

**NORTHWEST HEALTHCARE
PROPERTIES REAL ESTATE
INVESTMENT TRUST**

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

FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

(AUDITED)





KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto ON M5H 2S5
Canada
Tel 416-777-8500
Fax 416-777-8818

INDEPENDENT AUDITORS' REPORT

To the Unitholders of NorthWest Healthcare Properties Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of NorthWest Healthcare Properties Real Estate Investment Trust (the Entity), which comprise:

- the consolidated balance sheets as at end of December 31, 2018 and December 31, 2017
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of unitholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated balance sheets of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated statements of income and comprehensive income, its consolidated statements of unitholders' equity and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Page 2

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.



Page 3

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Page 4

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Larry Toste.

Toronto, Canada

March 6, 2019

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

As at	Note	December 31, 2018	December 31, 2017
Assets			
Investment properties	7	\$ 4,669,802	\$ 4,144,789
Intangible assets	8	47,291	47,301
Goodwill	9	81,403	134,630
Financial instruments	14	150,534	1,935
Accounts receivable		18,313	8,260
Other assets	10	58,146	106,546
Cash and restricted cash	19	46,159	72,067
Assets held for sale		—	168,500
Total assets		\$ 5,071,648	\$ 4,684,028
Liabilities			
Mortgages and loans payable	11	\$ 2,409,662	\$ 2,124,769
Convertible debentures	12	401,235	296,857
Deferred unit plan liability	15	13,030	18,009
Class B exchangeable units	16	167,872	216,008
Deferred tax liability	13	284,187	224,329
Financial instruments	14	23,102	15,769
Income tax payable		8,226	9,759
Accounts payable and accrued liabilities		74,881	59,082
Distributions payable		6,905	6,736
Liabilities related to assets held for sale		—	57,785
Total liabilities		\$ 3,389,100	\$ 3,029,103
Unitholders' Equity			
Unitholders' equity	18	947,722	947,670
Non-controlling interest	23	734,826	707,255
Total liabilities and unitholders' equity		\$ 5,071,648	\$ 4,684,028

The consolidated financial statements were approved by the Board on March 6, 2019 and signed on its behalf by:

"Colin Loudon" Trustee
"Paul Dalla Lana" Trustee

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

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

For the year ended December 31,	Note	2018	2017
Net Property Operating Income			
Revenue from investment properties	17	\$ 349,592	\$ 313,966
Property operating costs		86,146	81,907
		263,446	232,059
Other Income			
Interest and other		11,243	4,550
Management fees		6,556	7,723
Share of profit (loss) of associates		(94)	43,681
		17,705	55,954
Expenses			
Mortgage and loan interest expense		124,275	101,771
General and administrative expenses		27,113	25,125
Transaction costs		13,462	13,291
Foreign exchange (income) loss		(244)	(7,412)
		164,606	132,775
Income before other finance costs, fair value adjustments, and net loss on disposal of investment property		116,545	155,238
Finance costs			
Amortization of financing costs		(10,377)	(7,446)
Amortization of mark-to-market adjustment		2,060	3,165
Class B exchangeable unit distributions	16	(14,167)	(15,199)
Fair value adjustment of Class B exchangeable units	16	33,262	(22,228)
Accretion of financial liabilities	11	(19,125)	(3,667)
Fair value adjustment of convertible debentures	12	20,553	(5,303)
Convertible debenture issuance costs		(5,611)	—
Gain (loss) on financial instrument	14	(19,213)	4,352
Impairment loss on goodwill	9	(50,096)	—
Fair value adjustment of investment properties	7	148,100	259,551
Net loss on disposal of investment properties	6	(2,702)	(675)
Fair value adjustment of deferred unit plan liability	15	2,235	(1,793)
Loss on business combination		—	(89,578)
Income before taxes		201,464	276,417
Income tax expense	13	72,724	51,178
Net income		\$ 128,740	\$ 225,239
Net income attributable to:			
Unitholders		\$ 65,715	\$ 67,387
Non-controlling interest		63,025	157,852
		\$ 128,740	\$ 225,239

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

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

For the year ended December 31,	Note	2018	2017
Net income		\$ 128,740	\$ 225,239
Other comprehensive income ("OCI"):			
Items that will be reclassified subsequently to income:			
Foreign currency translation adjustment		\$ (40,956)	\$ (48,658)
Realised foreign exchange gains/(losses) on hedges		(150)	1,005
Current taxation (expense)/credit		43	(281)
Unrealised foreign exchange gains/(losses) on hedges		7,445	(233)
Deferred taxation (expense)/credit		(2,099)	397
Fair value gain (loss) on net investment hedges		5,869	(6,118)
Deferred taxation (expense)/credit		(1,628)	1,381
Other comprehensive income (loss), net of tax		(31,476)	(52,507)
Total comprehensive income for the period		\$ 97,264	\$ 172,732
Total comprehensive income attributable to:			
Unitholders		\$ 54,240	\$ (6,119)
Non-controlling interest		43,024	178,851
		\$ 97,264	\$ 172,732

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Unitholders' Equity

(in thousands of Canadian dollars)

	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, January 1, 2017		\$ 604,592	\$ 39,839	\$ (115)	\$ (110,857)	\$ 27,915	\$ 142,911	\$ 704,285	\$ 485,505	\$ 1,189,790
Public offering of units		312,484	—	—	—	—	—	312,484	6,093	318,577
Units issued through distribution reinvestment plan		6,363	—	—	—	—	—	6,363	5,757	12,120
Units issued on exercise of deferred units	18	1,035	—	—	—	—	—	1,035	—	1,035
Conversion of convertible debenture	18	444	—	—	—	—	—	444	—	444
Acquisition of control of subsidiary		—	—	—	—	—	—	—	57,942	57,942
Distributions		—	—	—	(70,823)	—	—	(70,823)	(26,892)	(97,715)
Currency translation differences		—	—	—	—	(72,549)	—	(72,549)	23,891	(48,658)
Other comprehensive income (loss)		—	—	—	—	(956)	—	(956)	(2,893)	(3,849)
Net income (loss) for the period		—	—	—	—	—	67,387	67,387	157,852	225,239
Balance, December 31, 2017		\$ 924,918	\$ 39,839	\$ (115)	\$ (181,680)	\$ (45,590)	\$ 210,298	\$ 947,670	\$ 707,255	\$ 1,654,925
Issue of share capital		—	—	—	—	—	—	—	7,026	7,026
Units issued through distribution reinvestment plan		8,205	—	—	—	—	—	8,205	5,383	13,588
Units issued on exercise of deferred units	18	5,103	—	—	—	—	—	5,103	—	5,103
Cancellation of REIT units under normal course issuer bid		—	—	—	—	—	—	—	—	—
Conversion of Class B LP exchangeable units	16	14,874	—	—	—	—	—	14,874	—	14,874
Conversion of convertible debenture	18	69	—	—	—	—	—	69	—	69
Acquisition of control of subsidiary		—	—	—	—	—	—	—	454	454
Distributions		—	—	—	(82,439)	—	—	(82,439)	(28,316)	(110,755)
Foreign currency translation differences		—	—	—	—	(13,835)	—	(13,835)	(27,121)	(40,956)
Other comprehensive income (loss)		—	—	—	—	2,360	—	2,360	7,120	9,480
Net income (loss) for the period		—	—	—	—	—	65,715	65,715	63,025	128,740
Balance, December 31, 2018		\$ 953,169	\$ 39,839	\$ (115)	\$ (264,119)	\$ (57,065)	\$ 276,013	\$ 947,722	\$ 734,826	\$ 1,682,548

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

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

For the year ended December 31,	Note	2018	2017
Cash provided by (used in):			
Operating activities			
Net income before taxes	\$	201,464	\$ 276,417
Adjustment for:			
Amortization		1,299	1,409
Mortgage and loan interest		124,275	101,771
Mortgage and loans interest paid		(107,134)	(91,754)
Finance costs			
Amortization of financing costs		10,377	7,446
Amortization of mark-to-market adjustment		(2,060)	(3,165)
Class B exchangeable unit distributions	16	14,167	15,199
Fair value adjustment of Class B exchangeable units	16	(33,262)	22,228
Accretion of financial liabilities	11	19,125	3,667
Fair value adjustment of convertible debentures	12	(20,553)	5,303
Convertible debenture issuance costs		5,611	—
Interest income		(7,737)	(4,550)
Share of profit of associate		94	(43,681)
Loss on business combination	4	—	89,578
Unrealized foreign exchange (gain)/loss		411	(7,394)
Amortization of deferred revenue		—	(1,229)
Amortization of finance leases receivable/payable		(289)	(153)
Fair value adjustment of investment properties	7	(148,100)	(259,551)
Fair value (gain)/loss on financial instruments	14	19,696	(4,352)
Impairment loss on goodwill	9	50,096	—
Net loss on disposal of investment properties	6	2,702	675
Fair value adjustment of deferred unit plan liability		(2,235)	1,793
Unit-based compensation expense	15	4,759	4,791
Redemption of units issued under deferred unit plan		(2,399)	(2,371)
Income taxes paid		(12,754)	(5,079)
Changes in non-cash working capital balances	19	(24,238)	(16,158)
Cash provided by (used in) operating activities		93,315	90,840
Investing activities			
Acquisitions of investment properties	5	(452,824)	(313,870)
Additions to investment properties	7	(92,269)	(79,389)
Net proceeds on disposal of investment property	6	376,966	31,548
Additions to investment in associate		—	(376,867)
Investment in subsidiary	4	—	(32,979)
Investment in financial assets	14	(5,162)	(17,265)
Cash interest received		5,328	4,030
Cash acquired on acquisition of control		—	4,891
Distributions from associates		(94)	7,354
Additions to furnitures and fixtures		(413)	(1,747)
Prepayment of forward contracts	14	(156,297)	—
Receipts (payments) from foreign exchange contracts		(337)	1,047
Net decrease (increase) to restricted cash		(76)	(59)
Cash provided by (used in) investing activities		(325,178)	(773,306)
Financing activities			
Mortgage and loan proceeds		512,008	426,072
Mortgage and loans discharged		(129,975)	(99,563)
Repayment of mortgages		(21,957)	(20,225)
Net advances (repayments) of loans payable		(137,483)	280,984
Issuance of convertible debentures, net of issuance cost	12	119,389	—
Redemption of convertible debentures	12	—	(39,836)
Proceeds from issue of units, net of issue costs	18	—	318,577
Financing fees paid		(5,215)	(15,173)
Net (payments) advances from (to) related parties		(124)	255
Settlement of securitization		(19,625)	(12,836)
Distributions paid		(74,073)	(62,296)
Class B exchangeable units distributions paid	16	(14,167)	(15,199)
Distributions paid to non-controlling interest		(22,947)	(21,109)
Cash provided by (used in) financing activities		205,831	739,651
Net change in cash		(26,032)	57,185
Effect of foreign currency translation		136	(5,436)
Net change in cash		(25,896)	51,749
Cash, beginning of period		71,704	19,955
Cash, end of period	\$	45,808	\$ 71,704

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

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. Statement of Compliance and Basis of Preparation

(a) Statement of compliance

The REIT's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and using accounting policies described herein.

