

**NORTHWEST HEALTHCARE  
PROPERTIES REAL ESTATE  
INVESTMENT TRUST**

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

FOR THE THREE AND SIX  
MONTHS ENDING  
JUNE 30, 2018

(UNAUDITED)



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

<b>As at</b>	<b>Note</b>	<b>June 30, 2018</b>	<b>December 31, 2017</b>
<b>Assets</b>			
Investment properties	5	\$ 4,489,781	\$ 4,144,789
Intangible assets		47,298	47,301
Goodwill		134,070	134,630
Financial instruments	9	82,598	1,935
Accounts receivable		13,262	8,260
Other assets	6	113,106	106,546
Cash and restricted cash	14	60,025	72,067
Assets held for sale		—	168,500
<b>Total assets</b>		<b>\$ 4,940,140</b>	<b>\$ 4,684,028</b>
<b>Liabilities</b>			
Mortgages and loans payable	7	\$ 2,462,450	\$ 2,124,769
Convertible debentures	8	293,388	296,857
Deferred unit plan liability	10	13,582	18,009
Class B exchangeable units	11	199,924	216,008
Deferred tax liability		233,954	224,329
Financial instruments	9	15,529	15,769
Income tax payable		5,772	9,759
Accounts payable and accrued liabilities		70,718	59,082
Distributions payable		6,877	6,736
Liabilities related to assets held for sale		—	57,785
<b>Total liabilities</b>		<b>\$ 3,302,194</b>	<b>\$ 3,029,103</b>
<b>Unitholders' Equity</b>			
Unitholders' equity	13	913,132	947,670
Non-controlling interest	17	724,814	707,255
<b>Total liabilities and unitholders' equity</b>		<b>\$ 4,940,140</b>	<b>\$ 4,684,028</b>

The consolidated financial statements were approved by the Board on August 8, 2018 and signed on its behalf by:

"Colin Loudon" Trustee

"Paul Dalla Lana" Trustee

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

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

	Note	For the three months ended June 30,		For the six months ended June 30,	
		2018	2017	2018	2017
<b>Net Property Operating Income</b>					
Revenue from investment properties	12	\$ 85,157	\$ 73,134	\$ 173,405	145,598
Property operating costs		19,903	19,003	41,974	38,573
		<b>65,254</b>	<b>54,131</b>	<b>131,431</b>	<b>107,025</b>
<b>Other Income</b>					
Interest and other		3,326	521	6,950	918
Management fees		211	6,621	657	7,484
Share of profit of associates		—	38,270	—	43,681
		<b>3,537</b>	<b>45,412</b>	<b>7,607</b>	<b>52,083</b>
<b>Expenses</b>					
Mortgage and loan interest expense		29,458	22,282	60,692	42,621
General and administrative expenses		8,729	6,859	14,664	12,350
Transaction costs	9	4,561	11,788	4,963	11,876
Foreign exchange loss		1,932	6,995	3,055	3,006
		<b>44,680</b>	<b>47,924</b>	<b>83,374</b>	<b>69,853</b>
<b>Income before other finance costs, fair value adjustments, and net loss on disposal of investment property</b>		<b>24,111</b>	<b>51,619</b>	<b>55,664</b>	<b>89,255</b>
<b>Finance costs</b>					
Amortization of financing costs		(1,794)	(2,185)	(4,654)	(3,084)
Amortization of mark-to-market adjustment		474	779	1,090	1,545
Class B exchangeable unit distributions	11	(3,542)	(3,800)	(7,084)	(7,600)
Fair value adjustment of Class B exchangeable units	11	(354)	(2,470)	1,210	(9,119)
Accretion of financial liabilities	7	(1,424)	(436)	(14,764)	(1,975)
Fair value adjustment of convertible debentures	8	523	(2,495)	3,412	(9,063)
Gain (loss) on financial instrument	9	(5,760)	4,496	(4,612)	3,618
Fair value adjustment of investment properties	5	38,429	120,226	46,465	192,716
Net loss on disposal of investment properties	4	—	—	(1,771)	—
Fair value adjustment of deferred unit plan liability	10	137	(395)	286	(818)
<b>Income before taxes</b>		<b>50,800</b>	<b>165,339</b>	<b>75,242</b>	<b>255,475</b>
<b>Income tax expense</b>		<b>11,661</b>	<b>3,540</b>	<b>21,640</b>	<b>19,142</b>
<b>Net income</b>		<b>\$ 39,139</b>	<b>\$ 161,799</b>	<b>\$ 53,602</b>	<b>\$ 236,333</b>
<b>Net income attributable to:</b>					
Unitholders		\$ 21,303	\$ 63,917	\$ 22,261	113,716
Non-controlling interest		17,836	97,882	31,341	122,617
		<b>\$ 39,139</b>	<b>\$ 161,799</b>	<b>\$ 53,602</b>	<b>\$ 236,333</b>

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

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

		For the three months ended June 30,		For the six months ended June 30,	
	Note	2018	2017	2018	2017
<b>Net Income</b>		\$ 39,139	\$ 161,799	\$ 53,602	\$ 236,333
<b>Other comprehensive income ("OCI") (loss):</b>					
Items that will be reclassified subsequently to income:					
Foreign currency translation adjustment		\$ (80,600)	\$ (49,627)	\$ (44,049)	\$ (2,814)
Realised foreign exchange gains/(losses) on hedges		—	(83)	(167)	(494)
Current taxation (expense)/credit		(143)	23	48	138
Unrealised foreign exchange gains/(losses) on hedges		1,217	4,568	1,217	1,874
Deferred taxation (expense)/credit		919	(1,279)	(355)	(525)
Fair value gain (loss) on net investment hedges		(6,000)	3,702	1,548	(898)
Deferred taxation (expense)/credit		420	(1,035)	(419)	253
<b>Other comprehensive income (loss), net of tax</b>		<b>(84,187)</b>	<b>(43,731)</b>	<b>(42,177)</b>	<b>(2,466)</b>
<b>Total comprehensive income (loss) for the period</b>		<b>\$ (45,048)</b>	<b>\$ 118,068</b>	<b>\$ 11,425</b>	<b>\$ 233,867</b>
<b>Total comprehensive income (loss) attributable to:</b>					
Unitholders		\$ (74,823)	\$ 32,793	\$ (17,219)	\$ 109,437
Non-controlling interest		29,775	85,275	28,644	124,430
		<b>\$ (45,048)</b>	<b>\$ 118,068</b>	<b>\$ 11,425</b>	<b>\$ 233,867</b>

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

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

	Note	Unitholders' Equity	Contributed Surplus	Reduction on Reclassification to Liabilities	Cumulative Distributions	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Unitholders' Equity	Non-Controlling Interest	Total Equity
<b>Balance, December 31, 2016</b>		\$ 604,592	\$ 39,839	\$ (115)	\$ (110,857)	\$ 27,915	\$ 142,911	\$ 704,285	\$ 485,505	\$ 1,189,790
Public offering of units		175,266	—	—	—	—	—	175,266	—	175,266
Units issued through distribution reinvestment plan		2,918	—	—	—	—	—	2,918	3,017	5,935
Units issued on exercise of deferred units		561	—	—	—	—	—	561	—	561
Distributions		—	—	—	(33,110)	—	—	(33,110)	(12,966)	(46,076)
Currency translation differences		—	—	—	—	(4,365)	—	(4,365)	1,551	(2,814)
Other comprehensive income (loss)		—	—	—	—	86	—	86	262	348
Net income (loss) for the period		—	—	—	—	—	113,716	113,716	122,617	236,333
<b>Balance, June 30, 2017</b>		\$ 783,337	\$ 39,839	\$ (115)	\$ (143,967)	\$ 23,636	\$ 256,627	\$ 959,357	\$ 599,986	\$ 1,559,343
Public offering of units		137,218	—	—	—	—	—	137,218	6,093	143,311
Units issued through distribution reinvestment plan		3,445	—	—	—	—	—	3,445	2,740	6,185
Units issued on exercise of deferred units		474	—	—	—	—	—	474	—	474
Conversion of convertible debenture		444	—	—	—	—	—	444	—	444
Acquisition of control of subsidiary		—	—	—	—	—	—	—	57,942	57,942
Distributions		—	—	—	(37,713)	—	—	(37,713)	(13,926)	(51,639)
Currency translation differences		—	—	—	—	(68,184)	—	(68,184)	22,340	(45,844)
Other comprehensive income (loss)		—	—	—	—	(1,042)	—	(1,042)	(3,155)	(4,197)
Net income (loss) for the period		—	—	—	—	—	(46,329)	(46,329)	35,235	(11,094)
<b>Balance, December 31, 2017</b>		\$ 924,918	\$ 39,839	\$ (115)	\$ (181,680)	\$ (45,590)	\$ 210,298	\$ 947,670	\$ 707,255	\$ 1,654,925
Units issued through distribution reinvestment plan		3,935	—	—	—	—	—	3,935	2,792	6,727
Units issued on exercise of deferred units	13	4,897	—	—	—	—	—	4,897	—	4,897
Conversion of Class B LP exchangeable units	11	14,874	—	—	—	—	—	14,874	—	14,874
Conversion of convertible debenture	13	57	—	—	—	—	—	57	—	57
Acquisition of control of subsidiary		—	—	—	—	—	—	—	448	448
Distributions		—	—	—	(41,082)	—	—	(41,082)	(14,325)	(55,407)
Foreign currency translation differences		—	—	—	—	(39,947)	—	(39,947)	(4,102)	(44,049)
Other comprehensive income (loss)		—	—	—	—	467	—	467	1,405	1,872
Net income (loss) for the period		—	—	—	—	—	22,261	22,261	31,341	53,602
<b>Balance, June 30, 2018</b>		\$ 948,681	\$ 39,839	\$ (115)	\$ (222,762)	\$ (85,070)	\$ 232,559	\$ 913,132	\$ 724,814	\$ 1,637,946

