

**NORTHWEST HEALTHCARE
PROPERTIES REAL ESTATE
INVESTMENT TRUST**

**MANAGEMENT DISCUSSION
AND ANALYSIS**

FOR THE THREE MONTHS ENDED
MARCH 31, 2019

MAY 9, 2019



CEO'S MESSAGE

Paul Dalla Lana
Chief Executive Officer



Strong Results for Q1

Dear Fellow Unitholders,

So far in 2019, the REIT has executed on its largest strategic priority, entering into a transaction to acquire 11 very high quality Australian hospitals from Healthscope for \$1.2 billion and confirming our existing institutional joint venture partner's commitment to participate. This highly accretive transaction, which is expected to close in June, solidifies the REIT's position as the dominant player in Australasian healthcare real estate and further strengthens ties with its JV partner. Outside of Australia, the business is similarly firing on all cylinders with momentum in the European platform with five high quality property acquisitions totaling \$150M closed and committed as well as in the capital markets where the REIT completed a \$144M equity financing, broadened its institutional investor base and was added to the S&P/TSX REIT Index.

As we look forward, the opportunities in front of the REIT continue to grow as the trends of healthcare operator consolidation and a shift towards a capital light model play out globally, unlocking high quality real estate opportunities across our platform. With strong relationships, established high quality local operating platforms and strong access to public and increasingly attractively priced private capital, the REIT is well positioned to execute on further strategic transactions.

For the three months ended March 31, 2019, the REIT delivered another quarter of strong financial and operating results with key highlights as follows:

- Revenue increased 4.2% in Q1 2019 to \$91.9 million from \$88.2 million in Q1 2018 primarily driven by net acquisition activity;
- Total Operating Income has increased by 2.5% to \$73.1 million over the fourth quarter of 2018;
- Reported and Normalized AFFO per unit for the first quarter 2019 of \$0.20 and \$0.225 respectively;
- Source currency and Canadian dollar cash recurring SPNOI growth of 2.5% and (0.9%), respectively, in Q1 2019 as compared to Q1 2018;
- Leverage of 46.3% (54.5% including convertible debentures) at the end of Q1 2019. The REIT continues to target a 50% leverage ratio and expects leverage to decline towards that target;
- Net asset value per unit of \$11.65, representing a 5.3% decrease over Q4 2018 primarily driven by currency depreciation and equity dilution but partially offset by valuation gains;
- Strong portfolio occupancy of 96.8% rising 10 bps from Q4 2018 and the international portfolio holding stable above 98% occupancy;

During both the first quarter and subsequent to quarter-end, the REIT has continued executing on its committed, low-risk development pipeline, completing accretive debt refinancing and pursuing select accretive acquisitions. Significant achievements included:

Advancing strategic priorities: During the quarter, the REIT entered into a \$1.2 billion acquisition of 11 high quality Australian hospitals from Healthscope. The REIT is pleased to announce its existing joint venture ("JV") partner will participate in the transaction. As a result, the REIT's JV partner will acquire a 70% interest in the portfolio with NWH retaining a 30% interest and providing management.

- **Transaction financing:** To finance the transaction, the REIT and its JV partner have arranged a new property-level debt facility for approximately \$769 million (A\$808 million) with an initial interest rate of approximately 3.0%, approximately 130 bp lower than previously forecast. This equates to an equity requirement of approximately \$428 million (A\$450 million) and the REIT has funded its share of approximately \$129 million (A\$135 million) from proceeds of its existing investment in Healthscope and in place deposits.
- **Significant accretion:** The REIT expects the transaction to generate \$0.11 per unit of incremental AFFO in year 1 and an initial \$0.09 per unit on a recurring basis

Acquisitions: To date, the REIT has closed and/or committed to \$205M of accretive acquisitions at a weighted average cap rate of 5.9% and funded at a blended LTV of 61.0% at a weighted average interest rate of 2.4%.

- In Australia, the REIT committed to acquire the Waratah Private Hospital in Sydney together with its institutional partner for \$57.3M. As part of the transaction the REIT will sell its existing stake in the ground floor retail units into the JV for \$8.9M and the REIT's existing loan of \$6.9M will be repaid. The transaction is expected to close in August, and will be a net capital generator for the REIT, and drive incremental management fees.
- In Europe, the REIT acquired a rehabilitation clinic and MOB for \$64.2M in the quarter and subsequent to quarter-end acquired a second rehabilitation clinic for \$26.7M. The REIT has agreed to acquire two additional properties for \$56.5M that are expected to close in late Q2 and early Q3. The committed acquisitions will be funded from a combination of low-cost mortgages at a weighted average interest rate of approximately 2.0%.

Developments: During the quarter, the REIT progressed its earnings and NAV accretive development projects. On a fully consolidated basis the REIT has approximately \$227M of projects under construction and a further approximately \$143 million of committed projects, expecting to generate incremental stabilized NOI of \$23.7 between Q2 2019 and Q4 2022. This drives an incremental \$42.7M of value creation given the ~75 bps development margin, on a fully consolidated basis.

Capital markets:

- In Q1, the REIT closed a \$143.8M equity offering (including full exercise of the overallotment option), which was used to repay higher cost debt and reduce leverage by ~120 bps QoQ.
- Enhanced capital market profile; during the quarter the REIT was added to the S&P/TSX Composite Index and the S&P/TSX REIT Index.

Looking ahead and building on strong and consistent quarterly operational results, the REIT is focused on further deleveraging consistent with its 50% LTV target as well as continuing to execute on its accretive acquisition and development pipeline. Over the balance of 2019, the REIT will continue to advance ongoing discussions with institutional capital partners in each of its international markets as a means to leverage its platform in the continuing consolidation of healthcare real estate globally.

Sincerely,

Paul Dalla Lana
Chief Executive Officer

1 Defined as NOI plus (i) share of profit (loss) from associates; (ii) management fees; and (iii) interest income.

2 Percentage of NOI subject to annual inflationary or market based adjustments.

FINANCIAL AND OPERATIONAL SUMMARY

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

FINANCIAL AND OPERATIONAL HIGHLIGHTS			
Expressed in thousands of Canadian dollars, except per unit amounts (unaudited)	As at		As at
	March 31, 2019		December 31, 2018
Operational Information ⁽¹⁾			
Number of Properties		158	156
Gross Leasable Area (sf)		11,922,414	11,244,071
Occupancy %		96.8%	96.7%
WALE (Years)		13.0	12.6
Summary of Financial Information			
Gross Book Value ⁽²⁾	\$	5,142,828	\$ 5,071,648
Debt - Declaration of Trust ⁽³⁾	\$	2,378,676	\$ 2,423,137
Debt to Gross Book Value - Declaration of Trust		46.3%	47.8%
Debt - Including Convertible Debentures ⁽³⁾	\$	2,801,459	\$ 2,824,372
Debt to Gross Book Value - Including Convertible Debentures		54.5%	55.7%
Percentage of Mortgages and Loans Payable at Fixed Rates ⁽⁹⁾		64.7%	65.8%
Weighted Average Interest Rate on Fixed Rate Mortgages and Loans Payable		4.26%	3.72%
Adjusted Units Outstanding - period end ⁽⁵⁾			
Basic		135,056,182	121,278,312
		For the three months ended March 31, 2019	For the three months ended March 31, 2018
		For the three months ended December 31, 2018	
Operating Results			
Revenue from investment properties	\$	91,933	\$ 88,248
Net Income / (Loss)	\$	(54,028)	\$ 14,463
NOI ⁽⁶⁾	\$	69,092	\$ 66,177
Funds From Operations ("FFO") ⁽⁶⁾	\$	26,756	\$ 23,187
Adjusted Funds From Operations ("AFFO") ⁽⁶⁾	\$	25,045	\$ 25,070
Distributions ⁽⁷⁾	\$	26,099	\$ 24,038
Interest Coverage ⁽⁴⁾		2.02	2.26
Per Unit Amounts ⁽⁵⁾			
FFO per unit - Basic ⁽⁸⁾	\$	0.21	\$ 0.19
FFO per unit - fully diluted ⁽⁸⁾	\$	0.20	\$ 0.19
AFFO per unit - Basic	\$	0.20	\$ 0.21
AFFO per unit - fully diluted ⁽⁸⁾	\$	0.19	\$ 0.20
Distributions per unit	\$	0.20	\$ 0.20
AFFO Payout Ratio		101%	96%
AFFO Payout Ratio - fully diluted ⁽⁸⁾		104%	99%
Adjusted Weighted Average Units Outstanding ⁽⁵⁾			
Basic		126,547,692	120,137,990
Diluted - FFO ⁽⁸⁾		156,340,290	140,841,738
Diluted - AFFO ⁽⁸⁾		146,976,994	140,841,738

FINANCIAL AND OPERATIONAL HIGHLIGHTS CONT.

Notes

- (1) Operational information includes 100% of Vital Trust and the Australia REIT (including Seed Portfolio). The REIT has an exposure to an approximate 25% interest in Vital Trust and 30% of the Seed Portfolio in Australia REIT.
 - (2) Gross Book Value is defined as total assets.
 - (3) As defined in Non-IFRS measures used in this MD&A.
 - (4) See Ratios and Covenants for the REIT's calculation of Interest Coverage.
 - (5) Under IFRS the REIT's Class B LP Units are treated as a financial liability rather than equity. The REIT has chosen to present an adjusted basic and diluted per unit measure that includes the Class B LP Units in basic and diluted units outstanding/weighted average units outstanding. There were 17,708,065 Class B LP Units outstanding as at March 31, 2019 (December 31, 2018 - 17,708,065 Class B LP Units).
 - (6) FFO and AFFO are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. FFO and AFFO as computed by the REIT may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to FFO and AFFO as reported by other such issuers. These terms are defined in this MD&A and reconciled to IFRS-based amounts reported in the consolidated financial statements of the REIT. NOI is an additional IFRS measure and NOI as calculated by the REIT may not be comparable to similar titled measures reported by other issuers.
 - (7) Represents distributions to Unitholders and Class B LP Units on an accrual basis. Distributions are payable as at the end of the period in which they are declared by the Board of Trustees, and are paid on or around the 15th day of the following month.
 - (8) Diluted units includes vested but unissued deferred trust units and the conversion of the REIT's Convertible Debentures that would have a dilutive effect upon conversion at the holders' contractual conversion price. Convertible Debentures are dilutive if the interest (net of tax and other changes in income or expense) per unit obtainable on conversion is less than the basic per unit measure.
 - (9) The REIT classifies variable rate debt hedged with fixed rate swaps as fixed rate debt.
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HIGHLIGHTS FOR THE QUARTER

Australian HSO Portfolio Acquisition

On January 31, 2019, the REIT announced that it had entered into definitive agreements to acquire 11 freehold hospital property assets ("HSO Portfolio") from HSO for approximately \$1.2 billion as part of a sale and leaseback transaction, plus transaction costs. The transaction is conditional on Brookfield Business Partners L.P. ("Brookfield") (NYSE:BBU) (TSX:BBU.UN), together with its institutional partners, completing the acquisition of 100% interest in HSO.

On January 25, 2019, the REIT deposited approximately \$47.5 million (A\$50.0 million) letter of credit with Brookfield in support of the HSO Portfolio acquisition.

The HSO Portfolio is occupied by HSO and is expected to generate initial annual rental income of approximately \$60 million resulting in a weighted average capitalization rate of 5.0%. HSO is Australia's second largest private hospital operator and a leading provider of pathology services in New Zealand, Malaysia and Singapore. The leases have a weighted average expiry of 20 years and are subject to fixed annual rent increases of 2.5% per annum.

The properties come with development and capital expenditures opportunity of up to approximately \$525.0 million over 10 years, of which approximately \$50.0 million relates to capital projects to be completed within 3 years. The development pipeline, subject to business case approvals, is forecast to yield approximately 6% upon completion.

The REIT's effective ownership level in the HSO Portfolio will be 30%, with an institutional investor to invest the remaining 70%. The REIT will provide management services for all the properties being acquired, and expects to generate initial base asset management fees in the range of approximately \$4.0 million - \$7.0 million annually (relating to the portion of the properties that the REIT is not expected to own).

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.

On April 17, 2019, the institutional investor funded the REIT its share of the initial acquisition deposit of \$33.2 (A\$35 million).

In order to finance the acquisition of the HSO Portfolio, the REIT expects to arrange property-level debt facilities for approximately \$769.7 million, which results in equity requirement of approximately \$425.4 million. The REIT will fund its expected equity requirement of approximately \$127.6 million, plus transaction costs, for its 30% ownership level, with a combination of the monetization of its existing strategic investment in HSO and previously funded deposit.

Completion of \$125 million Offering of Trust Units

On February 26, 2019, the REIT closed public offering of 13,501,000 Trust Units, at a price of \$10.65 per unit for gross proceeds of approximately \$143.8 million, which included proceeds from the full exercise of over-allotment options to purchase an additional 1,761,000 Trust Units. The REIT used the net proceeds of the offering to repay Corporate debt bearing interest rate of 6.8%, and partially satisfy certain funding milestones related to the HSO Portfolio acquisition.

German Investment Property Acquisitions

On January 31, 2019, the REIT completed the acquisition of a German healthcare facility for \$51.4 million (€34.1 million). The financed the acquisition with \$35.4 million (€23.5 million) of mortgages and REIT's cash resources.

On March 7, 2019, the REIT completed property acquisition of a German MOB for purchase price of \$12.5 million (€8.0 million). The acquisition was entirely financed with existing cash resources of the REIT.

Financing Activity

During the quarter, the REIT repaid two non-revolving facilities with outstanding balances of \$47.5 million (A \$50 million) and \$125 million, in Australasia and Canada respectively and bearing interest rates of 6.54% and 6.8%, respectively.

The REIT entered into a new Canadian dollar denominated non-revolving variable rate credit facilities to increase its availability by \$39 million. As at March 31, 2019, \$24 million was drawn against the increased availability and an additional \$15 million was drawn on the facilitates subsequent to the quarter. The REIT also added a \$50 million non-revolving tranche to a secured revolving credit facility, which has not been drawn.

On January 25, 2019, the REIT amended the forward derivative contract that holds the interest in HSO to increase its embedded leverage by \$14.2 million (A\$15.0 million), at an interest rate of 3 months BBSY plus 5.00%. Concurrently, the REIT amended the terms of it Australasian facility to reinstate A\$15.0 million with maturity date of July 15, 2019 and bearing interest of 3 months BBSY plus 7%. On April 18, 2019, REIT fully repaid the reinstated A\$15.0 million Australian facility.

On February 15, 2019, Vital Trust amended a term loan of \$142.5 million (A\$150.0 million), bringing the total availability on the facility to approximately \$825.6 million (A\$850 million and NZ\$20 million combined).

On April 17, 2019, the REIT extended the maturity of a Canadian non-revolving credit facility, secured by three Canadian investment properties, from May 2019 to November 2019.

SUBSEQUENT EVENTS

German Investment Property Acquisitions

On April 15, 2019, the REIT closed the acquisition of a German healthcare investment property for a purchase price of approximately \$26.8 million (€17.8 million). The acquisition was partially financed by a new mortgage of \$16.5 million (€11.0 million), bearing interest of 2.18% with term to maturity of 10 years.

Other

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.

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PART I - BASIS OF PRESENTATION

This Management's Discussion and Analysis of the results of operations and financial condition ("**MD&A**") of NorthWest Healthcare Properties Real Estate Investment Trust ("**NorthWest**" or the "**REIT**") should be read in conjunction with the REIT's audited consolidated financial statements and accompanying notes for the three months ended March 31, 2019, prepared in accordance with International Financial Reporting Standards ("**IFRS**"). Certain content and schedules in the MD&A are unaudited. All amounts are presented in thousands of Canadian dollars, except where otherwise stated. Per unit amounts are presented in Canadian dollars, and are calculated including Class B LP Units (as defined hereafter), except where otherwise stated.

This MD&A should also be read in conjunction with the Annual Information Form of the REIT dated March 15, 2019 (the "**Annual Information Form**") and the REIT's Management Information Circular dated April 23, 2019 (the "**Circular**"). This MD&A is current as of May 9, 2019 unless otherwise stated. Additional information relating to the REIT, including its continuous disclosure documents required by the securities regulators, is filed as required on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") and can be accessed electronically at www.sedar.com.

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

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

FORWARD-LOOKING INFORMATION ADVISORY

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

- the intention of the REIT to pay stable and growing distributions;
- the ability of the REIT to execute its growth strategies;
- the ability of the REIT to refinance maturing debt obligations;
- any projections of financial performance of the REIT for the periods set out herein; including normalized, run-rate, contracted or stabilized metrics ;
- development opportunities;

- the expected tax treatment of the REIT's distributions to Unitholders; and
- the expectations regarding real estate, the healthcare industry and demographic trends.
- the REIT's planned acquisition of HSO Portfolio

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

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

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

PERFORMANCE MEASUREMENT

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

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

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

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

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

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

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

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

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

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

“Normalized AFFO” is a non-IFRS measure which management believes is relevant in representing its ability to earn and distribute cash returns to Unitholders. In addition to the adjusting items to arrive at AFFO, Normalized AFFO also adjusts for the full year effect of transactions occurring in the reporting period, transactions that have occurred subsequent to the reporting period, and adjusts for other items management believes were non-recurring or seasonal in nature and estimated based on management’s expectations on a normalized level of activity in a stabilized operating environment. The REIT considers Normalized AFFO to be a meaningful measure because it provides, in management’s view, an estimate of AFFO reflecting the annualized results of the REIT’s stabilized

operations at a point in time. There is no standard industry-defined measure of Normalized AFFO. As such, the REIT's method of calculating Normalized AFFO will differ from other issuers' methods and, accordingly, will not be comparable to such amounts reported by other issuers. We have provided an analysis of Normalized AFFO under **NORMALIZED AFFO**.

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

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

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

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

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

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

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

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

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

Explanation of additional IFRS measure used in this MD&A

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

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

KEY PERFORMANCE DRIVERS

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

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

PART II – BUSINESS OVERVIEW

BUSINESS OVERVIEW AND STRATEGIC DIRECTION

The REIT

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

The REIT’s objectives are to:

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

Declaration of Trust

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

Investment Guidelines (condensed summary)

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

Operating Policies (condensed summary)

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

At March 31, 2019, the REIT was in compliance with all investment guidelines and operating policies stipulated in the Declaration of Trust.

RELATIONSHIP WITH NWVP

As at March 31, 2019, NorthWest Value Partners Inc. ("NWVP") indirectly owned approximately 19% (approximately 15% on a fully-diluted basis assuming conversion of the REIT's Convertible Debentures and redemption of its deferred Trust Units) of the REIT through a combination of Trust Units of the REIT and Class B LP Units. Established in 1994, Toronto-based NWVP is one of Canada's leading privately-owned real estate companies. The scope of its business includes real estate, ownership and management, in Canada and internationally with a significant focus on the healthcare sector. The Principal of NWVP serves as an officer and trustee of the REIT.

PORTFOLIO PROFILE

Summary

The REIT provides investors with access to a portfolio of high quality healthcare real estate comprised of interests in a diversified portfolio of 158 income-producing properties and 11.9 million square feet of gross leasable area located throughout major markets in Canada, Brazil, Europe (Germany and the Netherlands), Australia, and New Zealand.

