northwest

2023 Second Quarter

Condensed Consolidated Interim Financial Statements

Northwest Healthcare Properties Real Estate Investment Trust

Q2

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

As at	Note		June 30, 2023		December 31, 2022
Assets					
Investment properties	4	$	6,977,054	$	6,612,535
Equity accounted investments	5		354,904		395,397
Intangible asset			42,315		44,966
Goodwill			37,271		39,612
Deferred tax assets			15,906		14,152
Financial instruments	6		57,945		38,124
Other assets	7		267,974		280,369
Accounts receivable			21,798		17,381
Assets held for sale	4		217,667		983,430
Cash and cash equivalents	14		68,284		88,034
Total assets		$	8,061,118	$	8,514,000
Liabilities					
Mortgages and loans payable	8	$	3,655,488	$	3,405,861
Convertible debentures	9		347,341		275,270
Unit-based compensation liabilities	10		17,116		23,837
Class B exchangeable units	15		10,739		16,245
Deferred tax liabilities			422,335		458,087
Financial instruments	6		2,881		—
Income taxes payable			15,221		15,811
Accounts payable and accrued liabilities	15		125,932		133,308
Distributions payable			16,199		16,044
Liabilities related to assets held for sale	8		66,728		427,562
Total liabilities		$	4,679,980	$	4,772,025
Unitholders' Equity					
Unitholders' equity	11		2,240,133		2,456,847
Non-controlling interests	12		1,141,005		1,285,128
Total liabilities and unitholders' equity		$	8,061,118	$	8,514,000

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

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

		For the three months ended June 30,		For the six months ended June 30,	
	Note	2023	2022	2023	2022
Net Property Operating Income					
Revenue from investment properties	13	$ 126,504	$ 112,363	$ 261,828	$ 216,826
Property operating costs		28,483	23,480	68,386	50,876
		98,021	88,883	193,442	165,950
Other Income (loss)					
Interest and other	7	3,965	3,504	8,081	6,014
Development revenue		—	1,182	—	3,746
Management fees		(3,246)	11,595	7,479	18,690
Share of profit of equity accounted investments	5	(25,871)	14,347	(21,883)	19,515
		(25,152)	30,628	(6,323)	47,965
Expenses and other					
Mortgage and loan interest expense		57,187	34,524	108,835	57,911
General and administrative expenses		15,535	12,830	28,571	23,139
Transaction costs	4	18,413	6,519	23,433	12,118
Development costs		—	1,082	—	3,430
Foreign exchange gain		(2,792)	(4,005)	(10,008)	(4,599)
		88,343	50,950	150,831	91,999
Income before finance costs, net gain (loss) on financial instruments, and fair value adjustments		(15,474)	68,561	36,288	121,916
Finance income (expense)					
Amortization of financing costs	8	(2,993)	(2,746)	(5,963)	(4,967)
Amortization of mark-to-market adjustment	8	—	329	—	419
Class B exchangeable unit distributions	15	(342)	(342)	(684)	(684)
Fair value adjustment of Class B exchangeable units	15	3,745	2,924	5,506	2,958
Accretion of financial liabilities	8	(745)	(1,473)	(5,788)	(10,046)
Fair value adjustment of convertible debentures	9	10,981	6,875	14,179	9,725
Convertible debenture issuance costs		(4,489)	—	(4,510)	—
Net gain on financial instruments	6	37,981	20,463	20,789	49,433
Fair value adjustment of investment properties	4	(140,424)	50,826	(291,985)	133,167
Fair value adjustment of unit based compensation liabilities	10	6,280	3,405	9,583	3,616
Income (loss) before taxes		(105,480)	148,822	(222,585)	305,537
Current tax expense		4,470	7,234	11,466	14,427
Deferred tax expense (recovery)		(2,539)	24,859	(37,485)	51,046
Income tax expense (recovery)		1,931	32,093	(26,019)	65,473
Total net income (loss)		$ (107,411)	$ 116,729	$ (196,566)	$ 240,064
Net income (loss) attributable to:					
Unitholders		$ (32,093)	$ 69,625	$ (129,579)	$ 157,879
Non-controlling interests		(75,318)	47,104	(66,987)	82,185
		$ (107,411)	$ 116,729	$ (196,566)	$ 240,064

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

NORTHWEST HEALTHCARE PROPERTIES REAL ESTATE INVESTMENT TRUST

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

(in thousands of Canadian dollars)

Unaudited

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
Net income (loss)	**$ (107,411)**	$ 116,729	**$ (196,566)**	$ 240,064
Other comprehensive income (loss) ("OCI"):				
Items that have been or may be reclassified subsequently to income (loss):				
Foreign currency translation adjustments	**$ (72,431)**	$ (214,735)	**$ (73,317)**	$ (191,128)
Current tax recovery	**—**	—	**—**	289
Other comprehensive loss, net of tax	**(72,431)**	(214,735)	**(73,317)**	(190,839)
Total comprehensive income (loss) for the period	**$ (179,842)**	$ (98,006)	**$ (269,883)**	$ 49,225
Total comprehensive income (loss) attributable to:				
Unitholders	**$ (61,843)**	$ (70,096)	**$ (139,371)**	$ 30,635
Non-controlling interests	**(118,000)**	(27,910)	**(130,513)**	18,590
	$ (179,843)	$ (98,006)	**$ (269,884)**	$ 49,225