The consolidated financial statements were approved by the Board of Trustees of the REIT on March 6, 2019.

(b) Basis of presentation and measurement

The consolidated financial statements are prepared on a going concern basis and have been presented in thousands of Canadian dollars, except units and per unit amounts. The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires the REIT's management to exercise judgment in applying the REIT's accounting policies.

These consolidated financial statements have been prepared in thousands of Canadian dollars on a historical cost basis except for:

- (i) Investment properties, which are measured at fair value; and
- (ii) Financial assets and financial liabilities classified as at fair value through profit and loss ("FVTPL"), derivative financial instruments and the deferred unit plan ("DUP") liability, which are measured at fair value.

The consolidated financial statements are presented in Canadian dollar is the REIT's functional currency.

(c) Critical accounting estimates

The preparation of these consolidated financial statements requires management to apply judgment when making estimates and assumptions that affect the application of accounting policies, the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

(i) Intangible asset

Intangible asset represents the REIT's rights and obligations under the contracts between NorthWest Healthcare Properties Management ("ANZ Manager"), a wholly-owned subsidiary of the REIT, and Vital Healthcare Property Trust ("Vital Trust"). The Vital Trust intangible asset has been measured at its fair value as at the date it was acquired, January 1, 2015. When estimating the fair value of the intangible assets, the REIT made estimates and assumptions that have a significant effect on the reported value of the intangible asset. Estimates used in determining the fair value of the intangible asset include management fees, operating expenses, discount rates, capitalization rates, inflation rates, interest rates, taxation rates, foreign currency exchange rates and earnings multiples.

The contract that govern the fee streams paid by Vital Trust does not expire and therefore, the contracts are deemed indefinite-life intangible assets (note 2(a)).

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

(ii) *Investment properties*

Investment properties are re-measured to fair value at each reporting date, determined based either on internal valuation models incorporating available market evidence, or on valuations performed by third-party appraisers. When estimating the fair value of investment properties, the REIT makes estimates and assumptions that have a significant effect on the reported value of investment properties. Estimates used in determining the fair value of the investment properties include capitalization rates, discount rates, inflation rates, vacancy rates, net operating income and capital expenditures.

(iii) *Derivative financial instruments*

The measurement of the fair value of the REIT's derivative financial instruments is based on estimates and assumptions that affect the reported amount of the liabilities and the corresponding gain or loss on changes in fair value. Estimates and assumptions used in the valuation for the REIT's derivatives are described in note 14.

(d) *Critical judgments in applying accounting policies*

In the preparation of these consolidated financial statements the REIT has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the consolidated financial statements.

(i) *Leases*

The REIT makes judgments in determining whether leases in which the REIT is the lessor are operating or finance leases, and has determined that all of its leases are operating leases. The accounting treatment of leases as finance leases would have a significant effect on the measurement of transactions and balances in the consolidated financial statements.

(ii) *Investment acquisitions*

When investments are acquired, the REIT is required to apply judgment as to whether or not the transaction should be accounted for as an asset acquisition or business combination. A transaction is considered to be a business combination if the acquired investment meets the definition of a business in accordance with IFRS 3, "Business Combinations" ("IFRS 3"), being an integrated set of activities and assets that are capable of being managed for the purpose of providing a return.

Business Combinations are measured at fair value on the date of acquisition based on the aggregate of the consideration transferred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at fair value at the acquisition date and acquisition-related costs are recognized in the consolidated statement of income as incurred.

When acquisition of an investment does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values at the acquisition date, and no goodwill is recognized. Acquisition related costs are capitalized to the investment at the time the acquisition is completed.

All of the REIT's property acquisitions, with the exception of any interest in investment properties acquired as a result of the business combination of Australia REIT (note 4) have been accounted for as asset acquisitions.

(iii) *Consolidation Vital Trust*

The REIT accounts for its investment in Vital Trust as a subsidiary and consolidates the financial position and results of Vital Trust. The REIT's interest in Vital Trust, as at December 31, 2018, is 24.9%. The REIT assessed it has control over Vital Trust based on the definition of control and certain criteria provided for in IFRS 10-Consolidated Financial Statements. The REIT has assessed it has control over Vital Trust based on the following

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

key observations: i) the REIT controls the external manager of Vital Trust through the 100% indirect ownership of ANZ Manager. The ownership of the VHML results in the REIT directing all activities of Vital Trust; ii) the REIT has the right to appoint a majority of directors of the board of Vital Healthcare Management Limited, which acts as the board of directors of Vital Trust; and iii) the 75.1% non-controlling interest of Vital Trust is widely held with no known investor holding more than a 5% interest in Vital Trust, other than the REIT.

(iv) *Income taxes*

With the exception of subsidiaries that are subject to income taxes, deferred income taxes are not recognized in the consolidated financial statements on the basis that the REIT can deduct distributions paid such that its liability for income taxes is substantially reduced or eliminated for the year. In applying this accounting policy, the REIT has made the judgment that the REIT intends to continue to distribute its taxable income and continue to qualify as a real estate investment trust for the foreseeable future; however, should it no longer qualify it would not be able to flow through its taxable income to unitholders and the REIT would be subject to Canadian taxation on its non-portfolio earnings.

We make significant judgments in interpreting tax rules and regulations when we calculate income tax expense. The calculation of current and deferred income taxes requires management to make certain judgments regarding the tax rules in jurisdictions where the REIT performs activities. The REIT is subject to tax audits from various tax authorities on an ongoing basis and from time to time, tax authorities may disagree with the positions and conclusions taken by the REIT in its tax filings or legislation could be amended or interpretations of current legislation could change, any of which events could lead to reassessments. There are a number of uncertainties involved in such matters and as a result, there is a possibility that the ultimate resolution of these matters may result in a material adverse effect, individually or in aggregate, on the REIT's operations or financial condition or performance in future periods. Management regularly assesses its position on the adequacy of such accruals or provisions and will make any necessary adjustments.

2. Summary of Significant Accounting Policies

(a) *Goodwill and intangible assets*

The carrying values of identifiable indefinite-life intangible assets and goodwill are tested for impairment annually and whenever there is an indication that the intangible asset may be impaired. A cash generating unit ("CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill and indefinite-life intangible assets are allocated to CGUs for the purpose of impairment testing based on the level at which management monitors them, which is not higher than an operating segment. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose.

As at December 31, 2018, the REIT performed its annual goodwill impairment test. Based on the impairment test performed, the REIT recognized a goodwill impairment loss of \$50.1 million as at December 31, 2018.

(b) *Principles of consolidation*

The consolidated financial statements comprise the financial statements of the REIT and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, which is the date on which the REIT obtains control, and continue to be consolidated until the date that such control ceases. Control exists when the REIT has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

(c) Functional and presentation currency

The functional and presentation currency of the REIT is the Canadian dollar. Assets and liabilities of subsidiaries and associates having a functional currency other than the Canadian dollar are translated at the rate of exchange at the consolidated statement of financial position dates. Revaluation gains and losses are recognized in other comprehensive income. Revenue and expenses are translated at average rates for the year.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting year, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the consolidated statement of financial position dates. Gains and losses on translation of monetary items are recognized in the consolidated statements of income, except for those related to monetary liabilities qualifying as hedges of the REIT's investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in other comprehensive income.

(d) Investment properties

Investment properties include properties that are held principally by the REIT to earn rentals, for capital appreciation, or both. Investment properties acquired are recognized initially at cost, which includes all costs directly related to the acquisition of the properties such as legal fees, appraisal fees and land transfer taxes. Subsequent to initial recognition, investment properties are measured at fair value, with changes in fair value recognized in the consolidated statements of income and comprehensive income in the years in which they arise. Subsequent capital expenditures are charged to investment property only when it is probable that the future economic benefits of the expenditure will flow to the REIT and the cost can be measured reliably.

(e) Assets held for sale

Investment properties are transferred to assets held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the investment property must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such property, and its sale must be highly probable. Management must be committed to a plan to sell the asset and an active effort to locate a buyer and complete the plan must have been initiated. Furthermore, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value, with the sale expected to be consummated within one year from the date of classification as held for sale. Investment properties classified as assets held for sale are measured at fair value.

(f) Intangible assets

The intangible assets (note 8) relate to the REIT's rights and obligations that ANZ Manager has under its contract with Vital Trust. The intangible asset between ANZ Manager and Vital Trust has been recorded at fair value as at the date of management contract acquisitions. The contract has an indefinite life and does not expire, therefore, the intangible asset is not amortized. The intangible asset is assessed for impairment annually and whenever there is an indication that an intangible asset may be impaired.

(g) Leases

A lease is classified as a finance lease if it results in a transfer of substantially all the risks and rewards incidental to ownership from the REIT to the lessee. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership to the lessee. Upon business combination of Australia REIT (note 4) the REIT assumed a long-term lease that is a finance lease. All other leases to which the REIT is the lessor have been determined to be operating leases.

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

(h) Revenue recognition

Rental revenue from operating leases is recognized over the lease term on a straight-line basis. The difference between rental revenue recognized and cash flows is recorded as straight-line rent receivable or payable on the consolidated statements of financial position. Rental revenue includes rental income earned from tenants under lease agreements, operating costs and realty tax recoveries, parking income, and incidental income. Operating cost and realty tax recoveries are recognized in the year that recoverable costs are chargeable to tenants.

Other income includes management fees earned from the management contract for Vital Trust as described in note 8. The REIT recognizes management fees to the extent those fees are earned from third-party interest in Australia REIT.

Deferred revenue comprises amounts received in advance related to income from rents relating to future years.

(i) Other assets

Other assets include commodity taxes recoverable, acquisition costs and deposits, and prepaid expenses. Acquisition costs and deposits related to future asset acquisitions are capitalized when it is probable that the acquisition will be completed.

(k) DUP liability

The DUP units are exchangeable for Trust units, which in turn are puttable financial instruments and classified as a liability under International Accounting Standard 32, Financial Instruments - Presentation ("IAS 32"). As such, the DUP units are classified as a liability. Management designated the DUP liability as FVTPL; the DUP liability is re-measured to fair value each reporting date with changes recorded in the consolidated statements of income and comprehensive income.

(l) Segmented reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

(m) Derivative financial instruments

The REIT uses derivative financial instruments such as interest rate swaps and forward exchange contracts to manage risks from fluctuations in interest rates and foreign exchange rates.

