

**NORTHWEST HEALTHCARE
PROPERTIES REAL ESTATE
INVESTMENT TRUST**

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

FOR THE THREE AND SIX MONTHS
ENDED JUNE 30, 2019

(UNAUDITED)



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

As at	Note	June 30, 2019	December 31, 2018
Assets			
Investment properties	5	\$ 4,792,407	\$ 4,669,802
Investment in associates	6	126,454	—
Intangible assets		47,267	47,291
Goodwill		79,613	81,403
Financial instruments	10	69	150,534
Accounts receivable		15,307	18,313
Other assets	7	58,158	58,146
Cash and restricted cash	15	51,501	46,159
Total assets		\$ 5,170,776	\$ 5,071,648
Liabilities			
Mortgages and loans payable	8	\$ 2,341,026	\$ 2,409,662
Convertible debentures	9	424,936	401,235
Deferred unit plan liability	11	16,371	13,030
Class B exchangeable units	12	208,601	167,872
Deferred tax liability		303,573	284,187
Financial instruments	10	51,741	23,102
Income tax payable		13,313	8,226
Accounts payable and accrued liabilities		83,247	74,881
Distributions payable		7,840	6,905
Total liabilities		\$ 3,450,648	\$ 3,389,100
Unitholders' Equity			
Unitholders' equity	14	965,537	947,722
Non-controlling interest	18	754,591	734,826
Total liabilities and unitholders' equity		\$ 5,170,776	\$ 5,071,648

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

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

For the six months ended June 30,	Note	For the three months ended June 30,		For the six months ended June 30,	
		2019	2018	2019	2018
Net Property Operating Income					
Revenue from investment properties	13	\$ 91,409	\$ 85,157	\$ 183,342	173,405
Property operating costs		20,952	19,903	43,793	41,974
		70,457	65,254	139,549	131,431
Other Income					
Interest and other		1,305	3,326	2,671	6,950
Management fees		5,114	211	7,789	657
Share of loss of associates	6	(21,635)	—	(21,718)	—
		(15,216)	3,537	(11,258)	7,607
Expenses					
Mortgage and loan interest expense		31,309	29,458	64,592	60,692
General and administrative expenses		10,249	8,729	17,045	14,664
Transaction costs		7,584	4,561	9,697	4,963
Foreign exchange (income) loss		(4,078)	1,932	(3,118)	3,055
		45,064	44,680	88,216	83,374
Income before other finance costs, fair value adjustments, and net loss on disposal of investment property		10,177	24,111	40,075	55,664
Finance costs					
Amortization of financing costs		(1,316)	(1,794)	(4,138)	(4,654)
Amortization of mark-to-market adjustment		393	474	690	1,090
Class B exchangeable unit distributions	12	(3,542)	(3,542)	(7,084)	(7,084)
Fair value adjustment of Class B exchangeable units	12	(2,125)	(354)	(40,729)	1,210
Accretion of financial liabilities	8	(2,548)	(1,424)	(3,848)	(14,764)
Fair value adjustment of convertible debentures	9	(2,173)	523	(23,728)	3,412
Loss on financial instrument	10	(8,479)	(5,760)	(16,857)	(4,612)
Fair value adjustment of investment properties	5	127,251	38,429	136,981	46,465
Net loss on disposal of investment properties	4	(139)	—	(139)	(1,771)
Fair value adjustment of deferred unit plan liability	11	(569)	137	(3,004)	286
Income before taxes		116,930	50,800	78,219	75,242
Income tax expense		33,234	11,661	48,551	21,640
Net income		\$ 83,696	\$ 39,139	\$ 29,668	53,602
Net income attributable to:					
Unitholders		\$ 49,613	\$ 21,303	\$ (8,375)	22,261
Non-controlling interest		34,083	17,836	38,043	31,341
		\$ 83,696	\$ 39,139	\$ 29,668	53,602

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 (cont.)****(in thousands of Canadian dollars)****Unaudited**

	For the three months ended June 30,		For the six months ended June 30,		
	Note	2019	2018	2019	2018
Net income		\$ 83,696	\$ 39,139	\$ 29,668	\$ 53,602
Other comprehensive income (loss) ("OCI"):					
Items that will be reclassified subsequently to income:					
Foreign currency translation adjustment	\$	(49,149)	(80,600)	(75,856)	(44,049)
Realised foreign exchange gains/(losses) on hedges		—	—	4,179	(167)
Current taxation (expense)/credit		—	(143)	(1,170)	48
Unrealised foreign exchange gains/(losses) on hedges		—	1,217	(2,750)	1,217
Deferred taxation (expense)/credit		—	919	1,786	(355)
Fair value gain (loss) on net investment hedges		(263)	(6,000)	(3,014)	1,548
Deferred taxation (expense)/credit		73	420	(172)	(419)
Other comprehensive income (loss), net of tax		(49,339)	(84,187)	(76,997)	(42,177)
Total comprehensive income (loss) for the period	\$	34,357	(45,048)	(47,329)	11,425
Total comprehensive income (loss) attributable to:					
Unitholders	\$	917	(74,823)	(78,676)	(17,219)
Non-controlling interest		33,440	29,775	31,347	28,644
	\$	34,357	(45,048)	(47,329)	11,425

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
Balance, December 31, 2018		\$ 953,169	\$ 39,839	\$ (115)	\$ (264,119)	\$ (57,065)	\$ 276,013	\$ 947,722	\$ 734,826	\$ 1,682,548
Public offering of units	14	136,833	—	—	—	—	—	136,833	—	136,833
Units issued through distribution reinvestment plan		4,840	—	—	—	—	—	4,840	3,025	7,865
Units issued on exercise of deferred units	14	851	—	—	—	—	—	851	—	851
Conversion of convertible debenture	14	27	—	—	—	—	—	27	—	27
Distributions		—	—	—	(46,060)	—	—	(46,060)	(14,607)	(60,667)
Currency translation differences		—	—	—	—	(70,017)	—	(70,017)	(5,839)	(75,856)
Other comprehensive income (loss)		—	—	—	—	(284)	—	(284)	(857)	(1,141)
Net income (loss) for the period		—	—	—	—	—	(8,375)	(8,375)	38,043	29,668
Balance, June 30, 2019		\$ 1,095,720	\$ 39,839	\$ (115)	\$ (310,179)	\$ (127,366)	\$ 267,638	\$ 965,537	\$ 754,591	\$ 1,720,128