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

	Note	Unitholders' Equity	Contributed Surplus	Cumulative Distributions	Accumulated Other Comprehensive Loss	Retained Earnings	Total Unitholders' Equity	Non-Controlling Interests (note 12)	Total Equity
Balance, December 31, 2022		$ 2,503,875	$ 39,724	$ (858,645)	$ (315,777)	$ 1,087,671	$ 2,456,848	$ 1,285,128	$ 3,741,976
Units issued through distribution reinvestment plan	**11**	18,222	—	—	—	—	18,222	6,229	24,451
Units issued on exercise of unit-based compensation	**10**	1,205	—	—	—	—	1,205	—	1,205
Distributions		—	—	(96,771)	—	—	(96,771)	(19,839)	(116,610)
Foreign currency translation adjustments		—	—	—	(9,791)	—	(9,791)	(63,526)	(73,317)
Net loss		—	—	—	—	(129,580)	(129,580)	(66,987)	(196,567)
Balance, June 30, 2023		$ 2,523,302	$ 39,724	$ (955,416)	$ (325,568)	$ 958,091	$ 2,240,133	$ 1,141,005	$ 3,381,138

	Note	Unitholders' Equity	Contributed Surplus	Cumulative Distributions	Accumulated Other Comprehensive Loss	Retained Earnings	Total Unitholders' Equity	Non-Controlling Interests (note 12)	Total Equity
Balance, December 31, 2021		$ 2,290,032	$ 39,724	$ (669,223)	$ (291,778)	$ 1,023,376	$ 2,392,131	$ 1,131,443	$ 3,523,574
Public offering of units	**11**	164,605	—	—	—	—	164,605	122,200	286,805
Private placement of units		15,000	—	—	—	—	15,000	—	15,000
Units issued through distribution reinvestment plan	**11**	16,369	—	—	—	—	16,369	126	16,495
Units issued on exercise of unit-based compensation awards		811	—	—	—	—	811	—	811
Distributions		—	—	(93,443)	—	—	(93,443)	(18,171)	(111,614)
Foreign currency translation adjustments		—	—	—	(127,324)	—	(127,324)	(63,804)	(191,128)
Other comprehensive income, excluding foreign currency translation adjustments		—	—	—	79	—	79	210	289
Net income		—	—	—	—	157,879	157,879	82,185	240,064
Balance, June 30, 2022		$ 2,486,817	$ 39,724	$ (762,666)	$ (419,023)	$ 1,181,255	$ 2,526,107	$ 1,254,189	$ 3,780,296

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

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

	Note(s)	For the three months ended June 30, 2023	2022	For the six months ended June 30, 2023	2022
Cash provided by (used in):					
Operating activities					
Net income (loss)		$ **(107,411)**	$ 116,729	$ **(196,566)**	$ 240,064
Adjustments for:					
Income tax expense		**1,931**	32,093	**(26,019)**	65,473
Income taxes paid		**(4,361)**	(7,490)	**(11,992)**	(14,399)
Amortization of other assets		**270**	369	**598**	749
Mortgage and loan interest accrued		**57,187**	34,524	**108,835**	57,911
Mortgage and loans interest paid		**(61,399)**	(31,114)	**(113,422)**	(52,683)
Finance costs	**14**	**(6,157)**	(5,567)	**(2,740)**	2,595
Interest income		**(3,965)**	(3,504)	**(8,081)**	(6,014)
Share of profit of equity accounted investments	**5**	**25,871**	(14,347)	**21,883**	(19,515)
Unrealized foreign exchange gain		**(2,390)**	(4,202)	**(9,146)**	(2,385)
Fair value adjustment of investment properties	**4**	**140,424**	(50,826)	**291,985**	(133,167)
Fair value gain on financial instruments	**6**	**(37,981)**	(20,463)	**(20,789)**	(49,433)
Transaction costs		**18,413**	6,519	**23,433**	12,118
Fair value adjustment of deferred unit plan liability		**(6,280)**	(3,405)	**(9,583)**	(3,616)
Unit-based compensation expense	**10**	**3,151**	3,557	**5,497**	5,205
Redemption of units issued under deferred unit plan		**(1,137)**	(2,755)	**(1,462)**	(3,793)
Changes in non-cash working capital balances	**14**	**20,544**	2,014	**3,444**	6,184
Cash provided by (used in) operating activities		**36,710**	52,132	**55,875**	105,294
Investing activities					
Acquisitions of investment properties	**3**	**(24)**	(852,708)	**(4,043)**	(934,186)
Additions to investment properties	**4**	**(52,928)**	(34,937)	**(106,390)**	(61,186)
Net proceeds on disposal of investment properties		**123,037**	1	**123,037**	918
Contributions in equity accounted investments	**5**	**(318)**	(8,469)	**(1,160)**	(17,555)
Net investment in financial instruments	**6, 7**	**—**	(2,154)	**—**	(128,562)
Transaction costs and deposits attributable to investment activities	**3**	**(20,289)**	(2,851)	**(25,749)**	(12,560)
Distribution income	**5, 7**	**3,543**	4,041	**9,597**	8,205
Cash interest received		**873**	1,382	**1,712**	2,652
Additions to furniture and fixtures		**(37)**	(202)	**(79)**	(418)
Receipts (payments) from foreign exchange contracts		**24**	(296)	**208**	(271)
Cash provided by (used in) investing activities		**53,881**	(896,193)	**(2,867)**	(1,142,963)
Financing activities					
Mortgage and loan proceeds	**8**	**117,951**	921,295	**326,674**	1,492,023
Repayment of mortgages	**8**	**(249,176)**	(296,943)	**(380,103)**	(633,185)
Issuance of convertible debentures, net of issuance cost	**21**	**81,761**	—	**81,740**	—
Proceeds from issuance of units, net of issuance costs	**11, 12**	**(75)**	136,911	**(147)**	301,805
Financing fees paid		**(1,316)**	(4,382)	**(7,088)**	(6,766)
Distributions paid		**(39,258)**	(39,166)	**(78,246)**	(76,080)
Class B exchangeable units distributions paid		**(342)**	(342)	**(684)**	(684)
Distributions paid to non-controlling interests		**(6,761)**	(10,714)	**(13,597)**	(18,045)
Cash provided by (used in) financing activities		**(97,216)**	706,659	**(71,451)**	1,059,068
Net change in cash and cash equivalents		**(6,625)**	(137,402)	**(18,443)**	21,399
Effect of foreign currency translation		**(1,319)**	(5,582)	**(1,320)**	(9,486)
Net change in cash and cash equivalents		**(7,944)**	(142,984)	**(19,763)**	11,913
Cash and cash equivalents, beginning of period		**76,168**	217,597	**87,987**	62,700
Cash and cash equivalents, end of period	**14**	$ **68,224**	$ 74,613	$ **68,224**	$ 74,613