Derivative financial instruments are initially recorded at fair value on the date a derivative contract is entered into and subsequently re-measured at fair value. Gains and losses arising from changes in fair value of a derivative are recognised as they arise in the profit and loss in the statement of comprehensive income unless the derivative is a hedging instrument in a qualifying hedge relationship, in which case the gains and losses are recognised in other comprehensive income.

The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on variable rate loans. These derivative financial instruments are not designated as hedging instruments. Gains or losses arising from the change in fair values of the interest rate swap contracts are recognized in the consolidated statements of income and comprehensive income.

The REIT entered into a forward contract giving the REIT an economic interest of approximately 13% of the outstanding shares of Healthscope Ltd. ("HSO"). The REIT determined that the forward contract was a derivative financial instrument and did not designate it as a hedging instrument. Gains or losses arising from the change in fair values of the forward and collar contracts were recognized in the consolidated statements of income.

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

Hedge accounting

The REIT, through its investment in Vital Trust, has entered into certain hedge relationships for hedges of net investments in foreign operations. Hedge relationships are formally documented at the inception of the hedge and this documentation identifies the hedged item, hedging instrument, risks that are being hedged, strategies for undertaking the hedge, and the way effectiveness will be assessed.

In the hedge of a net investment in a foreign operation, the portion of foreign exchange differences arising on the hedging instrument determined to be an effective hedge is recognised directly in other comprehensive income. Any ineffective portion is recognised directly in the profit and loss in the statements of income and comprehensive income. The REIT, through its investment in Vital Trust, uses derivative financial instruments and non-derivative financial instruments as hedging instruments of a net investment in a foreign operation. On disposal of the foreign operation, the cumulative value of such gains or losses recognised in other comprehensive income is reclassified to profit and loss in the statement of comprehensive income.

(n) Class B exchangeable units

The Class B exchangeable units of a subsidiary of the REIT are exchangeable into trust units at the option of the holder. The trust units of the REIT are puttable financial instruments (note 2(o)). The Class B exchangeable units therefore are classified as financial liabilities and have been elected to be measured at fair value through profit and loss each reporting period with any changes in fair value recognized in the consolidated statements of income and comprehensive income as finance costs. The distributions paid on the Class B exchangeable units are accounted for as finance costs.

(o) Trust units

The trust units meet the definition of a financial liability in accordance with IAS 32, as they are redeemable at the option of the holder. The trust units are considered to be puttable instruments because of the redemption feature of the trust units. There is a limited exemption to allow puttable instruments to be presented as equity provided certain criteria are met.

The trust units meet the criteria for this exemption, and accordingly are presented as equity in the consolidated financial statements. Trust units are recognized at the proceeds received, net of direct issue costs. The distributions on trust units are recorded as a reduction in unitholders' equity in the consolidated financial statements. Trust units are recognized at the proceeds received, net of direct issue costs. The distributions on trust units are recorded as a reduction in unitholders' equity.

(p) Joint arrangement

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement, whereas a joint venture is a joint arrangement whereby the parties that have joint control only have rights to the net assets of the arrangement. A joint operation usually results from direct interests in the assets and liabilities of an investee rather than through the establishment of a separate legal entity. None of the parties involved have unilateral control of a joint operation. The REIT assessed the structure of the Seed Portfolio arrangement (note 6) to be a joint operation, whereby the REIT has joint control of the arrangement, and has proportionate rights to the assets and obligations for the liabilities relating to the arrangement.

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

(q) Income taxes

The REIT is a mutual fund trust and a real estate investment trust pursuant to the Income Tax Act (Canada). Under current tax legislation, a real estate investment trust is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders of the REIT ("Unitholders") each year. The REIT is a real estate investment trust if it meets the prescribed conditions under the Income Tax Act (Canada) relating to the nature of its assets and revenues (the "REIT Conditions"). The REIT has reviewed the REIT Conditions and has assessed their interpretation and application to the REIT's assets and revenue. The REIT intends to ensure that it will meet the REIT conditions and will make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes.

The REIT's subsidiaries are subject to income taxes as imposed by the jurisdictions in which they operate, in accordance with the relevant tax laws of such jurisdictions. The provision for income taxes for the year comprises current and deferred income tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates and laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future;
- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(r) Investment in associates

Associates are all entities over which the REIT has significant influence but not control. The REIT's share of its associates' post acquisition net income (loss) is recognized in net income (loss), and its share of post-acquisition movements in other comprehensive income (loss) is recognized in other comprehensive income (loss). The cumulative post acquisition movements are adjusted against the carrying amount of the investments. When the REIT's share of losses in associates equals or exceeds its interest in the associates, the REIT does not recognize further losses. Unrealized gains and losses on transactions between the REIT and its associates are eliminated to the extent of the REIT's interest in the associates. Accounting policies of the REIT's associates are consistent with the policies adopted by the REIT.

Prior to business combination of Australia REIT (see note 4), the REIT's investment in associates included the REIT's interest in Australia REIT. The REIT determined it had significant influence, but not control, over the investment

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

based on the presence of qualitative and quantitative indicators under IAS 28-Investments in associates and joint ventures. The REIT considered the following in making its assessment: i) the REIT held approximately 20% interest in Australia REIT but did not have representation on the board of APN Funds Management Limited ("APN"), the "Responsible Entity" which acts as the board of directors of Australia REIT ; ii) through its 100% control of ANZ Manager, the external asset manager for Australia REIT, the REIT managed the day to day operations of Australia REIT and had the ability to influence decisions, made by the Responsible Entity, surrounding material transactions; iii) the existence of material transactions between the REIT and Australia REIT, including fees earned by ANZ Manager for providing Australia REIT with operations management, investment management and administrative services. The REIT accordingly accounted for its investments using the equity method of accounting. The investment in Australia REIT had been initially recognized at cost on the date at which significant influence was obtained.

(s) Convertible debentures

The convertible debentures are convertible into trust units of the REIT. As the REIT's trust units are redeemable at the option of the holder and are therefore considered puttable instruments in accordance with IAS 32, the convertible debentures are considered a liability containing liability-classified embedded derivatives. The REIT has elected to classify and measure its convertible debentures as financial liabilities measured at FVTPL with the changes in fair value being recognized in the consolidated statements of income (loss) and comprehensive income (loss).

(t) Accounting standards implemented in 2018

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

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

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

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

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

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

(ii) IFRS 9, Financial Instruments ("IFRS 9")

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

The REIT implemented the new requirements for classification and measurement, impairment and general hedging on January 1, 2018 by applying the requirements for classification and measurement, including impairment, retrospectively with no restatement of comparative periods.

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

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

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

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

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

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

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

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

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

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

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration* ("IFRIC 22")

On December 8, 2016, the IASB issued IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration. The interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt. The Interpretation is applicable for annual periods beginning on or after January 1, 2018 but earlier application is permitted. IFRIC 22 clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The interpretation may be applied either retrospectively or prospectively to all foreign currency assets, expenses and income in the scope of the interpretation initially recognised on or after the beginning of the reporting period an entity first applies the interpretation in; or the beginning of a prior reporting period presented as comparative information. The REIT adopted the IFRIC

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

22 in its financial statements for the annual period beginning on January 1, 2018. There was no material impact on the financial statements from the adoption.

(u) Future accounting standards

(i) IFRIC 23, Uncertainty over Income Tax Treatments ("IFRIC 23")

On June 7, 2017, the IASB issued IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments. The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. IFRIC 23 requires an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; determine if it is probable that the tax authorities will accept the uncertain tax treatment and; if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The REIT intends to adopt the interpretation in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the Interpretation has not yet been determined.

(ii) IFRS 16, Leases ("IFRS 16")

IFRS 16 was issued on January 13, 2016, 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 and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. For leases where the Trust is the lessee, the option exists of adopting a full retrospective approach or a modified retrospective approach on transition to IFRS 16.

The REIT intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. The REIT will recognize a liability for the present value of future lease liabilities and record a corresponding asset on the balance sheet. 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 REIT is in the final stages of its evaluation of the impact of the standard on the consolidated financial statements. Based on its assessment to date, the REIT does not believe it will have a significant impact on its consolidated financial statements.

3. Acquisition of Northwest Healthcare Australia RE Limited ("NWH RE")

On April 8, 2017 the REIT completed the acquisition of Quay Fund Solutions Limited (subsequently renamed to NWH RE) for gross consideration of \$618.0 million (A\$606.0 million). The REIT determined that the purchase of NWH RE constituted a business acquisition, and accounted in accordance with IFRS 3 - Business Combinations.

The REIT allocated \$568.0 million (A\$556.0 million) of the purchase price to the right to utilize NWH RE as a responsible entity with respect to Australia REIT. The responsible entity right has been accounted for as an indefinite life intangible asset. The remaining purchase price was allocated to nominal amounts of working capital held by NWH RE on acquisition date, including cash.

On July 14, 2017, the REIT passed a resolution to appoint NWH RE as the responsible entity of Australia REIT.

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

4. Business Combination of Australia REIT (formerly Generation Healthcare REIT ("GHC"))

On July 17, 2017, the REIT completed the purchase of all remaining GHC units it did not previously own for approximately \$32.4 million under the terms of the compulsory acquisition notice that was dispatched on June 16, 2017. As a result of these events, the REIT determined that it had obtained control of GHC as defined under IFRS 10 - Consolidated Financial Statements.

The REIT formed its assessment that it has control over GHC based on the following key observations: i) the REIT has 100% ownership interest in GHC, which gives the REIT the ability to appoint the directors, the manager and the responsible entity of GHC; ii) the REIT controls the external responsible entity of GHC through the 100% ownership in NWH RE Limited. The ownership of NWH RE, which acts as the board of directors of GHC, provides the REIT with the ability to direct investment, financing and distribution decisions over GHC; and iii) through its 100% control of GHM, the REIT directs decisions over the day to day operations and administration of GHC.

The REIT also determined that GHC meets the definition of a business in accordance with IFRS 3 - Business Combinations and accordingly accounted for the compulsory acquisition as a business combination. The purchase consideration transferred by the REIT under step acquisition accounting consists of the following:

- the fair value of the REIT's existing investment in GHC;
- consideration paid to purchase GHC units under the compulsory acquisition notice

Following the business combination of GHC, GHC was rebranded to Australia REIT. Generation Healthcare Manager ("GHM") was integrated with Vital Healthcare Management Limited ("Vital Manager"). The integrated management platform has been rebranded to NorthWest Healthcare Properties Management ("ANZ Manager").

