Northwest Healthcare Properties Real Estate Investment Trust

Consolidated Financial Statements (in Canadian dollars)

For the years ended December 31, 2020 and 2019 (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, 2020 and December 31, 2019
- the consolidated statements of income (loss) 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 financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of the fair value of investment properties

Description of the matter

We draw attention to Note 1(d)(iii) and Note 6 of the financial statements. Investment properties are measured at their estimated fair value at each reporting date, determined either on internal valuation models incorporating available market evidence or on valuations performed by independent third-party appraisers. The Entity has recorded investment properties at fair value for an amount of $5,262,063 thousands.

Significant assumptions in determining the fair value of investment properties include:

- future cash flows, capitalization rates, terminal capitalization rates and discount rates applied to these cash flows.

Why the matter is a key audit matter

We identified the evaluation of the fair value of investment properties as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of investment properties and the high degree of estimation uncertainty in determining the fair value of investment properties. In addition, significant auditor judgment and involvement of those with specialized skills and knowledge were required in performing and evaluating the results of our audit procedures due to the sensitivity of the fair value of investment properties to minor changes in certain significant assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

For a selection of investment properties, we compared the future cash flows used in the prior year's estimate of the fair value of investment properties to actual results to assess management's ability to forecast future cash flows.

For a selection of investment properties, we compared the future cash flows generated by the investment properties to the actual historical cash flows. We took into account the changes in conditions and events affecting the investment properties to assess the adjustments, or lack of adjustments, made by the Entity in arriving at those future cash flows.

For a selection of investment properties, we involved valuations professionals with specialized skills and knowledge, who assisted in evaluating the capitalization rates, terminal capitalization rates and discount rates. These rates were evaluated by comparing them to published reports of real estate industry commentators and the estimated implied rates from comparable recent sales of similar properties while considering the features of the specific investment property.

We evaluated the competence, capabilities and objectivity of the independent third-party appraisers by:

- Inspecting evidence that the appraisers are in good standing with the Appraisal Institute
- Considering whether the appraisers have appropriate knowledge in relation to the specific type of investment properties
- Reading the reports of the independent third-party appraisers which refers to their independence

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 thereon. 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.

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.
- 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.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 11, 2021

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

As at	Note		December 31, 2020		December 31, 2019
Assets					
Investment properties	6	$	5,262,063	$	4,928,111
Equity accounted investments	7		297,993		134,070
Intangible assets			47,309		47,264
Goodwill	8		41,671		41,671
Financial instruments	9		541		155
Assets held for sale	5		—		107,149
Other assets	10		41,862		65,021
Accounts receivable			9,652		19,660
Cash and cash equivalents	19		144,147		192,203
Total assets		$	5,845,238	$	5,535,304
Liabilities					
Mortgages and loans payable	11	$	2,495,413	$	2,341,391
Convertible debentures	12		292,821		391,201
Deferred unit plan liability	13		24,277		19,656
Class B exchangeable units	14		21,546		211,257
Deferred tax liability	15		287,820		322,166
Financial instruments	9		62,405		48,475
Income tax payable	15		21,216		22,331
Accounts payable and accrued liabilities	20		92,340		92,466
Distributions payable			11,732		10,242
Total liabilities		$	3,309,570	$	3,459,185
Unitholders' Equity					
Unitholders' equity	16		1,638,419		1,319,307
Non-controlling interests	17		897,249		756,812
Total liabilities and unitholders' equity		$	5,845,238	$	5,535,304

The consolidated financial statements were approved by the Board on March 11, 2021 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 (Loss) and Comprehensive Income (Loss)
(in thousands of Canadian dollars)

For the year ended December 31,	Note		2020		2019
Net Property Operating Income					
Revenue from investment properties	18	$	373,818	$	366,056
Property operating costs			88,024		87,226
			285,794		278,830
Other Income					
Interest and other			1,947		6,443
Management fees			11,666		11,303
Share of profit (loss) of equity accounted investments	7		52,091		(16,950)
			65,704		796
Expenses and other					
Mortgage and loan interest expense			97,748		126,266
General and administrative expenses			29,439		34,076
Transaction costs	3, 5		34,933		17,764
Foreign exchange (gain) loss			20,508		(3,270)
			182,628		174,836
Income before finance costs, fair value adjustments and impairment loss			168,870		104,790
Finance costs					
Amortization of financing costs			(11,051)		(11,570)
Amortization of mark-to-market adjustment			866		1,316
Class B exchangeable unit distributions	14		(3,501)		(14,167)
Fair value adjustment of Class B exchangeable units	14		83,324		(43,385)
Accretion of financial liabilities	11		(5,585)		(4,541)
Fair value adjustment of convertible debentures	12		2,330		(29,491)
Net loss on financial instruments	9		(11,759)		(13,346)
Impairment loss on goodwill	8		—		(37,289)
Fair value adjustment of investment properties	6		174,415		212,765
Fair value adjustment of deferred unit plan liability	13		(1,673)		(3,600)
Income before taxes			396,236		161,482
Current tax expense	15		20,466		23,454
Deferred tax expense (recovery)	15		(5,644)		64,778
Income tax expense			14,822		88,232
Net income		$	381,414	$	73,250
Net income (loss) attributable to:					
Unitholders		$	314,355	$	(1,871)
Non-controlling interests			67,059		75,121
		$	381,414	$	73,250

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) (cont.)

(in thousands of Canadian dollars)

For the year ended December 31,		2020		2019
Net income	**$**	**381,414**	$	73,250
Other comprehensive income (loss) ("OCI"):				
Items that have been or may be reclassified subsequently to income (loss):				
Foreign currency translation adjustment	**$**	**15,344**	$	(118,820)
Change in relative interest of non-controlling interests		**224**		—
Realized foreign exchange gains/(losses) on hedges		**—**		4,179
Current taxation (expense)/recovery		**—**		(1,170)
Unrealized foreign exchange gains/(losses) on hedges		**—**		(2,750)
Deferred taxation (expense)/recovery		**—**		1,786
Fair value gain (loss) on net investment hedges		**(2,783)**		(2,626)
Deferred taxation (expense)/recovery		**779**		(281)
Other comprehensive income (loss), net of tax		**13,564**		(119,682)
Total comprehensive income (loss) for the year	**$**	**394,978**	$	(46,432)
Total comprehensive income (loss) attributable to:				
Unitholders	**$**	**273,556**	$	(85,015)
Non-controlling interests		**121,422**		38,583
	$	**394,978**	$	(46,432)

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	Total Unitholders' Equity	Non-Controlling Interests (note 17)	Total Equity
Balance, December 31, 2019		$ 1,510,245	$ 39,724	$ (364,595)	$ (140,209)	$ 274,142	$ 1,319,307	$ 756,812	$ 2,076,119
Public offering of units		—	—	—	—	—	—	99,489	99,489
Private placement of units	**16**	24,494	—	—	—	—	24,494	—	24,494
Units issued through distribution reinvestment plan		7,122	—	—	—	—	7,122	3,490	10,612
Units issued on exercise of deferred units	**16**	2,275	—	—	—	—	2,275	—	2,275
Conversion of Class B LP exchangeable units	**14**	106,387	—	—	—	—	106,387	—	106,387
Disposition of investment in subsidiary	**3**	—	—	—	—	—	—	(54,705)	(54,705)
Change in relative interest of non-controlling interests	**17**	—	—	—	(224)	—	(224)	(1,461)	(1,685)
Acquisition and cancellation of REIT units under normal course issuer bid	**16**	(7,196)	—	—	—	—	(7,196)	—	(7,196)
Conversion of convertible debentures into units	**16**	51,483	—	—	—	—	51,483	—	51,483
Distributions		—	—	(138,561)	—	—	(138,561)	(27,798)	(166,359)
Foreign currency translation adjustments		—	—	—	(40,517)	—	(40,517)	55,861	15,344
Other comprehensive income (loss)		—	—	—	(506)	—	(506)	(1,498)	(2,004)
Net income		—	—	—	—	314,355	314,355	67,059	381,414
Balance, December 31, 2020		$ 1,694,810	$ 39,724	$ (503,156)	$ (181,456)	$ 588,497	$ 1,638,419	$ 897,249	$ 2,535,668

	Note	Unitholders' Equity	Contributed Surplus	Cumulative Distributions	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Unitholders' Equity	Non-Controlling Interests (note 17)	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		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