The accompanying notes are an integral part of these condensed consolidated interim 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 invest in healthcare real estate globally.

1. Basis of Preparation and Statement of Compliance

These unaudited condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Accounting Standard ("IAS") 34: Interim Financial Reporting as issued by the International Accounting Standards Board. Certain information and note disclosure included in the annual consolidated financial statements based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS") have been omitted in these unaudited condensed consolidated interim financial statements. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the REIT's annual consolidated financial statements for the year ended December 31, 2022. These unaudited condensed consolidated interim financial statements were approved by the Board of Trustees of the REIT on August 11, 2023.

The unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis, except for investment properties, assets held for sale and financial assets and liabilities including financial instruments, convertible debentures, derivative financial instruments, Class B exchangeable units and awards granted under unit-based compensation plans, which are all measured and reported at their fair value.

The unaudited condensed consolidated interim financial statements are presented in thousands of Canadian dollars, except per unit amounts which are presented in Canadian dollars. The Canadian dollar is the REIT's functional currency.

2. Significant Accounting Policies

All significant accounting policies have been applied on a basis consistent with those stated and applied in the most recent annual consolidated financial statements of the REIT for the year ended December 31, 2022 with the exception of accounting policies implemented in 2023. Changes to significant accounting policies are described below and updates related to operating risks are described in Note 20.

Joint arrangements

Joint arrangements are classified as either joint operations or joint ventures ("JVs") 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. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The REIT’s investments in joint ventures are recorded using the equity method and are initially recognized in the consolidated balance sheets at cost and adjusted thereafter to recognize the REIT’s share of the profit or loss and other comprehensive income or loss of the joint ventures. The REIT’s share of the joint ventures' profit or loss and other comprehensive income or loss is recognized in the REIT’s consolidated statements of income (loss) and comprehensive income (loss).

The elimination of interest income and expense arising on balances held by the REIT with equity method investees is not specifically addressed in IFRS. The REIT had previously elected to eliminate its share of interest income and management fee income against its share of profit or loss from its equity method investments. During the first quarter, the REIT elected to change its policy to account for and present downstream transactions with its joint ventures on a gross basis (note 5). As a result, the REIT and the joint ventures report these transactions in their respective results of operations that are included in the REIT's consolidated statements of income (loss) and comprehensive income (loss). The REIT changed its accounting policy to improve reporting disclosures and comparability with standalone accounts for its equity method investments, while ensuring net income (loss) is unchanged as compared to the REIT's historical presentation basis. Relevant comparative periods in these unaudited condensed consolidated interim financial statements have been amended to reflect the change in accounting policy.

(in thousands of Canadian dollars, unless otherwise stated)

3. Investment Property Acquisitions

During the six months ended June 30, 2023, the following investment property acquisitions were completed:

Segment		Acquisition Cost (i)	Property specific debt
Australasia	$	4,043	—

i. Acquisition costs include transaction costs directly attributable to transaction activity that were capitalized totaling $0.6 million, which includes an internal allocation of investment resources deemed to be directly attributable to acquiring the investment property assets.

4. Investment Properties

As at		June 30, 2023		December 31, 2022
Balance, beginning of period	**$**	**6,612,535**	$	6,294,305
Acquisition of investment properties (note 3)		**4,043**		1,051,258
Disposition of investment properties		**(23,246)**		(7,070)
Additions to investment properties		**106,109**		166,705
Increase in straight line rents		**3,826**		2,305
Reclassified to and from assets held for sale		**536,538**		(943,461)
Right of use asset addition		**—**		206
Fair value adjustments		**(145,949)**		23,480
Foreign currency translation		**(116,802)**		24,807
Balance, end of period	**$**	**6,977,054**	$	6,612,535

Investment properties are measured at their estimated fair values. The investment properties are re-measured to fair value at each reporting date.