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

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

(in thousands of Canadian dollars)

**Unaudited**

		For the three months ended June 30,		For the six months ended June 30,	
	Note	2018	2017	2018	2017
<b>Cash provided by (used in):</b>					
<b>Operating activities</b>					
Net income before taxes		\$ 50,800	\$ 165,339	\$ 75,242	\$ 255,475
Adjustment for:					
Amortization		655	399	626	781
Mortgage and loan interest		29,458	22,282	60,692	42,621
Mortgage and loans interest paid		(28,150)	(19,879)	(56,526)	(38,891)
Finance costs					
Amortization of financing costs		1,794	2,185	4,654	3,084
Amortization of mark-to-market adjustment		(474)	(779)	(1,090)	(1,545)
Class B exchangeable unit distributions	11	3,542	3,800	7,084	7,600
Fair value adjustment of Class B exchangeable units	11	354	2,470	(1,210)	9,119
Accretion of financial liabilities	7	1,424	436	14,764	1,975
Fair value adjustment of convertible debentures	8	(523)	2,495	(3,412)	9,063
Interest income		(1,644)	—	(3,444)	—
Share of profit of associate		—	(38,270)	—	(43,681)
Unrealized foreign exchange (gain)/loss		1,959	7,018	3,095	3,039
Amortization of deferred revenue		—	(341)	—	(648)
Amortization of finance leases receivable/payable		(75)	—	(155)	—
Fair value adjustment of investment properties	5	(38,429)	(120,226)	(46,465)	(192,716)
Fair value (gain)/loss on financial instruments	9	5,843	(4,496)	4,839	(3,618)
Net loss on disposal of investment properties		—	—	1,771	—
Fair value adjustment of deferred unit plan liability		(137)	395	(286)	818
Unit-based compensation expense	10	2,271	1,804	2,956	2,993
Redemption of units issued under deferred unit plan		(986)	(244)	(2,131)	(456)
Income taxes paid		(6,277)	(2,500)	(9,100)	(3,777)
Changes in non-cash working capital balances	14	(5,809)	633	(14,837)	(3,762)
<b>Cash provided by (used in) operating activities</b>		<b>15,596</b>	<b>22,521</b>	<b>37,067</b>	<b>47,474</b>
<b>Investing activities</b>					
Acquisitions of investment properties	3	(149,672)	(58,014)	(279,493)	(126,198)
Additions to investment properties	5	(19,055)	(18,968)	(35,992)	(38,235)
Net proceeds on disposal of investment property	4	—	—	162,474	—
Additions to investment in associate		—	(363,491)	—	(376,867)
Investment in subsidiary		—	(618)	—	(618)
Investment in financial assets	9	(4,080)	—	(5,162)	—
Cash interest received		1,463	—	2,577	—
Cash acquired on acquisition of control		—	196	—	196
Distributions from associates		—	5,263	—	7,354
Additions to furnitures and fixtures		(157)	(659)	(267)	(764)
Prepayment of forward contracts	9	(83,386)	—	(83,386)	—
Receipts (payments) from foreign exchange contracts		(82)	84	(64)	(292)
Net decrease (increase) to restricted cash		—	—	(58)	—
<b>Cash provided by (used in) investing activities</b>		<b>(254,969)</b>	<b>(436,207)</b>	<b>(239,371)</b>	<b>(535,424)</b>
<b>Financing activities</b>					
Mortgage and loan proceeds		213,853	371,833	358,789	377,517
Mortgage and loans discharged	7	—	(90,623)	(86,780)	(90,623)
Repayment of mortgages		(5,038)	(5,107)	(10,549)	(10,229)
Net advances (repayments) of loans payable		70,243	77,039	8,895	132,890
Proceeds from issue of units, net of issue costs	13	—	93,139	—	175,266
Financing fees paid		(1,713)	(6,283)	(3,176)	(7,395)
Net (payments) advances from related parties		210	351	(247)	351
Settlement of securitization		—	(6,057)	(19,625)	(6,057)
Distributions paid		(18,547)	(15,323)	(37,013)	(28,938)
Class B exchangeable units distributions paid	11	(3,542)	(3,800)	(7,084)	(7,600)
Distributions paid to non-controlling interest		(5,706)	(4,848)	(11,533)	(9,945)
<b>Cash provided by (used in) financing activities</b>		<b>249,760</b>	<b>410,321</b>	<b>191,677</b>	<b>525,237</b>
<b>Net change in cash</b>		<b>10,387</b>	<b>(3,365)</b>	<b>(10,627)</b>	<b>37,287</b>
<b>Effect of foreign currency translation</b>		<b>1,214</b>	<b>(5,459)</b>	<b>(1,377)</b>	<b>(4,990)</b>
<b>Net change in cash</b>		<b>11,601</b>	<b>(8,824)</b>	<b>(12,004)</b>	<b>32,297</b>
<b>Cash, beginning of period</b>		<b>48,099</b>	<b>61,076</b>	<b>71,704</b>	<b>19,955</b>
<b>Cash, end of period</b>		<b>\$ 59,700</b>	<b>\$ 52,252</b>	<b>\$ 59,700</b>	<b>\$ 52,252</b>

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

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# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Condensed Consolidated Interim Financial Statements

(in thousands of Canadian dollars)

For the three and six months ended June 30, 2018 and 2017

Unaudited

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

### 1. Basis of Preparation

The condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Accounting Standard ("IAS") 34: Interim Financial Reporting. Certain information and note disclosure normally included in the annual consolidated financial statements based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS") have been omitted. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the REIT's audited consolidated financial statements for the year ended December 31, 2017.

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

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

### 2. Significant Accounting Policies

All significant accounting policies have been applied on a basis consistent with those followed in the most recent audited annual consolidated financial statements of the REIT for the year ended December 31, 2017 with the exception of the accounting standards implemented in 2018. Changes to significant accounting policies are described below.

#### Accounting Standards implemented in 2018

(i) IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15, *Revenue from Contracts with Customers*, is effective for annual periods beginning on or after January 1, 2018, replacing all existing guidance in IFRS related to revenue, including (but not limited to) IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 15 *Agreements for the Construction of Real Estate*.

IFRS 15 contains a single, control-based model that applies to contracts with customers and provides two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 also includes additional disclosure requirements for revenue accounted for under the standard.

Revenue from lease components includes base rent, recoveries of property tax and property insurance, and revenue recognition remains consistent with the accounting policies outlined in the most recent audited annual consolidated financial statements.

Revenue related to the services component of the REIT's leases are accounted for in accordance with IFRS 15. These services consist primarily of operating cost recoveries for which the revenue is recognized over time, typically as the costs are incurred, which is when the services are provided.

The REIT adopted IFRS 15 beginning on January 1, 2018, using the retrospective method, which means that the REIT applied the standard retrospectively with cumulative effects of initial application recorded in opening retained earnings as at January 1, 2017 and restatement of the comparative period. The adoption of IFRS 15 did not have an impact on the timing of recognition or measurement of revenue and was limited to additional disclosure on the disaggregation of the REIT's various revenue streams.