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	2020	2019
Cash provided by (used in):			
Operating activities			
Net income (loss) before taxes		$ 396,236	$ 161,482
Adjustments for:			
Amortization		1,579	1,982
Mortgage and loan interest accrued		97,748	126,266
Mortgage and loans interest paid		(102,191)	(125,070)
Finance costs	19	(66,383)	101,838
Interest income		(1,947)	(6,443)
Share of (profit)/loss of equity accounted investments	8	(52,091)	16,950
Unrealized foreign exchange loss (gain)		21,311	(1,287)
Amortization of finance leases receivable/payable, net		(91)	(89)
Fair value adjustment of investment properties	6	(174,415)	(212,765)
Fair value loss on financial instruments	9	11,759	13,485
Impairment loss on goodwill	7	—	37,289
Transaction costs		34,933	17,764
Fair value adjustment of deferred unit plan liability		1,673	3,600
Unit-based compensation expense	13	7,374	8,361
Redemption of units issued under deferred unit plan		(2,215)	(4,092)
Income taxes paid		(13,635)	(15,878)
Changes in non-cash working capital balances	3, 19	29,122	5,219
Cash provided by (used in) operating activities		188,767	128,612
Investing activities			
Acquisitions of investment properties	4	(807,648)	(264,129)
Additions to investment properties	6	(167,257)	(105,446)
Net proceeds on disposal of investment properties	5	194,448	10,610
Investment in equity accounted investments	8	(10,340)	(162,125)
Disposition (acquisition) of financial instruments	9	—	7,227
Transaction costs		(34,933)	(15,358)
Proceeds from disposition of net assets	3	204,004	—
Cash transferred upon disposition of subsidiary	3	(5,764)	—
Taxes paid related to disposition		(13,138)	—
Distributions from equity accounted investments	8	11,212	8,006
Cash interest received		1,670	3,841
Additions to furniture and fixtures		(234)	(377)
Net receipts from forward contract	9	—	156,455
Receipts (payments) from foreign exchange contracts		(541)	4,175
Net decrease (increase) to restricted cash		(12)	276
Cash provided by (used in) investing activities		(628,533)	(356,845)
Financing activities			
Mortgage and loan proceeds	11	1,533,618	924,778
Repayment of mortgages	3, 11	(1,037,603)	(906,224)
Repurchase of units under normal course issuer bid	16	(7,196)	—
Redemption of convertible debentures	12	(44,567)	(38,585)
Proceeds from issuance of units, net of issuance costs	16, 17	121,783	543,796
Financing fees paid		(12,928)	(14,626)
Distributions paid		(129,948)	(85,929)
Class B exchangeable units distributions paid	14	(3,501)	(14,167)
Distributions paid to non-controlling interests		(22,051)	(22,843)
Cash provided by (used in) financing activities		397,607	386,200
Net change in cash and cash equivalents		(42,159)	157,967
Effect of foreign currency translation		(5,885)	(11,625)
Net change in cash and cash equivalents		(48,044)	146,342
Cash and cash equivalents, beginning of year		192,150	45,808
Cash and cash equivalents, end of year		$ 144,106	$ 192,150

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

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 11, 2021.

(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 in respect of 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 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) COVID-19 Pandemic

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19" in early 2020 was declared a pandemic by the World Health Organization. This has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, self-imposed quarantine periods, temporary closures or restrictions of non-essential businesses, limitations on public gatherings, and social distancing guidelines, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity and capital markets have also experienced significant volatility and weakness. The governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. It is not possible to forecast with certainty the duration and full scope of the economic impact of the pandemic and other consequential changes to the REIT's business and operations, both in the short term and in the long term. See note 6 for further discussion on the COVID-19 impact on the valuation of investment property.

In the preparation of these consolidated financial statements, the REIT has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of its assets and liabilities, and the reported amount of its results using the best available information as of December 31, 2020. Actual results could differ from those estimates. The estimates and assumptions that the REIT considers critical and/or could be impacted by COVID-19 include those underlying the valuation of investment properties, the carrying amount of its investment in equity accounted joint ventures, the estimate of any expected credit losses on its accounts receivable or loans and mortgages receivable and determining the values of financial instruments for disclosure purposes.

(d) 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 asset, 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 an indefinite-life intangible assets (note 2(a)).

(ii) Impairment of goodwill and intangible asset

The impairment test methodology is based on a comparison between the higher of fair value less costs to sell and value-in-use of each of the REIT's cash generating units (“CGU”), including the allocated goodwill, and the net asset carrying values. Valuation multiples applied by the REIT for this purpose reflect current market conditions specific to the business unit and are assessed for reasonability by comparison to recent regional transaction activity.

In relation to the annual impairment test for the intangible asset, the fair value and value-in-use are determined utilizing the same approach, assumptions and methods as on acquisition (note 1(d)(i)).

(iii) Investment properties

Investment properties are re-measured to fair value at each reporting date, determined either on internal valuation models incorporating available market evidence, or valuations performed by independent 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. Significant assumptions and a number of methods are used in determining the fair value of investment properties, including capitalization rates, terminal capitalization rates, discount rates and future cash flows that incorporate inflation rates, vacancy rates, market rents, property level capital expenditures, and net operating income.

(iv) 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 9.

(e) 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 with the exception of the finance lease receivable discussed in note 10 (iii).

(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. The REIT elected to use a concentration test 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 group of similar identifiable assets.

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 of Vital Trust

The REIT accounts for its investment in Vital Trust as a subsidiary and consolidates the financial position and results of Vital Trust. The REIT’s interest in Vital Trust, as at December 31, 2020, is 25.9%. The REIT determined 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, among others: i) the REIT controls the external manager of Vital Trust through the 100% indirect ownership of the Global Manager. The ownership of the Global Manager results in the REIT directing all activities of Vital Trust; ii) the REIT has the right to appoint a majority of directors of the board of the Global Manager, which acts as the board of directors of Vital Trust; and iii) the 74.1% 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 to unitholders 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.

The REIT makes 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 has and performs business 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, 2020 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.

The intangible assets relate to the REIT's rights and obligations that Global Manager has under its contract with Vital Trust. The intangible asset between Global Manager and Vital Trust has been recorded at fair value as at the date the management contract was acquired. 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.

As at December 31, 2020, the REIT performed its annual goodwill impairment test. Based on the impairment test performed, no impairment loss was recognized as at December 31, 2020 (December 31, 2019 - impairment loss of $37.3 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, which generally occurs on disposition of a majority or entire interest to a third party. 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. Unrealized gains arising from transactions with equity-accounted investees, if any, are eliminated against the investment to the extent of the REIT's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

When the REIT loses control of a subsidiary, the REIT derecognizes the assets and liabilities of the former subsidiary from the consolidated balance sheet, recognizes any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRS. The difference between the carrying value and the proceeds from disposition is recognized within profit or loss.

(c) Functional and presentation currency

(i) Foreign operations

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 date of the consolidated statement of financial position. Revaluation gains and losses are recognized as part of foreign currency translation adjustments included in other comprehensive income (loss). Revenue and expenses are translated at average rates for the year.

When a foreign operation is disposed of, the relevant cumulative amount of foreign currency translation differences in accumulated other comprehensive income or loss is reclassified to profit or loss as part of the gain or loss on disposal. The REIT does not consider the repayment of inter-company loans, when applicable, as a partial disposal of its net investment in a foreign operation as it does not change the percentage share interest held by the REIT.

(ii) Foreign currency transactions

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 date of the consolidated statement of financial position. 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 and which in substance is considered to form part of the net investment in the foreign operation, which are included in other comprehensive income (loss) and presented as part of accumulated other comprehensive income (loss) in equity.

(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 6.

Properties under development for future use as investment property are accounted for as investment property under IAS 40. Costs eligible for capitalization to properties under development are initially recorded at cost. Subsequently, properties under development are measured at their estimated fair value, with changes in fair value recognized in profit or loss in the years in which they arise. The critical estimates and assumptions underlying the valuation of properties under development are the same as those of other investment properties as outlined in note 6. Upon practical completion of a development, the property is transferred to investment properties at the fair value on the date of practical completion. The REIT considers practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally, this occurs upon completion of construction and receipt of all necessary occupancy and other material permits.

(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) Leases where the REIT is a lessor

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 with the exception of the finance lease receivable discussed in note 10 (iii).

(g) Leases where the REIT is a lessee

At the inception of a lease contract where the REIT is a lessee, the REIT recognizes a right-of-use ("ROU") asset and a lease liability based on the present value of the lease payments under the lease discounted using the rate implicit in the lease, or where the rate is not determinable, based on an estimated incremental borrowing rate for borrowings secured by a similar asset for a similar term. Subsequently, ROU assets for investment properties are accounted for under the fair value model while ROU assets for property and equipment are depreciated on a straight-line basis over the lesser of the useful life of the asset and the term of the lease. Lease liabilities are amortized using the effective interest rate method over the term of the lease. Leases for a term of less than 12 months are expensed evenly over the term of the lease.

(h) Revenue recognition

The REIT has retained substantially all of the risks and benefits of ownership of its investment properties and, therefore, accounts for its leases with tenants as operating leases. Rental revenue from operating leases is recognized over the lease term on a straight-line basis. Revenue recognition commences when a tenant has the right to use the property and is recognized pursuant to the terms of the lease agreement. Payments are generally due at the beginning of each month and any payments made in advance of scheduled due dates are deferred as prepaid rents. The difference between rental revenue recognized and cash flows over the term of the lease 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. All rental related services are provided consistently throughout the contractual lease term. Therefore, these services are considered a single performance obligation.

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

The presentation of revenue from lease components and revenue related to service components is presented in note 18.

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.

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(n)). The Class B exchangeable units therefore are classified as financial liabilities, consistent with the trust units, and are measured at fair value through profit and loss each reporting period with any changes in fair value recognized in profit or loss 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 included as part of the trust units. There is a limited exemption to allow puttable instruments of this nature 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. However, the trust units may not be considered as equity for the purposes of calculating net income on a per unit basis in accordance with IAS 33, Earnings Per Share. The REIT has therefore elected to not report an earnings per unit calculation, as is permitted under IFRS. 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.

(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 (loss) and comprehensive income (loss). 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.