The estimated fair values of the REIT's investment properties are based on the following valuation methodologies:

i. Discounted cash flow analysis based on future cash inflows and outflows related to projected annual operating cash flows reflecting market conditions at the end of reporting period, utilizing appropriate discount rates and terminal capitalization rates which are generally over a minimum term of 10 years; and
ii. Direct capitalization method which calculates an estimate of fair value by applying a capitalization rate to future cash flows based on a forecast or expectation of stabilized net operating income.

The estimated fair values of the investment properties as at June 30, 2023 and December 31, 2022 were determined using internal valuation models and the results of valuations performed by independent third party appraisers. Significant inputs, assumptions and a number of methods are used by the REIT in determining the estimated fair values of its 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 key valuation metrics for investment properties by region are set out in the following table:

As at June 30, 2023	Americas	Europe	Australasia
Discount rate - range	5.3% - 9.0%	5.0% - 9.4%	5.3% - 9.0%
Discount rate - weighted average	7.2%	5.7%	6.6%
Terminal capitalization rate - range	4.8% - 8.3%	4.7% - 7.9%	4.5% - 8.3%
Terminal capitalization rate - weighted average	6.5%	5.4%	5.3%
Overall capitalization rate - range	1.7% - 9.8%	1.0% - 10.2%	4.3% - 10.3%
Overall capitalization rate - weighted average	6.2%	5.4%	5.0%

As at December 31, 2022	Americas	Europe	Australasia
Discount rate - range	5.5% - 9.0%	5.0% - 9.4%	5.0% - 8.0%
Discount rate - weighted average	7.2%	6.2%	6.3%
Terminal capitalization rate - range	5.0% - 8.3%	4.7% - 15.1%	4.3% - 7.5%
Terminal capitalization rate - weighted average	6.5%	5.7%	5.0%
Overall capitalization rate - range	2.7% - 13.5%	1.8% - 8.5%	4.0% - 9.5%
Overall capitalization rate - weighted average	6.2%	5.0%	4.7%

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

Capitalization rate sensitivity increase/ (decrease)	Weighted average overall capitalization rate	Estimated fair value of investment properties (in millions of Canadian dollars)	Fair value variance (in millions of Canadian dollars)	% Change
(0.75)%	4.88 %	$ 8,079	$ 1,102	16.0 %
(0.50)%	5.13 %	$ 7,674	$ 698	10.0 %
(0.25)%	5.38 %	$ 7,309	$ 332	5.0 %
— %	5.63 %	$ 6,977	$ —	— %
0.25 %	5.88 %	$ 6,673	$ (303)	(4.0)%
0.50 %	6.13 %	$ 6,395	$ (582)	(8.0)%
0.75 %	6.38 %	$ 6,139	$ (837)	(12.0)%

The REIT engages independent third-party appraisers to appraise its income producing properties such that approximately one-third of the portfolio is independently appraised annually and each income producing property is appraised at least once over a five-year period. The REIT's internal valuation models incorporate the results of valuations performed by independent third-party appraisers. During the six months ended June 30, 2023, income producing properties with an aggregate estimated fair value of $2.7 billion representing approximately 38.2% of its consolidated investment property portfolio, were valued by independent third party appraisers. As at December 31, 2022 income producing properties with an aggregate estimated fair value of $4.0 billion representing approximately 61.0% of its portfolio, were valued by independent third party appraisers.

(in thousands of Canadian dollars, unless otherwise stated)

As at June 30, 2023, the REIT classified income producing properties totaling $217.7 million (December 31, 2022 - $1 billion) as assets held for sale and $66.7 million (December 31, 2022 - $0.4 billion) of associated property level debt expected to be transferred in conjunction with the related investment properties as liabilities related to assets held for sale. The associated debt is secured by the underlying investment properties.

During the second quarter, the REIT disposed of a hospital investment property in the United States for gross proceeds of $74.2 million to a third party. The property was classified as assets held for sale as at March 31, 2023. No gain or loss was recognized on the sale. The proceeds from the sale were used to partially repay the related US term debt, as well as other short-term variable-rate debt.

As at December 31, 2022, the REIT had classified its portfolio of UK investment properties within the Europe segment as assets held for sale. During the quarter, the REIT exited its exclusive negotiations regarding a new joint venture targeting healthcare real estate in the UK. Accordingly, as at June 30, 2023, the REIT determined the UK portfolio no longer met the criteria for classification as held for sale and reclassified income producing properties of $833.5 million and related debt of $446.1 million to investment properties and mortgages and loans, respectively. The REIT incurred transaction costs of $10.1 million during the period related to the marketing of the UK portfolio, which has been expensed as transaction costs.

5. Equity Accounted Investments

The REIT enters into joint venture arrangements with third parties for the purpose of jointly owning, developing and operating investment properties. In each arrangement, the co-owners are equally entitled to their proportionate share of income (loss) attributable to each co-owners' equity ownership percentage.

