

**NORTHWEST HEALTHCARE
PROPERTIES REAL ESTATE
INVESTMENT TRUST**

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

FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2020

(UNAUDITED)



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

As at	Note	June 30, 2020	December 31, 2019
Assets			
Investment properties	6	\$ 4,868,429	\$ 4,928,111
Equity accounted investments	7	183,268	134,070
Intangible assets		47,278	47,264
Goodwill		41,671	41,671
Financial instruments	11	37	155
Accounts receivable		17,177	19,660
Other assets	8	39,572	65,021
Cash and cash equivalents	16	130,663	192,203
Assets held for sale	5	—	107,149
Total assets		\$ 5,328,095	\$ 5,535,304
Liabilities			
Mortgages and loans payable	9	\$ 2,350,365	\$ 2,341,391
Convertible debentures	10	281,308	391,201
Deferred unit plan liability	12	20,337	19,656
Class B exchangeable units	13	18,468	211,257
Deferred tax liability		250,583	322,166
Financial instruments	11	62,866	48,475
Income tax payable		14,552	22,331
Accounts payable and accrued liabilities		93,094	92,466
Distributions payable		11,716	10,242
Total liabilities		\$ 3,103,289	\$ 3,459,185
Unitholders' Equity			
Unitholders' equity	15	1,513,315	1,319,307
Non-controlling interest	19	711,491	756,812
Total liabilities and unitholders' equity		\$ 5,328,095	\$ 5,535,304

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST
Condensed Consolidated Interim Statements of Income (Loss) 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,	
		2020	2019	2020	2019
Net Property Operating Income					
Revenue from investment properties	14	\$ 90,293	\$ 91,409	\$ 185,887	183,342
Property operating costs		20,391	20,952	43,339	43,793
		69,902	70,457	142,548	139,549
Other Income					
Interest and other		512	1,305	1,132	2,671
Management fees		2,346	5,114	3,769	7,789
Share of profit (loss) of equity accounted investments	7	4,100	(21,635)	11,618	(21,718)
		6,958	(15,216)	16,519	(11,258)
Expenses and other					
Mortgage and loan interest expense		23,798	31,309	48,650	64,592
General and administrative expenses		7,824	10,249	14,843	17,045
Transaction costs	3,5	10,760	7,723	27,173	9,836
Foreign exchange (gain) loss		5,789	(4,078)	13,254	(3,118)
		48,171	45,203	103,920	88,355
Income before other finance costs, and fair value adjustments					
		28,689	10,038	55,147	39,936
Finance costs					
Amortization of financing costs		(2,635)	(1,316)	(3,881)	(4,138)
Amortization of mark-to-market adjustment		217	393	508	690
Class B exchangeable unit distributions	13	(342)	(3,542)	(2,817)	(7,084)
Fair value adjustment of Class B exchangeable units	13	(1,949)	(2,125)	86,402	(40,729)
Accretion of financial liabilities	9	140	(2,548)	(2,562)	(3,848)
Fair value adjustment of convertible debentures	10	(12,368)	(2,173)	13,842	(23,728)
Net loss on financial instruments	11	(1,016)	(8,479)	(14,836)	(16,857)
Fair value adjustment of investment properties	6	(7,906)	127,251	(13,140)	136,981
Fair value adjustment of deferred unit plan liability	12	(1,806)	(569)	2,086	(3,004)
Income before taxes					
		1,024	116,930	120,749	78,219
Current tax expense					
		(11,888)	3,423	5,253	5,839
Deferred tax expense					
		(25,637)	29,811	(39,113)	42,712
Income tax expense (recovery)					
		(37,525)	33,234	(33,860)	48,551
Net income					
		\$ 38,549	\$ 83,696	\$ 154,609	\$ 29,668
Net income attributable to:					
Unitholders		\$ 35,962	\$ 49,613	\$ 150,679	(8,375)
Non-controlling interest		2,587	34,083	3,930	38,043
		\$ 38,549	\$ 83,696	\$ 154,609	\$ 29,668

The accompanying notes are an integral part of these condensed consolidated interim 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,	
	2020	2019	2020	2019
Net income	\$ 38,549	\$ 83,696	\$ 154,609	\$ 29,668
Other comprehensive income (loss) ("OCI"):				
Items that will be reclassified subsequently to income (loss):				
Foreign currency translation adjustment	\$ 44,764	\$ (49,149)	\$ (51,180)	\$ (75,856)
Realized foreign exchange gains/(losses) on hedges	—	—	—	4,179
Current taxation (expense)/recovery	—	—	—	(1,170)
Unrealized foreign exchange gains/(losses) on hedges	—	—	—	(2,750)
Deferred taxation (expense)/recovery	—	—	—	1,786
Fair value gain (loss) on net investment hedges	(4,293)	(263)	(2,937)	(3,014)
Deferred taxation (expense)/recovery	1,202	73	823	(172)
Other comprehensive income (loss), net of tax	41,673	(49,339)	(53,294)	(76,997)
Total comprehensive income (loss) for the year	\$ 80,222	\$ 34,357	\$ 101,315	\$ (47,329)
Total comprehensive income (loss) attributable to:				
Unitholders	\$ 29,078	\$ 917	\$ 80,657	\$ (78,676)
Non-controlling interests	51,144	33,440	20,658	31,347
	\$ 80,222	\$ 34,357	\$ 101,315	\$ (47,329)

The accompanying notes are an integral part of these condensed consolidated interim 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	Cumulative Distributions	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Unitholders' Equity	Non-Controlling Interests	Total Equity
Balance, December 31, 2019		\$ 1,510,245	\$ 39,724	\$ (364,595)	\$ (140,209)	\$ 274,142	\$ 1,319,307	\$ 756,812	\$ 2,076,119
Private placement of units	15	24,494	—	—	—	—	24,494	—	24,494
Units issued through distribution reinvestment plan		5,609	—	—	—	—	5,609	2,485	8,094
Units issued on exercise of deferred units	15	810	—	—	—	—	810	—	810
Conversion of Class B LP exchangeable units	13	106,387	—	—	—	—	106,387	—	106,387
Disposition of investment in subsidiary	3	—	—	—	—	—	—	(54,705)	(54,705)
Acquisition and cancellation of REIT units under normal course issuer bid	15	(7,196)	—	—	—	—	(7,196)	—	(7,196)
Conversion of convertible debentures into units	15	51,483	—	—	—	—	51,483	—	51,483
Distributions		—	—	(68,236)	—	—	(68,236)	(13,759)	(81,995)
Foreign currency translation adjustments		—	—	—	(69,496)	—	(69,496)	18,316	(51,180)
Other comprehensive income (loss)		—	—	—	(526)	—	(526)	(1,588)	(2,114)
Net income		—	—	—	—	150,679	150,679	3,930	154,609
Balance, June 30, 2020		\$ 1,691,832	\$ 39,724	\$ (432,831)	\$ (210,231)	\$ 424,821	\$ 1,513,315	\$ 711,491	\$ 2,224,806