	Note	Unitholders' Equity	Contributed Surplus	Reduction on Reclassification to Liabilities	Cumulative Distributions	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Unitholders' Equity	Non-Controlling Interest	Total Equity
Balance, December 31, 2017		\$ 924,918	\$ 39,839	\$ (115)	\$ (181,680)	\$ (45,590)	\$ 210,298	\$ 947,670	\$ 707,255	\$ 1,654,925
Units issued through distribution reinvestment plan		3,935	—	—	—	—	—	3,935	2,792	6,727
Units issued on exercise of deferred units	14	4,897	—	—	—	—	—	4,897	—	4,897
Conversion of Class B LP exchangeable units	12	14,874	—	—	—	—	—	14,874	—	14,874
Conversion of convertible debenture	14	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
Balance, June 30, 2018		\$ 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	2019	2018	2019	2018
Cash provided by (used in):					
Operating activities					
Net income before taxes		\$ 116,930	\$ 50,800	\$ 78,219	\$ 75,242
Adjustment for:					
Amortization		571	655	1,126	626
Mortgage and loan interest		31,309	29,458	64,592	60,692
Mortgage and loans interest paid		(35,258)	(28,150)	(60,966)	(56,526)
Finance costs	15	11,311	6,117	78,837	20,790
Interest income		(1,305)	(1,644)	(2,671)	(3,444)
Share of profit of associate	6	21,635	—	21,718	—
Unrealized foreign exchange (gain)/loss		(3,279)	1,959	(1,214)	3,095
Amortization of deferred revenue		—	—	(42)	—
Amortization of finance leases receivable/payable		(22)	(75)	(45)	(155)
Fair value adjustment of investment properties	5	(127,251)	(38,429)	(136,981)	(46,465)
Fair value (gain)/loss on financial instruments	10	8,559	5,843	17,093	4,839
Net loss on disposal of investment properties	4	139	—	139	1,771
Fair value adjustment of deferred unit plan liability		569	(137)	3,004	(286)
Unit-based compensation expense	11	3,457	2,271	4,411	2,956
Redemption of units issued under deferred unit plan		(2,471)	(986)	(3,111)	(2,131)
Income taxes paid		(945)	(6,277)	(5,558)	(9,100)
Changes in non-cash working capital balances	15	14,352	(5,809)	16,188	(14,837)
Cash provided by (used in) operating activities		38,301	15,596	74,739	37,067
Investing activities					
Acquisitions of investment properties	3	(32,484)	(149,672)	(96,449)	(279,493)
Additions to investment properties	5	(17,399)	(19,055)	(36,923)	(35,992)
Net proceeds on disposal of investment property	4	2,112	—	2,112	162,474
Investment in associates	6	(152,354)	—	(152,432)	—
Investment in financial assets		—	(4,080)	—	(5,162)
Cash interest received		486	1,463	1,157	2,577
Distributions from associates	6	1,879	—	1,879	—
Additions to furnitures and fixtures		(64)	(157)	(108)	(267)
Net receipts (payments) from forward contract		139,298	(83,386)	156,455	(83,386)
Receipts (payments) from foreign exchange contracts		33	(82)	4,204	(64)
Net decrease (increase) to restricted cash		(4)	—	(4)	(58)
Cash provided by (used in) investing activities		(58,497)	(254,969)	(120,109)	(239,371)
Financing activities					
Mortgage and loan proceeds		23,735	213,853	122,237	358,789
Mortgage and loans discharged		—	—	—	(86,780)
Repayment of mortgages		(6,334)	(5,038)	(12,375)	(10,549)
Net advances (repayments) of loans payable		(2,351)	70,243	(121,263)	8,895
Proceeds from issuance of units, net of issuance costs	14	(157)	—	136,833	—
Financing fees paid		(964)	(1,713)	(2,857)	(3,176)
Net (payments) advances from (to) related parties		(2,121)	210	(3,000)	(247)
Settlement of securitization		—	—	—	(19,625)
Distributions paid		(20,950)	(18,547)	(40,285)	(37,013)
Class B exchangeable units distributions paid	12	(3,542)	(3,542)	(7,084)	(7,084)
Distributions paid to non-controlling interest		(5,548)	(5,706)	(11,587)	(11,533)
Cash provided by (used in) financing activities		(18,232)	249,760	60,619	191,677
Net change in cash		(38,428)	10,387	15,249	(10,627)
Effect of foreign currency translation		(5,062)	1,214	(9,912)	(1,377)
Net change in cash		(43,490)	11,601	5,337	(12,004)
Cash, beginning of period		94,635	48,099	45,808	71,704
Cash, end of period		\$ 51,145	\$ 59,700	\$ 51,145	\$ 59,700

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, 2019 and 2018

Unaudited

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

1. Basis of Preparation

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

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

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

2. Significant Accounting Policies

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

Accounting Standards implemented in 2019

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

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

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

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

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

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

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

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

(in thousands of Canadian dollars)

For the three and six months ended June 30, 2019 and 2018

Unaudited(ii) IFRIC 23 *Uncertainty over Income Tax Treatment* ("IFRIC 23")

On January 1, 2019, the REIT adopted IFRIC 23, which has clarified the application of the recognition and measurement requirements in IAS 12, *Income Taxes* (IAS 12) for situations where there is uncertainty over income tax treatments. IFRIC 23 specifically addresses whether an entity considers income tax treatments separately; assumptions that an entity makes regarding the examination of tax treatments by taxation authorities; how an entity determines taxable income or loss, tax bases, unused tax losses or credits and tax rates; and how an entity considers changes in facts and circumstances. IFRIC 23 does not apply to taxes or levies outside the scope of IAS 12. IFRIC 23 did not have a material impact on the REIT's condensed consolidated financial statements.