As at June 30, 2023, the total equity commitment to separate Australian and European joint ventures previously established is approximately $3.2 billion and $3.4 billion, respectively, less funding to date of $2.3 billion and $0.7 billion, respectively, which includes an aggregate 30% participation interest by the REIT.

Equity Method Investments	REIT's 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 ("AREIT")	30%	Australia
NorthWest Australia Hospital Investment Galaxy 2 Trust	30%	Australia

The REIT's investments in its initial Australian JV arrangements, where capital funding has been deployed to fund the acquisition of investment properties, were all governed under the same investment framework as at June 30, 2023. The investment framework included sharing a common third-party joint venture partner, owning assets that are in similar asset classes and geographical regions, and have similarly structured investment management terms. Accordingly, the REIT has combined its Austrialian joint ventures arrangements as the Australasia JVs in the following table. The table shows the changes in the REIT's carrying value of its equity method investments by segment in the period:

(in thousands of Canadian dollars, unless otherwise stated)

June 30, 2023		Australasia		Europe		Total
Balance, beginning of period	$	299,873	$	95,524	**$**	**395,397**
Contributions		—		1,160		**1,160**
Share of loss for the period		(16,387)		(5,496)		**(21,883)**
Distributions		(5,617)		—		**(5,617)**
Foreign exchange		(13,527)		(626)		**(14,153)**
Balance, end of period	**$**	**264,342**	**$**	**90,562**	$	354,904

The following tables summarizes certain financial information of the REIT's equity method investments:

		June 30, 2023				
		Australia		**Europe**		**Total**
Total assets	$	2,056,124	$	597,977	**$**	**2,654,101**
Total liabilities		1,118,828		312,800		**1,431,628**
Net assets		937,296		285,177		**1,222,473**
Less: Non-controlling interests		58,209		—		**58,209**
Net assets less non-controlling interests		879,087		285,177		**1,164,264**
REIT's ownership Interest		30.0%		30% to 33.57%		**30% to 33.57%**
Equity Accounted Investments	**$**	**264,342**	**$**	**90,562**	**$**	**354,904**

Included in total assets is cash of $14.1 million and $10.0 million in Australia and Europe, respectively (December 31, 2022 - $12.5 million and $9.7 million) to which the REIT has rights to its relative ownership interests without restriction.

(in thousands of Canadian dollars, unless otherwise stated)

For the three months ended June 30,	2023			2022		
	Australasia	**Europe**	**Total**	Australasia	Europe	Total
Revenue	$ 28,850	$ 10,052	**$ 38,902**	$ 25,773	$ 8,281	$ 34,054
Interest income	1,699	—	**1,699**	1,241	—	1,241
Total revenue	$ 30,549	$ 10,052	**$ 40,601**	$ 27,014	$ 8,281	$ 35,295
Expenses and fair value adjustments						
Operating costs	4,884	1,795	**6,679**	$ 2,977	$ 1,508	$ 4,485
Mortgage and loan interest expense	13,867	6,031	**19,898**	4,372	4,929	9,301
General and administrative expenses	2,398	648	**3,046**	2,474	758	3,232
Other	161	205	**366**	163	—	163
Fair value (gain) loss attributable to investment properties	75,197	22,874	**98,071**	(33,265)	1,954	(31,311)
Income tax expense	—	(3,452)	**(3,452)**	—	(483)	(483)
Net income (loss)	$ (65,958)	$ (18,049)	**$ (84,007)**	$ 50,293	$ (385)	$ 49,908
Non-controlling interests	1,610	(273)	**1,337**	2,388	—	2,388
Net income (loss) attributable to owners	(67,568)	(17,776)	**(85,344)**	47,905	(385)	47,520
Weighted average share of income (loss)	30.0%	30% to 33.57%	**30% to 33.57%**	30.0%	30.0% to 33.6%	30.0% to 33.6%
REIT's share of income (loss)	$ (20,270)	$ (5,601)	**$ (25,871)**	$ 14,372	$ (25)	$ 14,347

For the six months ended June 30,	2023			2022		
	Australia	**Europe**	**Total**	Australia	Europe	Total
Revenue	$ 56,121	$ 20,909	**$ 77,030**	$ 51,525	$ 16,524	$ 68,049
Interest income	3,446	33	**3,479**	2,511	59	2,570
Total revenue	$ 59,567	$ 20,942	**$ 80,509**	$ 54,036	$ 16,583	$ 70,619
Expenses and fair value adjustments						
Operating costs	7,993	4,303	**12,296**	$ 6,018	$ 3,091	$ 9,109
Mortgage and loan interest expense	26,606	12,021	**38,627**	8,055	9,454	17,509
General and administrative expenses	4,924	2,111	**7,035**	4,982	1,625	6,607
Other	339	205	**544**	310	—	310
Fair value (gain) loss attributable to investment properties	72,057	23,459	**95,516**	(36,745)	6,615	(30,130)
Income tax expense	—	(3,350)	**(3,350)**	—	(703)	(703)
Net income (loss)	$ (52,352)	$ (17,807)	**$ (70,159)**	$ 71,416	$ (3,499)	$ 67,917
Non-controlling interests	2,270	(227)	**2,043**	3,280	—	3,280
Net income (loss) attributable to owners	(54,622)	(17,580)	**(72,202)**	68,136	(3,499)	64,637
Weighted average share of income (loss)	30.0%	30% to 33.57%	**30% to 33.57%**	30.0%	30.0% to 33.6%	30.0% to 33.6%
REIT's share of income (loss)	$ (16,387)	$ (5,496)	**$ (21,883)**	$ 20,441	$ (925)	$ 19,516

(in thousands of Canadian dollars, unless otherwise stated)

The fair value movements of investment properties in the JVs have been determined using the same valuation methodologies as the REIT.