	Note	Unitholders' Equity	Contributed Surplus	Cumulative Distributions	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Unitholders' Equity	Non-Controlling Interests	Total Equity
Balance, December 31, 2018		\$ 953,169	\$ 39,724	\$ (264,119)	\$ (57,065)	\$ 276,013	\$ 947,722	\$ 734,826	\$ 1,682,548
Issue of share capital		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	15	851	—	—	—	—	851	—	851
Conversion of convertible debenture into units	15	27	—	—	—	—	27	—	27
Distributions		—	—	(46,060)	—	—	(46,060)	(14,607)	(60,667)
Foreign currency translation adjustments		—	—	—	(70,017)	—	(70,017)	(5,839)	(75,856)
Other comprehensive income (loss)		—	—	—	(284)	—	(284)	(857)	(1,141)
Net income (loss)		—	—	—	—	(8,375)	(8,375)	38,043	29,668
Balance, June 30, 2019		\$ 1,095,720	\$ 39,724	\$ (310,179)	\$ (127,366)	\$ 267,638	\$ 965,537	\$ 754,591	\$ 1,720,128

The accompanying notes are an integral part of these condensed consolidated interim 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	2020	2019	2020	2019
Cash provided by (used in):					
Operating activities					
Net income (loss) before taxes		\$ 1,024	\$ 116,930	\$ 120,749	\$ 78,219
Adjustments for:					
Amortization		392	571	799	1,126
Mortgage and loan interest accrued		23,798	31,309	48,650	64,592
Mortgage and loans interest paid		(25,269)	(35,258)	(49,685)	(60,966)
Finance costs	16	16,937	11,311	(91,492)	78,837
Interest income		(512)	(1,305)	(1,132)	(2,671)
Share of (profit)/loss of equity accounted investments		(4,100)	21,635	(11,618)	21,718
Unrealized foreign exchange loss (gain)		5,826	(3,279)	13,268	(1,214)
Amortization of deferred revenue		—	—	—	(42)
Amortization of finance leases receivable/payable, net		(22)	(22)	(44)	(45)
Fair value adjustment of investment properties	6	7,906	(127,251)	13,140	(136,981)
Fair value loss on financial instruments	11	1,016	8,559	14,836	17,093
Transaction costs		10,760	7,723	27,173	9,836
Fair value adjustment of deferred unit plan liability		1,806	569	(2,086)	3,004
Unit-based compensation expense	12	3,966	3,457	5,040	4,411
Redemption of units issued under deferred unit plan		(386)	(2,471)	(1,463)	(3,111)
Income taxes paid		74	(945)	(6,643)	(5,558)
Changes in non-cash working capital balances	3,16	(9,450)	14,352	9,207	16,188
Cash provided by (used in) operating activities		33,766	45,885	88,699	84,436
Investing activities					
Acquisitions of investment properties	4	(327)	(32,484)	(246,026)	(96,449)
Additions to investment properties	6	(29,043)	(17,399)	(68,154)	(36,923)
Net proceeds on disposal of investment properties	5	119	2,112	103,537	2,112
Investment in equity accounted investments		—	(152,354)	(10,340)	(152,432)
Transaction costs		(10,760)	(7,584)	(27,173)	(9,697)
Proceeds from disposition of subsidiary	3	63,863	—	63,863	—
Cash transferred upon disposition of subsidiary	3	(4,345)	—	(4,345)	—
Taxes paid related to disposition		(11,077)	—	(11,077)	—
Distributions from equity accounted investments		2,287	1,879	5,260	1,879
Cash interest received		338	486	817	1,157
Additions to furniture and fixtures		(33)	(64)	(94)	(108)
Net receipts from forward contract	11	—	139,298	—	156,455
Receipts (payments) from foreign exchange contracts		(68)	33	114	4,204
Net decrease (increase) to restricted cash		—	(4)	(1)	(4)
Cash provided by (used in) investing activities		10,954	(66,081)	(193,619)	(129,806)
Financing activities					
Mortgage and loan proceeds	9	169,896	23,735	573,103	122,237
Repayment of mortgages	3,9	(150,383)	(8,685)	(428,896)	(133,638)
Repurchase of units under normal course issuer bid	15	(5,502)	—	(7,196)	—
Redemption of convertible debentures	10	—	—	(44,568)	—
Proceeds from issuance of units, net of issuance costs	15	(447)	(157)	24,494	136,833
Financing fees paid		(975)	(964)	(2,166)	(2,857)
Net (payments) advances from (to) related parties		3,022	(2,121)	2,727	(3,000)
Distributions paid		(33,853)	(20,950)	(61,144)	(40,285)
Class B exchangeable units distributions paid	13	(342)	(3,542)	(2,817)	(7,084)
Distributions paid to non-controlling interests		(5,289)	(5,548)	(11,252)	(11,587)
Cash provided by (used in) financing activities		(23,873)	(18,232)	42,285	60,619
Net change in cash and cash equivalents		20,847	(38,428)	(62,635)	15,249
Effect of foreign currency translation		13,379	(5,062)	1,097	(9,912)
Net change in cash and cash equivalents		34,226	(43,490)	(61,538)	5,337
Cash and cash equivalents, beginning of period		96,386	94,635	192,150	45,808
Cash and cash equivalents, end of period		\$ 130,612	\$ 51,145	\$ 130,612	\$ 51,145

The accompanying notes are an integral part of these condensed consolidated interim 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, 2020 and 2019

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. The principal business of the REIT is to invest in and manage healthcare real estate globally.

1. Basis of Preparation and Statement of Compliance

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 as issued by the International Accounting Standards Board. Certain information and note disclosure 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, 2019. These condensed consolidated interim financial statements were approved by the Board of Trustees of the REIT on August 24, 2020.

The condensed consolidated interim financial statements have been prepared on the historical cost basis, except for investment properties and financial assets and liabilities including, convertible debentures, derivative financial instruments, Class B exchangeable units and deferred units under the deferred unit plan ("DUP"), which are measured 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, 2019 with the exception of the accounting standards implemented in 2019. Changes to significant accounting policies are described below.

COVID-19 Pandemic

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19" in early 2020 was declared a pandemic by the World Health Organization. This has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, self-imposed quarantine periods, temporary closures or restrictions of non-essential businesses, limitations on public gatherings, and social distancing guidelines, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity and capital markets have also experienced significant volatility and weakness. The governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. It is not possible to forecast with certainty the duration and full scope of the economic impact of the pandemic and other consequential changes to the REIT's business and operations, both in the short term and in the long term.