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

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

Europe : High quality MOB assets and rehabilitation clinics located in the major markets including Berlin, Hamburg, Frankfurt, Ingolstadt, and Leipzig in Germany and Rotterdam and Brunssum in the Netherlands, and is supported by a fully integrated property management and asset management capabilities allowing for efficient operation and deal sourcing.

Australia/New Zealand: Direct exposure to a portfolio of hospitals, medical centers and aged care facilities through Northwest Healthcare Properties Australia REIT ("Australia REIT"), an approximate 25% interest in New Zealand Stock Exchange ("NZX") listed Vital Healthcare Properties Trust ("Vital Trust") which is consolidated by the REIT for financial reporting purposes, and a 30% interest in a joint venture ("JV") with an institutional investor. The Australasian portfolio generates stable and growing cash flows underpinned by tenancies of high quality hospital and healthcare operators with long-term, inflation-indexed leases. The ANZ Management team, which provides services and derives fees from \$2.0 billion of third-party assets under management (March 31, 2018 - \$1.5 billion), is a fully integrated operation with offices in Melbourne, Australia and Auckland, New Zealand comprised of leading investment, development, asset management and property operations professionals.

The following table summarizes the REIT's assets by region as at March 31, 2019:

SUMMARY OF ASSETS						
	Canada	Brazil	Europe	Vital Trust ⁽¹⁾ (Australasia)	Australia REIT ⁽²⁾ (Australasia)	Consolidated Total ⁽³⁾
Number of Properties	56	8	34	45	15	158
Asset Mix	100% MOB	100% Hospital	88% MOB & 12% Hospitals & Healthcare Facilities	22% MOB & 78% Hospitals & Healthcare Facilities	40% MOB & 60% Hospitals & Healthcare Facilities	48% MOB & 52% Hospitals & Healthcare Facilities
Gross Leaseable Area ("GLA") (million sf)	3.5	1.7	2.8	2.6	1.3	11.9
Total Assets (Cdn\$ millions) ⁽²⁾	\$1,123	\$764	\$655	\$1,695	\$735	\$5,143
Occupancy	92.8%	100.0%	96.9%	99.4%	97.6%	96.8%
WALE (Years)	5.0	20.1	13.7	18.3	12.3	13.0
Average Building Age (Years)	31	15	29	31	13	26
Weighted Average Implied Cap Rate	6.6%	7.5%	5.8%	5.7%	5.7%	6.2%

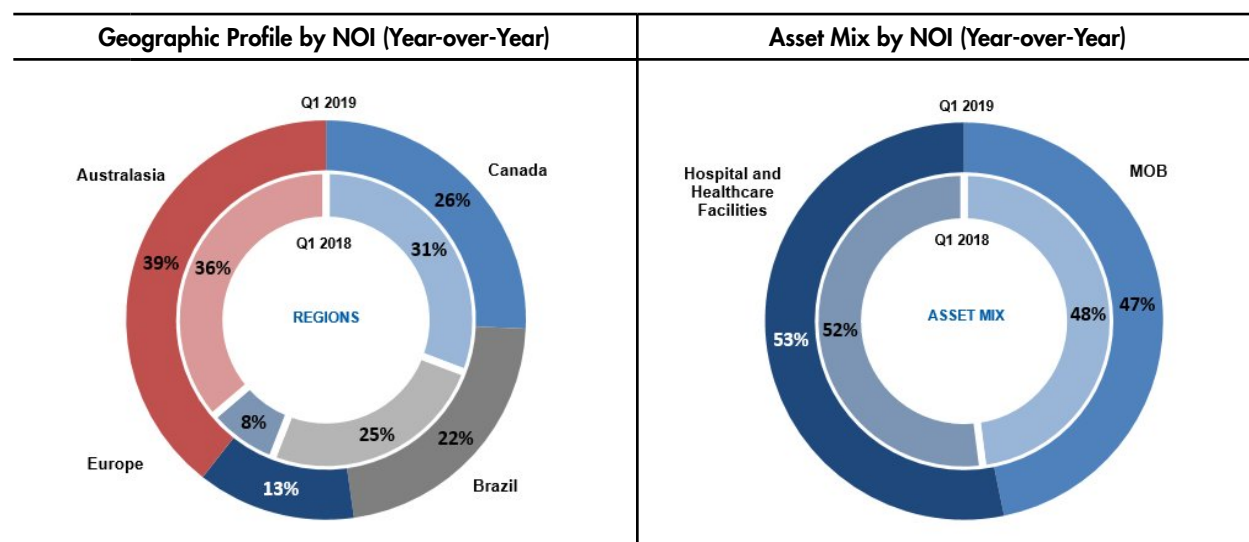
Notes

- (1) Shown on a 100% basis. The REIT has an approximate 25% interest in Vital Trust and consolidates its investment in Vital Trust.
(2) Australia REIT is shown at proportionate ownership for the Seed Portfolio sold to an institutional investor as part of a Joint Venture Agreement ("JV") which closed on September 21, 2018. The REIT owns 30% interest in the JV.
(3) Consolidated Total includes corporate assets.

See **PART XI – PROPERTY TABLE** for additional property portfolio information.

Diversification of Assets

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



Notes

- (1) Based on Q1 2019 and Q1 2018 reported NOI.
(2) Vital Trust shown on a proportionate basis. The REIT has an approximate 25% ownership interest in Vital Trust and consolidates its investment in Vital Trust.
(3) Australia REIT is shown at proportionate ownership for the Seed Portfolio sold to an institutional investor as part of a Joint Venture Agreement ("JV") which closed on September 21, 2018. The REIT owns 30% interest in the JV.

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

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

Tenant Mix

The following table summarizes the REIT's 10 largest tenants by percentage of revenue for the three months ended March 31, 2019:

10 LARGEST TENANTS BY PERCENTAGE OF RENT				
	Tenant	Country	%	# of locations
1	Rede D'Or	Brazil	14.4%	7
2	Healthe Care	Australia	3.7%	18
3	CISSS / CIUSSS	Australia	1.5%	5
4	Epworth Foundation	Australia	1.3%	5
5	Hospital Sabara	Australia	1.2%	1
6	Bolton Clarke	Australia	1.1%	4
7	Healthscope Limited	Canada	0.9%	3
8	St John of God Healthcare Inc	Brazil	0.9%	2
9	Alberta Health Services	Australia	0.8%	6
10	Lawton's Drug Stores Limited	Canada	0.7%	4
			<u>26.5%</u>	<u>55</u>

Note:

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

(2) Revenues are included on a proportionate ownership basis for following tenants: Epworth Foundation and Bolton Clarke. The tenants are part of a portfolio which the REIT owns jointly with an institutional investor. The REIT owns 30% interest in the JV.

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

Rede D'Or is the largest private hospital operator in Brazil. The company operates 38 hospitals, with 3 under construction, and more than 40 specialized oncology outpatient clinics, comprising over 6,000 inpatient beds - an average of 160 beds per hospital. With more than 40 years of experience in the healthcare business, the company has solid business positions and operational scale in its strategically located key states: Rio de Janeiro, Sao Paulo, Pernambuco, Brasilia, Maranhao and Bahia. Since 2004, the company has grown substantially through a series of strategic partnerships and acquisitions. Since 2015, Rede D'Or has added Carlyle Group and GIC Group as investors and in October, 2017, Fitch increased its credit rating to "AAA" on a national scale.

Healthe Care Australia was founded in 2005 and is the third largest private hospital operator in Australia and one of the country's largest privately-owned healthcare organizations. Healthe Care Australia operates a network of 36 private healthcare facilities, comprising medical and surgical, rehabilitation and mental health hospitals and day surgeries throughout Queensland, New South Wales, Victoria, Tasmania, Western Australia and New Zealand. These include approximately 2,500 beds and 70 operating theatres. The company also provides a range of outpatient services including workplace rehabilitation and community nursing which offer patients flexibility and continuity of care beyond their hospital stay. Healthe Care is one of the largest private providers of mental health services, with more than 800 mental health beds. The company is a subsidiary of Luye Medical Group, a leading healthcare service provider headquartered in Singapore.

Epworth Foundation opened in 1982 to raise funds to ensure patients at Epworth HealthCare receive the best possible care. Epworth HealthCare is Victoria's largest not-for-profit private healthcare group, specializing in

diagnosis, clinical treatment and rehabilitation, at 12 hospitals and specialty centres with over 1,200 beds, around the Melbourne metropolitan area. Epworth Foundation is investing heavily in the latest technology and innovation, having developed the first hospital in the country to introduce robotic assisted surgery and the first in the province to introduce scalp-cooling for chemotherapy patients. Further innovations include the first private hospital in the country with an Intensive Care facility and the first in the province to perform open heart surgery.

In addition to the tenants above, **HSO** is currently the REIT's tenant in five properties, accounting for 0.9% of the REIT's revenues. HSO, formed in 1985, is a leading private healthcare provider in both Australia and New Zealand. With a portfolio of 43 private hospitals in Australia and 25 laboratories in New Zealand, comprising a market-leading international pathology operation, Healthscope has a presence in every Australian state and territory. Specializing in medical and surgical, mental health, rehabilitation and maternity services, its hospitals are concentrated in large metropolitan centres, constituting 30 acute, 7 mental health and 6 rehabilitation hospitals. In New Zealand, it is the largest provider of human pathology services to New Zealand's District Health Boards and provides veterinary and analytical pathology services through the Gribbles brand. In 2018, Healthscope divested its 39 pathology laboratories in Asia for \$279 million, allowing the company to redirect its focus to its core hospital and pathology operations. Upon completion of the HSO Portfolio acquisition, the REIT expects HSO to be one of its largest tenants, accounting for approximately 15% of the post-acquisition rents.

INVESTMENT PROPERTIES

The fair value of investment properties as at March 31, 2019 was \$4.7 billion (December 31, 2018 - \$4.7 billion) representing an implied weighted average capitalization rate of 6.2% (December 31, 2018 - 6.2%).

INVESTMENT PROPERTIES						
Expressed in thousands of Canadian dollars (unaudited)	Three months ended March 31, 2019					
	Income Properties					
	Canada	Brazil	Europe	Vital Trust	Australia REIT	Total
Opening Balance	\$1,090,752	\$ 761,112	\$ 599,257	\$1,577,612	\$ 557,474	\$4,586,207
Acquisitions of investment properties	—	—	63,939	(100)	—	63,839
Right of use asset	4,335	—	—	—	—	4,335
Addition to investment properties	2,928	72	2,009	490	697	6,196
Increase in straight-line rents	566	—	—	—	(118)	448
Transfers from (to) properties under development	—	—	—	7,905	—	7,905
Fair value gain (loss)	1,475	10,741	(2,536)	(330)	(492)	8,858
Foreign currency translation	—	(18,079)	(22,104)	(15,343)	(6,597)	(62,123)
Closing Balance	\$1,100,056	\$ 753,846	\$ 640,565	\$1,570,234	\$ 550,964	\$4,615,665
	Properties Under Development					
	Canada	Brazil	Europe	Vital Trust	Australia REIT	Total
Opening Balance	\$ 11,987	\$ —	\$ —	\$ 41,143	\$ 30,465	\$ 83,595
Acquisitions of investment properties	—	—	—	82	44	126
Addition to investment properties	1,243	—	—	8,444	3,641	13,328
Transfers from (to) income properties	—	—	—	(7,905)	—	(7,905)
Fair value gain (loss)	1,020	—	—	—	(148)	872
Foreign currency translation	—	—	—	(1,084)	(331)	(1,415)
Closing Balance	\$ 14,250	\$ —	\$ —	\$ 40,680	\$ 33,671	\$ 88,601
	Total					
	Canada	Brazil	Europe	Vital Trust ⁽¹⁾	Australia REIT	Total
Opening Balance	\$1,102,739	\$ 761,112	\$ 599,257	\$1,618,755	\$ 587,939	\$4,669,802
Acquisitions of investment properties	—	—	63,939	(18)	44	63,965
Right of use asset	4,335	—	—	—	—	4,335
Addition to investment properties	4,171	72	2,009	8,934	4,338	19,524
Increase in straight-line rents	566	—	—	—	(118)	448
Fair value gain (loss)	2,495	10,741	(2,536)	(330)	(640)	9,730
Foreign currency translation	—	(18,079)	(22,104)	(16,427)	(6,928)	(63,538)
Closing Balance	\$1,114,306	\$ 753,846	\$ 640,565	\$1,610,914	\$ 584,635	\$4,704,266

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

2019 Acquisitions

During the three months ended March 31, 2019, the following acquisitions were completed by the REIT:

ACQUISITIONS						
	Quarter Acquired	Region	Location	GLA	Acquisition Cost (in millions) ⁽¹⁾	
Schmilauer Str. 108 & Röpersberg 45/47	Q1	Europe	Ratzeburg, Germany	623,596	\$	51.4
Demmeringstr. 47-49	Q1	Europe	Leipzig, Germany	52,443	\$	12.5
Total				676,039	\$	63.9

(1) Purchase price includes transaction costs.

Valuation of Investment Properties

The fair values of the investment properties at March 31, 2019 were determined based on a combination of internal valuation models incorporating available market evidence. As at March 31, 2019, the weighted average capitalization rate of the consolidated portfolio remained flat at December 31, 2018 rate of 6.2%

During the three months ended March 31, 2019, the REIT recorded fair value gains on income producing property totaling \$9.7 million. The fair value gain was the result of accrued rent adjustment for inflation on the Brazilian assets, net changes in the Canadian asset market leasing assumptions, and an increase in value of Quebec asset that is expected to be sold, all partially offset by the write-off of transaction costs in Germany.

During the three months ended March 31, 2019 the REIT's portfolio weighted spot exchange rate decreased by 1.5% with all foreign currencies depreciating relative to the Canadian dollar. As a result, for the three months ended March 31, 2019, the REIT recorded a foreign currency translation adjustment on its investment properties of \$63.5 million.

DEVELOPMENT ACTIVITY

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

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

MAJOR DEVELOPMENT ACTIVITY BY REGION

Expressed in thousands of Canadian dollars, except percentage amounts

	Number of Projects	Estimated Completion Date	Estimated Project Costs	Estimated Costs to Complete	% Pre-leased	Anticipated Project Yield	Anticipated Stabilized NOI	Potential value accretion
Australasia ⁽¹⁾	6	Q3 2019 to Q4 2022	244,681	209,609	100%	6.5%	15,267	24,633
Brazil	2	Q4 2019	49,721	49,721	100%	7.5%	3,729	3,551
Canada	1	Q1 2020	18,500	13,617	60%	7.0%	1,295	3,083
	<u>9</u>		<u>\$ 312,902</u>	<u>\$ 272,947</u>	<u>98%</u>	<u>6.5%</u>	<u>\$ 20,291</u>	<u>\$ 31,267</u>

(1) The REIT's interest in the Grey Street development in Australasia is limited to 30% of the presented amounts as a result of the development being owned by the JV

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

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

Within Australasia, Vital Trust has 5 expansion projects with completion dates ranging from the third quarter of 2019 to the fourth quarter of 2022. The projects include a mix of modernisation and expansion at acute surgical and mental health facilities to meet the growing demand for healthcare services. Expansion projects are primarily with Vital Trust's largest tenant, Health Care. The developments are expected to be funded through Vital Trust's existing resources and availability on existing debt facilities.

Expansion projects are fully leased at premium yields and expected to generate significant NAV growth on completion.

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

Australasia also includes Australia REIT's 1 active development project, Grey Street Centre, with expected completion in second half of 2019. As part of the JV agreement, 70% of this development project was sold during the quarter as part of the Seed Portfolio. The project will add approximately 68,000 square feet of new specialist sites, multiple specialist consulting tenancies, a GP clinic, 12 hospital beds, 3 operating theatres plus a 330 bay underground parking facility. The project is 100% pre-leased to Epworth Foundation. Remaining development costs will be funded through the JV facility.

The Brazilian development activity relates to expansion planned for the REIT's Hospital e Maternidade Brasil ("HMB") and Hospital Sao Luiz Morumbi and is expected to be funded through a combination of existing resources and property financing. The HMB development commitment was executed during the quarter and the development will be phased with final completion expected in Q4-2019.

Canada currently has one active development of approximately 43,000 square foot MOB currently under construction. The project is located in St. Albert, Alberta and is well located adjacent to Sturgeon Community Hospital.

LEASING COSTS AND CAPITAL EXPENDITURES

	Three months ended March 31, 2019					
	Canada ⁽⁴⁾	Brazil	Europe	Vital Trust	Australia REIT	Total
Additions to investment properties						
Leasing costs ⁽¹⁾	\$ 280	\$ —	\$ —	\$ —	\$ 17	\$ 297
Tenant improvements ⁽²⁾	1,258	—	83	90	429	1,860
Maintenance capital expenditures	828	—	482	401	181	1,892
Other capital expenditures	562	72	1,444	(1)	76	2,153
	2,928	72	2,009	490	703	6,202
Internal leasing costs expensed	324	—	130	—	—	454
	3,252	72	2,139	490	703	6,656
Less:						
Recoverable maintenance capital expenditures	(828)	—	(112)	—	—	(940)
Other value enhancing and non-recurring capital expenditures	(236)	(72)	(1,348)	—	—	(1,656)
Leasing costs and non-recoverable maintenance capital expenditures	\$ 2,188	\$ —	\$ 679	\$ 490	\$ 703	\$ 4,060
AFFO adjustment for leasing costs and non-recoverable maintenance capital expenditures ⁽³⁾	\$ 1,888	\$ —	\$ 708	\$ 490	\$ 703	\$ 3,789
Leasing costs and non-recoverable maintenance capital expenditures in excess of AFFO adjustment	\$ 300	\$ —	\$ (29)	\$ —	\$ —	\$ 271

Notes

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

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

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

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

Canada

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

During the three months ended March 31, 2019 additions for the Canadian investment properties totaled \$2.9 million. During the quarter leasing costs included costs attributable to eleven transactions, of which five was lease renewal and expansion, with an aggregate WALE of 8.0 years.

Included in other value enhancing and non-recurring capital expenditures for the quarter were primarily costs incurred for conversion of a single-tenant building into a multi-tenant property.

Brazil

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

Europe

On a quarterly basis leasing costs, tenant improvements and capital expenditures can fluctuate and as such, should not be regarded as stabilized. Additions to the European investment properties for the three months ended March 31, 2019 were \$2.0 million. During the quarter, tenant improvements incurred were primarily in connection with leasing within the REIT's Berlin, Fulda and Leipzig portfolio with approximately 97% of the cost spent on building new tenant spaces. Included in the value enhancing and non-recurring capital expenditures for the quarter were primarily costs incurred in relation to the Berlin and Hamburg portfolios.

