

**NORTHWEST HEALTHCARE
PROPERTIES REAL ESTATE
INVESTMENT TRUST**

**MANAGEMENT DISCUSSION
AND ANALYSIS**

FOR THE YEAR ENDED
DECEMBER 31, 2018

MARCH 6, 2019



CEO'S MESSAGE

Paul Dalla Lana
Chief Executive Officer



Strong Results for Q4

Dear Fellow Unitholders,

2018 was a transformative year for the REIT highlighted by the successful completion of the REIT's A\$2.0 billion (debt & equity) institutional joint venture (the "JV") and \$585 million of acquisitions, including the REIT's first acquisitions in the Netherlands and expansion into the German rehabilitation hospital sector. Post quarter end, the REIT entered into a definitive agreement to acquire a highly strategic portfolio of 11 high quality Australian hospitals from Healthscope for \$1.2 billion that solidifies Northwest as the leader in Australian healthcare real estate. The REIT also continued to build and strengthen key relationships with leading operators highlighted by the acquisition of Hospital Morumbi from Rede D'Or, the acquisition of 4 rehabilitation hospitals from Median in Germany, and commenced new developments with Health Care, Acurity, and Epworth Foundation in Australia. To support this growth, the REIT completed \$375 million of capital recycling activity, including the sale of the seed portfolio to the JV and completed \$269 million of capital markets financing including a \$144 million equity offering that closed post quarter end. Operationally, performance continues to be excellent with the REIT delivering source currency cash recurring SP NOI growth of 4.3% in 2018 YTD with occupancy up 80 bp YoY to 96.7% and 72% of NOI annually indexed to inflation. Increasingly, third-party capital has become an important driver of the REIT's growth, a trend that is expected to continue as existing capacity of \$1.6 billion is deployed. Taken together, it is clear the REIT is in the strongest position in its history with an improved \$5 billion healthcare real estate portfolio, a differentiated operating platform and strong relationships with leading healthcare operators looking to partner in the growing global healthcare market.

Fourth Quarter Financial and Operational Highlights:

In addition to a very busy transactional quarter, the REIT continued to deliver stable financial and operational performance across an expanded 156 property, 11.2 million square foot diversified healthcare real estate portfolio underpinned by long-term inflation indexed leases which has translated into leading source currency SP NOI.

For the three months ended December 31, 2018, the REIT delivered strong financial and operating results, illustrated by the following:

- Total revenue increased 5.6% in Q4 2018 to \$89.1 million from \$84.4 million in Q4 2017 primarily driven by acquisitions in Germany, Netherlands, Canada and Vital Trust;
- Total Operating Income has increased by 8.9% to \$71.2 million over the fourth quarter of 2017;
- Net Income increased 69.9% to \$103.6 million compared to \$60.1 million in Q4'2017;
- Reported and Normalized AFFO per unit for the fourth quarter 2018 of \$0.20 and \$0.22 respectively;
- Source currency adjusted SPNOI growth of 3.2% in Q4 2018 as compared to Q4 2017;
- Recognition of a \$58.2 million fair value gain in the REIT's total investment property portfolio, driven primarily by gains in Brazil and Australasia;
- Leverage of 47.8% (55.7% including convertible debentures) at the end of Q4 2018. The REIT continues to target a 40% leverage ratio and expects leverage to decline towards that target over the mid-term;
- Net asset value per unit of \$12.30, representing a 10.9% increase over Q3 2018 primarily driven by currency appreciation, and portfolio valuation gains;
- Strong portfolio occupancy of 96.7% rising 40 bps from Q3 2018 and the international portfolio holding stable above 98% occupancy;
- Net asset value per unit of \$12.30, representing a 10.9% increase over Q3 2018 primarily driven by currency appreciation, and portfolio valuation gains;

During both the fourth quarter and subsequent to quarter-end, the REIT has continued executing on its committed, low-risk development pipeline, completing accretive debt refinancing and pursuing select accretive acquisitions, including the addition of properties in Germany and Australia with a combined value of \$134.0 million.

2018 Full Year Financial and Operational Highlights:

During 2018, the REIT executed its international growth strategy to build regional scale, enhance portfolio quality, and solidify leading market positions in key geographic markets all while delivering growth on an absolute and per unit basis to unitholders. Key highlights are as follows:

- Net Operating Income has decreased by 13.5% to \$263 million;
- AFFO per unit decreased by 8% from \$0.88 in 2017 to \$0.81 in 2018 primarily due to impact associated with the REIT's strategic investment in Healthscope Limited ("HSO") and positioning for the Healthscope acquisition. As a reminder, NorthWest owns 13.4% of HSO which is subject to an offer from Brookfield Business Partners ("Brookfield") of between A\$2.40 and A\$2.50 per unit. On successful completion of the Brookfield offer (expected in Q2-2019), the REIT expects to sell its position at a gain with net proceeds used to fund, in part, the accretive acquisition of the Healthscope properties noted above;
- AFFO payout ratio of 98% (90% normalized) for the full year 2018 based on the REIT's \$0.80 per unit annual distribution;
- Strong organic growth with source currency weighted cash recurring SPNOI growth of 4.3% in 2018, driven largely by inflation indexation on leases at the REIT's international assets and occupancy gains;
- Gross book value has increased by 8.3% from \$4.7 billion to \$5.0 billion;
- Net asset value per unit has increased by 2.5% to \$12.30 primarily driven by portfolio valuation gains;
- Strong portfolio occupancy of 96.7% rising 80 bps from Q4 2017 and the international portfolio holding stable above 98.3% occupancy;
- Weighted average lease expiry of 12.6 years increased by 0.5 year, underpinned by the international portfolio with a weighted average lease expiry of 15.8 years; and
- The percentage of leases subject to annual indexation² is 72.0% and serves as a strong base to deliver organic growth and a natural hedge in a rising interest rate environment.

Key initiatives include:

During 2018 and subsequent to year-end, the REIT has continued to execute on committed, low-risk development and expansion projects, completing accretive debt and equity financings, capital recycling, and pursuing select accretive acquisitions. Significant achievements included:

- Entered into a \$2.0 billion (debt & equity) joint venture with a global sovereign wealth fund to acquire and develop high quality healthcare real estate in Australia;
- Entered into definitive agreements to acquire 11 freehold hospital property assets from ASX-listed Healthscope Limited and its affiliates ("Healthscope") for approximately \$1.2 billion as part of a sale and leaseback transaction. By leveraging its capital relationships, NorthWest intends to structure the transaction such that it will manage the Portfolio and ultimately maintain an approximately 25% - 30% ownership interest. The transaction is expected to close in Q2 2019;
- Expansion of the REIT's European platform into the post-acute care (rehabilitation hospital) sector with the acquisition of four rehabilitation hospitals in sale lease back transactions with Median Kliniken, a key new operator relationship;
- Geographic expansion into the Netherlands with the acquisition of two high quality medical office buildings located in Rotterdam and Brunssum.
- Completed 12 acquisitions totalling \$585 million and 2.2 million square feet, including \$134 million in Q4 and subsequent to year end;
- Capital recycling totalling \$374 million including the \$207 million sale of a 70% interest in three high quality income producing Australian healthcare assets and one development property to the REIT's institutional JV partner;

For the balance of 2019 and building upon strong 2018 results and portfolio improvements, the REIT will continue to drive internal growth through completion of its 10 (\$344 million) active value-add development projects as well as execute on strategic growth initiatives in each of its regions. In support of the REIT's strategy, healthcare industry trends remain constructive globally with increasing levels of institutional investment validating the sector's defensive characteristics and growth opportunities.

Sincerely,

Paul Dalla Lana
Chief Executive Officer

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

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

FINANCIAL AND OPERATIONAL HIGHLIGHTS CONT.

Notes

- (1) Operational information includes 100% of Vital Trust and the Australia REIT (including Seed Portfolio). The REIT has an exposure to an approximate 25% interest in Vital Trust and 30% of the Seed Portfolio in Australia REIT.
 - (2) Gross Book Value is defined as total assets.
 - (3) As defined in Non-IFRS measures used in this MD&A.
 - (4) See Ratios and Covenants for the REIT's calculation of Interest Coverage.
 - (5) Under IFRS the REIT's Class B LP Units are treated as a financial liability rather than equity. The REIT has chosen to present an adjusted basic and diluted per unit measure that includes the Class B LP Units in basic and diluted units outstanding/weighted average units outstanding. There were 17,708,065 Class B LP Units outstanding as at December 31, 2018 and 18,998,065 outstanding as at December 31, 2017.
 - (6) FFO and AFFO are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. FFO and AFFO as computed by the REIT may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to FFO and AFFO as reported by other such issuers. These terms are defined in this MD&A and reconciled to IFRS-based amounts reported in the consolidated financial statements of the REIT. NOI is an additional IFRS measure and NOI as calculated by the REIT may not be comparable to similar titled measures reported by other issuers.
 - (7) Represents distributions to Unitholders and Class B LP Units on an accrual basis. Distributions are payable as at the end of the period in which they are declared by the Board of Trustees, and are paid on or around the 15th day of the following month.
 - (8) Diluted units includes vested but unissued deferred trust units and the conversion of the REIT's Convertible Debentures that would have a dilutive effect upon conversion at the holders' contractual conversion price. Convertible Debentures are dilutive if the interest (net of tax and other changes in income or expense) per unit obtainable on conversion is less than the basic per unit measure.
 - (9) The REIT classifies variable rate debt hedged with fixed rate swaps as fixed rate debt.
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HIGHLIGHTS FOR THE QUARTER

Strategic Investment in Healthscope Limited ("HSO")

On November 30, 2018, the REIT amended the forward derivative contract entered into with Deutsche Bank AG, Sydney Branch to contractually increase its interest in HSO to 13.41%. The investment was funded jointly by the REIT and Vital Healthcare Property Trust with existing resources, and the total funding requirement was approximately \$68.1 million (A\$71.3 million).

Completion of \$125 million Offering of Convertible Debentures

On December 20, 2018, the REIT completed a public offering of \$125 million aggregate principal amount of 5.50% convertible unsecured subordinated debentures. The REIT used the net proceeds to (i) to repay Corporate and Australasian debt of approximately \$83 million and (ii) to fund a portion of the purchase price of two German medical office properties (located in Berlin and Leipzig, respectively).

German Medical Office Building ("MOB") Acquisitions

In December 2018, the REIT acquired two German medical office properties located in Bernkastel-Kues and Berlin, respectively, for total purchase price of \$51.5 million (€33.3 million). The properties have a weighted average stabilized capitalization rate of 5.7%. The acquisitions were financed using local property specific borrowing, proceeds from convertible debenture issuance and REIT's existing resources.

Australian Loan Option Exercise

On October 1, 2018, the REIT exercised an option to convert a loan receivable balance of \$21.2 million (A\$22.9 million) into a 50% interest in the related investment property located in Melbourne, Australia. Immediately prior to exercise of the option, the REIT's carrying value of the loan and option was \$37.2 million (A\$40.2 million). Upon exercise of the option, the REIT recorded the 50% interest in the investment property at its fair value of \$38.0 million (A\$39.6 million). The REIT incurred transaction costs of \$3.0 million (A\$3.2 million) related to the transaction which have been written off through fair value adjustment of investment properties. The property has a weighted average capitalization rate of 6.0%. After exercise of the option, the REIT continues to have an additional \$10.9 million (A\$11.3 million) subordinate loan receivable outstanding from the third-party co-owners.

Financing Activity

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 a charge on an additional Canadian investment property. The amendment increases the allowable borrowings to total of \$277.0 million. Concurrently, the REIT repaid a \$43.0 million maturing first mortgage related to a Canadian investment property bearing interest of 3.57% using proceeds from draws on revolving credit facility and REIT's existing resources.

On December 28, 2018, the REIT amended the 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.

During the quarter, the REIT also repaid \$48.2 million (A\$50.0 million) of Australia term loan using the net proceeds from issuance of convertible debenture. On January 21, 2019, the REIT withdrew the A\$50.0 million amount from the Australia term loan to repay the full principal balance of Australasian Secured Acquisition Facility, which bears interest of 6.54%. Concurrently, the REIT amended the terms of the Australasian Secured Acquisition Facility to reinstate A\$15.0 million with maturity date of July 15, 2019 and bearing interest of BBSY plus 7%.

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 currently bears interest rate of the bank's prime rate plus 3.50% or Bankers' Acceptances plus 4.50%.

On January 17, 2019, the REIT amended the existing secured non-revolving Canadian facility to add a \$50.0 million tranche with maturity date August 30, 2019. The additional tranche is available to provide short-term financing toward the acquisition of the HSO Portfolio.

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%.

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 and the remaining \$15.0 million would be made available at the discretion of the lender. The facility currently bears interest rate greater of 8.5% or prime plus 4.55%.

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 million and NZ\$20 million combined).

SUBSEQUENT EVENTS

Australian HSO Portfolio Acquisition

On January 31, 2018, the REIT announced that it had entered into definitive agreements to acquire 11 freehold hospital property assets ("HSO Portfolio") from HSO for approximately \$1,200.0 million as part of a sale and leaseback transaction. The transaction is conditional on Brookfield Business Partners L.P. ("Brookfield") (NYSE:BBU) (TSX:BBU.UN), together with its institutional partners, completing the acquisition of 100% interest in HSO.

On January 25, 2019, The REIT deposited approximately \$48.0 million (A\$50.0 million) letter of credit with Brookfield in support of the HSO Portfolio acquisition.

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

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

The REIT is ultimately targeting an effective ownership level in the HSO Portfolio of approximately 25% -30%, which is consistent with its existing ownership levels in other Australian/New Zealand platforms. The REIT will provide management services for all the properties being acquired, and expects to generate initial base asset management fees in the range of approximately \$4.0 million - \$7.0 million annually (relating to the portion of the properties that the REIT is not expected to own).

In order to finance the acquisition of the HSO Portfolio, 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 its expected equity requirement of approximately \$125.0 million to \$150.0 million, for its targeted 25% - 30% ownership level, with a combination of the proceeds including from the sale of its existing strategic investment in HSO and previously funded deposit.

German MOB Acquisition

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.

Completion of \$125 million Offering of Trust Units

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

Other

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.

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PART I - BASIS OF PRESENTATION

This Management's Discussion and Analysis of the results of operations and financial condition ("**MD&A**") of NorthWest Healthcare Properties Real Estate Investment Trust ("**NorthWest**" or the "**REIT**") should be read in conjunction with the REIT's audited consolidated financial statements and accompanying notes for the year ended December 31, 2018, prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All amounts are presented in thousands of Canadian dollars, except where otherwise stated. Per unit amounts are presented in Canadian dollars, and are calculated including Class B LP Units (as defined hereafter), except where otherwise stated.

This MD&A should also be read in conjunction with the Annual Information Form of the REIT dated March 28, 2018 (the "**Annual Information Form**") and the REIT's Management Information Circular dated April 5, 2018 (the "**Circular**"). This MD&A is current as of March 6, 2019 unless otherwise stated. Additional information relating to the REIT, including its continuous disclosure documents required by the securities regulators, is filed as required on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") and can be accessed electronically at www.sedar.com.

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

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

FORWARD-LOOKING INFORMATION ADVISORY

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

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

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

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

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

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

MARKET AND INDUSTRY DATA

This MD&A includes market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information. Third-party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information.

Although the third-party sources believe it to be reliable, we have not independently verified any of the data from third-party sources referred to in this MD&A, or analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying economic assumptions relied upon by such sources.

PERFORMANCE MEASUREMENT

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

- Net income;
- Cash flows from operations;
- Funds from operations ("FFO");
- Adjusted funds from operations ("AFFO");
- Normalized AFFO;
- Weighted average lease expiry ("WALE");
- Weighted average interest rate;
- Occupancy levels;
- Debt - Declaration of Trust;
- Debt - Including Convertible Debentures;
- Adjusted EBITDA;
- Net operating income ("NOI");

- Net Asset Value (“NAV”) and Net Asset Value per unit (“NAV/unit”);
- Adjusted Liabilities;
- Same Property NOI (“SPNOI”); and
- Adjusted Same Property NOI (“Adjusted SPNOI”).

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

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

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

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

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

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

In February 2018, the Real Property Association of Canada (“REALpac”) issued white papers with recommendations for calculations of FFO and AFFO. The REIT reviewed the REALpac white papers and determined its FFO and AFFO definitions are substantially aligned with the white paper guidelines with some exceptions.

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

“Normalized AFFO” is a non-IFRS measure which management believes is relevant in representing its ability to earn and distribute cash returns to Unitholders. In addition to the adjusting items to arrive at AFFO, Normalized AFFO also adjusts for the full year effect of transactions occurring in the reporting period, transactions that have occurred subsequent to the reporting period, and adjusts for other items management believes were non-recurring or seasonal in nature and estimated based on management’s expectations on a normalized level of activity in a stabilized operating environment. The REIT considers Normalized AFFO to be a meaningful measure because it provides, in management’s view, an estimate of AFFO reflecting the annualized results of the REIT’s stabilized operations at a point in time. There is no standard industry-defined measure of Normalized AFFO. As such, the REIT’s method of calculating Normalized AFFO will differ from other issuers’ methods and, accordingly, will not be comparable to such amounts reported by other issuers. We have provided an analysis of Normalized AFFO under **NORMALIZED AFFO**.

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

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

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

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

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

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

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

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

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

Explanation of additional IFRS measure used in this MD&A

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

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

KEY PERFORMANCE DRIVERS

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

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

PART II – BUSINESS OVERVIEW

BUSINESS OVERVIEW AND STRATEGIC DIRECTION

The REIT

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

The REIT’s objectives are to:

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

Declaration of Trust

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

Investment Guidelines (condensed summary)

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

Operating Policies (condensed summary)

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

At December 31, 2018, the REIT was in compliance with all investment guidelines and operating policies stipulated in the Declaration of Trust.

RELATIONSHIP WITH NWVP

As at December 31, 2018, NorthWest Value Partners Inc. ("NWVP") indirectly owned approximately 21% (approximately 17% on a fully-diluted basis assuming conversion of the REIT's Convertible Debentures and redemption of its deferred Trust Units) of the REIT through a combination of Trust Units of the REIT and Class B LP Units. Established in 1994, Toronto-based NWVP is one of Canada's leading privately-owned real estate companies. The scope of its business includes real estate, ownership and management, in Canada and internationally with a significant focus on the healthcare sector. The Principal of NWVP serves as an officer and trustee of the REIT.

PORTFOLIO PROFILE

Summary

The REIT provides investors with access to a portfolio of high quality healthcare real estate comprised of interests in a diversified portfolio of 156 income-producing properties and 11.2 million square feet of gross leasable area located throughout major markets in Canada, Brazil, Europe (Germany and the Netherlands), Australia, and New Zealand.

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

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

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

Australia/New Zealand: Direct exposure to a portfolio of hospitals, medical centers and aged care facilities through Northwest Healthcare Properties Australia REIT ("Australia REIT"), an approximate 25% interest in New Zealand Stock Exchange ("NZX") listed Vital Healthcare Properties Trust ("Vital Trust"), and a 30% interest in a joint venture ("JV") with an institutional investor. The Australasian portfolio generates stable and growing cash flows underpinned by tenancies of high quality hospital and healthcare operators with long-term, inflation-indexed leases. The ANZ Management team, which provides services and derives fees from \$2.0 billion of third-party assets under management (December 31, 2017 - \$1.5 billion), is a fully integrated operation with offices in Melbourne, Australia and Auckland, New Zealand comprised of leading investment, development, asset management and property operations professionals.

The following table summarizes the REIT's assets by region as at December 31, 2018:

SUMMARY OF ASSETS						
	Canada	Brazil	Europe	Vital Trust ⁽¹⁾ (Australasia)	Australia REIT ⁽²⁾ (Australasia)	Consolidated Total ⁽³⁾
Number of Properties	56	8	32	45	15	156
Asset Mix	100% MOB	100% Hospital	94% MOB & 6% Hospitals & Healthcare Facilities	25% MOB & 75% Hospitals & Healthcare Facilities	40% MOB & 60% Hospitals & Healthcare Facilities	48% MOB & 52% Hospitals & Healthcare Facilities
Gross Leaseable Area ("GLA") (million sf)	3.5	1.7	2.1	2.6	1.3	11.2
Total Assets (Cdn\$ millions) ⁽²⁾	\$1,113	\$768	\$618	\$1,717	\$750	\$5,072
Occupancy	93.2%	100.0%	96.4%	99.4%	96.8%	96.7%
WALE (Years)	5.1	20.4	10.8	18.5	13.0	12.6
Average Building Age (Years)	30	14	24	21	12	23
Weighted Average Implied Cap Rate	6.5%	7.5%	5.8%	5.7%	5.8%	6.2%

Notes

(1) Shown on a 100% basis. The REIT has an approximate 25% interest in Vital Trust and consolidates its investment in Vital Trust.

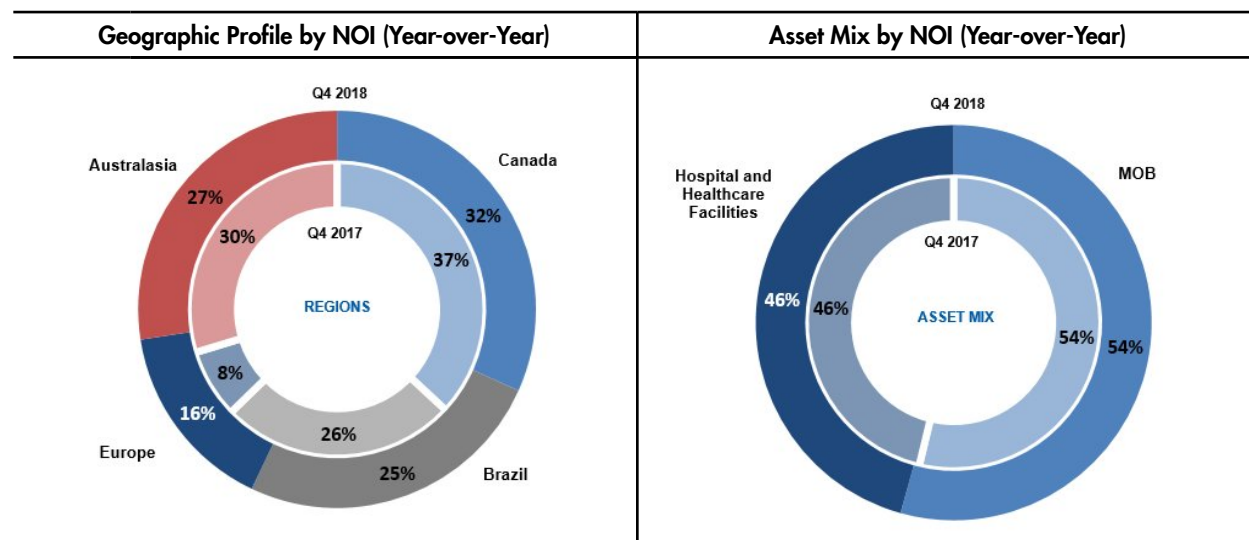
(2) Australia REIT is shown at proportionate ownership for the Seed Portfolio sold to an institutional investor as part of a Joint Venture Agreement ("JV") which closed on September 21, 2018. The REIT owns 30% interest in the JV.

(3) Consolidated Total includes corporate assets.

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

Diversification of Assets

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



Notes

(1) Based on Q4 2018 and Q4 2017 annualized NOI.

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

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

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

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

Tenant Mix

The following table summarizes the REIT's 10 largest tenants by percentage of revenue for the three months ended December 31, 2018:

10 LARGEST TENANTS BY PERCENTAGE OF RENT				
	Tenant	Country	%	# of locations
1	Rede D'Or	Brazil	14.3%	7
2	Health Care	Australia	3.6%	18
3	Epworth Foundation	Australia	1.3%	5
4	Healthscope Limited	Australia	1.0%	3
5	St John of God Healthcare Inc	Australia	0.9%	2
6	Bolton Clarke	Australia	1.1%	4
7	CISSS / CIUSSS	Canada	1.5%	5
8	Hospital Sabara	Brazil	1.1%	1
9	ARCBS	Australia	0.3%	1
10	Winnipeg Regional Health Authority	Canada	0.8%	6
			<u>25.9%</u>	<u>52</u>

Note:

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

(2) Revenues are included on a proportionate ownership basis for following tenants: Epworth Foundation, Bolton Clarke and ARCBS. The tenants are part of the Seed Portfolio which were sold to an institutional investor as part of a Joint Venture Agreement ("JV") which closed on September 21, 2018. The REIT owns 30% interest in the JV.

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

Rede D'Or is the largest private hospital operator in Brazil. The company operates 36 hospitals and 40 specialized oncology outpatient clinics, comprising over 6,000 inpatient beds - an average of 172 beds per hospital. With more than 40 years of experience in the health care business, the company has solid business positions and operational scale in its strategically located key markets: Rio de Janeiro, Sao Paulo, Brasilia and Recife. Since 2005, the company has grown substantially through a series of acquisitions. Since 2015, Rede D'Or has added Carlyle Group and GIC Group as investors and in October, 2017 Fitch increased its credit rating to "AAA" on a national scale.

Health Care Australia was founded in 2005 and is now the third largest private hospital operator in Australia and one of the country's largest privately-owned healthcare organizations. Health Care Australia operates a network of 36 medical/surgical, rehabilitation and mental health hospitals and day surgeries throughout Queensland, New South Wales, Victoria Tasmania, and Western Australia. These include approximately 2,500 beds and 70 operating theatres. The company also provides a range of outpatient services including workplace rehabilitation and community nursing which offer patients flexibility and continuity of care beyond their hospital stay. Health Care is one of the largest private providers of mental health services, with more than 600 beds across Australia. The company is a subsidiary of Luye Medical, a leading healthcare service provider headquartered in Singapore.

Epworth Foundation opened in 1982 to raise funds to ensure patients at Epworth HealthCare receive the best possible care. Epworth HealthCare is Victoria's largest not-for-profit private health care group, with more than 4,500 employees, including nurses, doctors, allied health professionals and support services, at 10 hospitals and specialty centres, with over 1,200 beds, around the Melbourne metropolitan area. Epworth Foundation is investing heavily in the latest technology and innovation. They are also building some of Australia's leading facilities, with the redevelopment of Epworth Richmond and Epworth Camberwell, and the new teaching hospital in Geelong.

In addition to the tenants above, HSO is currently the REIT's tenant in three properties, accounting for 1.0% of the REIT's revenues. HSO is Australia's second largest private hospital operator providing specialist healthcare services, including acute care, rehabilitation and mental health services. HSO is also leading provider of pathology services in New Zealand, Malaysia and Singapore. Subsequent to HSO Portfolio acquisition, the REIT expects HSO to be one of its largest tenants, accounting for approximately 15% of the post-acquisition rents.

INVESTMENT PROPERTIES

The fair value of investment properties as at December 31, 2018 was \$4.7 billion (December 31, 2017 - \$4.1 billion) representing an implied weighted average capitalization rate of 6.2% (December 31, 2017 - 6.3%).

INVESTMENT PROPERTIES						
Expressed in thousands of Canadian dollars						
Three months ended December 31, 2018						
Income Properties						
	Canada	Brazil	Europe	Vital Trust ⁽¹⁾	Australia REIT	Total
Opening Balance	\$ 1,081,944	\$ 688,911	\$ 521,872	\$ 1,452,894	\$ 492,801	\$ 4,238,422
Acquisitions of investment properties	948	38	51,563	(180)	41,214	93,583
Addition to investment properties	7,260	672	3,586	881	164	12,563
Increase in straight-line rents	360	—	—	—	281	641
Transfers from (to) properties under development	—	—	—	34,879	—	34,879
Fair value gain (loss)	240	10,481	2,153	35,961	9,405	58,240
Foreign currency translation	—	61,010	20,083	53,177	13,611	147,881
Closing Balance	\$ 1,090,752	\$ 761,112	\$ 599,257	\$ 1,577,612	\$ 557,476	\$ 4,586,209
Properties Under Development						
	Canada	Brazil	Europe	Vital Trust ⁽¹⁾	Australia REIT	Total
Opening Balance	\$ 10,717	\$ —	\$ —	\$ 57,755	\$ 12,720	\$ 81,192
Acquisitions of investment properties	—	—	—	7,393	14,157	21,550
Addition to investment properties	1,270	—	—	15,156	3,022	19,448
Transfers from (to) income properties	—	—	—	(34,879)	—	(34,879)
Fair value gain (loss)	—	—	—	(57)	—	(57)
Foreign currency translation	—	—	—	(4,226)	565	(3,661)
Closing Balance	\$ 11,987	\$ —	\$ —	\$ 41,142	\$ 30,464	\$ 83,593
Total						
	Canada	Brazil	Europe	Vital Trust ⁽¹⁾	Australia REIT	Total
Opening Balance	\$ 1,092,661	\$ 688,911	\$ 521,872	\$ 1,510,649	\$ 505,521	\$ 4,319,614
Acquisitions of investment properties	948	38	51,563	7,213	55,371	115,133
Addition to investment properties	8,530	672	3,586	16,037	3,186	32,011
Increase in straight-line rents	360	—	—	—	281	641
Fair value gain (loss)	240	10,481	2,153	35,904	9,405	58,183
Foreign currency translation	—	61,010	20,083	48,951	14,176	144,220
Closing Balance	\$ 1,102,739	\$ 761,112	\$ 599,257	\$ 1,618,754	\$ 587,940	\$ 4,669,802

⁽¹⁾ During the period, the REIT restated Vital Trust opening balances in accordance with its accounting policy to present strategically held lands as properties under development. The strategically held lands were previously reported as income properties. Total opening balance and closing balances of investment properties have not been impacted as a result of the restatement.

INVESTMENT PROPERTIES

Expressed in thousands of Canadian dollars

Year ended December 31, 2018

	Income Properties					
	Canada	Brazil	Europe	Vital Trust ⁽¹⁾	Australia REIT	Total
Opening Balance	\$1,037,473	\$ 676,403	\$ 267,677	\$1,443,374	\$ 650,824	\$4,075,751
Acquisitions of investment properties	1,295	92,367	313,261	90	96,163	503,176
Disposition of investment properties	—	—	—	—	(194,287)	(194,287)
Addition to investment properties	25,921	864	7,287	1,432	1,215	36,719
Increase in straight-line rents	1,285	—	—	—	854	2,139
Transfers from (to) properties under development	—	—	—	61,104	—	61,104
Settlement of securitization	—	7,945	—	—	—	7,945
Fair value gain (loss)	24,778	29,465	(2,363)	77,668	21,444	150,992
Foreign currency translation	—	(45,932)	13,395	(6,056)	(18,737)	(57,330)
Closing Balance	\$1,090,752	\$ 761,112	\$ 599,257	\$1,577,612	\$ 557,476	\$4,586,209
	Properties Under Development					
	Canada	Brazil	Europe	Vital Trust ⁽¹⁾	Australia REIT	Total
Opening Balance	\$ 10,489	\$ —	\$ —	\$ 45,860	\$ 12,689	\$ 69,038
Acquisitions of investment properties	—	—	—	26,949	14,157	41,106
Disposition of investment properties	—	—	—	—	(12,960)	(12,960)
Addition to investment properties	1,498	—	—	38,288	17,900	57,686
Transfers from (to) income properties	—	—	—	(61,104)	—	(61,104)
Fair value gain (loss)	—	—	—	128	(857)	(729)
Foreign currency translation	—	—	—	(8,979)	(465)	(9,444)
Closing Balance	\$ 11,987	\$ —	\$ —	\$ 41,142	\$ 30,464	\$ 83,593
	Total					
	Canada	Brazil	Europe	Vital Trust ⁽¹⁾	Australia REIT	Total
Opening Balance	\$1,047,962	\$ 676,403	\$ 267,677	\$1,489,234	\$ 663,513	\$4,144,789
Acquisitions of investment properties	1,295	92,367	313,261	27,039	110,320	544,282
Disposition of investment properties	—	—	—	—	(207,247)	(207,247)
Addition to investment properties	27,419	864	7,287	39,720	19,115	94,405
Increase in straight-line rents	1,285	—	—	—	854	2,139
Settlement of securitization	—	7,945	—	—	—	7,945
Fair value gain (loss)	24,778	29,465	(2,363)	77,796	20,587	150,263
Foreign currency translation	—	(45,932)	13,395	(15,035)	(19,202)	(66,774)
Closing Balance	\$1,102,739	\$ 761,112	\$ 599,257	\$1,618,754	\$ 587,940	\$4,669,802

⁽¹⁾ During the period, the REIT restated Vital Trust opening balances in accordance with its accounting policy to present strategically held lands as properties under development. The strategically held lands were previously reported as income properties. Total opening balance and closing balances of investment properties have not been impacted as a result of the restatement.