Consistent with IFRS interpretations Committee 23 ("IFRIC 23"), addressing the application of the recognition and measurement requirements in IAS 12, Income Taxes (IAS 12), the REIT has applied such guidance for situations where there is uncertainty over income tax treatments.In accordance with IFRIC 23, the REIT has specifically addressed whether it or its subsidiaries considers income tax treatments separately; assumptions that the REIT 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. The REIT has taken into consideration the recognition and measurement for uncertain tax treatments as part of its accounting for current and deferred taxes in these financial statements.

(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. In addition, the REIT may at its option settle the convertible debentures on maturity with a variable number of units of the REIT, subject to certain conditions.

(in thousands of Canadian dollars, unless otherwise stated)

(s) Accounting standards implemented in 2020

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

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

3. Dispositions

(i) *Northwest Healthcare Properties Australia REIT*

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

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

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

The REIT incurred transaction costs in the amount of $2.1 million which have been included and presented as part of the transaction costs in the statement of income and comprehensive income (loss).

(in thousands of Canadian dollars, unless otherwise stated)

(ii) *European Seed Assets*

During the year, the REIT entered into a joint arrangement, NWI Galaxy JV GmbH & Co. KG ("European JV"), with an institutional partner to invest in income-producing portfolio of healthcare real estate in Germany and the Netherlands.

Effective on September 30, 2020, the REIT completed the sale of a 94.9% interest in various limited partnerships ("German Target Companies"), which were previously wholly owned by the REIT, to the European JV in which the REIT holds a 30% equity interest. Effective October 31, 2020, the REIT completed the sale of their interest in various wholly owned Dutch property portfolios ("Dutch Target Companies") to the European JV. The dispositions consisted of eight German and five Dutch property portfolios, inclusive of applicable mortgages. As a result of the dispositions, the REIT was deemed to have lost control of the previously consolidated German and Dutch Target Companies in accordance with IFRS 10 - *Consolidated financial statements* and accordingly derecognized the respective assets and liabilities from the REIT's consolidated statement of financial position, and reclassified $4.4 million of an accumulated foreign exchange translation gain through the statement of income (loss) and other comprehensive income (loss), that was previously recorded in accumulated other comprehensive income. The REIT will retain an investment in the German and Dutch Target Companies through its 30% ownership in the European JV and the remaining 5.1% of the German Target Companies through a wholly owned subsidiary. The investment in the European JV will be in the form of a joint venture to which the equity method of accounting has been applied in accordance to IAS 28 - *Investments in associates and joint ventures* (note 7).

The aggregate estimated fair value of the assets and liabilities disposed of on the disposition dates, September 30, 2020 and October 31, 2020, are as follows:

Investment properties	$	474,081
Accounts receivable		1,799
Other assets		1,474
Cash and cash equivalents		1,420
Mortgages and loans payable		(255,396)
Accounts payable and accrued liabilities		(11,108)
Net assets disposed	$	212,270
Cash proceeds	$	140,166
Retained interest in equity accounted investment		72,104
	$	212,270
Gain (loss) on disposition	**$**	**—**

The REIT contributed incremental capital to the European JV for its relative interest in addition to the net assets disposed of $1.2 million. The REIT incurred transaction costs in the amount of $4.2 million which have been recorded as part of the transaction costs in the statement of income (loss) and comprehensive income (loss).

(in thousands of Canadian dollars, unless otherwise stated)

4. Property Acquisitions

(a) 2020 Property Acquisitions

Region		Acquisition Cost (1)		Property specific debt
Europe	$	719,284	$	249,548
Australasia		85,036		—
Other (2)		3,328		—
Total	**$**	**807,648**	**$**	**249,548**

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

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

(b) 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 investment property assets.

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

(in thousands of Canadian dollars, unless otherwise stated)

5. Property Dispositions

During the year ended December 31, 2020, the REIT disposed of the following investment properties:

Region		Gross Proceeds [1]		Property specific debt settled or sold
Australasia [i]	$	470,472	$	148,277
Europe [ii]		474,081		255,396
	$	**944,553**	**$**	**403,673**

(1) Proceeds related to the disposition of the assets held for sale and AREIT sale excludes transaction costs of $2.1 million.

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

   In Q4 2020, Vital Trust disposed of three private hospitals and a development site for proceeds of approximately $90.0 million.

ii. In Q3 and Q4 2020, the REIT disposed of investment properties in the amount of $474.1 million as part of the sale to European JV (note 3).

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

Region		Gross Proceeds [1]		Property specific debt settled or sold
Canada	$	2,251	$	—
Australasia		8,421	$	—
	$	**10,672**	**$**	**—**

(1) Proceeds excludes disposition costs of $0.1 million.

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 which were subsequently sold in Q1 2020. There are no investment properties held for sale as at December 31, 2020.

(in thousands of Canadian dollars, unless otherwise stated)

6. Investment Properties

As at		December 31, 2020	December 31, 2019
Balance, beginning of year	$	**4,928,111**	$ 4,669,802
Acquisition of investment properties (note 4)		**807,648**	264,129
Disposition of investment properties (notes 3 and 5)		**(841,016)**	(10,672)
Additions to investment properties		**167,257**	105,446
Increase in straight line rents		**3,101**	3,146
Reclassified as assets held for sale		**—**	(107,149)
Right of use asset addition		**1,714**	7,720
Fair value gain		**174,415**	212,765
Foreign currency translation		**20,833**	(217,076)
Balance, end of year	$	**5,262,063**	$ 4,928,111

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

The fair values of the investment properties at December 31, 2020 and December 31, 2019 were determined using internal valuation models incorporating available market evidence and the results of valuations performed by independent third party appraisers. Significant assumptions and a number of methods are used in determining the fair value of the investment properties, including capitalization rates, terminal capitalization rates, discount rates and future cash flows that incorporate inflation rates, vacancy rates, market rents, property level capital expenditures, and net operating income. The REIT reviewed its future cash flow projections and the valuation of its properties in light of the COVID-19 pandemic during the year ended December 31, 2020. The carrying value for the REIT's investment properties reflects its best estimate for the highest and best use as at December 31, 2020.

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

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

		December 31, 2020	December 31, 2019
Less than 1 year	$	**273,892**	$ 292,615
1 - 5 years		**1,027,965**	1,088,551
Longer than 5 years		**2,413,870**	2,556,889

(in thousands of Canadian dollars, unless otherwise stated)

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

As at December 31, 2020				
	Canada	Brazil	Europe	Australasia
Discount rate - range	5.3% - 8.5%	6.5% - 7.8%	4.8% - 6.3%	5.8% - 9.3%
Discount rate - weighted average	7.3%	7.1%	5.6%	6.6%
Terminal capitalization rate - range	4.8% - 7.8%	6.3% - 7.3%	4.3% - 7.8%	5.1% - 8.0%
Terminal capitalization rate - weighted average	6.6%	6.6%	5.0%	5.7%
Overall capitalization rate - range	3.1% - 10.0%	6.3% - 7.4%	3.5% - 8.7%	4.8% - 10.7%
Overall capitalization rate - weighted average	6.6%	6.8%	5.1%	5.3%

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%
Overall capitalization rate - range	3.4% - 9.7%	6.6% - 7.7%	3.9% - 7.0%	4.4% - 9.5%
Overall capitalization rate - weighted average	6.5%	7.0%	5.5%	5.5%

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

Capitalization rate sensitivity increase/ (decrease)	Weighted average overall capitalization rate	Estimated fair value of investment properties	Fair value variance	% Change
(0.75)%	5.00 %	$ 6,279	$ 1,017	19.0 %
(0.50)%	5.25 %	$ 5,905	$ 643	12.0 %
(0.25)%	5.50 %	$ 5,568	$ 306	6.0 %
— %	5.75 %	$ 5,262	$ —	— %
0.25 %	6.00 %	$ 4,983	$ (279)	(5.0)%
0.50 %	6.25 %	$ 4,728	$ (534)	(10.0)%
0.75 %	6.50 %	$ 4,493	$ (769)	(15.0)%

The REIT engages independent third party appraisers to appraise its investment properties such that approximately one-third of the portfolio is independently appraised annually and every property is appraised at least once over a five-year period. The internal valuation models incorporate the results of valuations performed by independent third party appraisers. During the year ended December 31, 2020, investment properties with an aggregate estimated fair value of $4.2 billion (for the year ended December 31, 2019 -$3.8 billion) were valued by independent third party appraisers.

(in thousands of Canadian dollars, unless otherwise stated)

7. Equity Accounted Investments

The REIT has entered into joint venture arrangements with third parties for the purpose of jointly developing, owning and operating investment properties. In each arrangement, the co-owners are equally entitled to their proportionate share of ownership.

As at December 31, 2020, the total equity commitment to the Australian and European joint ventures is approximately $3.4 billion and $3.1 billion, respectively, less funding to date, including 30% participation by the REIT.