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

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017**5. Property Acquisitions**

(a) 2018 Property Acquisitions

Property	Location	Property type	Acquisition date	Total acquisition costs ⁽¹⁾	Property specific debt
Fritz-Lang-Platz 6 ⁽²⁾	Berlin, Germany	Medical Office Building	January 31, 2018	\$ 22,175	\$ 14,527
Clinic Bismarkstrasse 68	Bad Kissingen, Germany	Hospital and Healthcare Facilities	February 22, 2018	22,362	14,508
Clinic Bremer Strasse 2	Wilhemshaven, Germany	Hospital and Healthcare Facilities	March 15, 2018	35,069	22,720
Epworth Freemasons Private Hospital (remaining 50%)	Melbourne, Australia	Medical Office Building	March 28, 2018	54,948	—
Landsberger Allee 44 / Matthiasstr 7	Berlin, Germany	Medical Office Building	April 27, 2018	39,283	25,761
Zuyderland Medical Center	Brunssum, the Netherlands	Medical Office Building	June 26, 2018	41,735	23,008
MediMall Rotterdam	Rotterdam, the Netherlands	Medical Office Building	June 29, 2018	101,351	58,794
Hospital São Luiz Morumbi	São Paulo, Brazil	Hospital	September 28, 2018	92,367	—
Epping Medical Centre ⁽³⁾	Melbourne, Australia	Medical Office Building	October 1, 2018	41,214	—
Klinik Bernkastel & Moselhohe	Bernkastel-Kues, Germany	Medical Office Building	December 21, 2018	36,016	23,957
Allee der Kosmonauten 47	Berlin, Germany	Medical Office Building	December 28, 2018	15,547	9,714
Other ⁽⁴⁾	Various			42,215	—
				\$ 544,282	\$ 192,989

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

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

(3) The REIT owns 50% interest in the property with a third party.

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

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Financial Statements
(in thousands of Canadian dollars)
For the years ended December 31, 2018 and 2017

(b) 2017 Property Acquisitions

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

6. Property Disposals

During the year ended December 31, 2018, the REIT disposed the following properties:

	Region	Location	Property type	Gross Proceeds	Property specific debt settled
Dundas Edward Centre ⁽ⁱ⁾	Canada	Toronto, Ontario	Medical Office Building	\$ 167,000	\$ 55,000
Epworth Freemasons Private Hospital ⁽ⁱⁱ⁾	Australia	Melbourne, Victoria	Private Hospital	73,930	—
Epworth Freemasons Private Hospital and Medical Centre ⁽ⁱⁱ⁾	Australia	Melbourne, Victoria	Private Hospital	61,425	—
Gray Street Centre and Albert Street Car Park ⁽ⁱⁱ⁾	Australia	Melbourne, Victoria	Private Hospital	12,961	—
Australian Red Cross Blood Service (ARCBS) Facility ⁽ⁱⁱ⁾	Australia	Brisbane, Queensland	Medical Office Building	58,931	—
				\$ 374,247	\$ 55,000

(i) On March 2, 2018, the REIT sold a medical office building located in Canada, previously classified under assets held for sale for gross proceeds of \$167.0 million excluding disposition costs of \$1.8 million. As part of the transaction, \$55.0 million of mortgage debt associated with the investment property was assumed by the purchaser.

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

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

(ii) On August 1, 2018, the REIT entered into a joint venture agreement ("JV") with an institutional investor, to acquire and develop Australian healthcare real estate. The JV will be 70% owned by the institutional investor with the REIT owning the remaining 30% interest.

On September 21, 2018, as part of the JV commitment, the REIT sold 70% of three income producing properties and one development property (collectively the "Seed Portfolio") to the institutional investor for \$207.2 million (A \$220.9 million), net of disposition costs and finance lease receivables (note 10(ii) and 11 (vi)) of \$(0.9) million (A \$1.0 million) and \$8.0 million (A\$8.5 million), respectively.

7. Investment Properties

As at	December 31, 2018	December 31, 2017
Balance, beginning of period	\$ 4,144,789	\$ 3,040,354
Business combination of Australia REIT	—	691,674
Acquisition of investment properties (note 5)	544,282	333,120
Disposition of investment properties (note 6)	(207,247)	—
Additions to investment properties	94,405	79,432
Increase in straight line rents	2,139	1,677
Reclassified as assets held for sale (note 6)	—	(200,699)
Settlement of securitization	7,945	—
Amortization of deferred revenue	—	1,229
Fair value gain (loss) ⁽ⁱ⁾	150,263	259,524
Foreign currency translation	(66,774)	(61,522)
Balance, end of period	\$ 4,669,802	\$ 4,144,789

(i) Excludes \$2.1 million loss from disposition of Dundas Edward Centre on March 2, 2018.

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

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 \$178.1 million and a 0.25% decrease would increase fair value by \$192.0 million.

Future minimum contractual rent (excluding service charges) under operating leases is as follows:

	December 31, 2018	December 31, 2017
Less than 1 year	\$ 254,227	\$ 251,061
1 - 5 years	973,935	964,830
Longer than 5 years	\$ 2,089,011	\$ 2,477,029

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

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

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

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

As at December 31, 2018				
	<u>Canada</u>	<u>Brazil</u>	<u>Europe</u>	<u>Australasia</u>
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%

As at December 31, 2017				
	<u>Canada</u>	<u>Brazil</u>	<u>Europe</u>	<u>Australasia</u>
Discount rate - range	5.3% - 8.5%	8.0%	5.2% - 6.7%	6.3% - 9.5%
Discount rate - weighted average	7.3%	8.0%	5.7%	6.8%
Terminal capitalization rate - range	5.0% - 8.0%	7.5%	5.0% - 6.8%	5.5% - 9.0%
Terminal capitalization rate - weighted average	6.7%	7.5%	5.6%	6.2%
Implied capitalization rate - range	3.0% - 9.4%	7.7%	4.5% - 6.6%	5.3% - 8.4%
Implied capitalization rate - weighted average	6.6%	7.7%	5.7%	5.8%

During the year ended December 31, 2018, investment properties with an aggregate fair value of \$3.3 billion (for the year ended December 31, 2017 - \$3.0 billion) were valued by external valuation professionals with recognized and relevant professional qualification.

8. Intangible Asset

The REIT's intangible asset relates to the management contract for Vital Trust which has been accounted for as an indefinite life intangible asset.

The REIT has the rights to 100% of the management fees paid by Vital Trust through its acquisition of Vital Manager and related entities.

The following table shows the continuity of the intangible asset during the year ended December 31, 2018:

As at	December 31, 2018		December 31, 2017
Balance, beginning of period	\$	47,301	\$ 103,196
NWH RE Responsible Entity Rights		—	568
Amortization of GHM transition services		—	(263)
Business combination of Australia REIT (note 4)		—	(57,723)
Foreign currency translation		(10)	1,523
Balance, end of period	\$	47,291	\$ 47,301

9. Goodwill

The REIT performed its annual goodwill impairment test for Australia REIT as at December 31, 2018, in accordance with IAS 36 by using the value-in-use approach of their cash-generating units ("CGUs") to which goodwill has been allocated and comparing the recoverable amount of the goodwill CGU to the carrying amount. For the purpose of this impairment test, management used projected financial forecasts for a period of five years. The key assumptions used included discount rate and terminal rate. The terminal and discount rates used are between 5.75% to 8.50%.

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

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

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

Based on the impairment test performed, the REIT concluded that the goodwill for Australia REIT was impaired as at December 31, 2018. As a result, the REIT has recognized a goodwill impairment loss of \$50.1 million in the consolidated statement of net income and comprehensive income. The goodwill impairment loss principally results from sale of 70% interest in the Seed Portfolio assets.

10. Other Assets

As at	December 31, 2018	December 31, 2017
Acquisition and financing costs (i)	\$ 3,403	\$ 6,060
Prepaid expenses and deposits	8,759	4,790
Furniture and office equipment	3,314	3,521
Loans carried at amortized cost (ii)	27,679	23,328
Loans carried at fair value	6,774	45,967
Finance lease receivable (iii)	6,560	21,724
Other	1,657	1,156
	\$ 58,146	\$ 106,546

- i. Acquisition and financing costs relate to potential acquisitions and debt refinancing which are currently undergoing due diligence and/or negotiation.
- ii. On October 1, 2018, the REIT exercised an option to convert loan receivable balance of \$21.2 million (A\$22.9 million) into a 50% interest in the related investment property located in Melbourne, Australia. The REIT's carrying value of the loan and option upon exercise was \$37.2 million (A\$40.2 million), which is equivalent to the fair value of the REIT's 50% interest in the investment property. Prior to settlement, the option to convert the loan was classified as a loan carried at fair value. As at December 31, 2018, the REIT continues to have an additional \$10.9 million (A\$11.3 million) loan receivable outstanding from the third-party co-owners bearing interest rate of 6.0%, which is carried at amortized cost.
- 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 69 years. On September 21, 2018, the REIT sold 70% of the finance lease as part of the disposition of the Seed Portfolio (note 6).

11. Mortgages and Loans Payable

As at	December 31, 2018	December 31, 2017
Mortgage payable ¹ (i)	\$ 822,355	\$ 722,866
Australasian secured financing ¹ (ii)	147,645	143,150
Acquisition facility ¹ (iii)	31,380	7,700
Term loans and securitizations ¹ (iv)	1,161,459	1,103,353
Secured floating rate credit facilities ¹ (v)	243,861	137,899
Finance lease (vi)	2,962	9,801
Total	\$ 2,409,662	\$ 2,124,769
Less: Current portion ²	541,368	414,000
Non-current debt	\$ 1,868,294	\$ 1,710,769

¹ All amounts are net of financing costs

² Current portion includes finance lease of \$0.1 million (December 31, 2017 - \$0.4 million)

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

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

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

i. Mortgages payable

All mortgages are secured by first or second charges on specific investment properties in Canada and Europe, with a carrying value of \$1.4 billion as at December 31, 2018, and are repayable as follows:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable
2019	\$ 22,394	\$ 107,395	\$ 129,789
2020	20,759	109,712	130,471
2021	16,236	124,845	141,081
2022	13,284	116,386	129,670
2023	9,855	43,979	53,834
2024 & thereafter	27,286	210,119	237,405
Face value	\$ 109,814	\$ 712,436	\$ 822,250
Mark-to-market adjustment			3,316
Unamortized financing costs			(3,211)
Carrying amount			\$ 822,355

On March 2, 2018 and December 1, 2018, the REIT settled two mortgages on the amount of \$55.0 million bearing interest rate of 5.11% and \$43.0 million bearing interest rate of 3.57%, respectively. In addition, during the year ended December 31, 2018, the REIT purchased seven properties in Germany and two in the Netherlands with existing and new property specific mortgages totaling \$193.0 million (€124.6 million) with a weighted-average interest rate of 2.40%.