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

2018 Acquisitions

During the year ended December 31, 2018, the following acquisitions were completed by the REIT:

ACQUISITIONS					
	Quarter Acquired	Region	Location	GLA	Acquisition Cost (in millions) ⁽¹⁾
Fritz-Lang-Platz 6	Q1	Europe	Berlin, Germany	59,600	\$ 22.2
Clinic Bismarkstrasse 68	Q1	Europe	Bad Kissingen, Germany	79,500	\$ 22.4
Clinic Bremer Strasse 2	Q1	Europe	Wilhemshaven, Germany	151,000	\$ 35.1
Epworth Freemasons Private Hospital (remaining 50%)	Q1	Australasia	Melbourne, Australia	150,600	\$ 54.9
Landsberger Allee 44 / Matthiasstr 7	Q2	Europe	Berlin, Germany	66,300	\$ 39.3
Zuyderland Medical Center	Q2	Europe	Brunssum, the Netherlands	117,200	\$ 41.7
MediMall Rotterdam	Q2	Europe	Rotterdam, the Netherlands	347,400	\$ 101.4
Hospital São Luiz Morumbi	Q3	Brazil	São Paulo, Brazil	230,400	\$ 92.4
Epping Medical Centre	Q4	Australasia	Melbourne, Australia	107,400	\$ 41.2
Allee der Kosmonauten 47	Q4	Europe	Berlin, Germany	58,700	\$ 15.5
Klinik Bernkastel & Moselhohe	Q4	Europe	Bernkastel-Kues, Germany	238,500	\$ 36.0
Other ⁽²⁾	Q1, Q3, Q4		Various	—	\$ 42.2
Total				1,606,600	\$ 544.3

(1) Purchase price includes transaction costs.

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

2018 Dispositions

During the year ended December 31, 2018, the following dispositions were completed by the REIT:

DISPOSITIONS					
	Quarter Sold	Region	Location	GLA	Proceeds (in millions)
Dundas Edward Centre ⁽¹⁾	Q1	Canada	Toronto, Ontario	417,000	\$ 167.0
Epworth Freemasons Private Hospital ⁽²⁾	Q3	Australia	Melbourne, Victoria	150,600	\$ 73.9
Epworth Freemasons Private Hospital and Medical Centre ⁽²⁾	Q3	Australia	Melbourne, Victoria	92,400	\$ 61.4
Gray Street Centre and Albert Street Car Park ⁽²⁾	Q3	Australia	Melbourne, Victoria	n/a	\$ 13.0
Australian Red Cross Blood Service (ARCBS) Facility ⁽²⁾	Q3	Australia	Brisbane, Queensland	21,800	\$ 58.9
Total				681,800	\$ 374.2

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

(2) The REIT sold 70% interest in the Seed Portfolio properties to an institutional investor as part of a joint venture commitment. The REIT retains the remaining 30% interest.

Valuation of Investment Properties

The fair values of the investment properties at December 31, 2018 were determined based on a combination of internal valuation models incorporating available market evidence. The weighted average capitalization rate of the consolidated portfolio as at December 31, 2018 decreased to 6.2% from 6.3% as at December 31, 2017.

During the three months and year ended December 31, 2018, the REIT recorded fair value gains on income producing property totaling \$58.2 million and \$150.3 million, respectively (excluding assets previously held for sale). The fair value gain was the result of modest capitalization rate compression on the Australasian and Brazilian portfolio, accrued rent adjustment for inflation on the Brazilian assets, recognition of the embedded density value at one property located in the Greater Toronto Area, and a recognition of the value of excess land in the European portfolio that was previously carried at cost, all partially offset by the write-off of non-recoverable capital and changes in market leasing assumptions.

During the three months ended December 31, 2018 the REIT's portfolio weighted spot exchange rate increased by 5.9% with all foreign currencies appreciating relative to the Canadian dollar. During the year ended December 31, 2018 the REIT's portfolio weighted spot exchange rate decreased by 0.2%. As a result, for the three months and year ended December 31, 2018, the REIT recorded a foreign currency translation adjustment on its investment properties of \$144.2 million and \$(66.8) million, respectively.

DEVELOPMENT ACTIVITY

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

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

MAJOR DEVELOPMENT ACTIVITY BY REGION

Expressed in thousands of Canadian dollars, except percentage amounts

	Number of Projects	Estimated Completion Date	Estimated Project Costs	Estimated Costs to Complete	% Pre-leased	Anticipated Project Yield	Anticipated Stabilized NOI	Potential value accretion
Australasia ⁽¹⁾	7	Q4 2018 to Q4 2022	274,873	246,901	100%	6.5%	17,278	29,465
Brazil	2	Q4 2019	50,910	50,910	100%	7.5%	3,818	1,395
Canada	1	Q1 2021	18,500	15,281	60%	7.0%	1,295	1,423
	<u>10</u>		<u>\$ 344,283</u>	<u>\$ 313,092</u>	<u>98%</u>	<u>6.5%</u>	<u>\$ 22,391</u>	<u>\$ 32,283</u>

⁽¹⁾ The REIT's interest in the Grey Street development in Australasia is limited to 30% of the presented amounts as a result of the development being included in sale of the Seed Portfolio assets.

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

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

Within Australasia, Vital Trust has 6 expansion projects with completion dates ranging from the second quarter of 2019 to the fourth quarter of 2022. The projects include a mix of modernisation and expansion at acute surgical and mental health facilities to meet the growing demand for healthcare services. Expansion projects are primarily with Vital Trust's largest tenant, HealthCare. The developments are expected to be funded through Vital Trust's existing resources and availability on existing debt facilities.

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

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

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

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

The Canadian development relates to an approximately 43,000 square foot MOB currently under construction. The project is located in St. Albert, Alberta and is well located adjacent to Sturgeon Community Hospital.

LEASING COSTS AND CAPITAL EXPENDITURES

LEASING COSTS AND CAPITAL EXPENDITURES						
Expressed in thousands of Canadian dollars						
Three months ended December 31, 2018						
	Canada ⁽⁴⁾	Brazil	Europe	Vital Trust	Australia REIT	Total
Additions to investment properties						
Leasing costs ⁽¹⁾	\$ 1,094	\$ —	\$ —	\$ —	\$ 7	\$ 1,101
Tenant improvements ⁽²⁾	3,629	—	505	—	33	4,167
Maintenance capital expenditures	362	—	261	693	76	1,392
Other capital expenditures	2,175	672	2,820	188	48	5,903
	7,260	672	3,586	881	164	12,563
Internal leasing costs expensed	317	—	2	—	—	319
	7,577	672	3,588	881	164	12,882
Less:						
Recoverable maintenance capital expenditures	(362)	—	(125)	—	—	(487)
Other value enhancing and non-recurring capital expenditures	(2,719)	(672)	(3,158)	—	—	(6,549)
Leasing costs and non-recoverable maintenance capital expenditures	\$ 4,496	\$ —	\$ 305	\$ 881	\$ 164	\$ 5,846
AFFO adjustment for leasing costs and and non-recoverable maintenance capital expenditures ⁽³⁾	\$ 1,840	\$ —	\$ 682	\$ 881	\$ 164	\$ 3,567
Leasing costs and non-recoverable maintenance capital expenditures in excess of AFFO adjustment	\$ 2,656	\$ —	\$ (377)	\$ —	\$ —	\$ 2,279
Year ended December 31, 2018						
	Canada ⁽⁴⁾	Brazil	Europe	Vital Trust	Australia REIT	Total
Additions to investment properties						
Leasing costs ⁽¹⁾	\$ 2,782	\$ —	\$ —	\$ —	\$ 32	\$ 2,814
Tenant improvements ⁽²⁾	12,088	—	1,368	—	582	14,038
Maintenance capital expenditures	3,232	—	657	1,252	492	5,633
Other capital expenditures	7,995	864	5,261	180	109	14,409
	26,097	864	7,286	1,432	1,215	36,894
Internal leasing costs expensed	1,393	—	528	—	—	1,921
	27,490	864	7,814	1,432	1,215	38,815
Less:						
Recoverable maintenance capital expenditures	(3,232)	—	(521)	—	—	(3,753)
Other value enhancing and non-recurring capital expenditures	(9,130)	(864)	(5,443)	—	—	(15,437)
Leasing costs and non-recoverable maintenance capital expenditures	\$ 15,128	\$ —	\$ 1,850	\$ 1,432	\$ 1,215	\$ 19,625
AFFO adjustment for leasing costs and and non-recoverable maintenance capital expenditures ⁽³⁾	\$ 7,361	\$ —	\$ 2,099	\$ 1,432	\$ 1,215	\$ 12,107
Leasing costs and non-recoverable maintenance capital expenditures in excess of AFFO adjustment	\$ 7,767	\$ —	\$ (249)	\$ —	\$ —	\$ 7,518

Notes

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

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

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

(4) Leasing costs for the three months ended December 31, 2018 include \$nil (nine months ended December 31, 2018 - \$176) of additions related to assets held for sale.

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

Canada

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

During the three months ended December 31, 2018 additions for the Canadian investment properties totaled \$7.3 million. During the quarter leasing costs included costs attributable to twelve transactions (including two initiated prior to the quarter), of which one was lease renewal and expansion, with an aggregate WALE of 10.3 years.

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

Brazil

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

Europe

On a quarterly basis leasing costs, tenant improvements and capital expenditures can fluctuate and as such, should not be regarded as stabilized. Additions to the European investment properties for the three months ended December 31, 2018 were \$3.6 million. During the quarter, tenant improvements incurred were primarily in connection with leasing within the REIT's Hessen and Leipzig portfolio with approximately 98% of the cost spent on leasing new tenant spaces. Included in the value enhancing and non-recurring capital expenditures for the quarter were primarily costs incurred in relation to the Berlin and Hamburg portfolios.

Vital Trust and Australia REIT

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

PART III – RESULTS FROM OPERATIONS

NET INCOME

The following is a summary of selected financial information from the consolidated statements of income and comprehensive income for the three months and year ended December 31, 2018 and 2017:

RESULTS FROM OPERATIONS						
Expressed in thousands of Canadian dollars	Three months ended December 31,			Year ended December 31,		
	2018	2017	Variance	2018	2017	Variance
Net Operating Income ⁽¹⁾						
Revenue from investment properties	\$ 89,143	\$ 84,436	\$ 4,707	\$ 349,592	\$ 313,966	\$ 35,626
Property operating costs	(22,341)	(21,207)	(1,134)	(86,146)	(81,907)	(4,239)
	66,802	63,229	3,573	263,446	232,059	31,387
Other income						
Share of profit (loss) from associates	(94)	—	(94)	(94)	43,681	(43,775)
Management fees	3,414	115	3,299	6,556	7,723	(1,167)
Interest and other	1,110	2,090	(980)	11,243	4,550	6,693
	4,430	2,205	2,225	17,705	55,954	(38,249)
	71,232	65,434	5,798	281,151	288,013	(6,862)
Other expenses						
Mortgage and loan interest expense	(32,148)	(30,728)	(1,420)	(124,275)	(101,771)	(22,504)
General and administrative expenses	(7,312)	(6,726)	(586)	(27,113)	(25,125)	(1,988)
Transaction costs	(4,359)	(858)	(3,501)	(13,462)	(13,291)	(171)
Other finance costs	37,481	(1,019)	38,500	6,595	(50,678)	57,273
Foreign exchange gain (loss)	2,516	7,343	(4,827)	244	7,412	(7,168)
Income (Loss) before the under noted items	67,410	33,446	33,964	123,140	104,560	18,580
Fair value adjustment of DUP Liability	1,945	(97)	2,042	2,235	(1,793)	4,028
Fair value adjustment of investment properties	58,184	53,091	5,093	148,100	259,551	(111,451)
Net loss on disposal of investment properties	(14)	(675)	661	(2,702)	(675)	(2,027)
Gain (loss) on business combination	—	—	—	—	(89,578)	89,578
Goodwill impairment loss	—	—	—	(50,096)	—	(50,096)
Gain (Loss) on derivative financial instruments	(1,874)	(13)	(1,861)	(19,213)	4,352	(23,565)
Income (Loss) before taxes	125,651	85,752	39,899	201,464	276,417	(74,953)
Income tax expense	(22,044)	(25,633)	3,589	(72,724)	(51,178)	(21,546)
Net income (loss)	\$ 103,607	\$ 60,119	\$ 43,488	\$ 128,740	\$ 225,239	\$ (96,499)
Net income (loss) attributable to:						
Unitholders	\$ 72,744	\$ 34,384	\$ 38,360	\$ 65,715	\$ 67,387	\$ (1,672)
Non-controlling interest	30,863	25,735	5,128	63,025	157,852	(94,827)
	\$ 103,607	\$ 60,119	\$ 43,488	\$ 128,740	\$ 225,239	\$ (96,499)

Notes

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

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

Revenue from investment properties

Revenue from investment properties for the three months ended December 31, 2018 was \$89.1 million which is \$4.7 million higher than the three months ended December 31, 2017. The increase is primarily due to \$6.2 million additional European revenue from acquisitions and a strengthening of the Euro relative to the Canadian dollar; a \$1.0 million increase in Brazilian revenue driven primarily by acquisitions; and a \$2.3 million increase in Vital Trust revenue primarily as a result of acquisition and development activity. These increases were partially offset by a decrease in revenue in the Canada region of \$3.1 million, driven by disposition of the Dundas Edward Centre in the first quarter of 2018; and a revenue decrease in Australia of \$1.7 million that was mainly driven by sale of 70% interest in three investment properties to the JV with an institutional investor, partially offset by investment property acquisition.

Revenue from investment properties for the year ended December 31, 2018 was \$349.6 million as compared to \$314.0 million for the year ended December 31, 2017. The increase of \$35.6 million is primarily due to the consolidation of the Australia REIT starting in the third quarter of 2017 which increased revenue by \$22.3 million; European revenue increase of \$16.2 million driven by source currency rent from acquisition activity and further compounded by a strengthening of the Euro; and Vital Trust revenue improvements of \$11.7 million primarily a result of acquisition and development activity. These improvements were partially offset by a decrease in revenue in the Canadian region of \$14.0 million, driven by the disposition of the Dundas Edward Centre in the first quarter of 2018; and a decrease in Brazil revenue of approximately \$0.6 million driven by a weakening of the Brazilian Real against the Canadian dollar, offset by annual rent indexation.

See also **NET OPERATING INCOME**.

Property operating costs

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

Property operating costs for the three months ended December 31, 2018 were \$22.3 million as compared to \$21.2 million for the three months ended December 31, 2017. The \$1.1 million increase is driven by \$2.3 million increase in Europe operation costs as a result of acquisition activity. The increase is partially offset by \$1.2 million decrease in Canada resulting from property dispositions.

Property operating costs for the year ended December 31, 2018 were \$86.1 million as compared to \$81.9 million for the year ended December 31, 2017. Of the increase of \$4.2 million, \$3.0 million is related to the consolidation of the Australia REIT starting in the third quarter of 2017, and operating cost increases at Vital Trust and Europe of \$0.7 million and \$5.0 million respectively, driven by acquisitions. These increases were partially offset by a decrease in Canadian operation costs by \$4.7 million driven by dispositions.

See also **NET OPERATING INCOME**.

Share of profit (loss) of associate

Share of profit (loss) of associate for the three months and year ended December 31, 2018 of \$(0.1) million represents the REIT's share of profit (loss) in a JV with an institutional investor.

The REIT's share of profit (loss) of associate for year ended December 31, 2017 represents the REIT's share of profit (loss) of the Australia REIT up until 100% acquisition. In July 2017, the REIT completed the compulsory acquisition of all outstanding units of the Australia REIT and as a result accounts for the Australia REIT as a subsidiary.

Management Fees

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

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

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

The following table summarizes the management fees earned by ANZ Manager for the three months and year ended December 31, 2018 and 2017:

ANZ MANAGER MANAGEMENT FEES						
Expressed in thousands of Canadian dollars	Three months ended December 31,			Year ended December 31,		
	2018	2017	Variance	2018	2017	Variance
	Base fee	\$ 3,838	\$ 2,606	\$ 1,232	\$ 12,753	\$ 10,966
Incentive and performance fee	3,099	3,019	80	11,892	24,332	(12,440)
Trustee fees	179	172	7	732	559	173
Project and Acquisition fees	5,252	3,387	1,865	13,701	7,020	6,681
Other fees	7	115	(108)	293	958	(665)
Total Management Fees	\$ 12,375	\$ 9,299	\$ 3,076	\$ 39,371	\$ 43,835	\$ (4,464)
less: inter-company elimination ⁽¹⁾	(8,961)	(9,184)	223	(32,815)	(36,112)	3,297
Consolidated Management Fees ⁽²⁾	\$ 3,414	\$ 115	\$ 3,299	\$ 6,556	\$ 7,723	\$ (1,167)
add: fees charged to non-controlling interest	6,726	6,895	(169)	24,262	27,102	(2,840)
Proportionate Management Fees ⁽³⁾	\$ 10,140	\$ 7,010	\$ 3,130	\$ 30,818	\$ 34,825	\$ (4,007)

Notes

(1) The ANZ Manager fees charged to Vital Trust and the Australian REIT are eliminated on consolidation as an inter-company transaction.

(2) Represents the reported consolidated management fees, which are primarily property management fees earned from third parties and management fees charged to the JV.

(3) Represents the REIT's total exposure to management fees.

Consolidated management fees for the three months ended December 31, 2018 increased by \$3.3 million to \$12.4 million. The increase is primarily driven by activity-based fees for acquisitions and development activities earned from third-parties. For the year ended December 31, 2018, consolidated management fees decreased \$1.2 primarily due to consolidation of Australia REIT for the full year, partially offset by incremental base and activity-based management fees from a third-parties.

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

Interest and other

For the three months ended December 31, 2018 and 2017, the REIT recorded interest and other income of \$1.1 million and \$2.1 million, respectively. Of the decrease, \$0.5 million relates to decrease in interest earned on loans receivable at Australia REIT due to the exercise of an option to convert a loan to a 50% interest in the investment property (see **Highlights for the Quarter**). The remaining decrease primarily relates to interest earned on cash balances in Brazil, which in the fourth quarter for 2017 had surplus cash from the long-term financing of Hospital Santa Helena which was not immediately redeployed.

For the year ended December 31, 2018 and 2017, the REIT recorded interest and other income of \$11.2 million and \$4.6 million, respectively. The increase from the comparable prior year period is attributable to a commitment fee of \$4.9 million earned in Brazil related to acquisition of Hospital Morumbi, which closed in the third quarter of 2018. The Brazilian interest and other income increase are partially offset by a decrease in interest earned on cash balances in Brazil of \$(0.9) million. The remaining increase is primarily related to the consolidation of the Australia REIT for the complete year, compared to consolidation beginning in July 2017 in prior period, which accounts for \$2.2 million of the increase in interest income for the period.

Mortgage and loan interest expense

The mortgage and loan interest expense for the three months ended December 31, 2018 was \$32.1 million, an increase of \$1.4 million over the prior year period. The mortgage and loan interest expense for the year ended December 31, 2018 was \$124.3 million, an increase of \$22.5 million over the prior year period.

The composition of mortgage and loan interest expense for the three months and year ended December 31, 2018 and 2017 is as follows:

MORTGAGE AND LOAN INTEREST EXPENSE						
Expressed in thousands of Canadian dollars						
	Three months ended December 31,			Year ended December 31,		
	2018	2017	Variance	2018	2017	Variance
Canada						
Mortgages ⁽¹⁾	\$ 4,988	\$ 6,125	\$ 1,137	\$ 20,779	\$ 24,962	\$ 4,183
Brazil						
Brazil debt	3,329	4,472	1,143	14,018	13,023	(995)
Europe						
Mortgages	1,774	600	(1,174)	5,340	2,245	(3,095)
Australasia						
Term loans	12,238	8,018	(4,220)	48,353	22,657	(25,696)
Corporate						
Australasian Secured Financing	1,705	4,126	2,421	6,671	12,591	5,920
Acquisition Facility	661	605	(56)	1,731	1,950	219
Revolving Credit Facility	3,490	1,254	(2,236)	10,943	5,428	(5,515)
Other	3	4	1	5	9	4
Convertible Debentures	4,232	4,570	338	16,185	18,609	2,424
	10,091	10,559	468	35,535	38,587	3,052
less: capitalized interest	(272)	(326)	(54)	(2,256)	(1,158)	1,098
add: prepayment penalties	—	1,280	1,280	2,506	1,455	(1,051)
Total mortgage and loan interest expense	\$ 32,148	\$ 30,728	\$ (1,420)	\$ 124,275	\$ 101,771	\$ (22,504)

Notes

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

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

Canada

Mortgage interest expense for the three months ended December 31, 2018 has decreased \$1.1 million over the three months ended December 31, 2017 (year ended December 31, 2018 - \$4.2 million). The decrease in mortgage interest expense over the comparable prior year quarter primarily reflects a lower average mortgage balance due to the sale of the Dundas Edward Centre. The weighted average interest rate of the Canadian mortgage portfolio as at December 31, 2018 was stable at 3.63% compared to December 31, 2017.

Brazil

The increase in interest expense for the year ended December 31, 2018 over the comparable prior year periods, primarily reflects the higher level of debt in Brazil in 2018 as a result of the long term financing of Hospital Santa Helena in October 2017 which resulted in gross proceeds of approximately \$83.5 million. The increase was partially offset by the decrease in the weighted average interest rate of the Brazilian debt from December 31, 2017 (7.84%) to December 31, 2018 (7.28%) and the weakening of the Brazilian Real against the Canadian dollar by approximately 15.3% as compared to the prior period.

Europe

Mortgage interest expense increased for the year ended December 31, 2018 over the comparable prior year due to interest on the mortgage associated with property acquisitions that occurred throughout 2017 and 2018, further compounded by a strengthening of the Euro by approximately 1.6% against the Canadian dollar over the prior period.

The weighted average interest rate of the German mortgages was 2.25% as at December 31, 2018, which is an increase from 1.89% as at December 31, 2017.

Australasia

The interest expense over the comparable prior quarter by \$4.6 million for the three months ended December 31, 2018 (year ended December 31, 2018 - \$25.7 million). The increase is attributable to the incremental debt related to the REIT's investment in the Australia REIT, which was refinanced as part of the Australia REIT's syndicated term loan facility in December of 2017 and incremental borrowing to finance the strategic investment in HSO. The remaining increase for the quarter to date period reflects increased borrowings related to development and acquisition activity, further increased by slightly higher interest rates. The weighted average interest rate of the Vital Trust term loans was 4.55% as at December 31, 2018, an increase from 4.22% as at December 31, 2017.

Corporate

The decrease in the interest expense for the year ended December 31, 2018 over the comparable prior year period is primarily due to the repayment of two series of Convertible Debenture in the fourth quarter of 2017 and refinancing of the Australasian secured financing, offset by an increase in corporate borrowings on the REIT's credit facilities and issuance of a new Convertible Debenture during the quarter.

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

General and administrative expenses ("G&A")

G&A expenses for the three months ended December 31, 2018 were \$7.3 million as compared to \$6.7 million in the prior year quarter. G&A for the three months ended December 31, 2018 includes DUP Compensation Expense (as defined under ADJUSTED FUNDS FROM OPERATIONS ("AFFO") - DUP Compensation Expense) of \$1.2 million (three months ended December 31, 2017 - \$1.1 million). G&A, excluding amounts associated with DUP Compensation Expenses, increased by approximately \$0.5 million over the prior year quarter primarily as a result of growth in the Australasian and European operations.

G&A expenses for the year ended December 31, 2018 were \$27.1 million as compared to \$25.1 million for the year ended December 31, 2017. G&A for the year ended December 31, 2018 includes DUP Compensation Expense (as defined under **ADJUSTED FUNDS FROM OPERATIONS ("AFFO") - DUP Compensation Expense**) of \$4.8 million (year ended December 31, 2017 - \$4.8 million). G&A, excluding amounts associated with DUP Compensation Expenses, increased \$2.0 million over the prior year period primarily as a result of the growth of the portfolio and related platform costs.

DUP expense for the year ended December 31, 2018 has decreased over the prior year period; which is primarily a result of adjustments made to the Vital Trust DUP plan resulting in lower amortization expense during the year ended December 31, 2018.

Transaction costs

For the three months and year ended December 31, 2018, the REIT incurred transaction costs of \$4.4 million and \$13.5 million, respectively (three months and year ended December 31, 2017 - \$0.9 million and \$13.3 million, respectively). Transaction costs during the three months ended December 31, 2018 primarily consisted of costs related to acquisition opportunities being explored by the REIT and Vital Trust. Included in the year to date period are transaction costs of approximately \$8.1 million related to the HSO derivative contracts. In accordance with Vital Trust's conflict policy, Vital Trust has agreed to jointly pay the transaction costs related to the HSO derivative contracts. The comparable period costs in 2017 are primarily related to the Australia REIT acquisition and related integration.

Other Finance costs

Other finance costs for the three months and year ended December 31, 2018 and 2017 consisted of the following:

	OTHER FINANCE COSTS					
	Three months ended December 31,			Year ended December 31,		
	2018	2017	Variance	2018	2017	Variance
Distributions on Exchangeable Units	\$ 3,542	\$ 3,800	\$ 258	\$ 14,167	\$ 15,199	\$ 1,032
Loss on revaluation of financial liabilities	1,621	558	(1,063)	19,125	3,667	(15,458)
Amortization of deferred financing costs	1,923	1,892	(31)	10,377	7,446	(2,931)
Amortization of marked to market adjustment	(470)	(889)	(419)	(2,060)	(3,165)	(1,105)
Fair value adjustment of Convertible Debentures	(19,073)	(5,102)	13,971	(20,553)	5,303	25,856
Convertible Debenture issuance costs	5,611	—	(5,611)	5,611	—	(5,611)
Fair value adjustment of Exchangeable Units	(30,635)	760	31,395	(33,262)	22,228	55,490
Total Finance Costs	\$ (37,481)	\$ 1,019	\$ 38,500	\$ (6,595)	\$ 50,678	\$ 57,273

Loss on revaluation of financial liabilities

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

For the three months and year ended December 31, 2018, accretion expense of \$1.6 million and \$19.1 million (for the three months and year ended December 31, 2017 - \$0.6 million and \$3.7 million, respectively) was recorded to account for the related IPCA adjustments on the Brazil debt and deferred consideration. The annual inflation rate for December 31, 2018 was 3.75% as compared to 2.95% for December 31, 2017.

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

Amortization of deferred financing costs

For the three months and year ended December 31, 2018, the REIT recorded amortization of deferred financing fees of \$1.9 million and \$10.4 million respectively (for the three months and year ended December 31, 2017 - \$1.9 million and \$7.4 million, respectively). The increase in amortization during the year ended December 31, 2018 was primarily attributable to accelerated amortization of deferred financing fees related to the permanent repayment of the Australia REIT syndicated term loan facility using net proceeds from the Seed Portfolio sale.

Fair value adjustment of Convertible Debentures

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

CLOSING PRICE OF CONVERTIBLE DEBENTURES						
	Dec-18	Sep-18	Jun-18	Mar-18	Dec-17	Sep-17
Month-end closing price (Canadian \$)						
NWH.DB	980.00	1,015.80	1,000.50	1,020.00	1,030.00	1,040.00
NWH.DB.A (redeemed December 11, 2017)	N/A	N/A	N/A	N/A	N/A	1,010.00
NWH.DB.B (redeemed December 11, 2017)	N/A	N/A	N/A	N/A	N/A	1,030.00
NWH.DB.C	1,000.00	1,011.00	1,020.00	1,017.50	1,037.50	1,050.00
NWH.DB.D	980.00	1,040.00	1,054.80	1,043.50	1,050.00	1,064.60
NWH.DB.E	990.00	1,030.80	1,015.30	1,020.00	1,027.00	1,050.00
NWH.DB.F	980.00	1,035.00	1,019.00	1,020.00	1,030.50	1,042.60
NWH.DB.G	947.50	N/A	N/A	N/A	N/A	N/A

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

Foreign exchange gain (loss)

The REIT's financial assets and liabilities denominated in foreign currencies are revalued at the end of each period at the prevailing balance sheet rate. For the three months ended December 31, 2018, the REIT recorded a foreign exchange gain of \$2.5 million, which includes unrealized exchange gain of \$1.8 million. The REIT's unrealized foreign exchange gain (loss) for the period relates primarily to the revaluation of intercompany loans between subsidiaries of the REIT that are denominated in foreign currencies. For the three months ended December 31, 2018, the REIT recorded a realized foreign exchange gain of \$0.7 million related to settlement of intercompany loans and accrued interest of Australasian and German subsidiaries with Canadian subsidiaries.

For the year ended December 31, 2018, the REIT recorded a foreign exchange gain of \$0.2 million, including unrealized exchange loss of \$0.4 million. The unrealized foreign exchange loss relates primarily to the loss in Canadian subsidiary incurred on translation of intercompany loans with a Australasian subsidiary which are denominated in New Zealand and Australian dollars.

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

Fair value adjustment of DUP Liability

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

The fair value adjustment on revaluation of the DUP Liability for the three months and year ended December 31, 2018 was a gain of \$1.9 million and \$2.2 million, respectively, as compared to a loss of \$0.1 million and \$1.8 million for the three months and year ended December 31, 2017, respectively. The increase in the fair value adjustment related to the DUP liability over the comparable prior year period reflects changes in the trading price of the REIT's Trust Units and Vital Trust's units during the period.

Fair value adjustment of investment properties

For the three months ended December 31, 2018, the REIT recorded a fair value gain on investment properties of \$58.2 million consisting of a \$0.2 million revaluation gain related to the Canadian portfolio, a \$10.5 million revaluation increase of the Brazil portfolio, a \$35.9 million increase in the Vital Trust investment properties, a \$9.4 million revaluation increase in the Australia REIT portfolio and a \$2.2 million revaluation gain of the European portfolio. The revaluation of the Brazil portfolio during the three months ended December 31, 2018 relates to the actual and estimated increases in rents for inflation, and compression of capitalization rates for certain properties. The increase in the Vital Trust and Australia REIT assets reflects capitalization rate compression and increases from CPI reviews in both the New Zealand and Australian markets during the quarter. The revaluation gain on the European portfolio during the three months ended December 31, 2018 primarily reflects fair value gain from capitalization rate compression, offset partially by write off of non-recoverable capital and transaction costs.