Equity Accounted Investments	**Ownership Interest**	**Location**
NWI Galaxy JV GmbH & Co. KG ("European JV")	30%	Europe
NorthWest Australia HSO Trust	30%	Australia
NorthWest Australia Hospital Investment Trust	30%	Australia
Northwest Healthcare Properties Australia REIT	30%	Australia

The Australian arrangements are all governed under the same investment framework, including sharing a common third-party partner, owning assets that are in similar in asset class and geographical region, and have similarly structured management terms. Accordingly, the REIT has combined all Australian joint venture arrangements for disclosure purposes in the following table which shows the changes in the carrying value of the equity accounted investments:

December 31, 2020	**Australia**	**Europe**	**Total**
Balance, beginning of year	$ 134,070	$ —	$ **134,070**
Cash contributions	10,340	—	**10,340**
Retained interest in investments	27,370	72,104	**99,474**
Share of profit for the year	49,637	2,454	**52,091**
Distributions	(8,840)	—	**(8,840)**
REIT's share of interest and management fees	(2,182)	(996)	**(3,178)**
Foreign exchange	13,952	84	**14,036**
Balance, end of year	**$ 224,347**	**$ 73,646**	**$ 297,993**

December 31, 2019	**Australia**	**Europe**	**Total**
Balance, beginning of year	$ —	$ —	$ **—**
Cash contributions	162,407	—	**162,407**
Retained interest in investments	—	—	**—**
Share of profit (loss) for the year	(16,950)	—	**(16,950)**
Distributions	(5,065)	—	**(5,065)**
REIT's share of interest and management fees	(2,941)		**(2,941)**
Foreign exchange	(3,381)	—	**(3,381)**
Balance, end of year	**$ 134,070**	**$ —**	**$ 134,070**

(in thousands of Canadian dollars, unless otherwise stated)

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

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

On August 23, 2020, a wholly-owned European subsidiary of the REIT entered into a joint arrangement with an institutional partner in which the REIT holds an interest of 30%. On September 30, 2020, the REIT completed the sale of a 94.9% interest in various German limited partnerships to the European JV (note 3). The remaining 5.1% interest is accounted for by the REIT under the equity accounting method and is grouped with the European JV for this note disclosure. Furthermore, on October 31, 2020, the REIT completed the sale of five investment properties located in the Netherlands to the European JV.

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

As at December 31,	**2020**			2019		
	Australia	**Europe**	**Total**	Australia	Europe	Total
Total assets	$ 1,887,976	$ 497,585	**$ 2,385,561**	$1,236,364	$ —	$ 1,236,364
Total liabilities	1,079,466	267,387	**1,346,853**	790,404	—	790,404
Net assets	808,510	230,198	**1,038,708**	445,960	—	445,960
Less: Non-controlling interests	61,696	—	**61,696**	—	—	—
Net assets less non-controlling interests	746,814	230,198	**977,012**	445,960	—	445,960
Ownership Interest	30.0%	30.0% to 33.6%	**30.0% to 33.6%**	30 %	N/A	30.0%
Equity Accounted Investments	**$ 224,347**	**$ 73,646**	**$ 297,993**	$ 134,070	$ —	$ 134,070

Included in total assets is cash of $19.1 million and $6.7 million in Australia and Europe respectively (2019 - $16.8 million and nil).

(in thousands of Canadian dollars, unless otherwise stated)

For the year ended December 31,	2020			2019		
	Australia	**Europe**	**Total**	Australia	Europe	Total
Revenue	$ 81,482	$ 6,573	$ **88,055**	$ 42,787	$ —	$ 42,787
Interest income	$ 4,134	$ —	$ **4,134**	572	—	572
Total revenue	$ 85,616	$ 6,573	$ **92,189**	$ 43,359	$ —	$ 43,359
Expenses and fair value adjustments						
Operating costs	6,147	823	**6,970**	$ 1,553	$ —	$ 1,553
Mortgage and loan interest expense	15,571	1,068	**16,639**	11,292	—	11,292
General and administrative expenses	362	286	**648**	118	—	118
Other	525	—	**525**	282	—	282
Fair value (gain) loss	(107,222)	(3,540)	**(110,762)**	86,613	—	86,613
Income tax expense	—	1,663	**1,663**	—	—	—
Net income (loss)	$ 170,233	$ 6,273	$ **176,506**	$ (56,499)	$ —	$ (56,499)
Non-controlling interests	4,776	—	**4,776**	—	—	—
Net profit attributable to owners	165,457	6,273	**171,730**	(56,499)	—	(56,499)
Weighted average share of profits (loss)	30.0%	30.0% to 33.6%	**30.0% to 33.6%**	30 %	N/A	30.0%
REIT's share of income (loss)	$ 49,637	$ 2,454	$ **52,091**	$ (16,950)	$ —	$ (16,950)

8. Goodwill

The REIT's goodwill balance relates to its investment in Vital Trust. The REIT performed its annual goodwill impairment test as at December 31, 2020, in accordance with IAS 36. Based on the impairment test performed, the REIT concluded that the goodwill for Vital Trust was not impaired as at December 31, 2020. The goodwill in respect of Australia REIT was deemed to be fully impaired as at December 31, 2019. As a result, the REIT recognized a goodwill impairment loss of $37.3 million in the consolidated statement of net income and comprehensive income in the prior year.

9. Financial Instruments

As at	December 31, 2020	December 31, 2019
Financial assets:		
Foreign exchange contracts (i)	$ **541**	$ 155
Total financial assets	**541**	155
Financial liabilities:		
Interest rate swaps (ii)	**62,405**	48,475
Total financial liabilities	$ **62,405**	$ 48,475

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

(in thousands of Canadian dollars, unless otherwise stated)

(ii) The REIT has entered into interest rate swap contracts during the year ended December 31, 2020 with respect to certain Canadian and German mortgages, and portions of the Vital Trust facility for a total of $617.8 million (note 11). The interest rate derivatives mature over the next 1 to 10 years and have fixed interest rates ranging from 1.38% to 4.32%.

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

	For the year ended December 31,	
	2020	2019
Fair value adjustment - interest rate swaps	**$ (11,218)**	$ (28,127)
Receipts/(payments) under transaction hedging foreign exchange contracts	**(541)**	139
Fair value adjustment - foreign exchange contracts	**—**	665
Fair value adjustment - forward contracts	**—**	39,352
Fair value adjustment - option contracts	**—**	(24,660)
Distribution equivalent - forward contract	**—**	7,669
Finance costs - embedded funding contained in forward contract	**—**	(8,384)
	$ (11,759)	$ (13,346)

10. Other Assets

As at	**December 31, 2020**	December 31, 2019
Loans and mortgages receivable carried at amortized cost (i)	**$ 10,925**	$ 26,282
Acquisition and financing costs (ii)	**7,767**	7,813
Finance lease receivable (iii)	**7,060**	6,394
Prepaid expenses and deposits	**5,892**	11,951
Commodity taxes recoverable	**3,828**	1,896
Right-of-use lease assets (iv)	**3,723**	4,441
Furniture and office equipment	**2,661**	3,011
Other	**6**	487
Due from related party (v)	**—**	2,746
	$ 41,862	$ 65,021

i. Loans and mortgages receivable carried at amortized cost relates to an interest-bearing loan secured by an Australian investment property maturing in April 2023.

ii. Acquisition and financing costs relate to potential acquisitions and debt refinancing which are currently undergoing due diligence and/or negotiation.

iii. Finance lease receivable relates to a long-term lease of land that is a finance lease, bearing a discount rate of 6.5% and remaining term of 67 years.

iv. Right-of-use lease assets are net of accumulated amortization of $8.8 million (December 31, 2019 - $1.4 million).

v. The REIT has amounts owing to and from related parties, being Northwest Value Partners Inc. and affiliates ("NWVP") (note 20). The balance is non-interest bearing, that are due on demand or without specific terms of repayment.

(in thousands of Canadian dollars, unless otherwise stated)

11. Mortgages and Loans Payable

As at		December 31, 2020		December 31, 2019
Mortgage payable, net of financing costs	$	**952,882**	$	909,150
Term debt, net of financing costs		**1,083,664**		1,282,094
Credit facilities, net of financing costs		**446,480**		138,825
Lease liabilities		**12,387**		11,322
Total Mortgages and loans payable	$	**2,495,413**	$	2,341,391
Less: Current portion		**744,434**		363,083
Non-current debt	$	**1,750,979**	$	1,978,308

Mortgages

All mortgages are secured by first or second charges on specific investment properties in Canada and Europe, with a carrying value of $1.8 billion as at December 31, 2020 (December 31, 2019 - $1.6 billion).

Term debt

As at December 31, 2020, the term debt balance includes Brazilian debt secured by related investment property of $175.6 million (December 31, 2019 - $244.8 million); Australian term debt of $101.4 million (December 31, 2019 - $342.4 million), $23.3 million (December 31, 2019 - $271.2 million) of which is secured by related investment property of $41.7 million (December 31, 2019 - $404.6 million, which excludes non-controlling interests); New Zealand term debts of $675.4 million (December 31, 2019 - $596.5 million) secured by Vital Trust's security trust deed and by a first mortgage ranking over the respective investment properties held by Vital Trust; and Australasian secured term financing of $137.9 million (December 31, 2019 - $109.6 million) secured by 111,923,175 units (December 31, 2019 - 108,823,293 units) of Vital Trust held by the REIT.

Credit facilities

As at December 31, 2020, the balance outstanding includes $369.5 million of revolving credit facilities with weighted average interest rate of 3.52% (December 31, 2019 - $130.0 million) and $79.0 million of non-revolving credit facilities with weighted average interest rate of 7.26% (December 31, 2019 - $10.0 million). The revolving credit facility is secured by first and second charges on certain Canadian investment properties with an estimated fair value of $495.9 million, and the terms of a general security agreement.

