

**NORTHWEST HEALTHCARE
PROPERTIES REAL ESTATE
INVESTMENT TRUST**

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

FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018

(AUDITED)





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INDEPENDENT AUDITORS' REPORT

To the Unitholders of NorthWest Healthcare Properties Real Estate Investment Trust

Opinion

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

- the consolidated balance sheets as at December 31, 2019 and December 31, 2018
- the consolidated statements of income and comprehensive income (loss) for the years then ended
- the consolidated statements of unitholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated balance sheets of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated statements of income and comprehensive income (loss), its consolidated statements of unitholders' equity and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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



Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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



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

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

We also:

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

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

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



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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Michael Kavanagh.

Toronto, Canada

March 4, 2020

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

As at	Note	December 31, 2019	December 31, 2018
Assets			
Investment properties	5	\$ 4,928,111	\$ 4,669,802
Equity accounted investments	7	134,070	—
Intangible assets		47,264	47,291
Goodwill	6	41,671	81,403
Financial instruments	12	155	150,534
Accounts receivable		22,406	17,829
Other assets	8	62,275	58,630
Cash and cash equivalents	17	192,203	46,159
Assets held for sale	4	107,149	—
Total assets		\$ 5,535,304	\$ 5,071,648
Liabilities			
Mortgages and loans payable	9	\$ 2,341,391	\$ 2,409,662
Convertible debentures	10	391,201	401,235
Deferred unit plan liability	13	19,656	13,030
Class B exchangeable units	14	211,257	167,872
Deferred tax liability	11	322,166	284,187
Financial instruments	12	48,475	23,102
Income tax payable		22,331	8,226
Accounts payable and accrued liabilities		92,466	74,881
Distributions payable		10,242	6,905
Total liabilities		\$ 3,459,185	\$ 3,389,100
Unitholders' Equity			
Unitholders' equity	16	1,319,307	947,722
Non-controlling interest	21	756,812	734,826
Total liabilities and unitholders' equity		\$ 5,535,304	\$ 5,071,648

The consolidated financial statements were approved by the Board on March 4, 2020 and signed on its behalf by:

"Colin Loudon" Trustee
"Paul Dalla Lana" Trustee

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

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

For the year ended December 31,	Note	2019	2018
Net Property Operating Income			
Revenue from investment properties	15	\$ 366,056	\$ 349,592
Property operating costs		87,226	86,146
		278,830	263,446
Other Income			
Interest and other		6,443	11,243
Management fees		11,303	6,556
Share of profit (loss) of equity accounted investments	7	(16,950)	(94)
		796	17,705
Expenses and other			
Mortgage and loan interest expense		126,266	124,275
General and administrative expenses		34,076	27,113
Transaction costs		15,358	13,462
Foreign exchange gain		(3,270)	(244)
		172,430	164,606
Income before other finance costs, fair value adjustments, and net loss on disposal of investment property			
		107,196	116,545
Finance costs			
Amortization of financing costs		(11,570)	(10,377)
Amortization of mark-to-market adjustment		1,316	2,060
Class B exchangeable unit distributions	14	(14,167)	(14,167)
Fair value adjustment of Class B exchangeable units	14	(43,385)	33,262
Accretion of financial liabilities	9	(4,541)	(19,125)
Fair value adjustment of convertible debentures	10	(29,491)	20,553
Convertible debenture issuance costs		—	(5,611)
Net loss on financial instruments	12	(13,346)	(19,213)
Impairment loss on goodwill	6	(37,289)	(50,096)
Fair value adjustment of investment properties	5	212,765	148,100
Net loss on disposal of investment properties	4	(2,406)	(2,702)
Fair value adjustment of deferred unit plan liability	13	(3,600)	2,235
		161,482	201,464
Income before taxes			
		161,482	201,464
Income tax expense	11	88,232	72,724
Net income		\$ 73,250	\$ 128,740
Net income attributable to:			
Unitholders		\$ (1,871)	\$ 65,715
Non-controlling interest		75,121	63,025
		\$ 73,250	\$ 128,740

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

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

For the year ended December 31,	2019	2018
Net income	\$ 73,250	\$ 128,740
Other comprehensive income (loss) ("OCI"):		
Items that will be reclassified subsequently to income:		
Foreign currency translation adjustment	\$ (118,820)	\$ (40,956)
Realized foreign exchange gains/(losses) on hedges	4,179	(150)
Current taxation (expense)/recovery	(1,170)	43
Unrealized foreign exchange gains/(losses) on hedges	(2,750)	7,445
Deferred taxation (expense)/recovery	1,786	(2,099)
Fair value gain (loss) on net investment hedges	(2,626)	5,869
Deferred taxation (expense)/recovery	(281)	(1,628)
Other comprehensive income (loss), net of tax	(119,682)	(31,476)
Total comprehensive income (loss) for the year	\$ (46,432)	\$ 97,264
Total comprehensive income (loss) attributable to:		
Unitholders	\$ (85,015)	\$ 54,240
Non-controlling interests	38,583	43,024
	\$ (46,432)	\$ 97,264

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

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

	Note	Unitholders' Equity	Contributed Surplus	Cumulative Distributions	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Unitholders' Equity	Non-Controlling Interest	Total Equity
Balance, December 31, 2018		\$ 953,169	\$ 39,724	\$ (264,119)	\$ (57,065)	\$ 276,013	\$ 947,722	\$ 734,826	\$ 1,682,548
Public offering of units	16	543,796	—	—	—	—	543,796	6,246	550,042
Units issued through distribution reinvestment plan		11,205	—	—	—	—	11,205	5,979	17,184
Units issued on exercise of deferred units	16	1,135	—	—	—	—	1,135	—	1,135
Conversion of convertible debenture into units	16	940	—	—	—	—	940	—	940
Distributions		—	—	(100,476)	—	—	(100,476)	(28,822)	(129,298)
Foreign currency translation adjustments		—	—	—	(82,929)	—	(82,929)	(35,891)	(118,820)
Other comprehensive income (loss)		—	—	—	(215)	—	(215)	(647)	(862)
Net income (loss)		—	—	—	—	(1,871)	(1,871)	75,121	73,250
Balance, December 31, 2019		\$ 1,510,245	\$ 39,724	\$ (364,595)	\$ (140,209)	\$ 274,142	\$ 1,319,307	\$ 756,812	\$ 2,076,119

	Note	Unitholders' Equity	Contributed Surplus	Cumulative Distributions	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Unitholders' Equity	Non-Controlling Interest	Total Equity
Balance, December 31, 2017		\$ 924,918	\$ 39,724	\$ (181,680)	\$ (45,590)	\$ 210,298	\$ 947,670	\$ 707,255	\$ 1,654,925
Issue of share capital		—	—	—	—	—	—	7,026	7,026
Units issued through distribution reinvestment plan		8,205	—	—	—	—	8,205	5,383	13,588
Units issued on exercise of deferred units	16	5,103	—	—	—	—	5,103	—	5,103
Conversion of Class B LP exchangeable units	14	14,874	—	—	—	—	14,874	—	14,874
Conversion of convertible debenture into units	16	69	—	—	—	—	69	—	69
Acquisition of control of subsidiary		—	—	—	—	—	—	454	454
Distributions		—	—	(82,439)	—	—	(82,439)	(28,316)	(110,755)
Foreign currency translation adjustments		—	—	—	(13,835)	—	(13,835)	(27,121)	(40,956)
Other comprehensive income (loss)		—	—	—	2,360	—	2,360	7,120	9,480
Net income (loss)		—	—	—	—	65,715	65,715	63,025	128,740
Balance, December 31, 2018		\$ 953,169	\$ 39,724	\$ (264,119)	\$ (57,065)	\$ 276,013	\$ 947,722	\$ 734,826	\$ 1,682,548