For the year ended December 31, 2018, the REIT recorded a fair value gain on investment properties of \$148.1 million consisting of a \$22.6 million revaluation gain related to the Canadian properties, a \$29.5 million revaluation increase of the Brazil portfolio, a \$2.4 million revaluation loss of the European portfolio, a \$77.4 million increase in the Vital Trust investment properties and a \$20.6 million revaluation increase in the Australia REIT portfolio. The revaluation of the Canadian portfolio during the year ended December 31, 2018 is primarily driven by recognition of embedded density value at one property in the REIT's Toronto, Canada portfolio, partially offset by the revaluation of disposed asset that were adjusted to purchase price and the write-off of non-recoverable capital and changes in market leasing assumptions. The revaluation of the Brazil portfolio during the year ended December 31, 2018 is driven by capitalization rate compression, and rent growth resulting from the change in the IPCA index across all assets, offset partially by write off of transaction costs associated with acquisition of Hospital Morumbi. The revaluation loss on the European portfolio during the year ended December 31, 2018 resulted from the write off of transaction costs related to acquisition activity, partially offset by fair value gain on excess land previously carried at cost. The increase in the Vital Trust assets reflects capitalization rate compression in both the New Zealand and Australian markets during the year to date period. The revaluation increase in the Australia REIT is primarily related to capitalization rate compression and fair value gains on the Seed Portfolio assets that were sold in the third quarter, partially offset by a fair value loss related to the write off of transaction costs from the acquisition of Epworth Freemasons Private Hospital (remaining 50%).

See also **INVESTMENT PROPERTIES**.

Net loss on disposal of investment properties

During the three months ended December 31, 2018, the REIT recognized a gain/loss on a sale of \$nil. During the year ended December 31, 2018, the REIT recognized a loss on sale of \$2.7 million related to the sale of the Dundas Edward Centre in Canada and the sale of 70% interest in the Seed Portfolio assets in Australia REIT.

During the three months and year ended December 31, 2017, the REIT recognized a loss on sale of \$0.7 million related to the sale of Clinique Bois-De-Boulogne in Canada and Harvester Centre in Australia.

Goodwill impairment loss

In accordance with the REIT's accounting policies, goodwill is tested for impairment annually and whenever there is an indication of impairment. For the year ended December 31, 2018, the REIT recognised a goodwill impairment loss of \$50.1 million related to Australia REIT (formerly Generation Healthcare Properties) (year ended December 31, 2017 - \$nil).

The goodwill impairment loss principally results from sale of 70% interest in the Seed Portfolio assets. Management further believes that the goodwill impairment write down has been offset by fair value gains in the Australia REIT portfolio since acquisition.

For the purpose of this impairment test, management used projected financial forecasts and key assumptions included growth rate, discount rate and terminal rate.

Gain/Loss on derivative financial instruments

Gain/loss on derivative financial instruments for the three months and year ended December 31, 2018 and 2017 consisted of the following:

GAIN (LOSS) ON DERIVATIVE FINANCIAL INSTRUMENTS						
Expressed in thousands of Canadian dollars	Three months ended December 31,			Year ended December 31,		
	2018	2017	Variance	2018	2017	Variance
Canada						
Interest rate swaps	\$ (932)	\$ 156	\$ (1,088)	\$ 1,629	\$ 945	\$ 684
Europe						
Interest rate swaps	(974)	23	(997)	(896)	359	(1,255)
Australasia						
Interest rate swaps	(8,137)	(1,813)	(6,324)	(10,563)	1,015	(11,578)
Foreign exchange contracts	704	1,621	(917)	992	442	550
Performance fee receivable	—	—	—	—	1,473	(1,473)
Gain (loss) on HSO derivative	7,465	—	7,465	(10,375)	—	(10,375)
Corporate						
Australia REIT put/call option and units	—	—	—	—	(548)	548
Australia REIT future contract	—	—	—	—	666	(666)
Total gain (loss) on derivative financial instruments	\$ (1,874)	\$ (13)	\$ (1,861)	\$ (19,213)	\$ 4,352	\$ (23,565)

The REIT has entered into a forward contract to acquire HSO shares and an option contract (the terms of which minimize the underlying margin requirements associated with the forward contract). The forward contemplates physical settlement but may be net settled in certain circumstances. The zero cost option contract for 173,970,330 options limits the benefits to the REIT of HSO share price appreciation above A\$2.60 and limits the REIT's exposure to HSO share price depreciation below A\$2.00 down to A\$1.25 per share. As at December 31, 2018, the forward and option contract were valued at \$130.4 million and \$12.9 million, respectively.

Income tax expense

The combined current tax and deferred tax expense of the REIT for the three months ended December 31, 2018 was \$22.0 million.

For the three months ended December 31, 2018, the REIT recognized current income tax expense of \$2.5 million (For the three months ended December 31, 2017 - \$2.8 million current income tax gain). The current taxes relate primarily to the income taxes payable by the ANZ Manager of \$1.2 million and \$1.3 million by Vital Trust. The income tax expense generated for the ANZ Manager is largely driven by the level of management fees earned. Current tax for Vital Trust can fluctuate period over period depending on the settlement of foreign currency derivatives utilized in Vital Trust's hedging program.

The REIT records deferred tax liabilities in Europe, Brazil, Vital Trust and the Australia REIT arising primarily due to the difference between the carrying value and tax cost of its investment properties. The deferred tax expense of the REIT for the three months ended December 31, 2018 of \$19.6 million (For the three months ended December 31, 2017 - \$28.5 million) was primarily comprised of the deferred tax expense of Australia REIT of \$6.2 million, deferred tax expense related to Vital Trust of \$5.2 million, deferred tax expense of Brazil of \$7.2 million and deferred tax expense for Europe of \$1.0 million. The Australian REIT deferred tax expense primarily relates to higher expected effective tax rates applicable to certain Australian investments of the REIT. Brazil's deferred tax expense includes the expected withholding tax on certain dividend distribution.

For the year ended December 31, 2018, the REIT recognized current income tax expense of \$8.4 million (year ended December 31, 2017 - \$0.9 million). The current taxes relate primarily to the income taxes payable by the ANZ Manager on management fees earned and taxes payable by Vital Trust on foreign currency derivatives utilized in Vital Trust's hedging program. The deferred tax expense of the REIT for the year ended December 31, 2018 of \$64.3 million (year ended December 31, 2017 - \$50.2 million) was comprised of deferred tax liabilities in Europe, Brazil, Vital Trust and the Australia REIT arising due to the difference between the carrying value and tax cost of its investment properties. The Australian REIT deferred tax expense of \$29.9 million also includes adjustments for higher expected effective tax rates applicable to certain Australian investments of the REIT. Brazil's deferred tax expense of \$20.0 million includes the expected withholding tax on certain dividend distribution. Europe and Vital Trust accounted for \$1.4 million and \$13.1 million of the deferred tax expense for the year ended December 31, 2018.

NET OPERATING INCOME

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

The REIT's same property NOI for the three months and year ended December 31, 2018 and 2017 is summarized in the tables below in Canadian dollars and in source currency:

SAME PROPERTY NOI						
In thousands of CAD	Three months ended December 31,			Year ended December 31,		
	2018	2017	Var %	2018	2017	Var %
Same property NOI ⁽¹⁾						
Canada	\$ 16,360	\$ 16,483	(0.7)%	\$ 63,955	\$ 65,996	(3.1)%
Brazil	12,106	12,640	(4.2)%	49,944	52,339	(4.6)%
Europe	3,956	3,784	4.5 %	12,137	11,739	3.4 %
Vital Trust	19,587	19,365	1.1 %	70,853	69,566	1.9 %
Australia REIT	n/a	n/a	— %	n/a	n/a	— %
Same property NOI ⁽¹⁾	\$ 52,009	\$ 52,272	(0.5)%	\$ 196,889	\$ 199,640	(1.4)%
Developments	—	—		—	—	
Acquisitions ⁽²⁾	15,215	9,519		56,242	18,960	
Dispositions ⁽³⁾	—	1,864		12,022	15,235	
Intercompany/Elimination	(422)	(426)		(1,707)	(1,776)	
NOI ⁽¹⁾	\$ 66,802	\$ 63,229	5.7 %	\$ 263,446	\$ 232,059	13.5 %

Notes:

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

(2) Includes \$7.9 million (\$26.5 million YTD) of NOI related to Australia REIT acquisition effective July 1, 2017.

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

ADJUSTED SAME PROPERTY NOI

In thousands of CAD	Three months ended December 31,				Year ended December 31,			
	2018	2017	Var \$	Var %	2018	2017	Var \$	Var %
Same property NOI ⁽¹⁾	\$52,009	\$52,272	\$ (263)	(0.5)%	\$196,889	\$199,640	\$(2,751)	(1.4)%
Adjustments								
Straight-line rental revenue recognition	(49)	126	(175)		(507)	(231)	(276)	
Amortization of operating leases	252	242	10		1,008	955	53	
Lease termination fees	(82)	(40)	(42)		(130)	(103)	(27)	
Other one-time transactions	810	136	674		1,069	(2,116)	3,185	
Adjusted same property NOI ⁽²⁾	\$52,940	\$52,736	\$ 204	0.4%	\$198,329	\$198,145	\$ 184	0.1%

Notes:

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

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

CONSTANT CURRENCY ADJUSTED SAME PROPERTY NOI

In constant currency (000s)	Three months ended December 31,			Year ended December 31,		
	2018	2017	Var %	2018	2017	Var %
Adjusted same property NOI ⁽¹⁾						
Canada	\$ 16,311	\$ 16,249	0.4%	\$ 63,950	\$ 63,025	1.5%
Brazil	12,106	11,744	3.1%	49,388	46,403	6.4%
Europe	3,948	3,795	4.0%	12,307	12,226	0.7%
Vital Trust	20,575	19,499	5.5%	72,684	68,551	6.0%
Australia REIT	n/a	n/a	—%	n/a	n/a	—%
Constant currency Adjusted SPNOI ⁽²⁾	\$ 52,940	\$ 51,287	3.2%	\$ 198,329	\$ 190,205	4.3%

Notes:

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

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

Canada

Same Property NOI for the three months ended December 31, 2018 decreased by 0.7% over the comparable prior year period, mainly due to increase in bad debt & office rent expenses; partially offset by increase in rents and parking income as a result of improved occupancy.

Adjusted Same Property NOI for the three months ended December 31, 2018, increased by 0.4% over the comparable prior year period, mainly due to an improvement in occupancy.

Same Property NOI for the year ended December 31, 2018 decreased by 3.1% over the comparable prior year period, mainly due to the non-medical tenant contraction of 65,000 square feet upon renewal in Western Canada mentioned above.

Adjusted Same Property NOI, excluding the impact of the non-medical tenant contraction mentioned above, for the year ended December 31, 2018 increased by 1.5% over the comparable prior year period, mainly due to an increase in rents and parking income because of higher occupancy in the portfolio.

Brazil

Same Property NOI for the three months ended December 31, 2018 in BRL, increased by 8.1% (decreased by 4.2% in C\$) over the comparable prior year period, mainly driven by Sabara higher rent as a result of the CRI repayment in March 2018 and inflationary adjustment on rents approximately 3.1%. Adjusted Same Property NOI for the three months ended December 31, 2018 in BRL, increased by 3.1% (decreased by 8.6% in C\$), over the comparable prior year period.

Same Property NOI for the year ended December 31, 2018 in BRL, increased by 8.9% (decreased by 4.6% in C\$) over the comparable prior year period. The increase is mainly driven by Sabara rental revenue catch up adjustment in March 2018 and higher rent as a result of the CRI repayment in March 2018 and inflationary adjustment on rents by approximately 2.9%. Adjusted Same Property NOI in BRL for the year ended December 31, 2018, increased by 6.4% (decreased by 6.8% in C\$), over the comparable prior year period, mainly driven by Sabara higher rent as a result of the CRI repayment in March 2018 and inflationary adjustment on rents approximately 2.9%.

Europe

Same Property NOI for the three months ended December 31, 2018, in Euros, increased by 3.7% (4.5% in C\$) over the comparable prior year period, mainly driven by new leasing in Leipzig and Berlin and Fulda regions as well as inflationary rental increases slightly offset by prior period recovery revenue true up. Adjusted Same Property NOI, in Euros, for the three months ended December 31, 2018 increased by 4.0% (4.8% in C\$) over the comparable prior year period.

Same Property NOI for the year ended December 31, 2018 in Euros decreased by 0.7% (3.4% in C\$) over the comparable prior year period, mainly driven by prior year tenant recoveries. Adjusted Same Property NOI for the year ended December 31, 2018, in Euros, increased by 0.7% (4.8% in C\$) over the comparable prior year period.

Vital Trust

Same Property NOI for the three months ended December 31, 2018 in NZ\$ increased by 1.0% (1.1% in C\$) over the comparable prior year period, mainly driven by development led rent increases and new leases, offset by negative FX movement due to the strengthening of the Australian dollar relative to the New Zealand dollar.

Adjusted Same Property NOI, in New Zealand dollars, for the three months ended December 31, 2018 increased by 5.5% (increased by 5.7% in C\$) over the comparable prior year period.

Same Property NOI for the year ended December 31, 2018 in NZ\$ increased by 4.6% (1.9% in C\$) over the comparable prior year period, mainly driven by development led rent increases and higher rent review increases, offset by negative FX movement due to the strengthening of the Australian dollar relative to the New Zealand dollar.

Adjusted Same Property NOI for the year ended December 31, 2018 in NZ\$ over the comparable prior year period increased by 6.0% (increased by 3.2% in C\$).

LEASING

Lease Maturities

The REIT's asset diversification is complemented by a long term maturity profile, with a weighted average lease expiry of 12.6 years as at December 31, 2018. Below is a table of the percentage of leases of expiring by year by region.

	2019	2020	2021	2022	2023	2024	2025	2026	Thereafter	Total
Canada	10.0%	10.8%	9.6%	13.2%	14.5%	7.8%	6.5%	4.5%	23.1%	100.0%
Brazil	—%	—%	—%	—%	—%	6.1%	—%	—%	93.9%	100.0%
Europe	10.2%	15.5%	5.3%	7.7%	4.4%	2.2%	4.4%	2.3%	48.0%	100.0%
Australasia	2.3%	2.5%	1.7%	5.5%	6.6%	1.5%	1.2%	11.6%	67.1%	100.0%
Total Portfolio	5.7%	7.0%	4.4%	7.3%	7.4%	4.2%	3.2%	5.9%	54.9%	100.0%

Notes:

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

The REIT's expiry profile benefits from its Australian and Brazilian properties which are subject to long term leases. The eight Brazil hospitals are each occupied by single tenants that are leading hospital operators, and have leases expiring between September 30, 2024 and November 14, 2043. The expiry profile also reflects the longer term nature of many of the hospital tenants within the Vital Trust portfolio which has a WALE of 18.5 years and the Australia REIT which has a WALE of 13.0 years.

The below table summarizes the REIT's WALE allocated by asset type as at December 31, 2018:

	Asset Mix		WALE		Total
	MOB	Hospitals & Healthcare Facilities	MOB	Hospitals & Healthcare Facilities	
Canada ¹	100%	—%	5.1	—	5.1
Brazil	—%	100%	—	20.4	20.4
Europe	94%	6%	8.9	26.2	10.8
Vital ¹	22%	78%	5.4	20.2	18.5
Australia REIT ¹	40%	60%	8.8	15.8	13.0

Notes

- ¹ Excluding development projects.

Lease Indexation

As at December 31, 2018, over 72.0% of the REIT's revenue (95.0% of the International Portfolio) is subject to inflationary adjustments and market reviews. The below table summarizes the percentage of revenue by region which receives the benefit of regular inflationary adjustments:

Revenue Subject to Inflationary/Market Based Adjustments	
As at December 31, 2018	% of Revenue ⁽¹⁾
Canada	—%
Brazil	100.0%
Europe	91.1%
Vital	92.3%
Australia REIT	97.6%
International Total/Weighted Average	95.0%
Portfolio Total / Weighted Average	72.0%

Notes

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

Leasing Activity

LEASING ACTIVITY						
Three months ended December 31, 2018						
in thousands of square feet	Canada	Brazil	Europe	Vital Trust ⁽¹⁾	Australia REIT ⁽²⁾	Total
Opening Occupancy	92.1%	100.0%	95.7%	99.4%	98.5%	96.4%
Opening Balance	3,135	1,723	1,738	2,568	1,236	10,400
Acquisition	—	—	293	—	81	374
Disposition	—	—	—	—	—	—
Expiries and Early Terminations	(60)	—	(69)	(27)	(19)	(175)
Renewal	47	—	42	26	16	131
New Leasing	76	—	31	1	4	112
Other ⁽³⁾	(11)	—	—	—	—	(11)
Closing Balance	<u>3,187</u>	<u>1,723</u>	<u>2,035</u>	<u>2,568</u>	<u>1,318</u>	<u>10,831</u>
Closing Occupancy	93.2%	100.0%	96.4%	99.4%	98.3%	96.7%
Year ended December 31, 2018						
in thousands of square feet	Canada	Brazil	Europe	Vital Trust ⁽¹⁾	Australia REIT ⁽²⁾	Total
Opening Occupancy	91.2%	100.0%	96.1%	99.3%	98.5%	95.9%
Opening Balance	3,491	1,493	957	2,556	1,235	9,732
Acquisition	2	230	1,071	—	81	1,384
Disposition	(381)	—	—	—	—	(381)
Expiries and Early Terminations	(371)	—	(186)	(212)	(67)	(836)
Renewal	286	—	132	217	34	669
New Leasing	198	—	61	6	35	300
Other ⁽³⁾	(38)	—	—	1	—	(37)
Closing Balance	<u>3,187</u>	<u>1,723</u>	<u>2,035</u>	<u>2,568</u>	<u>1,318</u>	<u>10,831</u>
Closing Occupancy	93.2%	100.0%	96.4%	99.4%	98.3%	96.7%
Notes						
(1) Shown on a 100% basis. The REIT has an approximate 25% interest in Vital Trust and acts as manager of Vital Trust, it therefore consolidates Vital Trust.						
(2) Australia REIT is shown at proportionate ownership for the Seed Portfolio sold to an institutional investor as part of a Joint Venture Agreement ("JV") which closed on September 21, 2018. The REIT owns 30% interest in the JV.						
(3) Other includes remeasurements and month-to-month leases.						

Canada

During the quarter, the REIT completed 47 thousand square feet of renewal leasing. The REIT completed the renewals at an initial net rent of \$17.44 per square foot versus an expiring net rent per square foot of \$16.50 per square foot, an increase of \$0.94 per square foot or 5.7%.

Year to date, the REIT completed 286 thousand square feet of renewal leasing representing a 84% renewal rate. The REIT completed the renewals at an initial net rent of \$18.59 per square foot versus an expiring net rent per square foot of \$18.62, essentially flat. Excluding two non-medical tenant renewals in the first quarter, the initial renewing net rent versus expiring rent per square foot would have been increased by 1.2%, at \$18.89 per square foot versus \$18.67 per square foot respectively.

During the quarter, the REIT also completed 76 thousand square feet of new leasing at an initial net rent of \$14.68 per square foot. Year to date the REIT completed 198 thousand square feet of new leasing at an initial net rent of \$14.63 per square foot.

As at December 31, 2018, the REIT had 133 thousand square feet of committed leasing against future expiries at an initial net rent of \$18.01 per square foot versus expiring net rent per square foot of \$16.99, an increase of \$1.02 per square foot or 6.0%. The REIT also had 19 thousand square feet of committed leasing against vacant space at an initial net rent of \$14.38 per square foot.

Expiring net rent increased to \$17.84 per square foot in the fourth quarter 2018, from \$17.82 per square foot in the third quarter mainly due to rent step-up of renewals.

EXPIRING NET RENT (\$PSF)	
December 31, 2018	
	Canada
Month-to-Month	\$ 13.50
2018	\$ —
2019	\$ 16.23
2020	\$ 17.60
2021	\$ 17.87
2022	\$ 16.16
2023	\$ 14.60
2024+	\$ 20.12
Total Expires	\$ 17.84

Brazil

The REIT's Brazil properties are subject to long term leases (portfolio WALE of 20.4 years). There was no leasing activity during the quarter.

Europe

During the quarter, the REIT completed 42 thousand square feet of renewal leasing. These renewals were completed at an initial net rent of €10.55 per square foot versus an expiring net rent per square foot of €10.51, a 0.38% increase.

Year to date, the REIT has completed 132 thousand square feet of renewal leasing representing a 71% renewal rate. The REIT completed the renewals at an initial net rent of €10.25 per square foot versus an expiring net rent per square foot of €10.18, a 0.7% increase.

During the quarter, the REIT completed 31 thousand square feet of new leasing at an initial average net rent of €19.20 per square foot, which is above the posted renewal rate due to the high weighting of activity in the Berlin region of the portfolio including rate accretive acquisitions.

Year to date the REIT also completed 61 thousand square feet of new leasing at an initial net rent of €12.64 per square foot, which is higher than the rate of Q3 new leasing because of a high weighting of new leasing in Berlin and Fulda regions.

EXPIRING NET RENT (€PSF)	
December 31, 2018	
	Europe
Month-to-Month	€ 6.68
2018	—
2019	€ 10.58
2020	€ 10.19
2021	€ 13.79
2022	€ 11.75
2023	€ 11.12
2024+	€ 9.54
Total Expires	€ 10.25

Vital Trust

Vital Trust's properties are generally subject to long term leases, and as such there was no material leasing activity. During the quarter, Vital Trust completed 13 thousand square feet of renewal leasing by exercising renewal options. These renewals were completed at an initial net rent per square foot of NZ\$45.39 versus expiring net rent of NZ\$42.21, an increase of 7.5% (9.0% increase due to the negative FX movement A\$ / NZ\$).

The renewals of the leases in Australia in A\$ were completed at the same initial net rent per square foot of A\$43.57.

Year to date, Vital Trust completed 204 thousand square feet of renewal leasing at an initial net rent of NZ\$39.85 versus an expiring net rent per square foot of NZ\$39.84.

Australia REIT

During the quarter, Australia REIT completed 9 renewal leasing deals totaling 16 thousand square feet. These renewals were completed at an initial rent of A\$35.06 per square foot versus an expiring rent of A\$32.28 per square foot, a 2.8% increase.

Year to date, Australia REIT completed 21 renewal leasing totaling 34 thousand square feet. These renewals were completed at an initial rent of A\$41.90 versus an expiring rent of A\$38.70 per square foot, an 8.1% increase.

During the quarter, the REIT also completed 4 thousand square feet of new leasing at an initial net rent of A\$16.24.

Year to date, Australia REIT completed 35 thousand square feet of new leasing at an initial net rent of NZ\$19.67.

FUNDS FROM OPERATIONS ("FFO")

FFO is a supplemental non-IFRS industry wide financial measure of a REIT's operating performance. The REIT calculates FFO based on certain adjustments to net income (computed in accordance with IFRS) as detailed below. Other adjustments may be made to FFO as determined by management at their discretion. REALpac has established a standardized definition of FFO in a White Paper dated February 2018 ("**REALpac Guidance**"). The REIT's FFO definition differs from the REALpac Guidance in that the REIT excludes the revaluation of financial liabilities and convertible debenture issuance cost in its calculation of FFO.

FUNDS FROM OPERATIONS						
Expressed in thousands of Canadian dollars, except per unit amounts	Three months ended December 31,			Year ended December 31,		
	2018	2017	Variance	2018	2017	Variance
Net income (loss) attributable to unitholders	\$ 72,744	\$ 34,384	\$ 38,360	\$ 65,715	\$ 67,387	\$ (1,672)
Add / (Deduct):						
(i) Fair market value losses (gains)	(107,963)	(57,323)	(50,640)	(184,937)	(234,579)	49,642
Less: Non-controlling interests' share of fair market value losses (gains)	27,036	22,399	4,637	48,155	141,238	(93,083)
(ii) Finance cost - Exchangeable Unit distributions	3,542	3,800	(258)	14,167	15,199	(1,032)
(iii) Revaluation of financial liabilities	1,621	558	1,063	19,125	3,667	15,458
(iv) Unrealized foreign exchange loss (gain)	(1,771)	(7,358)	5,587	411	(7,394)	7,805
Less: Non-controlling interests' share of unrealized foreign exchange loss (gain)	3,379	5	3,374	3,436	995	2,441
(v) Deferred taxes	19,564	28,481	(8,917)	64,291	50,239	14,052
Less: Non-controlling interests' share of deferred taxes	(3,889)	(6,637)	2,748	(9,841)	(10,978)	1,137
(vi) Transaction costs	4,359	858	3,501	13,462	13,291	171
Less: Non-controlling interests' share of transaction costs	(674)	—	(674)	(3,903)	—	(3,903)
(vii) Convertible Debenture issuance costs	5,611	—	5,611	5,611	—	5,611
(viii) Net adjustments for equity accounted entities	—	—	—	—	(38,943)	38,943
(ix) Internal leasing costs	319	598	(279)	1,921	2,041	(120)
(x) Net loss on disposal of investment properties	14	675	(661)	2,702	675	2,027
(xi) Gain on business combination	—	—	—	—	89,578	(89,578)
(xii) Goodwill impairment loss	—	—	—	50,096	—	50,096
(xiii) Amortization of finance leases	(64)	(77)	13	(289)	(154)	(135)
(xiv) Other FFO adjustments	2,697	2,647	50	8,695	5,307	3,388
Funds From Operations ("FFO") ⁽¹⁾	\$ 26,525	\$ 23,010	\$ 3,515	\$ 98,817	\$ 97,569	\$ 1,248
FFO per Unit - Basic	\$ 0.22	\$ 0.19	\$ 0.03	\$ 0.82	\$ 0.92	\$ (0.10)
FFO per Unit - fully diluted ⁽³⁾	\$ 0.21	\$ 0.19	\$ 0.02	\$ 0.79	\$ 0.87	\$ (0.08)
Adjusted weighted average units outstanding ⁽²⁾						
Basic	121,169,117	118,191,998	2,977,119	120,707,017	106,318,041	14,388,976
Diluted ⁽³⁾	142,739,265	138,554,550	4,184,715	141,501,571	126,628,027	14,873,544

Notes

- (1) FFO is not a measure recognized under IFRS and does not have standardized meanings prescribed by IFRS. FFO as computed by the REIT may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to FFO as reported by other such issuers. FFO is defined in this MD&A and reconciled to the consolidated financial statements of the REIT.
- (2) Under IFRS the REIT's Class B LP Units are treated as a financial liability rather than equity. The REIT has chosen to present an adjusted basic and diluted per unit measure that includes the Class B LP Units in basic and diluted units outstanding/weighted average units outstanding. There were 17,708,065 Class B LP Units outstanding as at December 31, 2018 and 18,998,065 outstanding as at December 31, 2017.
- (3) Diluted units includes vested but unissued deferred trust units and the conversion of the REIT's Convertible Debentures that would have a dilutive effect upon conversion at the holders' contractual conversion price. Convertible Debentures are dilutive if the interest (net of tax and other changes in income or expense) per unit obtainable on conversion is less than the basic per unit measure.

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

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

FAIR MARKET VALUE LOSSES (GAINS)						
Expressed in thousands of Canadian dollars	Three months ended December 31,			Year ended December 31,		
	2018	2017	Variance	2018	2017	Variance
Fair market value losses (gains)						
Fair value adjustment of Convertible Debentures	\$ (19,073)	\$ (5,102)	\$ (13,971)	\$ (20,553)	\$ 5,303	\$ (25,856)
Fair value adjustment of Exchangeable Units	(30,635)	760	(31,395)	(33,262)	22,228	(55,490)
Fair value adjustment of investment properties	(58,184)	(53,091)	(5,093)	(148,100)	(259,551)	111,451
Loss (Gain) on derivative financial instruments	1,874	13	1,861	19,213	(4,352)	23,565
Fair value adjustment of DUP liability	(1,945)	97	(2,042)	(2,235)	1,793	(4,028)
Total	\$ (107,963)	\$ (57,323)	\$ (50,640)	\$ (184,937)	\$ (234,579)	\$ 49,642

Additional details are below:

(a) Convertible Debentures

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

(b) Exchangeable Units and DUP Liability

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

(c) Investment properties

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

(d) Derivative financial instruments

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

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

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

(iii) Revaluation of financial liabilities

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

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

(iv) Unrealized foreign exchange loss (gain)

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

(v) Deferred taxes

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

(vi) Transaction costs

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

(vii) Convertible Debenture issuance cost

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

(viii) Net adjustments for equity accounted entities

In July 2017, the REIT completed the 100% acquisition of the Australia REIT, therefore beginning in the third quarter of 2017, the REIT consolidates the Australia REIT into its results. Up until June 30, 2017, under IFRS the REIT's investment in associate was accounted for using the equity method of accounting. As such, the REIT's share of its associate's post acquisition net income (loss) was recognized in its net income (loss), and its share of post-acquisition movements in other comprehensive income (loss) was recognized in other comprehensive income (loss). Consistent with REALpac Guidance and in order to enhance the usefulness and comparability of FFO as a supplemental measure of the operating performance of the REIT, the REIT's share of its associate's post acquisition net income (loss) is added/(deducted) to/(from) net income and FFO is presented after including the REIT's proportionate share of the associate's FFO.

(ix) **Internal leasing costs**

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

(x) **Net loss on disposal of investment properties**

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

(xi) **Gain on business combination**

Consistent with REALpac Guidance the REIT has adjusted FFO for the gain recognized on acquisitions accounted for as a business combination.

(xii) **Goodwill impairment loss**

Consistent with REALpac Guidance the REIT has adjusted FFO for the goodwill impairment loss.

(xiii) **Amortization of finance leases**

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

(xiv) **Other FFO adjustments**

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

ADJUSTED FUNDS FROM OPERATIONS ("AFFO")

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

In February 2018, REALpac issued a White Paper with recommendations for the calculation of AFFO. The REIT's AFFO definition differs from the recently-issued REALpac Guidance in that the REIT excludes the revaluation of financial liabilities, amortization of transactional deferred financing charges, debt mark-to-market adjustments, DUP compensation expense, and debt repayment costs in its AFFO calculations.

ADJUSTED FUNDS FROM OPERATIONS						
Expressed in thousands of Canadian dollars, except per unit amounts	Three months ended December 31,			Year ended December 31,		
	2018	2017	Variance	2018	2017	Variance
Funds From Operations ("FFO")⁽¹⁾	\$ 26,525	\$ 23,010	\$ 3,515	\$ 98,817	\$ 97,569	\$ 1,248
Add / (Deduct):						
(i) Amortization of marked to market adjustment	(470)	(889)	419	(2,060)	(3,165)	1,105
(ii) Amortization of transactional deferred financing charges	853	940	(87)	6,238	4,173	2,065
(iii) Straight-line revenue	(451)	359	(810)	(367)	1,011	(1,378)
Less: non-controlling interests' share of straight-line revenue	(110)	(316)	206	(531)	(1,101)	570
(iv) Leasing costs and non-recoverable maintenance capital expenditures	(3,568)	(3,093)	(475)	(12,108)	(12,277)	169
Less: non-controlling interests' share of actual capex and leasing costs	634	93	541	1,072	1,709	(637)
(v) DUP Compensation Expense	1,156	1,063	93	4,759	4,791	(32)
(vi) Debt repayment costs	—	1,280	(1,280)	2,506	1,455	1,051
(vii) Net adjustments for equity accounted entities	—	—	—	—	(750)	750
Adjusted Funds From Operations ("AFFO")⁽¹⁾	\$ 24,569	\$ 22,447	\$ 2,122	\$ 98,326	\$ 93,415	\$ 4,911
AFFO per Unit - Basic	\$ 0.20	\$ 0.19	\$ 0.01	\$ 0.81	\$ 0.88	\$ (0.07)
AFFO per Unit - fully diluted ⁽³⁾	\$ 0.20	\$ 0.19	\$ 0.01	\$ 0.79	\$ 0.84	\$ (0.05)
Distributions per Unit - Basic	\$ 0.20	\$ 0.20	\$ —	\$ 0.80	\$ 0.80	\$ —
Adjusted weighted average units outstanding:⁽²⁾						
Basic	121,169,117	118,191,998	2,977,119	120,707,017	106,318,041	14,388,976
Diluted ⁽³⁾	141,619,740	135,720,043	5,899,697	141,219,389	126,628,027	14,591,362

Notes

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

(2) Under IFRS the REIT's Class B LP Units are treated as a financial liability rather than equity. The REIT has chosen to present an adjusted basic and diluted per unit measure that includes the Class B LP Units in basic and diluted units outstanding/weighted average units outstanding. There were 17,708,065 Class B LP Units outstanding as at December 31, 2018 and 18,998,065 outstanding as at December 31, 2017.