(in thousands of Canadian dollars, unless otherwise stated)

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, 2020 was 67 years. In addition, as part of the transition to IFRS 16 in the prior year, the REIT recognized lease liabilities for leases where the REIT acts as a lessee. Minimum payments under the lease and their present values are as follows:

As at		December 31, 2020		December 31, 2019
Minimum lease payments payable:				
Not later than one year	**$**	**1,626**	$	1,715
Later than one year and not later than five years		**5,395**		5,858
Later than five years		**31,842**		30,641
		38,863		38,214
Future finance charges		**(26,476)**		(26,892)
Present value of minimum lease payments	**$**	**12,387**	$	11,322
Present value of minimum lease payments:				
Not later than one year		**1,581**		1,668
Later than one year and not later than five years		**4,716**		5,145
Later than five years		**6,090**		4,509
	$	**12,387**	$	11,322

As at December 31, 2020, the scheduled principal repayments and debt maturities are as follows:

		Mortgage Debt		Term Debt		Credit Facilities		Finance Lease		**Total**
2021	$	366,227	$	251,627	$	125,000	$	1,580	**$**	**744,434**
2022		138,965		331,475		323,469		1,514		**795,423**
2023		95,015		381,524		—		1,427		**477,966**
2024		108,121		18,216		—		1,008		**127,345**
2025		127,768		19,107		—		615		**147,490**
2026 & thereafter		123,088		88,321		—		6,243		**217,652**
	$	959,184	$	1,090,270	$	448,469	$	12,387	**$**	**2,510,310**
Financing costs		(7,437)		(6,606)		(1,989)		—		**(16,032)**
Mark-to-market adjustment		1,135		—		—		—		**1,135**
Total	$	952,882	$	1,083,664	$	446,480	$	12,387	**$**	**2,495,413**

(in thousands of Canadian dollars, unless otherwise stated)

A summary of the maturity and the weighted average interest rates relating to the mortgages and loans payable, including term debt and credit facilities, outstanding at December 31, 2020 are as follows:

	Maturity	Weighted Average Interest Rate		Carrying Value		Available to be Drawn
Fixed rate						
Mortgage debt	January 2021 - June 2030	2.85 %	$	959,184	$	—
Term debt	March 2021 - June 2031	4.63 %		607,815		178,615
Total fixed rate debt			$	1,566,999	$	178,615
Variable Rate						
Term debt	March 2021 - October 2023	1.78 %		482,455		106,163
Credit facilities	January 2022 - September 2023	4.18 %		448,469		55,531
Total variable rate debt			$	930,924	$	161,694
Total debt excluding the following:			$	2,497,923	$	340,309
Finance lease				12,387		—
Financing costs				(16,032)		—
Mark-to-market adjustment				1,135		—
Total debt			**$**	**2,495,413**	**$**	**340,309**

The table below summarizes the movements in the REIT's mortgages and loans during the years ended December 31, 2020 and 2019:

	Mortgage Debt	Term Debt	Credit Facilities	Total
Opening balance, January 1, 2020	$909,150	$1,282,094	$138,825	**$2,330,069**
Repayments	(118,332)	(346,764)	(572,507)	**(1,037,603)**
Mortgages and loans dispositions (note 3)	(255,396)	(148,277)	—	**(403,673)**
Advances	377,103	275,602	880,913	**1,533,618**
Additional financing fees incurred	(9,474)	(456)	(2,998)	**(12,928)**
Amortization of finance fees	5,606	3,477	1,968	**11,051**
Amortization of mark-to-market	(866)	—	—	**(866)**
Inflation adjustment	—	5,585	—	**5,585**
Foreign exchange adjustment	45,091	12,403	279	**57,773**
Ending balance, December 31, 2020	$952,882	$1,083,664	$446,480	**$2,483,026**

	Mortgage Debt	Term Debt	Credit Facilities	Total
Opening balance, January 1, 2019	$822,355	$1,309,104	$275,241	**$2,406,700**
Repayments	(73,473)	(509,384)	(312,000)	**(894,857)**
Advances	184,418	553,493	175,500	**913,411**
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**

(in thousands of Canadian dollars, unless otherwise stated)

The REIT has entered into interest rate swap contracts to limit its exposure to fluctuations in the interest rates on its $617.8 million variable rate mortgage debt as at December 31, 2020 (December 31, 2019 - $714.9 million). The interest rate swaps terminate between 2021 and 2030, refer to note 9.

12. Convertible Debentures

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

As at		December 31, 2020		December 31, 2019
Balance, beginning of year	$	**391,201**	$	401,235
Conversion to REIT units (note 15)		**(51,483)**		(940)
Convertible debentures redeemed		**(44,567)**		(38,585)
Change in fair value of convertible debentures		**(2,330)**		29,491
Balance, end of year	$	**292,821**	$	391,201

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

As at		December 31, 2020		December 31, 2019
NWH.DB	$	**—**	$	40,351
NWH.DB.D		**—**		55,254
NWH.DB.E		**76,601**		77,987
NWH.DB.F		**83,720**		85,137
NWH.DB.G		**132,500**		132,472
Fair Value	$	**292,821**	$	391,201
Current		**160,321**		95,605
Non-Current		**132,500**		295,596
	$	**292,821**	$	391,201

Debentures Series	Conversion price per Unit ($)	Maturity	Interest rate	Interest payment	Interest payment dates
NWH.DB.E	$12.75	July 31, 2021	5.25%	Semi-annual	Jan 31 and July 31
NWH.DB.F	$12.80	December 31, 2021	5.25%	Semi-annual	June 30 and December 31
NWH.DB.G	$13.35	December 31, 2023	5.50%	Semi-annual	June 30 and December 31

On January 17, 2020, the REIT fully repaid the $40.3 million outstanding carrying value amount of the 5.25% NWH.DB convertible debenture series. In addition, $47.7 million of the $52.1 million carrying value amount 5.5% NWH.DB.D convertible debenture series were converted by the debenture holders into 4,238,308 REIT units during the year ended December 31, 2020 (Note 15). The REIT fully repaid the remaining $4.4 million principal balance outstanding for those debentures not converted.

(in thousands of Canadian dollars, unless otherwise stated)

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 financial liability until redeemed.

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

(a) Liability:

As at		December 31, 2020		December 31, 2019
Balance, beginning of year	$	19,656	$	13,030
Unit based compensation expense		7,374		8,361
Exercised and paid in cash		(2,215)		(4,092)
Exercised and settled in Trust Units		(2,275)		(1,135)
Fair value adjustment		1,673		3,600
Foreign exchange		64		(108)
Balance, end of year	$	24,277	$	19,656

The balance of the DUP liability at December 31, 2020 consists of $22.8 million related to the REIT's DUP and $1.5 million related to Vital Trust's DUP (December 31, 2019 - $17.7 million related to the REIT's DUP and $2.0 million related to Vital Trust's DUP).

Unit-based compensation expense is measured on grant at the service commencement date, based on the fair market value of a REIT unit or Vital Trust unit, as applicable, and amortized over the applicable vesting period. At December 31, 2020, 1,413,720 unvested deferred units are expected to vest between 2021 and 2025. Unit-based compensation does not qualify as an equity award and is classified as a liability. The awards are re-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 part of compensation expense for the period.

(b) Units outstanding under the deferred unit plans:

As at December 31, 2020	REIT	Vital Trust
Balance, beginning January 1, 2020	1,737,584	1,172,781
Granted	724,944	—
Exercised and paid in cash	(102,989)	(457,886)
Exercised and paid in REIT units	(212,936)	—
Forfeited	(34,725)	(136,088)
Distribution entitlement	147,733	7,071
Balance, as at December 31, 2020	2,259,611	585,878
Units vested but not exercised	1,799,297	83,702

(in thousands of Canadian dollars, unless otherwise stated)

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

For the year ended December 31, 2020, the REIT granted 724,944 DUP units with a grant-date fair value of $7.2 million (for the year ended December 31, 2019 - 686,233 DUP units with a fair value of $6.4 million).

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.

On March 23, 2020, 15,998,065 Class B units held by NWVP were converted to REIT units. As at December 31, 2020, there were 1,710,000 Class B exchangeable units (December 31, 2019 - 17,708,065) of NorthWest International Healthcare Properties LP ("NWI LP") issued and outstanding with fair value of $21.5 million (December 31, 2019 - $211.3 million).

Distributions declared on the Class B exchangeable units of NWI LP totaled $3.5 million for the year ended December 31, 2020 (for the year ended December 31, 2019 - $14.2 million) and have been accounted for as finance costs in profit or loss.

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

	Units	Amount
Balance, December 31, 2018	17,708,065	$ 167,872
Fair value adjustment	—	43,385
Balance, December 31, 2019	17,708,065	$ 211,257
Converted to REIT units	(15,998,065)	(106,387)
Fair value adjustment	—	(83,324)
Balance, December 31, 2020	**1,710,000**	**$ 21,546**

15. 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 subsidiaries in foreign jurisdictions, as follows:

(in thousands of Canadian dollars, unless otherwise stated)

Year ended December 31,		2020		2019
Current income tax	$	**20,466**	$	23,454
Deferred income tax, relating to origination and reversal of temporary differences		**(5,644)**		64,778
	$	**14,822**	$	88,232

Current income tax is net of benefit from previously unrecorded temporary difference of $14.7 million (December 31, 2019 - nil).