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

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

For the year ended December 31,	Note	2019	2018
Cash provided by (used in):			
Operating activities			
Net income before taxes		\$ 161,482	\$ 201,464
Adjustments for:			
Amortization		1,982	1,299
Mortgage and loan interest		126,266	124,275
Mortgage and loans interest paid		(125,070)	(107,134)
Finance costs	17	101,838	(6,595)
Interest income		(6,443)	(7,737)
Share of (profit)/loss of equity accounted investments	6	16,950	94
Unrealized foreign exchange (gain)/loss		(1,287)	411
Amortization of deferred revenue		(42)	—
Amortization of finance leases receivable/payable		(89)	(289)
Fair value adjustment of investment properties	5	(212,765)	(148,100)
Fair value (gain)/loss on financial instruments	12	13,485	19,696
Impairment loss on goodwill	7	37,289	50,096
Net loss on disposal of investment properties	4	2,406	2,702
Fair value adjustment of deferred unit plan liability		3,600	(2,235)
Unit-based compensation expense	13	8,361	4,759
Redemption of units issued under deferred unit plan		(4,092)	(2,399)
Income taxes paid		(15,878)	(12,754)
Changes in non-cash working capital balances	17	7,823	(24,238)
Cash provided by (used in) operating activities		115,816	93,315
Investing activities			
Acquisitions of investment properties	3	(264,129)	(452,824)
Additions to investment properties	5	(105,446)	(92,269)
Net proceeds on disposal of investment property	4	10,610	376,966
Investment in equity accounted investments	6	(162,125)	—
Disposition of financial assets		7,227	(5,162)
Cash interest received		3,841	5,328
Distributions from equity accounted investments	6	8,006	(94)
Additions to furnitures and fixtures		(377)	(413)
Net receipts (payments) from forward contract	12	156,455	(156,297)
Receipts (payments) from foreign exchange contracts		4,175	(337)
Net decrease (increase) to restricted cash		276	(76)
Cash provided by (used in) investing activities		(341,487)	(325,178)
Financing activities			
Mortgage and loan proceeds	9	924,778	512,008
Repayment of mortgages	9	(906,224)	(289,415)
Issuance of convertible debentures, net of issuance cost	10	—	119,389
Redemption of convertible debentures	10	(38,585)	—
Proceeds from issuance of units, net of issuance costs	16	543,796	—
Financing fees paid		(14,626)	(5,215)
Net (payments) advances from (to) related parties		(2,562)	(124)
Settlement of securitization		—	(19,625)
Distributions paid		(85,929)	(74,073)
Class B exchangeable units distributions paid	14	(14,167)	(14,167)
Distributions paid to non-controlling interests		(22,843)	(22,947)
Cash provided by (used in) financing activities		383,638	205,831
Net change in cash and cash equivalents		157,967	(26,032)
Effect of foreign currency translation		(11,625)	136
Net change in cash and cash equivalents		146,342	(25,896)
Cash and cash equivalents, beginning of year		45,808	71,704
Cash and cash equivalents, end of year		\$ 192,150	\$ 45,808

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2019 and 2018

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

1. Statement of Compliance and Basis of Preparation

(a) Statement of compliance

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

The consolidated financial statements were approved by the Board of Trustees of the REIT on March 4, 2020.

(b) Basis of presentation and measurement

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

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

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

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

(c) Critical accounting estimates and assumptions

The preparation of these consolidated financial statements requires management to apply judgment when making estimates and assumptions that affect the application of accounting policies, the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

(i) Intangible asset

The intangible asset represents the REIT's rights and obligations under the contracts between NorthWest Healthcare Properties Management Limited ("Global Manager"), a wholly-owned subsidiary of the REIT, and Vital Healthcare Property Trust ("Vital Trust"). The Vital Trust intangible asset has been measured at its estimated 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 forecast of management fees, operating expenses, discount rates, capitalization rates, inflation rates, interest rates, taxation rates, foreign currency exchange rates and earnings multiples.

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

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2019 and 2018

(ii) Investment properties

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

(iii) Derivative financial instruments

The measurement of the fair value of the REIT's derivative financial instruments is based on estimates and assumptions that affect the reported amount of the liabilities and the corresponding gain or loss on changes in fair value. Estimates and assumptions used in the valuation for the REIT's derivatives are described in note 12.

(d) Critical judgments in applying accounting policies

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

(i) Leases

The REIT makes judgments in determining whether leases in which the REIT is the lessor are operating or finance leases, and has determined that all of its leases are operating leases.

(ii) Investment acquisitions

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

Business combinations are measured at fair value on the date of acquisition, being the date at which the acquirer obtains control over the acquiree. 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 profit or loss 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 have been accounted for as asset acquisitions.

(iii) Consolidation Vital Trust

The REIT accounts for its investment in Vital Trust as a subsidiary and consolidates the financial position and results of Vital Trust. The REIT's interest in Vital Trust, as at December 31, 2019, is 24.9%. The REIT assessed it has power and thus, control over Vital Trust based on the definition of control and sufficient rights and exposure to variable returns when considering relevant criteria included as part of 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 Global Manager. The ownership of the Global Manager results in the REIT directing all activities of Vital

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2019 and 2018

Trust; ii) the REIT has the right to appoint a majority of directors of the board of NWM, which acts as the board of directors of Vital Trust; and iii) the 75.1% non-controlling interest of Vital Trust is widely held with no known investor holding more than a 5% interest in Vital Trust, other than the REIT.

(iv) *Income taxes*

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

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

2. Summary of Significant Accounting Policies

(a) *Goodwill and intangible assets*

The carrying values of identifiable indefinite-life intangible assets and goodwill are tested for impairment annually as at December 31, 2019 and whenever there is an indication that the intangible asset may be impaired. A cash generating unit ("CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill and indefinite-life intangible assets are allocated to CGUs for the purpose of impairment testing based on the level at which management monitors them, which is not higher than an operating segment. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose.

As at December 31, 2019, the REIT performed its annual goodwill impairment test. Based on the impairment test performed, the REIT recognized a goodwill impairment loss of \$37.3 million as at December 31, 2019 (December 31, 2018 - \$50.1 million).

(b) *Principles of consolidation*

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

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

For the years ended December 31, 2019 and 2018

(c) Functional and presentation currency

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

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

(d) Investment properties

Investment properties include properties that are held principally by the REIT to earn rental income, for capital appreciation, or both. Investment properties acquired are recognized initially at cost, which includes all costs directly related to the acquisition of the properties such as legal fees, appraisal fees and land transfer taxes. Subsequent to initial recognition, investment properties are measured at their estimated fair value, with changes in fair value recognized in profit or loss in the years in which they arise. Subsequent capital expenditures are charged to investment property only when it is probable that the future economic benefits of the expenditure will flow to the REIT and the cost can be measured reliably. Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Prior to its disposal, the carrying value of the investment property is adjusted to reflect its fair value. This adjustment is recorded as a fair value gain (loss). Any remaining gain or loss arising on de-recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized. The critical estimates and assumptions underlying the valuation of investment properties are outlined in note 5.

(e) Assets held for sale

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

(f) Intangible assets

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

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NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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(g) Leases

A lease is classified as a finance lease if it results in a transfer of substantially all the risks and rewards incidental to ownership from the REIT to the lessee. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases to which the REIT is the lessor have been determined to be operating leases.

(h) Revenue recognition

Rental revenue from operating leases is recognized over the lease term on a straight-line basis. The difference between rental revenue recognized and cash flows is recorded as straight-line rent receivable or payable on the consolidated statements of financial position. The REIT earns revenue from its tenants from various sources consisting of base rent for the use of space leased, operating costs and realty tax recoveries, parking income, and incidental income. Operating cost and realty tax recoveries are recognized in the year that recoverable costs are chargeable to tenants. Deferred revenue comprises amounts received in advance related to income from rents relating to future years.

Other income includes management fees earned under the management contract for Vital Trust and joint ventures managed by the REIT. The REIT recognizes management fees, on a consolidated basis, to the extent those fees relate to services rendered in the period, charged in accordance with contractual arrangements, and are earned from third-parties.

(i) Other assets

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

(j) DUP liability

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

(k) Segmented reporting

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

(l) Derivative financial instruments

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

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

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

(m) Hedge accounting

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

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

(n) Class B exchangeable units

The Class B exchangeable units of a subsidiary of the REIT are exchangeable into trust units at the option of the holder. The trust units of the REIT are puttable financial instruments (note 2(o)). The Class B exchangeable units therefore are classified as financial liabilities and are measured at fair value through profit and loss each reporting period with any changes in fair value recognized in the consolidated statements of income and comprehensive income as finance costs. The distributions paid on the Class B exchangeable units are accounted for as finance costs. The Class B exchangeable units receive distributions equal to the distributions paid on the REIT's trust units and are, in all material aspects, economically equivalent to the trust units on a per unit basis.