(3) Diluted units includes vested but unissued deferred trust units and the conversion of the REIT's Convertible Debentures that would have a dilutive effect upon conversion at the holders' contractual conversion price. Convertible Debentures are dilutive if the interest (net of tax and other changes in income or expense) per unit obtainable on conversion is less than the basic per unit measure.

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

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

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

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

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

(iii) **Straight-line revenue**

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

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

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

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

(v) **DUP Compensation Expense**

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

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

(vi) **Debt repayment costs**

For the three months ended December 31, 2018, the REIT did not incur any debt repayment costs. During the year ended December 31, 2018 the REIT incurred debt repayment costs of \$2.5 million related to the early repayment of the mortgage related to Dundas Edward Centre in Canada which was sold in the first quarter.

During the three months and year ended December 31, 2017, the REIT incurred debt repayment costs of \$1.3 million and \$1.5 million, respectively, related to a Canadian investment property sold during the fourth quarter as well as prepayment costs related to the redemption of the two series of Convertible Debentures. During the year ended December 31, 2017, the REIT incurred debt repayment costs related to refinancing of certain German mortgages.

(vii) **Net adjustments for equity accounted entities**

In July 2017, the REIT completed the 100% acquisition of the Australia REIT, therefore beginning in the third quarter of 2017, the REIT consolidates the Australia REIT into its results. Up until June 30, 2017, under IFRS the REIT's investment in associate is accounted for using the equity method of accounting. As such, the REIT's share of its associate's post acquisition net income (loss) was recognized in its net income (loss), and its share of post-acquisition movements in other comprehensive income (loss) was recognized in other comprehensive income (loss). In order to enhance the usefulness and comparability of AFFO as a supplemental measure of the operating performance of the REIT, the REIT's share of its associate's post acquisition net income (loss) is added/(deducted) to/(from) net income and AFFO is presented after including the REIT's proportionate share of the associate's AFFO.

NORMALIZED AFFO

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

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

Expressed in thousands of Canadian dollars, except per unit amounts

	Q4 2018	Q4 2018	Q4 2018	Annualized
		Per Unit	Annualized	Per Unit
AFFO as reported	\$ 24,569	\$ 0.20	\$ 98,276	
Normalization adjustments ⁽¹⁾ :				
(2) Acquisition and disposition activities			11,102	
(3) Accrued indexation related to Brazil leases			1,419	
(4) ANZ manager base management fee			39	
(5) Interest expenses on completed financing activities during the quarter			5,593	
(6) Potential debt optimization post quarter			7,904	
(7) One-time items			(7,089)	
(8) On-going developments			1,188	
Normalized AFFO on an annualized basis			\$ 118,432	\$ 0.88
Weighted average units outstanding for the Q4 2018 period (000s)				121,169
(9) Normalization adjustment				13,501
Normalized Units Outstanding (000s) - December 31, 2018				134,670

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

- (1) Represents the full year effect of items recognized in the quarter that are seasonal; the full year effect of transactions that have closed during the quarter; and the full year effect of transactions that have closed in the subsequent quarter; all that will have an impact on future quarters.
- (2) To reflect the impact of the REIT's net investment activity completed during and post quarter as disclosed in **HIGHLIGHTS FOR THE QUARTER, SUBSEQUENT EVENTS** and **INVESTMENT PROPERTIES**, and investments activity for which close was still pending at reporting date, including German MOB acquisitions and HSO Portfolio acquisition.
- (3) To reflect the estimated impact of contracted inflation (IPCA) indexation on current net rents of Brazilian leases based on the actual YTD IPCA of 2.6% and Q4 2018 average exchange rates.
- (4) To reflect the estimated increase in the ANZ Manager's base management fees net of non-controlling interests and taxes, converted at Q4 2018 average foreign exchange rates assuming a total gross asset value ("GAV") of \$1.8 billion representing the GAV of Vital Trust as at December 31, 2018.
- (5) To reflect the impact of the REIT's net financing activity completed during and post quarter as disclosed in **HIGHLIGHTS FOR THE QUARTER, SUBSEQUENT EVENTS** and **CAPITALIZATION AND LIQUIDITY** as summarized below:

Financing Activity						
Expressed in thousands of Canadian dollars						
	Value	Interest Rate %	Normalized interest expense	Reported interest expense	Quarterly interest savings	Annualized interest savings
Adjustments to reflect full quarter activity:						
Issuance of Convertible Debenture	125,000	5.50%	1,719	207	(1,512)	(6,046)
Corporate and Australasian facility repayments	(173,000)	6.70%	(2,910)	—	2,910	11,639
Total	\$ (48,000)		\$ (1,191)	\$ 207	\$ 1,398	\$ 5,593

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

Debt Optimization						
Expressed in thousands of Canadian dollars						
	Value	Interest Rate %	Normalized interest expense	Reported interest expense	Quarterly interest savings	Annualized interest savings
Adjustments to reflect potential debt optimization post quarter:						
Repayment of high cost debt	(147,256)	8.60%	—	3,174	3,174	12,696
Potential debt optimization - refinancing (incl. transaction costs)	93,986	5.10%	1,198	—	(1,198)	(4,792)
Total	\$ (53,270)		\$ 1,198	\$ 3,174	\$ 1,976	\$ 7,904

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

DISTRIBUTIONS

For the three months and year ended December 31, 2018, the REIT declared a total of \$24.2 million and \$96.6 million, respectively, in distributions, including distributions on Exchangeable Units. These distributions reflect an annualized distribution rate of \$0.80 per unit per annum.

For the three months and year ended December 31, 2017, the REIT declared a total of \$24.0 million and \$86.0 million, respectively, in distributions, including distributions on Exchangeable Units. These distributions reflect an annualized distribution rate of \$0.80 per unit per annum.

Distribution Reinvestment Plan

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

During the three months and year ended December 31, 2018, a total of 206,797 and 762,436, respectively trust units were issued under the DRIP (three months and year ended December 31, 2017, a total of 162,179 and 612,236 trust units, respectively).

For the three months and year ended December 31, 2018 the REIT's DRIP participation rate was 10.7% and 10.1%, respectively (three months and year ended December 31, 2017 - 9.1% and 9.1%, respectively).

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

DIFFERENCES BETWEEN CASH FLOW FROM OPERATIONS/NET INCOME AND CASH DISTRIBUTIONS				
Expressed in thousands of Canadian dollars	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Net income (loss) attributable to unitholders	\$ 72,744	\$ 34,384	\$ 65,715	\$ 67,387
Add: Finance cost - Exchangeable Unit distributions	3,542	3,800	14,167	15,199
Adjusted net income (loss)	<u>\$ 76,286</u>	<u>\$ 38,184</u>	<u>\$ 79,882</u>	<u>\$ 82,586</u>
Cash flow from operating activities attributable to unitholders	\$ 5,318	\$ 19,371	\$ 77,894	\$ 76,269
Distributions paid and payable				
Trust Units	\$ 20,702	\$ 20,190	\$ 82,439	\$ 70,823
Exchangeable Units	3,542	3,800	14,167	15,199
	<u>\$ 24,244</u>	<u>\$ 23,990</u>	<u>\$ 96,606</u>	<u>\$ 86,022</u>
Surplus (shortfall) of adjusted net income (loss) attributable to unitholders over distributions paid and payable	<u>\$ 52,042</u>	<u>\$ 14,194</u>	<u>\$ (16,724)</u>	<u>\$ (3,436)</u>
Surplus (shortfall) of cash flow from operating activities attributable to unitholders over distributions paid and payable	\$ (18,926)	\$ (4,619)	\$ (18,712)	\$ (9,753)
Value of Trust Units issued pursuant to the DRIP	<u>\$ 2,140</u>	<u>\$ 1,773</u>	<u>\$ 8,205</u>	<u>\$ 6,363</u>

During the three months and year ended December 31, 2018, the REIT's cash flow from operating activities were insufficient to pay distributions. For the three months and year ended December 31, 2018, the table above identifies a \$18.9 million and \$18.7 million, respectively, of distributions that were financed from other sources being primarily draws on the REIT's Revolving Credit Facility and the DRIP. For the three months and year ended December 31, 2018, a significant driver of the shortfall relates to changes in non-cash working capital balances, which for the year to date period were a use of operating cash flow of \$18.5 million and \$24.2 million, respectively. Working capital can fluctuate from quarter to quarter depending on timing of cash receipts/payments.

For the three months ended December 31, 2018 the REIT had a surplus between adjusted net income and distributions paid to unitholders of \$52.0 million (for the year ended December 31, 2018 - shortfall of \$16.7). Adjusted net income attributable to unitholders for the period reflects material non-cash items such as fair value adjustments to investment properties, goodwill impairment, financial instruments and deferred taxes, which do not impact cash flow and are not considered in the REIT's distribution policy. In establishing distribution payments, the REIT does not take fluctuations in working capital into consideration.

Participants in the REIT's DRIP have their distribution entitlement used to purchase Trust Units and also receive a "bonus distribution" of Trust Units equal in value to 3% of each distribution. During the year ended December 31, 2018, there was \$2.1 million and \$8.2 million in value of Trust Units issued respectively, under the DRIP (year ended December 31, 2017, there was \$1.8 million and \$6.4 million in value of Trust Units, respectively). While reducing the cash required to settle the REIT's distributions, the Trust Units issued, pursuant to the DRIP, may in future result in additional cash distributions, should the holders of these Trust Units opt out of the DRIP.

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

In assessing its distribution policy, the REIT considers not only cash flows from operating activities (attributable to unitholders) but also AFFO. Due to the timing of cash receipts relating to certain adjustments affecting AFFO and the fact that certain AFFO adjustments are non-cash, a portion of the 2018 distributions were funded by financing activities. The REIT believes that it is able to sustain distributions in the near term as the REIT measures distributions in relation to AFFO and the REIT believes it will be able to obtain new financing to meet its cash flow requirements due to the timing of cash receipts relating to certain adjustments affecting AFFO.

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

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

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

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

RECONCILIATION OF CASH FLOW FROM OPERATIONS TO AFFO						
Expressed in thousands of Canadian dollars	Three months ended December 31,			Year ended December 31,		
	2018	2017	Variance	2018	2017	Variance
Cash flow from operating activities	\$ 17,711	\$ 20,510	\$ (2,799)	\$ 93,315	\$ 90,840	\$ 2,475
Add (deduct):						
Non-cash interest expense	(7,845)	(3,429)	(4,416)	(17,141)	(10,017)	(7,124)
Non-cash current taxes	(2,363)	4,006	(6,369)	4,321	4,140	181
Changes in non-cash working capital balances	18,525	7,154	11,371	24,238	16,158	8,080
AFFO of equity accounted entities	—	—	—	—	(39,693)	39,693
Other FFO adjustments	2,697	2,647	50	8,695	5,307	3,388
Internal leasing costs	319	598	(279)	1,921	2,041	(120)
Amortization of recurring financing charges	(1,069)	(952)	(117)	(4,139)	(3,273)	(866)
Non-recurring transaction costs	4,359	858	3,501	13,462	13,291	171
Leasing costs and non-recoverable maintenance capital expenditures	(3,568)	(3,093)	(475)	(12,108)	(12,277)	169
Interest income and other	1,110	2,090	(980)	7,737	4,550	3,187
Amortization of deferred revenue	—	355	(355)	—	1,229	(1,229)
Straight-line revenue	(451)	359	(810)	(367)	1,011	(1,378)
Redemption of units issued under the DUP	266	560	(294)	2,399	2,371	28
Amortization of furniture and office equipment	(361)	(304)	(57)	(1,299)	(1,409)	110
Foreign exchange	(180)	—	(180)	(483)	—	(483)
Debt repayment costs	—	1,280	(1,280)	2,506	1,455	1,051
Share of profit (loss) from associates	(94)	—	(94)	(94)	43,681	(43,775)
AFFO attributable to non-controlling interest	(4,487)	(10,192)	5,705	(24,637)	(25,990)	1,353
	<u>\$ 6,858</u>	<u>\$ 1,937</u>	<u>\$ 4,921</u>	<u>\$ 5,011</u>	<u>\$ 2,575</u>	<u>\$ 2,436</u>
AFFO	\$ 24,569	\$ 22,447	\$ 2,122	\$ 98,326	\$ 93,415	\$ 4,911

QUARTERLY PERFORMANCE

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

QUARTERLY PERFORMANCE								
Expressed in thousands of Canadian dollars								
except per unit amounts								
	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17
Summary of Financial Information								
Gross Book Value ("GBV") ⁽¹⁾	\$ 5,071,648	\$ 4,679,638	\$ 4,940,139	\$ 4,758,598	\$ 4,684,028	\$ 4,454,086	\$ 4,161,721	\$ 3,645,527
Debt - Declaration of Trust ⁽²⁾	\$ 2,423,137	\$ 2,311,377	\$ 2,478,536	\$ 2,230,749	\$ 2,190,179	\$ 2,079,307	\$ 1,810,466	\$ 1,480,961
Debt to GBV - Declaration of Trust	47.8%	49.4%	50.2%	46.9%	46.8%	46.7%	43.5%	40.6%
Debt - Including Convertible Debentures ⁽²⁾	\$ 2,824,372	\$ 2,606,685	\$ 2,771,924	\$ 2,524,660	\$ 2,487,036	\$ 2,421,546	\$ 2,151,363	\$ 1,819,363
Debt to GBV - Incl. Convertible Debentures	55.7%	55.7%	56.1%	53.1%	53.1%	54.4%	51.7%	49.9%
Operating Results								
Revenue from investment properties	\$ 89,143	\$ 87,044	\$ 85,157	\$ 88,248	\$ 84,436	\$ 83,932	\$ 73,134	\$ 72,464
Net income (loss)	\$ 103,607	\$ (28,469)	\$ 39,139	\$ 14,463	\$ 60,119	\$ (71,213)	\$ 161,799	\$ 74,534
NOI ⁽³⁾	\$ 66,802	\$ 65,213	\$ 65,254	\$ 66,177	\$ 63,229	\$ 61,805	\$ 54,131	\$ 52,894
FFO ⁽³⁾	\$ 26,525	\$ 24,504	\$ 24,601	\$ 23,187	\$ 23,009	\$ 24,123	\$ 25,912	\$ 24,524
AFFO ⁽³⁾	\$ 24,569	\$ 24,294	\$ 24,392	\$ 25,070	\$ 22,403	\$ 23,310	\$ 25,154	\$ 22,504
Distributions ⁽⁴⁾	\$ 24,244	\$ 24,196	\$ 24,128	\$ 24,038	\$ 23,990	\$ 21,322	\$ 21,291	\$ 19,419
Per Unit Amounts ⁽⁵⁾								
FFO per unit - Basic	\$ 0.22	\$ 0.20	\$ 0.20	\$ 0.19	\$ 0.19	\$ 0.23	\$ 0.24	\$ 0.26
AFFO per unit - Basic	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.21	\$ 0.19	\$ 0.22	\$ 0.24	\$ 0.24
Distributions	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20
Adjusted Weighted Average Units Outstanding ⁽⁵⁾								
Basic	121,169,117	120,955,418	120,551,483	120,137,990	118,191,998	106,585,010	106,015,975	94,212,738

Notes

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

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

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

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

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

PART IV – CAPITALIZATION AND LIQUIDITY

CAPITAL STRUCTURE

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

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

The following table shows the REIT's total capital as at December 31, 2018 and December 31, 2017:

CAPITAL STRUCTURE		
	As at December 31, 2018	As at December 31, 2017
Expressed in thousands of Canadian dollars		
Mortgages and loans payable	\$ 2,423,137	\$ 2,132,356
Deferred consideration	—	38
Mortgages related to assets held for sale	—	57,785
Debt - Declaration of Trust ⁽¹⁾	2,423,137	2,190,179
Convertible Debentures at Fair Value	401,235	296,857
Debt - Including Convertible Debentures ⁽¹⁾	2,824,372	2,487,036
Mortgages and loans payable - marked to market	3,316	5,376
Mortgages and loans payable - unamortized financing costs	(16,791)	(22,765)
Total Debt	2,810,897	2,469,647
DUP Liability	13,030	18,009
Class B LP Exchangeable Units	167,872	216,008
Unitholders' equity	947,722	947,670
Total Capitalization	\$ 3,939,521	\$ 3,651,334

Notes

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

Unitholders' Equity

The following table reconciles the movements in the units outstanding for the year ended December 31, 2018:

UNITS OUTSTANDING	
Trust Units outstanding, December 31, 2017	101,039,187
Issuance of Trust Units under the DRIP	180,057
Issuance of Trust Units under the DUP	78,200
Issuance of Trust Units pursuant to conversion of Convertible Debentures	4,800
Issuance of Trust Units pursuant to conversion of Exchangeable Units	1,290,000
Trust Units outstanding, March 31, 2018	102,592,244
Issuance of Trust Units under the DRIP	183,563
Issuance of Trust Units under the DUP	374,558
Trust Units outstanding, June 30, 2018	103,150,365
Issuance of Trust Units under the DRIP	192,019
Issuance of Trust Units pursuant to conversion of Convertible Debentures	1,066
Trust Units outstanding, September 30, 2018	103,343,450
Issuance of Trust Units under the DRIP	206,797
Issuance of Trust Units under the DUP	20,000
Trust Units outstanding, December 31, 2018	103,570,247

Class B LP Units

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

On January 31, 2018, the REIT converted 1,290,000 Class B units to Trust units. There were 17,708,065 Exchangeable Units outstanding as at December 31, 2018 (December 31, 2017 - 18,998,065).

Debt

DEBT

Expressed in thousands of Canadian dollars

As at December 31, 2018						
	Weighted Average Interest Rate ⁽¹⁾	Outstanding Balance	Marked to Market	Unamortized Financing Costs	Balance	Maturity
Canada mortgages	3.63%	\$ 492,143	\$ 3,316	\$ (974)	\$ 494,485	March 2019 - January 2029
Brazil debt ⁽²⁾	7.28%	195,093	—	(8,191)	186,902	May 2026 - November 2027
Europe mortgages	2.25%	330,107	—	(2,237)	327,870	August 2020 - September 2028
Australasia term loans	4.53%	977,909	—	(3,352)	974,557	October 2020 - September 2023
Corporate debt	6.16%	424,923	—	(2,037)	422,886	January 2019 - January 2021
	4.54%	\$ 2,420,175	\$ 3,316	\$ (16,791)	\$ 2,406,700	
Finance Lease	7.00%	2,962	—	—	2,962	February 2088
Total Mortgages and Loans Payable	4.55%	\$ 2,423,137	\$ 3,316	\$ (16,791)	\$ 2,409,662	
Deferred consideration	n/a	—	—	—	—	n/a
Total Debt excluding Convertible Debentures	4.55%	\$ 2,423,137	\$ 3,316	\$ (16,791)	\$ 2,409,662	
Convertible Debentures (Corporate)	5.55%	412,029	(10,794)	—	401,235	October 2019 - December 2023
Total Debt	4.69%	\$ 2,835,166	\$ (7,478)	\$ (16,791)	\$ 2,810,897	

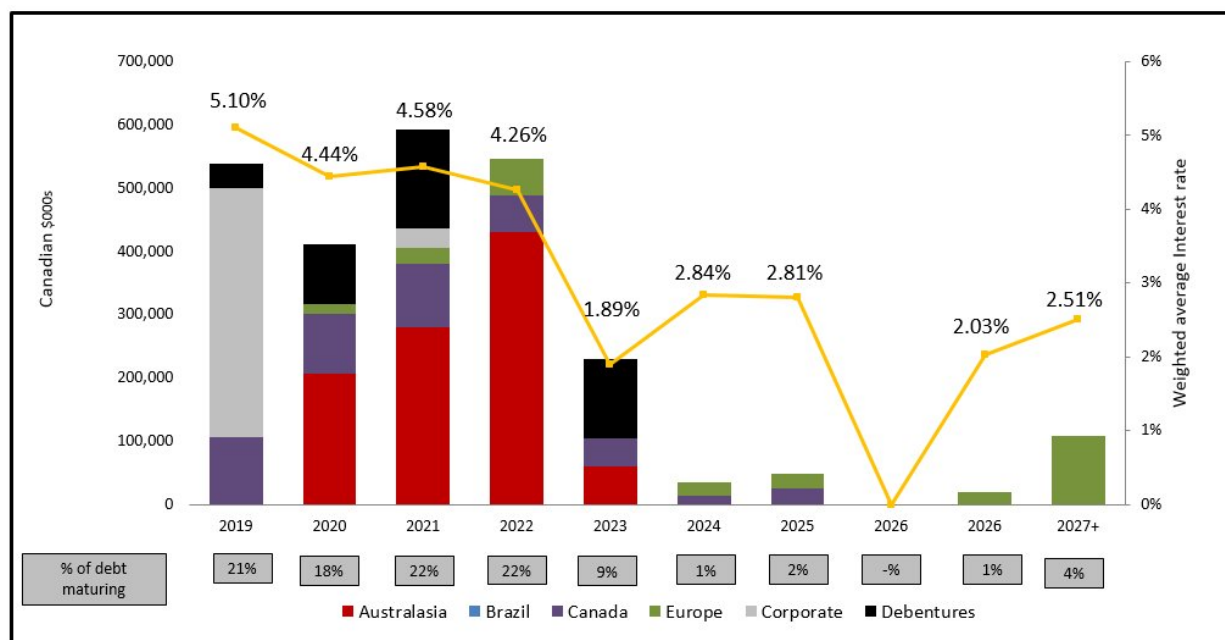
As at December 31, 2017						
	Weighted Average Interest Rate ⁽¹⁾	Outstanding Balance	Marked to Market	Unamortized Financing Costs	Balance	Maturity
Canada mortgages	3.83%	\$ 582,684	\$ 5,376	\$ (1,344)	\$ 586,716	July 2018 - January 2029
Brazil debt ⁽²⁾	7.28%	221,208	—	(10,803)	210,405	May 2026 - November 2027
Europe mortgages	1.91%	137,608	—	(1,458)	136,150	August 2020 - December 2027
Australasia term loans	3.96%	897,672	—	(4,725)	892,947	July 2018 - November 2021
Corporate debt	5.26%	293,184	—	(4,435)	288,749	July 2018 - November 2019
	4.31%	\$ 2,132,356	\$ 5,376	\$ (22,765)	\$ 2,114,967	
Finance Lease	7.00%	9,802	—	—	9,802	February 2088
Total Mortgages and Loans Payable	4.33%	\$ 2,142,158	\$ 5,376	\$ (22,765)	\$ 2,124,769	
Deferred consideration	n/a	38	—	—	38	n/a
Total Debt excluding Convertible Debentures	4.33%	\$ 2,142,196	\$ 5,376	\$ (22,765)	\$ 2,124,807	
Convertible Debentures (Corporate)	5.57%	287,083	9,774	—	296,857	October 2019 - December 2021
Total Debt	4.47%	\$ 2,429,279	\$ 15,150	\$ (22,765)	\$ 2,421,664	

Notes

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

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

The following chart summarizes, as at December 31, 2018, the REIT's debt maturities:



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

DEBT MATURITIES

Expressed in thousands of Canadian dollars	Canada		Brazil		Europe		Australasia		Corporate	
	Total debt payable	WAIR	Total debt payable	WAIR	Total debt payable	WAIR	Total debt payable	WAIR	Total debt payable	WAIR
2019	\$ 120,453	3.58 %	\$ 18,528	—%	\$ 9,335	—%	\$ —	—%	\$392,923	6.02%
2020	104,790	3.80 %	19,888	—%	25,682	1.42%	207,604	4.50%	—	—%
2021	109,432	3.12 %	21,349	—%	31,649	2.46%	279,831	4.50%	32,000	8.20%
2022	65,032	3.81 %	22,918	—%	64,637	2.10%	429,791	4.61%	—	—%
2023	47,584	4.16 %	24,605	—%	6,250	—%	60,683	4.14%	—	—%
2024	16,452	4.30 %	26,418	—%	25,690	1.80%	—	—%	—	—%
2025	26,628	3.50 %	28,366	—%	27,991	2.02%	—	—%	—	—%
2026	541	—%	22,778	—%	5,010	—%	—	—%	—	—%
2027	573	—%	10,243	—%	24,452	2.03%	—	—%	—	—%
2028 and thereafter	658	—%	—	—%	109,411	2.51%	—	—%	—	—%
	<u>\$ 492,143</u>	<u>3.63 %</u>	<u>\$ 195,093</u>	<u>7.28%</u>	<u>\$ 330,107</u>	<u>2.25%</u>	<u>\$ 977,909</u>	<u>4.53%</u>	<u>\$ 424,923</u>	<u>6.16%</u>
Marked to market premium	3,316	(0.9)%	—	—	—	—	—	—	—	—
	<u>\$ 495,459</u>	<u>2.76 %</u>	<u>\$ 195,093</u>	<u>7.28%</u>	<u>\$ 330,107</u>	<u>2.25%</u>	<u>\$ 977,909</u>	<u>4.53%</u>	<u>\$ 424,923</u>	<u>6.16%</u>
Unamortized financings costs	(974)		(8,191)		(2,237)		(3,352)		(2,037)	
Total	<u><u>\$ 494,485</u></u>		<u><u>\$ 186,902</u></u>		<u><u>\$ 327,870</u></u>		<u><u>\$ 974,557</u></u>		<u><u>\$ 422,886</u></u>	

The table below summarizes the movements in the REIT's mortgages and loans during the three months and year ended December 31, 2018:

DEBT CONTINUITY						
	Canada Mortgages	Brazil Debt	Europe Mortgages	Australasia Term Loans	Corporate Debt	Total ⁽¹⁾
Opening balance, October 1, 2018	\$ 541,768	\$ 173,664	\$ 286,556	\$ 882,007	\$ 412,117	\$ 2,296,112
Principal amortization	(3,794)	—	(2,122)	—	—	(5,916)
Repayments	(43,195)	(4,211)	—	(48,065)	—	(95,471)
Advances	—	—	32,870	115,712	3,500	152,082
Additional financing fees incurred	(8)	—	(648)	(150)	(1,031)	(1,837)
Amortization of finance fees	184	440	87	855	357	1,923
Amortization of mark-to-market	(470)	—	—	—	—	(470)
Inflation adjustment	—	1,622	—	—	—	1,622
Foreign exchange adjustment	—	15,387	11,127	24,198	7,943	58,655
Ending balance, December 31, 2018	\$ 494,485	\$ 186,902	\$ 327,870	\$ 974,557	\$ 422,886	\$ 2,406,700

	Canada Mortgages	Brazil Debt	Europe Mortgages	Australasia Term Loans	Corporate Debt	Total ⁽¹⁾
Opening balance, January 1, 2018	\$ 586,716	\$ 210,405	\$ 136,150	\$ 892,947	\$ 288,749	\$ 2,114,967
Principal amortization	(15,596)	—	(6,358)	—	—	(21,954)
Assumed debt	—	—	34,786	—	—	34,786
Repayments	(74,946)	(16,745)	—	(478,382)	(119,000)	(689,073)
Refinancing	—	—	—	—	85,500	85,500
Advances	—	—	156,757	579,886	163,500	900,143
Additional financing fees incurred	(267)	—	(1,152)	(1,880)	(1,992)	(5,291)
Amortization of finance fees	638	1,870	358	6,526	986	10,378
Amortization of mark-to-market	(2,060)	—	—	—	—	(2,060)
Inflation adjustment	—	7,740	—	—	—	7,740
Foreign exchange adjustment	—	(16,368)	7,329	(24,540)	5,143	(28,436)
Ending balance, December 31, 2018	\$ 494,485	\$ 186,902	\$ 327,870	\$ 974,557	\$ 422,886	\$ 2,406,700

(1) Total debt excluding finance lease

During the three months ended December 31, 2018, the REIT repaid one maturing Canadian mortgage of \$43.2 using the advances from the revolving credit facility. The proceeds from the convertible debenture offering were used to partially repay the additional draw on the revolving credit facility and \$48.1 million of the ANZ facility. The advances on the Australasian term loans, net of repayment, of approximately \$67.6 million, were used to fund the additional strategic investment in HSO and to acquire two development properties. The REIT entered into two new German mortgages totaling \$32.9 million fund the acquisitions of two German properties (see **Highlights for the Quarter**).

Finance Lease Payable

The lease of land on which one of Australia REIT's investment properties is built is accounted for as a finance lease. The remaining term of the lease at December 31, 2018 was 69 years. There is no purchase option. On September 21, 2018, the REIT sold 70% of the finance lease as part of the disposition of the Seed Portfolio.

Convertible Debentures

The following table summarizes, as at December 31, 2018, the REIT's Convertible Debentures:

CONVERTIBLE DEBENTURES						
Expressed in thousands of Canadian dollars	Fair Value ⁽¹⁾	Face Value	Interest Rate	Conversion Price per Unit	Maturity Date	Interest Payment Dates
As at December 31, 2018						
Series NWH.DB	39,445	40,250	5.25%	\$ 14.20	September 30, 2020	March 31, September 30
Series NWH.DB.C	38,749	38,750	7.25%	\$ 12.50	October 31, 2019	April 30, October 31
Series NWH.DB.D	51,711	52,767	5.50%	\$ 11.25	October 31, 2020	April 30, October 31
Series NWH.DB.E	74,003	74,750	5.25%	\$ 12.75	July 31, 2021	January 31, July 31
Series NWH.DB.F	78,890	80,500	5.25%	\$ 12.80	December 31, 2021	June 30, December 31
Series NWH.DB.G	118,437	125,000	5.50%	13.35	December 31, 2023	June 30, December 31
	\$ 401,235	\$ 412,017	5.55%			

Notes

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

During the year ended December 31, 2018, \$0.1 million of the NWH.DB.D debentures were converted to REIT units (year ended December 31, 2017 - \$nil).

DUP Liability

Under IFRS, the REIT's DUP Liability is measured at fair value each reporting period. The fair value of the DUP Liability mirrors the trading price of the REIT Trust Units. As at December 31, 2018 the DUP Liability is \$13.0 million (December 31, 2017 - \$18.0 million) representing 3,411,243 deferred units of which 1,120,702 are vested but not exercised (December 31, 2017 - 3,755,443 deferred units of which 1,433,183 are vested but not exercised).