3. Property Acquisitions

(a) 2019 Property Acquisitions

Region		Acquisition Cost ⁽¹⁾	Property specific debt
Europe	\$	95,490	\$ 52,028
Various ⁽²⁾		959	—
Total	\$	96,449	\$ 52,028

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

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

(b) 2018 Property Acquisitions

Region		Acquisition Cost ⁽¹⁾	Property specific debt
Europe	\$	313,538	\$ 192,989
Australasia		96,162	—
Brazil		92,367	—
Various		42,215	—
Total	\$	544,282	\$ 192,989

4. Property Disposals

During the three and six months ended June 30, 2019, the REIT disposed the following property:

	Region	Location	Property type	Gross Proceeds	Property specific debt settled
490 Harwood Boulevard ⁽ⁱ⁾	Canada	Vaudreuil-Dorion, Quebec	Medical Office Building	\$ 2,251	\$ —
				\$ 2,251	\$ —

(i) Proceeds excludes disposition costs of \$0.1 million

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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, 2019 and 2018

Unaudited

5. Investment Properties

As at	June 30, 2019	December 31, 2018
Balance, beginning of period	\$ 4,669,802	\$ 4,144,789
Acquisition of investment properties (note 3)	96,449	544,282
Disposition of investment properties	(2,251)	(207,247)
Additions to investment properties	36,923	94,405
Increase in straight line rents	1,874	2,139
Settlement of securitization	—	7,945
Right of use asset addition	4,335	—
Fair value gain	136,981	150,263
Foreign currency translation	(151,706)	(66,774)
Balance, end of period	\$ 4,792,407	\$ 4,669,802

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

Fair values are most sensitive to changes in discount rates and terminal capitalization rates. A 0.25% increase in the weighted average portfolio discount rate and terminal capitalization rate would decrease fair value by \$205.9 million and a 0.25% decrease would increase fair value by \$224.1 million.

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

	As at June 30, 2019			
	Canada	Brazil	Europe	Australasia
Discount rate - range	5.3% - 8.5%	6.8% - 8.0%	4.3% - 7.3%	6.0% - 10.8%
Discount rate - weighted average	7.2%	7.3%	6.3%	6.7%
Terminal capitalization rate - range	5.0% - 8.0%	6.5% - 7.5%	5.0% - 7.5%	5.3% - 9.3%
Terminal capitalization rate - weighted average	6.6%	6.9%	5.9%	6.3%
Implied capitalization rate - range	3.8% - 10.2%	6.6% - 7.7%	4.1% - 7.1%	4.4% - 9.5%
Implied capitalization rate - weighted average	6.6%	7.0%	5.8%	5.5%
	As at December 31, 2018			
	Canada	Brazil	Europe	Australasia
Discount rate - range	5.3% - 8.5%	7.3% - 8.5%	5.2% - 7.3%	5.8% - 10.8%
Discount rate - weighted average	7.2%	7.8%	6.3%	6.8%
Terminal capitalization rate - range	4.8% - 8.0%	7.0% - 8.0%	5.0% - 7.5%	5.3% - 9.3%
Terminal capitalization rate - weighted average	6.6%	7.4%	5.9%	6.3%
Implied capitalization rate - range	3.7% - 10.2%	7.0% - 8.1%	4.5% - 7.1%	5.0% - 9.5%
Implied capitalization rate - weighted average	6.5%	7.5%	5.8%	5.7%

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

(in thousands of Canadian dollars)

For the three and six months ended June 30, 2019 and 2018

Unaudited

During the three and six months ended June 30, 2019, investment properties with an aggregate fair value of \$1.9 billion and \$2.0 billion, respectively (for the three and six months ended June 30, 2018 - \$1.9 billion and \$1.9 billion, respectively) were valued by external valuation professionals with recognized and relevant professional qualification.

6. Investment in Associate

On June 6, 2019, the REIT completed the acquisition of 30% interest in a joint arrangement with an institutional partner. The REIT determined the arrangement is a joint venture under IFRS 11 *Joint arrangements* based on the following: i) the REIT has joint control over the arrangement; ii) the arrangement is structured as a separate vehicle; and ii) the REIT only has rights to and is liable for the net assets of the arrangement. Therefore, the REIT accounted for the JV using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures* as at June 30, 2019.

Investment in joint ventures	Location	Principal activity
NorthWest Australia HSO Trust	Australia	Own, acquire and develop investment properties
NorthWest Australia Hospital Investment Trust	Australia	Own, acquire and develop investment properties

The following table shows the changes in the carrying value of the investment in joint venture:

As at	June 30, 2019	December 31, 2018
Balance, beginning of period	\$ —	\$ —
Contributions to joint ventures	152,714	—
Share of loss for the period	(21,718)	—
Distributions	(1,879)	—
Foreign exchange	(2,663)	—
Balance, end of period	\$ 126,454	\$ —

The following tables summarized financial information of the REIT's interest in joint venture:

As at	June 30, 2019	December 31, 2018
Total assets	\$ 1,162,324	\$ —
Total liabilities	(741,757)	—
Net assets	420,567	—
Ownership Interest	30%	n/a
Investment in associate	\$ 126,454	\$ —

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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, 2019 and 2018