(o) Trust units

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

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

(p) Joint arrangement

Joint arrangements are arrangements of which two or more parties have joint control. Joint control is the contractual sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint arrangements are classified as either joint operations or joint ventures depending on the REIT's rights and obligations in the arrangement based on factors such as the structure, legal form and contractual terms of the arrangement. The REIT's investment in a joint venture is recorded using the equity method and is initially recognized in the consolidated balance sheet at cost and adjusted thereafter to recognize the REIT's share of the profit or loss and other comprehensive income of the joint venture. The REIT's share of the joint venture's profit or loss is recognized in the REIT's consolidated statements of income and

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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comprehensive income. The REIT recognizes its proportionate share of assets, liabilities, revenues and expenses of joint operations.

(q) Income taxes

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

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

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

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

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

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

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

(r) Convertible debentures

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

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(s) Accounting standards implemented in 2019

(i) IFRS 16, Leases ("IFRS 16")

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

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

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

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

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

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

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

(t) Accounting standards and amendments issued but not yet effective

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

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

The REIT intends to adopt the amendments in its consolidated financial statements beginning on January 1, 2020, when the standard becomes effective. The REIT is currently in the process of evaluating the impact of this standard on its financial statements.

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

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

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3. Property Acquisitions

(a) 2019 Property Acquisitions

Region	Acquisition Cost ⁽¹⁾		Property specific debt	
Europe	\$	196,683	\$	107,123
Canada		56,870		43,932
Australasia		9,156		—
Other ⁽²⁾		1,420		—
Total	\$	264,129	\$	151,055

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

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

(b) 2018 Property Acquisitions

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

4. Property Disposals

During the year ended December 31, 2019 the REIT disposed the following property:

Region	Gross Proceeds		Property specific debt settled	
Canada	\$	2,251	\$	—
Australasia		8,421		—
	\$	10,672	\$	—

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

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

Region	Gross Proceeds		Property specific debt settled	
Canada	\$	167,000	\$	55,000
Australasia		207,247		—
	\$	374,247	\$	55,000

As at December 31, 2019, the REIT had classified two medical office buildings with combined fair value of \$107.1 million located in Australia, as held for sale (December 31, 2018 - \$nil properties with fair value of \$nil).

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

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5. Investment Properties

As at	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 4,669,802	\$ 4,144,789
Acquisition of investment properties (note 3)	264,129	544,282
Disposition of investment properties (note 4)	(2,251)	(207,247)
Additions to investment properties	105,446	94,405
Increase in straight line rents	3,146	2,139
Reclassified as assets held for sale (note 4)	(114,331)	—
Settlement of securitization	—	7,945
Right of use asset addition	7,720	—
Fair value gain	210,762	150,263
Foreign currency translation	(216,312)	(66,774)
Balance, end of year	\$ 4,928,111	\$ 4,669,802

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

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

Fair values are most sensitive to changes in discount rates and terminal capitalization rates. A 0.25% increase in the weighted average portfolio discount rate and terminal capitalization rate would decrease fair value by \$204.9 million and a 0.25% decrease would increase fair value by \$215.5 million.

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

	December 31, 2019	December 31, 2018
Less than 1 year	\$ 292,615	\$ 254,227
1 - 5 years	1,088,551	973,935
Longer than 5 years	\$ 2,556,889	\$ 2,089,011

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

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

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

As at December 31, 2018				
	Canada	Brazil	Europe	Australasia
Discount rate - range	5.3% - 8.5%	7.3% - 8.5%	5.2% - 7.3%	5.8% - 10.8%
Discount rate - weighted average	7.2%	7.8%	6.3%	6.8%
Terminal capitalization rate - range	4.8% - 8.0%	7.0% - 8.0%	5.0% - 7.5%	5.3% - 9.3%
Terminal capitalization rate - weighted average	6.6%	7.4%	5.9%	6.3%
Implied capitalization rate - range	3.7% - 10.2%	7.0% - 8.1%	4.5% - 7.1%	5.0% - 9.5%
Implied capitalization rate - weighted average	6.5%	7.5%	5.8%	5.7%

The REIT engages independent valuation firms to appraise its investment properties such that one-third of the portfolio is independently appraised annually and every property is appraised at least once over a five-year period.

During the year ended December 31, 2019, investment properties with an aggregate fair value of \$3.8 billion, respectively (for the year ended December 31, 2018 - \$3.3 billion) were valued by external valuation professionals.

6. Goodwill

The REIT's goodwill balance relates to its investment in Vital Trust and Australia REIT. The REIT performed its annual goodwill impairment test for Australia REIT and Vital Trust as at December 31, 2019, in accordance with IAS 36. Based on the impairment test performed, the REIT concluded that the goodwill for Australia REIT was fully impaired as at December 31, 2019. As a result, the REIT has recognized a goodwill impairment loss of \$37.3 million in the consolidated statement of net income and comprehensive income. As for Vital Trust, the REIT concluded that the goodwill on the amount of \$41.7 million was not impaired as at December 31, 2019 (December 31, 2018 - \$50.1 million and \$nil for Australian REIT and Vital Trust, respectively). The goodwill impairment loss principally results from a decrease in the overall cash flows of the CGU and changes in the terminal and discount rates. For the purpose of this impairment test, management used projected financial forecasts for a period of five years. The key assumptions used included discount rate and terminal rate. The terminal and discount rates used are between 5.75% to 8.50%.

7. Equity Accounted Investments

The REIT has entered into a number of arrangements with other parties for the purpose of jointly developing, owning and operating investment properties. The REIT determined the arrangements are joint ventures under IFRS 11 *Joint arrangements* based on the following: i) the REIT has joint control over the arrangements; ii) the arrangements are structured as a separate vehicle; and iii) the REIT only has rights to and is liable for the net assets of the arrangements. Therefore, the REIT accounted for the joint arrangements using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures*.

As at December 31, 2019, the total equity commitment to the joint ventures is approximately \$3.4 billion, including 30% participation by the REIT.

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Equity Accounted Investments	Location	Principal activity
NorthWest Australia HSO Trust	Australia	Own, acquire and develop investment properties
NorthWest Australia Hospital Investment Trust	Australia	Own, acquire and develop investment properties

On June 6, 2019, the REIT through a wholly-owned subsidiary completed the acquisition of 30% interest in a joint arrangement with a third party institutional partner. In addition, on December 13, 2019, the REIT acquired through NorthWest Australia Hospital Investment Trust 30% freehold interests in a private hospital asset.

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

		December 31, 2019	December 31, 2018
Balance, beginning of year	\$	—	\$
Contributions		162,407	—
Share of loss for the year		(16,950)	—
Distributions		(8,006)	—
Foreign exchange		(3,381)	—
Balance, end of year	\$	134,070	\$

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

		December 31, 2019	December 31, 2018
Total assets	\$	1,236,364	\$
Total liabilities		(790,404)	—
Net assets		445,960	—
Ownership Interest		30%	n/a
REIT's share of net assets		134,070	—
Equity Accounted Investments	\$	134,070	\$

For the year ended December 31,		2019	2018
Total revenue		43,359	—
Expenses			
Operating costs		(1,872)	—
Mortgage and loan interest expense		(11,292)	—
General and administrative expenses		(2,922)	—
Other		(282)	—
Fair value adjustments and transaction costs		(93,296)	—
Net income (loss)	\$	(66,305)	\$
Weighted average share of profits (loss)		30%	n/a
REIT's share of profits (loss)	\$	(19,891)	\$
Intercompany amounts		2,941	—
REIT's adjusted share of profits (loss)	\$	(16,950)	\$

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8. Other Assets

As at	December 31, 2019	December 31, 2018
Acquisition and financing costs (i)	\$ 7,813	\$ 3,403
Prepaid expenses and deposits	11,951	8,759
Furniture and office equipment	3,011	3,314
Loans receivable carried at amortized cost (ii)	26,282	34,453
Finance lease receivable (iii)	6,394	6,560
Right-of-use assets (iv)	4,441	—
Other	2,383	2,141
	\$ 62,275	\$ 58,630

- i. Acquisition and financing costs relate to potential acquisitions and debt refinancing which are currently undergoing due diligence and/or negotiation.
- ii. Loans receivable carried at amortized cost primarily relates to one interest-bearing loan secured by an Australian investment property maturing in less than two years and other interest-bearing loans by a non-wholly owned subsidiary to the non-controlling interests, secured by the non-controlling interests underlying units of the subsidiary with a term to maturity beyond five years.
- iii. Finance lease receivable relates to a long-term lease that is a finance lease, bearing a discount rate of 6.5% and remaining term of 68 years.
- iv. Right-of-use assets are net of accumulated amortization of \$1.4 million (December 2018 - \$nil), see note 2 for further details.