In the preparation of these unaudited interim condensed consolidated financial statements, the REIT has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of its assets and liabilities, and the reported amount of its results using the best available information as of June 30, 2020. Actual results could differ from those estimates. The estimates and assumptions that the REIT considers critical and/or could be impacted by COVID-19 include those underlying the valuation of investment properties, the estimate of any expected credit losses on its accounts receivable or loans and mortgages receivable and determining the values of financial instruments for disclosure purposes.

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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, 2020 and 2019

Unaudited

Accounting Standards and amendments implemented in 2020

(i) IFRS 3, Business Combinations ("IFRS 3")

On October 22, 2018, the IASB issued amendments to IFRS 3, Business Combinations ("IFRS 3"), that seek to clarify whether a transaction is to be accounted for as an asset acquisition or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The REIT adopted the amendments in its condensed consolidated interim financial statements beginning on January 1, 2020, when the standard became effective. The amendments did not have a significant impact on the REIT's condensed consolidated interim financial statements.

3. Disposition of Northwest Healthcare Properties Australia REIT

On June 30, 2020, the REIT completed the sale of a 70% interest in Northwest Healthcare Properties Australia REIT ("AREIT") units to an institutional partner. As a result of the disposition, the REIT was deemed to have lost control of the previously consolidated subsidiary in accordance with IFRS 10 - *Consolidated financial statements* and accordingly derecognized the assets and liabilities of AREIT from the consolidated statement of financial position and recognized the remaining 30% investment in AREIT as a joint venture to which the equity method of accounting has been applied in accordance to IAS 28 - *Investments in associates and joint ventures* (note 7).

The aggregate estimated fair value of the assets and liabilities disposed of on the disposition date, June 30, 2020, is as follows:

Investment properties	\$	276,024
Other assets		16,573
Accounts receivable		2,532
Cash		4,345
Mortgages and loans payable		(148,277)
Derivative financial liabilities		(1,065)
Accounts payable and accrued liabilities		(4,194)
Non controlling interests		(54,705)
Net assets disposed	\$	91,233
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Cash proceeds	\$	63,863
Retained interest in equity accounted investment		27,370
	\$	91,233
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Gain (loss) on disposition	\$	—

The REIT incurred transaction costs in the amount of \$4.9 million which have been included in the transaction costs in the statement of income and comprehensive income (loss).

The accompanying notes are an integral part of these condensed consolidated interim 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, 2020 and 2019

Unaudited**4. Property Acquisitions**

During the six months ended June 30, 2020 the following investment property acquisitions were completed:

Region	Acquisition Cost ⁽¹⁾		Property specific debt	
Europe	\$	242,698	\$	36,398
Other ⁽²⁾		3,328		—
Total	\$	246,026	\$	36,398

(1) Total acquisition costs includes transaction costs incurred with respect to acquiring the investment property assets.

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

5. Dispositions

During the six months ended June 30, 2020 the REIT disposed the following investment properties:

Region	Gross Proceeds ⁽ⁱ⁾		Property specific debt settled	
Australasia ⁽ⁱⁱ⁾	\$	380,458	\$	148,277
	\$	380,458	\$	148,277

(i) Proceeds relates to the disposition of the assets held for sale and AREIT sale excludes transaction costs of \$0.9 million and \$4.9 million, respectively.

(ii) In Q1 2020, the REIT disposed investment properties on the amount of \$104.4 million that were previously classified as assets held for sale at December 31, 2019. In addition, on June 30, 2020, investment properties with a fair value of \$276.0 million and related debt of \$148.3M were disposed as part of the sale of 70% interest in AREIT units (note 3).

6. Investment Properties

As at	June 30, 2020		December 31, 2019	
Balance, beginning of period	\$	4,928,111	\$	4,669,802
Acquisition of investment properties (note 4)		246,026		264,129
Disposition of investment properties (notes 3)		(276,024)		(2,251)
Additions to investment properties		68,154		105,446
Increase in straight line rents		1,791		3,146
Reclassified as assets held for sale		—		(114,331)
Right of use asset addition		1,687		7,720
Fair value gain (loss)		(13,140)		210,762
Foreign currency translation		(88,176)		(216,312)
Balance, end of period	\$	4,868,429	\$	4,928,111

Investment properties are measured 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 estimated fair values of the investment properties at June 30, 2020 and December 31, 2019 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 REIT reviewed its future cash flow projections and the valuation of its properties in light of the COVID-19 pandemic during the six months ended June 30, 2020. The

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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, 2020 and 2019

Unaudited

carrying value for the REIT's investment properties reflects its best estimate for the highest and best use as at June 30, 2020.

It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes it will have on the REIT's business and operations, both in the short term and in the long term. In a long term scenario, certain aspects of the REIT's business and operations that could potentially be impacted include rental income, occupancy, tenant inducements, future demand for space, and market rents, which all impact the underlying valuation of investment properties. The REIT has provided a wider range of measurement uncertainty scenarios with respect to the impact on valuation of investment properties using a range of capitalization rates below.

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

As at June 30, 2020				
	Canada	Brazil	Europe	Australasia
Discount rate - range	5.3% - 8.5%	6.8% - 8.0%	3.3% - 7.3%	5.8% - 10.0%
Discount rate - weighted average	7.2%	7.3%	6.1%	6.7%
Terminal capitalization rate - range	4.8% - 8.0%	6.5% - 7.5%	4.3% - 7.5%	4.9% - 9.0%
Terminal capitalization rate - weighted average	6.5%	6.9%	5.6%	5.9%
Implied capitalization rate - range	3.4% - 9.7%	6.6% - 7.7%	3.9% - 7.0%	4.7% - 9.5%
Implied capitalization rate - weighted average	6.5%	7.0%	5.6%	5.5%

As at December 31, 2019				
	Canada	Brazil	Europe	Australasia
Discount rate - range	5.3% - 8.5%	6.8% - 8.0%	3.3% - 7.3%	6.0% - 10.3%
Discount rate - weighted average	7.2%	7.3%	6.0%	6.6%
Terminal capitalization rate - range	4.8% - 8.0%	6.5% - 7.5%	4.3% - 7.5%	5.3% - 8.9%
Terminal capitalization rate - weighted average	6.6%	6.9%	5.6%	6.1%
Implied capitalization rate - range	3.4% - 9.7%	6.6% - 7.7%	3.9% - 7.0%	4.4% - 9.5%
Implied capitalization rate - weighted average	6.5%	7.0%	5.5%	5.5%

The following table summarizes fair value sensitivity for the portion of the REIT's investment properties which is most sensitive to changes in capitalization rates:

Capitalization rate sensitivity increase/ (decrease)	Weighted average overall capitalization rate	Estimated fair value of investment properties	Fair value variance	% Change
(0.75)%	5.24%	\$ 5,736	\$ 868	18.0%
(0.50)%	5.49%	\$ 5,420	\$ 551	11.0%
(0.25)%	5.74%	\$ 5,132	\$ 263	5.0%
—%	5.99%	\$ 4,868	—	—%
0.25%	6.24%	\$ 4,627	\$(242)	(5.0)%
0.50%	6.49%	\$ 4,404	\$(464)	(10.0)%
0.75%	6.74%	\$ 4,199	\$(670)	(14.0)%

The REIT engages independent valuation firms to appraise its investment properties such that one-third of the portfolio is independently appraised annually and every property is appraised at least once over a five-year period. During the three and six months ended June 30, 2020, investment properties with an aggregate estimated fair value of \$1.9 billion and \$2.1 billion, respectively (for the three and six months ended June 30, 2019 - \$1.9 billion and \$2.0 billion, respectively) were valued by external valuation professionals.