Unaudited

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Revenues	\$ 4,980	\$ —	\$ 4,980	\$ —
Operating costs	(348)	—	(348)	—
Net Operating Income	4,632	—	4,632	—
Interest Income	540	—	540	—
Expenses				
Mortgage and loan interest expense	(1,769)	—	(2,028)	—
General and administrative expenses	(31)	—	(31)	—
Other	(13)	—	(29)	—
Fair value adjustments	(81,741)	—	(81,741)	—
Net income (loss)	\$ (78,382)	\$ —	\$ (78,657)	\$ —
Net profit attributable to unitholders	(78,382)	—	(78,657)	—
Weighted average share of profits	30%	n/a	30%	n/a
REIT's share of profits	\$ (23,514)	\$ —	\$ (23,597)	\$ —
Intercompany amounts	1,879	—	1,879	—
REIT's adjusted share of profits	\$ (21,635)	\$ —	\$ (21,718)	\$ —

7. Other Assets

As at	June 30, 2019	December 31, 2018
Acquisition and financing costs (i)	\$ 1,419	\$ 3,403
Prepaid expenses and deposits	7,378	8,759
Furniture and office equipment	3,005	3,314
Loans carried at amortized cost (ii)	33,458	34,453
Finance lease receivable (iii)	6,347	6,560
Right-of-use assets (iv)	4,963	—
Other	1,588	1,657
	\$ 58,158	\$ 58,146

- i. Acquisition and financing costs relate to potential acquisitions and debt refinancing which are currently undergoing due diligence and/or negotiation.
- ii. Loans carried at amortized cost relates to two loans secured by Australian investment properties.
- iii. Finance lease receivable relates to a long-term lease that is a finance lease, bearing a discount rate of 6.5% and remaining term of 68 years.
- iv. Right-of-use assets are net of accumulated amortization of \$0.7 million (December 2018 - \$nil), see note 2 for further details.

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, 2019 and 2018

Unaudited**8. Mortgages and Loans Payable**

As at	June 30, 2019	December 31, 2018
Mortgage payable ¹	\$ 847,128	\$ 822,355
Term debt ¹	1,254,000	1,309,104
Credit facilities ¹	227,870	275,241
Lease liabilities	12,028	2,962
Total	\$ 2,341,026	\$ 2,409,662
Less: Current portion	421,831	541,368
Non-current debt	\$ 1,919,195	\$ 1,868,294

(1) All amounts are net of financing costs.

Mortgages

All mortgages are secured by first or second charges on specific investment properties in Canada and Europe, with a carrying value of \$1.5 billion as at June 30, 2019 (December 31, 2018 - \$1.4 billion).

Term debt

As at June 30, 2019, term debt balance includes Brazilian secured debt of \$183.9 million (December 31, 2018 - \$195.1 million); Australian term debt of \$337.6 million (December 31, 2018 - \$298.2 million) secured by assets owned by an Australian subsidiary (excluding the non-controlling interest of the Frankston properties); New Zealand term debts of \$646.3 million (December 31, 2018 - \$679.7 million) secured by Vital Healthcare Property Trust's ("Vital Trust") security trust deed and by a first mortgages ranking over the respective investment properties of Vital Trust; and Australasian secured financing of \$96.4 million (December 31, 2018 - \$100.4 million) secured by 105,977,179 units of Vital Trust held by the REIT.

Credit facilities

As at June 30, 2019, the total credit facilities balance consists of \$150.0 million revolving credit facilities with weighted average interest rate of 4.57% (December 31, 2018 - \$244.5 million) and \$79.0 million non-revolving credit facilities with weighted average interest rate of 8.34% (December 31, 2018 - \$32.0 million). The revolving credit facility is secured by first and second charges on certain Canadian investment properties with fair value of \$249.2 million, and the terms of a general security agreement.

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**

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Unaudited**Lease liabilities**

The lease of land on which one of the REIT's investment properties is built is accounted for as a finance lease. The remaining term of the lease at June 30, 2019 was 68 years. In addition, as part of the transition to IFRS 16, the REIT recognised lease liabilities for leases of which the REIT act as a lessee. Minimum payments under the lease and their present values are as follows:

As at	June 30, 2019	December 31, 2018
Minimum lease payments payable:		
Not later than one year	\$ 1,730	\$ 129
Later than one year and not later than five years	6,220	554
Later than five years	31,208	28,286
	39,158	28,969
Future finance charges	(27,130)	(26,007)
Present value of minimum lease payments	\$ 12,028	\$ 2,962
Present value of minimum lease payments:		
Not later than one year	1,682	124
Later than one year and not later than five years	5,416	536
Later than five years	4,930	2,302
	\$ 12,028	\$ 2,962

As at June 30, 2019, the scheduled principal repayments and debt maturities are as follows:

	Mortgage Debt	Term Debt	Credit Facilities	Finance Lease	Total
2019	\$ 48,633	\$ 107,853	\$ 150,000	\$ 861	\$ 307,347
2020	206,013	218,740	—	1,618	426,371
2021	142,678	178,811	79,000	1,409	401,898
2022	128,155	585,351	—	1,343	714,849
2023	55,059	89,347	—	1,263	145,669
2024 & thereafter	267,680	84,085	—	5,534	357,299
	\$ 848,218	\$ 1,264,187	\$ 229,000	\$ 12,028	\$ 2,353,433
Financing costs	(3,716)	(10,187)	(1,130)	—	(15,033)
Mark-to-market adjustment	2,626	—	—	—	2,626
Total	\$ 847,128	\$ 1,254,000	\$ 227,870	\$ 12,028	\$ 2,341,026

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

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A summary of the maturity and the weighted average interest rates relating to the mortgages and loans payable outstanding at June 30, 2019 are as follows:

	Maturity	Weighted Average Interest Rate	Carrying Value	Available to be Drawn
Fixed rate				
Mortgage debt	July 2019 - January 2029	3.04%	\$ 765,162	\$ —
Term debt	March 2021 - November 2027	5.37%	789,165	113,934
Total fixed rate debt			\$ 1,554,327	\$ 113,934
Variable Rate				
Mortgage debt	May 2020 - March 2022	4.18%	83,056	—
Term debt	November 2019 - November 2027	4.02%	475,022	47,003
Credit facilities	November 2019 - December 2020	5.87%	229,000	1,500
Total variable rate debt			\$ 787,078	\$ 48,503
Total debt excluding the following:			\$ 2,341,405	\$ 162,437
Finance lease			12,028	—
Mark-to-market adjustment			2,626	—
Financing costs			(15,033)	—
Total debt			\$ 2,341,026	\$ 162,437