Vital Trust and Australia REIT

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

PART III – RESULTS FROM OPERATIONS

NET INCOME

The following is a summary of selected financial information from the condensed consolidated interim statements of income and comprehensive income for the three months ended March 31, 2019 and 2018:

RESULTS FROM OPERATIONS			
Expressed in thousands of Canadian dollars	Three months ended March 31,		
	2019	2018	Variance
Net Operating Income ⁽¹⁾			
Revenue from investment properties	\$ 91,933	\$ 88,248	\$ 3,685
Property operating costs	(22,841)	(22,071)	(770)
	69,092	66,177	2,915
Other income			
Share of profit (loss) from associates	(83)	—	(83)
Management fees	2,675	446	2,229
Interest and other	1,366	3,624	(2,258)
	3,958	4,070	(112)
	73,050	70,247	2,803
Other expenses			
Mortgage and loan interest expense	(33,283)	(31,234)	(2,049)
General and administrative expenses	(6,796)	(5,935)	(861)
Transaction costs	(2,113)	(402)	(1,711)
Other finance costs	(67,526)	(14,673)	(52,853)
Foreign exchange gain (loss)	(960)	(1,123)	163
Income (Loss) before the under noted items	(37,628)	16,880	(54,508)
Fair value adjustment of DUP Liability	(2,435)	149	(2,584)
Fair value adjustment of investment properties	9,730	8,036	1,694
Net loss on disposal of investment properties	—	(1,771)	1,771
Gain (Loss) on derivative financial instruments	(8,378)	1,148	(9,526)
Income (Loss) before taxes	(38,711)	24,442	(63,153)
Income tax expense	(15,317)	(9,979)	(5,338)
Net income (loss)	\$ (54,028)	\$ 14,463	\$ (68,491)
Net income (loss) attributable to:			
Unitholders	\$ (57,988)	\$ 958	\$ (58,946)
Non-controlling interest	3,960	13,505	(9,545)
	\$ (54,028)	\$ 14,463	\$ (68,491)

Notes

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

See **PART XI – SUPPLEMENTAL DISCLOSURE** for additional information on the components of net income.

Revenue from investment properties

Revenue from investment properties for the three months ended March 31, 2019 was \$91.9 million as compared to \$88.2 million for the three months ended March 31, 2018. The increase of \$3.7 million is primarily driven by \$5.8 million increase in European source currency rents from acquisition activity, partially offset by slight weakening of the Euro; increase in Brazilian revenues of \$0.3 million driven by acquisition during the third quarter of 2018 and partially offset by weakening of the Brazilian Real; and Vital Trust revenue improvements of \$0.3 million primarily a result of acquisition and development activity. These improvements were partially offset by a decrease in revenue in the Canadian region of \$1.3 million, driven by the disposition of the Dundas Edward Centre in the first quarter of 2018; and a decrease in Australia REIT revenue of approximately \$1.4 million driven by sale of partially interest in three investment properties in third quarter of 2018 and weakening of Australian dollar.

See also **NET OPERATING INCOME**.

Property operating costs

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

Property operating costs for the three months ended March 31, 2019 were \$22.8 million as compared to \$22.1 million for the three months ended March 31, 2018. Of the increase of \$0.8 million, operating cost increases in Europe of \$1.8 million was driven by acquisitions. This increase was partially offset by a decrease in Canadian operation costs by \$1.0 million driven by property dispositions.

See also **NET OPERATING INCOME**.

Share of profit (loss) of associate

Share of profit (loss) of associate for the three months ended March 31, 2019 of represents the REIT's share of profit (loss) in the JV that was established during third quarter of 2018.

Management Fees

In exchange for its services, the ANZ Manager earns management fees, activity-based fees for acquisitions and development activity, as well as an incentive fee from both Vital Trust and the JV.

Management fees are calculated at 0.75% of the monthly average of the gross value of the assets of Vital Trust for the quarter ended on the last day of the month. Incentive fees are earned when there is an average annual increase in the gross value of the assets of Vital Trust over the relevant financial year and the two preceding years. The incentive fee is 10% of the amount of the increase with payment being received by way of subscribing for new units of Vital Trust. The management and incentive fees shall not exceed an amount equal to 1.75% per annum of the gross value of the trust. In addition, the ANZ Manager earns management fees in its capacity as manager, with an Australian Financial Services License, of both of Vital Trust's Australian subsidiary trusts.

On April 1, 2019 the REIT reached a conditional agreement on a new governance and fees structure for Vital Trust. The REIT has agreed to procure that its fees in the current year will not exceed those that would have been charged if the amendments had been effective from 1 April 2019 (other than in respect of the incentive fee, for which it needs to be 1 July 2019 given the financial year based formulation). Under the new fee structure, base management fees will be calculated on tiered basis as follows:

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

- .45% from \$2bn to \$3bn of GAV;
- .40% over \$3bn of GAV.

Incentive fee will be calculated as 10% of the average annual increase in Vital Trust net tangible assets, as defined in Vital Trust's fee schedule, over the respective financial year and the two preceding financial years. The new fee structure also prescribes in detail various activity based fees, including a acquisition fee of 1.5% of purchase price and development fee 4% of committed spend. The new governance and fees structure contemplates changes to Vital's Trust deed, and so is subject to any necessary approvals to make such changes.

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

The following table summarizes the management fees earned by ANZ Manager for the three months ended March 31, 2019 and 2018:

ANZ MANAGER MANAGEMENT FEES			
Expressed in thousands of Canadian dollars			
	Three months ended March 31,		
	2019	2018	Variance
Base fee	\$ 3,581	\$ 2,891	\$ 690
Incentive and performance fee	4,869	3,130	1,739
Trustee fees	186	183	3
Project and Acquisition fees	4,578	2,102	2,476
Other fees	—	87	(87)
Total Management Fees	\$ 13,214	\$ 8,393	\$ 4,821
less: inter-company elimination ⁽¹⁾	(10,539)	(7,947)	(2,592)
Consolidated Management Fees ⁽²⁾	\$ 2,675	\$ 446	\$ 2,229
add: fees charged to non-controlling interest	7,911	5,966	1,945
Proportionate Management Fees ⁽³⁾	\$ 10,586	\$ 6,412	\$ 4,174
Notes			
(1) The ANZ Manager fees charged to Vital Trust and the Australian REIT are eliminated on consolidation as an inter-company transaction.			
(2) Represents the reported consolidated management fees, which are primarily property management fees earned from third parties and management fees charged to the JV.			
(3) Represents the REIT's total exposure to management fees.			

Consolidated management fees for the three months ended March 31, 2019, consolidated management fees increased \$2.2 million primarily due to activity-based management fees from third-parties.

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

Interest and other

For the three months ended March 31, 2019 and 2018, the REIT recorded interest and other income of \$1.4 million and \$3.6 million, respectively. The decrease from the comparable prior year period is attributable to \$2.2 commitment fee earned in Brazil related to acquisition of Hospital Morumbi, which closed in the third quarter of 2018.

Mortgage and loan interest expense

The mortgage and loan interest expense for the three months ended March 31, 2019 was \$33.3 million, an increase of \$2.0 million over the prior year period.

The composition of mortgage and loan interest expense for the three months ended March 31, 2019 and 2018 is as follows:

MORTGAGE AND LOAN INTEREST EXPENSE			
Expressed in thousands of Canadian dollars	Three months ended March 31,		
	2019	2018	Variance
Canada			
Mortgages ⁽¹⁾	\$ 4,714	\$ 5,673	\$ 959
Brazil			
Brazil debt	3,399	3,926	527
Europe			
Mortgages	2,080	821	(1,259)
Australasia			
Term loans	11,808	11,466	(342)
Corporate			
Australasian Secured Financing	1,669	1,603	(66)
Corporate credit facilities	4,155	1,917	(2,238)
Convertible Debentures	5,635	3,943	(1,692)
	<u>11,459</u>	<u>7,463</u>	<u>(3,996)</u>
less: capitalized interest	(177)	(621)	(444)
add: prepayment penalties	—	2,506	2,506
Total mortgage and loan interest expense	<u>\$ 33,283</u>	<u>\$ 31,234</u>	<u>\$ (2,049)</u>

Notes

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

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

Canada

Mortgage interest expense for the three months ended March 31, 2019 has decreased \$1.0 million over the three months ended March 31, 2018. The decrease in mortgage interest expense over the comparable prior year quarter primarily reflects a lower average mortgage balance due to the sale of the Dundas Edward Centre and repayment of a \$43.0 million maturing first mortgage during the fourth quarter of 2018. The weighted average interest rate of the Canadian mortgage portfolio as at March 31, 2019 increased slightly to 3.83% compared to 3.62% as at March 31, 2018.

Brazil

The decrease in interest expense for the three months ended March 31, 2019 over the comparable prior year periods primarily due to the slight decrease in the weighted average interest rate of the Brazilian debt from March 31, 2018 (7.28%) to March 31, 2019 (7.27%) and the weakening of the Brazilian Real against the Canadian dollar by approximately 9.4% as compared to the prior period.

Europe

Mortgage interest expense increased for the three months ended March 31, 2019 over the comparable prior year due to interest on the mortgage associated with property acquisitions that occurred throughout 2018 and 2019, partially offset by a weakening of the Euro by approximately 2.8% against the Canadian dollar over the prior period.

The weighted average interest rate of the German mortgages was 2.23% as at March 31, 2019, which is an increase from 2.10% as at March 31, 2018.

Australasia

The interest expense over the comparable prior quarter increased by \$0.3 million for the three months ended March 31, 2019. The increase is attributable to the incremental borrowing to finance the strategic investment in HSO and borrowings related to development and acquisition activity. The increases are partially offset by interest expense savings from repayment of Australasian Secured Acquisition Facility and term loans related the sale of 70% interest in three investment properties to the JV. The weighted average interest rate as at March 31, 2019 remains unchanged at 4.50% compared to March 31, 2018.

Corporate

The increase in the interest expense for the three months ended March 31, 2019 over the comparable prior year period is primarily due to the issuance of a new Convertible Debenture series in the fourth quarter of 2018, and refinancing and expansion in corporate credit facilities to fund acquisition and investment activities.

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

General and administrative expenses ("G&A")

G&A expenses for the three months ended March 31, 2019 were \$6.8 million as compared to \$5.9 million for the three months ended March 31, 2018. G&A for the three months ended March 31, 2019 includes DUP Compensation Expense (as defined under **ADJUSTED FUNDS FROM OPERATIONS ("AFFO") - DUP Compensation Expense**) of \$1.0 million (three months ended March 31, 2018 - \$0.7 million). G&A, excluding amounts associated with DUP Compensation Expenses, increased \$0.2 million over the prior year period primarily as a result of the growth of the portfolio and related platform costs.

DUP expense for the three months ended March 31, 2019 has increased over the prior year period; which is primarily a result of adjustments made to the Vital Trust DUP plan resulting in lower amortization expense during the three months ended March 31, 2019.

Transaction costs

For the three months ended March 31, 2019, the REIT incurred transaction costs of \$2.1 (three months ended March 31, 2018 - \$0.4 million) and primarily consisted of costs related to acquisition opportunities being explored by the REIT and Vital Trust, including costs incur in current period associated with HSO Portfolio acquisition.

Other Finance costs

Other finance costs for the three months ended March 31, 2019 and 2018 consisted of the following:

OTHER FINANCE COSTS	Three months ended March 31,		
	2019	2018	Variance
Distributions on Exchangeable Units	\$ 3,542	\$ 3,542	\$ —
Loss on revaluation of financial liabilities	1,300	13,340	12,040
Amortization of deferred financing costs	2,822	2,860	38
Amortization of marked to market adjustment	(297)	(616)	(319)
Fair value adjustment of Convertible Debentures	21,555	(2,889)	(24,444)
Fair value adjustment of Exchangeable Units	38,604	(1,564)	(40,168)
Total Finance Costs	\$ 67,526	\$ 14,673	\$ (52,853)

Loss on revaluation of financial liabilities

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

For the three months ended March 31, 2019, accretion expense of \$1.3 million (for the three months ended March 31, 2018 - \$13.3 million) was recorded to account for the related IPCA adjustments on the Brazil debt and deferred consideration. The annual inflation rate for March 31, 2019 was 4.58% as compared to 2.95% for March 31, 2018.

During the three months ended March 31, 2018, the REIT repurchased the rental stream from its Hospital Sabara property that was securitized (the "Sabara Securitization Facility") which had a fair value at the time of payment of \$19.7 million (R\$50.4 million). The unamortized accounting balance of the securitized rental stream recorded at the time of repayment was \$8.3 million (R\$21.1 million), which resulted in a revaluation adjustment of \$11.4 million (R\$29.2 million) being recorded upon repayment.

Amortization of deferred financing costs

For the three months ended March 31, 2019, the REIT recorded amortization of deferred financing fees of \$2.8 million (for the three months ended March 31, 2018 - \$2.9 million). The increase in amortization during the three months ended March 31, 2019 was primarily attributable to accelerated amortization of deferred financing fees related to refinancing of Australasian secured financings and Corporate credit facilities.

Fair value adjustment of Convertible Debentures

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

CLOSING PRICE OF CONVERTIBLE DEBENTURES						
	Mar-19	Dec-18	Sep-18	Jun-18	Mar-18	Dec-17
Month-end closing price (Canadian \$)						
NWH.DB	1,010.10	980.00	1,015.80	1,000.50	1,020.00	1,030.00
NWH.DB.A (redeemed December 11, 2017)	N/A	N/A	N/A	N/A	N/A	N/A
NWH.DB.B (redeemed December 11, 2017)	N/A	N/A	N/A	N/A	N/A	N/A
NWH.DB.C	1,010.00	1,000.00	1,011.00	1,020.00	1,017.50	1,037.50
NWH.DB.D	1,065.20	980.00	1,040.00	1,054.80	1,043.50	1,050.00
NWH.DB.E	1,030.00	990.00	1,030.80	1,015.30	1,020.00	1,027.00
NWH.DB.F	1,030.00	980.00	1,035.00	1,019.00	1,020.00	1,030.50
NWH.DB.G	1,015.00	947.50	N/A	N/A	N/A	N/A

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

Foreign exchange gain (loss)

The REIT's financial assets and liabilities denominated in foreign currencies are revalued at the end of each period at the prevailing balance sheet rate. For the three months ended March 31, 2019, the REIT recorded a foreign exchange loss of \$1.0 million, which includes unrealized exchange loss of \$2.1 million. The REIT's unrealized foreign exchange gain (loss) for the period relates primarily to the revaluation of intercompany loans between subsidiaries of the REIT that are denominated in foreign currencies. For the three months ended March 31, 2019, the REIT recorded a realized foreign exchange gain of \$1.1 million related to settlement of foreign exchange derivative contracts by Vital Trust.

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

Fair value adjustment of DUP Liability

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

The fair value adjustment on revaluation of the DUP Liability for the three months ended March 31, 2019 was a loss of \$2.4 million as compared to a gain of \$0.1 million for the three months ended March 31, 2018. The decrease in the fair value adjustment related to the DUP liability over the comparable prior year period reflects changes in the trading price of the REIT's Trust Units and Vital Trust's units during the period.

Fair value adjustment of investment properties

For the three months ended March 31, 2019, the REIT recorded a fair value gain on investment properties of \$9.7 million consisting of a \$2.5 million revaluation gain related to the Canadian properties, a \$10.7 million revaluation increase of the Brazil portfolio, a \$2.5 million revaluation loss of the European portfolio, a \$0.4 million loss in the Vital Trust investment properties and a \$0.6 million revaluation loss in the Australia REIT portfolio. The revaluation of the Canadian portfolio during the three months ended March 31, 2019 is primarily driven revaluation of an asset available for sale to expected sale price and changes in market leasing assumptions. The revaluation of the Brazil portfolio during the three months ended March 31, 2019 is driven by rent growth resulting from the change in the IPCA index across all assets. The revaluation loss on the European portfolio during the three months ended March 31, 2019 resulted from the write off of transaction costs related to acquisition activity. The loss in the Vital Trust and Australia REIT assets reflect slight change in capitalization rate in both the New Zealand and Australian markets during the year to date period.

See also **INVESTMENT PROPERTIES**.

Net loss on disposal of investment properties

During the three months ended March 31, 2018, the REIT recognized a loss on sale of \$1.8 million related to the sale of the Dundas Edward Centre in Canada.

Gain/Loss on derivative financial instruments

Gain/loss on derivative financial instruments for the three months ended March 31, 2019 and 2018 consisted of the following:

GAIN (LOSS) ON DERIVATIVE FINANCIAL INSTRUMENTS			
Expressed in thousands of Canadian dollars	Three months ended March 31,		
	2019	2018	Variance
Canada			
Interest rate swaps	\$ (729)	\$ 1,971	\$ (2,700)
Europe			
Interest rate swaps	(795)	212	(1,007)
Australasia			
Interest rate swaps	(13,797)	(1,951)	(11,846)
Foreign exchange contracts	251	916	(665)
Gain (loss) on HSO derivative	6,692	—	6,692
Total gain (loss) on derivative financial instruments	\$ (8,378)	\$ 1,148	\$ (9,526)

The REIT has entered into 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 contemplates physical settlement but may be net settled in certain circumstances. 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. As at March 31, 2019, the forward and option contract were valued at \$132.5 million and \$(1.4) million, respectively.

Income tax expense

The combined current tax and deferred tax expense of the REIT for the three months ended March 31, 2019 was \$15.3 million.

For the three months ended March 31, 2019, the REIT recognized current income tax expense of \$2.4 million (for the three months ended March 31, 2018 - \$2.0 million). The current taxes relate primarily to the income taxes payable by the ANZ Manager of \$1.3 million and \$1.0 million by Vital Trust. The income tax expense generated for the ANZ Manager is largely driven by the level of management fees earned. Current tax for Vital Trust can fluctuate period over period depending on the settlement of foreign currency derivatives utilized in Vital Trust's hedging program.

The REIT records deferred tax liabilities in Europe, Brazil, Vital Trust and the Australia REIT arising primarily due to the difference between the carrying value and tax cost of its investment properties. The deferred tax expense of the REIT for the three months ended March 31, 2019 of \$12.9 million (for the three months ended March 31, 2018 - \$8.0 million) was primarily comprised of the deferred tax expense of Australia REIT of \$2.1 million, deferred tax expense of Brazil of \$11.9 million, deferred tax expense for Europe of \$nil million, partially offset by deferred tax gain related to Vital Trust of \$2.1 million. Brazil's deferred tax expense includes the expected withholding tax on certain dividend distributions.

NET OPERATING INCOME

NOI is an additional IFRS measure of the REIT's operating performance. NOI is defined as income from properties after operating expenses have been deducted, computed in accordance with IFRS, but before deducting interest expense, finance costs, depreciation and amortization expense, general and administrative expenses, income taxes, leasehold improvement and leasing costs, and unrecoverable capital costs. The REIT uses NOI to assess its property operating performance on an unleveraged basis. Same Property NOI for the three months ended March 31, 2019 represents income from currently owned investment properties, excluding properties held for redevelopment, acquired prior to January 1, 2018. The Same Property NOI analysis below has included the Australia REIT in acquisitions as the portfolio was only consolidated from July 2017.