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

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

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Unaudited**7. Equity Accounted Investments**

The REIT has entered into a number of arrangements with other parties for the purpose of jointly developing, owning and operating investment properties.

Equity Accounted Investments	Ownership Interest	Location	Principal Activity
NorthWest Australia HSO Trust	30%	Australia	Own, acquire and develop investment properties
NorthWest Australia Hospital Investment Trust	30%	Australia	Own, acquire and develop investment properties
Northwest Healthcare Properties Australia REIT	30%	Australia	Own, acquire and develop investment properties

The following table shows the changes in the carrying value of the equity accounted investments:

	June 30, 2020		December 31, 2019
Balance, beginning of period	\$	134,070	\$ —
Contributions		10,340	162,407
Retained interests in AREIT		27,370	—
Share of profit (loss) for the period		11,618	(16,950)
Distributions		(3,620)	(8,006)
Foreign exchange		3,490	(3,381)
Balance, end of period	\$	183,268	\$ 134,070

On February 19, 2020, the REIT acquired through NorthWest Australia Hospital Investment Trust 30% freehold interests in two medical research institutes.

On June 30, 2020, the REIT completed the sale of a 70% interest in AREIT units and recognized the remaining 30% investment in AREIT as a joint venture (note 3).

The following tables summarized financial information of the REIT's interest in equity accounted investments:

	June 30, 2020		December 31, 2019
Total assets	\$	1,686,232	\$ 1,236,364
Total liabilities		(1,021,591)	(790,404)
Net assets		664,641	445,960
Less: Non-controlling interest		(54,705)	—
Ownership Interest		30%	30%
REIT's share of net assets		183,268	134,070
Equity Accounted Investments	\$	183,268	\$ 134,070

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	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Total revenue	\$ 18,721	\$ 5,520	\$ 36,343	\$ 5,520
Expenses				
Operating costs	(882)	(316)	(2,527)	(316)
Mortgage and loan interest expense	(3,771)	(1,410)	(8,016)	(1,685)
General and administrative expenses	3	(31)	(106)	(31)
Other	(123)	(29)	(235)	(29)
Fair value adjustments and transaction costs	(279)	(75,852)	13,268	(75,852)
Net income (loss)	\$ 13,668	\$ (72,118)	\$ 38,727	\$ (72,393)
Weighted average share of profits (loss)	30%	30%	30%	30%
REIT's share of income (loss)	\$ 4,100	\$ (21,635)	\$ 11,618	\$ (21,718)

8. Other Assets

As at	June 30, 2020	December 31, 2019
Acquisition and financing costs (i)	\$ 4,019	\$ 7,813
Prepaid expenses and deposits	7,126	11,951
Furniture and office equipment	2,835	3,011
Loans receivable carried at amortized cost (ii)	10,435	26,282
Due from related party (iii)	19	2,746
Finance lease receivable (iv)	6,656	6,394
Right-of-use lease assets (v)	4,005	4,441
Commodity taxes recoverable	3,141	1,896
Other	1,336	487
	\$ 39,572	\$ 65,021

- i. Acquisition and financing costs relate to potential acquisitions and debt refinancing which are currently undergoing due diligence and/or negotiation.
- ii. Loans receivable carried at amortized cost relates to an interest-bearing loan secured by an Australian investment property maturing in less than two years.
- iii. In the normal course of operations the REIT has amounts owing to and from NWVP and affiliates (Note 17). The balance is non-interest bearing without specific terms of repayment.
- iv. 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.
- v. Right-of-use lease assets are net of accumulated amortization of \$3.5 million (December 31, 2019 - \$1.4 million).

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Unaudited**9. Mortgages and Loans Payable**

As at	June 30, 2020	December 31, 2019
Mortgage payable, net of financing costs	\$ 963,813	\$ 909,150
Term debt, net of financing costs	1,099,018	1,282,094
Credit facilities, net of financing costs	274,924	138,825
Lease liabilities	12,610	11,322
Total	\$ 2,350,365	\$ 2,341,391
Less: Current portion	388,935	363,083
Non-current debt	\$ 1,961,430	\$ 1,978,308

Mortgages

All mortgages are secured by first or second charges on specific investment properties in Canada and Europe, with a carrying value of \$1.7 billion as at June 30, 2020 (December 31, 2019 - \$1.6 billion).

Term debt

As at June 30, 2020, term debt balance includes Brazilian secured debt of \$184.5 million (December 31, 2019 - \$244.8 million); Australian term debt of \$98.3 million (December 31, 2019 - \$342.4 million) secured by assets owned by an Australian subsidiary (excluding any non-controlling interests); New Zealand term debts of \$714.0 million (December 31, 2019 - \$596.5 million) secured by Vital Trust's security trust deed and by a first mortgage ranking over the respective investment properties of Vital Trust; and Australasian secured term financing of \$109.6 million (December 31, 2019 - \$109.6 million) secured by 111,923,175 units (December 31, 2019 - 108,823,293 units) of Vital Trust held by the REIT.

Credit facilities

As at June 30, 2020, the balance outstanding includes \$222.6 million of revolving credit facilities with weighted average interest rate of 2.30% (December 31, 2019 - \$130.0 million) and \$54.0 million of non-revolving credit facilities with weighted average interest rate of 5.46% (December 31, 2019 - \$10.0 million). The revolving credit facility is secured by first and second charges on certain Canadian investment properties with an estimated fair value of \$498.9 million, and the terms of a general security agreement.