The table below summarizes the movements in the REIT's mortgages and loans during the six months ended June 30, 2019:

	Mortgage Debt	Term Debt	Credit Facilities	Total
Opening balance, January 1, 2019	\$822,355	\$1,309,104	\$275,241	\$2,406,700
Principal amortization	(11,799)	—	—	(11,799)
Repayments	1,616	(192,321)	(223,000)	(413,705)
Refinancing	5,262	—	—	5,262
Advances	46,735	187,161	175,500	409,396
Additional financing fees incurred	(1,051)	(542)	(1,260)	(2,853)
Amortization of finance fees	1,011	1,740	1,387	4,138
Amortization of mark-to-market	(690)	—	—	(690)
Inflation adjustment	—	3,848	—	3,848
Foreign exchange adjustment	(16,311)	(54,990)	2	(71,299)
Ending balance, June 30, 2019	\$847,128	\$1,254,000	\$227,870	\$2,328,998

The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on its \$763.0 million variable rate debt as at June 30, 2019 (December 31, 2018 - \$839.7 million) (note 10). The interest rate swaps terminate between 2021 and 2029.

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**

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Unaudited**9. Convertible Debentures**

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

As at		June 30, 2019		December 31, 2018
Balance, beginning of period	\$	401,235	\$	296,857
Issuance of convertible debenture		—		125,000
Conversion to REIT units (note 14)		(27)		(69)
Change in fair value of convertible debentures		23,728		(20,553)
	\$	424,936	\$	401,235

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

As at		June 30, 2019		December 31, 2018
NWH.DB	\$	40,854	\$	39,445
NWH.DB.C		38,943		38,749
NWH.DB.D		56,682		51,711
NWH.DB.E		76,805		74,003
NWH.DB.F		82,915		78,890
NWH.DB.G		128,737		118,437
Fair Value	\$	424,936	\$	401,235
Current		38,943		38,749
Non-Current		385,993		362,486
	\$	424,936	\$	401,235

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
NWH.DB.G	\$13.35	December 31, 2023	5.50%	Semi-annual	June 30 and December 31

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Unaudited

10. Financial Instruments

As at	June 30, 2019	December 31, 2018
Financial assets:		
Forward contract ⁽ⁱ⁾	\$ —	\$ 130,396
Option contracts ⁽ⁱ⁾	—	12,920
Interest rate swaps ⁽ⁱⁱⁱ⁾	1	535
Foreign exchange contracts ⁽ⁱⁱⁱ⁾	68	6,683
Total financial assets	69	150,534
Financial liabilities:		
Interest rate swaps ⁽ⁱⁱⁱ⁾	51,708	23,094
Foreign exchange contracts ⁽ⁱⁱⁱ⁾	33	8
Total financial liabilities	\$ 51,741	\$ 23,102

Derivative financial asset

- (i) In 2018 and in the first quarter of 2019, the REIT entered into derivative contracts with Deutsche Bank AG ("DB") which gave the REIT an economic interest equivalent up to 13% of the outstanding shares of HSO by way of a forward contract to acquire HSO shares and an option contract (the terms of which minimize the underlying margin requirements associated with the forward contract). The forward gave the REIT the ability to acquire, and DB the obligation to deliver, a minimum of 231,387,330 HSO shares at a price of A\$2.36 per share. The REIT prepaid \$81.0 million (A\$85.3 million) of the \$394.3 million (A\$415.1 million) notional amount of the forward contract.

Under the forward contract the REIT was entitled to receive dividend equivalents declared by HSO and it paid variable interest on the underlying embedded funding contained in the forward contract at Bank Bill Swap Bid Rate ("BBSY") plus 3% to 3.5%.

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

During the three and six months ended June 30, 2019, the REIT net settled forward contract and utilized its investment in HSO towards acquisition of 30% interest in a joint arrangement (note 6).

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

Derivative financial liability

- (ii) The REIT has entered into interest rate swap contracts with respect to certain Canadian and German mortgages, and portions of the Vital Trust and Australia REIT term loans (note 8). The interest rate derivatives mature over the next one to 10 years and have fixed interest rates ranging from 1.42% to 4.32%.

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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,	
	2019	2018	2019	2018
Fair value adjustment - interest rate swaps	\$ (15,790)	\$ (1,481)	\$ (31,111)	\$ (1,249)
Receipts/(payments) under transaction hedging foreign exchange contracts	78	83	234	227
Fair value adjustment - foreign exchange contracts	(54)	(787)	41	(15)
Fair value adjustment - forward contracts	21,213	(17,164)	39,352	(17,164)
Fair value adjustment - option contracts	(10,327)	16,960	(24,658)	16,960
Fair value adjustment - financial asset	—	(903)	—	(903)
Distribution equivalent - forward contract	—	—	7,669	—
Finance costs - embedded funding contained in forward contract	(3,599)	(2,468)	(8,384)	(2,468)
	\$ (8,479)	\$ (5,760)	\$ (16,857)	\$ (4,612)

11. 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 2019. 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, 2019	December 31, 2018
Balance, beginning of period	\$ 13,030	\$ 18,009
Unit based compensation expense	4,411	4,759
Exercised and paid in cash	(3,111)	(2,399)
Exercised and settled in Trust Units	(851)	(5,103)
Fair value adjustment	3,004	(2,235)
FX adjustment	(112)	(1)
Balance, end of period	\$ 16,371	\$ 13,030

The balance of the DUP liability at June 30, 2019 consists of \$14.8 million related to the REIT's DUP and \$1.6 million related to Vital Trust's DUP (December 31, 2018 - \$11.1 million related to the REIT's DUP and \$1.9 million related to Vital Trust's DUP).