The REIT's same property NOI for the three months ended March 31, 2019 and 2018 is summarized in the tables below in Canadian dollars and in source currency:

SAME PROPERTY NOI			
In thousands of CAD	Three months ended March 31,		
	2019	2018	Var %
Same property NOI ⁽¹⁾			
Canada	\$ 16,723	\$ 15,807	5.8 %
Brazil	12,712	14,048	(9.5)%
Europe	3,637	3,961	(8.2)%
Vital Trust	19,737	19,853	(0.6)%
Australia REIT	5,920	6,243	(5.2)%
Same property NOI ⁽¹⁾	\$ 58,729	\$ 59,912	(2.0)%
Developments	2,685	1,932	
Acquisitions	6,759	412	
Dispositions ⁽²⁾	1,296	4,354	
Intercompany/Elimination	(377)	(433)	
NOI ⁽¹⁾	\$ 69,092	\$ 66,177	4.4 %

Notes:

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

(2) Includes \$10.7 million NOI related to seed assets sold to an institutional investor as part of a Joint Venture Agreement ("JV") which closed on September 21, 2018. The REIT owns 30% interest in the JV.

ADJUSTED SAME PROPERTY NOI

In thousands of CAD

	Three months ended March 31,			
	2019	2018	Var \$	Var %
Same property NOI ⁽¹⁾	\$ 58,729	\$ 59,912	\$(1,183)	(2.0)%
Adjustments				
Straight-line rental revenue recognition	(148)	(242)	94	
Amortization of operating leases	251	244	7	
Lease termination fees	(74)	(26)	(48)	
Other transactions	318	(282)	600	
Adjusted same property NOI ⁽²⁾	\$ 59,076	\$ 59,606	\$ (530)	(0.9)%

Notes:

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

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

CONSTANT CURRENCY ADJUSTED SAME PROPERTY NOI

In constant currency (000s)

	Three months ended March 31,			
	2019	2018	Var \$	Var %
Adjusted same property NOI ⁽¹⁾				
Canada	\$ 16,103	\$ 15,519		3.8%
Brazil	12,679	12,181		4.1%
Europe	3,682	3,670		0.3%
Vital Trust	20,527	20,465		0.3%
Australia REIT	6,083	5,826		4.4%
Constant currency Adjusted SPNOI ⁽²⁾	\$ 59,074	\$ 57,661		2.5%

Notes:

(1) These include adjustment for straight-line rental revenue recognition, amortization of operating leases, lease termination fees and other one time transactions that are not expected to recur.

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

Canada

Same Property NOI for the three months ended March 31, 2019 increased by 5.8% over the comparable prior year period, mainly due to improved occupancy by 1.4%.

Adjusted Same Property NOI for the three months ended March 31, 2019, increased by 3.8% over the comparable prior year period due to improvement in occupancy, offset partially by free rent and straight-line rent adjustments and accounting adjustments related to IFRS 16.

Brazil

Same Property NOI for the three months ended March 31, 2019 in BRL, decreased by 0.2% (decreased by 9.5% in C\$) over the comparable prior year period, mainly driven by Sabara catchup rents received in March 2018 as a result of the CRI repayment offset by higher Sabara rents and inflationary adjustment on rents approximately 2.9%.

Adjusted Same Property NOI for the three months ended March 31, 2019 in BRL, increased by 4.1% (decreased by 5.7% in C\$), over the comparable prior year period.

Europe

Same Property NOI for the three months ended March 31, 2019, in Euros, decreased by 5.5% (8.2% in C\$) over the comparable prior year period, mainly driven by impact of prior period recovery revenue true up, non-recoverable VAT and other repairs and maintenance related to parking equipment.

Adjusted Same Property NOI, in Euros, for the three months ended March 31, 2019 increased by 0.3% (decreased by 2.5% in C\$) over the comparable prior year period.

Vital Trust

Same Property NOI for the three months ended March 31, 2019 in New Zealand dollars increased by 0.9% (decreased by 0.6% in C\$) over the comparable prior year period, mainly driven by development led rent increases and increased leasing, offset by negative FX movement due to the strengthening of the Australian dollar relative to the New Zealand dollar.

Adjusted Same Property NOI, in New Zealand dollars, for the three months ended March 31, 2019 increased by 0.3% (decreased by 1.2% in C\$ due to the weakening of the New Zealand dollar relative to the Canadian Dollar) over the comparable prior year period.

Australia REIT

Same Property NOI for the three months ended March 31, 2019 in Australian dollars decreased by 0.8% (5.2% in C\$) over the comparable prior year period, mainly driven by negative FX movement due to the weakening of the Australian dollar relative to the Canadian dollar.

Adjusted Same Property NOI, in Australian dollars, for the three months ended March 31, 2019 increased by 4.4% (decreased by 0.2% in C\$ due to the weakening of the Australian dollar relative to the Canadian Dollar) over the comparable prior year period.

LEASING

Lease Maturities

The REIT's asset diversification is complemented by a long term maturity profile, with a weighted average lease expiry of 13.0 years as at March 31, 2019. Below is a table of the percentage of leases of expiring by year by region.

	2019	2020	2021	2022	2023	2024	2025	2026	Thereafter	Total
Canada	8.3%	10.9%	9.5%	13.2%	14.7%	8.3%	6.8%	4.7%	23.6%	100.0%
Brazil	—%	—%	—%	—%	—%	6.1%	—%	—%	93.9%	100.0%
Europe	9.7%	10.2%	3.5%	5.6%	2.6%	2.1%	4.3%	1.4%	60.6%	100.0%
Australasia	2.5%	2.4%	3.3%	5.8%	5.4%	2.0%	3.9%	10.2%	64.5%	100.0%
Total Portfolio	5.4%	6.2%	4.6%	6.9%	6.5%	4.4%	4.2%	5.1%	56.7%	100.0%

Notes:

- As at March 31, 2019.
- Australasia Includes 100% of Vital Trust and the proportionate ownership for the Seed Portfolio sold to an institutional investor as part of a Joint Venture Agreement ("JV") which closed on September 21, 2018. The REIT owns 30% interest in the JV.

The REIT's expiry profile benefits from its Australian and Brazilian properties which are subject to long term leases. The eight Brazil hospitals are each occupied by single tenants that are leading hospital operators, and have leases expiring between September 30, 2024 and November 14, 2043. The expiry profile also reflects the longer term nature of many of the hospital tenants within the Vital Trust portfolio which has a WALE of 18.3 years and the Australia REIT which has a WALE of 12.3 years.

The below table summarizes the REIT's WALE allocated by asset type as at March 31, 2019:

	Asset Mix		WALE		
	MOB	Hospitals & Healthcare Facilities	MOB	Hospitals & Healthcare Facilities	Total
Canada ¹	100%	—%	5.0	—	5.0
Brazil	—%	100%	—	20.1	20.1
Europe	88%	12%	6.1	25.5	13.7
Vital ¹	22%	78%	5.8	20	18.3
Australia REIT ¹	40%	60%	8.4	14.9	12.3

Notes

1 Excluding development projects.

Lease Indexation

As at March 31, 2019, over 72.4% of the REIT's revenue (95.3% of the International Portfolio) is subject to inflationary adjustments and market reviews. The below table summarizes the percentage of revenue by region which receives the benefit of regular inflationary adjustments:

Revenue Subject to Inflationary/Market Based Adjustments	
As at March 31, 2019	% of Revenue ⁽¹⁾
Canada	—%
Brazil	100.0%
Europe	91.1%
Vital	92.9%
Australia REIT	97.9%
International Total/Weighted Average	95.3%
Portfolio Total / Weighted Average	72.4%

Notes

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

Leasing Activity

LEASING ACTIVITY						
Three months ended March 31, 2019						
in thousands of square feet	Canada	Brazil	Europe	Vital Trust ⁽¹⁾	Australia REIT ⁽²⁾	Total
Opening Occupancy	93.2%	100.0%	96.4%	99.4%	96.8%	96.7%
Opening Balance	3,187	1,723	2,035	2,566	1,318	10,829
Acquisition	—	—	676	—	—	676
Disposition	—	—	—	—	—	—
Expiries and Early Terminations	(62)	—	(97)	(46)	(12)	(217)
Renewal	25	—	52	46	12	135
New Leasing	18	—	37	2	6	63
Other ⁽³⁾	3	—	—	—	—	3
Closing Balance	<u>3,171</u>	<u>1,723</u>	<u>2,703</u>	<u>2,568</u>	<u>1,324</u>	<u>11,489</u>
Closing Occupancy	92.8%	100.0%	96.9%	99.4%	97.6%	96.8%

Notes

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

(2) Australia REIT is shown at proportionate ownership for the Seed Portfolio sold to an institutional investor as part of a Joint Venture Agreement ("JV") which closed on September 21, 2018. The REIT owns 30% interest in the JV.

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

Canada

During the quarter, the REIT completed 25 thousand square feet of renewal leasing representing a 44% renewal rate. The renewal rate was lower in the quarter mainly attributable to the departure of a tenant of approximately 12,000 square feet in the West region which constructed its own special-purpose building. The REIT completed the renewals at an initial net rent of \$14.25 per square foot versus an expiring net rent per square foot of \$14.87 per square foot, a decrease of \$0.62 per square foot or 4.2%. Excluding a non-medical tenant renewal in Quebec region, the initial renewing net rent versus expiring rent per square foot would have been flat, at \$15.28 per square foot.

During the quarter, the REIT also completed 18 thousand square feet of new leasing at an initial net rent of \$13.62 per square foot.

As at March 31, 2019, the REIT had 133 thousand square feet of committed leasing against future expiries at an initial net rent of \$19.26 per square foot versus expiring net rent per square foot of \$17.75, an increase of \$1.51 per square foot or 8.5%. The REIT also had 18 thousand square feet of committed leasing against vacant space at an initial net rent of \$13.92 per square foot.

Expiring net rent increased to \$17.91 per square foot in the first quarter 2019, from \$17.84 per square foot in the fourth quarter mainly due to rent step-up of renewals.

EXPIRING NET RENT (\$PSF)	
March 31, 2019	
Canada	
Month-to-Month	\$ 14.72
2019	\$ 15.91
2020	\$ 17.51
2021	\$ 17.94
2022	\$ 16.15
2023	\$ 14.85
2024+	\$ 20.12
Total Expires	\$ 17.91

Brazil

The REIT's Brazil properties are subject to long term leases (portfolio WALE of 20.1 years). There was no leasing activity during the quarter.

Europe

During the quarter, the REIT completed 52 thousand square feet of renewal leasing. These renewals were completed at an initial net rent of €8.58 per square foot versus an expiring net rent per square foot of €8.35, a 2.8% increase.

During the quarter, the REIT completed 37 thousand square feet of new leasing at an initial average net rent of €11.20 per square foot, which is above the posted renewal rate due to the high weighting of activity in the Berlin region of the portfolio.

EXPIRING NET RENT (€PSF)	
March 31, 2019	
Europe	
Month-to-Month	€ 4.97
2019	€ 9.18
2020	€ 9.24
2021	€ 11.70
2022	€ 12.01
2023	€ 11.91
2024+	€ 8.53
Total Expires	€ 9.20

Vital Trust

Vital Trust's properties are generally subject to long term leases, and as such there was no material leasing activity. During the quarter, Vital Trust completed 8 renewal leasing deals totaling 46.5 thousand square feet. These renewal were a result of tenants exercising their renewal options and were completed at an initial net rent per square foot of NZ\$41.42 versus expiring net rent of NZ\$40.26, an increase of 2.9%.

During the quarter the REIT also completed 2 thousand square feet of new leasing at an initial net rent of A\$35.89.

Australia REIT

During the quarter, Australia REIT completed 4 renewal leasing deals totaling 11.6 thousand square feet. These renewals were completed at an initial rent of A\$35.97 per square foot versus an expiring rent of A\$41.03 per square foot, a 12.43% decrease due to a 8.3 thousand square feet of strategic retention at a lower rent in our Spring Hill Medical Office Building in Queensland.

During the quarter, the REIT also completed 6 thousand square feet of new leasing at an initial net rent of A\$35.89.

FUNDS FROM OPERATIONS ("FFO")

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

FUNDS FROM OPERATIONS			
Expressed in thousands of Canadian dollars, except per unit amounts			
	Three months ended March 31,		
	2019	2018	Variance
Net income (loss) attributable to unitholders	\$ (57,988)	\$ 958	\$ (58,946)
Add / (Deduct):			
(i) Fair market value losses (gains)	61,242	(13,786)	75,028
Less: Non-controlling interests' share of fair market value losses (gains)	(1,764)	6,302	(8,066)
(ii) Finance cost - Exchangeable Unit distributions	3,542	3,542	—
(iii) Revaluation of financial liabilities	1,300	13,340	(12,040)
(iv) Unrealized foreign exchange loss (gain)	2,065	1,136	929
Less: Non-controlling interests' share of unrealized foreign exchange loss (gain)	(124)	3,509	(3,633)
(v) Deferred taxes	12,901	8,016	4,885
Less: Non-controlling interests' share of deferred taxes	1,543	(3,698)	5,241
(vi) Transaction costs	2,113	402	1,711
Less: Non-controlling interests' share of transaction costs	(192)	—	(192)
(vii) Convertible Debenture issuance costs	—	—	—
(viii) Internal leasing costs	454	542	(88)
(ix) Net loss on disposal of investment properties	—	1,771	(1,771)
(x) Net adjustment for lease amortization	(160)	(79)	(81)
(xi) Other FFO adjustments	1,824	1,232	592
Funds From Operations ("FFO") ⁽¹⁾	\$ 26,756	\$ 23,187	\$ 3,569
FFO per Unit - Basic	\$ 0.21	\$ 0.19	\$ 0.02
FFO per Unit - fully diluted ⁽³⁾	\$ 0.20	\$ 0.19	\$ 0.01
Adjusted weighted average units outstanding ⁽²⁾			
Basic	126,547,692	120,137,990	6,409,702
Diluted ⁽³⁾	156,340,290	140,841,738	15,498,552

Notes

- (1) FFO is not a measure recognized under IFRS and does not have standardized meanings prescribed by IFRS. FFO as computed by the REIT may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to FFO as reported by other such issuers. FFO is defined in this MD&A and reconciled to the consolidated financial statements of the REIT.
- (2) Under IFRS the REIT's Class B LP Units are treated as a financial liability rather than equity. The REIT has chosen to present an adjusted basic and diluted per unit measure that includes the Class B LP Units in basic and diluted units outstanding/weighted average units outstanding. There were 17,708,065 Class B LP Units outstanding as at March 31, 2019 and 17,708,065 outstanding as at December 31, 2018.
- (3) Diluted units includes vested but unissued deferred trust units and the conversion of the REIT's Convertible Debentures that would have a dilutive effect upon conversion at the holders' contractual conversion price. Convertible Debentures are dilutive if the interest (net of tax and other changes in income or expense) per unit obtainable on conversion is less than the basic per unit measure.

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

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

FAIR MARKET VALUE LOSSES (GAINS)			
Expressed in thousands of Canadian dollars	Three months ended March 31,		
	2019	2018	Variance
Fair market value losses (gains)			
Fair value adjustment of Convertible Debentures	\$ 21,555	\$ (2,889)	\$ 24,444
Fair value adjustment of Exchangeable Units	38,604	(1,564)	40,168
Fair value adjustment of investment properties	(9,730)	(8,036)	(1,694)
Loss (Gain) on derivative financial instruments	8,378	(1,148)	9,526
Fair value adjustment of DUP liability	2,435	(149)	2,584
Total	\$ 61,242	\$ (13,786)	\$ 75,028

Additional details are below:

(a) Convertible Debentures

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

(b) Exchangeable Units and DUP Liability

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

(c) Investment properties

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

(d) Derivative financial instruments

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

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

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

(iii) Revaluation of financial liabilities

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

During the three months ended March 31, 2018, the REIT repurchased the rental stream from its Hospital Sabara property that was securitized (the "Sabara Securitization Facility") which had a fair value at the time of payment of \$19.7 million (R\$50.4 million). The unamortized accounting balance of the securitized rental stream recorded at the time of repayment was \$8.3 million (R\$21.1 million), which resulted in a revaluation adjustment of \$11.4 million (R\$29.2 million) being recorded upon repayment.

(iv) Unrealized foreign exchange loss (gain)

Under IFRS, financial assets and liabilities denominated in foreign currencies are revalued at the end of each period at the prevailing balance sheet rate. The REIT's unrealized foreign exchange movements for the periods relate primarily to the revaluation of the Australasian debt which are denominated in Australian and/or New Zealand dollars and held by a Canadian and/or New Zealand subsidiary of the REIT. Consistent with REALpac Guidance, the foreign exchange movements on the indebtedness associated with the REIT's investment in Vital Trust has been added back to the REIT's net income, as it relates to borrowings that arise due to the REIT's interest in a foreign operation (Vital Trust).

(v) Deferred taxes

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

(vi) Transaction costs

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

(vii) Convertible Debenture issuance cost

In accordance with IFRS, because the REIT measures its Convertible Debentures at fair value, the REIT expenses the costs related to the issuance of the Convertible Debentures. Although this adjustment is not consistent with REALpac Guidance, these non-recurring finance costs related to the issuance of the Convertible Debentures, have been added back to the REIT's net income which the REIT believes is consistent with industry practice.

(viii) Internal leasing costs

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

(ix) Net loss on disposal of investment properties

Consistent with REALpac Guidance the REIT has adjusted FFO for the net loss on disposal of investment properties

(x) **Amortization of finance leases**

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

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

(xi) **Other FFO adjustments**

Other FFO adjustments include the amortization of the free rent asset associated with the sale and lease back of the mid-town Toronto parking garage as well as the amortization intangibles recognized on the acquisition of the ANZ Manager that impact profit and loss but are non-cash in nature. Consistent with REALpac Guidance the REIT has adjusted FFO for these amounts. Also included in other FFO adjustments are amounts that represent the impact of certain ANZ Manager fees that are capitalized by Vital Trust. The adjustments reflect the cash flow benefit to the REIT of the capitalized fees funded by the non-controlling interest of Vital Trust.

ADJUSTED FUNDS FROM OPERATIONS ("AFFO")

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

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

ADJUSTED FUNDS FROM OPERATIONS			
Expressed in thousands of Canadian dollars, except per unit amounts			
	Three months ended March 31,		
	2019	2018	Variance
Funds From Operations ("FFO") ⁽¹⁾	\$ 26,756	\$ 23,187	\$ 3,569
Add / (Deduct):			
(i) Amortization of marked to market adjustment	(297)	(616)	319
(ii) Amortization of transactional deferred financing charges	1,534	1,964	(430)
(iii) Straight-line revenue	(432)	298	(730)
Less: non-controlling interests' share of straight-line revenue	(48)	(156)	108
(iv) Leasing costs and non-recoverable maintenance capital expenditures	(3,790)	(2,870)	(920)
Less: non-controlling interests' share of actual capex and leasing costs	368	72	296
(v) DUP Compensation Expense	954	685	269
(vi) Debt repayment costs	—	2,506	(2,506)
Adjusted Funds From Operations ("AFFO") ⁽¹⁾	\$ 25,045	\$ 25,070	\$ (25)
AFFO per Unit - Basic	\$ 0.20	\$ 0.21	\$ (0.01)
AFFO per Unit - fully diluted ⁽³⁾	\$ 0.19	\$ 0.20	\$ (0.01)
Distributions per Unit - Basic	\$ 0.20	\$ 0.20	\$ —
Adjusted weighted average units outstanding: ⁽²⁾			
Basic	126,547,692	120,137,990	6,409,702
Diluted ⁽³⁾	146,976,994	140,841,738	6,135,256

Notes

- (1) FFO and AFFO are not measures recognized under IFRS and does not have standardized meanings prescribed by IFRS. FFO and AFFO as computed by the REIT may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to FFO and AFFO as reported by other such issuers. FFO and AFFO are defined in this MD&A and reconciled to the consolidated financial statements of the REIT.
- (2) Under IFRS the REIT's Class B LP Units are treated as a financial liability rather than equity. The REIT has chosen to present an adjusted basic and diluted per unit measure that includes the Class B LP Units in basic and diluted units outstanding/weighted average units outstanding. There were 17,708,065 Class B LP Units outstanding as at March 31, 2019 and 17,708,065 outstanding as at December 31, 2018.
- (3) Diluted units includes vested but unissued deferred trust units and the conversion of the REIT's Convertible Debentures that would have a dilutive effect upon conversion at the holders' contractual conversion price. Convertible Debentures are dilutive if the interest (net of tax and other changes in income or expense) per unit obtainable on conversion is less than the basic per unit measure.