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,		2020		2019
Deferred tax liability related to difference in tax and book basis of:				
Investment properties	$	**298,663**	$	325,644
Mortgage and loans payables		**6,130**		7,041
Other		**2,928**		3,854
Total deferred income tax liabilities		**307,721**		336,539
Deferred tax asset related to difference in tax and book basis of:				
Derivative financial instruments		**17,458**		11,843
Other		**2,443**		2,530
Total deferred income tax assets		**19,901**		14,373
Net deferred income tax liability	$	**287,820**	$	322,166

Reconciliation of effective tax rate:

Year ended December 31,		2020		2019
Income before income taxes	$	**396,236**	$	161,482
Income tax expense calculated at the domestic rates applicable to profits in the country concerned		**66,048**		60,250
Increase (decrease) resulting from				
Foreign tax exempt income		**(9,666)**		(9,627)
Item not deductible in determining taxable profit		**5,670**		5,166
Current-year losses for which no deferred tax asset is recognized		**941**		17,690
Reversal of previously recorded deferred tax liability on current year dispositions		**(28,492)**		—
Previously unrecorded tax benefit of losses		**(14,675)**		—
Tax adjustments related to prior years		**(3,374)**		12,934
Other		**(1,630)**		1,819
Income tax expense	$	**14,822**	$	88,232

(in thousands of Canadian dollars, unless otherwise stated)

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

The following table shows the changes in REIT units:

	REIT units	Amount
Balance, December 31, 2018	**103,570,247**	**$ 953,169**
Units issued through distribution reinvestment plan (i)	995,102	11,205
Units issued on conversion of convertible debentures (note 12)	74,975	940
Units issued under deferred unit plan (note 13)	107,342	1,135
Units issued pursuant to equity offering	48,879,000	569,546
Units issuance cost	—	(25,750)
Balance, December 31, 2019	**153,626,666**	**$ 1,510,245**
Units issued through distribution reinvestment plan (i)	646,360	7,122
Units issued on conversion of convertible debentures (note 12)	4,244,780	51,483
Units issued under deferred unit plan (note 13)	212,936	2,275
Units issued pursuant to conversion of Class B units (note 14)	15,998,065	106,387
Units cancelled pursuant to NCIB (ii)	(800,207)	(7,196)
Units issued pursuant to private placement (iii)	2,049,180	25,000
Units issuance costs	—	(506)
Balance, December 31, 2020	**175,977,780**	**$ 1,694,810**

(i) The REIT has established a distribution reinvestment plan ("DRIP") for its unitholders, which allows participants to reinvest their monthly cash distributions in additional units at an effective discount of 3%. On March 24, 2020, in response to market volatility caused by the COVID-19 pandemic the Board approved the elimination of the 3% bonus distribution under the DRIP, commencing with the April 2020 distribution. On November 12, 2020, the REIT announced the reinstatement of the DRIP, which had previously been suspended on March 24, 2020.

(ii) On March 24, 2020 the TSX approved the REIT's application to proceed with a normal course issuer bid ("NCIB") for a portion of its Trust Units from time to time. Trust Units representing up to 10% of the REIT's public float may be purchased for cancellation under the NCIB, subject to certain maximum daily amounts, over the next 12 months. During the year ended December 31, 2020, the REIT purchased 800,207 units at a weighted average price per unit of $8.99, for a total cost of $7.2 million (including commissions).

(in thousands of Canadian dollars, unless otherwise stated)

(iii) In connection with a public offering of units in December 19, 2019, on January 31, 2020, the REIT closed a private placement with NWVP for gross proceeds of approximately $25.0 million.

17. Non-Controlling Interests

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

In August 2020, the REIT purchased additional 725,000 ordinary Vital Trust units on market for $1.7 million, which resulted in a change in relative interest of non-controlling interests. The difference between the carrying value of the units and the consideration paid of $0.2 million has been recognized in equity under Other Comprehensive Income through the Statements of Income (Loss) and Comprehensive Income (Loss). In October 2020, Vital Trust completed an equity placement of 56,250,034 units in which the REIT participated by buying 15,505,996 units for a total of $37.9 million, increasing the REIT's investment interest in Vital.

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

As at December 31, 2020	Vital Trust	Fritz-Lang-Platz 6	Total
REIT's ownership interest	25.9 %	94.9 %	
Total assets	$ 2,077,485	$ 21,976	$ 2,099,461
Total liabilities	867,205	9,949	877,154
Net assets	$ 1,210,280	$ 12,027	$ 1,222,307
Attributable to:			
Unitholders of the REIT	313,567	11,491	325,058
Non-controlling interests	896,713	536	897,249
	$ 1,210,280	$ 12,027	$ 1,222,307

As at December 31, 2019	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
REIT's 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 interests	703,527	52,805	480	756,812
	$ 941,034	$ 122,383	$ 10,573	$ 1,073,990

(in thousands of Canadian dollars, unless otherwise stated)

	For the year ended December 31, 2020				For the year ended December 31, 2019			
	Vital Trust	**Divine**	**Fritz-Lang-Platz 6**	**Total**	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Revenue from investment properties	**$104,540**	**$ 3,810**	**$ 1,766**	**$110,116**	$ 98,309	$ 7,520	$ 1,497	$107,326
Net income (loss) attributable to:								
Unitholders of the REIT	**22,202**	**1,667**	**738**	**24,607**	23,816	2,785	520	27,121
Non-controlling interests	**65,709**	**1,316**	**34**	**67,059**	71,615	3,479	27	75,121
Net income (loss)	**$ 87,911**	**$ 2,983**	**$ 772**	**$ 91,666**	$ 95,431	$ 6,264	$ 547	$102,242
Total comprehensive income (loss) attributable to:								
Unitholders of the REIT	**40,295**	**1,257**	**50**	**41,602**	21,595	766	(65)	22,296
Non-controlling interests	**118,568**	**2,785**	**69**	**121,422**	37,894	694	(5)	38,583
Total comprehensive income (loss)	**$158,863**	**$ 4,042**	**$ 119**	**$163,024**	$ 59,489	$ 1,460	$ (70)	$ 60,879
Distributions attributable to non-controlling interests	**$ 27,082**	**$ 716**	**$ —**	**$ 27,798**	$ 25,968	$ 2,849	$ (1)	$ 28,816

	For the year ended December 31, 2020				For the year ended December 31, 2019			
	Vital Trust	**Divine**	**Fritz-Lang-Platz 6**	**Total**	Vital Trust	Divine	Fritz-Lang-Platz 6	Total
Cash flows from (used in):								
Operating	**$ 37,225**	**$ 2,645**	**$ 658**	**$ 40,528**	$ 45,202	$ 10,743	$ 467	$56,412
Investing	**(122,350)**	**—**	**—**	**(122,350)**	(50,436)	(1,845)	—	(52,281)
Financing	**80,068**	**(1,659)**	**(635)**	**77,774**	6,031	(10,992)	(637)	(5,598)
Effect of foreign currency translation	**6,252**	**(1,793)**	**1**	**4,460**	(4,003)	2,120	3	(1,880)
Net change in cash	**$ 1,195**	**$ (807)**	**$ 24**	**$ 412**	$ (3,206)	$ 26	$ (167)	$ (3,347)
Cash ending balance	**$ 5,775**	**$ —**	**$ 21**	**$ 5,796**	$ 4,580	$ 1,665	$ (3)	$ 6,242

The REIT is subject to restrictions over the extent to which it can access funds of Vital Trust and Fritz-Lang-Platz 6 in the form of cash distributions, or use of assets and access to debt and credit facilities as a result of borrowing arrangements, regulatory restrictions and the REIT's economic interests in Vital Trust and Fritz-Lang-Platz 6, being limited to approximately 25.9% and 94.9%, respectively.

18. Rental Revenue

The components of rental revenue are as follows:

	For the year ended December 31,	
	2020	2019
Rental income	**$ 287,884**	$ 278,665
Operating cost recoveries	**57,159**	56,384
Tax and insurance recoveries	**22,701**	21,549
Other revenue	**6,074**	9,458
Rental revenue	**$ 373,818**	$ 366,056

(in thousands of Canadian dollars, unless otherwise stated)

19. Supplemental Cash Flow Information

(i) Cash, cash equivalents and restricted cash

As at		**December 31, 2020**		December 31, 2019
Cash and cash equivalents	**$**	**144,106**	$	192,150
Restricted cash		**41**		53
Total cash, cash equivalents and restricted cash	**$**	**144,147**	$	192,203

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

(ii) Changes in Non-Cash Working Capital Balances

		For the year ended December 31,		
		2020		2019
Accounts receivable	**$**	**2,133**	$	178
Other assets		**8,258**		(12,656)
Accounts payable and accrued liabilities		**18,731**		17,697
Changes in non-cash working capital balances	**$**	**29,122**	$	5,219

(iii) Non-Cash Financing and Investing Activities

		For the year ended December 31,		
		2020		2019
Non cash distributions to Unitholders under the DRIP (note 16)	**$**	**7,122**	$	11,205
Units issued under deferred unit plan (note 13)		**2,275**		1,135
Non-cash conversion of convertible debentures		**51,483**		940
Non-cash conversion of Class B exchangeable units (note 14)		**106,387**		—

(iv) Finance costs

		For the year ended December 31,		
		2020		2019
Distributions on Exchangeable Units	**$**	**3,501**	$	14,167
Accretion of financial liabilities		**5,585**		4,541
Amortization of deferred financing costs		**11,051**		11,570
Amortization of marked to market adjustment		**(866)**		(1,316)
Fair value adjustment of Convertible Debentures		**(2,330)**		29,491
Fair value adjustment of Class B exchangeable units		**(83,324)**		43,385
Total finance costs	**$**	**(66,383)**	$	101,838