Included in the REIT's share of income (loss) is $1.1 million and $2.5 million for the three and six months ended June 30, 2023 (three and six months ended June 30, 2022 - $1.0 million and $2.0 million) of interest expense related to loan balances outstanding between the REIT and the European JVs and $1.5 million and $2.4 million for the three and six months ended June 30, 2023 (three and six months ended June 30, 2022 - $1.2 million and $1.0 million) of management fee expenses relating to services provided by the REIT to Australasia and Europe equity method investees.

6. Financial Instruments

As at		June 30, 2023		December 31, 2022
Financial assets:				
Interest rate derivatives		**57,748**		37,568
Foreign exchange contracts		**197**		556
Total financial assets	**$**	**57,945**	$	38,124
Financial liabilities:				
Interest rate derivatives		**2,875**		—
Foreign exchange contracts		**6**		—
Total financial liabilities	**$**	**2,881**	$	—

The REIT is a party to interest rate derivative contracts with respect to certain variable rate mortgages and term debt related to its investment properties in Europe and the Americas, as well as portions of its credit facility in Australasia. The total notional amount of the interest rate derivatives as at June 30, 2023 is $1.7 billion (December 31, 2022 - $0.8 billion) (note 8). These interest rate derivatives mature within the next one to eight years.

During the first quarter, the REIT entered into interest rate cap transactions with respect to its Americas and European portfolios, with a total notional amount of $830.7 million, to fix the interest rate for a term of one year. Concurrently, the REIT entered into an incremental interest rate swap transaction on $446.5 million of its Americas portfolio debt that will be effective from February 2024 until the maturity date of the underlying debt, being January 31, 2025. During the quarter, the REIT repaid $62.2 million of this debt, resulting in a remaining balance and interest rate derivative notional as at June 30, 2023 of $384.3 million.

The components of the gain (loss) attributable to derivative financial instruments are as follows:

	For the three months ended June 30,				For the six months ended June 30,			
		2023		2022		**2023**		2022
Fair value adjustment - interest rate derivatives	**$**	**35,374**	$	20,833	**$**	**18,022**	$	49,724
Receipts/(payments) under financial instruments		**(298)**		(296)		**(114)**		(271)
Fair value adjustment - other financial instruments		**2,905**		(74)		**2,881**		(20)
	$	**37,981**	$	20,463	**$**	**20,789**	$	49,433

(in thousands of Canadian dollars, unless otherwise stated)

7. Other Assets

As at		June 30, 2023		December 31, 2022
Investment in unlisted securities (i)	$	**216,467**	$	224,183
Acquisition and financing costs (ii)		**18,698**		21,867
Loan and mortgage receivable carried at amortized cost (iii)		**5,387**		10,268
Finance lease receivable (iv)		**6,743**		6,987
Prepaid expenses		**7,178**		3,658
Commodity taxes recoverable		**3,696**		4,152
Furniture and office equipment		**5,102**		4,701
Right-of-use lease assets		**3,695**		4,413
Other		**205**		140
Due from related party (note 15)		**803**		—
	$	**267,974**	$	280,369

i. The REIT has a non-controlling interest in unlisted securities of an Australian fund that invests in and holds investment properties. The REIT accounts for its interest as a financial asset measured at fair value through profit and loss ("FVTPL") under IFRS 9. The fair value of this investment is $216.5 million as at June 30, 2023.

   During the quarter, the REIT received $4.2 million of distribution income related to the REIT's investment in these unlisted securities, which were recognized as part of interest and other income in the statement of net income (loss) and comprehensive income (loss).

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

iii. Loan and mortgage receivable carried at amortized cost relates to an interest-bearing loan with a third party secured by an Australasian investment property maturing in September 2023. During the quarter, the REIT received $5 million of early repayment made on extension of the loan term.

iv. Finance lease receivable relates to a long-term land lease with a third party, with a discount rate of 6.5% and remaining term of 65 years.

(in thousands of Canadian dollars, unless otherwise stated)

8. Mortgages and Loans Payable

As at		June 30, 2023		December 31, 2022
Mortgage payable, net of financing costs	$	**781,153**	$	851,097
Term debt, net of financing costs		**2,371,542**		2,462,577
Credit facilities, net of financing costs		**557,521**		506,804
Lease liabilities		**12,000**		12,926
Total Mortgages and loans payable	$	**3,722,216**	$	3,833,404
Less: Liabilities related to assets held for sale, net of financing costs (note 4)		**66,728**		427,543
Mortgages and loans payable	$	**3,655,488**	$	3,405,861
Current portion mortgages and loans payable		**602,368**		1,497,245
Non-current portion of mortgages and loans payable	$	**3,053,120**	$	1,908,616
Total mortgages and loans payable	$	**3,655,488**	$	3,405,861

Mortgages

All mortgages are secured by first or second charges on specific investment properties in the Americas and Europe, with an estimated fair value of $1.6 billion as at June 30, 2023 (December 31, 2022 - $1.6 billion).