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

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

As at December 31, 2018, mortgages related to European investment properties had a balance of \$330.1 million (€211.6 million) (December 31, 2017 - \$137.6 million (€91.2 million)). Mortgages related to investment properties located in Canada had a balance of \$492.1 million as at December 31, 2018 (December 31, 2017 - \$582.7 million).

ii. Australasian Secured Financing

As at December 31, 2018, the principal balance outstanding on the Australasian Secured Financing was \$100.4 million (NZ\$109.7 million) secured by 105,977,179 units of Vital Trust held by the REIT (December 31, 2017 - \$97.7 million (NZ\$109.7 million) secured by 105,977,179 units of Vital Trust). On July 13, 2018, the REIT extended the terms of the Australian Secured Financing maturing July 15, 2018 to July 15, 2019.

The REIT had a principal balance outstanding on the Australasian Secured Acquisition Facility of \$48.1 million (A\$50.0 million) as at December 31, 2018. On July 13, 2018, the REIT extended the terms of the Australian Secured Acquisition Financing maturing July 15, 2019.

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

iii. Acquisition Facility

On December 28, 2018, the REIT amended terms of its acquisition facility, increasing the facility from \$32.0 million to \$40.0 million and extended the maturity date to January 1, 2021.

As at December 31, 2018, this acquisition facility had a balance outstanding of \$32.0 million (December 31, 2017 - \$8.0 million).

iv. Term Loans and securitization financings

(a) Brazil long-term securitization financings

As at December 31, 2018, the outstanding balance of the securitization financings was \$195.1 million (R \$555.7 million) (December 31, 2017 - \$221.2 million (R\$580.8 million)), with terms maturing between May, 2026 and November, 2027 and bearing a weighted average interest rate of 7.28% (December 31, 2017 - 7.28%).

For the year ended December 31, 2018, the REIT recorded IPCA related accretion expense of \$7.7 million, (for the year ended December 31, 2017 - \$3.7 million) with respect to the securitization financings.

(b) Vital Trust term loans

Vital Trust has a syndicated revolving multi-currency facility with ANZ Bank New Zealand Limited, Australia and New Zealand Banking Group Limited and Bank of New Zealand. On June 5, 2018, Vital Trust increased tranche B by \$91.5 million (A\$100.0 million) and extended the term of tranche A and B to March 2021 and July 2022, respectively.

The total facility of approximately \$691.3 million (A\$719.0 million) consists of several tranches ranging from \$18.3 million (NZ\$20.0 million) to \$192.3 million (A\$200.0 million) and mature between October 2020 and July 2022. As at December 31, 2018, Vital Trust had drawn on the term loan facilities \$679.7 million (December 31, 2017 - \$547.0 million).

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

(c) Australia term loans

Australia has the following bank facilities:

- i. A syndicated term loan facility with a total limit of \$244.2 million (A\$254.0 million) maturing December 2022. On September 21, 2018, the REIT used part of the net proceeds from the Seed Portfolio sale (note 6) to permanently repay approximately \$172.2 million (A\$183.5 million) of the existing facility. As at December 31, 2018, the REIT had drawn \$196.1 million (A\$204.0 million) (December 31, 2017 - \$308.0 million);
- ii. As part of the JV commitment to finance the Seed Portfolio transaction, the REIT made an initial draw of \$60.7 million (A\$63.1 million) on a new JV facility;
- iii. A term loan of \$41.4 million (A\$43.1 million) maturing December 2022;

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

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

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

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

v. Secured Credit Facility

(a) Floating Rate Revolving Credit Facility

The revolving credit facility is secured by first and second charges on certain Canadian investment properties with fair value of \$246.4 million, and the terms of a general security agreement.

On March 2, 2018, the REIT amended the terms of its revolving secured credit facility to increase the allowable borrowings by \$22.0 million by securing charges on four additional Canadian investment properties and removing a charge against the Canadian investment property that was sold. The proceeds from the sale were partially used to repay existing mortgages on the properties added to the security pool of the revolving credit facility of \$32.2 million, with weighted average interest rate of 4.12%.

On November 30, 2018, the REIT amended the terms of its revolving secured credit facility to increase the allowable borrowings by \$25.0 million by securing charge on an additional Canadian investment property and repaid a \$43.0 million maturing first mortgage related to a Canadian investment property bearing interest of 3.57% using net proceeds from draws on revolving credit facility and issuance of convertible debenture. As at December 31, 2018, the REIT had drawn \$119.5 million (December 31, 2017 - \$93.5 million).

(b) Non-Revolving Credit Facility

On December 31, 2018, the REIT extended the maturity of its non-revolving credit facility in the amount of \$125.0 million from January 11, 2019 to October 15, 2019. The facility bears interest rate of the bank's prime rate plus 3.50% or Bankers' Acceptances plus 4.50%. As at December 31, 2018, the REIT had drawn \$125.0 million (December 31, 2017 - \$45.0 million).

vi. Finance Lease

As part of the Australia REIT acquisition, the lease of land on which one of the REIT's investment properties is built is accounted for as a finance lease. On September 21, 2018, the REIT sold 70% of the finance lease as part of the disposition of the Seed Portfolio (note 6). The remaining term of the lease at December 31, 2018 was 69 years. Minimum payments under the lease and their present values are as follows:

As at	December 31, 2018	December 31, 2017
Minimum lease payments payable:		
Not later than one year	\$ 129	\$ 425
Later than one year and not later than five years	554	1,828
Later than five years	<u>28,286</u>	<u>96,662</u>
	28,969	98,915
Future finance charges	<u>(26,007)</u>	<u>(89,114)</u>
Present value of minimum lease payments	\$ 2,962	\$ 9,801
Present value of minimum lease payments:		
Not later than one year	124	409
Later than one year and not later than five years	536	1,585
Later than five years	<u>2,302</u>	<u>7,807</u>
	\$ 2,962	\$ 9,801

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

A summary of the maturity and the weighted average interest rates relating to the mortgages and loans payable outstanding at December 31, 2018 are as follows:

	Maturity	Weighted Average Interest Rate	Carrying Value
Fixed rate			
Mortgage debt	March 2019 - January 2029	3.09%	\$ 737,839
Term loans and securitizations	October 2020 - November 2027	5.38%	846,878
Total fixed rate debt			\$ 1,584,717
Variable Rate			
Mortgage debt	May 2019 - March 2022	3.97%	\$ 84,516
Term loans and securitizations	October 2020 - November 2027	3.96%	314,581
Australasian secured financing	July 2019	6.79%	147,645
Acquisition facility	January 2021	8.20%	31,380
Secured floating revolving line of credit	October 2019 - November 2019	5.51%	243,861
Total variable rate debt			\$ 821,983
Total debt excluding finance lease			\$ 2,406,700
Finance lease		7.00%	2,962
Total debt			\$ 2,409,662

The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on its \$839.7 million variable rate debt as at December 31, 2018 (December 31, 2017 - \$485.7 million) (note 14). The interest rate swaps terminate between 2021 and 2028.

As at December 31, 2018, the scheduled principal repayments and debt maturities are as follows:

	Mortgage Debt	Australasian Secured Financing	Term Loans and Securitizations	Acquisition Facility	Secured Floating Revolving Line of Credit	Finance Lease	Total
2019	\$ 129,789	\$ 148,423	\$ 18,528	\$ —	\$ 244,500	\$ 124	\$ 541,364
2020	130,472	—	227,492	—	—	119	358,083
2021	141,081	—	301,180	32,000	—	114	474,375
2022	129,669	—	452,709	—	—	110	582,488
2023	53,834	—	85,290	—	—	105	139,229
2024 & thereafter	237,405	—	87,803	—	—	2,390	327,598
	\$ 822,250	\$ 148,423	\$ 1,173,002	\$ 32,000	\$ 244,500	\$ 2,962	\$ 2,423,137
Financing costs	(3,211)	(778)	(11,543)	(620)	(639)	—	(16,791)
Mark-to-market adjustment	3,316						3,316
	\$ 822,355	\$ 147,645	\$ 1,161,459	\$ 31,380	\$ 243,861	\$ 2,962	\$ 2,409,662

12. Convertible Debentures

On December 20, 2018, the REIT issued \$125 million principal amount of unsecured convertible subordinated debentures (the "Series NWH.DB.G Debentures"). The Series NWH.DB.G Debentures bear interest at 5.50% per annum, payable semi-annually on June 30 and December 31 each year, and mature on December 31, 2023. Each Series NWH.DB.G Debenture is convertible at any time by the debenture holder into 74.9064 REIT Units per one thousand dollars of face value, representing a conversion price of \$13.35 per REIT unit. On and after December 31, 2021, and prior to December 31, 2022, the Series NWH.DB.G Debentures may be redeemed by the REIT, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice, provided that the volume weighted average trading price for

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

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

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

the REIT's units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. On and after January 1, 2023 and prior to the maturity date of December 31, 2023, the Series NWH.DB.G Debentures may be redeemed by the REIT at a price equal to the principal amount plus accrued and unpaid interest.

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

As at	December 31, 2018		December 31, 2017	
Balance, beginning of period	\$	296,857	\$	331,834
Issuance of convertible debenture		125,000		—
Conversion to REIT units (note 18)		(69)		(444)
Convertible debenture redeemed		—		(39,836)
Change in fair value of convertible debentures		(20,553)		5,303
	\$	401,235	\$	296,857

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

As at	December 31, 2018		December 31, 2017	
NWH.DB	\$	39,445	\$	41,458
NWH.DB.C		38,749		40,202
NWH.DB.D		51,711		55,474
NWH.DB.E		74,003		76,768
NWH.DB.F		78,890		82,955
NWH.DB.G		118,437		—
Fair Value	\$	401,235	\$	296,857
Current		38,749		—
Non-Current		362,486		296,857
	\$	401,235	\$	296,857

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

13. Income Taxes

The REIT qualifies as a mutual fund trust and a real estate investment trust for Canadian income tax purposes. The REIT expects to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes.