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# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Condensed Consolidated Interim Financial Statements

(in thousands of Canadian dollars)

For the three and six months ended June 30, 2018 and 2017

Unaudited

### (ii) IFRS 9 *Financial Instruments* ("IFRS 9")

In July 2014, the IASB issued IFRS 9 replacing IAS 39, *Financial Instruments - Recognition and Measurement*. IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The REIT implemented the new requirements for classification and measurement, impairment and general hedging on January 1, 2018 by applying the requirements for classification and measurement, including impairment, retrospectively with no restatement of comparative periods. The REIT also applied related amendments to IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7").

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on three categories: amortized cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit and loss ("FVTPL"). Financial liabilities are classified and measured based on two categories: amortized costs or FVTPL. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated, but the hybrid financial instrument as a whole is assessed for classification. The adoption of the new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amount of financial assets and liabilities.

The following table summarizes the classification impacts upon the adoption of IFRS 9:

<b>Assets/Liability</b>	<b>Classification under IAS 39</b>	<b>Classification under IFRS 9</b>
Cash and restricted cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Loans receivable <sup>(i)</sup>	Loans and receivables	Amortized cost
Interest rate swaps	FVTPL	FVTPL
Derivative Financial Instruments	FVTPL	FVTPL
Foreign exchange contracts	FVTPL	FVTPL
Accounts payable and accrued liabilities	Loans and receivables	Amortized cost
Mortgage and loans payable	Amortized cost	Amortized cost
Class B exchangeable units	FVTPL	FVTPL
Convertible debentures	FVTPL	FVTPL
Deferred unit plan liability	FVTPL	FVTPL

(i) Excludes loan receivables relates to the Epping Specialist Medical Centre and Waratah Private Hospital, which is classified at FVTPL under IFRS 9

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a new 'expected credit loss' ("ECL") impairment model. The new impairment model applies to all financial assets measured at amortized cost, contract assets and debt investments measured at FVTOCI, except for investments in equity instruments.

The ECL model requires judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. The ECL models applied did not have a material impact on account receivables and notes receivable of the REIT.

IFRS 9 also introduces a new hedge accounting model. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting. The REIT does not currently undertake hedges of such risk components.

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

(in thousands of Canadian dollars)

For the three and six months ended June 30, 2018 and 2017

**Unaudited**(iii) Amendments to IFRS 2 *Share-based payment ("IFRS 2")*

The REIT adopted amendments to IFRS 2, beginning on January 1, 2018, the mandatory effective date. There was no material impact from the adoption of the amendments to IFRS 2.

**3. Property Acquisitions**

## (a) 2018 Property Acquisitions

Property	Location	Property type	Acquisition date	Total acquisition costs <sup>(1)</sup>	Property specific debt
Fritz-Lang-Platz 6 <sup>(2)</sup>	Berlin, Germany	Medical Office Building	January 31, 2018	\$ 22,175	\$ 14,527
Clinic Bismarkstrasse 68	Bad Kissingen, Germany	Hospital and Healthcare Facilities	February 22, 2018	22,362	14,508
Clinic Bremer Strasse 2	Wilhemshaven, Germany	Hospital and Healthcare Facilities	March 15, 2018	35,069	22,720
Epworth Freemasons Private Hospital (remaining 50%)	Melbourne, Australia	Medical Office Building	March 28, 2018	54,948	—
Landsberger Allee 44 / Matthiasstr 7	Berlin, Germany	Medical Office Building	April 27, 2018	39,283	25,761
Zuyderland Medical Center	Brunssum, the Netherlands	Medical Office Building	June 26, 2018	41,735	23,008
MediMall Rotterdam	Rotterdam, the Netherlands	Medical Office Building	June 29, 2018	101,351	58,794
Other <sup>(3)</sup>	Various			6,384	—
				<b>\$ 323,307</b>	<b>\$ 159,318</b>

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

(2) The acquisition was financed by property level debt totaling \$14.5 million (€9.6 million), a contribution from a 5.1% non-controlling interest of \$0.3 million (€0.2 million) and cash on hand.

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

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# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Condensed Consolidated Interim Financial Statements

(in thousands of Canadian dollars)

For the three and six months ended June 30, 2018 and 2017

Unaudited

### (b) 2017 Property Acquisitions

	Location	Property type	Acquisition date	Total acquisition costs <sup>(1)</sup>	Property specific debt
Alstadt-Caree Fulda Medical Centre	Fulda, Germany	Medical Office Building	February 1, 2017	\$ 11,185	\$ 7,417
Medical Care Centre Hamburg-Bergedorf	Hamburg, Germany	Medical Office Building	February 1, 2017	20,228	11,819
Abbotsford Private Hospital	New South Wales, Australia	Hospital and Healthcare Facilities	February 27, 2017	21,781	—
Grafton Aged Care Facility	New South Wales, Australia	Hospital and Healthcare Facilities	March 31, 2017	9,141	—
Epworth Eastern Hospital	Victoria, Australia	Hospital and Healthcare Facilities	March 31, 2017	19,500	—
Ormiston Hospital	Auckland, New Zealand	Hospital and Healthcare Facilities	April 5, 2017	33,521	—
Hirondelle Private Hospital	New South Wales, Australia	Hospital and Healthcare Facilities	June 1, 2017	25,449	—
The Hills Clinic	New South Wales, Australia	Hospital and Healthcare Facilities	August 1, 2017	31,472	—
Eden Rehab	Queensland, Australia	Hospital and Healthcare Facilities	December 11, 2017	24,599	—
Bowen Hospital	Wellington, New Zealand	Hospital and Healthcare Facilities	December 14, 2017	39,342	—
Wakefield Hospital	Wellington, New Zealand	Hospital and Healthcare Facilities	December 14, 2017	20,986	—
Royston Hospital	Hastings, New Zealand	Hospital and Healthcare Facilities	December 14, 2017	47,997	—
Alten Holstenstrasse	Hamburg, Germany	Medical Office Building	December 18, 2017	20,404	13,802
Other	Various			7,515	—
				<b>\$ 333,120</b>	<b>\$ 33,038</b>

### 4. Property Disposal

During the three and six months ended June 30, 2018, the REIT disposed the following properties:

	Location	Property type	Gross Proceeds	Property specific debt settled
Dundas Edward Centre <sup>(1)</sup>	Toronto, Ontario	Medical Office Building	\$ 167,000	\$ 55,000
			<b>\$ 167,000</b>	<b>\$ 55,000</b>

(1) Proceeds excludes disposition costs of \$1.8M.

On March 2, 2018, the REIT sold a medical office building located in Canada for gross proceeds of \$167.0 million. As part of the transaction, \$55.0 million of mortgage debt associated with the investment property was assumed by the purchaser.

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

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Condensed Consolidated Interim Financial Statements

(in thousands of Canadian dollars)

For the three and six months ended June 30, 2018 and 2017

Unaudited

### 5. Investment Properties

As at		June 30, 2018		December 31, 2017
Balance, beginning of period	\$	4,144,789	\$	3,040,354
Business combination of Australia REIT		—		691,674
Acquisition of investment properties (note 3)		323,307		333,120
Additions to investment properties		41,837		79,432
Increase in straight line rents		761		1,677
Reclassified as assets held for sale (note 4)		—		(200,699)
Settlement of securitization		7,945		—
Amortization of deferred revenue		—		1,229
Fair value gain (loss)		48,630		259,524
Foreign currency translation		(77,488)		(61,522)
<b>Balance, end of period</b>	<b>\$</b>	<b>4,489,781</b>	<b>\$</b>	<b>4,144,789</b>

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

The fair values of the investment properties at June 30, 2018 and December 31, 2017 were determined using a combination of both valuations performed by third-party appraisers and internal valuation models incorporating available market evidence. Estimates and assumptions used in determining the fair value of the investment properties include capitalization rates, discount rates, inflation rates, vacancy rates, market rents, property level capital expenditures, and net operating income.