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

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9. Mortgages and Loans Payable

As at	December 31, 2019	December 31, 2018
Mortgage payable, net of financing costs	\$ 909,150	\$ 822,355
Term debt, net of financing costs	1,282,094	1,309,104
Credit facilities, net of financing costs	138,825	275,241
Lease liabilities	11,322	2,962
Total	\$ 2,341,391	\$ 2,409,662
Less: Current portion	363,083	541,368
Non-current debt	\$ 1,978,308	\$ 1,868,294

Mortgages

All mortgages are secured by first or second charges on specific investment properties in Canada and Europe, with a carrying value of \$1.6 billion as at December 31, 2019 (December 31, 2018 - \$1.4 billion).

Term debt

As at December 31, 2019, term debt balance includes Brazilian secured debt of \$244.8 million (December 31, 2018 - \$195.1 million); Australian term debt of \$342.4 million (December 31, 2018 - \$298.2 million) secured by assets owned by an Australian subsidiary (excluding any non-controlling interests); New Zealand term debts of \$596.5 million (December 31, 2018 - \$679.7 million) secured by Vital Trust's security trust deed and by a first mortgage ranking over the respective investment properties of Vital Trust; and Australasian secured financing of \$109.6 million (December 31, 2018 - \$100.4 million) secured by 108,823,293 units of Vital Trust held by the REIT.

Credit facilities

As at December 31, 2019, the balance outstanding includes \$130.0 million of revolving credit facilities with weighted average interest rate of 4.13% (December 31, 2018 - \$244.5 million) and \$10.0 million of non-revolving credit facilities with weighted average interest rate of 6.00% (December 31, 2018 - \$32.0 million). The revolving credit facility is secured by first and second charges on certain Canadian investment properties with an estimated fair value of \$251.4 million, and the terms of a general security agreement.

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Lease liabilities

The lease of land on which one of the REIT's investment properties is built is accounted for as a finance lease. The remaining term of the lease at December 31, 2019 was 68 years. In addition, as part of the transition to IFRS 16, the REIT recognized lease liabilities for leases for which the REIT act as a lessee. Minimum payments under the lease and their present values are as follows:

As at	December 31, 2019	December 31, 2018
Minimum lease payments payable:		
Not later than one year	\$ 1,715	\$ 129
Later than one year and not later than five years	5,858	554
Later than five years	30,641	28,286
	38,214	28,969
Future finance charges	(26,891)	(26,007)
Present value of minimum lease payments	\$ 11,323	\$ 2,962
Present value of minimum lease payments:		
Not later than one year	1,668	124
Later than one year and not later than five years	5,145	536
Later than five years	4,509	2,302
	\$ 11,322	\$ 2,962

As at December 31, 2019, the scheduled principal repayments and debt maturities are as follows:

	Mortgage Debt	Term Debt	Credit Facilities	Finance Lease	Total
2020	\$ 143,538	\$ 217,829	\$ —	\$ 1,668	\$ 363,035
2021	156,392	100,056	10,000	1,371	267,819
2022	152,925	719,836	130,000	1,386	1,004,147
2023	58,817	93,327	—	1,309	153,453
2024	108,434	23,094	—	933	132,461
2025 & thereafter	290,311	139,016	—	4,655	433,982
	\$ 910,417	\$ 1,293,158	\$ 140,000	\$ 11,322	\$ 2,354,897
Financing costs	(3,267)	(11,064)	(1,175)	—	(15,506)
Mark-to-market adjustment	2,000	—	—	—	2,000
Total	\$ 909,150	\$ 1,282,094	\$ 138,825	\$ 11,322	\$ 2,341,391

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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A summary of the maturity and the weighted average interest rates relating to the mortgages and loans payable outstanding at December 31, 2019 are as follows:

	Maturity	Weighted Average Interest Rate	Carrying Value	Available to be Drawn
Fixed rate				
Mortgage debt	April 2020 - March 2034	2.96%	\$ 879,424	\$ —
Term debt	March 2021 - November 2027	4.59%	813,612	139,525
Total fixed rate debt			\$ 1,693,036	\$ 139,525
Variable Rate				
Mortgage debt	July 2020 - March 2022	4.13%	30,993	—
Term debt	March 2021 - November 2031	3.24%	479,546	59,368
Credit facilities	February 2020 - November 2022	4.27%	140,000	157,000
Total variable rate debt			\$ 650,539	\$ 216,368
Total debt excluding the following:			\$ 2,343,575	\$ 355,893
Finance lease			11,322	—
Mark-to-market adjustment			2,000	—
Financing costs			(15,506)	—
Total debt			\$ 2,341,391	\$ 355,893

The tables below summarizes the movements in the REIT's mortgages and loans during the years ended December 31, 2019 and 2018:

	Mortgage Debt	Term Debt	Credit Facilities	Total
Opening balance, January 1, 2019	\$822,355	\$1,309,104	\$275,241	\$2,406,700
Principal amortization	(23,886)	—	—	(23,886)
Repayments	(49,587)	(509,384)	(312,000)	(870,971)
Refinancing	13,637	—	—	13,637
Advances	170,781	553,493	175,500	899,774
Additional financing fees incurred	(1,743)	(10,174)	(2,709)	(14,626)
Amortization of finance fees	1,524	7,776	2,270	11,570
Amortization of mark-to-market	(1,316)	—	—	(1,316)
Inflation adjustment	—	4,541	—	4,541
Foreign exchange adjustment	(22,615)	(73,262)	523	(95,354)
Ending balance, December 31, 2019	\$909,150	\$1,282,094	\$138,825	\$2,330,069

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	Mortgage Debt	Term Debt	Credit Facilities	Total
Opening balance, January 1, 2018	\$722,866	\$1,246,502	\$145,599	\$2,114,967
Principal amortization	(21,957)	—	—	(21,957)
Assumed debt	34,786	—	—	34,786
Repayments	(74,946)	(495,127)	(110,000)	(680,073)
Refinancing	—	—	85,500	85,500
Advances	156,757	579,886	154,500	891,143
Additional financing fees incurred	(1,346)	(1,880)	(1,992)	(5,218)
Amortization of finance fees	995	8,446	936	10,377
Amortization of mark-to-market	(2,060)	—	—	(2,060)
Inflation adjustment	—	7,740	—	7,740
Foreign exchange adjustment	7,259	(36,463)	699	(28,505)
Ending balance, December 31, 2018	\$822,354	\$1,309,104	\$275,242	\$2,406,700

The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on its \$714.9 million variable rate mortgage debt as at December 31, 2019 (December 31, 2018 - \$839.7 million) (note 12). The interest rate swaps terminate between 2021 and 2029, refer to note 12.

10. Convertible Debentures

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

As at	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 401,235	\$ 296,857
Issuance of convertible debenture	—	125,000
Conversion to REIT units (note 16)	(940)	(69)
Convertible debenture redeemed	(38,585)	—
Change in fair value of convertible debentures	29,491	(20,553)
	\$ 391,201	\$ 401,235

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

As at	December 31, 2019	December 31, 2018
NWH.DB	\$ 40,351	\$ 39,445
NWH.DB.C	—	38,749
NWH.DB.D	55,254	51,711
NWH.DB.E	77,987	74,003
NWH.DB.F	85,137	78,890
NWH.DB.G	132,472	118,437
Fair Value	\$ 391,201	\$ 401,235
Current	95,605	38,749
Non-Current	295,596	362,486
	\$ 391,201	\$ 401,235

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Debentures Series	Conversion price per Unit (\$)	Maturity	Interest rate	Interest payment	Interest payment dates
NWH.DB	\$14.20	September 30, 2020	5.25%	Semi-annual	March 31 and September 30
NWH.DB.D	\$11.25	October 31, 2020	5.50%	Semi-annual	April 30 and October 31
NWH.DB.E	\$12.75	July 31, 2021	5.25%	Semi-annual	January 31 and July 31
NWH.DB.F	\$12.80	December 31, 2021	5.25%	Semi-annual	June 30 and December 31
NWH.DB.G	\$13.35	December 31, 2023	5.50%	Semi-annual	June 30 and December 31

11. Income Taxes

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

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

Year ended December 31,	2019	2018
Current income tax	\$ 23,454	\$ 8,433
Deferred income tax, relating to origination of temporary differences	64,778	64,291
	\$ 88,232	\$ 72,724

Deferred taxes

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

Deferred income tax liabilities consist of the following:

Year ended December 31,	2019	2018
Deferred tax liability related to difference in tax and book basis of:		
Investment properties	\$ 325,644	\$ 274,051
Mortgage and loans payables	7,041	7,051
Other	3,854	11,005
Total deferred income tax liabilities	336,539	292,107
Deferred tax asset related to difference in tax and book basis of:		
Derivative financial instruments	11,843	3,736
Other	2,530	4,184
Total deferred income tax assets	14,373	7,920
Net deferred income tax liability	\$ 322,166	\$ 284,187

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Reconciliation of effective tax rate:

Year ended December 31,	2019	2018
Income before income taxes	\$ 161,482	\$ 201,464
Income tax expense calculated at the domestic rates applicable to profits in the country concerned	60,250	29,462
Increase (decrease) resulting from		
Foreign tax exempt income	(9,627)	(3,785)
Item not deductible in determining taxable profit	5,166	2,333
Current-year losses for which no deferred tax asset is recognized	17,690	2,645
Changes in tax rates	—	38,198
Tax adjustments related to prior years	12,934	6,216
Other	1,819	(2,345)
Income tax expense	\$ 88,232	\$ 72,724

12. Financial Instruments

As at	December 31, 2019	December 31, 2018
Financial assets:		
Forward contract ⁽ⁱ⁾	\$ —	\$ 130,396
Option contracts ⁽ⁱ⁾	—	12,920
Interest rate swaps ⁽ⁱⁱ⁾	—	535
Foreign exchange contracts ⁽ⁱⁱⁱ⁾	155	6,683
Total financial assets	155	150,534
Financial liabilities:		
Interest rate swaps ⁽ⁱⁱ⁾	48,475	23,094
Foreign exchange contracts ⁽ⁱⁱⁱ⁾	—	8
Total financial liabilities	\$ 48,475	\$ 23,102

Derivative financial asset

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

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

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

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During the second quarter of 2019, the REIT net settled the forward contract and utilized proceeds from the sale of its investment of \$156.5 million in HSO towards the acquisition of a 30% interest in a joint arrangement (note 7). The REIT recorded a fair value adjustment of approximately \$13.9 million due to the settlement mentioned above.

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

Derivative financial liability

- (ii) The REIT has entered into interest rate swap contracts with respect to certain Canadian and German mortgages, and portions of the Vital Trust and Australia REIT term loans for a total of \$0.7 million (note 9). The interest rate derivatives mature over the next two to 10 years and have fixed interest rates ranging from 1.71% to 4.32%.

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

	For the year ended December 31,	
	2019	2018
Fair value adjustment - interest rate swaps	\$ (28,127)	\$ (9,830)
Receipts/(payments) under transaction hedging foreign exchange contracts	139	482
Fair value adjustment - foreign exchange contracts	665	510
Fair value adjustment - forward contracts	39,352	(17,910)
Fair value adjustment - option contracts	(24,660)	13,272
Fair value adjustment - financial asset	—	(903)
Distribution equivalent - forward contract	7,669	5,818
Finance costs - embedded funding contained in forward contract	(8,384)	(10,652)
	\$ (13,346)	\$ (19,213)

13. Deferred Unit Plan ("DUP") Liability

The REIT's DUP became effective in March 2010 and was re-approved at the annual general meeting of Unitholders in 2019. The DUP is administered by the Compensation, Governance and Nominating Committee. The purpose of the DUP is to promote a greater alignment of interests between the Trustees, officers and certain other participants of the REIT and the Unitholders. Under the plan, the maximum number of units authorized for issuance shall not exceed 5% of the units issued and outstanding at any given time. The deferred units can be settled at the holders' option in units or cash subject to the REIT's approval and are treated as a liability until redeemed.

Deferred unit plan liabilities also exist with respect to the ANZ Manager and are related to deferred units of Vital Trust.

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For the years ended December 31, 2019 and 2018

(a) Liability:

As at	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 13,030	\$ 18,009
Unit based compensation expense	8,361	4,759
Exercised and paid in cash	(4,092)	(2,399)
Exercised and settled in Trust Units	(1,135)	(5,103)
Fair value adjustment	3,600	(2,235)
Foreign exchange	(108)	(1)
Balance, end of year	\$ 19,656	\$ 13,030

The balance of the DUP liability at December 31, 2019 consists of \$17.7 million related to the REIT's DUP and \$2.0 million related to Vital Trust's DUP (December 31, 2018 - \$11.1 million related to the REIT's DUP and \$1.9 million related to Vital Trust's DUP).

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

(b) Units outstanding:

As at December 31, 2019	REIT	Vital Trust
Balance, beginning January 1, 2019	1,339,923	2,071,319
Granted	686,233	—
Exercised and paid in cash	(286,053)	(363,173)
Exercised and paid in REIT units	(107,342)	—
Forfeited	—	(584,132)
Distribution entitlement	104,823	48,767
Balance, as at December 31, 2019	1,737,584	1,172,781
Units vested but not exercised	1,008,657	698,122
As at December 31, 2018	REIT	Vital Trust
Balance, beginning January 1, 2018	1,936,429	1,819,014
Granted	248,198	626,995
Exercised and paid in cash	(155,361)	(461,913)
Exercised and paid in REIT units	(472,758)	—
Forfeited	(330,031)	—
Distribution entitlement	113,447	87,223
Balance, December 31, 2018	1,339,924	2,071,319
Units vested but not exercised	823,682	297,020

For the year ended December 31, 2019, the REIT and Vital Trust combined granted or issued 686,233 DUP units with a value of \$6.4 million (for the year ended December 31, 2018 - 875,193 DUP units with a fair value of \$4.0 million).

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14. Class B Exchangeable Units

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

As at December 31, 2019, there were 17,708,065 Class B exchangeable units (December 31, 2018 - 17,708,065) of NorthWest International Healthcare Properties LP ("NWI LP") issued and outstanding with grant or issuance date fair value of \$211.3 million (December 31, 2018 - \$167.9 million).

Distributions declared on the Class B exchangeable units of NWI LP totaled \$14.2 million for the year ended December 31, 2019 (for the year ended December 31, 2018 - \$14.2 million) and have been accounted for as finance costs.

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

	Units	Amount
Balance, December 31, 2018	17,708,065	\$ 167,872
Fair value adjustment	—	43,385
Balance, December 31, 2019	17,708,065	\$ 211,257

15. Rental Revenue

The components of rental revenue are as follows:

	For the year ended December 31,	
	2019	2018
Rental income	\$ 278,665	\$ 265,561
Operating cost recoveries	56,384	54,619
Tax and insurance recoveries	21,549	20,862
Other revenue	9,458	8,550
Rental revenue	\$ 366,056	\$ 349,592

16. Unitholders' Equity

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

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

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

The special voting units are only issued in tandem with Class B exchangeable units and are not transferable separately from the Class B exchangeable units to which they are attached. As Class B exchangeable units are exchanged or surrendered for REIT units, the corresponding special voting units will be cancelled for no consideration. Special

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voting units have no economic entitlement in the REIT, but entitle the holder to one vote per special voting unit at any meeting of the unitholders. The REIT's Trustees have discretion in declaring distributions.

The following table shows the changes in REIT units:

	REIT units	Amount
Balance, December 31, 2017	101,039,187	\$ 924,918
Units issued through distribution reinvestment plan (i)	762,436	8,205
Conversion of convertible debentures (note 10)	5,866	69
Units issued under deferred unit plan (note 13)	472,758	5,103
Units issued pursuant to Class B conversion (note 14)	1,290,000	14,874
Balance, December 31, 2018	103,570,247	\$ 953,169
Units issued through distribution reinvestment plan (i)	995,102	11,205
Conversion of convertible debentures (note 10)	74,975	940
Units issued under deferred unit plan (note 13)	107,342	1,135
Units issued pursuant to equity offering (ii)	48,879,000	569,546
Units issuances costs (ii)	—	(25,750)
Balance, December 31, 2019	153,626,666	\$ 1,510,245

- (i) The REIT has established a distribution reinvestment plan ("DRIP") for its unitholders, which allows participants to reinvest their monthly cash distributions in additional units at an effective discount of 3%.
- (ii) On February 26, 2019, the REIT completed a public offering of 13,501,000 units at a price of \$10.65 per unit for gross proceeds of approximately \$143.8 million, which included the exercise in full of the over-allotment option granted to the underwriters, whereby an additional 1,761,000 units were issued at a price of \$10.65 per unit.