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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, 2020 was 68 years. In addition, as part of the transition to IFRS 16 in the prior year, the REIT recognized lease liabilities for leases for which the REIT acts as a lessee. Minimum payments under the lease and their present values are as follows:

As at	June 30, 2020	December 31, 2019
Minimum lease payments payable:		
Not later than one year	\$ 1,662	\$ 1,715
Later than one year and not later than five years	5,520	5,858
Later than five years	31,017	30,641
	38,199	38,214
Future finance charges	(25,589)	(26,892)
Present value of minimum lease payments	\$ 12,610	\$ 11,322
Present value of minimum lease payments:		
Not later than one year	1,586	1,668
Later than one year and not later than five years	4,772	5,145
Later than five years	6,252	4,509
	\$ 12,610	\$ 11,322

As at June 30, 2020, the scheduled principal repayments and debt maturities are as follows:

	Mortgage Debt	Term Debt	Credit Facilities	Finance Lease	Total
2020 (remainder)	\$ 53,085	\$ 8,462	\$ 7,600	\$ 842	\$ 69,989
2021	186,350	287,855	54,000	1,510	529,715
2022	171,641	477,120	214,988	1,444	865,193
2023	61,935	206,862	—	1,359	270,156
2024	112,496	18,186	—	965	131,647
2025 & thereafter	380,177	107,917	—	6,490	494,584
	\$ 965,684	\$ 1,106,402	\$ 276,588	\$ 12,610	\$ 2,361,284
Financing costs	(3,363)	(7,384)	(1,664)	—	(12,411)
Mark-to-market adjustment	1,492	—	—	—	1,492
Total	\$ 963,813	\$ 1,099,018	\$ 274,924	\$ 12,610	\$ 2,350,365

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A summary of the maturity and the weighted average interest rates relating to the mortgages and loans payable, including term debt and credit facilities, outstanding at June 30, 2020 are as follows:

	Maturity	Weighted Average Interest Rate	Carrying Value	Available to be Drawn
Fixed rate				
Mortgage debt	October 2020 - March 2034	2.76%	\$ 944,774	\$ —
Term debt	March 2021 - November 2027	4.53%	666,346	132,014
Total fixed rate debt			\$ 1,611,120	\$ 132,014
Variable Rate				
Mortgage debt	July 2020 - March 2022	2.79%	20,908	—
Term debt	March 2021 - November 2031	2.34%	440,058	89,333
Credit facilities	January 2021 - November 2022	2.92%	276,588	102,412
Total variable rate debt			\$ 737,554	\$ 191,745
Total debt excluding the following:			\$ 2,348,674	\$ 323,759
Finance lease			12,610	—
Mark-to-market adjustment			1,492	—
Financing costs			(12,411)	—
Total debt			\$ 2,350,365	\$ 323,759

The table below summarizes the movements in the REIT's mortgages and loans during the six months ended June 30, 2020:

	Mortgage Debt	Term Debt	Credit Facilities	Total
Opening balance, January 1, 2020	\$909,150	\$1,282,094	\$138,825	\$2,330,069
Repayments	(46,372)	(108,993)	(273,531)	(428,896)
Advances	66,340	96,675	410,088	573,103
Additional financing fees incurred	(580)	(427)	(1,159)	(2,166)
Amortization of finance fees	679	2,429	773	3,881
Amortization of mark-to-market	(508)	—	—	(508)
Inflation adjustment	—	2,562	—	2,562
Foreign exchange adjustment	35,104	(175,322)	(72)	(140,290)
Ending balance, June 30, 2020	\$963,813	\$1,099,018	\$274,924	\$2,337,755

The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on its \$610.9 million variable rate mortgage debt as at June 30, 2020 (December 31, 2019 - \$714.9 million). The interest rate swaps terminate between 2021 and 2029, refer to note 11.

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Unaudited**10. Convertible Debentures**

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

As at		June 30, 2020		December 31, 2019
Balance, beginning of period	\$	391,201	\$	401,235
Conversion to REIT units (note 15)		(51,483)		(940)
Convertible debentures redeemed		(44,568)		(38,585)
Change in fair value of convertible debentures		(13,842)		29,491
Balance, end of period	\$	281,308	\$	391,201

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

As at		June 30, 2020		December 31, 2019
NWH.DB	\$	—	\$	40,351
NWH.DB.D		—		55,254
NWH.DB.E		75,480		77,987
NWH.DB.F		80,516		85,137
NWH.DB.G		125,312		132,472
Fair Value	\$	281,308	\$	391,201
Current		—		95,605
Non-Current		281,308		295,596
	\$	281,308	\$	391,201

Debentures Series	Conversion price per Unit (\$)	Maturity	Interest rate	Interest payment	Interest payment dates
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

On January 17, 2020, the REIT fully repaid the \$40.3 million outstanding carrying value amount of the 5.25% NWH.DB convertible debenture series. In addition, \$47.7 million of the \$52.1 million carrying value amount 5.5% NWH.DB.D convertible debenture series were converted by the debenture holders into 4,238,308 trust units during the period (Note 15). The REIT fully repaid the remaining \$4.4 million principal balance outstanding for those debentures not converted.

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Unaudited**11. Financial Instruments**

As at	June 30, 2020	December 31, 2019
Financial assets:		
Foreign exchange contracts ⁽ⁱ⁾	37	155
Total financial assets	37	155
Financial liabilities:		
Interest rate swaps ⁽ⁱⁱ⁾	62,799	48,475
Foreign exchange contracts ⁽ⁱⁱ⁾	67	—
Total financial liabilities	\$ 62,866	\$ 48,475

Derivative financial asset

(i) The derivative financial instrument asset relates to foreign exchange contracts 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, including in the current period, with respect to certain Canadian and German mortgages, and portions of the Vital Trust for a total of \$610.9 million (note 9). The interest rate derivatives mature over the next 1 to 10 years and have fixed interest rates ranging from 1.45% to 4.32%.

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,	
	2020	2019	2020	2019
Fair value adjustment - interest rate swaps	\$ (580)	\$ (15,790)	\$ (14,769)	\$ (31,111)
Receipts/(payments) under transaction hedging foreign exchange contracts	(68)	78	114	234
Fair value adjustment - foreign exchange contracts	(368)	(54)	(181)	41
Fair value adjustment - forward contracts	—	21,213	—	39,352
Fair value adjustment - option contracts	—	(10,327)	—	(24,658)
Distribution equivalent - forward contract	—	—	—	7,669
Finance costs - embedded funding contained in forward contract	—	(3,599)	—	(8,384)
	\$ (1,016)	\$ (8,479)	\$ (14,836)	\$ (16,857)

12. 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 financial liability until redeemed.

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Deferred unit plan liabilities also exist with respect to a plan administered by NorthWest Healthcare Properties Management Limited (the "Global Manager") and are related to deferred units of Vital Trust, a consolidated subsidiary.

(a) Liability:

As at		June 30, 2020		December 31, 2019
Balance, beginning of period	\$	19,656	\$	13,030
Unit based compensation expense		5,040		8,361
Exercised and paid in cash		(1,463)		(4,092)
Exercised and settled in Trust Units		(810)		(1,135)
Fair value adjustment		(2,086)		3,600
Foreign exchange		—		(108)
Balance, end of period	\$	20,337	\$	19,656

The balance of the DUP liability at June 30, 2020 consists of \$19.2 million related to the REIT's DUP and \$1.1 million related to Vital Trust's DUP (December 31, 2019 - \$17.7 million related to the REIT's DUP and \$2.0 million related to Vital Trust's DUP).