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

	As at June 30, 2018			
	Canada	Brazil	Germany	Australasia
Discount rate - range	5.3% - 8.5%	8.0%	3.3% - 7.2%	5.8% - 10.8%
Discount rate - weighted average	7.3%	8.0%	5.6%	7.0%
Terminal capitalization rate - range	5.0% - 8.0%	7.5%	4.0% - 6.8%	5.3% - 9.3%
Terminal capitalization rate - weighted average	6.7%	7.5%	5.4%	6.2%
Implied capitalization rate - range	2.8% - 9.3%	7.7%	4.5% - 6.7%	5.0% - 9.5%
Implied capitalization rate - weighted average	6.5%	7.7%	5.8%	5.7%
	As at December 31, 2017			
	Canada	Brazil	Germany	Australasia
Discount rate - range	5.3% - 8.5%	8.0%	5.2% - 6.7%	6.4% - 9.5%
Discount rate - weighted average	7.3%	8.0%	5.7%	6.8%
Terminal capitalization rate - range	5.0% - 8.0%	7.5%	5.0% - 6.8%	5.5% - 9.0%
Terminal capitalization rate - weighted average	6.7%	7.5%	5.6%	6.2%
Implied capitalization rate - range	3.0% - 9.4%	7.7%	4.5% - 6.6%	5.3% - 8.4%
Implied capitalization rate - weighted average	6.6%	7.7%	5.7%	5.8%

During the three and six months ended June 30, 2018, investment properties with an aggregate fair value of \$1,887.1 million and \$1,900.4 million (for the three months ended December 31, 2017 - \$778.4 million) were valued by external valuation professionals with recognized and relevant professional qualification.

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

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**Unaudited****6. Other Assets**

As at	June 30, 2018	December 31, 2017
Acquisition and financing costs (i)	\$ 7,162	\$ 6,060
Prepaid expenses and deposits	5,825	4,790
Furniture and office equipment	3,438	3,521
Loans carried at amortized cost	17,239	23,328
Loans carried at fair value	56,380	45,967
Finance lease receivable (ii)	21,879	21,724
Other	1,183	1,156
	\$ 113,106	\$ 106,546

- i. Acquisition and financing costs relate to potential acquisitions and debt refinancing which are currently undergoing due diligence and/or negotiation.
- ii. Finance lease receivable relates to a long-term lease that is a finance lease, bearing a discount rate of 6.5% and remaining term of 69 years.

**7. Mortgages and Loans Payable**

As at	June 30, 2018	December 31, 2017
Mortgage payable <sup>1</sup> (i)	\$ 839,753	\$ 722,866
Australasian secured financing <sup>2</sup> (ii)	144,655	143,150
Acquisition facility <sup>3</sup> (iii)	31,850	7,700
Term loans and securitizations <sup>4</sup> (iv)	1,187,002	1,103,353
Secured floating rate credit facilities <sup>5</sup> (v)	249,315	137,899
Finance lease (vi)	9,875	9,801
Total	\$ 2,462,450	\$ 2,124,769
Less: Current portion <sup>6</sup>	442,954	414,000
<b>Non-current debt</b>	\$ 2,019,496	\$ 1,710,769

<sup>1</sup> Net of financing costs of \$3.1 million (December 31, 2017 - \$2.8 million)

<sup>2</sup> Net of financing costs of \$2.0 million (December 31, 2017 - \$3.5 million)

<sup>3</sup> Net of financing costs of \$0.2 million (December 31, 2017 - \$0.3 million)

<sup>4</sup> Net of financing costs of \$14.4 million (December 31, 2017 - \$15.5 million)

<sup>5</sup> Net of financing costs of \$0.7 million (December 31, 2017 - \$0.6 million)

<sup>6</sup> Current portion includes finance lease of \$0.4 million (December 31, 2017 - \$0.4 million)

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## i. Mortgages payable

All mortgages are secured by first or second charges on specific investment properties in Canada and Europe, with a carrying value of \$1.4 billion at June 30, 2018, and are repayable as follows:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable
2018 (remainder)	\$ 11,759	\$ 43,195	\$ 54,954
2019	20,872	107,395	128,267
2020	19,593	109,468	129,061
2021	15,057	124,505	139,562
2022	12,108	115,543	127,651
2023 & thereafter	30,949	228,164	259,113
Face value	\$ 110,338	\$ 728,270	\$ 838,608
Mark-to-market adjustment			4,286
Unamortized financing costs			(3,141)
Carrying amount			\$ 839,753

On March 2, 2018, the REIT settled a mortgage of \$55.0 million bearing interest rate of 5.11%. In addition, during the six months period ended June 30, 2018, the REIT purchased four properties in Germany and two in the Netherlands with existing and new property specific mortgages totaling \$159.3 million (€102.8 million) with weighted-average interest rate of 2.47%.

Included in mortgages is a non-revolving secured credit facility, with a balance \$51.2 million, bearing interest at bank's prime rate plus 1.25% or Bankers' Acceptances plus 2.25%, on April 26, 2018, the REIT extended the maturity from May 2, 2018 to May 2, 2019.

As at June 30, 2018, mortgages related to European investment properties had a balance of \$295.7 million (€192.4 million) (December 31, 2017 - \$137.6 million (€91.2 million)). Mortgages related to investment properties located in Canada had a balance of \$542.9 million as at June 30, 2018 (December 31, 2017 - \$582.7 million).

On June 29, 2018, the REIT extended the maturity of one of its Canadian mortgages in the amount of \$10.6 million from July 2018 to July 2020, bearing interest of 6.20%.

## ii. Australasian Secured Financing

As at June 30, 2018, the principal balance outstanding on the Australasian Secured Financing was \$98.0 million (NZ\$109.7 million) secured by 105,977,179 units of Vital Trust held by the REIT (December 31, 2017 - \$97.7 million (NZ\$109.7 million) secured by 105,977,179 units of Vital Trust). The REIT had a principal balance outstanding on the Australasian Secured Acquisition Facility of \$48.7 million (A\$50.0 million) as at June 30, 2018.

## iii. Acquisition Facility

As at June 30, 2018, the REIT had a balance outstanding on its \$32.0 million acquisition facility of \$32.0 million (December 31, 2017 - \$8.0 million). The facility has a maturity date of December 31, 2018.

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iv. Term Loans and securitization financings

(a) *Brazil long-term securitization financings*

As at June 30, 2018, the outstanding balance of the securitization financings was \$193.5 million (R\$566.7 million) (December 31, 2017 - \$221.2 million (R\$580.8 million)), with terms maturing between May, 2026 and November, 2027 and bearing a weighted average interest rate of 7.28% (December 31, 2017 - 7.28%)

For the three and six months ended June 30, 2018, the REIT recorded IPCA related accretion expense of \$1.4 million and \$3.3 million, respectively (for the three and six months ended June 30, 2017 - \$0.4 million and \$2.0 million, respectively) with respect to the securitization financings.

(b) *Vital Trust term loans*

Vital Trust has a syndicated revolving multi-currency facility with ANZ Bank New Zealand Limited, Australia and New Zealand Banking Group Limited and Bank of New Zealand. On June 5, 2018, Vital Trust has increased tranche B by \$97.5 million (A\$100.0 million) and extended the term of tranche A and B to March 2021 and July 2022, respectively. All of the above resulted in a total facility balance of approximately \$682.2 million (A\$700.0 million), which is split between several tranches ranging from \$18.6 million (NZ\$20.0 million) to \$194.8 million (A\$200.0 million) and mature between October 30, 2020 and July 31, 2022.

As at June 30, 2018, Vital Trust had borrowings on the term loan facilities totaling \$598.2 million (December 31, 2017 - \$547.0 million).

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

(c) *Australia term loans*

Australia has the following bank facilities:

- i. A syndicated term loan facility with a total limit of \$472.7 million (A\$485.0 million) maturing December 2022. As at June 30, 2018, the REIT had drawn \$367.7 million (A\$377.3 million) (December 31, 2017 - \$308.0 million);
- ii. A term loan of \$42.0 million (A\$43.1 million) maturing December 2022;

All of the Australia REIT's assets (excluding the non-controlling interest of the Frankston properties) are pledged as security for these loans in the five different security pools. The facilities are also secured by a negative pledge that imposes certain covenants with respect to the particular security pool for each facility.

v. Secured Credit Facility

(a) *Floating Rate Revolving Credit Facility*

The revolving credit facility is secured by first and second charges on certain Canadian investment properties with fair value of \$208.5 million, and the terms of a general security agreement.

On March 2, 2018, the REIT amended the terms of its revolving secured credit facility to increase the allowable borrowings by \$22.0 million by securing charges on four additional Canadian investment properties and removing a charge against the Canadian investment property that was sold. The proceeds from the sale were partially used to repay existing mortgages on the properties added to the security pool of the revolving credit

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facility of \$32.2 million, with weighted average interest rate of 4.12%. All mortgages repaid had terms maturing in 2018.