On July 31, 2019, the REIT completed a public offering of 14,628,000 units at a price of \$11.80 per unit for gross proceeds of approximately \$172.6 million, which included the exercise in full of the over-allotment option granted to the underwriters, whereby an additional 1,908,000 units were issued at a price of \$11.80 per unit.

On December 19, 2019, the REIT completed a public offering of 20,750,000 units at a price of \$12.20 per unit for gross proceeds of approximately \$253.2 million, which included the exercise in full of the over-allotment option granted to the underwriters, whereby an additional 2,300,000 units were issued at a price of \$12.20 per unit.

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17. Supplemental Cash Flow Information

(i) Cash and cash equivalents

As at	December 31, 2019		December 31, 2018
Cash and cash equivalents	\$	192,150	\$ 45,808
Restricted cash		53	351
	\$	192,203	\$ 46,159

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

(ii) Changes in Non-Cash Working Capital Balances

	For the year ended December 31,	
	2019	2018
Accounts receivable	\$ 178	\$ (5,600)
Other assets	(10,094)	(8,490)
Accounts payable and accrued liabilities	17,739	(10,148)
	\$ 7,823	\$ (24,238)

(iii) Non-Cash Financing and Investing Activities

	For the year ended December 31,	
	2019	2018
Non cash distributions to Unitholders under the DRIP (note 16)	\$ 11,205	\$ 8,205
Units issued under deferred unit plan (note 13)	1,135	5,103
Non-cash conversion of convertible debentures	940	69
Non-cash conversion of Class B exchangeable units (note 14)	—	14,874

(iv) Finance costs

	For the year ended December 31,	
	2019	2018
Distributions on Exchangeable Units	\$ 14,167	\$ 14,167
Accretion of financial liabilities	4,541	19,125
Amortization of deferred financing costs	11,570	10,377
Amortization of marked to market adjustment	(1,316)	(2,060)
Fair value adjustment of Convertible Debentures	29,491	(20,553)
Convertible Debenture issuance costs	—	5,611
Fair value adjustment of Class B exchangeable units	43,385	(33,262)
	\$ 101,838	\$ (6,595)

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

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

Year ended December 31, 2019	Mortgages and loans payable	Convertible debentures	Class B exchangeable units	Total
Balance, beginning of year	\$ 2,409,662	\$ 401,235	\$ 167,872	\$ 2,978,769
Cash financing activities:				
Mortgage and loan proceeds	924,778	—	—	924,778
Repayment of mortgages	(906,224)	—	—	(906,224)
Redemption of convertible debentures	—	(38,585)	—	(38,585)
Financing fees paid	(14,626)	—	—	(14,626)
Total cash financing activities	3,928	(38,585)	—	(34,657)
Non-cash financing activities:				
Amortization of financing costs	11,570	—	—	11,570
Amortization of mark-to-market adjustment	(1,316)	—	—	(1,316)
Accretion of financial liabilities	4,541	—	—	4,541
Liabilities related to finance leases	11,322	—	—	11,322
Conversion to Unitholders' Equity	—	(940)	—	(940)
Fair value adjustment of Class B exchangeable units	—	—	43,385	43,385
Fair value adjustment of convertible debentures	—	29,491	—	29,491
Foreign exchange translation	(98,316)	—	—	(98,316)
Total non-cash financing activities	(72,199)	28,551	43,385	(263)
Balance, end of year	\$ 2,341,391	\$ 391,201	\$ 211,257	\$ 2,943,849

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Year ended December 31, 2018	Mortgages and loans payable	Deferred consideration	Convertible debentures	Class B exchangeable units	Total
Balance, beginning of year	\$ 2,124,769	\$ 38	\$ 296,857	\$ 216,008	\$ 2,637,672
Cash financing activities:					
Mortgage and loan proceeds	512,008	—	—	—	512,008
Repayment of mortgages	(289,415)	—	—	—	(289,415)
Issuance on convertible debentures	—	—	119,389	—	119,389
Financing fees paid	(5,215)	—	—	—	(5,215)
Total cash financing activities	217,378	—	119,389	—	336,767
Non-cash financing activities:					
Amortization of financing costs	10,377	—	—	—	10,377
Amortization of mark-to-market adjustment	(2,060)	—	—	—	(2,060)
Accretion of financial liabilities	19,125	—	—	—	19,125
Mortgages assumed	34,786	—	—	—	34,786
Conversion to Unitholders' Equity	—	—	(69)	(14,874)	(14,943)
Fair value adjustment of Class B exchangeable units	—	—	—	(33,262)	(33,262)
Convertible debenture issuance costs	—	—	5,611	—	5,611
Fair value adjustment of convertible debentures	—	—	(20,553)	—	(20,553)
Other adjustments	—	(38)	—	—	(38)
Foreign exchange translation	5,287	—	—	—	5,287
Total non-cash financing activities	67,515	(38)	(15,011)	(48,136)	4,330
Balance, end of year	\$ 2,409,662	\$ —	\$ 401,235	\$ 167,872	\$ 2,978,769

18. Related Party Transactions

- (a) As at December 31, 2019, Northwest Value Partners Inc. ("NWVP") indirectly owned approximately 14.7% of the outstanding REIT units (approximately 12.5% on a fully diluted basis assuming conversion of the REIT's convertible debentures and redemption of its deferred units) of the REIT through a combination of units of the REIT and Class B exchangeable units of NWI LP. Paul Dalla Lana, Chairman of the Board of Trustees and Chief Executive Officer of the REIT, is the sole shareholder, sole director and President of NWVP.
- (b) In the normal course of operations the REIT has amounts owing to and from NWVP and affiliates. As at December 31, 2019, these non-interest bearing amounts without repayment terms are representative of a net asset included in accounts receivable totaling \$2.7 million (December 31, 2018 - \$0.2 million).
- (c) At December 31, 2019, included in accounts payable and accrued liabilities are Class B exchangeable unit distributions payable owing to NWVP and affiliates in the amount of \$1.2 million (December 31, 2018 - \$1.2 million), which were settled subsequent to period end.

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- (d) The following table summarizes the related party transactions with NWVP and its subsidiaries related to cost-sharing and sublease agreements with the REIT:

	For the year ended December 31,	
	2019	2018
Reimbursement for out-of-pocket costs	\$ 946	\$ 637
Cost-sharing and sublease agreements	8	1,708
	\$ 954	\$ 2,345

- (e) Key Management Compensation

For the year ended December 31,	2019	2018
Short-term compensation	\$ 3,414	\$ 3,367
Unit-based long-term incentives ⁽¹⁾	6,388	745
	\$ 9,802	\$ 4,112

(1) Deferred units granted vest up to five years, depending on the grant. Of the total deferred units, 50% vest in three years and 25% in the fourth and fifth years. Amounts includes fair value adjustment related to share-based payments and are determined based on the grant date fair value of deferred units multiplied by the number of deferred units granted in the year.

Key management personnel of the REIT throughout the period include the Chief Executive Officer, President, Chief Operating Officer, Chief Financial Officer, Executive Vice President and General Counsel, Managing Director - Germany, Chief Executive Officer - Australia and New Zealand, and the REIT's board members.

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

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

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

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

Significant subsidiaries of the REIT are listed below:

Name of Subsidiary	Place of Operation	Holding	
		December 31, 2019	December 31, 2018
NHP Holdings Limited Partnership	Canada	100.0%	100.0%
Healthcare Properties LP	Canada	100.0%	100.0%
NorthWest Healthcare Properties Corporation	Canada	100.0%	100.0%
NWI Healthcare Properties LP	Canada	100.0%	100.0%
NWI Gesundheitsimmobilien GmbH & Co KG	Germany	100.0%	100.0%
NWI Management GmbH	Germany	100.0%	100.0%
NWI Healthcare Properties LLC	USA	100.0%	100.0%
Northwest International Investimentos Imobiliar SA	Brazil	100.0%	100.0%
Northwest International II Investimentos Imobiliar SA	Brazil	100.0%	100.0%
Fundo De Investimentno Imobiliário NorthWest Investimentos Fund I Imobiliários Em Saúde	Brazil	100.0%	100.0%
NorthWest Investimentos Em Saúde Fund I Fundo de Investimento Multimercado	Brazil	100.0%	100.0%
Vital Healthcare Property Trust	New Zealand	24.9%	24.9%
NWI NZ Management Company Limited	New Zealand	100.0%	100.0%
Vital Healthcare Management Ltd.	Australia	100.0%	100.0%
Generation Healthcare Management Pty Ltd.	Australia	100.0%	100.0%
Northwest Healthcare Australia RE Ltd.	Australia	100.0%	100.0%
Northwest Healthcare Australia Asset Trust	Australia	100.0%	100.0%
NorthWest Healthcare Properties Australia REIT	Australia	100.0%	100.0%
Divine Logistics Trust	Australia	56.9%	56.9%
NWI Gezondheid Vastgoed B.V.	The Netherlands	100.0%	100.0%
NorthWest Australia Hospital Investment Trust	Australia	30.0%	30.0%
NorthWest Australia HSO Trust	Australia	30.0%	—%

19. Employee Benefits Expense

Year ended December 31,	2019	2018
Short-term employee benefits	\$ 30,788	\$ 27,574
Unit-based compensation expense	7,937	4,759
	\$ 38,725	\$ 32,333

Short-term employee benefits include salaries, bonuses, commissions and other short-term benefits and are measured on an undiscounted basis and expensed as the related service is provided.