RATIOS AND COVENANTS

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

The REIT's overall borrowing policy is to obtain secured mortgage financing on a primarily fixed rate basis, with a term to maturity that is appropriate having regard to the lease maturity profile for each property and which allows the REIT to (i) achieve and maintain staggered debt maturities to lessen exposure to interest rate fluctuations and re-financing risk in any particular period and (ii) fix the rates and extend loan terms as long as possible when borrowing conditions are favourable. The following summarizes the status of these key ratios as at and for the year ended December 31, 2018 and 2017:

RATIOS ⁽¹⁾						
Expressed in thousands of Canadian dollars					As at December 31, 2018	As at December 31, 2017
Gross book value ⁽¹⁾					\$ 5,071,648	\$ 4,684,028
Debt - declaration of trust ⁽¹⁾					\$ 2,423,137	\$ 2,190,179
Debt to Gross Book Value - Declaration of Trust					47.8%	46.8%
Debt - including convertible debentures ⁽¹⁾					\$ 2,824,372	\$ 2,487,036
Debt to Gross Book Value - Including Convertible Debentures					55.7%	53.1%
	Three months ended December 31,			Year ended December 31,		
	2018	2017	Variance	2018	2017	Variance
Income (Loss) before taxes	\$ 125,651	\$ 85,752	\$ 39,899	\$ 201,464	\$ 276,417	\$ (74,953)
Add (deduct):						
Mortgage and loan interest expense	32,148	30,728	1,420	124,275	101,771	22,504
Distributions on Exchangeable Units	3,542	3,800	(258)	14,167	15,199	(1,032)
Amortization of deferred financing costs	1,923	1,892	31	10,377	7,446	2,931
Amortization of marked to market adjustment	(470)	(889)	419	(2,060)	(3,165)	1,105
EBITDA	\$ 162,794	\$ 121,283	\$ 41,511	\$ 348,223	\$ 397,668	\$ (49,445)
Loss on revaluation of financial liabilities	1,621	558	1,063	19,125	3,667	15,458
Fair market value losses (gains)	(107,963)	(57,323)	(50,640)	(184,937)	(234,579)	49,642
DUP compensation expense	1,156	1,063	93	4,759	4,791	(32)
Foreign exchange loss (gain)	(2,516)	(7,343)	4,827	(244)	(7,412)	7,168
Net loss on disposal of investment properties	14	675	(661)	2,702	675	2,027
Convertible debenture issuance costs	5,611	—	5,611	5,611	—	5,611
Gain on business combination	—	—	—	—	89,578	(89,578)
Transaction costs	4,359	858	3,501	13,462	13,291	171
Impairment loss on Goodwill	—	—	—	50,096	—	50,096
Less: share of (profit) loss of associates	94	—	94	94	(43,681)	43,775
Add: distribution income from equity accounted associates	—	—	—	—	1,898	(1,898)
Adjusted EBITDA	\$ 65,170	\$ 59,771	\$ 5,399	\$ 258,891	\$ 225,896	\$ 32,995
Mortgage and loan interest expense	\$ 32,148	\$ 30,728	\$ (1,420)	\$ 124,275	\$ 101,771	\$ (22,504)
Less: debt repayment costs	—	(1,280)	(1,280)	(2,506)	(1,455)	1,051
Adjusted mortgage and loan interest expense	\$ 32,148	\$ 29,448	\$ (2,700)	\$ 121,769	\$ 100,316	\$ (21,453)
Interest coverage	2.03	2.03	—	2.13	2.25	(0.12)
Notes						
(1) As defined in Non-IFRS measures used in this MD&A.						

LIQUIDITY AND CASH RESOURCES

Cash Resources and Liquidity

CASH AND LIQUIDITY		
Expressed in thousands of Canadian dollars		
	<u>As at December 31, 2018</u>	<u>As at December 31, 2017</u>
Cash	\$ 45,808	\$ 71,704
Restricted Cash	351	363
Total	\$ 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.

The REIT also has a Revolving Credit Facility that provides for additional liquidity. As at December 31, 2018, the drawn balance on the Revolving Credit Facility was \$244.5 million of the \$250.0 million available to be drawn. The liquidity of the Australasian Secured Financing fluctuates based on the market price (as defined in the agreement) of the pledged units securing the facilities and is currently fully drawn.

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

Subsequent to December 31, 2018, the REIT further increased its liquidity by way of an equity financing and refinancing of new and existing facilities (see **Subsequent Events**).

Contractual cash flows

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

The following table sets out the REIT's contractual cash flows as at December 31, 2018:

CONTRACTUAL CASH FLOWS								
Expressed in thousands of Canadian dollars	Carrying amount	Contractual cash flow	2019	2020	2021	2022	2023	Thereafter
Accounts payable and accrued liabilities	\$ 74,881	\$ 74,881	\$ 74,881	\$ —	\$ —	\$ —	\$ —	\$ —
Distributions payable	6,905	6,905	6,905	—	—	—	—	—
Income tax payable	8,226	8,226	8,226	—	—	—	—	—
Convertible debentures	401,235	479,086	56,990	113,071	170,276	6,874	131,875	—
Finance lease payable	2,962	2,962	124	119	114	110	105	2,390
Mortgages and loans payable	2,406,700	2,571,562	576,869	389,237	497,831	601,709	153,375	352,541
Total	\$2,900,909	\$ 3,143,622	\$723,995	\$502,427	\$668,221	\$608,693	\$285,355	\$ 354,931

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

The REIT's current liabilities totaled \$670.1 million, exceeding current assets of \$99.0 million, resulting in a working capital deficiency of \$571.1 million as at December 31, 2018.

Current liabilities include:

- The Canadian Non-Revolving Secured Credit Facility with a balance of \$51.2 million which matures in May 2019. The REIT currently expects to refinance the facility on or before its maturity.
- Australasian Secured Financing facilities of \$100.4 million and \$48.1 million which both mature in July 2019. Subsequent to the quarter, the REIT repaid the \$48.1 million of Australasian Secured Financing facilities (see **Highlights for the Quarter**). The REIT currently expects to repay or renew the remaining facility on or before their maturity.
- Non-Revolving Credit Facility totaling \$125.0 million that matures in October 15, 2019. The REIT plans to fully repay the facility using proceeds from the equity offering on February 26, 2019 (see **Subsequent Events**).
- \$56.2 million of Canadian mortgage maturities that the REIT expects to refinance in the normal course as they mature.
- Convertible debenture series NWH.DB.D with fair value of \$38.8 million mature October 31, 2019. The REIT expects to repay the debenture series on or before their maturity.

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

Changes in Cash

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

NET CHANGE IN CASH ⁽¹⁾						
Expressed in thousands of Canadian dollars	Three months ended December 31, 2018			Year ended December 31, 2018		
	2018	2017	Variance	2018	2017	Variance
Cash provided by / (used in):						
Operating activities	\$ 17,711	\$ 20,510	\$ (2,799)	\$ 93,315	\$ 90,840	\$ 2,475
Investing activities	(168,650)	(153,213)	(15,437)	(325,178)	(773,306)	448,128
Financing activities	142,295	169,309	(27,014)	205,831	739,651	(533,820)
Net increase / (decrease) in cash during the period	(8,644)	36,606	(45,250)	(26,032)	57,185	(83,217)
Effect of foreign currency translation	326	631	(305)	136	(5,436)	5,572
Net increase / (decrease) in cash during the period	\$ (8,318)	\$ 37,237	\$ (45,555)	\$ (25,896)	\$ 51,749	\$ (77,645)

Operating activities

Cash generated by operating activities totaled \$17.7 million for the three months ended December 31, 2018 as compared to \$20.5 million for the three months ended December 31, 2017, an decrease of \$2.8 million. This decrease is primarily related to a negative working capital movement of \$11.4 million, partially offset by decrease in mortgage and loan interest paid of \$3.0 million and a \$3.6 million increase in NOI.

Cash generated by operating activities totaled \$93.3 million for the year ended December 31, 2018 as compared to \$90.8 million for the year ended December 31, 2017, an increase of \$2.5 million. This increase is primarily related to a \$31.4 million improvement in NOI, partially offset by \$8.1 million negative working capital movement, \$15.4 million increase in mortgage and loan interest paid and an increase to taxes paid of \$7.7 million.

Investing activities

Cash used by investing activities totaled \$168.7 million for the three months ended December 31, 2018, which is primarily related to acquisitions of investment properties of \$67.6 million, additions to investment properties of \$32.3 million and investment in HSO forward contract of \$68.9 million.

Cash used by investing activities totaled \$325.2 million for the year ended December 31, 2018, which is primarily due to \$452.8 million related to acquisitions of investment properties, \$92.3 million of additions to investment properties and the prepayment of the HSO forward contract of \$156.3 million; offset by the net proceeds from disposal of investment properties of \$377.0 million.

Financing activities

Cash generated by financing activities totaled \$142.3 million for the three months ended December 31, 2018 as compared to cash provided by financing activities totaling \$169.3 million during the three months ended December 31, 2017.

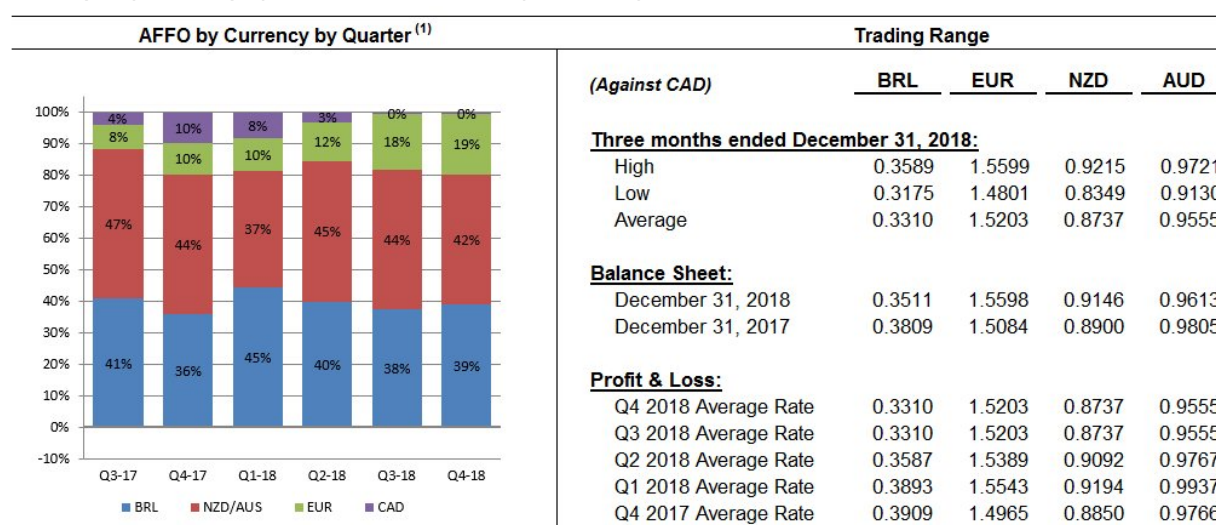
During the three months ended December 31, 2018 the REIT received net advances from mortgages, loans payable and credit facilities of \$52.6 million and net proceeds from issuance of convertible dentures of \$119.4 million. The REIT paid financing fees of \$1.8 million, paid distributions to REIT unitholders of \$22.1 million and paid distributions to non-controlling unitholders of Vital Trust and the Australia REIT of \$5.9 million.

Cash provided by financing activities totaled \$205.8 million for the year ended December 31, 2018 as compared to \$739.7 million during the year ended December 31, 2017.

During the year ended December 31, 2018 the REIT received net advances from mortgages, loans payable and credit facilities of \$222.6 million, received net proceeds from issuance of convertible debentures of \$119.4 million, paid financing fees of \$5.2 million, paid distributions to REIT unitholders and Class B LP Units of \$88.2 million, paid distributions to non-controlling unitholders of Vital Trust and the Australia REIT of \$22.9 million and settled securitization repayment of \$19.6 million related to Hospital Sabara in Brazil.

FOREIGN EXCHANGE AND CURRENCY MANAGEMENT

For the three months ended December 31, 2018, approximately 100% of the REIT's AFFO was conducted in currencies other than Canadian dollars, while its distributions to Unitholders, certain general and administrative expenses, interest expenses and interest income were denominated in Canadian dollars. A summary of the REIT's currency exposure by quarter for the last five quarters is presented below:



Notes

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

For the three months ended December 31, 2018, a portion of the AFFO generated in foreign currencies was retained in those foreign currencies to provide funds for operations, future investments in those foreign jurisdictions and to minimize currency conversion costs, while a portion has been repatriated back to Canada to fund distributions, interest payments and other corporate expenses.

For the three months ended December 31, 2018, Canadian dollar AFFO was \$0.1 million while Canadian dollar distributions paid in cash to unitholders totaled \$24.2 million. Deficiencies were funded from cash repatriated to Canada from Brazil, Europe, Australia, and New Zealand and the draws on the Revolving Credit Facility.

As at December 31, 2018, the REIT held approximately \$2.5 million of cash and receivables denominated in Canadian Dollars.

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

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

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

Among the REIT's global currencies, compared to December 31, 2017, the BRL and AUD down 7.8% and 2.0%, respectively, whereas the EUR and NZD are up 3.4% and 2.8%, respectively.

PART V – RELATED PARTY TRANSACTIONS

- a) As at December 31, 2018, NWVP indirectly owned approximately 21% of the outstanding Trust Units (approximately 17% on a fully-diluted basis assuming conversion of the REIT's Convertible Debentures and redemption of its deferred units) of the REIT through a combination of Trust Units of the REIT and Class B LP Units. Paul Dalla Lana, Chairman of the Board of Trustees and Chief Executive Officer ("CEO") of the REIT, is the sole shareholder, sole director and President of NWVP.
- b) The following table summarizes the related party transactions with NWVP and its affiliates related to cost reimbursements (advances), and the Cost-Sharing and Sublease Agreements during the period:

RELATED PARTY TRANSACTIONS						
Expressed in thousands of Canadian dollars	Three months ended December 31,			Year ended December 31,		
	2018	2017	Variance	2018	2017	Variance
Out-of-pocket costs	\$ 145	\$ 170	\$ (25)	\$ 637	\$ 964	\$ (327)
Cost-sharing and sublease amounts	1,718	12	1,706	1,708	139	1,569

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

RELATED PARTY BALANCE SHEET AMOUNTS					
Expressed in thousands of Canadian dollars	As at December 31, 2018		As at December 31, 2017		Variance
Amounts receivable (payable)					
Out-of-pocket costs advanced (paid)	\$	184	\$	60	\$ 124
Amounts payable					
Class B Exchangeable Unit distributions	\$	1,181	\$	1,267	\$ (86)

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

PART VI – CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A summary of significant accounting policies is described in note 2 of the REIT's audited consolidated financial statements and accompanying notes for the year ended December 31, 2018.

The preparation of financial statements in conformity with IFRS requires the REIT to make judgments, estimates, and assumptions that affect the reported amounts recognized in the financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the financial statements. Actual results could differ from estimates. The significant judgments and key estimates made by the REIT are outlined below:

Critical accounting estimates

Intangible asset

Intangible asset represents the REIT's rights and obligations under the contract between the ANZ Manager, a group of wholly-owned subsidiaries of the REIT, and 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 governs the fee stream paid Vital Trust does not expire and therefore, the contract is deemed an indefinite-life intangible asset.

Incentive fee revenue

At the end of the measurement period, revenues from incentive fees earned by ANZ Manager are recorded on the accrual basis based on the estimated amount that would be due under the Vital Trust fee formula as established by the contract. The calculated incentive fee from Vital Trust includes management estimates of capitalization rates, foreign currency exchange rates, and the timing of completion of development and acquisition activities.

As the REIT consolidates Vital Trust, the management fees do not appear on the consolidated income statement of the REIT as it is an inter-company transaction. However, the REIT's Unitholders receive the benefit of approximately 75% of the management fees earned from Vital Trust, representing the amount that is paid by the non-controlling interest of Vital Trust.

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.

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 (see 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.

Interests in associates

If it is determined that objective evidence exists that indicate that the REIT's interest in its associates has been impaired, the investment must be written down to its estimated fair value. Estimates used in determining the fair value of the associates include discount rates, inflation rates, net operating income and cash flows.

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.

Critical Judgments in Applying Accounting Policies

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.

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 Northwest Healthcare Australia RE Limited, Australia REIT, and Acquisition of GHM have been accounted for as asset acquisitions.

Consolidation of 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 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.

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.

PART VII – RISKS AND UNCERTAINTIES

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

RISKS RELATING TO REAL PROPERTY OWNERSHIP

Real Property Ownership and Tenant Risks

All real property investments are subject to elements of risk. By specializing in a particular type of real estate, the REIT is exposed to adverse effects on that segment of the real estate market and does not benefit from a diversification of its portfolio by property type. The value of real property and any improvements thereto depends on the credit and financial stability of tenants, and upon the vacancy rates of the properties. Cash flows will be adversely affected if a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of available space in the properties in which the REIT has an interest becomes vacant and is not able to be leased on economically favourable lease terms, if at all. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to the REIT than the existing lease. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting the REIT's investment may be incurred. Furthermore, at any time, a tenant of any of the properties in which the REIT has an interest may seek the protection of bankruptcy, insolvency or similar laws that could result in the disclaimer and termination of such tenant's lease, any of which events could have an adverse effect on the REIT's financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders. Certain of the REIT's tenants, such as laboratories, may require licences to operate their business. To the extent these businesses are unable to obtain licences or maintain existing licences, the REIT's operations may be adversely impacted. The ability to rent unleased space in the properties in which the REIT will have an interest will be affected by many factors, including general economic conditions, local real estate markets, changing demographics, supply and demand for leased premises, competition from other available premises and various other factors, many of which are beyond the REIT's control.

Fixed Costs

The failure to rent unleased space on a timely basis or at all would likely have an adverse effect on the REIT's financial condition and results of operation and decrease the amount of cash available for distribution to Unitholders. Certain significant expenditures, including property taxes, ground rent, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether a property is producing any income. If the REIT is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale. Costs may also be incurred in making improvements or repairs to property required by a new tenant and income may be lost as a result of any prolonged delay in attracting suitable tenants to the vacant space. The timing and amount of capital expenditures by the REIT will indirectly affect the amount of cash available for distribution to Unitholders. Distributions may be reduced, or even eliminated, at times when the REIT deems it necessary to make significant capital or other expenditures.

Liquidity

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the REIT were to be required to liquidate its real property investments, the proceeds to the REIT might be significantly less than the aggregate carrying value of its properties which could have an adverse effect on the REIT's financial condition and results of operation and decrease the amount of cash available for distribution to Unitholders.

Competition

The real estate business is competitive. Numerous other developers, managers and owners of office properties will compete with the REIT in seeking tenants. Some of the properties located in the same markets as the REIT's properties are newer, better located, less levered or have stronger tenant profiles than the REIT's properties. Some property owners with properties located in the same markets as the REIT's properties may be better capitalized and may be stronger financially and hence better able to withstand an economic downturn. The existence of developers, managers and owners in such markets and competition for the REIT's tenants could have a negative effect on the REIT's ability to lease space in its properties in such markets and on the rents charged or concessions granted, which could have an adverse effect on the REIT's financial condition and results of operation and decrease the amount of cash available for distribution to Unitholders. Competition for acquisitions of real property can be intense and some competitors may have the ability or inclination to acquire properties at a higher price or on terms less favourable than those that the REIT may be prepared to accept. An increase in the availability of investment funds, an increase in interest in real property investments or a decrease in interest rates may tend to increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them.

Current Economic Environment

Continued concerns about the uncertainty over whether the global economy will be adversely affected by inflation, deflation or stagflation, and the systemic impact of increased unemployment, volatile energy costs, geopolitical issues, the availability and cost of credit, and the mortgage market in certain regions have contributed to increased market volatility and weakened business and consumer confidence. Although the healthcare real estate industry is an asset class that is not typically impacted by recessions or economic slowdowns, this difficult operating environment could adversely affect the REIT's ability to generate revenues, thereby reducing its operating income and earnings. It could also have an adverse impact on the ability of the REIT to maintain occupancy rates in the REIT's properties, which could harm the REIT's financial condition. If these economic conditions worsen, the REIT's tenants and operators may be unable to meet their rental payments and other obligations due to the REIT, which could have a material adverse effect on the REIT.

Environmental Matters

Environmental legislation and regulations have become increasingly important in recent years. As an owner of interests in real property in Brazil, Germany, the Netherlands, Australia, New Zealand and Canada, the REIT is subject to various federal, state and municipal laws relating to environmental matters in each jurisdiction. Such environmental laws impose actual and contingent liabilities on us to undertake remedial action on contaminated sites and in contaminated buildings.

Laws and regulations, as may be amended over time, may also impose liability for the release of certain materials into the air or water from a property, including asbestos, and such release could form the basis for liability to third persons for personal injury or other damages. In addition, if the REIT's officers infringe or have infringed environmental protection laws, the REIT could be exposed to civil or criminal damages. The REIT may be required to provide for additional reserves to sufficiently allocate toward the REIT's potential obligations to remove and dispose of any hazardous and toxic substances. Any such event could have a material and adverse effect on the

REIT's cash flows, financial condition and results of operations and the REIT's ability to make distributions on the Units.

The REIT is not aware of any material non-compliance with environmental laws at any of its properties, and is not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties. The REIT strives to set policies and procedures to assess, manage and monitor environmental conditions at its properties to manage exposure to liability.

The REIT intends to make the necessary capital and operating expenditures to comply with environmental laws and address any material environmental issues and such costs relating to environmental matters may have a material adverse effect on the REIT's properties, financial condition or results of operation and decrease the amount of cash available for distribution. However, environmental laws can change and the REIT may become subject to even more stringent environmental laws in the future, with increased enforcement of laws by the government. Compliance with more stringent environmental laws, which may be more rigorously enforced, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have an adverse effect on the REIT's financial condition and results of operation and decrease the amount of cash available for distribution to Unitholders.

Terrorism

Possible terrorist attacks in the markets where the REIT's properties are located may result in declining economic activity, which could reduce the demand for space at the REIT's properties and reduce the value of the REIT's properties. Additionally, terrorist activities could directly affect the value of the REIT's properties through damage, destruction or loss. The REIT's insurance may not cover some losses due to terrorism or such insurance may not be obtainable at commercially reasonable rates. Terrorism may have a material and adverse effect on the REIT's business, cash flows, financial condition, results of operations and ability to make distributions to Unitholders.

Litigation at the Property Level

The acquisition, ownership and disposition of real property carry certain specific litigation risks. Litigation may be commenced with respect to a property acquired by the REIT or its subsidiaries in relation to activities that took place prior to the REIT's acquisition of such property. In addition, at the time of disposition of an individual property, a potential buyer may claim that it should have been afforded the opportunity to purchase the asset or alternatively that such buyer should be awarded due diligence expenses incurred or damages for misrepresentation relating to disclosures made, if such buyer is passed over in favour of another as part of the REIT's efforts to maximize sale proceeds. Similarly, successful buyers may later sue the REIT under various damage theories, including those sounding in tort, for losses associated with latent defects or other problems not uncovered in due diligence.

General Litigation Risks

In the normal course of the REIT's operations, whether directly or indirectly, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to the REIT and as a result, could have a material adverse effect on the REIT's assets, liabilities, business, financial condition and results of operations. Even if the REIT prevails in any such legal proceedings, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from the REIT's business operations, which could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to Unitholders.

Property Development, Redevelopment and Renovations

Property development, redevelopment or major renovation work are subject to a number of risks, including: (i) the potential that the REIT may fail to recover expenses already incurred if it abandons redevelopment opportunities after commencing to explore them; (ii) the potential that the REIT may expend funds on and devote management time to projects which it does not complete; (iii) construction or redevelopment costs of a project may exceed original estimates, possibly making the project less profitable than originally estimated, or unprofitable; (iv) the time required to complete the construction or redevelopment of a project or to lease up the completed project may be greater than originally anticipated, thereby adversely affecting the REIT's cash flow and liquidity; (v) the cost and timely completion of construction (including risks beyond the REIT's control, such as weather, labour conditions or material shortages); (vi) contractor and subcontractor disputes, strikes, labour disputes or supply disruptions; (vii) the failure to achieve expected occupancy and/or rent levels within the projected time frame, if at all; (viii) delays with respect to obtaining, or the inability to obtain, necessary zoning, occupancy, land use and other governmental permits, and changes in zoning and land use laws; (ix) occupancy rates and rents of a completed project may not be sufficient to make the project profitable; (x) the REIT's ability to dispose of properties redeveloped with the intent to sell could be impacted by the ability of prospective buyers to obtain financing given the current state of the credit markets; and (xi) the availability and pricing of financing to fund the REIT's development activities on favourable terms or at all.

The above risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent the initiation of redevelopment activities or the completion of redevelopment activities once undertaken. In addition, redevelopment projects entail risks that investments may not perform in accordance with expectations and can carry an increased risk of litigation (and its attendant risks) with contractors, subcontractors, suppliers, partners and others. Any of these risks could have an adverse effect on the REIT's financial condition, results of operations, cash flow, per Unit trading price of the Units, distributions to Unitholders and ability to satisfy the REIT's principal and interest obligations. Also, it is anticipated that the REIT would be required to execute a guarantee in connection with construction financing for development which would subject the REIT to recourse for construction completion risks and repayment of the construction indebtedness.

RISKS RELATING TO THE BUSINESS OF THE REIT

Financing and Interest Rate Risks

As at December 31, 2018 the REIT had outstanding indebtedness of \$2,810,897, including the Convertible Debentures, but excluding Class B LP Units. Although a portion of the cash flow generated by investment properties will be devoted to servicing such debt, there can be no assurance that the REIT will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If the REIT is unable to meet interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. The failure of the REIT to make or renegotiate interest or principal payments or obtain additional equity, debt or other financing could adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders.

The REIT will be subject to the risks associated with debt financing, including the risk that the mortgages and banking facilities secured by the REIT's properties will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness, which may reduce AFFO. In order to minimize this risk, the REIT will attempt to diversify the term structure of its debt so that in no one year a disproportionate amount of its debt matures. As at December 31, 2018, \$821,983 of the REIT's total indebtedness is at variable rates (excludes \$839,663 of variable rate loans that have been hedged to fixed interest rates with interest rate swaps). This will result in fluctuations in the REIT's cost of borrowing as interest rates change. To the extent that interest rates rise, the REIT's operating results and financial condition could be adversely affected and decrease the amount of cash available for distribution.

The Revolving Credit Facility contains covenants that require the REIT to maintain certain financial ratios on a consolidated basis. If the REIT does not maintain such ratios, the lenders have certain rights under the agreement that may restrict the REIT from accessing the Revolving Credit Facility, which may limit the REIT's ability to make distributions.

Acquisitions

The REIT's business plan includes growth through identifying suitable acquisition opportunities, pursuing such opportunities, consummating acquisitions and effectively operating and leasing such properties. If the REIT is unable to manage its growth effectively, it could adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders. There can be no assurance as to the pace of growth through property acquisitions or that the REIT will be able to acquire assets on an accretive basis, and as such there can be no assurance that distributions to Unitholders will increase in the future.

Acquisitions and development agreements entered into with third parties may be subject to unknown, unexpected or undisclosed liabilities which could have a material adverse impact on the operations and financial results of the REIT. Representations and warranties given by such third parties to the REIT may not adequately protect against these liabilities and any recourse against third parties may be limited by the financial capacity of such third parties. Moreover, the acquired properties may not meet expectations of operational or financial performance due to unexpected costs associated with developing an acquired property, as well as the general investment risks inherent in any real estate investment.

Increasing interest rates could position the REIT to be less competitive in pursuing new acquisitions on a basis that is accretive to AFFO per Unit on the basis that (a) increasing interest rates and associated costs could lead to increases in capitalization rates, which could result in a decrease in the REIT's net asset value and therefore put upward pressure on the REIT's debt to gross book value ratio, thereby requiring the REIT to offset this by employing lower leverage levels on new acquisitions, or curtail its acquisition activities if it is unable to find accretive acquisitions; and (b) increasing interest rates outpacing rental rate growth (which may be an issue where rents are inflation adjusted) could lead to margin pressure, and when combined with increasing capitalization rates, may negatively impact the REIT's Unit price, thereby increasing its cost of equity.

Healthscope Property Transaction

Completion of the Healthscope Property Transaction is subject to the satisfaction of certain closing conditions, including approval under the *Foreign Acquisitions and Takeovers Act 1975*(Cth) and completion of the Brookfield / Healthscope Transaction. If one or both of these conditions has not been satisfied by the applicable sunset date, then either party may terminate the individual sale contracts effecting the Healthscope Property Transaction. There is no assurance that the Healthscope Property Transaction, or the Brookfield / Healthscope Transaction will be completed, or if completed, will be on terms that are exactly the same as has been disclosed. If the Healthscope Property Transaction is not completed as contemplated, the REIT will not realize the benefits from the Healthscope Property Transaction as anticipated, and could suffer adverse consequences, including loss of investor confidence.

Certain agreements effecting the Healthscope Property Transaction and the Brookfield / Healthscope Transaction may be terminated by Healthscope or Brookfield for reasons including, but not limited to, defaults of the REIT and its subsidiary under such agreements, failure of the REIT to meet certain funding milestone obligations and breaches by the REIT of individual sale contracts effecting the Healthscope Property Transaction.

The REIT may have to make liquidated damages and/or expense reimbursement payments in certain circumstances where the Healthscope Property Transaction is not completed. These payments could be material to the REIT.

If the REIT were to materially default, beyond applicable cure periods, on its obligations under the Healthscope Property Transaction then the sale contracts effecting the Healthscope Property Transaction may be terminated or assigned to another property investor and the REIT may be subject to damages, including up to A\$50 million of liquidated damages in certain specified circumstances and up to A\$250 million of liquidated damages in certain other limited circumstances when the properties cannot be sold to another property investor despite Brookfield's good faith efforts. These payments are non-exclusive remedies, and are in addition to any other rights which Brookfield may have.

As a result of entering into the Healthscope Property Transaction, the REIT may assume unknown liabilities that could be significant. There may be liabilities, including under applicable environmental laws, that the REIT failed to discover or was unable to quantify in its due diligence review, and which tenants may fail to remedy notwithstanding their obligations under applicable leases. The subsequent discovery or quantification of any other material liabilities could have a material adverse effect on the REIT's business, financial condition or future prospects, which could include diminution in the value of one or more of the acquired assets or the inability to finance or dispose of the one or more of the assets on acceptable terms.

The REIT intends to structure the Healthscope Property Transaction such that the REIT will hold at closing an approximate 25% to 30% ownership interest in the acquired properties. In order for the REIT to achieve its desired ownership level in the acquired properties, the REIT intends to enter into ownership arrangements with others. The terms and structure of such arrangements have not currently been finalized and there is no assurance that such arrangements will be finalized prior to the date the REIT is required to satisfy certain funding milestone obligations, the completion of the Healthscope Property Transaction or at all. Even if such arrangements are entered into, they may not be on terms currently anticipated by the REIT and/or may not reduce the REIT's ownership level in the acquired properties to the currently contemplated range. The failure to enter into such ownership arrangements to the desired extent on a timely basis or at all could have a material adverse effect on the REIT's business or financial condition, which could include an increase in the REIT's indebtedness, adverse impacts on the REIT's ability to obtain future funding on favourable terms, the inability to realize the expected benefits from the Healthscope Property Transaction, and the inability to meet the certain funding milestone obligations. If the REIT cannot finalize the terms and structure of such ownership arrangements with others in a timely manner, the REIT may be unable to fulfill its obligations to Brookfield, thus subjecting the REIT to liquidated damages and liability for other applicable remedies Brookfield may have under certain Healthscope Property Transaction documents.

The representations and warranties provided by the sellers as part of the Healthscope Property Transaction are customary for an "as is" transaction of this nature in Australia; however, there can be no assurance of adequate recovery by the REIT from the sellers for any breach of the representations, warranties and covenants of the such sellers under such agreements.

The Healthscope Property Transaction involves risks that could materially and adversely affect the REIT's business plan, including the failure of the Healthscope Property Transaction to realize the results the REIT expects. While management believes the Healthscope Property Transaction will be accretive, such determination is based on certain assumptions and should not be regarded as a guarantee of future performance or results. If the Healthscope Property Transaction fails to realize the results that the REIT expects there may be a decline in the trading price of the REIT's securities, a requirement to pay certain costs related to the Healthscope Property Transaction and loss of investor confidence.

For a detailed description of the risks related to the Healthscope Property Transaction, see the section titled "Risk Factors" in the prospectus supplement of the REIT dated February 18, 2019.

Development

The REIT is and expects to be increasingly involved in the development of MOB properties or in the redevelopment or expansion of existing hospital assets. Developing land is subject to the risks usually attributable to construction projects, which include: (i) construction or other unforeseen delays; (ii) cost overruns; (iii) the failure of tenants to occupy and pay rent in accordance with existing lease agreements, some of which are conditional; (iv) the inability to achieve projected rental rates or anticipated pace of lease-ups; (v) general construction risks; and (vi) an increase in interest rates during the life of the development or redevelopment. Furthermore, property development is a relatively new line of business for the REIT. As a result, development risks associated with such projects may be greater due to the REIT's developing experience in this area.