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

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

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

Accordingly, no provision for current and deferred income tax payable is required, except for amounts in respect of its incorporated subsidiaries in foreign jurisdictions, as follows:

Year ended December 31,	2018	2017
Current income tax	\$ 8,433	\$ 939
Deferred income tax, relating to origination of temporary differences	64,291	50,239
	\$ 72,724	\$ 51,178

Deferred taxes

Deferred income taxes reflect the net effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Deferred income tax liabilities consist of the following:

Year ended December 31,	2018	2017
Deferred tax liability related to difference in tax and book basis of:		
Investment properties	\$ 274,051	\$ 216,703
Mortgage and loans payables	7,051	5,245
Other	11,005	11,311
Total deferred income tax liabilities	292,107	233,259
Deferred tax asset related to difference in tax and book basis of:		
Derivative financial instruments	3,736	4,315
Other	4,184	4,616
Total deferred income tax assets	7,920	8,931
Net deferred income tax liability	\$ 284,187	\$ 224,328

Reconciliation of effective tax rate:

Year ended December 31,	2018	2017
Income (loss) before income taxes	\$ 201,464	\$ 276,417
Income tax expense calculated at the domestic rates applicable to profits in the country concerned	29,462	62,273
Increase (decrease) resulting from		
Foreign tax exempt income	(3,785)	(7,503)
Loss on business combination	—	15,324
Current-year losses for which no deferred tax asset is recognized	4,978	690
Changes in tax rates	38,198	(15,301)
Tax adjustments related to prior years	6,216	—
Other	(2,345)	(4,305)
Income taxes	\$ 72,724	\$ 51,178

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

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

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

14. Financial Instruments

As at	December 31, 2018	December 31, 2017
Financial assets:		
Forward contract ⁽ⁱ⁾	\$ 130,396	\$ —
Option contracts ⁽ⁱ⁾	12,920	—
Interest rate swaps ⁽ⁱⁱ⁾	535	900
Foreign exchange contracts ⁽ⁱⁱⁱ⁾	6,683	1,035
Total financial assets	150,534	1,935
Financial liabilities:		
Forward contracts ⁽ⁱ⁾	—	1,075
Interest rate swaps ⁽ⁱⁱ⁾	23,094	12,427
Foreign exchange contracts ⁽ⁱⁱⁱ⁾	8	2,267
Total financial liabilities	\$ 23,102	\$ 15,769

Derivative financial asset

- (i) On May 8, 2018 the REIT entered into derivative contracts with Deutsche Bank AG ("DB") giving the REIT an economic interest equivalent up to 10% of the outstanding shares of HSO by way of a forward contract to acquire HSO shares and an option contract (the terms of which minimize the underlying margin requirements associated with the forward contract). The forward gives the REIT the ability to acquire, and DB the obligation to deliver, a minimum of 173,970,330 HSO shares at a price of A\$2.3863 per share on May 8, 2020, or earlier, at the REIT's option, if a voting meeting is scheduled for HSO or HSO receives a formal takeover bid. The REIT prepaid \$82.0 million (A\$85.3 million) of the \$399.0 million (A\$415.1 million) notional amount of the forward contract.

In November 2018, the REIT amended the forward derivative contracts with DB to acquire an additional 57,417,000 HSO shares. The additional funding for the amended forward contract was approximately \$68.9 million (A\$71.3 million). The amended forward contract gives the REIT the ability to acquire, and DB the obligation to deliver, a minimum of 231,387,330 HSO shares at a price A\$2.36 per share.

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

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

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

Derivative financial liability

- (ii) The REIT has entered into interest rate swap contracts with respect to certain Canadian and German mortgages, and portions of the Vital Trust and Australia REIT term loans (note 11). The interest rate derivatives mature over the next one to 10 years and have fixed interest rates ranging from 1.67% to 4.88%.

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

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

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

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

For the year ended December 31,	2018	2017
Fair value adjustment - interest rate swaps	\$ (9,830)	\$ 2,319
Receipts/(payments) under transaction hedging foreign exchange contracts	482	(133)
Fair value adjustment - foreign exchange contracts	510	35
Fair value adjustment - forward contracts	(17,910)	133
Fair value adjustment - option contracts	13,272	—
Fair value adjustment - financial asset	(903)	525
Distribution equivalent - forward contract	5,818	—
Finance costs - embedded funding contained in forward contract	(10,652)	—
Performance fee receivable	—	1,473
	\$ (19,213)	\$ 4,352

The REIT paid transaction costs with respect to the HSO forward and option contracts during the twelve months ended December 31, 2018 of \$3.6 million. In accordance with Vital Trust's conflict policy, Vital Trust has agreed to jointly pay the costs and jointly share in the benefits and risks of the HSO derivative contracts.

15. Deferred Unit Plan ("DUP") Liability

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

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

(a) Liability:

As at	December 31, 2018	December 31, 2017
Balance, beginning of period	\$ 18,009	\$ 14,935
Unit based compensation expense	4,759	4,791
Exercised and paid in cash	(2,399)	(2,371)
Exercised and settled in Trust Units	(5,103)	(1,035)
Fair value adjustment	(2,235)	1,793
FX adjustment	(1)	(104)
Balance, end of period	\$ 13,030	\$ 18,009

The balance of the DUP liability at December 31, 2018 consists of \$11.1 million related to the REIT's DUP and \$1.9 million related to Vital Trust's DUP (December 31, 2017 - \$16.1 million related to the REIT's DUP and \$1.9 million related to Vital Trust's DUP).

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

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

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

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

period, based on the fair market value of a REIT unit or Vital Trust unit, as applicable, and the change in fair value is recognized as compensation expense.

(b) Units outstanding:

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, as at December 31, 2018	1,339,924	2,071,319
Units vested but not exercised	823,682	297,020

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

For the year ended December 31, 2018, the REIT and Vital Trust combined granted or issued 875,193 DUP units with a value of \$4.0 million (for the year ended December 31, 2017 - 892,478 DUP units with a fair value of \$3.3 million).

16. Class B Exchangeable Units

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

On January 31, 2018, 1,290,000 Class B units were converted to Trust units. As at December 31, 2018, there were 17,708,065 Class B exchangeable units (December 31, 2017 - 18,998,065) of NorthWest International Healthcare Properties LP ("NWI LP") issued and outstanding with a fair value of \$167.9 million (December 31, 2017 - \$216.0 million).

Distributions declared on the Class B exchangeable units of NWI LP totaled \$14.2 million for the year ended December 31, 2018 (for the year ended December 31, 2017 - \$15.2 million) and have been accounted for as finance costs.

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

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

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

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

	Units	Amount
Balance, December 31, 2016	18,998,065	\$ 193,780
Fair value adjustment	—	22,228
Balance, December 31, 2017	18,998,065	\$ 216,008
Converted to Trust units	(1,290,000)	(14,874)
Fair value adjustment	—	(33,262)
Balance, December 31, 2018	17,708,065	\$ 167,872

17. Rental Revenue

The components of rental revenue are as follows:

For the year ended December 31,	2018		2017	
Rental income	\$	265,561	\$	231,892
Operating cost recoveries		54,555		50,808
Tax and insurance recoveries		16,660		18,688
Other revenue		12,816		12,578
Rental revenue	\$	349,592	\$	313,966

18. 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.

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

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

The following table shows the changes in REIT units:

	REIT units	Amount
Balance, December 31, 2016	69,437,168	\$ 604,592
Units issued through distribution reinvestment plan (i)	612,236	6,363
Conversion of convertible debentures (note 12)	37,719	444
Units issued under deferred unit plan (note 15)	95,264	1,035
Units issued pursuant to equity offering (ii)	30,856,800	327,865
Units issuance cost (ii)	—	(15,381)
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 12)	5,866	69
Units issued under deferred unit plan (note 15)	472,758	5,103
Units issued pursuant to Class B conversion (note 16)	1,290,000	14,874
Balance, December 31, 2018	103,570,247	\$ 953,169

- (i) The REIT has established a distribution reinvestment plan (“DRIP”) for its unitholders, which allows participants to reinvest their monthly cash distributions in additional units at an effective discount of 3%.
- (ii) On October 13, 2017, the REIT completed a public offering of 13,133,000 REIT units, including 1,713,000 units issued pursuant to the exercise in full of an over-allotment option, at a price of \$10.95 per unit, representing gross proceeds of \$143.8 million. Issuance costs of \$6.6 million were recognized in relation to this equity issuance.

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

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

19. Supplemental Cash Flow Information

- (i) Cash and Restricted Cash

As at	December 31, 2018	December 31, 2017
Cash	\$ 45,808	\$ 71,704
Restricted cash	351	363
	\$ 46,159	\$ 72,067

Restricted cash represents cash held in the REIT's designated bank accounts pledged as collateral for the Brazil long-term financings (note 11).

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

(ii) Changes in Non-Cash Working Capital Balances

For the year ended December 31,	2018	2017
Accounts receivable	\$ (5,600)	\$ (9,242)
Other assets	(8,490)	(2,025)
Accounts payable and accrued liabilities	(10,148)	(4,891)
	\$ (24,238)	\$ (16,158)

(iii) Non-Cash Financing and Investing Activities

For the year ended December 31,	2018	2017
Non cash distributions to Unitholders under the DRIP (note 18)	\$ 8,205	\$ 6,363
Units issued under deferred unit plan (note 15)	5,103	1,035
Non-cash conversion of convertible debentures	69	444
Non-cash conversion of Class B exchangeable units (note 16)	14,874	—

(iv) Reconciliation of Cash and Non-Cash Financing Activities:

As at December 31, 2018	Mortgages and loans payable	Deferred consideration	Convertible debentures	Class B exchangeable units	Total
Balance, beginning of period	\$ 2,124,769	\$ 38	\$ 296,857	\$ 216,008	\$ 2,637,672
Cash financing activities:					
Mortgage and loan proceeds	512,008	—	—	—	512,008
Mortgage and loan discharged	(129,975)	—	—	—	(129,975)
Repayment of mortgages	(21,957)	—	—	—	(21,957)
Net advances (repayments) of loans payable	(137,483)	—	—	—	(137,483)
Issuance on convertible debentures	—	—	119,389	—	119,389
Financing fees paid	(5,215)	—	—	—	(5,215)
Total cash financing activities	217,378	—	119,389	—	336,767
Non-cash financing activities:					
Amortization of financing costs	10,377	—	—	—	10,377
Amortization of mark-to-market adjustment	(2,060)	—	—	—	(2,060)
Accretion of financial liabilities	19,125	—	—	—	19,125
Mortgages assumed	34,786	—	—	—	34,786
Conversion to Unitholders' Equity	—	—	(69)	(14,874)	(14,943)
Fair value adjustment of Class B exchangeable units	—	—	—	(33,262)	(33,262)
Convertible debenture issuance costs	—	—	5,611	—	5,611
Fair value adjustment of convertible debentures	—	—	(20,553)	—	(20,553)
Other adjustments	—	(38)	—	—	(38)
Foreign exchange translation	5,287	—	—	—	5,287
Total non-cash financing activities	67,515	(38)	(15,011)	(48,136)	4,330
Balance, end of period	\$ 2,409,662	\$ —	\$ 401,235	\$ 167,872	\$ 2,978,769

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

As at December 31, 2017,	Mortgages and loans payable	Deferred consideration	Convertible debentures	Class B exchangeable units	Total
Balance, beginning of period	1,365,676	13,119	331,834	193,780	1,904,409
Cash financing activities:					
Mortgage and loan proceeds	426,072	—	—	—	426,072
Mortgage and loan discharged	(99,563)	—	—	—	(99,563)
Repayment of mortgages	(20,225)	—	—	—	(20,225)
Net advances (repayments) of loans payable	280,984	—	—	—	280,984
Payment of deferred consideration	—	(12,836)	—	—	(12,836)
Redemption of convertible debentures	—	—	(39,836)	—	(39,836)
Financing fees paid	(15,173)	—	—	—	(15,173)
Total cash financing activities	572,095	(12,836)	(39,836)	—	519,423
Non-cash financing activities:					
Amortization of financing costs	7,446	—	—	—	7,446
Amortization of mark-to-market adjustment	(3,165)	—	—	—	(3,165)
Accretion of financial liabilities	3,667	—	—	—	3,667
Mortgages assumed	253,569	—	—	—	253,569
Liabilities related to Assets Held for Sale	(57,785)	—	—	—	(57,785)
Conversion to Unitholders' Equity	—	—	(444)	—	(444)
Fair value adjustment of Class B exchangeable units	—	—	—	22,228	22,228
Fair value adjustment of convertible debentures	—	—	5,303	—	5,303
Other adjustments	209	—	—	—	209
Foreign exchange translation	(16,943)	(245)	—	—	(17,188)
Total non-cash financing activities	186,998	(245)	4,859	22,228	213,840
Balance, end of period	2,124,769	38	296,857	216,008	2,637,672

20. Related Party Transactions

- As at December 31, 2018, Northwest Value Partners Inc. ("NWVP") indirectly owned approximately 20.8% of the outstanding REIT units (approximately 16.8% 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.
- In the normal course of operations the REIT has amounts owing to and from NWVP and affiliates. As at December 31, 2018, these non-interest bearing amounts combined included in accounts receivable are a net asset of \$0.2 million (December 31, 2017 - \$0.1 million).
- At December 31, 2018, included in accounts payable and accrued liabilities are Class B exchangeable unit distributions payable owing to NWVP and affiliates in the amount of \$1.2 million (December 31, 2017 - \$1.2 million), which were settled subsequent to period end.