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

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(b) Units outstanding:

As at June 30, 2019	REIT	Vital Trust
Balance, beginning January 1, 2019	1,339,924	2,071,319
Granted	476,835	—
Exercised and paid in cash	(235,849)	(212,173)
Exercised and paid in REIT units	(82,873)	—
Forfeited	—	(583,577)
Distribution entitlement	48,497	31,506
Balance, as at June 30, 2019	1,546,534	1,307,075
Units vested but not exercised	925,738	217,651

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

For the three and six months ended June 30, 2019, the REIT and Vital Trust combined granted or issued 463,532 and 476,835 DUP units with a value of \$5.3 million and \$5.5 million (for the three and six months ended June 30, 2018 - 814,464 and 845,695 DUP units with a fair value of \$3.6 million and \$3.8 million, respectively).

12. Class B Exchangeable Units

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

As at June 30, 2019, there were 17,708,065 Class B exchangeable units (December 31, 2018 - 17,708,065) of NorthWest International Healthcare Properties LP ("NWI LP") issued and outstanding with a fair value of \$208.6 million (December 31, 2018 - \$167.9 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, 2019, respectively (for the three and six months ended June 30, 2018 - \$3.5 million and \$7.1 million, respectively) and have been accounted for as finance costs.

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

	Units	Amount
Balance, December 31, 2018	17,708,065	\$ 167,872
Fair value adjustment	—	40,729
Balance, June 30, 2019	17,708,065	\$ 208,601

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

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Unaudited

13. Rental Revenue

The components of rental revenue are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Rental income	\$ 69,022	\$ 65,376	\$ 138,127	\$ 131,799
Operating cost recoveries	14,445	12,744	29,602	26,597
Tax and insurance recoveries	6,260	4,130	10,908	8,457
Other revenue	1,682	2,907	4,705	6,552
Rental revenue	\$ 91,409	\$ 85,157	\$ 183,342	\$ 173,405

14. Unitholders' Equity

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

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

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

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

The following table shows the changes in REIT units:

	REIT units	Amount
Balance, December 31, 2017	101,039,187	\$ 924,918
Units issued through distribution reinvestment plan (i)	762,436	8,205
Conversion of convertible debentures (note 9)	5,866	69
Units issued under deferred unit plan (note 11)	472,758	5,103
Units issued pursuant to Class B conversion (note 12)	1,290,000	14,874
Balance, December 31, 2018	103,570,247	\$ 953,169
Units issued through distribution reinvestment plan (i)	440,818	4,840
Conversion of convertible debentures (note 9)	2,222	27
Units issued under deferred unit plan (note 11)	82,873	851
Units issued pursuant to equity offering (ii)	13,501,000	143,786
Units issuances costs (ii)	—	(6,953)
Balance, June 30, 2019	117,597,160	\$ 1,095,720

- (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%.

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

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

15. Supplemental Cash Flow Information

(i) Cash and Restricted Cash

As at	June 30, 2019		December 31, 2018	
Cash	\$	51,145	\$	45,808
Restricted cash		356		351
	\$	51,501	\$	46,159

Restricted cash represents cash held in the REIT's designated bank accounts pledged as collateral for the Brazil long-term financings (note 8).

(ii) Changes in Non-Cash Working Capital Balances

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Accounts receivable	\$ 5,805	\$ 258	\$ 8,845	\$ (5,651)
Other assets	4,663	(4,309)	1,965	(5,010)
Accounts payable and accrued liabilities	3,884	(1,758)	5,378	(4,176)
	\$ 14,352	\$ (5,809)	\$ 16,188	\$ (14,837)

(iii) Non-Cash Financing and Investing Activities

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Non cash distributions to Unitholders under the DRIP (note 14)	\$ 2,537	\$ 2,001	\$ 4,840	\$ 3,935
Units issued under deferred unit plan (note 11)	307	4,039	851	4,897
Non-cash conversion of convertible debentures	20	—	27	57
Non-cash conversion of Class B exchangeable units (note 12)	—	—	—	14,874

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(iv) Finance costs

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Distributions on Exchangeable Units	\$ 3,542	\$ 3,542	\$ 7,084	\$ 7,084
Loss on revaluation of financial liabilities	2,548	1,424	3,848	14,764
Amortization of deferred financing costs	1,316	1,794	4,138	4,654
Amortization of marked to market adjustment	(393)	(474)	(690)	(1,090)
Fair value adjustment of Convertible Debentures	2,173	(523)	23,728	(3,412)
Fair value adjustment of Class B exchangeable units	2,125	354	40,729	(1,210)
	\$ 11,311	\$ 6,117	\$ 78,837	\$ 20,790

16. Related Party Transactions

- (a) As at June 30, 2019, Northwest Value Partners Inc. ("NWVP") indirectly owned approximately 18.6% of the outstanding REIT units (approximately 15.0% on a fully diluted basis assuming conversion of the REIT's convertible debentures and redemption of its deferred units) of the REIT through a combination of units of the REIT and Class B exchangeable units of NWI LP. Paul Dalla Lana, Chairman of the Board of Trustees and Chief Executive Officer of the REIT, is the sole shareholder, sole director and President of NWVP.
- (b) In the normal course of operations the REIT has amounts owing to and from NWVP and affiliates. As at June 30, 2019, these non-interest bearing amounts combined included in accounts receivable are a net asset of \$3.2 million (December 31, 2018 - \$0.2 million).
- (c) At June 30, 2019, included in accounts payable and accrued liabilities are Class B exchangeable unit distributions payable owing to NWVP and affiliates in the amount of \$1.2 million (December 31, 2018 - \$1.2 million), which were settled subsequent to period end.
- (d) The following table summarizes the related party transactions with NWVP and its subsidiaries related to cost-sharing and sublease agreements with the REIT:

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Reimbursement for out-of-pocket costs	\$ 380	\$ 159	\$ 504	\$ 157
Cost-sharing and sublease agreements	2	—	5	—
	\$ 382	\$ 159	\$ 509	\$ 157

17. 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, 2019, two tenants in Brazil accounted for 15% (for the three and six months ended June 30, 2018 - 15%), and one tenant in Australasia operating segment accounted for 15% (for the three and six months ended June 30, 2018 - 15%) of the total revenue from investment properties.