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

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

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

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

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

(iii) **Straight-line revenue**

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

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

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

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

(v) **DUP Compensation Expense**

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

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

(vi) **Debt repayment costs**

For the three months ended March 31, 2019, the REIT did not incur any debt repayment costs. During the three months ended March 31, 2018 the REIT incurred debt repayment costs of \$2.5 million related to the early repayment of the mortgage related to Dundas Edward Centre in Canada which was sold in the first quarter as well as prepayment costs related to the redemption of the two series of Convertible Debentures.

NORMALIZED AFFO

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

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

Expressed in thousands of Canadian dollars, except per unit amounts				
	Q1 2019	Q1 2019	Q1 2019	Annualized
		Per Unit	Annualized	Per Unit
AFFO as reported	\$ 25,045	\$ 0.20	\$ 100,180	
Normalization adjustments ⁽¹⁾ :				
(1) Acquisition and disposition activities			17,148	
(2) Accrued indexation related to Brazil leases			1,109	
(3) Interest expenses on completed financing activities during the quarter			5,420	
(4) Potential debt optimization post quarter			7,210	
(5) Non-recurring fees			(10,748)	
(6) On-going developments			1,199	
Normalized AFFO on an annualized basis			\$ 121,518	\$ 0.90
Weighted average units outstanding for the Q1 2019 period (000s)				126,548
(7) Normalization adjustment				8,508
Normalized Units Outstanding (000s) - March 31, 2019				135,056

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

- (1) To reflect the impact of the REIT's net investment activity completed during and post quarter as disclosed in **HIGHLIGHTS FOR THE QUARTER**, **SUBSEQUENT EVENTS** and **INVESTMENT PROPERTIES**, and investments activity for which close was still pending at reporting date, including German MOB acquisitions and HSO Portfolio acquisition.
- (2) To reflect the estimated impact of contracted inflation (IPCA) indexation on current net rents of Brazilian leases based on the actual YTD IPCA of 4.6% and Q1 2019 average exchange rates.
- (3) To reflect the impact of the REIT's net financing activity completed during and post quarter as disclosed in **HIGHLIGHTS FOR THE QUARTER**, **SUBSEQUENT EVENTS** and **CAPITALIZATION AND LIQUIDITY** as summarized below:

Financing Activity						
Expressed in thousands of Canadian dollars						
	Value	Interest Rate %	Normalized interest expense	Reported interest expense	Quarterly interest savings	Annualized interest savings
Adjustments to reflect full quarter activity:						
Corporate credit facility repayment	(74,500)	6.74%	(1,255)	(39)	1,216	4,864
Australasian facility repayments	(47,495)	6.54%	(777)	(638)	139	556
Total	\$(121,995)		\$ (2,032)	\$ (677)	\$ 1,355	\$ 5,420

- (4) To reflect the estimated impact of potential debt optimization post-quarter as summarized below:

Debt Optimization						
Expressed in thousands of Canadian dollars						
	Value	Interest Rate %	Normalized interest expense	Reported interest expense	Quarterly interest savings	Annualized interest savings
Adjustments to reflect potential debt optimization post quarter:						
Repayment of high cost debt	(177,073)	8.56%	(3,790)	—	3,790	15,158
Potential debt optimization - refinancing (incl. transaction costs)	155,839	5.10%	1,987	—	(1,987)	(7,948)
Total	\$ (21,234)		\$ (1,803)	\$ —	\$ 1,803	\$ 7,210

- (5) To reflect the estimated impact of the completion of Canadian and Australia REIT's \$107.4 million of development activity as discussed under **DEVELOPMENT ACTIVITY**.
- (6) To eliminate the annualized impact of non-recurring items during the quarter related to (i) activity based fees recorded at the ANZ Manager and (ii) general and administrative expenses.
- (7) To adjust unit count to period end number of units outstanding, units issued for DRIP and units issued from public offering completed subsequent to the period (see **SUBSEQUENT EVENTS**).

DISTRIBUTIONS

For the three months ended March 31, 2019, the REIT declared a total of \$26.1 million in distributions, including distributions on Exchangeable Units (For the three months ended March 31, 2018 - \$24.0 million). These distributions reflect an annualized distribution rate of \$0.80 per unit per annum (For the three months ended March 31, 2018 - \$0.80 per unit per annum).

Distribution Reinvestment Plan

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

During the three months ended March 31, 2019, a total of 219,522 trust units were issued under the DRIP (three months ended March 31, 2018, a total of 142,291).

For the three months ended March 31, 2019 the REIT's DRIP participation rate was 10.3% (For the three months ended March 31, 2018 - 9.4%).

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

DIFFERENCES BETWEEN CASH FLOW FROM OPERATIONS/NET INCOME AND CASH DISTRIBUTIONS		
Expressed in thousands of Canadian dollars	Three months ended March 31,	
	2019	2018
Net income (loss) attributable to unitholders	\$ (57,988)	\$ 958
Add: Finance cost - Exchangeable Unit distributions	3,542	3,542
Adjusted net income (loss)	<u>\$ (54,446)</u>	<u>\$ 4,500</u>
Cash flow from operating activities attributable to unitholders	\$ 27,300	\$ 14,632
Distributions paid and payable		
Trust Units	\$ 22,557	\$ 20,496
Exchangeable Units	3,542	3,542
	<u>\$ 26,099</u>	<u>\$ 24,038</u>
Surplus (shortfall) of adjusted net income (loss) attributable to unitholders over distributions paid and payable	<u>\$ (80,545)</u>	<u>\$ (19,538)</u>
Surplus (shortfall) of cash flow from operating activities attributable to unitholders over distributions paid and payable	\$ 1,201	\$ (9,406)
Value of Trust Units issued pursuant to the DRIP	<u>\$ 2,303</u>	<u>\$ 1,935</u>

During the three months ended March 31, 2019, the REIT's cash flows from operating activities attributable to unitholders were sufficient to pay distributions as the REIT had a surplus over distributions paid and payable of \$1.2 million.

For the three months ended March 31, 2019 the REIT had a shortfall between adjusted net income and distributions paid to unitholders of \$80.5 million. Adjusted net income attributable to unitholders for the period reflects material non-cash items such as fair value adjustments to investment properties, financial instruments and deferred taxes, which do not impact cash flows and are not considered in the REIT's distribution policy. In establishing distribution payments, the REIT does not take fluctuations in working capital into consideration.

Participants in the REIT's DRIP have their distribution entitlement used to purchase Trust Units and also receive a

“bonus distribution” of Trust Units equal in value to 3% of each distribution. During the three months ended March 31, 2019, there was \$2.3 million in value of Trust Units issued under the DRIP (three months ended March 31, 2018, there was \$1.9 million). While reducing the cash required to settle the REIT’s distributions, the Trust Units issued, pursuant to the DRIP, may in future result in additional cash distributions, should the holders of these Trust Units opt out of the DRIP.

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

In assessing its distribution policy, the REIT considers not only cash flows from operating activities (attributable to unitholders) but also AFFO. Due to the timing of cash receipts relating to certain adjustments affecting AFFO and the fact that certain AFFO adjustments are non-cash, a portion of the 2019 distributions were funded by financing activities. The REIT believes that it is able to sustain distributions in the near term as the REIT measures distributions in relation to AFFO and the REIT believes it will be able to obtain new financing to meet its cash flow requirements due to the timing of cash receipts relating to certain adjustments affecting AFFO.

REIT’s distributions during 2018 were deemed a 55% return of capital and 45% capital gain for tax purposes. The composition for tax purposes may change over time thus affecting the after-tax return to a Unitholder. The REIT has chosen to make distributions partly representing an economic return on capital for tax purposes as its distribution policy is based on AFFO earned rather than the expected tax attributes of the distributions.

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

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

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

RECONCILIATION OF CASH FLOW FROM OPERATIONS TO AFFO			
Expressed in thousands of Canadian dollars	Three months ended March 31,		
	2019	2018	Variance
Cash flow from operating activities	\$ 36,438	\$ 21,471	\$ 14,967
Add (deduct):			
Non-cash interest expense	(7,575)	(2,858)	(4,717)
Non-cash current taxes	2,197	860	1,337
Changes in non-cash working capital balances	(1,836)	9,028	(10,864)
Other FFO adjustments	1,824	1,232	592
Internal leasing costs	454	542	(88)
Amortization of recurring financing charges	(1,288)	(896)	(392)
Non-recurring transaction costs	2,113	402	1,711
Leasing costs and non-recoverable maintenance capital expenditures	(3,790)	(2,870)	(920)
Amortization of lease liabilities	(302)	—	(302)
Interest income and other	1,366	1,800	(434)
Amortization of deferred revenue	42	—	42
Straight-line revenue	(432)	298	(730)
Redemption of units issued under the DUP	640	1,145	(505)
Amortization of furniture and office equipment	(555)	29	(584)
Foreign exchange	9	(143)	152
Debt repayment costs	—	2,506	(2,506)
Share of profit (loss) from associates	(83)	—	(83)
AFFO attributable to non-controlling interest	(4,177)	(7,476)	3,299
	<u>\$ (11,393)</u>	<u>\$ 3,599</u>	<u>\$ (14,992)</u>
AFFO	<u>\$ 25,045</u>	<u>\$ 25,070</u>	<u>\$ (25)</u>

QUARTERLY PERFORMANCE

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

QUARTERLY PERFORMANCE								
Expressed in thousands of Canadian dollars								
except per unit amounts	Q1-19	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17
Summary of Financial Information								
Gross Book Value ("GBV") ⁽¹⁾	\$ 5,142,828	\$ 5,071,648	\$ 4,679,638	\$ 4,940,139	\$ 4,758,598	\$ 4,684,028	\$ 4,454,086	\$ 4,161,721
Debt - Declaration of Trust ⁽²⁾	\$ 2,378,676	\$ 2,423,137	\$ 2,311,377	\$ 2,478,536	\$ 2,230,749	\$ 2,190,179	\$ 2,079,307	\$ 1,810,466
Debt to GBV - Declaration of Trust	46.3%	47.8%	49.4%	50.2%	46.9%	46.8%	46.7%	43.5%
Debt - Including Convertible Debentures ⁽²⁾	\$ 2,801,459	\$ 2,824,372	\$ 2,606,685	\$ 2,771,924	\$ 2,524,660	\$ 2,487,036	\$ 2,421,546	\$ 2,151,363
Debt to GBV - Incl. Convertible Debentures	54.5%	55.7%	55.7%	56.1%	53.1%	53.1%	54.4%	51.7%
Operating Results								
Revenue from investment properties	\$ 91,933	\$ 89,143	\$ 87,044	\$ 85,157	\$ 88,248	\$ 84,436	\$ 83,932	\$ 73,134
Net income (loss)	\$ (54,028)	\$ 103,607	\$ (28,469)	\$ 39,139	\$ 14,463	\$ 60,119	\$ (71,213)	\$ 161,799
NOI ⁽³⁾	\$ 69,092	\$ 66,802	\$ 65,213	\$ 65,254	\$ 66,177	\$ 63,229	\$ 61,805	\$ 54,131
FFO ⁽³⁾	\$ 26,756	\$ 26,525	\$ 24,504	\$ 24,601	\$ 23,187	\$ 23,009	\$ 24,123	\$ 25,912
AFFO ⁽³⁾	\$ 25,045	\$ 24,569	\$ 24,294	\$ 24,392	\$ 25,070	\$ 22,403	\$ 23,310	\$ 25,154
Distributions ⁽⁴⁾	\$ 26,099	\$ 24,244	\$ 24,196	\$ 24,128	\$ 24,038	\$ 23,990	\$ 21,322	\$ 21,291
Per Unit Amounts ⁽⁵⁾								
FFO per unit - Basic	\$ 0.21	\$ 0.22	\$ 0.20	\$ 0.20	\$ 0.19	\$ 0.19	\$ 0.23	\$ 0.24
AFFO per unit - Basic	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.21	\$ 0.19	\$ 0.22	\$ 0.24
Distributions	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20
Adjusted Weighted Average Units Outstanding ⁽⁵⁾								
Basic	126,547,692	121,169,117	120,955,418	120,551,483	120,137,990	118,191,998	106,585,010	106,015,975

Notes

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

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

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

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

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

PART IV – CAPITALIZATION AND LIQUIDITY

CAPITAL STRUCTURE

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

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

The following table shows the REIT's total capital as at March 31, 2019 and December 31, 2018:

CAPITAL STRUCTURE		
Expressed in thousands of Canadian dollars	As at March 31, 2019	As at December 31, 2018
Debt - Declaration of Trust ⁽¹⁾	2,378,676	2,423,137
Convertible Debentures at Fair Value	422,783	401,235
Debt - Including Convertible Debentures ⁽¹⁾	2,801,459	2,824,372
Mortgages and loans payable - marked to market	3,019	3,316
Mortgages and loans payable - unamortized financing costs	(15,573)	(16,791)
Total Debt	2,788,905	2,810,897
DUP Liability	15,194	13,030
Class B LP Exchangeable Units	206,476	167,872
Unitholders' equity	985,417	947,722
Total Capitalization	\$ 3,995,992	\$ 3,939,521

Notes

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

Unitholders' Equity

The following table reconciles the movements in the units outstanding for the three months ended March 31, 2019:

UNITS OUTSTANDING	
Trust Units outstanding, December 31, 2018	103,570,247
Issuance of Trust Units pursuant to equity offering	13,501,000
Issuance of Trust Units under the DRIP	219,522
Issuance of Trust Units under the DUP	56,726
Issuance of Trust Units pursuant to conversion of Convertible Debentures	622
Trust Units outstanding, March 31, 2019	117,348,117

Class B LP Units

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

On January 31, 2018, the REIT converted 1,290,000 Class B units to Trust units. There were 17,708,065 Exchangeable Units outstanding as at March 31, 2019 (December 31, 2018 - 17,708,065).

Debt

DEBT

Expressed in thousands of Canadian dollars

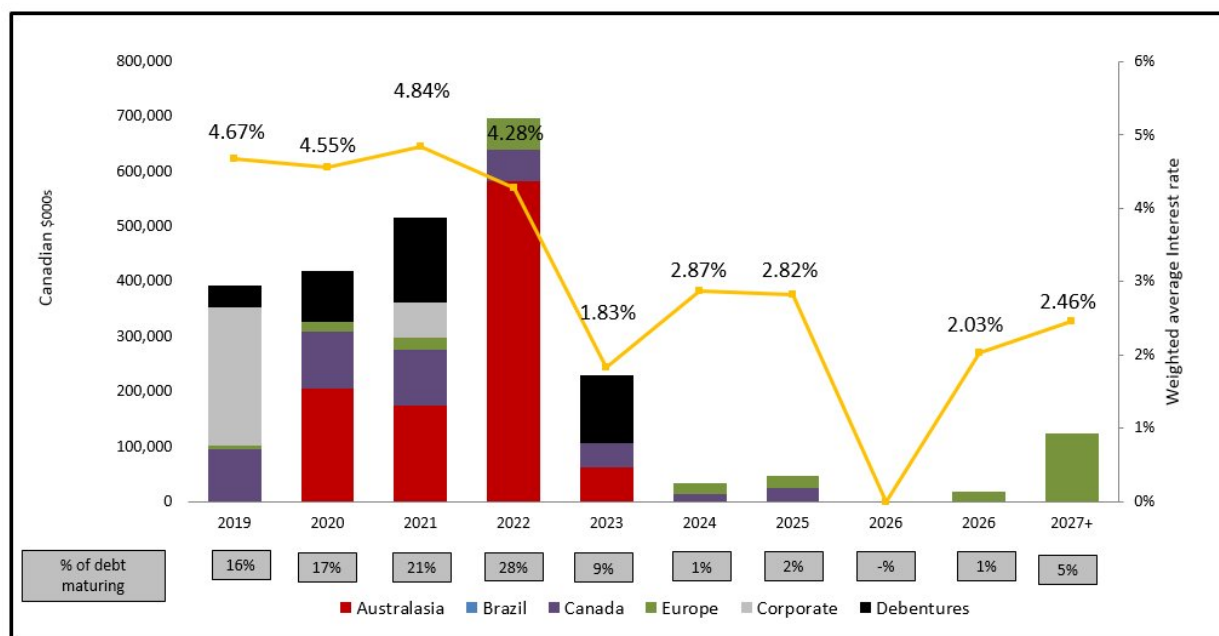
As at March 31, 2019						
	Weighted Average Interest Rate ⁽¹⁾	Outstanding Balance	Marked to Market	Unamortized Financing Costs	Balance	Maturity
Canada mortgages	3.83%	\$ 488,667	\$ 3,019	\$ (877)	\$ 490,809	June 2019 - January 2029
Brazil debt ⁽²⁾	7.27%	187,432	—	(7,593)	179,839	May 2026 - November 2027
Europe mortgages	2.23%	351,293	—	(2,760)	348,533	August 2020 - December 2028
Australasia term loans	4.50%	1,022,823	—	(3,104)	1,019,719	October 2020 - September 2023
Corporate debt	6.15%	316,168	—	(1,239)	314,929	June 2019 - January 2021
	4.46%	\$ 2,366,383	\$ 3,019	\$ (15,573)	\$ 2,353,829	
Finance Lease		12,293	—	—	12,293	
Total Mortgages and Loans Payable	4.44%	\$ 2,378,676	\$ 3,019	\$ (15,573)	\$ 2,366,122	
Deferred consideration	n/a	—	—	—	—	n/a
Total Debt excluding Convertible Debentures	4.44%	\$ 2,378,676	\$ 3,019	\$ (15,573)	\$ 2,366,122	
Convertible Debentures (Corporate)	5.55%	412,011	10,772	—	422,783	October 2019 - December 2023
Total Debt	4.61%	\$ 2,790,687	\$ 13,791	\$ (15,573)	\$ 2,788,905	
As at December 31, 2018						
	Weighted Average Interest Rate ⁽¹⁾	Outstanding Balance	Marked to Market	Unamortized Financing Costs	Balance	Maturity
Canada mortgages	3.63%	\$ 492,143	\$ 3,316	\$ (974)	\$ 494,485	March 2019 - January 2029
Brazil debt ⁽²⁾	7.28%	195,093	—	(8,191)	186,902	May 2026 - November 2027
Europe mortgages	2.25%	330,107	—	(2,237)	327,870	August 2020 - September 2028
Australasia term loans	4.53%	977,909	—	(3,352)	974,557	October 2020 - September 2023
Corporate debt	6.16%	424,923	—	(2,037)	422,886	January 2019 - January 2021
	4.54%	\$ 2,420,175	\$ 3,316	\$ (16,791)	\$ 2,406,700	
Finance Lease		2,962	—	—	2,962	February 2088
Total Mortgages and Loans Payable	4.55%	\$ 2,423,137	\$ 3,316	\$ (16,791)	\$ 2,409,662	
Deferred consideration	n/a	—	—	—	—	n/a
Total Debt excluding Convertible Debentures	4.55%	\$ 2,423,137	\$ 3,316	\$ (16,791)	\$ 2,409,662	
Convertible Debentures (Corporate)	5.55%	412,029	(10,794)	—	401,235	October 2019 - December 2023
Total Debt	4.69%	\$ 2,835,166	\$ (7,478)	\$ (16,791)	\$ 2,810,897	