*(b) Non-Revolving Credit Facility*

On June 26, 2018, the REIT extended the maturity of one of its non-revolving secured credit facilities in the amount of \$125.0 million from June 29, 2018 to January 11, 2019, bearing interest at bank's prime rate plus 3.50% or Bankers' Acceptances plus 4.50%.

## vi. Finance Lease

As part of the Australia REIT acquisition, the lease of land on which one of the REIT's investment properties is built is accounted for as a finance lease. The remaining term of the lease at June 30, 2018 was 69 years. Minimum payments under the lease and their present values are as follows:

As at	June 30, 2018	December 31, 2017
Minimum lease payments payable:		
Not later than one year	\$ 428	\$ 425
Later than one year and not later than five years	1,844	1,828
Later than five years	95,879	96,662
	98,151	98,915
Future finance charges	(88,276)	(89,114)
<b>Present value of minimum lease payments</b>	<b>\$ 9,875</b>	<b>\$ 9,801</b>
Present value of minimum lease payments:		
Not later than one year	412	409
Later than one year and not later than five years	1,502	1,585
Later than five years	7,961	7,807
	\$ 9,875	\$ 9,801

A summary of the maturity and the weighted average interest rates relating to the mortgages and loans payable outstanding at June 30, 2018 are as follows:

	Maturity	Weighted Average Interest Rate	Carrying Value
Fixed rate			
Mortgage debt	December 2018 - January 2029	3.14%	\$ 755,147
Term loans and securitizations	March 2021 - November 2027	5.39%	862,509
<b>Total fixed rate debt</b>			<b>\$ 1,617,656</b>
Variable Rate			
Mortgage debt	December 2018 - January 2029	3.83%	\$ 84,606
Term loans and securitizations	March 2021 - November 2027	4.42%	324,493
Australasian secured financing	July 2018 - April 2019	6.68%	144,655
Acquisition facility	December 2018	8.20%	31,850
Secured floating revolving line of credit	January 2019 - November 2019	5.28%	249,315
<b>Total variable rate debt</b>			<b>\$ 834,919</b>
<b>Total debt excluding finance lease</b>			<b>\$ 2,452,575</b>
Finance lease		7.00%	9,875
<b>Total debt</b>			<b>\$ 2,462,450</b>

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The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on its \$849.6 million variable rate debt as at June 30, 2018 (December 31, 2017 - \$485.7 million) (note 9). The interest rate swaps terminate between 2018 and 2028.

As at June 30, 2018, the scheduled principal repayments and debt maturities are as follows:

	Mortgage Debt	Australasian Secured Financing	Term Loans and Securitizations	Acquisition Facility	Secured Revolving Line of Credit	Finance Lease	Total
2018	\$ 54,954	\$ 97,955	\$ 8,336	\$ 32,000	\$ —	\$ 208	\$ 193,453
2019	128,267	48,730	17,582	—	250,000	404	444,983
2020	129,061	—	218,939	—	—	388	348,388
2021	139,563	—	223,477	—	—	373	363,413
2022	127,651	—	626,356	—	—	358	754,365
2023 & thereafter	259,112	—	106,677	—	—	8,144	373,933
	\$ 838,608	\$ 146,685	\$ 1,201,367	\$ 32,000	\$ 250,000	\$ 9,875	\$ 2,478,535
Financing costs	(3,141)	(2,030)	(14,365)	(150)	(685)	—	(20,371)
Mark-to-market adjustment	4,286	—	—	—	—	—	4,286
	\$ 839,753	\$ 144,655	\$ 1,187,002	\$ 31,850	\$ 249,315	\$ 9,875	\$ 2,462,450

**8. Convertible Debentures**

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

As at	June 30, 2018	December 31, 2017
Balance, beginning of period	\$ 296,857	\$ 331,834
Conversion to REIT units (note 13)	(57)	(444)
Convertible debenture redeemed	—	(39,836)
Change in fair value of convertible debentures	(3,412)	5,303
	\$ 293,388	\$ 296,857

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

As at	June 30, 2018	December 31, 2017
NWH.DB	\$ 40,270	\$ 41,458
NWH.DB.C	39,524	40,202
NWH.DB.D	55,670	55,474
NWH.DB.E	75,894	76,768
NWH.DB.F	82,030	82,955
Fair Value	\$ 293,388	\$ 296,857
Current	—	—
Non-Current	293,388	296,857
	\$ 293,388	\$ 296,857

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

**9. Financial Instruments**

As at	June 30, 2018	December 31, 2017
Financial assets (a):		
Foreign exchange contracts <sup>(ii)</sup>	\$ 325	\$ 1,035
Interest rate swaps <sup>(iii)</sup>	1,737	900
Forward contract <sup>(i)</sup>	63,614	—
Option contracts <sup>(i)</sup>	16,922	—
<b>Total financial assets</b>	<b>82,598</b>	<b>1,935</b>
Financial liabilities (b):		
Interest rate swaps <sup>(iii)</sup>	15,150	12,427
Forward contracts <sup>(i)</sup>	—	1,075
Option contracts <sup>(i)</sup>	—	—
Foreign exchange contracts <sup>(ii)</sup>	379	2,267
<b>Total financial liabilities</b>	<b>\$ 15,529</b>	<b>\$ 15,769</b>

## (a) Derivative financial instrument (asset)

(i) On May 8, 2018 the REIT entered into derivative contracts with Deutsche Bank AG ("DB") giving the REIT an economic interest equivalent up to 10% of the outstanding shares of Healthscope Ltd. ("HSO") by way of a forward contract to acquire HSO shares and an option contract (the terms of which minimize the underlying margin requirements associated with the forward contract). The forward gives the REIT the ability to acquire, and DB the obligation to deliver, a minimum of 173,970,330 HSO shares at a price of A\$2.3863 per share on May 8, 2020, or earlier, at the REIT's option, if a voting meeting is scheduled for HSO or HSO receives a formal takeover bid. The REIT prepaid \$83.1 million (A\$85.3 million) of the \$404.6 million (A\$415.1 million) notional amount of the forward contract. The forward contemplates physical settlement but may be net settled in certain circumstances. Under the forward contract the REIT is entitled to receive dividend equivalents declared by HSO and it pays variable interest on the underlying embedded funding contained in the forward contract at Bank Bill Swap Bid Rate ("BBSY") plus 3%.

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

## (b) Derivative financial instrument (liability)

(i) The zero cost option contract for 173,970,330 options limits the benefits to the REIT of HSO share price appreciation above A\$2.60 and limits the REIT's exposure to HSO share price depreciation below A\$2.00 down to A\$1.25 per share. The option contract will be net settled. The option contract also provides that the

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REIT will reimburse DB for its costs should DB be required to borrow HSO stock to fulfill its obligations under the forward contract.

- (ii) The REIT has entered into interest rate swap contracts with respect to certain Canadian and German mortgages, and portions of the Vital Trust and Australia REIT term loans (note 7). The interest rate derivatives mature over the next one to 10 years and have fixed interest rates ranging from 1.71% to 4.83%.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Fair value adjustment - interest rate swaps	\$ (1,481)	\$ 2,339	\$ (1,249)	\$ 1,664
Receipts/(payments) under transaction hedging foreign exchange contracts	83	(18)	227	—
Fair value adjustment - foreign exchange contracts	(787)	1,751	(15)	363
Fair value adjustment - forward contracts	(17,164)	(720)	(17,164)	(54)
Fair value adjustment - option contracts	16,960	—	16,960	—
Fair value adjustment - financial asset	(903)	172	(903)	172
Finance costs - embedded funding contained in forward contract	(2,468)	—	(2,468)	—
Performance fee receivable	—	972	—	1,473
	\$ (5,760)	\$ 4,496	\$ (4,612)	\$ 3,618

The REIT paid transaction costs with respect to the HSO forward and option contracts of \$3.3 million (A\$3.4 million) during the three and six months ended June 30, 2018. In accordance with Vital Trust's conflict policy, Vital Trust has agreed to jointly pay the costs and jointly share in the benefits and risks of the HSO derivative contracts.

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

The REIT's DUP became effective in March 2010 and was re-approved at the annual general meeting of Unitholders in 2013. The DUP is administered by the Compensation, Governance and Nominating Committee. The purpose of the DUP is to promote a greater alignment of interests between the Trustees, officers and certain other participants of the REIT and the Unitholders. Under the plan, the maximum number of units authorized for issuance shall not exceed 5% of the units issued and outstanding at any given time. The deferred units can be settled at the holders' option in units or cash subject to the REIT's approval and are treated as a liability until redeemed.