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As at June 30, 2019	Europe	Brazil	Australasia	Canada	Total
Investment properties	\$ 661,228	\$ 805,111	\$ 2,207,235	\$ 1,118,833	\$ 4,792,407
Mortgages and loans payable	\$ 359,393	\$ 176,963	\$ 986,213	\$ 818,457	\$ 2,341,026
As at December 31, 2018	Europe	Brazil	Australasia	Canada	Total
Investment properties	\$ 599,257	\$ 761,112	\$ 2,206,694	\$ 1,102,739	\$ 4,669,802
Mortgages and loans payable	\$ 327,870	\$ 186,902	\$ 977,519	\$ 917,371	\$ 2,409,662
For the three months ended June 30, 2019	Germany	Brazil	Australasia	Canada	Total
Operating Income (Loss)					
Revenue from investment properties	\$ 12,178	\$ 13,859	\$ 35,371	\$ 30,001	\$ 91,409
Property operating costs	2,841	—	4,631	13,480	20,952
Net property operating income	9,337	13,859	30,740	16,521	70,457
Other income					
Interest	86	123	1,044	52	1,305
Management fee	—	—	5,114	—	5,114
Share of profit of associate	—	—	(21,635)	—	(21,635)
	86	123	(15,477)	52	(15,216)
Mortgage and loan interest expense	2,089	3,222	10,872	15,126	31,309
General and administrative expenses	921	554	2,728	6,046	10,249
Transaction costs	(17)	9	7,048	544	7,584
Foreign exchange (gain) loss	(3)	(1,731)	497	(2,841)	(4,078)
	2,990	2,054	21,145	18,875	45,064
Operating income (loss)	\$ 6,433	\$ 11,928	\$ (5,882)	\$ (2,302)	\$ 10,177
For the three months ended June 30, 2018	Germany	Brazil	Australasia	Canada	Total
Operating Income					
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
Net property operating income	5,312	12,385	31,389	16,168	65,254
Other income					
Interest	—	1,939	1,318	69	3,326
Management fee	—	—	211	—	211
	—	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
Operating income	\$ 3,261	\$ 8,590	\$ 10,100	\$ 2,160	\$ 24,111

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 six months ended June 30, 2019	Europe	Brazil	Australasia	Canada	Total
Operating Income					
Revenue from investment properties	\$ 23,983	\$ 28,225	\$ 69,659	\$ 61,475	\$ 183,342
Property operating costs	6,297	—	9,264	28,232	43,793
Net property operating income	17,686	28,225	60,395	33,243	139,549
Other income					
Interest and other	151	170	2,236	114	2,671
Management fee	—	—	7,789	—	7,789
Share of loss of associate	—	—	(21,718)	—	(21,718)
	151	170	(11,693)	114	(11,258)
Mortgage and loan interest expense	4,169	6,622	22,520	31,281	64,592
General and administrative expenses	2,011	1,155	5,553	8,326	17,045
Transaction costs	—	14	8,809	874	9,697
Foreign exchange gain	(1)	(1,177)	(400)	(1,540)	(3,118)
	6,179	6,614	36,482	38,941	88,216
Operating income (loss)	\$ 11,658	\$ 21,781	\$ 12,220	\$ (5,584)	\$ 40,075
For the six months ended June 30, 2018	Europe	Brazil	Australasia	Canada	Total
Operating Income					
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
Net property operating income	9,685	26,432	62,074	33,240	131,431
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 loss	—	2,779	62	214	3,055
	3,581	12,030	31,244	36,519	83,374
Operating income (loss)	\$ 6,105	\$ 18,616	\$ 34,093	\$ (3,150)	\$ 55,664

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	For the six months ended June 30, 2019				For the six months ended June 30, 2018			
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Revenue from investment properties	\$ 49,327	\$ 3,804	\$ 762	\$ 53,893	\$ 48,415	\$ 3,916	\$ 794	\$ 53,125
Net income attributable to:								
Unitholders of the REIT	11,935	2,552	(19)	14,468	11,959	(1,142)	303	11,120
Non-controlling interest	36,021	2,014	8	38,043	32,195	(869)	15	31,341
Net income (loss)	\$ 47,956	\$ 4,566	\$ (11)	\$ 52,511	\$ 44,154	\$ (2,011)	\$ 318	\$ 42,461
Total comprehensive income attributable to:								
Unitholders of the REIT	10,540	(772)	(19)	9,749	11,314	(1,579)	145	9,880
Non-controlling interest	31,933	(585)	(1)	31,347	29,833	(1,197)	8	28,644
Total comprehensive income (loss)	\$ 42,473	\$ (1,357)	\$ (20)	\$ 41,096	\$ 41,147	\$ (2,776)	\$ 153	\$ 38,524
Distributions attributable to non-controlling interest	\$ 13,173	\$ 1,429	\$ 5	\$ 14,607	\$ 12,842	\$ 1,483	\$ —	\$ 14,325

	For the three months ended June 30, 2019				For the three months ended June 30, 2018			
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Cash flow activities:								
Operating	\$ 5,774	\$ 3,667	\$ 151	\$ 9,592	\$ (8,193)	\$ (3,991)	\$ 452	\$ (11,732)
Investing	(5,726)	—	—	(5,726)	(6,437)	5,453	—	(984)
Financing	(3,562)	(1,695)	(155)	(5,412)	13,069	(1,697)	(960)	10,412
Effect of foreign currency translation	230	(1,878)	1	(1,647)	198	128	(16)	310
Net change in cash	\$ (3,284)	\$ 94	\$ (3)	\$ (3,193)	\$ (1,363)	\$ (107)	\$ (524)	\$ (1,994)