Notes

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

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

The following chart summarizes, as at March 31, 2019, the REIT's debt maturities:



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

DEBT MATURITIES

Expressed in thousands of Canadian dollars	Canada		Brazil		Europe		Australasia		Corporate	
	Total debt payable	WAIR	Total debt payable	WAIR	Total debt payable	WAIR	Total debt payable	WAIR	Total debt payable	WAIR
2019	\$ 106,029	4.06 %	\$ 13,818	—%	\$ 12,722	1.75%	\$ —	—%	\$252,168	5.69%
2020	115,739	4.21 %	19,617	—%	25,679	1.42%	205,679	4.54%	—	—%
2021	109,432	3.12 %	21,059	—%	31,451	2.46%	173,881	4.54%	64,000	8.20%
2022	65,032	3.81 %	22,607	—%	63,270	2.10%	581,770	4.54%	—	—%
2023	47,584	4.16 %	24,272	—%	7,013	—%	61,493	3.88%	—	—%
2024	16,452	4.30 %	26,061	—%	25,773	1.80%	—	—%	—	—%
2025	26,627	3.50 %	27,984	—%	28,013	2.02%	—	—%	—	—%
2026	541	—%	21,938	—%	5,885	—%	—	—%	—	—%
2027	573	—%	10,076	—%	24,647	2.03%	—	—%	—	—%
2028 and thereafter	658	—%	—	—%	126,840	2.46%	—	—%	—	—%
	<u>\$ 488,667</u>	<u>3.83 %</u>	<u>\$ 187,432</u>	<u>7.27%</u>	<u>\$ 351,293</u>	<u>2.23%</u>	<u>\$1,022,823</u>	<u>4.50%</u>	<u>\$ 316,168</u>	<u>6.16%</u>
Marked to market premium	3,019	(1.1)%	—	—	—	—	—	—	—	—
	<u>\$ 491,686</u>	<u>2.78 %</u>	<u>\$ 187,432</u>	<u>7.27%</u>	<u>\$ 351,293</u>	<u>2.23%</u>	<u>\$1,022,823</u>	<u>4.50%</u>	<u>\$ 316,168</u>	<u>6.16%</u>
Unamortized financings costs	(877)		(7,593)		(2,760)		(3,104)		(1,239)	
Total	<u>\$ 490,809</u>		<u>\$ 179,839</u>		<u>\$ 348,533</u>		<u>\$1,019,719</u>		<u>\$ 314,929</u>	

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

DEBT CONTINUITY						
	Canada Mortgages	Brazil Debt	Europe Mortgages	Australasia Term Loans	Corporate Debt	Total ⁽¹⁾
Opening balance, January 1, 2019	\$ 494,485	\$ 186,902	\$ 327,870	\$ 974,557	\$ 422,886	\$ 2,406,700
Principal amortization	(3,475)	—	(2,246)	—	—	(5,721)
Repayments	—	(4,494)	—	(107,170)	(270,494)	(382,158)
Refinancing	—	—	5,262	—	—	5,262
Advances	—	—	30,204	163,141	162,749	356,094
Additional financing fees incurred	(43)	—	(696)	(531)	(623)	(1,893)
Amortization of finance fees	139	437	95	1,404	747	2,822
Amortization of mark-to-market	(297)	—	—	—	—	(297)
Inflation adjustment	—	1,300	—	—	—	1,300
Foreign exchange adjustment	—	(4,306)	(11,956)	(11,682)	(336)	(28,280)
Ending balance, March 31, 2019	\$ 490,809	\$ 179,839	\$ 348,533	\$ 1,019,719	\$ 314,929	\$ 2,353,829

(1) Total debt excluding finance lease

During the three months ended March 31, 2019, the REIT used Corporate debt advances, net of repayments, of \$107.7 million used to partially fund two German acquisitions as well fund the HSO transaction (see **Highlights for the Quarter**). The advances on the Australasian term loans, net of repayment, of approximately \$56.6 million, were used to fund the HSO transactions. The REIT refinanced and entered into a new German mortgage of \$5.3 million and \$30.2 million, respectively, to fund the purchase of two German properties (see **Highlights for the Quarter**).

Finance Lease Payable

The lease of land on which one of Australia REIT's investment properties is built is accounted for as a finance lease. The remaining term of the lease at March 31, 2019 was 68 years. There is no purchase option. On September 21, 2018, the REIT sold 70% of the finance lease as part of the disposition of the Seed Portfolio.

Convertible Debentures

The following table summarizes, as at March 31, 2019, the REIT's Convertible Debentures:

CONVERTIBLE DEBENTURES						
Expressed in thousands of Canadian dollars	Fair Value ⁽¹⁾	Face Value	Interest Rate	Conversion Price per Unit	Maturity Date	Interest Payment Dates
As at March 31, 2019						
Series NWH.DB	40,657	40,250	5.25%	\$ 14.20	September 30, 2020	March 31, September 30
Series NWH.DB.C	39,137	38,750	7.25%	\$ 12.50	October 31, 2019	April 30, October 31
Series NWH.DB.D	56,207	52,760	5.50%	\$ 11.25	October 31, 2020	April 30, October 31
Series NWH.DB.E	76,992	74,750	5.25%	\$ 12.75	July 31, 2021	January 31, July 31
Series NWH.DB.F	82,915	80,500	5.25%	\$ 12.80	December 31, 2021	June 30, December 31
Series NWH.DB.G	126,875	125,000	5.50%	13.35	December 31, 2023	June 30, December 31
	<u>\$ 422,783</u>	<u>\$ 412,010</u>	<u>5.55%</u>			

Notes

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

DUP Liability

Under IFRS, the REIT's DUP Liability is measured at fair value each reporting period. The fair value of the DUP Liability mirrors the trading price of the REIT Trust Units. As at March 31, 2019 the DUP Liability is \$15.2 million (December 31, 2018 - \$13.0 million) representing 3,232,007 deferred units of which 1,066,935 are vested but not exercised (December 31, 2018 - 3,411,243 deferred units of which 1,120,702 are vested but not exercised).

RATIOS AND COVENANTS

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

The REIT's overall borrowing policy is to obtain secured mortgage financing on a primarily fixed rate basis, with a term to maturity that is appropriate having regard to the lease maturity profile for each property and which allows the REIT to (i) achieve and maintain staggered debt maturities to lessen exposure to interest rate fluctuations and re-financing risk in any particular period and (ii) fix the rates and extend loan terms as long as possible when borrowing conditions are favourable. The following summarizes the status of these key ratios as at and for the three months ended March 31, 2019 and 2018:

RATIOS ⁽¹⁾			
Expressed in thousands of Canadian dollars			
		As at March 31, 2019	As at December 31, 2018
Gross book value ⁽¹⁾		\$ 5,142,828	\$ 5,071,648
Debt - declaration of trust ⁽¹⁾		\$ 2,378,676	\$ 2,423,137
Debt to Gross Book Value - Declaration of Trust		46.3%	47.8%
Debt - including convertible debentures ⁽¹⁾		\$ 2,801,459	\$ 2,824,372
Debt to Gross Book Value - Including Convertible Debentures		54.5%	55.7%
		Three months ended March 31,	
		2019	2018
			Variance
Income (Loss) before taxes	\$ (38,711)	\$ 24,442	\$ (63,153)
Add (deduct):			
Mortgage and loan interest expense	33,283	31,234	2,049
Distributions on Exchangeable Units	3,542	3,542	—
Amortization of deferred financing costs	2,822	2,860	(38)
Amortization of marked to market adjustment	(297)	(616)	319
EBITDA	\$ 639	\$ 61,462	\$ (60,823)
Loss on revaluation of financial liabilities	1,300	13,340	(12,040)
Fair market value losses (gains)	61,242	(13,786)	75,028
DUP compensation expense	954	685	269
Foreign exchange loss (gain)	960	1,123	(163)
Net loss on disposal of investment properties	—	1,771	(1,771)
Transaction costs	2,113	402	1,711
Less: share of (profit) loss of associates	83	—	83
Adjusted EBITDA	\$ 67,291	\$ 64,997	\$ 2,294
Mortgage and loan interest expense	\$ 33,283	\$ 31,234	\$ (2,049)
Less: debt repayment costs	—	(2,506)	(2,506)
Adjusted mortgage and loan interest expense	\$ 33,283	\$ 28,728	\$ (4,555)
Interest coverage		2.02	2.26
			(0.24)
Notes			
(1) As defined in Non-IFRS measures used in this MD&A.			

LIQUIDITY AND CASH RESOURCES

Cash Resources and Liquidity

CASH AND LIQUIDITY			
Expressed in thousands of Canadian dollars			
	As at March 31, 2019	As at December 31, 2018	
Cash	\$ 94,635	\$ 45,808	
Restricted Cash	356	351	
Total	\$ 94,991	\$ 46,159	

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

The REIT also has Credit Facilities that provides for additional liquidity. As at March 31, 2019, the drawn balance on the Credit Facilities was \$138.0 million of the \$201.5 million available to be drawn. The liquidity of the Australasian secured financing fluctuates based on the market price (as defined in the agreement) of the pledged units securing the facilities and is currently fully drawn.

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.

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

Contractual cash flows

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

The following table sets out the REIT's contractual cash flows as at March 31, 2019:

CONTRACTUAL CASH FLOWS								
Expressed in thousands of Canadian dollars	Carrying amount	Contractual cash flow	2019	2020	2021	2022	2023	Thereafter
Accounts payable and accrued liabilities	\$ 83,342	\$ 83,342	\$ 83,342	\$ —	\$ —	\$ —	\$ —	\$ —
Distributions payable	7,824	7,824	7,824	—	—	—	—	—
Income tax payable	10,512	10,512	10,512	—	—	—	—	—
Convertible debentures	422,783	478,030	55,933	113,071	170,276	6,875	131,875	—
Finance lease payable	12,293	12,293	1,266	1,578	1,372	1,309	1,231	5,537
Mortgages and loans payable	2,353,829	2,530,292	414,948	402,307	427,096	755,163	157,149	373,629
Total	\$2,890,583	\$ 3,122,293	\$573,825	\$516,956	\$598,744	\$763,347	\$290,255	\$ 379,166

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

The REIT's current liabilities totaled \$541.5 million, exceeding current assets of \$155.4 million, resulting in a working capital deficiency of \$386.2 million as at March 31, 2019.

Current liabilities include:

- On April 17, 2019, the REIT extended that maturity date of the Canadian Non-Revolving Secured Credit Facility with a balance of \$51.2 million from May 2019 to November 2019. The REIT currently expects to refinance the facility on or before its maturity.
- The Revolving Credit Facility with a balance of \$138.0 million which matures in Nov 2019. The REIT currently expects to refinance the facility on or before its maturity.
- Australasian Secured Financing facilities of \$99.9 million and \$14.2 million which both mature in July 2019. Subsequent to the quarter, the REIT fully repaid the \$14.2 million facility. The REIT currently expects to repay or renew the remaining facility on or before the maturity.
- \$56.2 million of Canadian mortgage maturities that the REIT expects to refinance in the normal course as they mature.
- Convertible debenture series NWH.DB.D with fair value of \$39.1 million mature October 31, 2019. The REIT expects to repay the debenture series on or before their maturity.

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

Changes in Cash

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

NET CHANGE IN CASH ⁽¹⁾			
Expressed in thousands of Canadian dollars	Three months ended March 31, 2019		
	2019	2018	Variance
Cash provided by / (used in):			
Operating activities	\$ 36,438	\$ 21,471	\$ 14,967
Investing activities	(61,612)	15,598	(77,210)
Financing activities	78,851	(58,083)	136,934
Net increase / (decrease) in cash during the period	53,677	(21,014)	74,691
Effect of foreign currency translation	(4,850)	(2,591)	(2,259)
Net increase / (decrease) in cash during the period	\$ 48,827	\$ (23,605)	\$ 72,432

Operating activities

Cash generated by operating activities totaled \$36.4 million for the three months ended March 31, 2019 as compared to \$21.5 million for the three months ended March 31, 2018, an increase of \$15.0 million. This increase is primarily related to a positive working capital movement of \$10.9 million, decrease in mortgage and loan interest paid of \$2.7 million and a \$2.9 million increase in NOI.

Investing activities

Cash used by investing activities totaled \$61.6 million for the three months ended March 31, 2019, which is primarily related to acquisitions of investment properties of \$64.0 million and additions to investment properties of \$19.5 million, partially offset by proceed from settlement of foreign exchange contracts of \$4.2 million and proceeds from embedded financing on HSO forward contract of \$17.2 million.

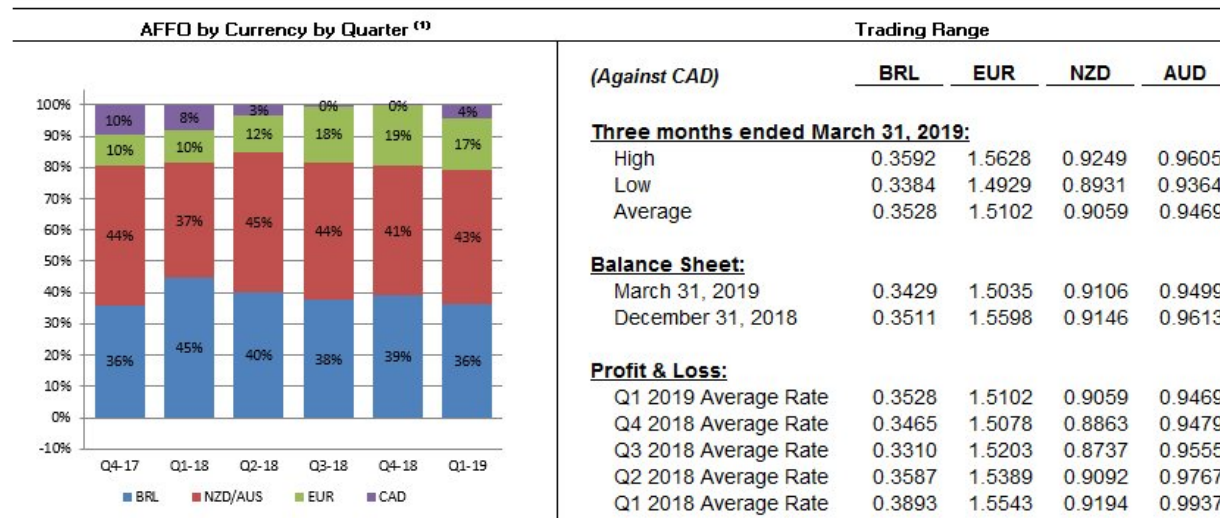
Financing activities

Cash generated by financing activities totaled \$78.9 million for the three months ended March 31, 2019 as compared to cash provided by financing activities totaling \$58.1 million during the three months ended March 31, 2018.

During the three months ended March 31, 2019 the REIT received net proceeds from issuance of trust units of \$137.0 million. The REIT paid net mortgages, loans payable and credit facilities of \$26.5 million, financing fees of \$1.9 million, paid distributions to REIT unitholders of \$22.9 million and paid distributions to non-controlling unitholders of Vital Trust and the Australia REIT of \$6.0 million.

FOREIGN EXCHANGE AND CURRENCY MANAGEMENT

For the three months ended March 31, 2019, approximately 96% of the REIT's AFFO was conducted in currencies other than Canadian dollars, while its distributions to Unitholders, certain general and administrative expenses, interest expenses and interest income were denominated in Canadian dollars. A summary of the REIT's currency exposure by quarter for the last five quarters is presented below:



Notes

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

For the three months ended March 31, 2019, a portion of the AFFO generated in foreign currencies was retained in those foreign currencies to provide funds for operations, future investments in those foreign jurisdictions and to minimize currency conversion costs, while a portion has been repatriated back to Canada to fund distributions, interest payments and other corporate expenses.

For the three months ended March 31, 2019, Canadian dollar AFFO was \$(1.1) million while Canadian dollar distributions paid in cash to unitholders totaled \$26.1 million. Deficiencies were funded from cash repatriated to Canada from Brazil, Europe, Australia, and New Zealand and the draws on Corporate credit facilities.

As at March 31, 2019, the REIT held approximately \$2.5 million of cash and receivables denominated in Canadian Dollars.

The REIT monitors its foreign exchange exposure and its hedging strategy on an ongoing basis. The REIT has not executed any derivative foreign currency hedging arrangements in the past year; however, Vital Trust has in place a proactive currency management policy which aims to reduce volatility in the Australian dollar relative to the New Zealand dollar. Vital Trust's transaction hedging policy framework minimizes earnings volatility by means of coverage on forecasted Australian dollar profits. Vital Trust's translation hedging is managed both through natural hedges as Vital Trust has Australian based investment properties and Australian denominated borrowings and through rolling foreign exchange contracts.

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

The REIT (with the exception of Vital Trust) does not currently have any specific foreign currency hedging derivatives in place.

Among the REIT's global currencies, compared to December 31, 2018, the BRL, Euro and AUD were down 2.3%, 3.6% and 1.2%, respectively, whereas the NZD was up 0.4%.