Term debt

As at June 30, 2023, the term debt balance, excluding financing costs, includes secured financing of:
- Americas term debt of $566.7 million (December 31, 2022 - $631.9 million), secured by related investment properties with an estimated fair value of $1.1 billion (December 31, 2022 - $1,2 billion);
- Australasian term debt of $1.2 billion (December 31, 2022 - $1.2 million), secured by related investment properties, security trust deeds, and unlisted securities held by the REIT with a total fair value of $2.8 billion (December 31, 2022 - $3.0 billion); and
- Australasian secured term financing of $182.0 million (December 31, 2022 - $193.4 million) secured by 185,290,352 units (December 31, 2022 - 183,534,120 units) of Vital Trust held by the REIT.

On January 31, 2023, the REIT extended its $384.6 million ($337.2 million USD) term loan facility secured by its US investment properties by two years, such that the revised maturity of the facility is now January 31, 2025.

Credit facilities

Certain revolving credit facilities with an outstanding balance of $266.2 million (December 31, 2022 - $195.6 million) are secured by a first or second charge on investment properties with an estimated fair value of $310.1 million (December 31, 2022 - $1.0 billion).

On March 27, 2023, the REIT amended and refinanced the terms of its revolving credit facility to increase availability by $81.0 million from a total of $208.5 million to $289.5 million, subject to incremental security in certain Americas investment properties and extended the maturity date to March 2026. Concurrently, the REIT extended the maturity date of its non-revolving credit facility in the amount of $169.0 million to January 2024.

(in thousands of Canadian dollars, unless otherwise stated)

Lease liabilities

The land lease, in which the REIT is a lessee, on which one of the REIT's investment properties is built is accounted for as a finance lease. The remaining term of the lease as at June 30, 2023 is 65 years. In addition, the REIT has recognized other 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	June 30, 2023	December 31, 2022
Minimum lease payments payable:		
Not later than one year	**$ 1,921**	$ 2,024
Later than one year and not later than five years	**4,642**	5,362
Later than five years	**28,048**	29,637
	34,611	37,023
Future finance charges	**(22,611)**	(24,097)
Present value of minimum lease payments	**$ 12,000**	$ 12,926
Present value of minimum lease payments:		
Not later than one year	**1,792**	1,920
Later than one year and not later than five years	**4,268**	4,851
Later than five years	**5,940**	6,155
	$ 12,000	$ 12,926

As at June 30, 2023, the scheduled principal repayments and debt maturities are as follows:

	Mortgages	Term Debts	Credit Facilities	Finance Lease	Total
2023 (remainder)	$ 28,240	$ 81,758	$ 125,000	$ 964	**$ 235,962**
2024	198,780	141,235	168,977	1,619	**510,611**
2025	165,976	1,209,803	—	1,248	**1,377,027**
2026	183,857	216,942	266,219	1,134	**668,152**
2027	80,012	302,105	—	768	**382,885**
2028 & thereafter	127,293	437,017	—	6,267	**570,577**
	$ 784,158	$ 2,388,860	$ 560,196	$ 12,000	**$ 3,745,214**
Financing costs	(3,005)	(17,318)	(2,675)	—	**(22,998)**
Liabilities related to asset held for sale	(66,728)	—	—	—	**(66,728)**
Total	$ 714,425	$ 2,371,542	$ 557,521	$ 12,000	**$ 3,655,488**

(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 debts and credit facilities, outstanding at June 30, 2023 are as follows:

	Maturity	Weighted Average Interest Rate		Carrying Value		Available to be Drawn
Fixed rate						
Mortgages	March 2024 - August 2031	2.96 %	$	746,916	$	—
Term debts	November 2027 - June 2031	3.57 %		1,714,594		110,462
Total fixed rate debt			$	2,461,510	$	110,462
Variable Rate						
Mortgages	March 2025 - June 2030	6.24 %		37,242		—
Term debts	September 2023 - March 2029	7.16 %		674,266		49,444
Credit facilities	November 2023 - March 2026	8.39 %		560,196		5,277
Total variable rate debt			$	1,271,704	$	54,721
Total mortgages and loans payable, excluding the following:			$	3,733,214	$	165,183
Financing costs				(22,998)		—
Liabilities related to asset held for sale				(66,728)		—
Total mortgages and loans payable, excluding lease liabilities:				**3,643,488**		165,183
Lease liabilities		5.38 %		12,000		—
Total mortgages and loans payable			**$**	**3,655,488**	**$**	**165,183**

In certain instances, the amounts available to be drawn on mortgages and loan facilities noted above fluctuate depending on variables under those arrangements. The maximum amount available to be drawn is $165.2 million as at June 30, 2023, including $160.0 million available to be drawn on Vital Trust's term debts which is subject to restrictions over the extent to which the REIT it can access.