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

(a) Liability:

As at	June 30, 2018	December 31, 2017
Balance, beginning of period	\$ 18,009	\$ 14,935
Unit based compensation expense	2,956	4,791
Exercised and paid in cash	(2,131)	(2,371)
Exercised and settled in Trust Units	(4,897)	(1,035)
Fair value adjustment	(286)	1,793
FX adjustment	(69)	(104)
Balance, end of period	\$ 13,582	\$ 18,009

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The balance of the DUP liability at June 30, 2018 consists of \$12.1 million related to the REIT's DUP and \$1.5 million related to Vital Trust's DUP (December 31, 2017 - \$16.1 million related to the REIT's DUP and \$1.9 million related to Vital Trust's DUP).

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

(b) Units outstanding:

<b>As at June 30, 2018</b>	<b>REIT</b>	<b>Vital Trust</b>
Balance, beginning January 1, 2018	1,936,429	1,819,014
Granted	218,700	626,995
Exercised and paid in cash	(153,759)	(326,221)
Exercised and paid in REIT units	(452,758)	—
Forfeited	(313,356)	—
Distribution entitlement	63,949	41,715
Balance, as at June 30, 2018	1,299,205	2,161,503
Units vested but not exercised	703,657	143,390

  

<b>As at December 31, 2017</b>	<b>REIT</b>	<b>Vital Trust</b>
Balance, beginning January 1, 2017	1,814,558	1,670,650
Granted	164,749	727,729
Exercised and paid in cash	(76,525)	(646,702)
Exercised and paid in REIT units	(95,264)	—
Forfeited	(16,415)	—
Distribution entitlement	145,326	67,337
Balance, December 31, 2017	1,936,429	1,819,014
Units vested but not exercised	1,041,290	391,893

For the three and six months ended June 30, 2018, the REIT and Vital Trust combined granted or issued 814,464 and 845,695 DUP units with a value of \$3.6 million and \$3.8 million, respectively (for the three and six months ended June 30, 2017 - 155,147 and 876,209 DUP units with a fair value of \$1.5 million and \$3.0 million, respectively).

**11. Class B Exchangeable Units**

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

On January 31, 2018, the REIT converted 1,290,000 Class B units to Trust units. As at June 30, 2018, there were 17,708,065 Class B exchangeable units (December 31, 2017 - 18,998,065) of Northwest International Healthcare Properties LP ("NWI LP") issued and outstanding with a fair value of \$199.9 million (December 31, 2017 - \$216.0 million).

Distributions declared on the Class B exchangeable units of NWI LP totaled \$3.5 million and \$7.1 million for the three and six months ended June 30, 2018, respectively (for the three and six months ended June 30, 2017 - \$3.8 million and \$7.6 million, respectively) and have been accounted for as finance costs.

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

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**Unaudited**

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

	<b>Units</b>	<b>Amount</b>
<b>Balance, December 31, 2016</b>	18,998,065	\$ 193,780
Fair value adjustment	—	22,228
<b>Balance, December 31, 2017</b>	18,998,065	\$ 216,008
Converted to Trust units	(1,290,000)	(14,874)
Fair value adjustment	—	(1,210)
<b>Balance, June 30, 2018</b>	<b>17,708,065</b>	<b>\$ 199,924</b>

**12. Rental Revenue**

The components of rental revenue are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	<b>2018</b>	2017	<b>2018</b>	2017
Rental income	\$ 65,376	\$ 54,222	\$ 131,799	\$ 107,122
Operating cost recoveries	12,744	11,344	26,597	23,161
Tax and insurance recoveries	4,130	4,641	8,457	8,900
Other revenue	2,907	2,927	6,552	6,415
<b>Rental revenue</b>	<b>\$ 85,157</b>	<b>\$ 73,134</b>	<b>\$ 173,405</b>	<b>\$ 145,598</b>

**13. Unitholders' Equity**

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

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

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

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

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The following table shows the changes in REIT Units:

	REIT units	Amount
<b>Balance, December 31, 2016</b>	<b>69,437,168</b>	<b>\$ 604,592</b>
Units issued through distribution reinvestment plan (i)	612,236	6,363
Conversion of convertible debentures (note 8)	37,719	444
Units issued under deferred unit plan (note 10)	95,264	1,035
Units issued pursuant to equity offering (ii)	30,856,800	327,865
Units issuance cost (ii)	—	(15,381)
<b>Balance, December 31, 2017</b>	<b>101,039,187</b>	<b>\$ 924,918</b>
Units issued through distribution reinvestment plan (i)	363,620	3,935
Conversion of convertible debentures (note 8)	4,800	57
Units issued under deferred unit plan (note 10)	452,758	4,897
Units issued pursuant to Class B conversion (note 11)	1,290,000	14,874
<b>Balance, June 30, 2018</b>	<b>103,150,365</b>	<b>\$ 948,681</b>

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

(ii) On October 13, 2017, the REIT completed a public offering of 13,133,000 REIT units, including 1,713,000 units issued pursuant to the exercise in full of an over-allotment option, at a price of \$10.95 per unit, representing gross proceeds of \$143.8 million. Issue costs of \$6.6 million were recognized in relation to this equity issuance.

On April 6, 2017, the REIT completed a public offering of 9,179,300 REIT units at a price of \$10.65 per unit, including 1,197,300 units issued pursuant the exercise in full of an over-allotment option representing gross proceeds of \$97.8 million. Issue costs of \$4.6 million were recognized in relation to this equity issuance.

On January 31, 2017, the REIT completed the public offering of 8,544,500 REIT units, including the exercise in full of an over-allotment option, at price of \$10.10 per unit representing total gross proceeds of \$86.3 million. Issue costs of \$4.2 million were recognized in relation to this equity issuance.

**14. Supplemental Cash Flow Information**

(i) Cash and Restricted Cash

As at	June 30, 2018	December 31, 2017
Cash	\$ 59,700	\$ 71,704
Restricted cash	325	363
	<b>\$ 60,025</b>	<b>\$ 72,067</b>

Restricted cash represents cash held in the REIT's designated bank accounts pledged as collateral for the Brazil long-term financings (note 7).

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Accounts receivable	\$ 258	\$ 856	\$ (5,651)	\$ (2,424)
Other assets	(4,309)	(731)	(5,010)	(4,081)
Accounts payable and accrued liabilities	(1,758)	508	(4,176)	2,743
	\$ (5,809)	\$ 633	\$ (14,837)	\$ (3,762)

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Non cash distributions to Unitholders under the DRIP (note 13)	\$ 2,001	\$ 1,544	\$ 3,935	\$ 2,918
Units issued under deferred unit plan (note 10)	4,039	343	4,897	561
Non-cash conversion of convertible debentures	—	—	57	—
Non-cash conversion of Class B exchangeable units (note 11)	—	—	14,874	—

**15. Related Party Transactions**

- (a) As at June 30, 2018, NWVP indirectly owned approximately 20.7% of the outstanding REIT units (approximately 17.3% on a fully diluted basis assuming conversion of the REIT's convertible debentures and redemption of its deferred units) of the REIT through a combination of units of the REIT and Class B exchangeable units of NWI LP. Paul Dalla Lana, Chairman of the Board of Trustees and Chief Executive Officer of the REIT, is the sole shareholder, sole director and President of NWVP.
- (b) In the normal course of operations, through shared services arrangements with affiliates of NWVP, the REIT has amounts owing to and from NWVP and affiliates. As at June 30, 2018, these non-interest bearing amounts combined included in accounts receivable are a net asset of \$0.3 million (December 31, 2017 - \$0.1 million).
- (c) At June 30, 2018, included in accounts payable and accrued liabilities are Class B exchangeable unit distributions payable owing to NWVP and affiliates in the amount of \$1.2 million (December 31, 2017 - \$1.2 million), which were settled subsequent to period end.
- (d) The following table summarizes the related party transactions with NWVP and its subsidiaries related to cost-sharing and sublease agreements with the REIT:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Reimbursement for out-of-pocket costs - completed transactions	\$ 159	\$ 121	\$ 157	\$ 794
Cost-sharing and sublease agreements	—	24	—	127
	\$ 159	\$ 145	\$ 157	\$ 921

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**16. Segmented Information**

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

During the three and six months ended June 30, 2018, two tenants in Brazil accounted for 15% and 15% respectively (for the three and six months ended June 30, 2017 - 18% and 19%, respectively), and one tenants in Australasia operating segment accounted for 15% and 15% respectively (for the three and six months ended June 30, 2017 - 12% and 12%, respectively) of the total revenue from investment properties.

