion of the funding obligation towards a potential closing in 2019. On April 17, 2019, the institutional investor funded the REIT its share of the initial acquisition deposit of \$33.2 (A\$35 million).

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

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

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- (iii) With respect of the previously announced \$39.0 million unsecured acquisition facility, on April 15, 2019, the remaining \$15.0 million was drawn. The facility currently bears interest rate greater of 8.5% or prime plus 4.55%.
- (iv) On April 17, 2019, the REIT extended the maturity of a of \$51.2 million non-revolving credit facility, secured by three Canadian investment, from May 2019 to November 2019.
- (v) On April 18, 2018, REIT fully repaid the \$14.2 million (A\$15.0 million) reinstated Australasian secured debt, bearing interest of BBSY plus 7%.
- (vi) On April 12, 2019, the REIT announced a distribution of \$0.06667 per REIT unit to unitholders of record on April 30, 2019, will be payable on May 15, 2019.



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