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

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

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

- (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 year ended December 31,	2018	2017
Reimbursement for out-of-pocket costs	\$ 637	\$ 964
Cost-sharing and sublease agreements	1,708	139
	\$ 2,345	\$ 1,103

- (e) Key Management Compensation

For the year ended December 31,	2018	2017
Short-term compensation	\$ 2,708	\$ 4,169
Unit-based long-term incentives ⁽¹⁾	2,671	2,258
	\$ 5,379	\$ 6,427

(1) Deferred units granted vest up to five years, depending on the grant. Amounts are determined based on the grant date fair value of deferred units multiplied by the number of deferred units granted in the year.

Key management personnel of the REIT throughout the period include the Chief Executive Officer, President, Chief Operating Officer, Chief Financial Officer, Executive Vice President and General Counsel, Managing Director - Germany, Managing Director - Brazil, and Chief Executive Officer - Vital.

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST
Notes to Consolidated Financial Statements
(in thousands of Canadian dollars)
For the years ended December 31, 2018 and 2017

(g) The consolidated financial statements include the accounts of the REIT and all its subsidiaries.

Significant subsidiaries of the REIT are listed below:

Name of Subsidiary	Place of Operation	Holding	
		December 31, 2018	December 31, 2017
NHP Holdings Limited Partnership	Canada	100.0%	100.0%
Healthcare Properties LP	Canada	100.0%	100.0%
NorthWest Healthcare Properties Corporation	Canada	100.0%	100.0%
NWI Healthcare Properties LP	Canada	100.0%	100.0%
NWI Gesundheitsimmobilien GmbH & Co KG	Germany	100.0%	100.0%
NWI Management GmbH	Germany	100.0%	100.0%
NWI Healthcare Properties LLC	USA	100.0%	100.0%
Northwest International Investimentos Imobiliar SA	Brazil	100.0%	100.0%
Northwest International II Investimentos Imobiliar SA	Brazil	100.0%	100.0%
Fundo De Investimentno Imobiliário NorthWest Investimentos Fund I Imobiliários Em Saúde	Brazil	100.0%	100.0%
NorthWest Investimentos Em Saúde Fund I Fundo de Investimento Multimercado	Brazil	100.0%	100.0%
Vital Healthcare Property Trust	New Zealand	24.9%	24.9%
NWI NZ Management Company Limited	New Zealand	100.0%	100.0%
Vital Healthcare Management Ltd.	Australia	100.0%	100.0%
Generation Healthcare Management Pty Ltd.	Australia	100.0%	100.0%
Northwest Healthcare Australia RE Ltd.	Australia	100.0%	100.0%
Northwest Healthcare Australia Asset Trust	Australia	100.0%	100.0%
NorthWest Healthcare Properties Australia REIT	Australia	100.0%	100.0%
Divine Logistics Trust	Australia	43.2%	43.2%
NWI Gezondheid Vastgoed B.V.	The Netherlands	100.0%	—%
NorthWest Australia Hospital Investment Trust	Australia	30.0%	—%

21. Employee Benefits Expense

Year ended December 31,	2018	2017
Short-term employee benefits	\$ 27,574	\$ 25,742
Unit-based compensation expense	4,759	4,791
	\$ 32,333	\$ 30,533

Short-term employee benefits include salaries, bonuses, commissions and other short-term benefits.

For the year ended December 31, 2018, total short-term employee benefits of \$10.9 million (December 31, 2017 – \$10.6 million) are included in 'Property operating costs' and \$11.9 million (December 31, 2017 – \$11.5 million) are included in 'General and administrative expenses'. During the year ended December 31, 2018, the REIT capitalized \$4.8 million of employee benefits to investment properties (December 31, 2017 - \$3.7 million).

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

22. 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 year ended December 31, 2018, two tenants in Brazil accounted for 15% (for the year ended December 31, 2017 - 17%), and one tenant in Australasia operating segment accounted for 15% respectively (for the year ended December 31, 2017 - 13%) of the total revenue from investment properties.

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
As at December 31, 2017	Europe	Brazil	Australasia	Canada	Total
Investment properties	\$ 267,677	\$ 676,403	\$ 2,152,748	\$ 1,047,961	\$ 4,144,789
Mortgages and loans payable	\$ 136,150	\$ 210,405	\$ 902,750	\$ 875,464	\$ 2,124,769
For the year ended December 31, 2018	Europe	Brazil	Australasia	Canada	Total
Operating Income					
Revenue from investment properties	\$ 34,992	\$ 51,651	\$ 140,261	\$ 122,688	\$ 349,592
Property operating costs	10,389	—	18,311	57,446	86,146
Net property operating income	24,603	51,651	121,950	65,242	263,446
Other income					
Interest and other	191	6,054	4,793	205	11,243
Management fee	—	—	6,556	—	6,556
Share of profit of associate	—	—	(94)	—	(94)
	191	6,054	11,255	205	17,705
Mortgage and loan interest expense	5,340	14,018	46,112	58,805	124,275
General and administrative expenses	3,388	2,008	11,013	10,704	27,113
Transaction costs	198	773	10,044	2,447	13,462
Foreign exchange (gain) loss	(478)	(104)	(4,062)	4,400	(244)
	8,448	16,695	63,107	76,356	164,606
Operating income (loss)	\$ 16,346	\$ 41,010	\$ 70,098	\$ (10,909)	\$ 116,545

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

For the year ended December 31, 2017	Europe	Brazil	Australasia	Canada	Total
Operating Income					
Revenue from investment properties	\$ 18,808	\$ 52,340	\$ 106,178	\$ 136,640	\$ 313,966
Property operating costs	5,396	—	14,386	62,125	81,907
Net property operating income	13,412	52,340	91,792	74,515	232,059
Other income					
Interest and other	2	1,987	2,355	206	4,550
Management fee	—	—	7,723	—	7,723
Share of profit of associate	—	—	43,681	—	43,681
	2	1,987	53,759	206	55,954
Mortgage and loan interest expense	2,420	13,023	21,358	64,970	101,771
General and administrative expenses	2,730	2,208	10,609	9,578	25,125
Transaction costs	83	—	10,604	2,604	13,291
Foreign exchange (gain) loss	10	(2,849)	(1,194)	(3,379)	(7,412)
	5,243	12,382	41,377	73,773	132,775
Operating income	\$ 8,171	\$ 41,945	\$ 104,174	\$ 948	\$ 155,238

23. Non-wholly Owned Subsidiary

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

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

On January 2, 2018, the REIT entered into a share purchase agreement to buy 94.9% of a special purpose entity for the sole purpose of acquiring the medical office building in Germany (note 5).

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

As at December 31, 2018	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Total assets	\$ 1,710,785	\$ 172,256	\$ 21,884	\$ 1,904,925
Total liabilities	802,055	44,741	11,160	857,956
Net assets	\$ 908,730	\$ 127,515	\$ 10,724	\$ 1,046,969
Attributable to:				
Unitholders of the REIT	229,351	72,554	10,238	312,143
Non-controlling interest	679,379	54,961	486	734,826
	\$ 908,730	\$ 127,515	\$ 10,724	\$ 1,046,969

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

As at December 31, 2017	Vital Trust		Divine		Fritz-Lang-Platz 6		Total
Total assets	\$	1,503,041	\$	173,148	\$	—	\$ 1,676,189
Total liabilities		651,668		44,403		—	696,071
Net assets	\$	851,373	\$	128,745	n/a	\$	980,118
Attributable to:							
Unitholders of the REIT		199,668		73,195		—	272,863
Non-controlling interest		651,705		55,550		—	707,255
	\$	851,373	\$	128,745	n/a	\$	980,118

	Year ended December 31, 2018				Year ended December 31, 2017			
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Revenue from investment properties	\$ 96,607	\$ 7,798	\$ 1,673	\$106,078	\$ 84,863	\$ 3,828	n/a	\$ 88,691
Net income attributable to:								
Unitholders of the REIT	18,974	4,180	698	23,852	47,585	(234)	—	47,351
Non-controlling interest	59,909	3,069	47	63,025	158,029	(177)	—	157,852
Net income (loss)	\$ 78,883	\$ 7,249	\$ 745	\$ 86,877	\$ 205,614	\$ (411)	n/a	\$205,203

Total comprehensive income attributable to:

Unitholders of the REIT	12,901	2,480	147	15,528	54,673	(1,401)	—	53,272
Non-controlling interest	41,139	1,877	8	43,024	179,909	(1,058)	—	178,851
Total comprehensive income (loss)	\$ 54,040	\$ 4,357	\$ 155	\$ 58,552	\$ 234,582	\$ (2,459)	n/a	\$232,123

Distributions attributable to non-controlling interest

	\$ 25,658	\$ 2,642	\$ 16	\$ 28,316	\$ 25,557	\$ 1,335	n/a	\$ 26,892
--	-----------	----------	-------	-----------	-----------	----------	-----	-----------

	Year ended December 31, 2018				Year ended December 31, 2017			
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Cash flow activities:								
Operating	\$ 11,485	\$ 2,010	\$ 3,567	\$ 17,062	\$ 28,785	\$ 3,951	\$ —	\$ 32,736
Investing	(55,930)	(775)	—	(56,705)	(312,496)	(43,214)	—	(355,710)
Financing	44,844	(1,123)	(3,395)	40,326	293,406	38,842	—	332,248
Effect of foreign currency translation	(1,916)	4	3	(1,909)	(3,681)	(2)	—	(3,683)
Net change in cash	\$ (1,517)	\$ 116	\$ 175	\$ (1,226)	\$ 6,014	\$ (423)	n/a	\$ 5,591

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.