PART V – RELATED PARTY TRANSACTIONS

- a) As at March 31, 2019, NWVP indirectly owned approximately 19% of the outstanding Trust Units (approximately 15% on a fully-diluted basis assuming conversion of the REIT's Convertible Debentures and redemption of its deferred units) of the REIT through a combination of Trust Units of the REIT and Class B LP Units. Paul Dalla Lana, Chairman of the Board of Trustees and Chief Executive Officer ("CEO") of the REIT, is the sole shareholder, sole director and President of NWVP.
- b) The following table summarizes the related party transactions with NWVP and its affiliates related to cost reimbursements (advances), and the Cost-Sharing and Sublease Agreements during the period:

RELATED PARTY TRANSACTIONS			
Expressed in thousands of Canadian dollars	Three months ended March 31,		
	2019	2018	Variance
Out-of-pocket costs	\$ 124	\$ (463)	\$ 587
Cost-sharing and sublease amounts	3	—	3

- c) The following table summarizes the balance owing from NWVP and its subsidiaries:

RELATED PARTY BALANCE SHEET AMOUNTS					
Expressed in thousands of Canadian dollars	As at March 31, 2019		As at December 31, 2018		Variance
	Amounts receivable (payable)				
Out-of-pocket costs advanced (paid)	\$	1,063	\$	184	\$ 879
Amounts payable					
Class B Exchangeable Unit distributions	\$	1,181	\$	1,181	\$ —

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

PART VI – CRITICAL ACCOUNTING POLICIES AND ESTIMATES

All significant accounting policies have been applied on a basis consistent with those followed in the most recent audited annual consolidated financial statements of the REIT for the year ended December 31, 2018 with the exception of the accounting standards implemented in 2019, which are described in note 2 of the REIT's condensed consolidated interim financial statements for the three months ended March 31, 2019.

The preparation of financial statements in conformity with IFRS requires the REIT to make judgments, estimates, and assumptions that affect the reported amounts recognized in the financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the financial statements. Actual results could differ from estimates. Please refer to note 1 in the REIT's audited consolidated financial statements and accompanying notes for the year ended December 31, 2018.

PART VII – RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the Trust Units and the Convertible Debentures and in the activities of the REIT which current and prospective Unitholders and current or prospective investors in Convertible Debentures should carefully consider. The REIT's Annual Information Form, which can be found on SEDAR at www.sedar.com, contains a detailed summary, under "Risk Factors", of the risk factors pertaining to the REIT and its business.

PART VIII – CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Changes in Internal Controls Over Financial Reporting

There were no significant changes made in internal controls over financial reporting during the three months ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting.

PART IX – OUTLOOK

During 2019, the REIT will continue to focus on lowering its cost of capital through debt refinancings and repayments, and new financing; continue to pursue new acquisitions and accretive development opportunities in the REIT's existing markets; and continue to execute on a focused investor relations outreach program.

Looking forward, the REIT remains committed to its key initiatives as outlined below:

1. Continue to enhance its management platform and operational performance where possible;
2. Expand the portfolio and augment its quality through reinvestment in existing assets and acquiring new assets in each of our core markets;
3. Continue to achieve maximum returns and drive unitholder value through optimal capital allocation within the REIT's global markets;
4. Optimize its capital structure;
5. Increase investor liquidity by raising new capital and broadening its investor base; and
6. Increase its profile through measured investor relations and communication strategies.

PART X – PROPERTY TABLE

As at March 31, 2019

PROPERTY TABLE							
Property	Location	Date Acquired	Year Built ⁽¹⁾	Approximate		Occupancy %	WALE ⁽²⁾
				GLA (sf)	# of Tenants		
Canada							
1 Glenmore Professional Centre	Calgary, AB	Dec 31, 2010	2007	137,821	5	90.9%	5.6
2 Sunridge Professional Centre	Calgary, AB	Mar 25, 2010	1985	132,822	35	93.2%	4.0
3 Riley Park Health Centre (6)	Calgary, AB	Mar 25, 2010	1956	72,801	11	100.0%	3.9
4 Rockyview Health Centre I	Calgary, AB	Mar 25, 2010	1977	68,405	29	97.3%	4.0
5 Foothills Professional Building	Calgary, AB	Mar 25, 2010	1980	58,608	21	89.3%	3.5
6 Sunpark Plaza	Calgary, AB	Dec 7, 2011	2005	53,237	9	71.2%	2.8
7 Rockyview Health Centre II	Calgary, AB	Mar 25, 2010	1975	53,126	6	85.5%	5.3
8 Willow Brook Medical Centre	Airdrie, AB	Apr 10, 2012	2010	34,680	5	100.0%	4.5
9 Hys Centre	Edmonton, AB	Feb 1, 2011	1978	182,402	35	77.9%	4.1
10 Tawa Centre	Edmonton, AB	May 31, 2011	1986	87,883	24	96.7%	3.5
11 Mira Health Centre	Edmonton, AB	Mar 25, 2010	1992	69,588	17	96.7%	5.6
12 Garneau Professional Building	Edmonton, AB	Mar 25, 2010	1980	58,327	15	61.4%	3.6
13 Queen Street Place	Spruce Grove, AB	Jul 7, 2010	2007	75,167	14	85.2%	5.1
14 WRHA Downtown West Community	Winnipeg, MB	May 16, 2013	1974	43,685	2	95.8%	9.4
15 Hargrave Place	Winnipeg, MB	Jul 31, 2013	1977	71,154	3	100.0%	10.3
16 Davisville Medical Dental Centre	Toronto, ON	Mar 25, 2010	1964	95,778	82	91.3%	3.6
17 Fairview Health Centre	Toronto, ON	Mar 25, 2010	1971	87,262	55	96.9%	6.0
18 North York Medical Arts Building	Toronto, ON	Mar 25, 2010	1969	75,867	60	100.0%	4.1
19 The Stewart Building	Toronto, ON	Mar 25, 2010	1892	43,118	1	100.0%	0.1
20 Malvern Medical Arts	Toronto, ON	Apr 1, 2011	1987	40,584	17	90.7%	4.1
21 Albany Medical Clinic	Toronto, ON	Sep 27, 2012	2010	42,582	1	100.0%	11.1
22 One Medical Place	Toronto, ON	Mar 25, 2010	1964	41,129	21	94.5%	5.6
23 Danforth Health Centre	Toronto, ON	Mar 25, 2010	1991	29,496	10	100.0%	3.2
24 Bathurst Health Centre	Toronto, ON	Mar 25, 2010	1984	29,160	14	100.0%	7.8
25 81 The East Mall (6)	Toronto, ON	Jan 16, 2015	1975	36,944	7	96.6%	13.4
85 The East Mall (6)	Toronto, ON	Jan 16, 2015	2016	46,448	8	93.2%	13.1
26 Queensway Professional Centre	Mississauga, ON	Mar 25, 2010	1977	169,908	66	88.2%	6.2
27 Trafalgar Professional Centre	Oakville, ON	Mar 25, 2010	1985	66,084	32	97.8%	3.9
28 Dundas-Centre Medical	Whitby, ON	Oct 1, 2012	1987	34,527	23	96.2%	4.8
29 Wentworth/Limeridge Medical Centre	Hamilton, ON	Mar 25, 2010	1989	40,716	22	92.8%	3.5
30 Queenston Medical-Dental Centre	Hamilton, ON	Oct 1, 2012	1992	18,687	15	100.0%	2.9
31 Oxford Health Centre	London, ON	Mar 25, 2010	1994	39,184	22	89.9%	2.5
32 Springbank Medical Centre	London, ON	Mar 30, 2012	2011	53,822	30	95.3%	4.5
33 Canamera Medical Centre	Cambridge, ON	Sep 15, 2011	2007	86,283	20	100.0%	4.4
34 Guelph Medical Place I	Guelph, ON	Oct 1, 2012	1991	36,063	16	100.0%	4.2
35 Guelph Medical Place II	Guelph, ON	Oct 1, 2012	2011	27,950	15	100.0%	4.5
36 Collingwood Health Centre	Collingwood, ON	Mar 25, 2010	1989	26,354	13	93.7%	3.8
37 Owen Sound Family Health Centre	Owen Sound, ON	Feb 9, 2015	2011	77,542	13	94.2%	4.7
38 Smyth Medical Centre	Ottawa, ON	Sep 10, 2012	1983	24,391	17	87.7%	2.6
39 Barrie Primary Care Campus	Barrie, ON	Feb 9, 2015	2016	79,229	12	84.2%	11.4
40 CSSS Haut-Richelieu	Richelieu, QC	Sep 1, 2010	2009	54,659	1	100.0%	4.8
41 Le Carrefour Medical	Laval, QC	Mar 25, 2010	1990	118,520	32	85.5%	4.1
42 Clinique Bleue	Longueuil, QC	Mar 25, 2010	1988	25,633	6	100.0%	5.4
43 2924 Taschereau Boulevard	Longueuil, QC	Mar 25, 2010	1988	24,644	1	100.0%	1.5

PROPERTY TABLE								
Property	Location	Date Acquired	Year Built ⁽¹⁾	Approximate		Occupancy %	WALE ⁽²⁾	
				GLA (sf)	# of Tenants			
44	CLSC Saint-Hubert	Saint Hubert, QC	Mar 25, 2010	1991	49,323	2	100.0%	8.4
45	950 Montee des Pionniers	Lachenaie, QC	Mar 25, 2010	2004	64,516	15	98.0%	3.5
46	Agence Lanaudiere	Joliette, QC	Dec 20, 2012	1994	53,771	1	100.0%	4.3
47	CSSS Grand Littoral	Levis, QC	Sep 1, 2010	2008	64,563	2	100.0%	3.7
48	Polyclinique Val-Belair	Quebec City, QC	Jul 22, 2011	2009	46,053	12	100.0%	2.8
49	Centre Medicale de L'Hetriere	Quebec City, QC	Jan 19, 2012	2007	36,619	6	90.5%	4.4
50	Fredericton Medical Centre	Fredericton, NB	Mar 25, 2010	1985	70,570	41	94.9%	3.9
51	Moncton Medical Clinic	Moncton, NB	Jan 23, 2012	1984	40,576	16	100.0%	5.6
52	Cobequid Centre	Lower Sackville, NS	Mar 25, 2010	2006	30,009	1	100.0%	3.4
53	Halifax Professional Centre	Halifax, NS	Mar 25, 2010	1969	115,831	79	89.1%	3.9
54	Gladstone Professional Centre	Halifax, NS	Mar 25, 2010	1985	41,860	11	100.0%	1.9
55	New Glasgow Medical Centre	New Glasgow, NS	Dec 21, 2011	2009	33,800	1	100.0%	5.6
					3,419,761	1,050	92.8%	5.0
Redevelopment Properties:								
56	490 Harwood Boulevard	Vaudreuil-Dorion, QC	Mar 25, 2010	1985	24,457	n/a	—%	n/a
	Parkwood (6)	Calgary, AB	Mar 25, 2010	1956	20,271	n/a	—%	n/a
					44,728	n/a	n/a	n/a
Development Land:								
	St. Albert Land	St. Albert, AB	Feb 9, 2015	n/a	n/a	n/a	n/a	n/a
	479 Hume	Collingwood, ON	Jan 26, 2017	n/a	n/a	n/a	n/a	n/a

PART X – PROPERTY TABLE (CON'T.)

PROPERTY TABLE								
Property	Location	Date Acquired	Year Built ⁽¹⁾	Approximate				
				GLA (sf)	# of Tenants	Occupancy %	WALE ⁽²⁾	
Brazil								
57	Sabará Children's Hospital	São Paulo	Nov 16, 2012	2010	104,915	1	100.0%	5.5
Rede D'Or Hospital Portfolio:								
58	Hospital e Maternidade Brasil ("HMB")	São Paulo	Dec 27, 2012	1970 - 2007	342,000	1	100.0%	18.8
59	Hospital Santa Luzia	Brasília's South Wing	Dec 23, 2013	2003	185,139	1	100.0%	19.8
60	Hospital Do Coracao	Brasília's South Wing	Dec 23, 2013	2007	96,875	1	100.0%	19.8
61	Hospital Caxias	Rio de Janeiro	Dec 23, 2013	2013	290,626	1	100.0%	19.8
62	Hospital IFOR	São Paulo	Jul 19, 2016	2001	150,000	1	100.0%	22.3
63	Hospital Santa Helena	Brasília - DF	Oct 24, 2016	2006	323,774	1	100.0%	22.6
64	Hospital São Luiz Morumbi	São Paulo	Sep 28, 2018	2000	230,374	1	100.0%	24.6
					1,723,703	8	100.0%	20.1
Europe								
Germany								
65	Adlershof 1	Berlin	Nov 16, 2012	2004	55,395	54	98.1%	4.4
66	Adlershof 2	Berlin	Nov 16, 2012	2010	47,507	46	100.0%	2.3
67	Berlin Neukölln	Berlin	Nov 16, 2012	2000	33,991	16	99.8%	4.0
68	Königs Wusterhausen 1	Königs Wusterhausen	Nov 16, 2012	2001	35,693	26	89.0%	2.5
69	Fulda - 3-5flem	Fulda	Mar 31, 2013	2010	111,205	28	91.0%	2.0
70	Polimedica Centre	Berlin	Jun 25, 2014	2007	113,937	36	100.0%	7.7
71	Hollis Centre	Ingolstadt	Jun 25, 2014	1996	99,651	34	92.9%	3.2
72	Leipzig am Park	Leipzig	Jun 25, 2014	1977	19,048	10	100.0%	8.0
73	Leipzig Baestlein	Leipzig	Jun 25, 2014	1975	19,163	11	93.4%	4.3
74	Leipzig Gruenauer	Leipzig	Jun 25, 2014	1980	15,932	8	96.8%	8.9
75	Leipzig Karlsruher	Leipzig	Jun 25, 2014	1982	19,013	7	91.4%	6.4
76	Leipzig Lidicestraste	Leipzig	Jun 25, 2014	1975	19,201	12	97.0%	5.9
77	Leipzig Pfaffensteinstrasse	Leipzig	Jun 25, 2014	1985	18,277	8	79.5%	3.5
78	Leipzig Plovdiver	Leipzig	Jun 25, 2014	1975	18,217	4	93.6%	2.9
79	Leipzig Schlehenweg	Leipzig	Jun 25, 2014	1989	18,625	11	92.5%	2.1
80	Leipzig Stuttgarter	Leipzig	Jun 25, 2014	1978	18,047	10	87.4%	3.1
81	Leipzig Tauchaer Strasse	Leipzig	Jun 25, 2014	1982	18,877	11	100.0%	5.3
82	Leipzig Yorckstrasse	Leipzig	Jun 25, 2014	1975	11,397	6	94.4%	3.5
83	Hohenschonhausen	Berlin	Aug 30, 2014	1996	64,640	37	92.5%	2.3
84	Mehrower Allee	Berlin	Apr 14, 2016	2006	82,242	59	97.0%	3.5
85	Alstadt-Caree Fulda Medical Centre	Fulda	Feb 1, 2017	2017	31,025	12	100.0%	6.5
86	Medical Care Centre Hamburg-Bergedorf	Hamburg	Feb 1, 2017	1989	60,776	31	93.6%	5.7
87	Praxis-Klinik Bergedorf	Hamburg	Dec 18, 2017	1994	65,583	29	99.3%	6.7
88	Clinic Bismarkstr68	Bad Kissingen	Feb 22, 2018	1996	79,502	1	100.0%	25.9
89	Clinic Bremerstr2	Wilhelmshaven	Mar 15, 2018	1994	150,964	1	100.0%	26.0
90	Fritz-Lang-Platz 6	Berlin	Feb 1, 2018	2005	59,664	10	100.0%	5.6
91	Landsberger Allee 44	Berlin	Apr 27, 2018	1994	32,849	26	97.5%	6.6
92	Matthiasstr. 7	Berlin	Apr 27, 2018	1995	34,296	32	86.3%	6.1
93	Allee der Kosmonauten 47	Berlin	Dec 28, 2018	1980	58,664	50	90.6%	3.0
94	Klinik Bernkastel & Moselhohe	Berlin	Dec 21, 2018	1975/1973	238,453	1	100.0%	26.8
95	Demmeringstr. 47-49	Leipzig	Mar 7, 2019	1926	52,443	48	99.8%	1.2
96	Schmilauer Str. 108 & Ropersberg 45/47	Schleswig-Holstein	Jan 31, 2019	1974	623,596	1	100.0%	24.9
					2,327,873	676	97.5%	14.3

PROPERTY TABLE

Property	Location	Date Acquired	Year Built ⁽¹⁾	Approximate			
				GLA (sf)	# of Tenants	Occupancy %	WALE ⁽²⁾
Development Land:							
Rubensstr Land	Berlin	Apr 1, 2015	n/a	n/a	n/a	n/a	n/a
Mehrower Land	Berlin	Jan 30, 2017	n/a	n/a	n/a	n/a	n/a
Netherlands							
97 Maastadweg 2-144	Rotterdam	June 29, 2018	2011	346,807	29	91.9%	8.4
98 Prins Berhardplein 200	Brunssum	June 29, 2018	2016	117,234	1	100.0%	17.5
				464,041	30	93.9%	10.7
Europe Total				2,791,914	706	96.9%	13.7

PART X – PROPERTY TABLE (CON'T)