	For the six months ended June 30, 2019				For the six months ended June 30, 2018			
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Cash flow activities:								
Operating	\$ 20,739	\$ 5,185	\$ 202	\$ 26,126	\$ (521)	\$ (1,944)	\$ 2,584	\$ 119
Investing	(10,517)	—	—	(10,517)	(17,277)	5,453	—	(11,824)
Financing	(11,142)	(3,284)	(374)	(14,800)	15,341	(3,505)	(2,400)	9,436
Effect of foreign currency translation	(1,533)	(1,882)	2	(3,413)	(2,036)	—	(1)	(2,037)
Net change in cash	\$ (2,453)	\$ 19	\$ (170)	\$ (2,604)	\$ (4,493)	\$ 4	\$ 183	\$ (4,306)

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

19. Commitments and Contingent Liabilities

- (a) The REIT obtains letters of credit to support its obligations with respect to construction work on its investment properties and satisfying mortgage financing requirements. As at June 30, 2019, the REIT has a total of \$0.5 million in outstanding letters of credit, under the REIT's secured revolving floating rate credit facility, related to construction work that is being performed on investment properties. The REIT does not believe that any of these standby letters of credit are likely to be drawn upon.

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- (b) Pursuant to the sale of two of the REIT's investment properties, the existing mortgages were assumed by the purchasers. In the event of default, the REIT has guaranteed the outstanding balance of the mortgages of \$1.2 million as at June 30, 2019 (December 31, 2018 - \$6.3 million).
- (c) The REIT has entered into acquisitions and construction agreements on development properties and is committed to costs of \$262.2 million as at June 30, 2019 (December 31, 2018 - \$272.1 million).
- (d) The REIT indemnifies individuals who have acted at the REIT's request to be a trustee and/or director and/or officer of the REIT (and/or one or more of its direct and indirect subsidiaries), to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The claims covered by such indemnifications are subject to statutory and other legal limitation periods. The nature of the indemnification agreements prevents the REIT from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements.
- (e) The REIT is subject to legal and other claims in the normal course of business. Management and the REIT's legal counsel evaluate all claims. In the opinion of management these claims are generally covered by the REIT's insurance policies and any liability from such claims would not have a significant effect on the REIT's consolidated financial statements.

20. 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, forward contract and the interest rate swap. The most frequently applied valuation technique includes forward pricing models, using present value calculations. The models incorporate various inputs including forward rates and interest rate curves.

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

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

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

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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, 2019 is as follows:

	Carrying value	Fair Value		
		Level 1	Level 2	Level 3
Assets measured at fair value:				
Investment properties	\$ 4,792,407	\$ —	\$ —	\$ 4,792,407
Financial instruments	69	—	69	—
Liabilities measured at fair value:				
Financial instruments	51,741	—	51,741	—
Convertible debentures	424,936	424,936	—	—
Class B LP exchangeable units	208,601	208,601	—	—
Deferred unit plan liability	16,371	16,371	—	—
Financial liabilities recorded at amortized cost:				
Mortgage and loans payable	2,341,026	—	2,354,560	—

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

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

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21. Capital Management

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

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

At June 30, 2019, the REIT is in compliance with its debt to gross book value ratio of the Declaration of Trust at 45.5% (December 31, 2018 - 47.8%).

As at	June 30, 2019	December 31, 2018
Debt		
Gross value of debt excluding convertible debentures ⁽¹⁾	\$ 2,353,433	\$ 2,423,137
Gross value of total debt ⁽²⁾	2,778,369	2,824,372
Gross Book Value of Assets		
Total assets	\$ 5,170,776	\$ 5,071,648
Debt-to-Gross Book Value (Declaration of Trust)	45.5%	47.8%
Debt-to-Gross Book Value (including convertible debentures)	53.7%	55.7%

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

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

The REIT's capital management is also impacted by various financial covenants in certain loan agreements. As at June 30, 2019, the REIT is in compliance with all such financial covenants.

22. Risk Management

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

23. Subsequent Events

- (i) On July 3, 2019, subsidiaries of the REIT entered into a new New Zealand Dollar denominated bank loan facility of \$109.5 million, secured by 108,823,293 units of Vital Trust owned indirectly by the REIT, at an initial interest rate of approximately 4.3%. The proceeds from the financing were used to repay the outstanding balance of the existing Australasian secured financing in the amount of \$96.1 million.
- (ii) On July 5, 2019, the REIT completed property acquisition of a German healthcare investment property for purchase price of approximately \$31.6 million. The acquisition was partially financed by new property specific mortgage of \$21.0 million, bearing interest of 1.5% with term to maturity of 10 years.

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

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- (iii) On July 22, 2019, the REIT closed a new Brazilian financing of \$190.0 million, secured by portfolio of three Brazilian hospitals. The financing has term to maturity of 12 years and bears interest of 3.88%, subject to annual inflation adjustments. On August 5, 2019, the REIT issued a notice to repay \$112.3 million of existing Brazilian financing with a weighted average interest rate of 7.84%.
- (iv) On July 31, 2019, the REIT completed a public offering of 14,628,000 units at a price of \$11.80 per unit for gross proceeds of approximately \$172.6 million, which included the exercise in full of the over-allotment option granted to the underwriters, whereby an additional 1,908,000 units were issued at a price of \$11.80 per unit. On July 31, 2019, the REIT issued a notice to repay \$32.0 million revolving credit facility with interest rate of 8.2% and on August 1, 2019, the REIT issued a notice to redeem the convertible debenture series NWH.DB.C with principal amount of \$38.8 million with an interest rate of 7.25%.
- (v) On July 15, 2019, the REIT announced a distribution of \$0.06667 per REIT unit to unitholders of record on July 31, 2019, will be payable on August 15, 2019.



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