<b>As at June 30, 2018</b>	<b>Europe</b>	<b>Brazil</b>	<b>Australasia</b>	<b>Canada</b>	<b>Total</b>
Investment properties	\$ 521,102	\$ 627,477	\$ 2,285,117	\$ 1,056,085	\$ 4,489,781
Mortgages and loans payable	\$ 293,900	\$ 184,608	\$ 1,012,270	\$ 971,672	\$ 2,462,450
<b>As at December 31, 2017</b>	<b>Europe</b>	<b>Brazil</b>	<b>Australasia</b>	<b>Canada</b>	<b>Total</b>
Investment properties	\$ 267,677	\$ 676,403	\$ 2,152,748	\$ 1,047,961	\$ 4,144,789
Mortgages and loans payable	\$ 136,150	\$ 210,405	\$ 902,750	\$ 875,464	\$ 2,124,769
<b>For the three months ended June 30, 2018</b>	<b>Europe</b>	<b>Brazil</b>	<b>Australasia</b>	<b>Canada</b>	<b>Total</b>
<b>Operating Income (Loss)</b>					
Revenue from investment properties	\$ 7,060	\$ 12,385	\$ 35,846	\$ 29,866	\$ 85,157
Property operating costs	1,748	—	4,457	13,698	19,903
<b>Net property operating income</b>	<b>5,312</b>	<b>12,385</b>	<b>31,389</b>	<b>16,168</b>	<b>65,254</b>
Other income					
Interest and other	—	1,939	1,318	69	3,326
Management fee	—	—	211	—	211
Share of profit of associate	—	—	—	—	—
	—	1,939	1,529	69	3,537
Mortgage and loan interest expense	1,171	3,553	11,409	13,325	29,458
General and administrative expenses	880	531	3,127	4,191	8,729
Transaction costs	—	650	3,716	195	4,561
Foreign exchange (gain) loss	—	1,000	4,566	(3,634)	1,932
	2,051	5,734	22,818	14,077	44,680
<b>Operating income (loss)</b>	<b>\$ 3,261</b>	<b>\$ 8,590</b>	<b>\$ 10,100</b>	<b>\$ 2,160</b>	<b>\$ 24,111</b>

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

# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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For the three months ended June 30, 2017	Europe	Brazil	Australasia	Canada	Total
<b>Operating Income (Loss)</b>					
Revenue from investment properties	\$ 4,533	\$ 13,452	\$ 20,771	\$ 34,378	\$ 73,134
Property operating costs	1,317	—	2,395	15,291	19,003
<b>Net property operating income</b>	<b>3,216</b>	<b>13,452</b>	<b>18,376</b>	<b>19,087</b>	<b>54,131</b>
Other income					
Interest and other	2	385	19	115	521
Management fee	—	—	6,621	—	6,621
Share of profit of associate	—	—	38,270	—	38,270
	2	385	44,910	115	45,412
Mortgage and loan interest expense	720	2,888	3,972	14,702	22,282
General and administrative expenses	701	492	3,297	2,369	6,859
Transaction costs	—	—	132	11,656	11,788
Foreign exchange (gain) loss	—	12	2,666	4,317	6,995
	1,421	3,392	10,067	33,044	47,924
<b>Operating income (loss)</b>	<b>\$ 1,797</b>	<b>\$ 10,445</b>	<b>\$ 53,219</b>	<b>\$ (13,842)</b>	<b>\$ 51,619</b>
<b>For the six months ended June 30, 2018</b>					
<b>Operating Income (Loss)</b>					
Revenue from investment properties	\$ 13,101	\$ 26,432	\$ 71,227	\$ 62,645	\$ 173,405
Property operating costs	3,416	—	9,153	29,405	41,974
<b>Net property operating income</b>	<b>9,685</b>	<b>26,432</b>	<b>62,074</b>	<b>33,240</b>	<b>131,431</b>
Other income					
Interest and other	1	4,214	2,606	129	6,950
Management fee	—	—	657	—	657
	1	4,214	3,263	129	7,607
Mortgage and loan interest expense	1,992	7,479	22,254	28,967	60,692
General and administrative expenses	1,589	1,122	5,074	6,879	14,664
Transaction costs	—	650	3,854	459	4,963
Foreign exchange (gain) loss	—	2,779	62	214	3,055
	3,581	12,030	31,244	36,519	83,374
<b>Operating income (loss)</b>	<b>\$ 6,105</b>	<b>\$ 18,616</b>	<b>\$ 34,093</b>	<b>\$ (3,150)</b>	<b>\$ 55,664</b>

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

### 17. Non-wholly Owned Subsidiary

On January 1, 2015, the REIT acquired all of the rights and obligations relating to the management of Vital Trust. As a result of the acquisition of the management rights and other factors, it was determined that the REIT obtained control (as defined in IFRS 10 - Consolidated Financial Statements) with respect to its approximately 24.9% investment in Vital Trust.

On July 17, 2017, the REIT completed the acquisition of 100% ownership interest in Australia REIT. Consequently, the REIT assumed Australia REIT's approximately 56.9% investment interest in Divine Logistics Trust ("Divine") which it accounted for as a subsidiary.

On January 2, 2018, the REIT entered into a share purchase agreement to buy 94.9% of a special purpose entity for the sole purpose of acquiring the medical office building (note 3).

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

As at June 30, 2018	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Total assets	\$ 1,559,302	\$ 167,461	\$ 22,571	\$ 1,749,334
Total liabilities	708,113	44,933	12,414	765,460
Net assets	\$ 851,189	\$ 122,528	\$ 10,157	\$ 983,874
Attributable to:				
Unitholders of the REIT	179,705	69,661	9,694	259,060
Non-controlling interest	671,484	52,867	463	724,814
	\$ 851,189	\$ 122,528	\$ 10,157	\$ 983,874

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

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As at December 31, 2017	Vital Trust		Divine	Fritz-Lang-Platz 6	Total									
Total assets	\$	1,503,041	\$	173,148	\$	—	\$	1,676,189						
Total liabilities		651,668		44,403		—		696,071						
Net assets	\$	851,373	\$	128,745	n/a	\$		980,118						
Attributable to:														
Unitholders of the REIT		199,668		73,195		—		272,863						
Non-controlling interest		651,705		55,550		—		707,255						
	\$	851,373	\$	128,745	n/a	\$		980,118						
<b>Three months ended June 30, 2018</b>														
		<b>Vital Trust</b>	<b>Divine</b>	<b>Fritz-Lang-Platz 6</b>	<b>Total</b>	<b>Three months ended June 30, 2017</b>								
						<b>Vital Trust</b>	<b>Divine</b>	<b>Fritz-Lang-Platz 6</b>	<b>Total</b>					
Revenue from investment properties	\$	23,976	\$	1,916	\$	392	\$	26,284	\$	20,771	n/a	n/a	\$	20,771
Net income attributable to:														
Unitholders of the REIT		7,604	(2,033)	162	5,733	30,798	—	—	30,798					
Non-controlling interest		19,372	(1,544)	8	17,836	97,882	—	—	97,882					
Net income	\$	26,976	\$	(3,577)	\$	170	\$	23,569	\$	128,680	n/a	n/a	\$	128,680
<b>Total comprehensive income attributable to:</b>														
Unitholders of the REIT		12,058	(3,211)	(45)	8,802	26,683	—	—	26,683					
Non-controlling interest		32,209	(2,432)	(2)	29,775	85,275	—	—	85,275					
Total comprehensive income	\$	44,267	\$	(5,643)	\$	(47)	\$	38,577	\$	111,958	n/a	n/a	\$	111,958
Distributions attributable to non-controlling interest	\$	6,362	\$	735	\$	—	\$	7,097	\$	6,493	n/a	n/a	\$	6,493
<b>Six months ended June 30, 2018</b>														
		<b>Vital Trust</b>	<b>Divine</b>	<b>Fritz-Lang-Platz 6</b>	<b>Total</b>	<b>Six months ended June 30, 2017</b>								
						<b>Vital Trust</b>	<b>Divine</b>	<b>Fritz-Lang-Platz 6</b>	<b>Total</b>					
Revenue from investment properties	\$	48,415	\$	3,916	\$	794	\$	53,125	\$	40,877	n/a	n/a	\$	40,877
Net income attributable to:														
Unitholders of the REIT		11,959	(1,142)	303	11,120	38,490	—	—	38,490					
Non-controlling interest		32,195	(869)	15	31,341	122,617	—	—	122,617					
Net income	\$	44,154	\$	(2,011)	\$	318	\$	42,461	\$	161,107	n/a	n/a	\$	161,107
<b>Total comprehensive income attributable to:</b>														
Unitholders of the REIT		11,314	(1,579)	145	9,880	39,162	—	—	39,162					
Non-controlling interest		29,833	(1,197)	8	28,644	124,430	—	—	124,430					
Total comprehensive income	\$	41,147	\$	(2,776)	\$	153	\$	38,524	\$	163,592	n/a	n/a	\$	163,592
Distributions attributable to non-controlling interest	\$	12,842	\$	1,483	\$	—	\$	14,325	\$	12,966	n/a	n/a	\$	12,966