Unit-based compensation expense is measured on grant 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 period. Unit-based compensation does not qualify as an equity award and is classified as a liability. The awards are measured at fair-value each 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 for the period.

(b) Units outstanding:

As at June 30, 2020	REIT	Vital Trust
Balance, beginning January 1, 2020	1,737,584	1,172,781
Granted	688,031	—
Exercised and paid in cash	(72,744)	(321,632)
Exercised and paid in REIT units	(86,915)	—
Forfeited	(15,814)	—
Distribution entitlement	68,159	—
Balance, as at June 30, 2020	2,318,301	851,149
Units vested but not exercised	1,268,705	230,429

For the three and six months ended June 30, 2020, the REIT granted 18,954 and 688,031 DUP units with a grant-date fair value of \$0.2 million and \$6.7 million, respectively (for the three and six months ended June 30, 2019 - 463,532 and 476,835 DUP units with a fair value of \$5.3 million and \$5.5 million, respectively).

13. 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 March 23, 2020, 15,998,065 Class B units held by NWVP were converted to Trust units. As at June 30, 2020, there were 1,710,000 Class B exchangeable units (December 31, 2019 - 17,708,065) of NorthWest International Healthcare Properties LP ("NWI LP") issued and outstanding with grant or issuance date fair value of \$18.5 million (December 31, 2019 - \$211.3 million).

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Distributions declared on the Class B exchangeable units of NWI LP totaled \$2.5 million and \$2.8 million for the three and six months ended June 30, 2020, respectively (for the three and six months ended June 30, 2019 - \$3.5 million and \$7.1 million, respectively) and have been accounted for as finance costs in profit or loss.

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

	Units	Amount
Balance, December 31, 2019	17,708,065	\$ 211,257
Converted to Trust units	(15,998,065)	(106,387)
Fair value adjustment		(86,402)
Balance, June 30, 2020	1,710,000	\$ 18,468

14. Rental Revenue

The components of rental revenue are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Rental income	\$ 71,266	\$ 69,022	\$ 143,946	\$ 138,127
Operating cost recoveries	13,308	14,445	28,308	29,602
Tax and insurance recoveries	4,942	5,362	10,714	10,908
Other revenue	777	2,580	2,919	4,705
Rental revenue	\$ 90,293	\$ 91,409	\$ 185,887	\$ 183,342

15. 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, however, it entitles 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
Balance, December 31, 2018	103,570,247	\$ 953,169
Units issued through distribution reinvestment plan (i)	995,102	11,205
Units issued on conversion of convertible debentures (note 10)	74,975	940
Units issued under deferred unit plan (note 12)	107,342	1,135
Units issued pursuant to equity offering	48,879,000	569,546
Units issuance cost	—	(25,750)
Balance, December 31, 2019	153,626,666	\$ 1,510,245
Units issued through distribution reinvestment plan (i)	522,825	5,609
Units issued on conversion of convertible debentures (note 10)	4,244,780	51,483
Units issued under deferred unit plan (note 12)	86,915	810
Units issued pursuant to conversion of Class B units (note 13)	15,998,065	106,387
Units cancelled pursuant to NCIB (ii)	(800,207)	(7,196)
Units issued pursuant to private placement (iii)	2,049,180	25,000
Units issuance costs	—	(506)
Balance, June 30, 2020	175,728,224	\$ 1,691,832

- (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%. On March 24, 2020, in response to market volatility caused by the COVID-19 pandemic the Board approved the elimination of the 3% bonus distribution under the DRIP, commencing with the April 2020 distribution. The DRIP will remain suspended until further notice.
- (ii) On March 24, 2020 the TSX approved the REIT's application to proceed with a normal course issuer bid ("NCIB") for a portion of its Trust Units from time to time. Trust Units representing up to 10% of the REIT's public float may be purchased for cancellation under the NCIB, subject to certain maximum daily amounts, over the next 12 months. During the six months ended June 30, 2020, the REIT purchased 800,207 units at a weighted average price per unit of \$8.99, for a total cost of \$7.2 million (including commissions).
- (ii) In connection with a public offering of units in December 19, 2019, on January 31, 2020, the REIT closed a private placement with NWVP for gross proceeds of approximately \$25.0 million.

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16. Supplemental Cash Flow Information

(i) Cash and cash equivalents

As at	June 30, 2020		December 31, 2019	
Cash and cash equivalents	\$	130,612	\$	192,150
Restricted cash		51		53
	\$	130,663	\$	192,203

Restricted cash represents cash held in the REIT's designated bank accounts pledged as collateral for the Brazil term debt (note 9).

(ii) Changes in Non-Cash Working Capital Balances

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Accounts receivable	\$ (7,330)	\$ 5,805	\$ (1,697)	\$ 8,845
Other assets	(1,049)	4,663	7,283	1,965
Accounts payable and accrued liabilities	(1,071)	3,884	3,621	5,378
	\$ (9,450)	\$ 14,352	\$ 9,207	\$ 16,188

(iii) Non-Cash Financing and Investing Activities

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Non cash distributions to Unitholders under the DRIP (note 15)	\$ 1,313	\$ 2,537	\$ 5,609	\$ 4,840
Units issued under deferred unit plan (note 12)	365	307	810	851
Non-cash conversion of convertible debentures	—	20	51,483	27
Non-cash conversion of Class B exchangeable units (note 13)	—	—	106,387	—

(iv) Finance costs

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Distributions on Exchangeable Units	\$ 342	\$ 3,542	\$ 2,817	\$ 7,084
Accretion of financial liabilities	(140)	2,548	2,562	3,848
Amortization of deferred financing costs	2,635	1,316	3,881	4,138
Amortization of marked to market adjustment	(217)	(393)	(508)	(690)
Fair value adjustment of Convertible Debentures	12,368	2,173	(13,842)	23,728
Fair value adjustment of Class B exchangeable units	1,949	2,125	(86,402)	40,729
	\$ 16,937	\$ 11,311	\$ (91,492)	\$ 78,837

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17. Related Party Transactions

- (a) On January 31, 2020, the REIT completed a private placement of 2,049,180 Trust Units to NWVP for gross proceeds of approximately \$25.0 million (note 15). On March 23, 2020, 15,998,065 Exchangeable Units held by NWVP were converted to Trust Units (note 13).

As at June 30, 2020, NWVP indirectly owned approximately 15.4% (approximately 13.5% on a fully diluted basis assuming conversion of the REIT's convertible debentures and redemption of its deferred units) of the REIT through a combination of units of the REIT and Class B exchangeable units of NW LP. Paul Dalla Lana, Chairman of the Board of Trustees and Chief Executive Officer ("CEO") of the REIT, is the sole shareholder, sole director and President of NWVP.