(in thousands of Canadian dollars, unless otherwise stated)

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

Year ended December 31, 2020	**Mortgages and loans payable**	**Convertible debentures**	**Class B exchangeable units**	**Total**
Balance, beginning of year	$ 2,341,391	$ 391,201	$ 211,257	$ 2,943,849
Cash financing activities:				
Mortgage and loan proceeds	1,533,618	—	—	1,533,618
Repayment of mortgages	(1,037,603)	—	—	(1,037,603)
Mortgages and loans dispositions (note 3)	(403,673)	—	—	(403,673)
Redemption of convertible debentures	—	(44,567)	—	(44,567)
Financing fees paid	(12,928)	—	—	(12,928)
Total cash financing activities	**79,414**	**(44,567)**	**—**	**34,847**
Non-cash financing activities:				
Amortization of financing costs	11,051	—	—	11,051
Amortization of mark-to-market adjustment	(866)	—	—	(866)
Accretion of financial liabilities	5,585	—	—	5,585
Conversion to Unitholders' Equity	—	(51,483)	(106,387)	(157,870)
Fair value adjustment of Class B exchangeable units	—	—	(83,324)	(83,324)
Fair value adjustment of convertible debentures	—	(2,330)	—	(2,330)
Other adjustments	1,065	—	—	1,065
Foreign exchange translation	57,773	—	—	57,773
Total non-cash financing activities	**74,608**	**(53,813)**	**(189,711)**	**(168,916)**
Balance, end of year	**$ 2,495,413**	**$ 292,821**	**$ 21,546**	**$ 2,809,780**

(in thousands of Canadian dollars, unless otherwise stated)

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**

(in thousands of Canadian dollars, unless otherwise stated)

20. Related Party Transactions

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

As at December 31, 2020, NWVP indirectly owned approximately 15.3% (approximately 13.5% on a fully diluted basis assuming conversion of the REIT's convertible debentures and redemption of its deferred units) of the REIT through a combination of Trust 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 ("CEO") of the REIT, is the sole shareholder, sole director and President of NWVP.

(b) As at December 31, 2020, the REIT had a net liability owing to NWVP of $0.7 million that is included in accounts payable and accrued liabilities. At December 31, 2019, the REIT had a net asset receivable of $2.7 million included in other assets, which was settled and repaid during the year ended December 31, 2020.

During the year ended December 31, 2020, the REIT entered into transactions with NWVP, and made three separate non-interest bearing payments to NWVP totaling $14.4 million in respect of management services provided by NWVP and obligations transferred from the REIT to NWVP, as described below. Upon finalization and approval of the CEO's compensation, $3.1 million was repaid by NWVP.

The net amounts paid to NWVP during the year ended December 31, 2020 of $12.0 million (including HST) relates to REIT expenses and obligations that were incurred or have been assumed by NWVP, including: (i) CEO management services related to strategic investment initiatives of $8.0 million, including $1.2 million related to management services and a $6.8 million bonus that have been expensed as transaction costs, (ii) the assumption of $1.3 million of REIT obligations by NWVP related to investment and strategic personnel have been expensed as transaction costs, (iii) reimbursement for NWVP personnel seconded to the REIT totaling $0.3 million, and (iv) expense reimbursements of $1.1 million, which have been recorded as general and administrative expenses and transaction costs.

During the year ended December 31, 2019, the REIT paid to NWVP $1.0 million of out-of-pocket costs which were recorded as general and administrative expenses and transaction costs.

(c) At December 31, 2020, included in accounts payable and accrued liabilities are Class B exchangeable unit distributions payable owing to NWVP and affiliates in the amount of $0.1 million (December 31, 2019 - $1.2 million), which were settled subsequent to year end.

(d) Key Management Compensation

For the year ended December 31,		**2020**		2019
Short-term compensation	**$**	**11,572**	$	3,414
Unit-based long-term incentives (1)		**4,875**		6,388
	$	**16,447**	$	9,802

(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 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, Chief Financial Officer, President, Executive Vice President and General Counsel, Chief Executive Officer – Australia and New Zealand, Chief Operating Officer and Managing Director - Canada, Managing Director – Europe and Trustees. In the previous year, key management personnel of the REIT also included the Managing Director - Brazil, Chief Executive Officer - Vital, and Executive Director – Australia REIT.

(in thousands of Canadian dollars, unless otherwise stated)

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

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

Significant subsidiaries of the REIT are listed below:

		Holding	
Name of Subsidiary	**Place of Operation**	**December 31, 2020**	**December 31, 2019**
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 Galaxy Investment Advisory S.a.r.l.	Luxembourg	100.0 %	— %
NWI Galaxy JV Lux 2 S.a.r.l	Luxembourg	100.0 %	— %
NWI Gezondheid Vastgoed B.V.	The Netherlands	100.0 %	100.0 %
NWH Cayman LP	Cayman Islands	100.0 %	— %
NWI Jersey Ltd	United Kingdom	100.0 %	— %
NWI Aspen Jersey Ltd	United Kingdom	100.0 %	— %
NWI Healthcare Properties LLC	USA	100.0 %	100.0 %
Northwest International Investmentos Imobiliar SA	Brazil	100.0 %	100.0 %
Northwest International II Investimentos Imobiliar SA	Brazil	100.0 %	100.0 %
Fundo De Investimenttno Imobiliário NorthWest Investmentos Fund I Imobiliários Em Saúde	Brazil	100.0 %	100.0 %
NorthWest Investmentos Em Saúde Fund I Fundo de Investimento Multimercado	Brazil	100.0 %	100.0 %
Vital Healthcare Property Trust	New Zealand	25.9 %	24.9 %
NWI NZ Management Company Limited	New Zealand	100.0 %	100.0 %
Vital Healthcare Management Ltd.	Australia	100.0 %	100.0 %
NorthWest Healthcare Properties 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 [i]	Australia	— %	100.0 %
Divine Logistics Trust [i]	Australia	— %	56.9 %

i. Divine Logistics Trust is co-owned by AREIT and a third party. During the year, the REIT completed the sale of 70% interest in AREIT to an institutional partner (note 3), therefore, as at December 31, 2020, the assets under Divine Logistics Trust and AREIT were equity accounted (note 8).

21. Employee Benefits Expense

Year ended December 31,		**2020**		2019
Short-term employee benefits	$	**30,230**	$	30,788
Unit-based compensation expense		**7,039**		7,937
	$	**37,269**	$	38,725

(in thousands of Canadian dollars, unless otherwise stated)

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, 2020, total short-term employee benefits of $11.5 million (December 31, 2019 – $11.3 million) are included in 'Property operating costs' and $12.6 million (December 31, 2019 – $13.9 million) are included in 'General and administrative expenses'. During the year ended December 31, 2020, the REIT capitalized $6.2 million of employee benefits directly related to leasing, capital expenditures or development of investment properties (December 31, 2019 - $5.5 million).

22. Segmented Information

The REIT operates in one industry segment being the real estate industry segment; however the REIT monitors and operates its European, Brazilian, Canadian, and Australasian operations separately. The CEO assesses the performance of each of the operating segments based on a measure of operating income (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, 2020, two tenants in Brazil accounted for 12% (for the year ended December 31, 2019 - 14%) of the total revenue from investment properties.

As at December 31, 2020	Europe	Brazil	Australasia	Canada	Total
Investment properties	**$1,172,476**	**$ 648,226**	**$2,236,504**	**$1,204,857**	**$5,262,063**
Mortgages and loans payable	**$ 468,208**	**$ 170,415**	**$ 781,116**	**$1,075,674**	**$2,495,413**
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

For the year ended December 31, 2020	Europe	Brazil	Australasia	Canada	Total
Operating Income					
Revenue from investment properties	**$ 76,930**	**$ 44,703**	**$ 127,425**	**$ 124,760**	**$ 373,818**
Property operating costs	**13,725**	**—**	**15,308**	**58,991**	**88,024**
Net property operating income	**63,205**	**44,703**	**112,117**	**65,769**	**285,794**
Other income					
Interest and other	**242**	**281**	**1,362**	**62**	**1,947**
Management fee	**4,243**	**—**	**7,423**	**—**	**11,666**
Share of income (loss) of associate	**2,454**	**—**	**49,637**	**—**	**52,091**
	6,939	**281**	**58,422**	**62**	**65,704**
Mortgage and loan interest expense	**11,596**	**8,550**	**29,452**	**48,150**	**97,748**
General and administrative expenses	**4,317**	**1,392**	**11,066**	**12,664**	**29,439**
Transaction costs	**3,195**	**213**	**13,389**	**18,136**	**34,933**
Foreign exchange (gain) loss	**(71)**	**7**	**3,945**	**16,627**	**20,508**
	19,037	**10,162**	**57,852**	**95,577**	**182,628**
Operating income (loss)	**$ 51,107**	**$ 34,822**	**$ 112,687**	**$ (29,746)**	**$ 168,870**

(in thousands of Canadian dollars, unless otherwise stated)

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 income (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	14,008	3,505	17,764
Foreign exchange (gain) loss	(35)	(1,195)	(825)	(1,215)	(3,270)
	14,039	17,579	66,477	76,741	174,836
Operating income (loss)	$ 23,069	$ 39,271	$ 51,137	$ (8,687)	$ 104,790