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	Three months ended June 30, 2018				Three months ended June 30, 2017			
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
<b>Cash flow activities:</b>								
Operating	\$ (8,193)	\$ (3,991)	\$ 452	\$ (11,732)	\$ 6,524	\$ —	\$ —	\$ 6,524
Investing	(6,437)	5,453	—	(984)	(70,761)	—	—	(70,761)
Financing	13,069	(1,697)	(960)	10,412	69,764	—	—	69,764
Effect of foreign currency translation	198	128	(16)	310	(1,540)	—	—	(1,540)
<b>Net change in cash</b>	<b>\$ (1,363)</b>	<b>\$ (107)</b>	<b>\$ (524)</b>	<b>\$ (1,994)</b>	<b>\$ 3,987</b>	<b>n/a</b>	<b>n/a</b>	<b>\$ 3,987</b>
<b>Six months ended June 30, 2018</b>								
<b>Six months ended June 30, 2017</b>								
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
<b>Cash flow activities:</b>								
Operating	\$ (521)	\$ (1,944)	\$ 2,584	\$ 119	\$ 9,858	\$ —	\$ —	\$ 9,858
Investing	(17,277)	5,453	—	(11,824)	(137,195)	—	—	(137,195)
Financing	15,341	(3,505)	(2,400)	9,436	129,478	—	—	129,478
Effect of foreign currency translation	(2,036)	—	(1)	(2,037)	(2,248)	—	—	(2,248)
<b>Net change in cash</b>	<b>\$ (4,493)</b>	<b>\$ 4</b>	<b>\$ 183</b>	<b>\$ (4,306)</b>	<b>\$ (107)</b>	<b>n/a</b>	<b>n/a</b>	<b>\$ (107)</b>

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

## 18. Commitments and Contingent Liabilities

- The REIT has entered into fixed-price utility contracts with a third-party supplier in the amount of \$0.6 million to provide electricity and gas for its own use at its investment properties until December 31, 2018.
- The REIT obtains letters of credit to support its obligations with respect to construction work on its investment properties and satisfying mortgage financing requirements. As at June 30, 2018, the REIT has a total of \$0.9 million in outstanding letters of credit, under the REIT's secured revolving floating rate credit facility, related to construction work that is being performed on investment properties. The REIT does not believe that any of these standby letters of credit are likely to be drawn upon.
- On June 29, 2018, the REIT has entered into a purchase commitment agreement to acquire a hospital building located in São Paulo, Brazil in August 2018, for approximately \$88.4 million (R\$258.8 million).
- Pursuant to the sale of two of the REIT's investment properties, the existing mortgages were assumed by the purchasers. In the event of default, the REIT has guaranteed the outstanding balance of the mortgages of \$6.4 million as at June 30, 2018.
- The REIT has entered into acquisitions and construction agreements on development properties and is committed to costs of \$217.5 million as at June 30, 2018.
- The REIT indemnifies individuals who have acted at the REIT's request to be a trustee and/or director and/or officer of the REIT (and/or one or more of its direct and indirect subsidiaries), to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The claims covered by such indemnifications are subject to statutory and other legal limitation periods. The nature of the indemnification agreements prevents the REIT from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements.

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# NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Condensed Consolidated Interim Financial Statements

(in thousands of Canadian dollars)

For the three and six months ended June 30, 2018 and 2017

Unaudited

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- (g) The REIT is subject to legal and other claims in the normal course of business. Management and the REIT's legal counsel evaluate all claims. In the opinion of management these claims are generally covered by the REIT's insurance policies and any liability from such claims would not have a significant effect on the REIT's consolidated financial statements.

### 19. Fair Values

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

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

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

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

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

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

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The fair value hierarchy of assets and liabilities measured at fair value on the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements as at June 30, 2018 is as follows:

	Carrying value	Fair Value		
		Level 1	Level 2	Level 3
Assets measured at fair value:				
Investment properties	\$ 4,489,781	\$ —	\$ —	\$ 4,489,781
Financial instruments	82,598	—	82,598	—
Loans carried at fair value	56,380	—	—	56,380
Liabilities measured at fair value:				
Financial instruments	15,529	—	15,529	—
Convertible debentures	293,388	293,388	—	—
Class B LP exchangeable units	199,924	199,924	—	—
Deferred unit plan liability	13,582	13,582	—	—
Financial liabilities recorded at amortized cost:				
Mortgage and loans payable	2,462,450	—	2,476,464	—

The fair value hierarchy of assets and liabilities measured at fair value on the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements as at December 31, 2017 is as follows:

	Carrying value	Fair Value		
		Level 1	Level 2	Level 3
Assets measured at fair value:				
Investment properties	\$ 4,144,789	\$ —	\$ —	\$ 4,144,789
Derivative financial instruments	1,935	—	1,935	—
Assets held for sale	168,500	—	—	168,500
Loans carried at fair value	45,967	—	—	45,967
Liabilities measured at fair value:				
Derivative financial instruments	15,769	—	15,769	—
Convertible debentures	296,857	296,857	—	—
Class B LP exchangeable units	216,008	216,008	—	—
Deferred unit plan liability	18,009	18,009	—	—
Financial liabilities recorded at amortized cost:				
Mortgage and loans payable	2,124,769	—	2,135,715	—
Liabilities related to assets held for sale	57,785	—	57,209	—

**20. Capital Management**

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

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

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

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

(in thousands of Canadian dollars)

For the three and six months ended June 30, 2018 and 2017

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At June 30, 2018, the REIT is in compliance with its debt to gross book value ratio of the Declaration of Trust at 50.2% (December 31, 2017 - 46.8%) and 56.1% (December 31, 2017 - 53.1%). The debt to gross book value of the Declaration of Trust, and including convertible debentures, are as follows:

As at	June 30, 2018	December 31, 2017
<b>Debt</b>		
Gross value of debt excluding convertible debentures <sup>(1)</sup>	\$ 2,478,536	\$ 2,190,179
Gross value of total debt <sup>(2)</sup>	2,771,924	2,487,036
<b>Gross Book Value of Assets</b>		
Total assets	\$ 4,940,140	\$ 4,684,028
<b>Debt-to-Gross Book Value (Declaration of Trust)</b>	<b>50.2%</b>	<b>46.8%</b>
<b>Debt-to-Gross Book Value (including convertible debentures)</b>	<b>56.1%</b>	<b>53.1%</b>

(1) represents the principal balance of mortgages, mortgages related to assets held for sale, credit facility, Australasian Secured Financings, term loans, securitizations, acquisition facility and deferred consideration

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

The REIT's capital management is also impacted by various financial covenants in certain loan agreements. As at June 30, 2018, the REIT is in compliance with all such financial covenants.

**21. Risk Management**

In the normal course of business, the REIT is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2017.

**22. Subsequent Events**

- (i) On July 13, 2018, the REIT announced a distribution of \$0.06667 per REIT unit to unitholders of record on July 31, 2018, paid August 15, 2018.
- (ii) On July 13, 2018, the REIT extended terms of the Australasian secured debt maturing on April 28, 2019 and July 15, 2018, to July 15, 2019.
- (iii) On August 1, 2018, the REIT entered into a joint venture agreement ("JV") with an institutional investor, to acquire and develop Australian healthcare real estate. The JV will be 70% owned by the Institutional Investor with the REIT owning the remaining 30% interest. As part of the JV commitment, the REIT has also agreed to sell three income producing properties and one development property (collectively the "Seed Portfolio") to the JV with an as complete value of approximately \$397.0 million (A\$412 million).

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