- (b) In the normal course of operations, the REIT has amounts owing to and from NWVP and affiliates which includes compensation for CEO management services and related expense reimbursements. As at June 30, 2020, these non-interest bearing amounts without repayment terms are representative of a net asset included in other assets totaling \$nil (December 31, 2019 - a net asset of \$2.7 million). See note 8 for further details.
- (c) At June 30, 2020, included in accounts payable and accrued liabilities are Class B exchangeable unit distributions payable owing to NWVP and affiliates in the amount of \$0.1 million (December 31, 2019 - \$1.2 million), which were settled subsequent to period end.
- (d) In the normal course of operations the REIT entered into related party transactions with NWVP and affiliates in the amount of \$0.2 million and \$10.4 million during the three and six months ended June 30, 2020, respectively (three and six months ended June 30, 2019 - \$0.4 million and \$0.5 million, respectively) relating to CEO management services, cost-sharing and sublease agreements and reimbursement for out-of-pocket costs.

18. 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 (loss). 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, 2020, two tenants in Brazil accounted for 12% (for the three and six months ended June 30, 2019 - 15%), and one tenant in Australasia operating segment accounted for 15% (for the three and six months ended June 30, 2019 - 15%) of the total revenue from investment properties.

As at June 30, 2020	Europe	Brazil	Australasia	Canada	Total
Investment properties	\$1,053,947	\$ 613,449	\$1,992,496	\$1,208,537	\$4,868,429
Mortgages and loans payable	\$ 490,540	\$ 178,678	\$ 816,396	\$ 864,751	\$2,350,365
As at December 31, 2019	Europe	Brazil	Australasia	Canada	Total
Investment properties	\$ 785,252	\$ 781,837	\$2,171,276	\$1,189,746	\$4,928,111
Mortgages and loans payable	\$ 424,976	\$ 236,825	\$ 941,576	\$ 738,014	\$2,341,391

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For the three months ended June 30, 2020	Europe	Brazil	Australasia	Canada	Total
Operating Income (Loss)					
Revenue from investment properties	\$ 18,140	\$ 10,945	\$ 31,715	\$ 29,493	90,293
Property operating costs	3,404	—	3,283	13,704	20,391
Net property operating income	14,736	10,945	28,432	15,789	69,902
Other income					
Interest and other	—	87	415	10	512
Management fee	—	—	2,346	—	2,346
Share of profit of associate	—	—	4,100	—	4,100
	—	87	6,861	10	6,958
Mortgage and loan interest expense	2,540	2,068	7,885	11,305	23,798
General and administrative expenses	632	350	2,539	4,303	7,824
Transaction costs	600	—	7,990	2,170	10,760
Foreign exchange (gain) loss	(7)	5	4,035	1,756	5,789
	3,765	2,423	22,449	19,534	48,171
Operating income (loss)	\$ 10,971	\$ 8,609	\$ 12,844	\$ (3,735)	\$ 28,689
For the three months ended June 30, 2019	Europe	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 and other	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

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For the six months ended June 30, 2020	Europe	Brazil	Australasia	Canada	Total
Operating Income					
Revenue from investment properties	\$ 34,571	\$ 23,808	\$ 65,448	\$ 62,060	\$ 185,887
Property operating costs	6,599	—	7,492	29,248	43,339
Net property operating income	27,972	23,808	57,956	32,812	142,548
Other income					
Interest and other	20	148	861	103	1,132
Management fee	—	—	3,769	—	3,769
Share of income (loss) of associate	—	—	11,618	—	11,618
	20	148	16,248	103	16,519
Mortgage and loan interest expense	4,872	4,597	16,379	22,802	48,650
General and administrative expenses	1,773	702	5,506	6,862	14,843
Transaction costs	600	213	14,660	11,700	27,173
Foreign exchange (gain) loss	(38)	10	3,255	10,027	13,254
	7,207	5,522	39,800	51,391	103,920
Operating income (loss)	\$ 20,785	\$ 18,434	\$ 34,404	\$ (18,476)	\$ 55,147
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 income (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) loss	(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

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19. Non-Controlling Interests

The following tables present summarized accounts for Vital Trust and two investment properties Divine, and Fritz-Lang-Platz 6, held by Australia REIT and NWI Gesundheitsimmobilien GmbH & Co. KG, respectively, where a non-controlling or partial interest is owned by a third-party. On June 30, 2020, the REIT sold a 70% interest in its Australia REIT subsidiary (note 3), and as a result the non-controlling interest balance related to Divine is no longer consolidated by the REIT.

The net assets and income attributable to the non-controlling interests and the REIT are as follows:

As at June 30, 2020	Vital Trust		Divine		Fritz-Lang-Platz 6		Total	
REIT's ownership interest	24.9%		—%		94.9%			
Total assets	\$	1,839,481	\$	—	\$	21,336	\$	1,860,817
Total liabilities		892,297		—		9,855		902,152
Net assets	\$	947,184	\$	—	\$	11,481	\$	958,665
Attributable to:								
Unitholders of the REIT		236,216		—		10,958		247,174
Non-controlling interest		710,968		—		523		711,491
	\$	947,184	\$	—	\$	11,481	\$	958,665
For the three months ended June 30, 2020								
	Vital Trust		Divine		Fritz-Lang-Platz 6		Total	
Revenue from investment properties	\$	24,674	\$	1,967	\$	388	\$	27,029
	\$	24,577	\$	1,940	\$	368	\$	26,885
Net income attributable to:								
Unitholders of the REIT		630		822		202		1,654
Non-controlling interest		1,902		674		11		2,587
Net income	\$	2,532	\$	1,496	\$	213	\$	4,241
	\$	43,388	\$	3,270	\$	—	\$	46,658
Total comprehensive income attributable to:								
Unitholders of the REIT		15,445		3,677		(58)		19,064
Non-controlling interest		46,524		4,618		2		51,144
Total comprehensive income (loss)	\$	61,969	\$	8,295	\$	(56)	\$	70,208
	\$	45,105	\$	(1,093)	\$	(37)	\$	43,975
Distributions attributable to non-controlling interest								
	\$	6,460	\$	168	\$	—	\$	6,628
	\$	6,520	\$	737	\$	—	\$	7,257

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	For the six months ended June 30, 2020				For the six months ended June 30, 2019			
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Revenue from investment properties	\$ 48,642	\$ 3,810	\$ 768	\$ 53,220	\$ 49,327	\$ 3,804	\$ 762	\$ 53,893
Net income (loss) attributable to:								
Unitholders of the REIT	860	1,667	361	2,888	11,935	2,552	(19)	14,468
Non-controlling interest	2,595	1,316	19	3,930	36,021	2,014	8	38,043
Net income (loss)	\$ 3,455	\$ 2,983	\$ 380	\$ 6,818	\$ 47,956	\$ 4,566	\$ (11)	\$ 52,511
Total comprehensive income (loss) attributable to:								
Unitholders of the REIT	5,934	1,257	101	7,292	10,540	(772)	(19)	9,749
Non-controlling interest	17,829	2,785	44	20,658	31,933	(585)	(1)	31,347
Total comprehensive income (loss)	\$ 23,763	\$ 4,042	\$ 145	\$ 27,950	\$ 42,473	\$ (1,357)	\$ (20)	\$ 41,096
Distributions attributable to non-controlling interest	\$ 12,875	\$ 884	\$ —	\$ 13,759	\$ 13,173	\$ 1,429	\$ 5	\$ 14,607