For the year ended December 31, 2019, total short-term employee benefits of \$11.3 million (December 31, 2018 – \$10.9 million) are included in 'Property operating costs' and \$13.9 million (December 31, 2018 – \$11.9 million) are included in 'General and administrative expenses'. During the year ended December 31, 2019, the REIT capitalized \$5.5 million of incremental employee benefits related directly to leasing, capital expenditures or development of investment properties (December 31, 2018 - \$4.8 million).

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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20. Segmented Information

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

During the year ended December 31, 2019, two tenants in Brazil accounted for 14% (for the year ended December 31, 2018 - 15%), and one tenant in Australasia operating segment accounted for 14% (for the year ended December 31, 2018 - 15%) of the total revenue from investment properties.

As at December 31, 2019	Europe	Brazil	Australasia	Canada	Total
Investment properties	\$ 785,252	\$ 781,837	\$ 2,171,276	\$ 1,189,746	\$ 4,928,111
Mortgages and loans payable	\$ 424,976	\$ 236,825	\$ 941,576	\$ 738,014	\$ 2,341,391
As at December 31, 2018	Europe	Brazil	Australasia	Canada	Total
Investment properties	\$ 599,257	\$ 761,112	\$ 2,206,694	\$ 1,102,739	\$ 4,669,802
Mortgages and loans payable	\$ 327,870	\$ 186,902	\$ 977,519	\$ 917,371	\$ 2,409,662
For the year ended December 31, 2019	Europe	Brazil	Australasia	Canada	Total
Operating Income					
Revenue from investment properties	\$ 49,675	\$ 54,901	\$ 137,844	\$ 123,636	\$ 366,056
Property operating costs	12,848	—	18,469	55,909	87,226
Net property operating income	36,827	54,901	119,375	67,727	278,830
Other income					
Interest and other	281	1,949	3,886	327	6,443
Management fee	—	—	11,303	—	11,303
Share of loss of associate	—	—	(16,950)	—	(16,950)
	281	1,949	(1,761)	327	796
Mortgage and loan interest expense	9,707	16,566	40,947	59,046	126,266
General and administrative expenses	4,130	2,194	12,347	15,405	34,076
Transaction costs	237	14	11,741	3,366	15,358
Foreign exchange gain	(35)	(1,195)	(825)	(1,215)	(3,270)
	14,039	17,579	64,210	76,602	172,430
Operating income (loss)	\$ 23,069	\$ 39,271	\$ 53,404	\$ (8,548)	\$ 107,196

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

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

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

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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21. Non-Controlling Interests

The following tables present summarized accounts for Vital Trust and two investment properties Divine, and Fritz-Lang-Platz 6, held by Australia REIT and NWI Gesundheitsimmobilien GmbH & Co. KG, respectively, where partial interest is owned by a third-party, based on the portion attributable to the non-controlling interest and the REIT:

As at December 31, 2019	Vital Trust		Divine		Fritz-Lang-Platz 6		Total
Ownership interest	24.9%		56.9%		94.9%		
Total assets	\$	1,700,024	\$	166,632	\$	20,402	\$ 1,887,058
Total liabilities		758,990		44,249		9,829	813,068
Net assets	\$	941,034	\$	122,383	\$	10,573	\$ 1,073,990
Attributable to:							
Unitholders of the REIT		237,507		69,578		10,093	317,178
Non-controlling interest		703,527		52,805		480	756,812
	\$	941,034	\$	122,383	\$	10,573	\$ 1,073,990

As at December 31, 2018	Vital Trust		Divine		Fritz-Lang-Platz 6		Total
Ownership interest	24.9%		56.9%		94.9%		
Total assets	\$	1,710,785	\$	172,256	\$	21,884	\$ 1,904,925
Total liabilities		802,055		44,741		11,160	857,956
Net assets	\$	908,730	\$	127,515	\$	10,724	\$ 1,046,969
Attributable to:							
Unitholders of the REIT		229,351		72,554		10,238	312,143
Non-controlling interest		679,379		54,961		486	734,826
	\$	908,730	\$	127,515	\$	10,724	\$ 1,046,969

	For the year ended December 31, 2019				For the year ended December 31, 2018			
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Revenue from investment properties	\$ 98,309	\$ 7,520	\$ 1,497	\$107,326	\$ 96,607	\$ 7,798	\$ 1,673	\$106,078
Net income attributable to:								
Unitholders of the REIT	23,816	2,785	520	27,121	18,974	4,180	698	23,852
Non-controlling interest	71,615	3,479	27	75,121	59,909	3,069	47	63,025
Net income (loss)	\$ 95,431	\$ 6,264	\$ 547	\$102,242	\$ 78,883	\$ 7,249	\$ 745	\$ 86,877
Total comprehensive income attributable to:								
Unitholders of the REIT	21,595	766	(65)	22,296	12,901	2,480	147	15,528
Non-controlling interest	37,894	694	(5)	38,583	41,139	1,877	8	43,024
Total comprehensive income (loss)	\$ 59,489	\$ 1,460	\$ (70)	\$ 60,879	\$ 54,040	\$ 4,357	\$ 155	\$ 58,552
Distributions attributable to non-controlling interest	\$ 25,968	\$ 2,849	\$ (1)	\$ 28,816	\$ 25,658	\$ 2,642	\$ 16	\$ 28,316

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

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	For the year ended December 31, 2019				For the year ended December 31, 2018			
	Vital Trust	Divine	Fritz-Lang-Platz 6	Total	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Cash flow activities:								
Operating	\$ 45,202	\$ 10,743	\$ 467	\$ 56,412	\$ 11,485	\$ 2,010	\$ 3,567	\$ 17,062
Investing	(50,436)	(1,845)	—	(52,281)	(55,930)	(775)	—	(56,705)
Financing	6,031	(10,992)	(637)	(5,598)	44,844	(1,123)	(3,395)	40,326
Effect of foreign currency translation	(4,003)	2,120	3	(1,880)	(1,916)	4	3	(1,909)
Net change in cash	\$ (3,206)	\$ 26	\$ (167)	\$ (3,347)	\$ (1,517)	\$ 116	\$ 175	\$ (1,226)

The REIT is subject to restrictions over the extent to which it can access funds of Fritz-Lang-Platz 6, Vital Trust, and Divine in the form of cash distributions, or use assets and liabilities as a result of borrowing arrangements, regulatory restrictions and the REIT's economic interest in Fritz-Lang-Platz 6, Vital Trust, and Divine being limited to approximately 94.9%, 25.0% and 56.9%, respectively.

22. Commitments and Contingent Liabilities

- (a) The REIT obtains letters of credit to support its obligations with respect to construction work on its investment properties and satisfying mortgage financing requirements. As at December 31, 2019, the REIT has a total of \$0.4 million in outstanding letters of credit, under the REIT's secured revolving floating rate credit facility, related to construction work that is being performed on investment properties. The REIT does not believe that any of these standby letters of credit are likely to be drawn upon.
- (b) Pursuant to the sale of two of the REIT's investment properties, the existing mortgages were assumed by the purchasers. In the event of default, the REIT has guaranteed the outstanding balance of the mortgages of \$1.2 million as at December 31, 2019 (December 31, 2018 - \$6.3 million).
- (c) The REIT has entered into acquisitions and construction agreements on development properties and is committed to costs of \$228.6 million as at December 31, 2019 (December 31, 2018 - \$272.1 million).
- (d) The REIT indemnifies individuals who have acted at the REIT's request to be a trustee and/or director and/or officer of the REIT (and/or one or more of its direct and indirect subsidiaries), to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The claims covered by such indemnifications are subject to statutory and other legal limitation periods. The nature of the indemnification agreements prevents the REIT from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements.
- (e) The REIT is subject to legal and other claims in the normal course of business. Management and the REIT's legal counsel evaluate all claims. In the opinion of management these claims are generally covered by the REIT's insurance policies and any liability from such claims would not have a significant effect on the REIT's consolidated financial statements.