24. 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 December 31, 2018, the REIT has a total of \$0.4 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.

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

- (b) Pursuant to the sale of two of the REIT's investment properties, the existing mortgages were assumed by the purchasers. In the event of default, the REIT has guaranteed the outstanding balance of the mortgages of \$6.3 million as at December 31, 2018.
- (c) The REIT has entered into acquisitions and construction agreements on development properties and is committed to costs of \$272.1 million as at December 31, 2018.
- (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.

25. 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 7 outlines the key assumptions used by the REIT in determining fair value of its investment properties.

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

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

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

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

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

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

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
Financial instruments	150,534	—	150,534	—
Loans carried at fair value	6,774	—	—	6,774
Liabilities measured at fair value:				
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	—

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

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

26. Capital Management

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

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

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

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

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

At December 31, 2018, the REIT is in compliance with its debt to gross book value ratio of the Declaration of Trust at 47.8% (December 31, 2017 - 46.8%).

As at	December 31, 2018	December 31, 2017
Debt		
Gross value of debt excluding convertible debentures ⁽¹⁾	\$ 2,423,137	\$ 2,190,179
Gross value of total debt ⁽²⁾	2,824,372	2,487,036
Gross Book Value of Assets		
Total assets	\$ 5,071,648	\$ 4,684,028
Debt-to-Gross Book Value (Declaration of Trust)	47.8%	46.8%
Debt-to-Gross Book Value (including convertible debentures)	55.7%	53.1%

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

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

The REIT's capital management is also impacted by various financial covenants in certain loan agreements. As at December 31, 2018, the REIT is in compliance with all such financial covenants.

27. Risk Management

The REIT's activities expose it to a variety of financial risks, including interest rate risk, credit risk, currency risk, price risk and liquidity risk. The REIT's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the REIT's financial performance.

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 REIT attempts to mitigate this risk by conducting credit assessments on new lessees, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The REIT's credit risk is primarily attributable to cash and accounts receivable. Cash consists of cash on hand with reputable financial institutions which are closely monitored by management. Financial instruments included in accounts receivable consist of rental income receivable from its commercial tenant base for monthly rental charges and interest receivable from the term deposit. Management believes that the potential loss from credit risk with respect to financial instruments included in cash and accounts receivable is minimal.

The following is an aging analysis of accounts receivable past due, net of allowance for doubtful accounts:

As at	December 31, 2018	December 31, 2017
Less than 30 days	7,507	2,295
31 to 60 Days	725	783
61-90 days	500	16
More than 90 Days	1,654	1,304
Total billed	\$ 10,386	\$ 4,398
Unbilled	7,927	3,862
	\$ 18,313	\$ 8,260

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

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 favourable terms.

The REIT's main liquidity requirements arise from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures on existing properties, property acquisitions and distributions to unitholders. All of the aforementioned liquidity requirements, except for debt repayment obligations at maturity and property acquisitions, are generally funded from cash flows from operations, distribution income earned from the REIT's investments in associates, and new financing. Debt repayment obligations are generally funded from refinancing the related debt and property acquisitions are generally funded from the issuance of equity as well as obtaining debt financing on the related property.

The REIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing/refinancing or cost-effective financing/refinancing, or if it were unable to meet its other liquidity requirements from ongoing operating cash flows.

The REIT expects to refinance all debt maturing when due. The REIT is currently reviewing all options available to refinance the debt. These options include but are not limited to refinancing with existing lenders or with new lenders, issuing unsecured debt securities and/or additional trust units, or the securitization of rents. There are no assurances that the timing, amounts and terms of any refinancing, or other efforts will be favourable or satisfactory to the REIT's liquidity.

The following table sets out the REIT's contractual cash flows which includes fixed interest rate payments on its mortgages and loans payable and convertible debentures:

	Carrying Amount	Contractual Cash Flows	2019	2020	2021	2022	2023	Thereafter
Accounts payable and accrued liabilities	\$ 74,881	\$ 74,881	\$ 74,881	\$ —	\$ —	\$ —	\$ —	\$ —
Income tax payable	8,226	8,226	8,226	—	—	—	—	—
Distributions payable	6,905	6,905	6,905	—	—	—	—	—
Liabilities related to AHFS	—	—	—	—	—	—	—	—
Mortgages and loans payable	2,409,662	2,574,524	576,993	389,356	497,945	601,819	153,480	354,931
Deferred consideration	—	—	—	—	—	—	—	—
Convertible debentures	401,235	479,086	56,990	113,071	170,276	6,874	131,875	—
	\$2,900,909	\$ 3,143,622	\$ 723,995	\$ 502,427	\$ 668,221	\$ 608,693	\$ 285,355	\$ 354,931

Interest Rate Risk

The majority of the REIT's debt is financed at fixed rates with maturities staggered over a number of years, thereby mitigating its exposure to changes in interest rates and financing risks. At December 31, 2018, \$821,983 (December 31, 2017 - \$896,935) of the REIT's debt associated with investment properties is financed at variable rates exposing the REIT to interest rate risk on such debt. Sensitivity to a plus 1% change in the interest rate would impact the net income (loss) and comprehensive income (loss) by \$8,219 annually with all other variables held constant (December 31, 2017 - \$8,969).

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2018 and 2017

Currency Risk

The REIT has exposure to currency risk as a result of Australasian Secured Financing (see note 11) denominated in Australian, and New Zealand dollars. The REIT's margin facility balance and related interest are subject to fluctuations depending on exchange rates. The effects of such fluctuations are recognized in the statement of income and comprehensive income.

The REIT has operating subsidiaries in Europe, Brazil, Australia and New Zealand, and as a result has exposure to currency risk. There is significant exposure to foreign exchange translation risk on the consolidation of the REIT's foreign subsidiaries.

Assets and liabilities of the REIT's foreign subsidiaries are translated at the period end exchange rate, and therefore have different values depending on exchange rate fluctuations and the effects of such fluctuations are recognized in other comprehensive income (loss). The statements of income and comprehensive income of the foreign subsidiaries are translated into Canadian dollars using the period's average exchange rate and, accordingly, exchange rate fluctuations impact revenue, net income (loss) and comprehensive income (loss), denominated in Canadian dollars.

The REIT monitors its foreign exchange exposure and its hedging strategy on an ongoing basis.

The following table summarizes the effect of a 10% strengthening of the Canadian dollar on the REIT's net income/loss as a result of translating the statements of income (loss) and comprehensive income (loss) of foreign subsidiaries, assuming all other variables remain unchanged:

For the year ended December 31,	2018	2017
Europe	\$ (1,267)	\$ (864)
Brazil	(2,748)	(9,965)
New Zealand	(8,559)	(24,499)
Australia	5,626	4,539
	\$ (6,948)	\$ (30,789)

A 10% weakening of the Canadian Dollar would have an equal but opposite effect on the above currencies to the amounts shown above, assuming all other variables remain unchanged.

Price Risk

Price risk is the risk that changes in market prices for the REIT's securities may impact the REIT's ability to access capital, and that changes in the market prices of the units underlying the REIT's investments in associates may impact the value of its investments and may also impact the amount available under related Australasian Secured Financing. The market price for the REIT's trust units, the REIT's convertible debentures, and the units of Vital Trust, may be volatile and subject to wide fluctuations in response to numerous factors, many of which may be beyond the REIT's control including general market sentiment. The market price of the REIT's securities and investments may decline even if the REIT's operating results, underlying asset values, or prospects have not changed. A decrease in the REIT's Trust Unit price impacts the cost of raising new capital. A decline in the market price of the units of Vital Trust may impact the value of the REIT's investments which may result in impairment losses, and may require the REIT to repay amounts owing under its related Australasian Secured Financing.

28. Subsequent Events

- (i) On January 17, 2019, the REIT amended the existing secured non-revolving Canadian facility to add a \$50.0 million tranche, maturing on August 30, 2019, which bears interest of the bank's prime rate plus 5.00% or Bankers' Acceptance plus 6.00%. No draws had been made on the additional tranche.
- (ii) In January 21, 2019, the REIT repaid the principal balance of Australasian Secured Acquisition Facility in the amount of \$46.8 million (A\$50.0 million). On January 24, 2019, the REIT amended the Australasian Secured Acquisition Facility to reinstate \$14.3 million (A\$15.0 million) with maturity of July 15, 2019, at an interest of BBSY plus 7.00%.
- (iii) On January 25, 2019, the REIT amended the forward derivative contract that holds the interest in HSO to increase its embedded leverage by \$14.3 million (A\$15.0 million), at an interest rate of BBSY plus 5.00%.
- (iv) On January 31, 2019, the REIT announced that it and its subsidiary, NWH Australia AssetCo Pty Ltd as trustee for NWH Australia Asset Trust has entered into definitive agreements to acquire 11 freehold hospital property assets for approximately \$1.2 billion as part of a sale and leaseback transaction. In addition, the REIT has arranged a property-level debt facility for approximately \$710.0 million (with an initial interest rate of approximately 4.3%). This results in an aggregate equity requirement of approximately \$490.0 million. The REIT will fund the equity through the proceeds from the sale of its existing strategic investment in HSO, previously funded deposit and existing liquidity. The REIT may be subject to liquidated damages of up to \$238.7 million (A\$250.0 million) in certain specified circumstances. The REIT has issued a \$48.0 million letter of credit in support of its obligations under the Property Transaction.
- (v) On January 31, 2019, the REIT completed property acquisition of a German healthcare investment property for purchase price of \$40.8 million (€27.1 million). The acquisition was partially financed by new property specific mortgage of \$30.2 million (€20 million), bearing interest of 2.21% with term to maturity of 10 years.
- (vi) On February 13, 2019, the REIT entered into a new 12 month, \$39.0 million unsecured acquisition facility, of which \$24.0 million was drawn. The remaining \$15.0 million would be made available at the discretion of the lender. The acquisition facility bears interest rate greater of 8.5% or prime plus 4.55%.
- (vii) On February 15, 2019, Vital Trust amended its syndicated revolving multi-currency facility to add a tranche of \$144.2 million (A\$150.0 million), bringing the total availability on the facility to approximately \$835.5 million (A\$850.0 million and NZ\$20.0 million combined).
- (viii) 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.
- (ix) On January 17, 2019, the REIT announced a distribution of \$0.06667 per REIT unit to unitholders of record on January 31, 2019, will be payable on February 15, 2019. On February 19, 2019, the REIT announced a distribution of \$0.06667 per REIT unit to unitholders of record on February 28, 2019, will be payable on March 15, 2019.



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