Access to Capital

The real estate industry is highly capital intensive. The REIT will require access to capital to maintain its properties, as well as to fund its growth strategy and significant capital expenditures from time to time. Although the REIT's Revolving Credit Facility is available for acquisitions, there can be no assurances that the REIT will otherwise have access to sufficient capital or access to capital on terms favourable to the REIT for future property acquisitions, financing or refinancing of properties, funding operating expenses or other purposes. In addition, the REIT may not be able to borrow funds under the Revolving Credit Facility or other debt instruments due to the limitations on the incurrence of debt by the REIT set forth in the Declaration of Trust. Failure by the REIT to access required capital could adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution.

General Insured and Uninsured Risks

The activities carried on by the REIT entail an inherent risk of liability. The REIT expects that from time to time it may be subject to lawsuits as a result of the nature of its activities. The REIT carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with customary policy specifications, limits and deductibles. The REIT will have insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements, and will continue to carry such insurance if it is economical to do so. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. A successful claim against the REIT not covered by, or in excess of, the REIT's insurance could have a material adverse effect on the REIT's activities, operating results and financial condition. Claims against the REIT, regardless of their merit or eventual outcome, also may have a material adverse effect on their ability to attract tenants or expand their businesses, and will require management to devote time to matters unrelated to the activities of the REIT.

Investment Concentration

As a result of the REIT's investments consisting solely of interests in commercial real estate with a particular concentration on healthcare, it will be subject to risks inherent in investments in a single industry. Demand for commercial healthcare real estate could be adversely affected by weakness in the national, regional and local economies, changes in supply of, or demand for, similar or competing properties in a particular market. To the extent that any of these conditions occur, they are likely to affect market rents for space, which could cause a decrease in the REIT's rental revenue from its properties. Any such decrease could impair the REIT's ability to satisfy any debt service obligations and generate stable positive cash flow from its operations.

Joint Venture Investments

The REIT currently has a number of joint venture investments, and may in the future co-invest with third parties through joint ventures. In any such joint venture, the REIT may not be in a position to exercise sole decision-making authority regarding the properties owned through joint ventures. Investments in joint ventures may, under certain circumstances, involve risks not present when a third party is not involved, including the possibility that joint venture partners might become bankrupt or fail to fund their share of required capital contributions. Joint venture partners may have business interests or goals that are inconsistent with the REIT's business interests or goals and may be in a position to take actions contrary to the REIT's policies or objectives. Such investments also have the potential risk of impasse on strategic decisions, such as a sale, because neither the REIT nor the joint venture partner would have full control over the joint venture. Any disputes that may arise between the REIT and its joint venture partners could result in litigation or arbitration that could increase the REIT's expenses and distract its officers and/or Trustees from focusing their time and effort on the REIT's business. In addition, the REIT might in certain circumstances be liable for the actions of its joint venture partners.

Risks Related to the Healthcare Industry

The healthcare industry is heavily regulated by various federal, regional and local regulatory bodies. As a result, the REIT's tenants will generally be subject to significant laws and regulations regarding licensing and reimbursement programs. Healthcare providers in many countries have been affected significantly by recent changes in healthcare laws and regulations, particularly those pertaining to government reimbursement programs. The purpose of much of the recent statutory and regulatory activity has been to limit or reduce healthcare costs, particularly costs paid under such programs. Many of the recent changes to these programs have resulted in significant reductions in payments to healthcare providers and/or claw-backs to billings in certain regions. The efforts to reduce the costs of government reimbursement programs are likely to continue, which could negatively affect the ability of the REIT's tenants to make lease payments.

MOBs may be highly customized and may not be easily adaptable to alternative uses. Private hospitals are typically leased to a single tenant, sole hospital operator. The improvements necessary to conform a building to healthcare use may be costly and tenant specific. A new or replacement tenant may require different features in a property, depending on the tenant's particular operations. If the REIT or its tenants terminate the leases for these properties, the REIT may not be able to locate suitable replacement tenants to lease the properties for their specialized uses. Consequently, the REIT may be required to spend substantial amounts to adapt the properties to other uses. Any loss of revenues and/or additional capital expenditures occurring as a result may adversely affect the financial position of the REIT.

Land Leases

To the extent the properties in which the REIT has or will have an interest are located on leased land, the land leases may be subject to periodic rate resets which may fluctuate and may result in significant rental rate adjustments which would likely adversely impact the REIT's financial condition and results of operation and decrease the amount of cash available for distribution. Land leases may also be terminated or not renewed upon expiry.

Specific Lease Considerations

Some of the leases in the REIT's properties are leased on a base year or semi-gross basis or otherwise have caps on operating costs and/or tax recoveries. As a result, the REIT will bear the economic cost of increases in certain of the operating costs and/or property taxes in such cases to the extent it is not able to fully recover increases in operating costs and property taxes from these tenants which increases would likely adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders.

Reliance on Key Personnel

The management and governance of the REIT depends on the services of certain key personnel including senior management. The loss of the services of any key personnel could have an adverse effect on the REIT and adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution. The REIT does not have key man insurance on any of its key employees.

Limit on Activities

In order to maintain its status as a "mutual fund trust" under the Tax Act, the REIT cannot carry on most active business activities and is limited in the types of investments it may make. The Declaration of Trust contains restrictions to this effect.

Occupancy by Tenants

Although certain, but not all, leases contain a provision requiring tenants to maintain continuous occupancy of leased premises, there can be no assurance that such tenants will continue to occupy such premises. Certain tenants have a right to terminate their leases upon payment of a penalty but others are not required to pay any penalty associated with an early termination. There can be no assurance that tenants will continue their activities and continue occupancy of the premises. Any cessation of occupancy by tenants may have an adverse effect on the REIT and could adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution.

Forecasted Occupancy Rates and Revenues in Excess of Historical Occupancy Rates and Revenues

Historical occupancy rates and revenues are not necessarily an accurate prediction of the future occupancy rates for the REIT's properties or revenues to be derived there from. There can be no assurance that, upon the expiry or termination of the leases currently in effect, the average occupancy rates and revenues will be the same as, or higher than, historical occupancy rates and revenues.

Lease Renewals and Rental Increases

Expiries of leases for the REIT's properties, including those of significant tenants, will occur from time to time over the short and long-term. No assurance can be provided that the REIT will be able to renew any or all of the leases upon their expiration or that rental rate increases will occur or be achieved upon any such renewals. The failure to renew leases or achieve rental rate increases may adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution.

Location of Properties in Foreign Countries

A substantial portion of the REIT's assets are located in foreign countries, specifically Australia / New Zealand, Brazil, Germany and the Netherlands and, as a result, are impacted by economic and other factors specifically affecting the real estate markets in those countries. These factors may differ from those affecting the real estate markets in other regions, including those in Canada. Although the REIT's international assets are dispersed across several foreign countries, a number of the REIT's international assets could nevertheless experience any of the same conditions at the same time due to global correlations. If real estate conditions in these countries decline relative to real estate conditions in other regions, the REIT's cash flows, operating results and financial condition may be more adversely affected than those of companies in Canada or that have different, or more, geographically diversified portfolios of properties.

Competition in Foreign Real Estate Markets

The real estate markets in Australia/ New Zealand, Brazil, Germany and the Netherlands are highly competitive and fragmented and the REIT and its equity investees compete for real property acquisitions with individuals, corporations, institutions and other entities which are seeking or may seek real property investments similar to those the REIT desires. An increase in the availability of investment funds or an increase in interest in real property investments may increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them. Numerous other developers, managers and owners of properties will compete with the REIT in seeking tenants. Some of the properties owned by the REIT's competitors are better located, better quality or less leveraged than the REIT's properties. Some of the REIT's competitors are better capitalized and stronger financially and hence better able to withstand an economic downturn. The existence of competition for tenants could have an adverse effect on the REIT's ability to lease space in its properties and on the rents charged or concessions granted, and could materially and adversely affect the REIT's cash flows, operating results and financial condition and the REIT's ability to make distributions on the Trust Units.

Exchange Rate Risks

Approximately 100% of the REIT's AFFO is generated in currencies other than Canadian dollars; however, the REIT pays distributions to Unitholders and interest on certain of its indebtedness in Canadian dollars. As a result,

fluctuations in such foreign currencies against the Canadian dollar could have a material adverse effect on the REIT's financial results, which is denominated and reported in Canadian dollars, and on the REIT's ability to pay cash distributions to Unitholders.

The REIT monitors its foreign exchange exposure and its hedging strategy on an ongoing basis. The REIT intends to maintain a hedging policy to mitigate the impact of foreign currency fluctuations and to provide more certainty regarding the payment of distributions to Unitholders if the Canadian dollar increases in value compared to foreign currencies. The REIT's hedging policy includes natural currency hedges as well as selectively implementing specific foreign currency hedging transactions, if economically viable. At this time, the REIT does not have any formal foreign currency hedging arrangements. To the extent that the REIT fails to adequately manage foreign exchange risks, including if any such hedging arrangements do not effectively or completely hedge changes in foreign currency rates, the REIT's financial results, and the REIT's ability to pay distributions to Unitholders, may be negatively impacted.

Hedging transactions involve the risk that counterparties, which are generally financial institutions, may be unable to satisfy their obligations. If any counterparties default on their obligations under the hedging contracts or seek bankruptcy protection, it could have an adverse effect on the REIT's ability to fund planned activities and could result in a larger percentage of future revenue being subject to currency changes. The REIT's obligations under hedging arrangements may be secured by all or a portion of the REIT's assets or cash, the value of which generally must cover the fair value of the transactions outstanding under the facility by some multiple. If the REIT is unable to provide adequate security to support currency hedging arrangements, the REIT will remain exposed to foreign currency fluctuations.

Breach of Privacy or Information Security Systems

The protection of tenant, employee, and company data is critically important to the REIT. The REIT's business requires it, including some of its vendors, to use and store personally identifiable and other sensitive information of its tenants and employees. The collection and use of personally identifiable information is governed by federal and provincial laws and regulations. Privacy and information security laws continue to evolve and may be inconsistent from one jurisdiction to another. Compliance with all such laws and regulations may increase the REIT's operating costs and adversely impact the REIT's ability to market the REIT's properties and services.

The security measures put in place by the REIT, and such vendors, cannot provide absolute security, and the REIT and its vendors' information technology infrastructure may be vulnerable to criminal cyber-attacks or data security incidents, including, ransom of data, such as, without limitation, tenant and/or employee information, due to employee error, malfeasance, or other vulnerabilities. Any such incident could compromise the REIT's or such vendors' networks, and the information stored by the REIT or such vendors could be accessed, misused, publicly disclosed, corrupted, lost, or stolen, resulting in fraud, including wire fraud related to REIT assets, or other harm. Moreover, if a data security incident or breach affects the REIT's systems or such vendors' systems or results in the unauthorized release of personally identifiable information, the REIT's reputation and brand could be materially damaged and the REIT may be exposed to a risk of loss or litigation and possible liability, including, without limitation, loss related to the fact that agreements with such vendors, or such vendors' financial condition, may not allow the REIT to recover all costs related to a cyber breach for which they alone or they and the REIT should be jointly responsible for, which could result in a material adverse effect on the REIT's business, results of operations, and financial condition.

Privacy and information security risks have generally increased in recent years because of the proliferation of new technologies, such as ransomware, and the increased sophistication and activities of perpetrators of cyber-attacks. In the future, the REIT may expend additional resources to continue to enhance the REIT's information security measures and/or to investigate and remediate any information security vulnerabilities. Despite these steps, there can be no assurance that the REIT will not suffer a data security incident in the future, that unauthorized parties will not gain access to sensitive data stored on the REIT's systems, or that any such incident will be discovered in a timely manner. Further, the techniques used by criminals to obtain unauthorized access to sensitive data, such as phishing and other forms of human engineering, are increasing in sophistication and are often novel or change

frequently; accordingly, the REIT may be unable to anticipate these techniques or implement adequate preventative measures.

If the REIT does not allocate and effectively manage the resources necessary to build and sustain reliable information technology infrastructure, fails to timely identify or appropriately respond to cybersecurity incidents, or the REIT's or its third-party vendors' information systems are damaged, destroyed, shut down, interrupted or cease to function properly, the REIT's business could be disrupted and the REIT could, among other things, be subject to: the loss of or failure to attract new residents; the loss of revenue; the loss or unauthorized access to confidential information or other assets; the loss of or damage to trade secrets; damage to its reputation; litigation; regulatory enforcement actions; violation of privacy, security or other laws and regulations; and remediation costs.

Expanding Social Media Vehicles

The use of social media could cause the REIT to suffer brand damage or information leakage. Negative posts or comments about the REIT or its properties on any social networking website could damage the REIT's reputation. In addition, employees or others might disclose non-public sensitive information relating to the REIT's business through external media channels. The continuing evolution of social media will present the REIT with new challenges and risks.

Risks Relating to Operating in an Emerging Market

The Brazil region is considered by some to be an "emerging market" and therefore subject to potential risks. Risks associated with operating in emerging markets may include:

- political factors, including political instability and arbitrary or sudden changes to laws;
- legal and regulatory frameworks, which may increase the likelihood that laws will not be enforced and judgments will not be upheld;
- the movement and conversion of currency out of the foreign jurisdiction, which could hinder the payment of distributions to Canadian investors;
- inflation;
- corruption, bribery, civil unrest and economic uncertainty, which may negatively impact and disrupt business operations;
- factors that may affect title to its assets;
- potential expropriation or nationalization of assets; and
- access to assets.

Owning and operating investment properties in Brazil poses unique risks. For example, the REIT considers Brazilian inflation to be a key risk, but believes it has mitigated this risk by structuring the payments due under the Brazilian leases indexed to inflation, annually over the term of the leases. The REIT also believes that it is subject to risks involving currency fluctuations, which it attempts to mitigate through obtaining Brazilian domiciled debt on the assets. Further, Portuguese is the primary language in which business is conducted in Brazil, however the majority of the REIT's service providers (legal, audit and tax) are fluent in English. The REIT's local Brazilian consultants are fluent in Portuguese and English. Language risk is mitigated through requiring all material documentation to be translated into English. Further, all material correspondence with management and the Board of Trustees in Canada is provided in both English and Portuguese.

The REIT's trustees retain effective control over the REIT's Brazilian operations through the REIT's corporate structure. The REIT's Brazilian assets are all owned by Brazilian domiciled entities, which in turn are all indirectly wholly-owned by NWI LP. The REIT's Brazilian subsidiaries are all corporate entities under Brazilian law, meaning they must conduct business at the highest governance levels and adhere to applicable regulatory requirements that include annual filings, disclosures and preparation of audited financial statements.

Because the REIT's Brazilian subsidiaries are wholly-owned, the REIT controls the operations of these entities. Among other things:

- The REIT can remove or replace any of the directors or officers of its Brazilian subsidiaries at any time pursuant to director or shareholder resolutions, as applicable.
- The REIT maintains complete control over the books and records of its Brazilian subsidiaries.
- The REIT can transfer funds from its Brazilian subsidiaries to Canada at any time, subject to compliance with applicable withholding tax laws and regulatory requirements of the central bank of Brazil.

The REIT also maintains stringent controls over cash and banking that mitigate risk on its Brazil operations. All payments follow normal accounts payable process, which includes adequate segregation of duties from approvals to payment and all wires and cheques are fully traceable.

The REIT's officers and trustees believe that the REIT's Brazilian operational structure represents a proper discharge of their stewardship responsibilities. Management updates the REIT's trustees on a regular basis on the regulatory, business and operating environment of the REIT's business in Brazil.

The REIT's CEO has extensive experience conducting business in Brazil as he has been operating in Brazil since 2011. During that time, the REIT's CEO has developed a deep familiarity with Brazil's real estate industry, regulatory environment, operating environment, financial markets, and culture and business practices. He has developed key relationships with the REIT's tenants and local advisors. The REIT's management team also relies on the expertise of reputable third party advisors with respect to legal, regulatory, tax and other matters in Brazil.

The REIT has adopted several formal procedures to address risks faced by the REIT, including certain risks related to Brazil. For example, the REIT has adopted a Code of Business Conduct and Ethics policy which requires all personnel to comply with applicable laws and explicitly prohibits improper payments to domestic and foreign officials. The REIT also requires all significant contracts to be translated into English by a reputable legal translator prior to execution. Lastly, as a matter of practice, all material Brazilian-based transactions are approved by the REIT's Trustees, with input from the REIT's management team and Brazilian personnel as appropriate.

Price Risk

The REIT is subject to fluctuations in the market price of its own securities as well as the market price of the Vital Trust Units. 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 equity investments may impact the value of its investments. The market price for the Units, the 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 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.

Price risk also impacts the Australasian Secured Financing. A decline in the market price of the units of Vital Trust may result in loan to value ratios that exceed the minimum requirements of the Australasian Secured Financing, thus resulting in cash payments being made to reduce the loan amounts outstanding. These cash payments could adversely impact the REIT's liquidity position and its ability to make distributions on the Units.

Vendor Indemnities and Prior Commercial Operations

When acquiring assets, the REIT endeavours to obtain certain representations and warranties with respect to the assets being acquired. Such representations and warranties, to the extent obtained, are subject to limitations, and generally represent unsecured contractual rights. As a result, there can be no assurance that the REIT will be fully protected by such representations and warranties against all adverse circumstances that may arise or in the event of a breach of such representations and warranties or that the vendors of the assets will be in a position to indemnify the REIT for any such breach. The REIT may not be able to successfully enforce claims it may have against vendors of its assets. The REIT may also be subject to undisclosed liability to third parties as a result of the prior history of its assets and such liability may be material, which could negatively impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution.

Significant Dependency on Single Tenant Leases in Brazil and Australia / New Zealand

The leases for Sabará, and the seven Rede D'Or properties (HMB, Hospital Santa Luzia, Hospital Coração, Hospital Caxias D'Or, Hospital Ifor, Hospital Santa Helena and Hospital São Luiz Morumbi) and many of the Vital Trust and GHC properties are with a single tenant, the operators of the facilities. Upon the expiry of the leases, there can be no assurance that they will be renewed or that the tenants will be replaced. If the tenants do not renew their leases, the REIT's cash flows, operating results, financial condition and its ability to make distributions on the Units could be materially and adversely affected. The Sabará Lease also contains a pre-emptive right in favour of the Sabará Tenant if the controlling interest or all of the shares of the REIT subsidiary that owns Sabará are sold during the term of the lease, offering the tenant the right to purchase the shares on the same terms. Rede D'Or has a right of first refusal on each of the seven Rede D'Or properties.

Significant Ownership by NWVP

NWVP currently indirectly owns approximately 20.8% of the issued and outstanding Trust Units (assuming the redemption of its Class B LP Units). Each Class B LP Unit is redeemable for a Trust Unit, and is attached to a Special Voting Unit of the REIT, providing for voting rights in the REIT.

For so long as NWVP maintains a 5% interest in the REIT, NWVP has (a) the right to appoint trustees to the board of the REIT (with such appointment rights varying based on the level of NWVP's ownership interest), and (b) pre-emptive rights to participate in future financings and other issuances of securities of the REIT in order to maintain its pro rata ownership interest in the REIT.

As a result of its ownership interest and contractual rights, NWVP can influence many matters affecting the REIT. NWVP's ownership interest also allows it to prevent certain fundamental transactions. NWVP's significant interest in the REIT may discourage transactions involving a change of control of the REIT, including transactions in which a holder of Units might otherwise receive a premium over the then-current market price.

NWVP may seek to sell some or all of its interest in the REIT in the future. No prediction can be made as to the effect, if any, that a future sale of Units by NWVP will have on the market price of the Units prevailing from time to time. However, the future sale of a substantial number of Units by NWVP, or the perception that such sale could occur, could adversely affect prevailing market prices for the Units.

Potential Conflicts of Interest

The REIT will be subject to various potential conflicts of interest because of the fact that its officers and Trustees are engaged in a wide range of business activities, including real estate property management, acquisition, development and ownership. In particular, Mr. Dalla Lana will face conflicts of interest because he is sole shareholder of NWVP, the Chairman and trustee of the REIT and the Chief Executive Officer of the REIT.

In addition, the REIT may also become involved in other transactions which conflict with the interests of its Trustees and the officers who may from time to time deal with persons, firms, institutions or corporations with which the

REIT may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the REIT. In addition, from time to time, these persons may be competing with the REIT for available investment opportunities. The Declaration of Trust contains conflict of interest provisions requiring the Trustees to disclose their interests in certain contracts and transactions and to refrain from voting on those matters.

Limitations on Enforcement of Certain Civil Judgments by Canadian Investors

Many of the REIT's subsidiaries are organized in foreign jurisdictions and are governed by foreign law. A significant portion of the REIT's assets are currently located outside of Canada. As a result, it may be difficult or impossible for investors to effect service within Canada upon the REIT's subsidiaries or their respective directors and officers who are not residents of Canada or to realize against them in Canada upon judgments of courts of Canada predicated upon the civil liability provisions of applicable Canadian provincial securities laws.

RISKS RELATING TO THE STRUCTURE OF THE REIT

Under current law, a trust may lose its status under the Tax Act as a mutual fund trust if it can reasonably be considered that the trust was established or is maintained primarily for the benefit of Non-Residents, except in limited circumstances. The Declaration of Trust permits the trustees to further amend the Declaration of Trust to limit the ownership of a particular holder (together with persons with which it does not deal at arm's length) to 20%, if desirable for foreign tax purposes. The Trustees have various powers that can be used for the purpose of monitoring and controlling the applicable ownership limitations. The ownership limitation may negatively affect the REIT's ability to raise financing for future acquisitions or operations. In addition, the ownership limitation could negatively impact the liquidity of the Trust Units and the market price at which Trust Units can be sold.

Taxation of Mutual Fund Trusts

There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the CRA respecting mutual fund trusts will not be changed in a manner that adversely affects Unitholders. Should the REIT cease to qualify as a mutual fund trust under the Tax Act, there could be material and adverse tax consequences to the REIT and Unitholders.

REIT Exception

The REIT Exception is comprised of a number of technical tests and the determination as to whether the REIT qualifies for the REIT Exception in any particular taxation year can only be made with certainty at the end of that taxation year. The REIT expects to qualify for the REIT Exception in 2019 and subsequent taxation years. However, subsequent investments or activities undertaken by the REIT and/or fluctuations in asset values could result in the REIT failing to qualify for the REIT Exception. In addition, the REIT owns a minority interest in certain of its foreign subsidiaries. No assurances can be given that the REIT's subsidiaries will satisfy the tests contained in the REIT Exception. In these circumstances, the REIT may not satisfy the REIT Exception. NWI LP will not be subject to the SIFT Rules provided it is an "excluded subsidiary entity", which among other things, requires that only specified persons own units of NWI LP. No assurances can be given that NWI LP will be exempt from the SIFT Rules, which could have a material adverse effect on the REIT and Unitholders. The likely effect of the SIFT Rules on the market for Units, and on the REIT's ability to finance future acquisitions through the issue of Units or other securities, is unclear. If the SIFT Rules apply to the REIT, they may adversely affect the marketability of the Units, the amount of cash available for distributions and the after-tax return to investors.

FAPI

FAPI earned by Canadian foreign affiliates (“CFAs”) of NWI LP must be included in computing the income of NWI LP for the fiscal year of NWI LP in which the taxation year of such CFA ends, subject to a deduction for grossed-up “foreign accrual tax” as computed in accordance with the Tax Act, and less certain amounts that are otherwise included in income. The deduction for grossed-up “foreign accrual tax” may not fully offset the FAPI realized by NWI LP, thereby increasing the allocation of income by NWI LP to the REIT and, therefore, the allocation of income by the REIT to Unitholders. Recent amendments to tax legislation address certain foreign tax credit generator transactions (the “**Foreign Tax Credit Generator Rules**”). The Foreign Tax Credit Generator Rules may limit the REIT’s ability to deduct grossed-up “foreign accrual tax”. In addition, as FAPI generally must be computed in accordance with Part I of the Tax Act (in Canadian currency) as though the CFA were a resident of Canada (subject to the detailed rules contained in the Tax Act), income or transactions may be taxed differently under foreign tax rules as compared to the FAPI rules and, accordingly, may result in additional income being allocated to Unitholders, including as a result of fluctuations in foreign exchange rates.

Change of Tax Law

There can be no assurance that Canadian or foreign income tax laws, the judicial interpretation thereof, the terms of any income tax treaty applicable to the REIT or its affiliates or the administrative and assessing practices and policies of the CRA, the Department of Finance (Canada) and any other tax authority or tax policy agency will not be changed in a manner that adversely affects the REIT, its affiliates or Unitholders. Any such change could increase the amount of tax payable by the REIT or its affiliates or could otherwise adversely affect Unitholders by reducing the amount available to pay distributions or changing the tax treatment applicable to Unitholders in respect of such distributions.

Non-Residents of Canada

The Tax Act may impose additional withholding or other taxes on distributions made by the REIT to Unitholders who are Non-Residents. These taxes and any reduction thereof under a tax treaty between Canada and another country may change from time to time. The tax consequences under the Tax Act to Non-Residents may be more adverse than the consequences to other Unitholders. Non-Resident Unitholders should consult their own tax advisors.

Foreign Tax Credits and Deductions

Foreign taxes paid by NWI LP will be allocated pursuant to its limited partnership agreement. Each Unitholder’s share of the “business-income tax” and “non-business-income tax” paid in a foreign country for a year will be creditable against its Canadian federal income tax liability to the extent permitted by the detailed rules contained in the Tax Act. Although the foreign tax credit provisions are designed to avoid double taxation, the maximum credit is limited. Because of this, and because of timing differences in recognition of expenses and income and other factors, double taxation may arise.

Under the Foreign Tax Credit Generator Rules, the foreign “business income tax” or “non-business-income tax”, each as defined in the Tax Act, for any taxation year may be limited in certain circumstances. No assurances can be given that the Foreign Tax Credit Generator Rules will not apply to any Unitholder. If the Foreign Tax Credit Generator Rules apply, a Unitholder’s foreign tax credits will be limited.

No assurances can be given that the REIT or its subsidiaries will be entitled to a foreign tax credit or deduction in Canada in respect of foreign taxes paid by its subsidiaries.

General Taxation

Although the REIT and its subsidiaries have been structured with the objective of maximizing after-tax distributions, taxes (including corporate, withholding, land transfer, and other taxes) in the various jurisdictions in which the

REIT invests will reduce the amount of cash available for distribution to the REIT by its subsidiaries and, therefore, reduce the amount of cash available for distribution by the REIT to Unitholders. No assurance can be given as to the future level of taxation suffered by the REIT or its subsidiaries. In addition, certain tax positions adopted by the REIT and its subsidiaries may be challenged by the CRA or another taxing authority. Any such challenge could materially increase taxes payable by the REIT and its subsidiaries, and thereby adversely affect the REIT's financial position and cash available for distribution to Unitholders.

Accrued Gains

The REIT has indirectly acquired certain assets on a fully or partially tax-deferred basis, as determined by the transferor. Accordingly, the adjusted cost base of such assets may be less than their fair market value when they were acquired, such that subsidiaries of the REIT may realize the deferred gain on a future disposition of those assets.

RISKS RELATING TO THE TRUST UNITS

Cash Distributions are Not Guaranteed

There can be no assurance regarding the amount of income to be generated by the REIT's properties. The ability of the REIT to make cash distributions, and the actual amount distributed, will be entirely dependent on the operations and assets of the REIT, and will be subject to various factors including financial performance, obligations under applicable credit facilities, fluctuations in working capital, the sustainability of income derived from the tenant profile of the REIT's properties and capital expenditure requirements. The market value of the Units will deteriorate if the REIT is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors.

Structural Subordination of Trust Units

In the event of bankruptcy, liquidation or reorganization of the REIT's subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to the REIT or holders of Trust Units. The Trust Units are effectively subordinated to the debt and other obligations of the REIT's subsidiaries. The REIT's subsidiaries generate all of the REIT's cash available for distribution and hold substantially all of the REIT's assets.

Potential Volatility of Trust Unit Prices

The market price for Units may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the REIT's control, including the following: (i) actual or anticipated fluctuations in the REIT's quarterly results of operations; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other issuers that investors deem comparable to the REIT; (iv) addition or departure of the REIT's executive officers and other key personnel; (v) release or expiration of lock-up or other transfer restrictions on outstanding Units; (vi) sales or perceived sales of additional Units; (vii) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the REIT or its competitors; (viii) news reports relating to trends, concerns, competitive developments, regulatory changes and other related issues in the REIT's industry or target markets, and (ix) limited trading in the Units.

Financial markets have, in recent years, experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of issuers and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such issuers. Accordingly, the market price of the REIT's securities may decline even if the REIT's operating results, underlying asset values, or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the REIT's environmental, governance and social

practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in limited or no investment in the REIT's securities by those institutions, which could adversely affect the trading price of the REIT's securities. There can be no assurance that an active trading market will exist or that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil exist for a protracted period of time, the REIT's operations could be adversely impacted and the trading price of the REIT's securities may be adversely affected.

Nature of Investment

A holder of a Unit of the REIT does not hold a share of a body corporate. As holders of Units of the REIT, the Unitholders will not have statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The rights of Unitholders are based primarily on the Declaration of Trust. There is no statute governing the affairs of the REIT equivalent to the CBCA which sets out the rights and entitlements of shareholders of corporations in various circumstances. As well, the REIT may not be a recognized entity under certain existing insolvency legislation such as the *Bankruptcy and Insolvency Act* (Canada) and the *Companies Creditors' Arrangement Act* (Canada) and thus the treatment of Unitholders upon an insolvency is uncertain.

Availability of Cash Flow

AFFO may exceed actual cash available to the REIT from time to time because of items such as principal repayments, and tenant allowances, leasing costs and capital expenditures in excess of stipulated reserves identified by the REIT in its calculation of AFFO and redemptions of Units, if any. The REIT may be required to use part of its debt capacity or to reduce distributions in order to accommodate such items. The REIT anticipates temporarily funding such items, if necessary, through the Revolving Credit Facility in expectation of refinancing long-term debt on its maturity.

Sustainability and Growth of Distributions

The REIT has stated that one of its objectives is to provide predictable and growing cash distributions per Unit. The REIT has historically paid distributions in excess of the total of cash flows from operating activities and distributions earned from its strategic investment in Vital Trust, representing an economic return of capital to investors. The REIT may not achieve the objective of growing cash distributions or be able to sustain distributions at current levels without realizing increases in cash flow from operations or receiving increased distributions from Vital Trust. Such cash flow growth is dependent on the REIT's ability to execute on its business plan to drive accretive growth over time, as well as the ability of Vital Trust to grow future distributions, both of which cannot be assured.

Dilution

The number of Units the REIT is authorized to issue is unlimited. The REIT may, in its sole discretion, issue additional Units or securities convertible or exchangeable into Units from time to time subject to the rules of any applicable stock exchange on which the Units are then listed. The REIT intends to complete acquisitions in the future that will be financed in part by issuance of additional Units which will result in issuances of significant numbers of Units at market price. Additionally, the REIT will issue securities under the REIT's deferred unit plan or additional units can be issued upon the conversion of the Convertible Debentures. The issuance of any additional Units may have a dilutive effect on the interests of holders of Units.

Restrictions on Redemptions

The entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the following limitations: (i) the total amount payable by the REIT in respect of such Units and all other Units tendered for redemption in the same calendar month must not exceed \$50,000 (provided that such limitation may be waived at the discretion of the Trustees); (ii) at the time such Units are tendered for redemption, the outstanding Units must be listed for

trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, provides fair market value prices for the Units; (iii) the trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the redemption date for more than five trading days during the 10 day trading period commencing immediately after the redemption date; and (iv) the redemption of the Units must not result in the delisting of the Units on the principal stock exchange on which the Units are listed.