PROPERTY TABLE								
Property	Location	Date Acquired	Year Built ⁽¹⁾	Approximate GLA (sf)	# of Tenants	Occupancy %	WALE ⁽²⁾	
Vital Trust								
Australia								
99	The Southport Private Hospital	Southport, Queensland	Dec 22, 2010	1979	318,776	1	100.0%	18.9
100	Belmont Private Hospital	Carina, Queensland	Dec 22, 2010	1973/2015	94,024	1	100.0%	16.9
101	Clover-Lea Residential Aged Care	Sydney, New South Wales	Mar 1, 2016	1919/1960/2003	16,146	1	100.0%	16.9
102	Dubbo Private Hospital	Dubbo, New South Wales	Dec 22, 2010	1994	60,144	1	100.0%	12.8
103	Epworth Eastern Hospital	Melbourne, Victoria	Mar 30, 1999	2005	136,610	6	100.0%	21.0
104	Epworth Eastern Medical Centre	Melbourne, Victoria	Mar 30, 1999	1986	33,421	24	100.0%	8.7
105	Epworth Rehabilitation	Melbourne, Victoria	Feb 1, 1999	1971	37,136	1	100.0%	4.9
106	Fairfield Residential Aged Care	Sydney, New South Wales	Mar 1, 2016	1968/2009	31,000	1	100.0%	16.9
107	Gold Coast Surgery Centre	Southport, Queensland	Dec 22, 2010	1999	29,506	8	68.9%	1.0
108	Hamersley Residential Aged Care	Perth, Western Australia	Mar 1, 2016	1971	20,279	1	100.0%	16.9
109	Hurstville Private Hospital	Sydney, New South Wales	Apr 30, 2012	1894/2015	135,239	1	100.0%	23.1
110	Lingard Private Hospital	Merewether, New South Wales	Dec 22, 2010	1975/2015	99,567	1	100.0%	21.9
111	Maitland Private Hospital	Maitland, New South Wales	Dec 22, 2010	2001/2015	127,435	2	100.0%	18.8
112	Marian Centre	Perth, Western Australia	Aug 12, 2014	1965	38,212	1	100.0%	15.4
113	Mayo Private Hospital	Taree, New South Wales	Dec 16, 2011	1997	62,700	1	100.0%	12.7
114	North West Private Hospital	Burnie, Tasmania	Dec 22, 2010	1988	87,361	2	100.0%	17.6
115	Palm Beach Currumbin Clinic	Currumbin, Queensland	Dec 22, 2010	1980	53,443	1	100.0%	12.9
116	Rockingham Residential Aged Care	Perth, Western Australia	Mar 1, 2016	1968/1992	14,596	1	100.0%	16.9
117	South Eastern Private Hospital	Melbourne, Victoria	Dec 22, 2010	1970	91,462	1	100.0%	21.9
118	Sportsmed Private Hospital	Adelaide, South Australia	Dec 3, 2012	1990/2008	56,608	2	100.0%	16.2
119	Sportsmed Consulting (8)	Adelaide, South Australia	Jan 20, 2016	1990	9,074	1	100.0%	16.8
120	Sportsmed Office (8)	Adelaide, South Australia	Jan 20, 2016	1988	15,253	1	100.0%	16.8
121	Toronto Private Hospital	Toronto, New South Wales	Dec 22, 2010	1988	55,682	2	100.0%	23.8
122	Mons Road	Westmead, New South Wales	Sep 30, 2016	2010	31,179	6	95.7%	3.9
123	Eker Medical Centre	Box Hill, Victoria	Nov 17, 2016	2014	30,753	18	92.8%	2.7
124	Abbotsford Private Hospital	West Leederville, WA	Feb 24, 2017	2012	16,695	1	100.0%	22.9
125	Grafton Aged Care Home	South Grafton, NSW	Mar 31, 2017	1940	37,674	1	100.0%	18.0
126	Hirondelle Private Hospital	Chatswood, NSW	May 31, 2017	2013	34,402	1	100.0%	23.2
127	The Hills Clinic	Kellyville, NSW	Jul 31, 2017	2011	31,797	1	100.0%	28.4
128	Eden Rehabilitation Hospital	Cooroy, Queensland	Dec 8, 2017	1979	40,171	1	100.0%	18.7
					1,846,345	91	99.4%	17.8
Development Land:								
129	25 Nelson Road(9)	Box Hill, Victoria	Nov 28, 2014	n/a	n/a	n/a	n/a	n/a
130	142 Brighton Avenue(10)	Toronto, New South Wales	Jul 22, 2015	n/a	n/a	n/a	n/a	n/a
131	27 Hopkins Street (11)	Merewether, New South Wales	Nov 25, 2015	n/a	n/a	n/a	n/a	n/a
132	6 Lingard Street (11)	Merewether, New South Wales	Dec 4, 2015	n/a	n/a	n/a	n/a	n/a
New Zealand								
133	Apollo Health and Wellness Centre	Albany, Auckland	Sep 1, 2008	2005	52,807	24	93.9%	6.4
134	Ascot Central	Greenlane East, Auckland	May 1, 2008	2008	51,437	17	100.0%	4.4
135	Ascot Central Car Park	Greenlane East, Auckland	ground lease	1999	4,833	17	100.0%	12.5
136	Ascot Hospital	Greenlane East, Auckland	Mar 25, 1999	1999	122,497	21	100.0%	18.5
137	Kensington Hospital	Whangarei, Northland	Mar 12, 2001	2001	25,371	1	100.0%	27.3
138	Napier Health Centre	Napier, Hawke's Bay	Dec 23, 1999	1999	46,231	1	100.0%	4.7
139	Boulcott Private Hospital	Lower Hutt	Jul 1, 2016	1985	45,672	1	100.0%	19.3
140	Ormiston Hospital	Flatbush, South Auckland	Apr 4, 2017	2008	53,805	8	100.0%	3.6
141	Royston Hospital	Hastings, Hawke's Bay	Dec 12, 2017	1931	63,723	1	100.0%	28.7
142	Wakefield Hospital	Newtown, Wellington	Dec 12, 2017	1910	155,626	1	100.0%	28.7
143	Bowen Hospital	Crofton Downs, Wellington	Dec 12, 2017	1971	114,777	1	100.0%	28.7
					736,779	93	99.6%	19.6
Development Land:								
	678 High Street	Lower Hutt	Jul 1, 2016	n/a	n/a	n/a	n/a	n/a
Australasia - Vital Trust (3)					2,583,124	184	99.4%	18.3

PART X – PROPERTY TABLE (CON'T.)

PROPERTY TABLE								
Property	Location	Date Acquired	Year Built ⁽¹⁾	Approximate			WALE ⁽²⁾	
				GLA (sf)	# of Tenants	Occupancy %		
Australia REIT								
144	Epworth Freemasons Private Hospital(13)	East Melbourne,Victoria	Jun 1, 2006	1935/1950/1960 /1970/1990/ 2007/2014/2015	150,587	1	100.0%	15.2
145	Epworth Freemasons Private Hospital and Medical Centre(13)	East Melbourne, Victoria	Jun 1, 2006	1980	92,397	32	100.0%	5.6
146	Pacific Private Clinic	Southport ,Queensland	Jun 1, 2007	2000	85,547	25	83.0%	3.5
147	Frankston Private Hospital	Frankston,Victoria	Jun 1, 2007	2006	127,664	9	100.0%	14.7
148	ARCBS (Australian Red Cross Blood Service) Facility(13)	Brisbane, Queensland	Jun 1, 2008	2008	217,958	11	100.0%	11.3
149	Westmead Rehabilitation Hospital	Merrylands ,New South Wales	Apr 19, 2013	2005	30,699	1	100.0%	19.2
150	Spring Hill	Brisbane ,Queensland	May 23, 2014	1988	90,320	12	98.0%	4.1
151	Frankston Specialist Centre	Frankston ,Victoria	Nov 3, 2014	1989	6,458	1	100.0%	5.6
152	St John Of God Berwick Specialist Centre	Berwick,Victoria	Jun 1, 2015	2015	38,501	13	100.0%	5.3
153	Bolton Clarke Tantula Rise Aged Care Facility	Alexandra Headland, Queensland	Jun 25, 2015	2005/2007	83,614	1	100.0%	17.3
154	Bolton Clarke Baycrest Aged Care Facility	Pialba, Queensland	Jun 25, 2015	1990/2006	71,860	1	100.0%	17.2
155	Bolton Clarke Darlington Aged Care Facility	Banora Point, New South Wales	Jun 25, 2015	2005/2007	67,694	1	100.0%	17.6
156	Waratah Private Hospital Ground Floor Suites	Hurstville,New South Wales	Sep 11, 2015	2010	7,933	1	100.0%	16.8
157	St John of God Private Hospital (Casey Stage 2)	Berwick,Victoria	Mar 21, 2013	2017	180,726	1	100.0%	15.8
158	Epping Medical Centre (14)	Epping, Victoria	Oct 1, 2018	2009	107,226	17	85.0%	11.4
Development Property:								
	Gray Street Centre and Albert Street Car Park (12) (13)	East Melbourne,Victoria	Jun 1, 2006	n/a	n/a	n/a	n/a	n/a
	St John of God Private Hospital (Casey Stage 3)	Berwick,Victoria	Mar 21, 2013	n/a	n/a	n/a	n/a	n/a
					1,359,184	127	97.6%	12.3
Portfolio Totals / Weighted Averages (5)					11,922,414	2,075	96.8%	13.0
Portfolio Totals / Weighted Averages-at ownership interest (4)(5)					9,985,072		96.3%	11.9

Notes

- (1) Blended between year built/renovated or expanded, as applicable.
- (2) As at March 31, 2019 weighted average lease expiry in years.
- (3) Represents 100% of Vital Trust. The REIT has an approximate 25% interest in Vital Trust. The property count for Vital includes four properties representing development land.
- (4) Calculation is based on the REIT's ownership interest in Vital Trust.
- (5) Weighted Average Occupancy and WALE excluding Redevelopment Properties.
- (6) One of two buildings on a two building campus.
- (7) Adjacent to South Eastern Private Hospital.
- (8) Adjacent Sportsmed Private Hospital.
- (9) Adjacent to Epworth Eastern Hospital.
- (10) Adjacent to Toronto Private Hospital.
- (11) Adjacent Lingard Private Hospital.
- (12) Adjoining the Epworth Freemasons Private Hospital.
- (13) Seed Assets sold to an institutional investor as part of a Joint Venture Agreement ("JV") which closed on September 21, 2018. The REIT owns 30% interest in the JV.
- (14) On October 1, 2018, the REIT exercised an option to convert a loan receivable to a 50% interest in the related investment property located in Melbourne, Australia.

PART XI – SUPPLEMENTAL DISCLOSURE

Expressed in thousands of Canadian dollars	As at March 31, 2019									
	Canada	Brazil	Europe	Australia/New Zealand				Corporate ⁽³⁾	Consolidated	
				Vital Trust	Australia REIT	ANZ Manager	Elimination	Total		
Assets										
Investment properties	\$ 1,114,305	\$ 753,846	\$ 640,565	\$ 1,609,196	\$ 581,999	\$ —	\$ 4,355	\$ 2,195,550	\$ —	\$ 4,704,266
Investment in associate	—	—	—	—	—	—	274	274	—	274
Intangible asset	—	—	—	—	—	47,284	—	47,284	—	47,284
Goodwill	—	—	—	—	39,260	—	—	39,260	41,672	80,932
Financial instruments	(194)	—	—	72,853	58,433	—	—	131,286	—	131,092
Other assets	9,334	9,943	14,277	13,177	54,217	70,457	(3,927)	133,924	11,502	178,980
	\$ 1,123,445	\$ 763,789	\$ 654,842	\$ 1,695,226	\$ 733,909	\$ 117,741	\$ 702	\$ 2,547,578	\$ 53,174	\$ 5,142,828
Liabilities										
Mortgages and loans payable	495,991	180,041	349,314	678,274	344,393	2,549	—	1,025,216	315,560	2,366,122
Convertible debentures	—	—	—	—	—	—	—	—	422,783	422,783
Deferred tax liability	—	110,022	15,401	84,686	73,355	(2,426)	—	155,615	—	281,038
Financial instruments	—	—	2,654	32,751	2,016	—	—	34,767	—	37,421
Exchangeable Units	65,321	—	—	—	—	—	—	—	141,155	206,476
Other liabilities	23,108	2,872	23,136	17,784	9,183	12,538	(4,392)	35,113	32,643	116,872
	\$ 584,420	\$ 292,935	\$ 390,505	\$ 813,495	\$ 428,947	\$ 12,661	\$ (4,392)	\$ 1,250,711	\$ 912,141	\$ 3,430,712
Net assets	539,025	470,854	264,337	881,731	304,962	105,080	5,094	1,296,867	(858,967)	1,712,116
Less: Non-controlling interest	—	—	(476)	(660,740)	(54,149)	—	(11,334)	(726,223)	—	(726,699)
Unitholders' Equity	\$ 539,025	\$ 470,854	\$ 263,861	\$ 220,991	\$ 250,813	\$ 105,080	\$ (6,240)	\$ 570,644	\$ (858,967)	\$ 985,417

Notes

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

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

(3) Includes cost of corporate borrowings including the REIT's Secured Revolving Credit Facility, Convertible Debentures, Australasian Secured Financing and distributions paid on Class B LP Units, treated as finance costs. Includes general and administrative costs of the REIT's head office.

PART XI – SUPPLEMENTAL DISCLOSURE (CON'T.)

SUPPLEMENTAL DISCLOSURE

Expressed in thousands of Canadian dollars	Three months ended March 31, 2019									Corporate ⁽³⁾	Consolidated
	Canada	Brazil	Europe	Australia/New Zealand				Total			
				Vital Trust	Australia REIT	ANZ Manager	Elimination				
Net Operating Income ⁽¹⁾											
Revenue from investment properties	\$ 31,474	\$ 14,366	\$ 11,805	\$ 25,181	\$ 9,538	\$ —	\$ (431)	\$ 34,288	\$ —	\$ 91,933	
Property operating costs	(14,752)	—	(3,457)	(2,891)	(1,795)	—	54	(4,632)	—	(22,841)	
	\$ 16,722	\$ 14,366	\$ 8,348	\$ 22,290	\$ 7,743	\$ —	\$ (377)	\$ 29,656	\$ —	\$ 69,092	
Other Income											
Share of profit (loss) from associates	—	—	—	—	(83)	714	(714)	(83)	—	(83)	
Management fees	—	—	—	—	—	13,214	(10,539)	2,675	—	2,675	
Interest and other	7	47	65	—	979	212	—	1,191	56	1,366	
	7	47	65	—	896	14,140	(11,253)	3,783	56	3,958	
	16,729	14,413	8,413	22,290	8,639	14,140	(11,630)	33,439	56	73,050	
Other Expenses											
Mortgage and loan interest expense	(4,714)	(3,399)	(2,080)	(7,492)	(4,112)	(44)	—	(11,648)	(11,442)	(33,283)	
General and administrative expenses	(538)	(601)	(1,090)	(8,808)	(228)	(3,130)	9,340	(2,826)	(1,741)	(6,796)	
Transaction costs	(73)	(5)	(17)	(10,182)	(1,506)	—	9,926	(1,762)	(256)	(2,113)	
Other finance costs	159	(1,737)	(95)	(373)	(1,032)	—	—	(1,405)	(64,448)	(67,526)	
Foreign exchange gain (loss)	(39)	(553)	(2)	906	—	(10)	—	896	(1,262)	(960)	
Income / (Loss) before the undernoted items	11,524	8,118	5,129	(3,659)	1,761	10,956	7,636	16,694	(79,093)	(37,628)	
Fair value adjustment of DUP liability	—	—	—	—	—	(70)	—	(70)	(2,365)	(2,435)	
Fair value adjustment of investment properties	2,497	10,741	(2,536)	(430)	(641)	—	99	(972)	—	9,730	
Gain / (Loss) on derivative financial instruments	(729)	—	(795)	(2,017)	(4,837)	—	—	(6,854)	—	(8,378)	
Income / (Loss) before taxes	13,292	18,859	1,798	(6,106)	(3,717)	10,886	7,735	8,798	(81,458)	(38,711)	
Income tax expense	—	(11,937)	(21)	1,070	(2,100)	(2,239)	—	(3,269)	(90)	(15,317)	
Net Income (loss)	\$ 13,292	\$ 6,922	\$ 1,777	\$ (5,036)	\$ (5,817)	\$ 8,647	\$ 7,735	\$ 5,529	\$ (81,548)	\$ (54,028)	
Non-Controlling Interest	—	—	3	(3,782)	533	—	7,206	3,957	—	3,960	
Income attributable to Unitholders	\$ 13,292	\$ 6,922	\$ 1,774	\$ (1,254)	\$ (6,350)	\$ 8,647	\$ 529	\$ 1,572	\$ (81,548)	\$ (57,988)	
Add / (Deduct):											
Fair market value losses (gains)	(1,768)	(10,741)	3,331	2,447	5,478	70	(99)	7,896	62,524	61,242	
Less: Non-controlling interests' share of fair market value losses (gains)	—	—	—	(1,838)	—	—	74	(1,764)	—	(1,764)	
Finance cost - Exchangeable Unit distributions	—	—	—	—	—	—	—	—	3,542	3,542	
Revaluation of financial liabilities	—	1,300	—	—	—	—	—	—	—	1,300	
Unrealized foreign exchange loss (gain)	39	553	17	165	—	10	—	175	1,281	2,065	
Less: Non-controlling interests' share of unrealized foreign exchange loss (gain)	—	—	—	(124)	—	—	—	(124)	—	(124)	
Deferred taxes	—	11,937	24	(2,054)	2,100	894	—	940	—	12,901	
Less: Non-controlling interests' share of deferred taxes	—	—	—	1,543	—	—	—	1,543	—	1,543	
Transaction costs	73	5	17	10,182	1,506	—	(9,926)	1,762	256	2,113	
Less: Non-controlling interests' share of transaction costs	—	—	—	(7,647)	—	—	7,455	(192)	—	(192)	
Internal leasing costs	324	—	130	—	—	—	—	—	—	454	
Amortization of finance leases	(97)	1	1	—	(80)	15	—	(65)	—	(160)	
Other FFO adjustments	144	—	—	—	—	—	1,680	1,680	—	1,824	
Funds From Operations ("FFO") ⁽²⁾	\$ 12,007	\$ 9,977	\$ 5,294	\$ 1,420	\$ 2,654	\$ 9,636	\$ (287)	\$ 13,423	\$ (13,945)	\$ 26,756	

PART XI – SUPPLEMENTAL DISCLOSURE (CON'T.)

SUPPLEMENTAL DISCLOSURE (CON'T)

Expressed in thousands of Canadian dollars	Three months ended March 31, 2019									
	Canada	Brazil	Europe	Australia/New Zealand				Corporate ⁽³⁾	Consolidated	
				Vital Trust	Australia REIT	ANZ Manager	Elimination	Total		
Funds From Operations ("FFO") ⁽²⁾	\$ 12,007	\$ 9,977	\$ 5,294	\$ 1,420	\$ 2,654	\$ 9,636	\$ (287)	\$ 13,423	\$ (13,945)	\$ 26,756
Add / (Deduct):										
Amortization of marked to market adjustment	(297)	—	—	—	—	—	—	—	—	(297)
Amortization of transactional deferred financing charges	—	—	—	—	876	—	—	876	658	1,534
Straight-line revenue	(25)	—	—	41	(448)	—	—	(407)	—	(432)
Less: Non-controlling interests' share of straight-line revenue	—	—	—	(31)	(17)	—	—	(48)	—	(48)
Leasing costs and non-recoverable maintenance capital expenditures	(1,888)	—	(708)	(490)	(704)	—	—	(1,194)	—	(3,790)
Less: Non-controlling interests' share of actual capex and leasing costs	—	—	—	368	—	—	—	368	—	368
DUP compensation expense	—	—	—	—	—	314	—	314	640	954
Adjusted Funds From Operations ("AFFO") ⁽²⁾	\$ 9,797	\$ 9,977	\$ 4,586	\$ 1,308	\$ 2,361	\$ 9,950	\$ (287)	\$ 13,332	\$ (12,647)	\$ 25,045

PART XII – NET ASSET VALUE

Expressed in thousands of Canadian dollars, except per unit amounts

	Q1 2019
Total Assets	\$ 5,142,828
less Total Liabilities	(3,430,712)
less Non-controlling interest	(726,699)
Unitholders' equity	985,417
Add/(deduct):	
Goodwill	(80,932)
Deferred unit plan liability	15,194
Deferred tax liability	281,038
less NCI	<u>(63,616)</u>
	217,422
Financial instruments - net ⁽²⁾	37,444
less NCI	<u>(29,826)</u>
	7,618
Exchangeable Units	206,476
ANZ Manager valuation adjustment	220,509
Other	1,337
Net Asset Value ("NAV")	\$ 1,573,041
Adjusted Units Outstanding (000s)- period end ⁽¹⁾	135,056
NAV per Unit	\$ 11.65

Notes

- (1) Under IFRS the REIT's Class B LP Units are treated as a financial liability rather than equity. The REIT has chosen to present an adjusted basic per unit measure that includes the Class B LP Units in basic units outstanding/weighted average units outstanding.
- (2) Excludes the fair value of the HSO derivatives which the REIT considers a net investment.

CORPORATE INFORMATION

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Stock Exchange Listing

Toronto Stock Exchange (TSX)

Listing symbols:

REIT Trust Units - NWH.UN
5.25% convertible debentures - NWH.DB
7.25% convertible debentures - NWH.DB.C
5.50% convertible debentures - NWH.DB.D
5.25% convertible debentures - NWH.DB.E
5.25% convertible debentures - NWH.DB.F
5.50% convertible debentures - NWH.DB.G

Distribution Reinvestment Plan

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



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