	For the three months ended June 30, 2020				For the three months ended June 30, 2019			
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Cash flow activities:								
Operating	\$ 11,834	\$ 912	\$ 185	\$ 12,931	\$ 5,774	\$ 3,667	\$ 151	\$ 9,592
Investing	(24,390)	—	—	(24,390)	(5,726)	—	—	(5,726)
Financing	12,217	(12)	(170)	12,035	(3,562)	(1,695)	(155)	(5,412)
Effect of foreign currency translation	(948)	(1,805)	1	(2,752)	230	(1,878)	1	(1,647)
Net change in cash	\$ (1,287)	\$ (905)	\$ 16	\$ (2,176)	\$ (3,284)	\$ 94	\$ (3)	\$ (3,193)

	For the six months ended June 30, 2020				For the six months ended June 30, 2019			
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Cash flows from (used in):								
Operating	\$ 19,339	\$ 2,645	\$ 411	\$ 22,395	\$ 20,739	\$ 5,185	\$ 202	\$ 26,126
Investing	(50,702)	—	—	(50,702)	(10,517)	—	—	(10,517)
Financing	31,757	(1,659)	(428)	29,670	(11,142)	(3,284)	(374)	(14,800)
Effect of foreign currency translation	(358)	(1,793)	—	(2,151)	(1,533)	(1,882)	2	(3,413)
Net change in cash	\$ 36	\$ (807)	\$ (17)	\$ (788)	\$ (2,453)	\$ 19	\$ (170)	\$ (2,604)

The REIT is subject to restrictions over the extent to which it can access funds of Vital Trust and Fritz-Lang-Platz 6 in the form of cash distributions, or use of assets and access to debt and credit facilities as a result of borrowing arrangements, regulatory restrictions and the REIT's economic interests in Vital Trust and Fritz-Lang-Platz 6, being limited to approximately 24.9% and 94.9%, respectively.

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

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20. 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, 2020, the REIT has a total of \$0.2 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.
- (b) Pursuant to the disposition of the 70% interest in AREIT units (note 3), the REIT indemnified the JV partner of potential tax liabilities related to AREIT's investment properties. The indemnity expires if the properties are not sold within 15 years of settlement. Given that the disposition of properties is dependent on future events and circumstances which are uncertain and that the taxable outcome of the disposition is difficult to estimate due to the variables involved, the REIT has not been able to estimate or accrue a liability related to the indemnification.
- (c) The REIT has entered into acquisitions and construction agreements on development properties and is committed to associated costs of \$228.2 million as at June 30, 2020 (December 31, 2019 - \$228.6 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 condensed consolidated interim financial statements.

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

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

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

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

The 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, 2020 is as follows:

	Carrying value	Fair Value		
		Level 1	Level 2	Level 3
Assets measured at fair value:				
Investment properties	\$ 4,868,429	\$ —	\$ —	\$ 4,868,429
Financial instruments	37	—	37	—
Assets recorded at amortized cost:				
Loans receivable	10,435	—	—	25,050
Liabilities measured at fair value:				
Financial instruments	62,866	—	62,866	—
Convertible debentures	281,308	281,308	—	—
Class B LP exchangeable units	18,468	18,468	—	—
Deferred unit plan liability	20,337	20,337	—	—
Financial liabilities recorded at amortized cost:				
Mortgage and loans payable	2,350,365	—	2,375,123	—

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22. 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, Class B exchangeable units, and unsecured debt which includes convertible debentures.

At June 30, 2020, the REIT is in compliance with its debt to gross book value ratio of the Declaration of Trust at 44.3% (December 31, 2019 - 42.5%).

As at	June 30, 2020	December 31, 2019
Debt		
Gross value of debt excluding convertible debentures ⁽¹⁾	\$ 2,361,284	\$ 2,354,897
Gross value of total debt ⁽²⁾	2,642,592	2,746,098
Gross Book Value of Assets		
Total assets	\$ 5,328,095	\$ 5,535,304
Debt-to-Gross Book Value (Declaration of Trust)	44.3%	42.5%
Debt-to-Gross Book Value (including convertible debentures)	49.6%	49.6%

(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, 2020, the REIT is in compliance with all such financial covenants.

23. 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 annual consolidated financial statements as at and for the years ended December 31, 2019 and December 31, 2018, except as noted below.

Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments resulting in the REIT incurring a financial loss. The COVID-19 pandemic has created significant uncertainty in the general economy which may impact the ability of tenants to meet their obligations under their leases. In determining the expected credit losses, the REIT takes into account the payment history and future expectations of likely default events based on actual or company voluntary arrangements and likely deferrals of payments due. These assessments are made on a tenant-by-tenant basis. The uncertainties arising as a result of COVID-19 did not materially impact the REIT's risk assessment at June 30, 2020.

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Liquidity Risk

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to the REIT to fund future growth, refinance debts as they mature or meet the REIT's payment obligations as they arise. Furthermore, liquidity risk also arises from the REIT not being able to obtain financing or refinancing on favorable terms. In light of COVID-19, the REIT has taken measures to increase liquidity and fortify its balance sheet such as increasing availability on its Credit Facilities and advancing the renewals of near term debt maturities.

24. Subsequent Events

- (i) On July 20, 2020 and August 19, 2020, the REIT completed property acquisition of two investment properties located in the Netherlands for approximately \$10.2 million. The acquisitions were financed using proceeds generated from refinancing of existing European mortgages and cash on hand.
- (ii) On August 21, 2020, the REIT completed the acquisition of four private hospitals located in Greater London, UK for total consideration of approximately \$454.1 million. The acquisition was financed with existing liquidity, a one year term loan totaling \$222.7 million bearing an interest rate at 3.25%, and a \$125 million increase to its revolving credit facility ("Revolving Facility Upsize"). The Revolving Facility Upsize matures February 2021 and bears interest at a variable interest rate commencing at the lower of BA+450 bps and Prime+350 bps.
- (iii) On July 15, 2020, the REIT announced a distribution of \$0.06667 per REIT unit to unitholders of record on July 31, 2020, and paid on August 14, 2020. On August 14, 2020, the REIT announced a distribution of \$0.06667 per REIT unit to unitholders of record on August 31, 2020, will be payable on September 15, 2020.



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