Unitholder Liability

The Declaration of Trust provides that no holders of Units shall be held to have any personal liability as such, and no resort shall be had to his, her or its private property (including, without limitation, any property consisting of or arising from a distribution of any kind or nature by the REIT) for satisfaction of any obligation or claim arising out of or in connection with any contract or obligation of the REIT or of the Trustees or any obligation which a Unitholder would otherwise have to indemnify a Trustee for any personal liability incurred by the Trustee as such, but rather the assets of the REIT only are intended to be liable and subject to levy or execution for such satisfaction. In addition, legislation has been enacted in the Province of Ontario and certain other provinces that is intended to provide holders of Units in those provinces with limited liability. However, there remains a risk, which is considered by the REIT to be remote in the circumstances, that a holder of Units could be held personally liable for the obligations of the REIT to the extent that claims are not satisfied out of the assets of the REIT. The affairs of the REIT are conducted in a manner to seek to minimize such risk wherever possible.

RISKS RELATED TO THE CONVERTIBLE DEBENTURES

Ability to Satisfy Payments of Interest and Principal on the Convertible Debentures

There is no guarantee that the REIT will have sufficient cash available to make interest and principal payments on the Convertible Debentures on a timely basis or at all. The likelihood that purchasers will receive the payments owing to them in connection with the Convertible Debentures will be dependent upon the financial health and creditworthiness of the REIT and the ability of the REIT to earn revenues.

Market for the Convertible Debentures

There can be no assurance that a secondary market for trading in the Convertible Debentures will develop or that any secondary market which does develop will continue. Also, there can be no assurance that any such secondary market will be active. To the extent that an active trading market for the Convertible Debentures does not develop, the liquidity and the trading prices for the Convertible Debentures may be adversely affected.

Absence of Covenant Protection

The Indentures do not restrict the REIT or any of its subsidiaries from incurring additional indebtedness for borrowed money or otherwise from mortgaging, pledging or charging their real or personal property or properties to secure any indebtedness or other financing. The Indentures do not contain any provisions specifically intended to protect holders of the Convertible Debentures in the event of a future leveraged transaction involving the REIT or any of its subsidiaries.

Redemption Prior to Maturity

The Convertible Debentures may be redeemed at the REIT's option, subject to certain conditions prior to the respective maturity date of each Convertible Debenture in whole or in part, at a redemption price equal to the principal amount thereof, together with any accrued and unpaid interest. Holders of Convertible Debentures should assume that this redemption option will be exercised if the REIT is able to refinance at a lower interest rate or it is otherwise in the interest of the REIT to redeem the Convertible Debentures.

Conversion Following Certain Transactions

In the event of certain transactions, pursuant to the terms of the Indentures, each Convertible Debenture will become convertible into securities, cash or property receivable by a Unitholder in such transactions. This change could substantially reduce or eliminate any potential future value of the conversion privilege associated with the Convertible Debentures.

Subordination of Convertible Debentures

The Convertible Debentures are unsecured obligations of the REIT and are subordinate in right of payment to all of the REIT's existing and future senior indebtedness. The Convertible Debentures will also be effectively subordinate to claims of the creditors of the REIT's subsidiaries relating to all indebtedness, liabilities and obligations of the REIT or its subsidiaries for the payment of which the REIT is responsible or liable, whether absolutely or contingently. This subordination may significantly reduce the possibilities for purchasers of obtaining payment of the amounts owed under the Convertible Debentures. In the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of the REIT, the assets of the REIT would be made available to satisfy the obligations of the creditors of such Senior Indebtedness, whether those obligations are secured or unsecured, before being available to pay the REIT's obligations to holders of Convertible Debentures. Accordingly, all or a substantial portion of the REIT's assets could be unavailable to satisfy the claims of the Convertible Debentures.

Dilution Upon Redemption of Convertible Debentures

The REIT may determine to redeem any outstanding Convertible Debentures for Trust Units or to repay outstanding principal amounts thereunder at maturity of the Convertible Debentures by issuing additional Trust Units. The issuance of additional Trust Units may have a dilutive effect on the REIT's Unitholders and an adverse impact on the price of Trust Units.

Limitation in the REIT's Ability to Finance Purchase of Convertible Debentures

The REIT is required to make an offer to holders of the Convertible Debentures to purchase all or a portion of their Convertible Debentures for cash in the event of a Change of Control (as defined in the Indentures). The REIT cannot assure holders of Convertible Debentures that, if required, it would have sufficient cash or other financial resources at that time or would be able to arrange financing to pay the purchase price of the Convertible Debentures in cash. The REIT's ability to purchase the Convertible Debentures in such an event may be limited by law, by the Indentures, by the terms of other present or future agreements relating to the REIT's credit facilities and other indebtedness and agreements that the REIT may enter into in the future which may replace, supplement or amend the REIT's future debt. The REIT's future credit agreements or other agreements may contain provisions that could prohibit the purchase by the REIT of the Convertible Debentures without the consent of the lenders or other parties thereunder. If the REIT's obligation to offer to purchase the Convertible Debentures arises at a time when the REIT is prohibited from purchasing or redeeming the Convertible Debentures, the REIT could seek the consent of lenders to purchase the Convertible Debentures or could attempt to refinance the borrowings that contain this prohibition. If the REIT does not obtain consent or refinance these borrowings, the REIT could remain prohibited from purchasing the Convertible Debentures under its offer.

The REIT's failure to purchase the Convertible Debentures would constitute an event of default under the Indenture, which might constitute a default under the terms of the REIT's other indebtedness at that time.

Market Price of the Convertible Debentures

The market price of the Convertible Debentures is based on a number of factors, including: (a) the prevailing interest rates being paid by borrowers similar to the REIT; (b) the overall condition of the financial and credit markets; (c) prevailing interest rates and interest rate volatility; (d) the markets for similar securities; (e) the financial condition, results of operation and prospects of the REIT; (f) the publication of earnings estimates or other research reports and speculation in the press or investment community; (g) the market price and volatility of the Trust Units; (h) changes in the industry and competition affecting the REIT; and (i) general market and economic conditions.

The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Fluctuations in these factors could have an adverse effect on the market price of the Convertible Debentures.

Volatility of Market Price of Trust Units and Convertible Debentures

The market price of the Trust Units and Convertible Debentures may be volatile. The volatility may affect the ability of holders of Convertible Debentures to sell the Convertible Debentures at a favourable price. Additionally, volatility in the market price of Trust Units may result in greater volatility in the market price of the Convertible Debentures than would be expected for nonconvertible debt securities. Market price fluctuations in the Trust Units and Convertible Debentures may be due to the REIT's operating results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the REIT or its competitors, along with a variety of additional factors. Fluctuations in trading prices may be unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market prices of the Convertible Debentures and the Trust Units.

Restriction on Ownership of Convertible Debentures

Pursuant to the terms of the Declaration of Trust, the REIT must not be established or maintained primarily for the benefit of Non-Residents. As a result, the Indentures contain provisions limiting the ownership of Convertible Debentures by Non-Residents. These restrictions may limit or remove the rights of certain holders of Convertible Debentures, including Non-Residents. As a result, these restrictions may limit the demand for Convertible Debentures and thereby adversely affect the liquidity and market value of the Convertible Debentures.

PART VIII – CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

As of December 31, 2018, an evaluation was carried out, under the supervision of the REIT's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the REIT's disclosure controls and procedures (as defined by NI 52 - 109). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the REIT's disclosure controls and procedures were effective as at December 31, 2018.

Internal Controls Over Financial Reporting

The REIT's Chief Executive Officer and Chief Financial Officer have designed the REIT's internal control over financial reporting (as defined in NI 52 - 109) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and Chief Financial Officer assessed, or caused an assessment under their direct supervision of, the design and operating effectiveness of the REIT's internal controls over financial reporting as at December 31, 2018, and based on that assessment determined that the REIT's internal controls over financial reporting were appropriately designed and were operating effectively in accordance with the Internal Control – Integrated Framework, 2013, published by the Committee of Sponsoring Organizations of the Treadway Commission.

Changes in Internal Controls Over Financial Reporting

There were no significant changes made in internal controls over financial reporting during the three months and year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting.

Inherent Limitation

Internal controls over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of their inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusions or improper management override. Because of such limitations, there is risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

PART IX – OUTLOOK

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

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

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

PART X – PROPERTY TABLE

As at December 31, 2018

PROPERTY TABLE							
Property	Location	Date Acquired	Year Built ⁽¹⁾	Approximate			
				GLA (sf)	# of Tenants	Occupancy %	WALE ⁽²⁾
Canada							
1 Glenmore Professional Centre	Calgary, AB	Dec 31, 2010	2007	137,821	5	90.9%	5.9
2 Sunridge Professional Centre	Calgary, AB	Mar 25, 2010	1985	132,816	35	97.2%	4.1
3 Riley Park Health Centre (6)	Calgary, AB	Mar 25, 2010	1956	72,801	11	100.0%	4.2
4 Rockyview Health Centre I	Calgary, AB	Mar 25, 2010	1977	68,406	29	97.3%	4.2
5 Foothills Professional Building	Calgary, AB	Mar 25, 2010	1980	58,607	21	89.3%	3.5
6 Sunpark Plaza	Calgary, AB	Dec 7, 2011	2005	53,209	9	71.3%	3.0
7 Rockyview Health Centre II	Calgary, AB	Mar 25, 2010	1992	53,126	6	85.5%	5.5
8 Willow Brook Medical Centre	Airdrie, AB	Apr 10, 2012	2010	34,680	5	100.0%	4.8
9 Hys Centre	Edmonton, AB	Feb 1, 2011	1978	182,373	35	83.0%	4.0
10 Tawa Centre	Edmonton, AB	May 31, 2011	1986	87,712	24	97.5%	3.7
11 Mira Health Centre	Edmonton, AB	Mar 25, 2010	1992	69,688	17	93.3%	5.9
12 Garneau Professional Building	Edmonton, AB	Mar 25, 2010	1980	58,327	15	64.2%	3.7
13 Queen Street Place	Spruce Grove, AB	Jul 7, 2010	2007	75,029	14	80.8%	5.1
14 WRHA Downtown West Community	Winnipeg, MB	May 16, 2013	1974	43,685	2	95.8%	9.7
15 Hargrave Place	Winnipeg, MB	Jul 31, 2013	1977	71,154	3	100.0%	10.6
16 Davisville Medical Dental Centre	Toronto, ON	Mar 25, 2010	1964	95,778	82	93.5%	3.5
17 Fairview Health Centre	Toronto, ON	Mar 25, 2010	1971	87,261	55	100.0%	5.8
18 North York Medical Arts Building	Toronto, ON	Mar 25, 2010	1969	75,866	60	100.0%	4.3
19 The Stewart Building	Toronto, ON	Mar 25, 2010	1892	43,118	1	100.0%	0.3
20 Malvern Medical Arts	Toronto, ON	Apr 1, 2011	1987	40,584	17	90.7%	4.3
21 Albany Medical Clinic	Toronto, ON	Sep 27, 2012	2010	42,582	1	100.0%	11.3
22 One Medical Place	Toronto, ON	Mar 25, 2010	1964	41,129	21	94.5%	5.9
23 Danforth Health Centre	Toronto, ON	Mar 25, 2010	1991	29,496	10	100.0%	3.5
24 Bathurst Health Centre	Toronto, ON	Mar 25, 2010	1984	29,082	14	91.7%	7.4
25 81 The East Mall (6)	Toronto, ON	Jan 16, 2015	1994	35,998	7	97.4%	13.5
85 The East Mall (6)	Toronto, ON	Jan 16, 2015	2016	46,448	8	93.2%	13.4
26 Queensway Professional Centre	Mississauga, ON	Mar 25, 2010	1977	169,907	66	89.6%	6.2
27 Trafalgar Professional Centre	Oakville, ON	Mar 25, 2010	1985	66,084	32	97.8%	4.2
28 Dundas-Centre Medical	Whitby, ON	Oct 1, 2012	1987	34,526	23	95.5%	5.1
29 Wentworth/Limeridge Medical Centre	Hamilton, ON	Mar 25, 2010	1989	40,716	22	96.8%	3.6
30 Queenston Medical-Dental Centre	Hamilton, ON	Oct 1, 2012	1992	18,687	15	100.0%	2.8
31 Oxford Health Centre	London, ON	Mar 25, 2010	1994	39,184	22	89.9%	2.7
32 Springbank Medical Centre	London, ON	Mar 30, 2012	2011	53,822	30	97.9%	4.6
33 Canamera Medical Centre	Cambridge, ON	Sep 15, 2011	2007	86,283	20	100.0%	4.7
34 Guelph Medical Place I	Guelph, ON	Oct 1, 2012	1991	36,063	16	100.0%	4.4
35 Guelph Medical Place II	Guelph, ON	Oct 1, 2012	2011	27,950	15	91.4%	4.6
36 Collingwood Health Centre	Collingwood, ON	Mar 25, 2010	1995	26,354	13	93.5%	3.5
37 Owen Sound Family Health Centre	Owen Sound, ON	Feb 9, 2015	2011	77,542	13	94.2%	5.0
38 Smyth Medical Centre	Ottawa, ON	Sep 10, 2012	1983	24,391	17	87.7%	3.1
39 Barrie Primary Care Campus	Barrie, ON	Feb 9, 2015	2016	79,229	12	84.2%	11.6
40 CSSS Haut-Richelieu	Richelieu, QC	Sep 1, 2010	2009	54,659	1	100.0%	5.1
41 Le Carrefour Medical	Laval, QC	Mar 25, 2010	1990	118,520	32	85.5%	4.1
42 Clinique Bleue	Longueuil, QC	Mar 25, 2010	1988	25,633	6	100.0%	5.6
43 2924 Taschereau Boulevard	Longueuil, QC	Mar 25, 2010	1988	24,644	1	100.0%	1.8

PROPERTY TABLE								
Property	Location	Date Acquired	Year Built ⁽¹⁾	Approximate		Occupancy %	WALE ⁽²⁾	
				GLA (sf)	# of Tenants			
44	CLSC Saint-Hubert	Saint Hubert, QC	Mar 25, 2010	1991	49,323	2	100.0%	8.7
45	950 Montee des Pionniers	Lachenaie, QC	Mar 25, 2010	2004	64,516	15	98.0%	3.8
46	Agence Lanaudiere	Joliette, QC	Dec 20, 2012	1994	53,771	1	100.0%	4.5
47	CSSS Grand Littoral	Levis, QC	Sep 1, 2010	2008	64,563	2	100.0%	3.9
48	Polyclinique Val-Belair	Quebec City, QC	Jul 22, 2011	2009	46,053	12	100.0%	3.1
49	Centre Medicale de L'Hetriere	Quebec City, QC	Jan 19, 2012	2007	36,619	6	90.5%	4.7
50	Fredericton Medical Centre	Fredericton, NB	Mar 25, 2010	1985	70,570	41	95.9%	4.1
51	Moncton Medical Clinic	Moncton, NB	Jan 23, 2012	1984	40,576	16	100.0%	5.8
52	Cobequid Centre	Lower Sackville, NS	Mar 25, 2010	2006	30,009	1	100.0%	3.7
53	Halifax Professional Centre	Halifax, NS	Mar 25, 2010	1972	115,831	79	88.5%	4.1
54	Gladstone Professional Centre	Halifax, NS	Mar 25, 2010	1985	41,860	11	98.2%	1.9
55	New Glasgow Medical Centre	New Glasgow, NS	Dec 21, 2011	2009	33,800	1	100.0%	5.9
					3,418,461	1,050	93.2%	5.1
Redevelopment Properties:								
56	490 Harwood Boulevard	Vaudreuil-Dorion, QC	Mar 25, 2010	1985	24,457	n/a	—%	n/a
	Parkwood (6)	Calgary, AB	Mar 25, 2010	1956	20,271	n/a	—%	n/a
					44,728	n/a	n/a	n/a
Development Land:								
	St. Albert Land	St. Albert, AB	Feb 9, 2015	n/a	n/a	n/a	n/a	n/a
	479 Hume	Collingwood, ON	Jan 26, 2017	n/a	n/a	n/a	n/a	n/a

PART X – PROPERTY TABLE (CON'T.)

PROPERTY TABLE								
Property	Location	Date Acquired	Year Built ⁽¹⁾	Approximate				
				GLA (sf)	# of Tenants	Occupancy %	WALE ⁽²⁾	
Brazil								
57	Sabará Children's Hospital	São Paulo	Nov 16, 2012	2010	104,915	1	100.0%	5.8
Rede D'Or Hospital Portfolio:								
58	Hospital e Maternidade Brasil ("HMB")	São Paulo	Dec 27, 2012	1970 - 2007	342,000	1	100.0%	19.0
59	Hospital Santa Luzia	Brasília's South Wing	Dec 23, 2013	2003	185,139	1	100.0%	20.0
60	Hospital Do Coracao	Brasília's South Wing	Dec 23, 2013	2007	96,875	1	100.0%	20.0
61	Hospital Caxias	Rio de Janeiro	Dec 23, 2013	2013	290,626	1	100.0%	20.0
62	Hospital IFOR	São Paulo	Jul 19, 2016	2001	150,000	1	100.0%	22.6
63	Hospital Santa Helena	Brasília - DF	Oct 24, 2016	2006	323,774	1	100.0%	22.8
64	Hospital São Luiz Morumbi	São Paulo	Sep 28, 2018	2000	230,374	1	100.0%	24.9
					1,723,703	8	100.0%	20.4
Europe								
Germany								
65	Adlershof 1	Berlin	Nov 16, 2012	2004	55,291	53	95.1%	4.4
66	Adlershof 2	Berlin	Nov 16, 2012	2010	47,507	47	100.0%	2.1
67	Berlin Neukölln	Berlin	Nov 16, 2012	2000	33,991	16	99.8%	4.2
68	Königs Wusterhausen 1	Königs Wusterhausen	Nov 16, 2012	2001	35,693	26	89.0%	2.7
69	Fulda - 3-5flem	Fulda	Mar 31, 2013	2010	111,205	31	97.2%	2.1
70	Polimedica Centre	Berlin	Jun 25, 2014	2007	113,937	35	98.1%	8.0
71	Hollis Centre	Ingolstadt	Jun 25, 2014	1996	99,651	35	95.3%	3.3
72	Leipzig am Park	Leipzig	Jun 25, 2014	1977	19,048	10	100.0%	8.3
73	Leipzig Baestlein	Leipzig	Jun 25, 2014	1975	19,163	11	93.4%	4.4
74	Leipzig Gruenauer	Leipzig	Jun 25, 2014	1980	15,932	9	96.8%	9.1
75	Leipzig Karlsruher	Leipzig	Jun 25, 2014	1982	19,013	7	91.4%	6.7
76	Leipzig Lidicestrasse	Leipzig	Jun 25, 2014	1975	19,201	13	100.0%	4.9
77	Leipzig Pfaffensteinstrasse	Leipzig	Jun 25, 2014	1985	18,277	8	79.5%	3.7
78	Leipzig Plovdiver	Leipzig	Jun 25, 2014	1975	18,217	4	93.6%	3.2
79	Leipzig Schlehenweg	Leipzig	Jun 25, 2014	1989	18,625	12	100.0%	2.3
80	Leipzig Stuttgarter	Leipzig	Jun 25, 2014	1978	18,047	10	87.4%	3.2
81	Leipzig Tauchaer Strasse	Leipzig	Jun 25, 2014	1982	18,877	11	100.0%	4.8
82	Leipzig Yorckstrasse	Leipzig	Jun 25, 2014	1975	11,624	6	94.5%	3.7
83	Hohenschonhausen	Berlin	Aug 30, 2014	1996	64,640	37	94.1%	2.1
84	Mehrower Allee	Berlin	Apr 14, 2016	2006	82,242	59	97.0%	3.7
85	Alstadt-Caree Fulda Medical Centre	Fulda	Feb 1, 2017	2017	31,025	12	100.0%	6.7
86	Medical Care Centre Hamburg-Bergedorf	Hamburg	Feb 1, 2017	1989	60,453	31	93.6%	4.3
87	Praxis-Klinik Bergedorf	Hamburg	Dec 18, 2017	1994	65,583	30	99.8%	6.9
88	Clinic Bismarkstr68	Bad Kissingen	Feb 22, 2018	1996	79,502	1	100.0%	26.2
89	Clinic Bremerstr2	Wilhelmshaven	Mar 15, 2018	1994	150,964	1	100.0%	26.3
90	Fritz-Lang-Platz 6	Berlin	Feb 1, 2018	2005	59,664	10	100.0%	5.9
91	Landsberger Allee 44	Berlin	Apr 27, 2018	1994	32,849	26	97.5%	5.6
92	Matthiasstr. 7	Berlin	Apr 27, 2018	1995	34,296	33	89.0%	6.1
93	Allee der Kosmonauten 47	Berlin	Dec 28, 2018	1980	58,664	51	92.6%	3.0
94	Klinik Bernkastel & Moselhohe	Berlin	Dec 21, 2018	1975/1973	238,453	1	100.0%	27.0
					1,651,634	636	97.2%	10.8

PROPERTY TABLE

Property	Location	Date Acquired	Year Built ⁽¹⁾	Approximate			
				GLA (sf)	# of Tenants	Occupancy %	WALE ⁽²⁾
Development Land:							
Rubensstr Land	Berlin	Apr 1, 2015	n/a	n/a	n/a	n/a	n/a
Mehrower Land	Berlin	Jan 30, 2017	n/a	n/a	n/a	n/a	n/a
Netherlands							
95 Maastadweg 2-144	Rotterdam	June 29, 2018	2011	346,684	29	91.9%	8.6
96 Prins Berhardplein 200	Brunssum	June 29, 2018	2016	117,234	1	100.0%	17.8
				463,918	30	93.9%	10.9
Europe Total				2,115,552	666	96.4%	10.8

PART X – PROPERTY TABLE (CON'T)

PROPERTY TABLE								
Property	Location	Date Acquired	Year Built ⁽¹⁾	Approximate GLA (sf)	# of Tenants	Occupancy %	WALE ⁽²⁾	
Vital Trust								
Australia								
97	The Southport Private Hospital	Southport, Queensland	Dec 22, 2010	1979	318,776	1	100.0%	19.1
98	Belmont Private Hospital	Carina, Queensland	Dec 22, 2010	1973/2015	94,024	1	100.0%	17.2
99	Clover-Lea Residential Aged Care	Sydney, New South Wales	Mar 1, 2016	1919/1960/2003	16,146	1	100.0%	17.2
100	Dubbo Private Hospital	Dubbo, New South Wales	Dec 22, 2010	1994	60,144	1	100.0%	13.1
101	Epworth Eastern Hospital	Melbourne, Victoria	Mar 30, 1999	2005	136,610	6	100.0%	21.2
102	Epworth Eastern Medical Centre	Melbourne, Victoria	Mar 30, 1999	1986	33,421	24	100.0%	8.9
103	Epworth Rehabilitation	Melbourne, Victoria	Feb 1, 1999	1971	37,136	1	100.0%	5.1
104	Fairfield Residential Aged Care	Sydney, New South Wales	Mar 1, 2016	1968/2009	31,000	1	100.0%	17.2
105	Gold Coast Surgery Centre	Southport, Queensland	Dec 22, 2010	1999	29,506	8	68.8%	1.1
106	Hamersley Residential Aged Care	Perth, Western Australia	Mar 1, 2016	1971	20,279	1	100.0%	17.2
107	Hurstville Private Hospital	Sydney, New South Wales	Apr 30, 2012	1894/2015	135,239	1	100.0%	23.3
108	Lingard Private Hospital	Merewether, New South Wales	Dec 22, 2010	1975/2015	99,567	1	100.0%	22.2
109	Maitland Private Hospital	Maitland, New South Wales	Dec 22, 2010	2001/2015	127,435	2	100.0%	19.0
110	Marian Centre	Perth, Western Australia	Aug 12, 2014	1965	38,212	1	100.0%	15.6
111	Mayo Private Hospital	Taree, New South Wales	Dec 16, 2011	1997	62,700	1	100.0%	13.0
112	North West Private Hospital	Burnie, Tasmania	Dec 22, 2010	1988	87,361	2	100.0%	17.9
113	Palm Beach Currumbin Clinic	Currumbin, Queensland	Dec 22, 2010	1980	53,443	1	100.0%	13.1
114	Rockingham Residential Aged Care	Perth, Western Australia	Mar 1, 2016	1968/1992	14,596	1	100.0%	17.2
115	South Eastern Private Hospital	Melbourne, Victoria	Dec 22, 2010	1970	91,462	1	100.0%	22.2
116	Sportsmed Private Hospital	Adelaide, South Australia	Dec 3, 2012	1990/2008	56,608	2	100.0%	16.4
117	Sportsmed Consulting (8)	Adelaide, South Australia	Jan 20, 2016	1990	9,074	1	100.0%	17.1
118	Sportsmed Office (8)	Adelaide, South Australia	Jan 20, 2016	1988	15,253	1	100.0%	17.1
119	Toronto Private Hospital	Toronto, New South Wales	Dec 22, 2010	1988	55,682	2	100.0%	24.0
120	Mons Road	Westmead, New South Wales	Sep 30, 2016	2010	31,179	6	100.0%	4.1
121	Eker Medical Centre	Box Hill, Victoria	Nov 17, 2016	2014	30,753	17	93.4%	2.2
122	Abbotsford Private Hospital	West Leederville, WA	Feb 24, 2017	2012	16,695	1	100.0%	23.2
123	Grafton Aged Care Home	South Grafton, NSW	Mar 31, 2017	1940	37,674	1	100.0%	18.3
124	Hirondelle Private Hospital	Chatswood, NSW	May 31, 2017	2013	34,402	1	100.0%	23.4
125	The Hills Clinic	Kellyville, NSW	Jul 31, 2017	2011	31,797	1	100.0%	28.6
126	Eden Rehabilitation Hospital	Cooroy, Queensland	Dec 8, 2017	1979	40,172	1	100.0%	18.9
					1,846,346	90	99.4%	18.0
Development Land:								
127	25 Nelson Road(9)	Box Hill, Victoria	Nov 28, 2014	n/a	n/a	n/a	n/a	n/a
128	142 Brighton Avenue(10)	Toronto, New South Wales	Jul 22, 2015	n/a	n/a	n/a	n/a	n/a
129	27 Hopkins Street (11)	Merewether, New South Wales	Nov 25, 2015	n/a	n/a	n/a	n/a	n/a
130	6 Lingard Street (11)	Merewether, New South Wales	Dec 4, 2015	n/a	n/a	n/a	n/a	n/a
New Zealand								
131	Apollo Health and Wellness Centre	Albany, Auckland	Sep 1, 2008	2005	52,807	24	93.9%	6.7
132	Ascot Central	Greenlane East, Auckland	May 1, 2008	2008	51,437	18	100.0%	4.5
133	Ascot Central Car Park	Greenlane East, Auckland	ground lease	1999	4,833	16	100.0%	12.8
134	Ascot Hospital	Greenlane East, Auckland	Mar 25, 1999	1999	121,634	20	100.0%	18.7
135	Kensington Hospital	Whangarei, Northland	Mar 12, 2001	2001	25,371	1	100.0%	27.5
136	Napier Health Centre	Napier, Hawke's Bay	Dec 23, 1999	1999	46,231	1	100.0%	1.0
137	Boulcott Private Hospital	Lower Hutt	Jul 1, 2016	1985	45,672	1	100.0%	19.5
138	Ormiston Hospital	Flatbush, South Auckland	Apr 4, 2017	2008	53,805	8	100.0%	3.8
139	Royston Hospital	Hastings, Hawke's Bay	Dec 12, 2017	1931	63,723	1	100.0%	29.0
140	Wakefield Hospital	Newtown, Wellington	Dec 12, 2017	1910	155,626	1	100.0%	29.0
141	Bowen Hospital	Crofton Downs, Wellington	Dec 12, 2017	1971	114,777	1	100.0%	29.0
					735,916	92	99.6%	19.6
Development Land:								
	678 High Street	Lower Hutt	Jul 1, 2016	n/a	n/a	n/a	n/a	n/a
Australasia - Vital Trust (3)					2,582,262	182	99.4%	18.5

PART X – PROPERTY TABLE (CON'T.)