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

23. Fair Values

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

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

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

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

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

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

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The fair value hierarchy of assets and liabilities measured at fair value on the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements as at December 31, 2019 is as follows:

	Carrying value	Fair Value		
		Level 1	Level 2	Level 3
Assets measured at fair value:				
Investment properties	\$ 4,928,111	\$ —	\$ —	\$ 4,928,111
Financial instruments	155	—	155	—
Assets held for sale	107,149	—	—	107,149
Assets recorded at amortized cost:				
Loans receivable	26,282	—	—	26,282
Liabilities measured at fair value:				
Financial instruments	48,475	—	48,475	—
Convertible debentures	391,201	391,201	—	—
Class B LP exchangeable units	211,257	211,257	—	—
Deferred unit plan liability	19,656	19,656	—	—
Financial liabilities recorded at amortized cost:				
Mortgage and loans payable	2,341,391	—	2,348,059	—

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

	Carrying value	Fair Value		
		Level 1	Level 2	Level 3
Assets measured at fair value:				
Investment properties	\$ 4,669,802	\$ —	\$ —	\$ 4,669,802
Derivative financial instruments	150,534	—	150,534	—
Assets recorded at amortized cost:				
Loans receivable	34,453	—	—	34,453
Liabilities measured at fair value:				
Derivative financial instruments	23,102	—	23,102	—
Convertible debentures	401,235	401,235	—	—
Class B LP exchangeable units	167,872	167,872	—	—
Deferred unit plan liability	13,030	13,030	—	—
Financial liabilities recorded at amortized cost:				
Mortgage and loans payable	2,409,662	—	2,420,314	—

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24. Capital Management

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

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

At December 31, 2019, the REIT is in compliance with its debt to gross book value ratio of the Declaration of Trust at 42.5% (December 31, 2018 - 47.8%).

As at	December 31, 2019	December 31, 2018
Debt		
Gross value of debt excluding convertible debentures ⁽¹⁾	\$ 2,354,897	\$ 2,423,137
Gross value of total debt ⁽²⁾	2,746,098	2,824,372
Gross Book Value of Assets		
Total assets	\$ 5,535,304	\$ 5,071,648
Debt-to-Gross Book Value (Declaration of Trust)	42.5%	47.8%
Debt-to-Gross Book Value (including convertible debentures)	49.6%	55.7%

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

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

The REIT's capital management is also impacted by various financial covenants in certain loan agreements. As at December 31, 2019, the REIT is in compliance with all such financial covenants.

25. Risk Management

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

Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments resulting in the REIT incurring a financial loss. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The REIT's credit risk is primarily attributable to cash and accounts receivable. Cash consists of cash on hand with reputable financial institutions which are closely monitored by management. Financial instruments included in accounts receivable consist of rental income receivable from its commercial tenant base for monthly rental charges and interest receivable from the term deposit. Management believes that the potential loss from credit risk with respect to financial instruments included in cash and accounts receivable is minimal. The REIT determines expected credit losses ("ECL") on resident and other receivables using historical credit loss experience adjusted for current

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and forecasted future economic conditions to estimate ECL. Resident receivables are initially measured at fair value and are subsequently measured at amortized cost less provision for impairment.

The following is an aging analysis of accounts receivable past due, net of expected credit losses:

As at	December 31, 2019	December 31, 2018
Less than 30 days	4,219	7,513
31 to 60 Days	419	731
61-90 days	38	500
More than 90 Days	1,222	1,684
Total billed	\$ 5,898	\$ 10,428
Unbilled	16,872	7,908
Expected credit losses	\$ (364)	\$ (507)
	\$ 22,406	\$ 17,829

Liquidity Risk

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to the REIT to fund future growth, refinance debts as they mature or meet the REIT's payment obligations as they arise. Furthermore, liquidity risk also arises from the REIT not being able to obtain financing or refinancing on favorable terms.

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

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

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

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

	Carrying Amount	Contractual Cash Flows	2020	2021	2022	2023	2024	Thereafter
Accounts payable and accrued liabilities	\$ 92,466	\$ 92,466	\$ 92,466	\$ —	\$ —	\$ —	\$ —	\$ —
Income tax payable	22,331	22,331	22,331	—	—	—	—	—
Distributions payable	10,242	10,242	10,242	—	—	—	—	—
Mortgages and loans payable	2,341,391	2,508,173	396,519	294,851	1,027,351	172,269	148,066	469,116
Convertible debentures	391,201	416,776	107,751	170,276	6,875	131,875	—	—
	\$ 2,857,631	\$ 3,049,988	\$ 629,309	\$ 465,127	\$ 1,034,226	\$ 304,144	\$ 148,066	\$ 469,116

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Interest Rate Risk

The majority of the REIT's debt is financed at fixed rates with maturities staggered over a number of years, thereby mitigating its exposure to changes in interest rates and financing risks. At December 31, 2019, \$650,539 (December 31, 2018 - \$821,983) of the REIT's debt associated with investment properties is financed at variable rates exposing the REIT to interest rate risk on such debt. Sensitivity to a plus 1% change in the interest rate would impact the net income (loss) and comprehensive income (loss) by \$6,505 annually with all other variables held constant (December 31, 2018 - \$8,219).

Currency Risk

The REIT has exposure to currency risk as a result of Australasian Secured Financing (see note 9) denominated in Australian, and New Zealand dollars. The REIT's margin facility balance and related interest are subject to fluctuations depending on exchange rates. The effects of such fluctuations are recognized in the statement of income and comprehensive income.

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

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

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

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

For the year ended December 31,	2019	2018
Europe	\$ (3,044)	\$ (1,267)
Brazil	(7,237)	(2,748)
New Zealand	(10,524)	(8,559)
Australia	3,055	5,626
	\$ (17,750)	\$ (6,948)

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

Price Risk

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

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Trust may impact the value of the REIT's investments which may result in impairment losses, and may require the REIT to repay amounts owing under its related Australasian Secured Financing.

26. Subsequent Events

- (i) On January 10, 2020, the REIT completed property acquisition of a medical clinic investment property located in Germany for approximately \$30.8 million. The acquisition was partially financed by new property specific financing of approximately \$18.9 million, bearing interest of 1.45% and term to maturity of ten years.
- (ii) On January 17, 2020, the REIT fully repaid the 5.25% NWH.DB convertible debenture series of which \$40.3 million principal amount was outstanding as at December 31, 2019. In addition, \$47.7 million of the \$52.1 million principal amount 5.5% NWH.DB.D convertible debenture series were converted by the debenture holders into 4,238,308 trust units. The REIT fully repaid the remaining \$4.4 million unconverted principal balance outstanding.
- (iii) On January 30, 2020, the REIT acquired six private hospitals in the United Kingdom for approximately \$167.0 million. The acquisition was partially financed by the REIT's revolving credit facility which has been partially drawn in GBP at an effective interest rate of 3.9%.
- (iv) In connection with the December 19, 2019 public offering of units, on January 31, 2020, the REIT closed a private placement for gross proceeds of approximately \$25.0 million.
- (v) On February 19, 2020, The REIT through its 30% share in its existing joint venture completed the acquisition of two medical research institutes for \$94.0 million or approximately \$28.2 million at the REIT's share.
- (vi) On February 27, 2020, the REIT completed property acquisition of a medical clinic investment property located in Germany for approximately \$27.0 million. The acquisition was partially financed by new property specific financing of approximately \$17.5 million, bearing interest of 1.54% and term to maturity of ten years.
- (vii) On February 28, 2020, the REIT extended the term to maturity of the \$39.0 million unsecured corporate facility to January 1, 2021. The acquisition facility bears interest greater of 6.0% or BA plus 2.05% up to March 31, 2020 and the greater of 6.5% or BA plus 2.55% commencing April 1, 2020.
- (viii) On January 15, 2020, the REIT announced a distribution of \$0.06667 per REIT unit to unitholders of record on January 31, 2020, and paid on February 14, 2020. On February 13, 2020, the REIT announced a distribution of \$0.06667 per REIT unit to unitholders of record on February 28, 2020, will be payable on March 16, 2020.

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



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