23. 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, 2020, the REIT has a total of $6.1 million in outstanding letters of credit, under the REIT's secured revolving floating rate credit facility, related to construction work that is being performed on investment properties. The REIT does not believe that any of these standby letters of credit are likely to be drawn upon.

b. Pursuant to the disposition of the REIT's 70% interest in AREIT units (note 3), the REIT indemnified the joint venture partner of potential tax liabilities related to AREIT's investment properties. The indemnity expires if the properties are not sold within 15 years of settlement. Given that the disposition of properties is dependent on uncertain future events not within the control of the REIT, and that the taxable outcome of the disposition is not estimable due to the variables involved, the REIT has not recognized a provision related to the indemnification.

c. Pursuant to vend-in of European investment properties to the European JV, the REIT had indemnified the joint venture partner of potential tax liabilities related to the investment properties. Given that the eventual disposition of properties is dependent on uncertain future events not within the control of the REIT, and that the taxable outcome of the disposition is not estimable due to the variables involved, the REIT has not recognized a provision related to the indemnification.

d. On December 24, 2020, the REIT entered into a derivative agreement to invest $15.0 million in 13 month call and put option contracts on behalf of itself and in for its third party Australian JV partner in respect of its approximately 61% interest, giving them both an unconditional economic interest in Australian Unity Healthcare Property Trust ("AUHPT"). The derivative agreement between the REIT and its third party Australian JV partner is a separate arrangement from that between the REIT and AUHPT. Subsequent to year end, consideration was transferred and the REIT recorded a financial asset and corresponding financial liability.

   Under the above agreement, the REIT will also increase the call and put options to cover an additional potential stake in AUHPT for an incremental joint investment with its Australian JV partner of $31.2 million, subject to certain customary closing conditions.

e. The REIT has entered into acquisitions and construction agreements on development properties and is committed to associated costs of $271.0 million as at December 31, 2020 (December 31, 2019 - $228.6 million).

f. 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.

g. 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.

24. 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 estimate cash flows beyond the term of 10 years. Note 6 outlines the key assumptions used by the REIT in determining fair value of its investment properties.

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

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

(in thousands of Canadian dollars, unless otherwise stated)

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

The fair value hierarchy of assets and liabilities measured at fair value on the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements as at December 31, 2020 is as follows:

		Fair Value		
	Carrying value	Level 1	Level 2	Level 3
Assets measured at fair value:				
Investment properties	$ 5,262,063	$ —	$ —	$ 5,262,063
Financial instruments	541	—	—	541
Assets recorded at amortized cost:				
Loans receivable	10,925	—	—	10,925
Liabilities measured at fair value:				
Financial instruments	62,405	—	62,405	—
Convertible debentures	292,821	292,821	—	—
Class B LP exchangeable units	21,546	21,546	—	—
Deferred unit plan liabilities	24,277	24,277	—	—
Financial liabilities recorded at amortized cost:				
Mortgage and loans payable	2,495,413	—	2,510,990	—

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:

		Fair Value		
	Carrying 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 liabilities	19,656	19,656	—	—
Financial liabilities recorded at amortized cost:				
Mortgage and loans payable	2,341,391	—	2,348,059	—

(in thousands of Canadian dollars, unless otherwise stated)

25. 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, 2020, the REIT is in compliance with its debt to gross book value ratio of the Declaration of Trust at 42.9% (December 31, 2019 - 42.5%).

As at		December 31, 2020		December 31, 2019
Debt				
Gross value of debt excluding convertible debentures (1)	**$**	**2,510,310**	$	2,354,897
Gross value of total debt (2)		**2,803,131**		2,746,098
Gross Book Value of Assets				
Total assets	**$**	**5,845,238**	$	5,535,304
Debt-to-Gross Book Value (Declaration of Trust)		**42.9 %**		42.5 %
Debt-to-Gross Book Value (including convertible debentures)		**48.0 %**		49.6 %

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

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

The REIT's capital management is also impacted by various financial covenants in certain loan agreements. As at December 31, 2020, the REIT is in compliance with all such financial covenants.

26. 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.

(in thousands of Canadian dollars, unless otherwise stated)

Credit risk arises in the event that the partners default on the payment of their proportionate share of liabilities associated with joint arrangements. The REIT is only liable for its proportionate share of the debt obligations of the joint arrangements in which it participates, except in limited circumstances. Management believes that the assets of its joint arrangements are sufficient for the purpose of satisfying any obligation of the REIT should the REIT's partner default.

The COVID-19 pandemic has created significant uncertainty in the general economy. In determining the expected credit losses, the REIT takes into account the payment history and future expectations of likely default events based on actual or company voluntary arrangements and likely deferrals of payments due. These assessments are made on a tenant-by-tenant basis. The uncertainties arising as a result of COVID-19 did not materially impact the REIT's risk assessment at December 31, 2020. 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, 2020**	December 31, 2019
Less than 30 days	**1,664**	1,473
31 to 60 Days	**543**	419
61-90 days	**323**	38
More than 90 Days	**1,092**	1,222
Total billed	**$ 3,622**	$ 3,152
Unbilled	**7,310**	16,872
Expected credit losses	**$ (1,280)**	$ (364)
	$ 9,652	$ 19,660

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.

In light of COVID-19, the REIT has taken measures to increase liquidity such as increasing availability on its Credit Facilities of $82.0 million and advancing the renewals of near term debt maturities.

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. The REIT expects to repay or refinance all debts maturing in 2021 using existing liquidity, proceeds from vend-in of assets to joint ventures, proceeds from issuance of REIT units and new asset level financing. 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.

(in thousands of Canadian dollars, unless otherwise stated)

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	2021	2022	2023	2024	2025	Thereafter
Accounts payable and accrued liabilities	$ 92,340	$ 107,563	$ 107,563	$ —	$ —	$ —	$ —	$ —
Income tax payable	21,216	21,216	21,216	—	—	—	—	—
Distributions payable	11,732	11,732	11,732	—	—	—	—	—
Mortgages and loans payable	2,495,413	2,612,691	755,254	819,385	498,141	142,799	159,807	237,305
Convertible debentures	292,821	304,415	165,665	6,875	131,875	—	—	—
	$2,913,522	$3,057,617	$1,061,430	$ 826,260	$ 630,016	$ 142,799	$ 159,807	$ 237,305

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, 2020, $930,924 (December 31, 2019 - $650,539) 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 $9,309 annually with all other variables held constant (December 31, 2019 - $6,505).

Currency Risk

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

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

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

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

(in thousands of Canadian dollars, unless otherwise stated)

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,		**2020**		2019
Europe	**$**	**(10,351)**	$	(3,044)
Brazil		**(5,417)**		(7,237)
New Zealand		**(12,970)**		(10,524)
Australia		**(10,365)**		3,055
	$	**(39,103)**	$	(17,750)

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 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.

27. Subsequent Events

i. On January 19, 2021, subsidiaries of the REIT amended the new New Zealand Dollar denominated bank loan facility and upsized it by $22.7 million (NZ$25.0 million) from to a total of $136.0 million (NZ$150.0 million) to $158.7 million (NZ$175.0 million) by adding security of an additional 2,538,875 units of Vital Trust owned indirectly by the REIT. All other terms remained unchanged.

ii. During January and February 2021, the REIT sold four wholly owned Dutch Clinics to the European JV with a value of $44.8 million (€29.1 million). The sale generated net proceeds of approximately $13.4 million.

iii. On February 2, 2021, Vital Trust completed an acquisition of a strategic development site located in Australia for approximately $28.3 million (A$29.0 million).

iv. On February 18, 2021, the REIT completed an acquisition of a life sciences building located in the Netherlands for approximately $24.3 million (€15.8 million). The acquisition was funded using cash available on hand.

v. On February 22, 2021, the REIT completed a public offering of 17,020,000 units at a price of $12.65 per unit for gross proceeds of approximately $215.3 million, which included partial exercise of the over-allotment option granted to the underwriters, whereby an additional 1,200,000 units were issued at a price of $12.65 per unit. In connection with the public offering, the REIT also entered into agreement to sell 395,257 to 1,976,285 units to NWVP, on a private placement basis at the Offering Price for gross proceeds of approximately $5.0 million to $25.0 million. Subsequently on March 1, 2021, using the proceeds from the equity raise, the REIT partially repaid unsecured corporate facility of $50.0 million with a weighted average interest rate of 7.52% and fully repaid the remaining balance of a revolving credit facility of $125.0 million with a weighted average interest rate of 5.94%.

vi. On March 1 2021, Vital Trust amended and refinanced its syndicated revolving multi-currency facility. Facility limits of $314.7 million (A$320.0 million) and $69.1 million (NZ$75.0 million) have been secured from new banks, over terms of 4 and 5 years, to refinance near term facility expiries, resulting in a $39.3 million (A$40.0 million) net increase in facility limits and weighted average facility term to maturity increasing from 1.3 to 2.9 years.

vii. On January 15, 2021, the REIT announced a distribution of $0.06667 per REIT unit to unitholders of record on January 29, 2021, and paid on February 15, 2021. On February 12, 2021, the REIT announced a distribution of $0.06667 per REIT unit to unitholders of record on February 26, 2021, and paid on March 15, 2021.

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