PROPERTY TABLE								
Property	Location	Date Acquired	Year Built ⁽¹⁾	Approximate			WALE ⁽²⁾	
				GLA (sf)	# of Tenants	Occupancy %		
Australia REIT								
142	Epworth Freemasons Private Hospital (13)	East Melbourne, Victoria	Jun 1, 2006	1935/1950/1960 /1970/1990/ 2007/2014/2015	150,588	1	100.0%	15.4
143	Epworth Freemasons Private Hospital and Medical Centre (13)	East Melbourne, Victoria	Jun 1, 2006	1980	92,398	32	100.0%	5.8
144	Pacific Private Clinic	Southport, Queensland	Jun 1, 2007	2000	85,548	27	83.4%	3.5
145	Frankston Private Hospital	Frankston, Victoria	Jun 1, 2007	2006	127,665	9	100.0%	15.0
146	ARCBS (Australian Red Cross Blood Service) Facility (13)	Brisbane, Queensland	Jun 1, 2008	2008	217,960	11	100.0%	11.6
147	Westmead Rehabilitation Hospital	Merrylands, New South Wales	Apr 19, 2013	2005	30,699	1	100.0%	19.4
148	Spring Hill	Brisbane, Queensland	May 23, 2014	1988	90,321	11	96.2%	4.1
149	Frankston Specialist Centre	Frankston, Victoria	Nov 3, 2014	1989	6,458	1	100.0%	5.9
150	St John Of God Berwick Specialist Centre	Berwick, Victoria	Jun 1, 2015	2015	38,502	13	100.0%	5.5
151	Bolton Clarke Tantula Rise Aged Care Facility	Alexandra Headland, Queensland	Jun 25, 2015	2005/2007	83,615	1	100.0%	17.5
152	Bolton Clarke Baycrest Aged Care Facility	Pialba, Queensland	Jun 25, 2015	1990/2006	71,860	1	100.0%	17.5
153	Bolton Clarke Darlington Aged Care Facility	Banora Point, New South Wales	Jun 25, 2015	2005/2007	67,695	1	100.0%	17.8
154	Waratah Private Hospital Ground Floor Suites	Hurstville, New South Wales	Sep 11, 2015	2010	7,934	1	100.0%	17.0
155	St John of God Private Hospital (Casey Stage 2)	Berwick, Victoria	Mar 21, 2013	2017	180,728	1	100.0%	18.8
156	Epping Medical Centre (14)	Epping, Victoria	Oct 1, 2018	2009	107,394	16	75.8%	12.5
Development Property:								
	Gray Street Centre and Albert Street Car Park (12) (13)	East Melbourne, Victoria	Jun 1, 2006	n/a	n/a	n/a	n/a	n/a
	St John of God Private Hospital (Casey Stage 3)	Berwick, Victoria	Mar 21, 2013	n/a	n/a	n/a	n/a	n/a
					1,359,365	127	96.8%	13.0
Portfolio Totals / Weighted Averages (5)					11,244,071	2,033	96.7%	12.6
Portfolio Totals / Weighted Averages-at ownership interest (4)(5)					9,307,374		96.2%	11.3

Notes

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

PART XI – SUPPLEMENTAL DISCLOSURE

SUPPLEMENTAL DISCLOSURE

Expressed in thousands of Canadian dollars	Three months ended December 31, 2018									
	Canada	Brazil	Europe	Australia/New Zealand				Corporate ⁽³⁾	Consolidated	
				Vital Trust	Australia REIT	ANZ Manager	Elimination	Total		
Net Operating Income ⁽¹⁾										
Revenue from investment properties	\$ 30,671	\$ 13,730	\$ 11,374	\$ 24,757	\$ 9,083	\$ —	\$ (472)	\$ 33,368	\$ —	\$ 89,143
Property operating costs	(14,311)	—	(3,662)	(3,187)	(1,231)	—	50	(4,368)	—	(22,341)
	16,360	13,730	7,712	21,570	7,852	—	(422)	29,000	—	66,802
Other Income										
Share of profit (loss) from associates	—	—	—	—	(94)	(23)	23	(94)	—	(94)
Management fees	—	—	—	—	—	12,375	(8,961)	3,414	—	3,414
Interest and other	5	168	114	267	517	16	1	801	22	1,110
	5	168	114	267	423	12,368	(8,937)	4,121	22	4,430
	16,365	13,898	7,826	21,837	8,275	12,368	(9,359)	33,121	22	71,232
Other Expenses										
Mortgage and loan interest expense	(4,988)	(3,329)	(1,774)	(7,349)	(4,629)	—	—	(11,978)	(10,079)	(32,148)
General and administrative expenses	(575)	(496)	(995)	(7,006)	(46)	(3,587)	7,462	(3,177)	(2,069)	(7,312)
Transaction costs	(355)	(32)	(189)	(898)	(1,098)	(1,799)	—	(3,795)	12	(4,359)
Other finance costs	285	(2,062)	(87)	(127)	(726)	—	—	(853)	40,198	37,481
Foreign exchange gain (loss)	(74)	2,287	500	4,501	—	(349)	—	4,152	(4,349)	2,516
Income / (Loss) before the under noted items	10,658	10,266	5,281	10,958	1,776	6,633	(1,897)	17,470	23,735	67,410
Fair value adjustment of DUP liability	—	—	—	—	—	(20)	—	(20)	1,965	1,945
Fair value adjustment of investment properties	240	10,481	2,152	35,725	9,406	—	180	45,311	—	58,184
Net loss on disposal of investment properties	—	—	—	—	(14)	—	—	(14)	—	(14)
Gain / (Loss) on derivative financial instruments	(930)	—	(973)	(3,369)	3,398	—	—	29	—	(1,874)
Income / (Loss) before taxes	9,968	20,747	6,460	43,314	14,566	6,613	(1,717)	62,776	25,700	125,651
Income tax expense	—	(7,221)	(1,055)	(6,483)	(6,223)	(1,113)	—	(13,819)	51	(22,044)
Net Income (loss)	\$ 9,968	\$ 13,526	\$ 5,405	\$ 36,831	\$ 8,343	\$ 5,500	\$ (1,717)	\$ 48,957	\$ 25,751	\$ 103,607
Non-Controlling Interest	—	—	31	27,838	3,214	—	(220)	30,832	—	30,863
Income attributable to Unitholders	\$ 9,968	\$ 13,526	\$ 5,374	\$ 8,993	\$ 5,129	\$ 5,500	\$ (1,497)	\$ 18,125	\$ 25,751	\$ 72,744
Add / (Deduct):										
Fair market value losses (gains)	690	(10,481)	(1,179)	(32,356)	(12,804)	20	(180)	(45,320)	(51,673)	(107,963)
Less: Non-controlling interests' share of fair market value losses (gains)	—	—	—	24,287	2,614	—	135	27,036	—	27,036
Finance cost - Exchangeable Unit distributions	—	—	—	—	—	—	—	—	3,542	3,542
Revaluation of financial liabilities	—	1,621	—	—	—	—	—	—	—	1,621
Unrealized foreign exchange loss (gain)	74	(2,338)	(23)	(4,501)	—	143	—	(4,358)	4,874	(1,771)
Less: Non-controlling interests' share of unrealized foreign exchange loss (gain)	—	—	—	3,379	—	—	—	3,379	—	3,379
Deferred taxes	—	7,215	1,049	5,181	6,223	(104)	—	11,300	—	19,564
Less: Non-controlling interests' share of deferred taxes	—	—	—	(3,889)	—	—	—	(3,889)	—	(3,889)
Transaction costs	355	33	189	898	1,098	1,799	—	3,795	(13)	4,359
Less: Non-controlling interests' share of transaction costs	—	—	—	(674)	—	—	—	(674)	—	(674)
Convertible Debenture issuance costs	—	—	—	—	—	—	—	—	5,611	5,611
Internal leasing costs	317	—	2	—	—	—	—	—	—	319
Net loss on disposal of investment properties	—	—	—	—	14	—	—	14	—	14
Amortization of finance leases	—	—	—	—	(64)	—	—	(64)	—	(64)
Other FFO adjustments	144	—	—	—	—	—	2,553	2,553	—	2,697
Funds From Operations ("FFO") ⁽²⁾	\$ 11,548	\$ 9,576	\$ 5,412	\$ 1,318	\$ 2,210	\$ 7,358	\$ 1,011	\$ 11,897	\$ (11,908)	\$ 26,525

PART XI – SUPPLEMENTAL DISCLOSURE (CON'T.)

SUPPLEMENTAL DISCLOSURE (CON'T)

Three months ended December 31, 2018

Expressed in thousands of Canadian dollars

	Canada		Brazil		Europe		Australia/New Zealand				Corporate ⁽³⁾	Consolidated								
							Vital Trust	Australia REIT	ANZ Manager	Elimination			Total							
Funds From Operations ("FFO")⁽²⁾	\$	11,548	\$	9,576	\$	5,412	\$	1,318	\$	2,210	\$	7,358	\$	1,011	\$	11,897	\$	(11,908)	\$	26,525
<u>Add / (Deduct):</u>																				
Amortization of marked to market adjustment		(470)		—		—		—		—		—		—		—		—		(470)
Amortization of transactional deferred financing charges		—		—		—		—		589		—		—		589		264		853
Straight line revenue		(40)		—		—		129		(540)		—		—		(411)		—		(451)
Less: Non-controlling interests' share of straight-line revenue		—		—		—		(94)		(16)		—		—		(110)		—		(110)
Leasing costs and non-recoverable maintenance capital expenditures		(1,840)		—		(682)		(882)		(164)		—		—		(1,046)		—		(3,568)
Less: Non-controlling interests' share of actual capex and leasing costs		—		—		—		657		(23)		—		—		634		—		634
DUP compensation expense		—		—		—		—		—		331		—		331		825		1,156
Adjusted Funds From Operations ("AFFO")⁽²⁾	\$	9,198	\$	9,576	\$	4,730	\$	1,128	\$	2,056	\$	7,689	\$	1,011	\$	11,884	\$	(10,819)	\$	24,569

PART XI – SUPPLEMENTAL DISCLOSURE (CON'T.)

Expressed in thousands of Canadian dollars	As at December 31, 2018									
	Canada	Brazil	Europe	Australia/New Zealand				Corporate ⁽³⁾	Consolidated	
				Vital Trust	Australia REIT	ANZ Manager	Elimination	Total		
Assets										
Investment properties	\$ 1,102,739	\$ 761,112	\$ 599,257	\$ 1,617,235	\$ 586,153	\$ —	\$ 3,306	\$ 2,206,694	\$ —	\$ 4,669,802
Intangible asset	—	—	—	—	—	47,291	—	47,291	—	47,291
Goodwill	—	—	—	—	39,732	—	—	39,732	41,671	81,403
Financial instruments	535	—	—	78,341	71,658	—	—	149,999	—	150,534
Other assets	9,343	6,556	18,743	20,956	51,576	15,096	(9,053)	78,575	9,401	122,618
	\$ 1,112,617	\$ 767,668	\$ 618,000	\$ 1,716,532	\$ 749,119	\$ 62,387	\$ (5,747)	\$ 2,522,291	\$ 51,072	\$ 5,071,648
Liabilities										
Mortgages and loans payable	494,485	186,902	327,870	678,724	298,795	—	—	977,519	422,886	2,409,662
Convertible debentures	—	—	—	—	—	—	—	—	401,235	401,235
Deferred tax liability	—	106,815	15,951	90,537	72,104	(1,220)	—	161,421	—	284,187
Financial instruments	—	—	1,930	20,025	1,147	—	—	21,172	—	23,102
Exchangeable Units	65,321	—	—	—	—	—	—	—	102,551	167,872
Other liabilities	25,874	2,842	12,357	15,973	9,245	12,369	(3,204)	34,383	27,586	103,042
	\$ 585,680	\$ 296,559	\$ 358,108	\$ 805,259	\$ 381,291	\$ 11,149	\$ (3,204)	\$ 1,194,495	\$ 954,258	\$ 3,389,100
Net assets	526,937	471,109	259,892	911,273	367,828	51,238	(2,543)	1,327,796	(903,186)	1,682,548
Less: Non-controlling interest	—	—	(486)	(675,575)	(54,961)	—	(3,804)	(734,340)	—	(734,826)
Unitholders' Equity	\$ 526,937	\$ 471,109	\$ 259,406	\$ 235,698	\$ 312,867	\$ 51,238	\$ (6,347)	\$ 593,456	\$ (903,186)	\$ 947,722

Notes

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

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

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

PART XI – SUPPLEMENTAL DISCLOSURE (CON'T.)

SUPPLEMENTAL DISCLOSURE

Expressed in thousands of Canadian dollars	Year ended December 31, 2018									
	Canada	Brazil	Europe	Australia/New Zealand				Corporate ⁽³⁾	Consolidated	
				Vital Trust	Australia REIT	ANZ Manager	Elimination	Total		
Net Operating Income⁽¹⁾										
Revenue from investment properties	\$ 122,688	\$ 51,651	\$ 34,992	\$ 98,504	\$ 43,654	\$ —	\$ (1,897)	\$ 140,261	\$ —	\$ 349,592
Property operating costs	(57,446)	—	(10,389)	(12,097)	(6,402)	—	188	(18,311)	—	(86,146)
	\$ 65,242	\$ 51,651	\$ 24,603	\$ 86,407	\$ 37,252	\$ —	\$ (1,709)	\$ 121,950	\$ —	\$ 263,446
Other Income										
Share of profit (loss) from associates	—	—	—	—	(94)	(42)	42	(94)	—	(94)
Management fees	—	—	—	—	—	39,371	(32,815)	6,556	—	6,556
Interest and other	81	6,054	191	326	4,349	118	—	4,793	124	11,243
	81	6,054	191	326	4,255	39,447	(32,773)	11,255	124	17,705
	65,323	57,705	24,794	86,733	41,507	39,447	(34,482)	133,205	124	281,151
Other Expenses										
Mortgage and loan interest expense	(23,285)	(14,018)	(5,340)	(25,178)	(20,934)	—	—	(46,112)	(35,520)	(124,275)
General and administrative expenses	(2,146)	(2,008)	(3,388)	(26,750)	(263)	(11,547)	27,547	(11,013)	(8,558)	(27,113)
Transaction costs	(613)	(773)	(198)	(5,196)	(2,917)	(1,931)	—	(10,044)	(1,834)	(13,462)
Other finance costs	1,422	(20,992)	(355)	(484)	(5,045)	—	—	(5,529)	32,049	6,595
Foreign exchange gain (loss)	(70)	104	478	4,579	—	(517)	—	4,062	(4,330)	244
Income / (Loss) before the undernoted items	40,631	20,018	15,991	33,704	12,348	25,452	(6,935)	64,569	(18,069)	123,140
Fair value adjustment of DUP liability	—	—	—	—	—	47	—	47	2,188	2,235
Fair value adjustment of investment properties	22,614	29,465	(2,363)	77,412	20,588	—	384	98,384	—	148,100
Net loss on disposal of investment properties	(1,770)	—	—	—	(932)	—	—	(932)	—	(2,702)
Goodwill impairment loss	—	—	—	—	(50,096)	—	—	(50,096)	—	(50,096)
Gain / (Loss) on derivative financial instruments	1,629	—	(894)	(14,052)	(6,135)	239	—	(19,948)	—	(19,213)
Income / (Loss) before taxes	63,104	49,483	12,734	97,064	(24,227)	25,738	(6,551)	92,024	(15,881)	201,464
Income tax expense	—	(20,343)	(1,407)	(16,671)	(29,868)	(3,956)	—	(50,495)	(479)	(72,724)
Net Income (loss)	\$ 63,104	\$ 29,140	\$ 11,327	\$ 80,393	\$ (54,095)	\$ 21,782	\$ (6,551)	\$ 41,529	\$ (16,360)	\$ 128,740
Non-Controlling Interest	—	—	47	61,044	3,070	—	(1,136)	62,978	—	63,025
Income attributable to Unitholders	\$ 63,104	\$ 29,140	\$ 11,280	\$ 19,349	\$ (57,165)	\$ 21,782	\$ (5,415)	\$ (21,449)	\$ (16,360)	\$ 65,715
Add / (Deduct):										
Fair market value losses (gains)	(24,243)	(29,465)	3,257	(63,360)	(14,453)	(286)	(384)	(78,483)	(56,003)	(184,937)
Less: Non-controlling interests' share of fair market value losses (gains)	—	—	—	50,337	(2,335)	—	153	48,155	—	48,155
Finance cost - Exchangeable Unit distributions	—	—	—	—	—	—	—	—	14,167	14,167
Revaluation of financial liabilities	—	19,125	—	—	—	—	—	—	—	19,125
Unrealized foreign exchange loss (gain)	70	(159)	2	(4,579)	—	312	—	(4,267)	4,765	411
Less: Non-controlling interests' share of unrealized foreign exchange loss (gain)	—	—	—	3,436	—	—	—	3,436	—	3,436
Deferred taxes	—	20,025	1,388	13,103	29,869	(94)	—	42,878	—	64,291
Less: Non-controlling interests' share of deferred taxes	—	—	—	(9,841)	—	—	—	(9,841)	—	(9,841)
Transaction costs	613	774	198	5,196	2,916	1,931	—	10,043	1,834	13,462
Less: Non-controlling interests' share of transaction costs	—	—	—	(3,903)	—	—	—	(3,903)	—	(3,903)
Convertible Debenture issuance costs	—	—	—	—	—	—	—	—	5,611	5,611
Internal leasing costs	1,393	—	528	—	—	—	—	—	—	1,921
Net loss on disposal of investment properties	1,770	—	—	—	932	—	—	932	—	2,702
Impairment loss	—	—	—	—	50,096	—	—	50,096	—	50,096
Amortization of finance leases	—	—	—	—	(289)	—	—	(289)	—	(289)
Other FFO adjustments	576	—	—	—	—	—	8,119	8,119	—	8,695
Funds From Operations ("FFO")⁽²⁾	\$ 43,283	\$ 39,440	\$ 16,653	\$ 9,738	\$ 9,571	\$ 23,645	\$ 2,473	\$ 45,427	\$ (45,986)	\$ 98,817

PART XI – SUPPLEMENTAL DISCLOSURE (CON'T.)

SUPPLEMENTAL DISCLOSURE (CON'T)

Expressed in thousands of Canadian dollars	Year ended December 31, 2018									
	Canada	Brazil	Europe	Australia/New Zealand				Corporate ⁽³⁾	Consolidated	
				Vital Trust	Australia REIT	ANZ Manager	Elimination	Total		
Funds From Operations ("FFO") ⁽²⁾	\$ 43,283	\$ 39,440	\$ 16,653	\$ 9,738	\$ 9,571	\$ 23,645	\$ 2,473	\$ 45,427	\$ (45,986)	\$ 98,817
Add / (Deduct):										
Amortization of marked to market adjustment	(2,060)	—	—	—	—	—	—	—	—	(2,060)
Amortization of transactional deferred financing charges	26	188	—	—	4,229	—	—	4,229	1,795	6,238
Straight-line revenue	180	—	—	627	(1,174)	—	—	(547)	—	(367)
Less: Non-controlling interests' share of straight-line revenue	—	—	—	(488)	(43)	—	—	(531)	—	(531)
Leasing costs and non-recoverable maintenance capital expenditures	(7,361)	—	(2,099)	(1,432)	(1,216)	—	—	(2,648)	—	(12,108)
Less: Non-controlling interests' share of actual capex and leasing costs	—	—	—	1,070	2	—	—	1,072	—	1,072
DUP compensation expense	—	—	—	—	—	741	—	741	4,018	4,759
Debt repayment costs	2,506	—	—	—	—	—	—	—	—	2,506
Adjusted Funds From Operations ("AFFO") ⁽²⁾	\$ 36,574	\$ 39,628	\$ 14,554	\$ 9,515	\$ 11,369	\$ 24,386	\$ 2,473	\$ 47,743	\$ (40,173)	\$ 98,326

PART XI – SUPPLEMENTAL DISCLOSURE (CON'T.)

SUPPLEMENTAL DISCLOSURE

Expressed in thousands of Canadian dollars	Three months ended December 31, 2017									
	Canada	Brazil	Europe	Australia/New Zealand				Corporate ⁽³⁾	Consolidated	
				Vital Trust	Vital Manager	Elimination	Australia REIT ⁽⁴⁾	Total		
Net Operating Income⁽¹⁾										
Revenue from investment properties	\$ 33,798	\$ 12,640	\$ 5,189	\$ 22,485	\$ —	\$ (471)	\$ 10,795	\$ 32,809	\$ —	\$ 84,436
Property operating costs	(15,451)	—	(1,412)	(2,739)	—	45	(1,650)	(4,344)	—	(21,207)
	18,347	12,640	3,777	19,746	—	(426)	9,145	28,465	—	63,229
Other Income										
Share of profit (loss) from associates	—	—	—	—	57	(57)	—	—	—	—
Management fees	—	—	—	—	9,184	(9,184)	115	115	—	115
Interest and other	4	976	—	30	4	—	1,062	1,096	14	2,090
	4	976	—	30	9,245	(9,241)	1,177	1,211	14	2,205
	18,351	13,616	3,777	19,776	9,245	(9,667)	10,322	29,676	14	65,434
Other Expenses										
Mortgage and loan interest expense	(6,931)	(4,472)	(600)	(5,016)	—	—	(2,676)	(7,692)	(11,033)	(30,728)
General and administrative expenses	(535)	(737)	(762)	(6,016)	(1,907)	6,076	(677)	(2,524)	(2,168)	(6,726)
Transaction costs	—	—	—	—	—	—	(412)	(412)	(446)	(858)
Other finance costs	741	(1,010)	(82)	(88)	—	—	(218)	(306)	(362)	(1,019)
Foreign exchange gain (loss)	15	2,738	(5)	6	16	—	3	25	4,570	7,343
Income / (Loss) before the undernoted items	11,641	10,135	2,328	8,662	7,354	(3,591)	6,342	18,767	(9,425)	33,446
Fair value adjustment of DUP liability	—	—	—	—	17	—	—	17	(114)	(97)
Fair value adjustment of investment properties	(30,659)	48,568	10,242	31,146	—	236	(6,442)	24,940	—	53,091
Net loss on disposal of investment properties	(384)	—	—	—	—	—	(291)	(291)	—	(675)
Gain / (Loss) on derivative financial instruments	156	—	23	117	—	—	(309)	(192)	—	(13)
Income / (Loss) before taxes	(19,246)	58,703	12,593	39,925	7,371	(3,355)	(700)	43,241	(9,539)	85,752
Income tax expense	—	(17,399)	(1,980)	(4,648)	(1,558)	—	(74)	(6,280)	26	(25,633)
Net Income (loss)	\$ (19,246)	\$ 41,304	\$ 10,613	\$ 35,277	\$ 5,813	\$ (3,355)	\$ (774)	\$ 36,961	\$ (9,513)	\$ 60,119
Non-Controlling Interest				26,464	—	(179)	(550)	25,735	—	25,735
Income attributable to Unitholders	\$ (19,246)	\$ 41,304	\$ 10,613	\$ 8,813	\$ 5,813	\$ (3,176)	\$ (224)	\$ 11,226	\$ (9,513)	\$ 34,384
Add / (Deduct):										
Fair market value losses (gains)	30,503	(48,568)	(10,265)	(31,263)	(17)	(236)	6,751	(24,765)	(4,228)	(57,323)
Less: Non-controlling interests' share of fair market value losses (gains)	—	—	—	23,469	—	177	(1,248)	22,398	—	22,398
Finance cost - Exchangeable Unit distributions	—	—	—	—	—	—	—	—	3,800	3,800
Revaluation of financial liabilities	—	558	—	—	—	—	—	—	—	558
Unrealized foreign exchange loss (gain)	(15)	(2,738)	—	(6)	(16)	—	(2)	(24)	(4,581)	(7,358)
Less: Non-controlling interests' share of unrealized foreign exchange loss (gain)	—	—	—	5	—	—	—	5	—	5
Deferred taxes	—	17,342	1,984	8,841	(16)	—	330	9,155	—	28,481
Less: Non-controlling interests' share of deferred taxes	—	—	—	(6,637)	—	—	—	(6,637)	—	(6,637)
Non-recurring transaction costs	—	—	—	—	—	—	412	412	446	858
Internal leasing costs	363	—	235	—	—	—	—	—	—	598
Net loss on disposal of investment properties	384	—	—	—	—	—	291	291	—	675
Amortization of finance leases	—	—	—	—	—	—	(77)	(77)	—	(77)
Other FFO adjustments	144	—	—	—	—	2,503	—	2,503	—	2,647
Funds From Operations ("FFO")⁽²⁾	\$ 12,133	\$ 7,898	\$ 2,567	\$ 3,222	\$ 5,764	\$ (732)	\$ 6,233	\$ 14,487	\$ (14,076)	\$ 23,009

PART XI – SUPPLEMENTAL DISCLOSURE (CON'T.)

SUPPLEMENTAL DISCLOSURE (CON'T)

Expressed in thousands of Canadian dollars	Three months ended December 31, 2017									
	Canada	Brazil	Europe	Australia/New Zealand				Corporate ⁽³⁾	Consolidated	
				Vital Trust	Vital Manager	Elimination	Australia REIT ⁽⁴⁾	Total		
Funds From Operations ("FFO") ⁽²⁾	\$ 12,133	\$ 7,898	\$ 2,567	\$ 3,222	\$ 5,764	\$ (732)	\$ 6,233	\$ 14,487	\$ (14,076)	\$ 23,009
Add / (Deduct):										
Amortization of marked to market adjustment	(889)	—	—	—	—	—	—	—	—	(889)
Amortization of transactional deferred financing charges	46	—	—	—	—	—	218	218	676	940
Straight line revenue	(15)	54	—	403	—	—	(83)	320	—	359
Less: Non-controlling interests' share of straight-line revenue	—	—	—	(303)	—	—	(13)	(316)	—	(316)
Leasing costs and non-recoverable maintenance capital expenditures	(2,028)	—	(311)	(11)	—	—	(743)	(754)	—	(3,093)
Less: Non-controlling interests' share of actual capex and leasing costs	—	—	—	8	—	—	85	93	—	93
DUP compensation expense	—	—	—	—	405	—	—	405	658	1,063
Debt repayment costs	806	—	—	—	—	—	—	—	474	1,280
Adjusted Funds From Operations ("AFFO") ⁽²⁾	\$ 10,053	\$ 7,952	\$ 2,256	\$ 3,319	\$ 6,169	\$ (732)	\$ 5,697	\$ 14,453	\$ (12,268)	\$ 22,446

Notes

- (1) NOI is an additional IFRS measure presented on the consolidated statement of income and comprehensive income. NOI is defined in this MD&A and analyzed in greater detail in section "Net Operating Income"
- (2) FFO and AFFO are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. FFO and AFFO as computed by the REIT may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to FFO and AFFO as reported by other such issuers. FFO and AFFO are defined in this MD&A and reconciled to the consolidated financial statements of the REIT.
- (3) Includes cost of corporate borrowings including the REIT's Secured Revolving Credit Facility, Convertible Debentures, Vital Margin Facilities, Australasian Secured Financing and distributions paid on Class B LP Units, treated as finance costs. Includes general and administrative costs of the REIT's head office.
- (4) Includes Generation Manager, which in 2017 has been reclassified to ANZ Manager.

PART XI – SUPPLEMENTAL DISCLOSURE (CON'T.)

SUPPLEMENTAL DISCLOSURE										
Year ended December 31, 2017										
Expressed in thousands of Canadian dollars	Canada	Brazil	Europe	Australia/New Zealand				Corporate ⁽³⁾	Consolidated	
				Vital Trust	Vital Manager	Elimination	Australia REIT	Total		
Net Operating Income⁽¹⁾										
Revenue from investment properties	\$ 136,640	\$ 52,339	\$ 18,809	\$ 86,835	\$ —	\$ (1,972)	\$ 21,315	\$ 106,178	\$ —	\$ 313,966
Property operating costs	(62,124)	—	(5,397)	(11,308)	—	196	(3,274)	(14,386)	—	(81,907)
	74,516	52,339	13,412	75,527	—	(1,776)	18,041	91,792	—	232,059
Other Income										
Share of profit (loss) from associates	—	—	—	—	831	42,850	—	43,681	—	43,681
Management fees	—	—	—	—	30,657	(36,112)	13,178	7,723	—	7,723
Interest and other	56	1,987	2	76	52	—	2,181	2,309	196	4,550
	56	1,987	2	76	31,540	6,738	15,359	53,713	196	55,954
	74,572	54,326	13,414	75,603	31,540	4,962	33,400	145,505	196	288,013
Other Expenses										
Mortgage and loan interest expense	(25,768)	(13,023)	(2,420)	(16,500)	(4)	—	(4,999)	(21,503)	(39,057)	(101,771)
General and administrative expenses	(2,038)	(2,207)	(2,729)	(25,929)	(7,357)	25,648	(2,971)	(10,609)	(7,542)	(25,125)
Transaction costs	—	—	(84)	—	—	—	(1,106)	(1,106)	(12,101)	(13,291)
Other finance costs	2,595	(5,548)	(505)	(376)	—	—	(923)	(1,299)	(45,921)	(50,678)
Foreign exchange gain (loss)	(20)	2,849	(10)	1,322	(128)	—	2	1,196	3,397	7,412
Income / (Loss) before the undernoted items	49,341	36,397	7,666	34,120	24,051	30,610	23,403	112,184	(101,028)	104,560
Fair value adjustment of DUP liability	—	—	—	—	(43)	—	—	(43)	(1,750)	(1,793)
Fair value adjustment of investment properties	(16,446)	87,765	5,889	185,200	—	2,847	(5,704)	182,343	—	259,551
Net loss on disposal of investment properties	(384)	—	—	—	—	—	(291)	(291)	—	(675)
Gain on business combination	—	—	—	—	—	—	(91,420)	(91,420)	1,842	(89,578)
Gain / (Loss) on derivative financial instruments	945	—	359	955	(37)	—	2,012	2,930	118	4,352
Income / (Loss) before taxes	33,456	124,162	13,914	220,275	23,971	33,457	(72,000)	205,703	(100,818)	276,417
Income tax expense	—	(32,745)	(2,208)	(10,884)	(4,925)	—	(1,011)	(16,820)	595	(51,178)
Net Income (loss)	\$ 33,456	\$ 91,417	\$ 11,706	\$ 209,391	\$ 19,046	\$ 33,457	\$ (73,011)	\$ 188,883	\$ (100,223)	\$ 225,239
Non-Controlling Interest	—	—	—	157,374	—	655	(177)	157,852	—	157,852
Income attributable to Unitholders	\$ 33,456	\$ 91,417	\$ 11,706	\$ 52,017	\$ 19,046	\$ 32,802	\$ (72,834)	\$ 31,031	\$ (100,223)	\$ 67,387
Add / (Deduct):										
Fair market value losses (gains)	15,500	(87,765)	(6,248)	(186,155)	80	(2,847)	3,692	(185,230)	29,164	(234,579)
Less: Non-controlling interests' share of fair market value losses (gains)	—	—	—	139,988	—	2,142	(893)	141,237	—	141,237
Finance cost - Exchangeable Unit distributions	—	—	—	—	—	—	—	—	15,199	15,199
Revaluation of financial liabilities	—	3,667	—	—	—	—	—	—	—	3,667
Unrealized foreign exchange loss (gain)	20	(2,848)	5	(1,322)	128	—	(1)	(1,195)	(3,376)	(7,394)
Less: Non-controlling interests' share of unrealized foreign exchange loss (gain)	—	—	—	995	—	—	—	995	—	995
Deferred taxes	—	32,488	2,253	14,614	494	—	390	15,498	—	50,239
Less: Non-controlling interests' share of deferred taxes	—	—	—	(10,978)	—	—	—	(10,978)	—	(10,978)
Non-recurring transaction costs	—	—	84	—	—	—	1,106	1,106	12,101	13,291
Net adjustments for equity accounted entities	—	—	—	—	—	(38,943)	—	(38,943)	—	(38,943)
Internal leasing costs	1,421	—	620	—	—	—	—	—	—	2,041
Net loss on disposal of investment properties	384	—	—	—	—	—	291	291	—	675
Gain on business combination	—	—	—	—	—	—	91,420	91,420	(1,842)	89,578
Amortization of finance leases	—	—	—	—	—	—	(154)	(154)	—	(154)
Other FFO adjustments	576	—	—	—	—	4,468	263	4,731	—	5,307
Funds From Operations ("FFO")⁽²⁾	\$ 51,357	\$ 36,959	\$ 8,420	\$ 9,159	\$ 19,748	\$ (2,378)	\$ 23,280	\$ 49,809	\$ (48,977)	\$ 97,568

PART XI – SUPPLEMENTAL DISCLOSURE (CON'T.)

SUPPLEMENTAL DISCLOSURE (CON'T)

Expressed in thousands of Canadian dollars	Year ended December 31, 2017									
	Canada	Brazil	Europe	Australia/New Zealand				Corporate ⁽³⁾	Consolidated	
				Vital Trust	Vital Manager	Elimination	Australia REIT ⁽⁴⁾	Total		
Funds From Operations ("FFO") ⁽²⁾	\$ 51,357	\$ 36,959	\$ 8,420	\$ 9,159	\$ 19,748	\$ (2,378)	\$ 23,280	\$ 49,809	\$ (48,977)	\$ 97,568
Add / (Deduct):										
Amortization of marked to market adjustment	(3,165)	—	—	—	—	—	—	—	—	(3,165)
Amortization of transactional deferred financing charges	147	387	—	—	—	—	1,106	1,106	2,533	4,173
Straight-line revenue	(505)	237	—	1,432	—	—	(153)	1,279	—	1,011
Less: Non-controlling interests' share of straight-line revenue	—	—	—	(1,075)	—	—	(26)	(1,101)	—	(1,101)
Leasing costs and non-recoverable maintenance capital expenditures	(8,198)	(82)	(1,128)	(1,618)	—	—	(1,251)	(2,869)	—	(12,277)
Less: Non-controlling interests' share of actual capex and leasing costs	—	—	—	1,217	—	—	492	1,709	—	1,709
DUP compensation expense	—	—	—	—	2,013	—	—	2,013	2,778	4,791
Debt repayment costs	806	—	175	—	—	—	—	—	474	1,455
Net adjustments for equity accounted entities	—	—	—	—	—	(750)	—	(750)	—	(750)
Adjusted Funds From Operations ("AFFO") ⁽²⁾	\$ 40,442	\$ 37,501	\$ 7,467	\$ 9,115	\$ 21,761	\$ (3,128)	\$ 23,448	\$ 51,196	\$ (43,192)	\$ 93,414

Notes

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

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

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

(4) Includes Generation Manager, which in 2018 has been reclassified to ANZ Manager.

PART XII – NET ASSET VALUE

Expressed in thousands of Canadian dollars, except per unit amounts

	Q4 2018
Total Assets	\$ 5,071,648
less Total Liabilities	(3,389,100)
less Non-controlling interest	(734,826)
Unitholders' equity	947,722
Add/(deduct):	
Goodwill	(81,403)
Deferred unit plan liability	13,030
Deferred tax liability	284,187
less NCI	<u>(67,948)</u>
	216,239
Financial instruments - net ⁽²⁾	15,884
less NCI	<u>(10,013)</u>
	5,871
Exchangeable Units	167,872
ANZ Manager valuation adjustment	220,509
Other	1,337
Net Asset Value ("NAV")	\$ 1,491,177
Adjusted Units Outstanding (000s)- period end ⁽¹⁾	121,278
NAV per Unit	\$ 12.30

Notes

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

CORPORATE INFORMATION

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Stock Exchange Listing

Toronto Stock Exchange (TSX)

Listing symbols:

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

Distribution Reinvestment Plan

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



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