The table below summarizes the movements in the REIT's mortgages and loans, excluding finance leases, during the six months ended June 30, 2023:

		Mortgages		Term Debts		Credit Facilities		Total
Balance, beginning of period	$	851,078	$	2,035,034	$	506,804	**$**	**3,392,916**
Repayments		(71,569)		(238,321)		(70,213)		**(380,103)**
Advances and refinancing proceeds		1,118		199,974		125,583		**326,675**
Reclassified from (to) liabilities related to assets held for sale		(67,599)		401,586		—		**333,987**
Additional financing fees incurred		(286)		(4,387)		(2,415)		**(7,088)**
Amortization of finance fees		2,060		2,662		1,241		**5,963**
Accretion of financial liabilities		—		5,788		—		**5,788**
Foreign currency adjustment		(377)		(30,794)		(3,479)		**(34,650)**
Ending balance, June 30, 2023	**$**	**714,425**	**$**	**2,371,542**	**$**	**557,521**	**$**	**3,643,488**

(in thousands of Canadian dollars, unless otherwise stated)

The REIT has entered into interest rate derivative contracts to limit its exposure to fluctuations in interest rates on $1.7 billion of variable rate debts as at June 30, 2023 (December 31, 2022 - $784.2 million). The interest rate derivatives terminate between 2023 and 2030 and are measured at fair value through profit and loss (note 6).

9. Convertible Debentures

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

As at		June 30, 2023		December 31, 2022
Balance, beginning of period	$	275,270	$	137,225
Issuance of convertible debenture		86,250		155,250
Change in fair value of convertible debentures		(14,179)		(17,205)
Balance, end of period	$	347,341	$	275,270

On April 27, 2023, the REIT issued $75.0 million principal amount of unsecured subordinated convertible debentures (the "Series NWH.DB.I"). On May 3, 2023, the over-allotment option was exercised for an additional $11.3 million principal amount. The debentures bear interest at 7.75% per annum, payable semi-annually on April 30 and October 31 each year, with a maturity date of April 30, 2028. Each Series NWH.DB.I is convertible at the holder's option to 94.8 REIT units per one thousand dollars principal amount of the debenture, representing a conversion price of $10.55 per REIT unit. On and other April 30, 2026 and prior to the maturity date, Series NWH.DB.I may be redeemed by the REIT at a price equal to the principal amount plus accrued and unpaid interest and with settlement in cash or units.

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

As at		June 30, 2023		December 31, 2022
NWH.DB.G		123,739		123,125
NWH.DB.H		141,665		152,145
NWH.DB.I		81,937		—
Fair Value	$	347,341	$	275,270
Current		123,739		123,125
Non-Current		223,602		152,145
	$	347,341	$	275,270

Debentures Series	Conversion price per Unit ($)	Maturity	Interest rate	Interest payment	Interest payment dates
NWH.DB.G	$13.35	December 31, 2023	5.50%	Semi-annual	June 30 and December 31
NWH.DB.H	$16.00	August 31, 2027	6.25%	Semi-annual	February 28 and August 31
NWH.DB.I	$10.55	April 30, 2028	7.75%	Semi-annual	April 30 and October 31

(in thousands of Canadian dollars, unless otherwise stated)

10. Unit-Based Compensation

Under the Equity Incentive Plan ("the Plan") that was approved in 2022, together with the previous Deferred Unit Plan ("DUP"), a maximum of 9,000,000 the REIT's trust units are authorized to be issued.

The related activity and fair value estimates of the unit-based compensation liabilities are as follows:

As at		June 30, 2023		December 31, 2022
Balance, beginning of period	$	23,837	$	26,223
Unit based compensation expense		5,492		15,222
Exercised and paid in cash		(1,462)		(6,219)
Exercised and settled in Trust Units		(1,148)		(1,151)
Fair value adjustment		(9,583)		(10,236)
Foreign exchange		(20)		(2)
Balance, end of period	$	17,116	$	23,837

The REIT has three separate unit-based incentive plan award types currently in place:

Deferred Units

The deferred units granted in 2022 under the Plan and the previous DUP are administered by the Compensation, Governance and Nominating Committee of the REIT's board of Trustees. The deferred units can be settled at the holder's option in units or cash subject to the REIT's approval and are classified as a financial liability until redeemed.

Deferred units compensation expense is determined upon grant based on the service commencement date and the fair market value of a REIT unit or Vital Trust unit, as applicable, and amortized over the applicable vesting period that ranges from three to five years. As at June 30, 2023, 1,456,820 unvested deferred units with a fair value of $9.0 million are expected to vest between 2023 and 2026. Unit-based compensation 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.

Units outstanding under the deferred unit plans as at June 30, 2023 are as follows.

As at June 30, 2023	REIT	Vital Trust
Balance, beginning of period	2,801,751	225,387
Granted	—	—
Exercised and paid in cash	(177,658)	(35,388)
Exercised and paid in REIT units	(151,940)	—
Forfeited	(18,231)	—
Distribution entitlement	129,219	245
Balance, as at June 30, 2023	2,583,141	190,244
Units vested but not exercised	1,169,984	181,968

During the year, the REIT granted 22,114 deferred units with a grant-date fair value of $0.2 million (2022 - 34,027 deferred units with a fair value of $0.5 million).

(in thousands of Canadian dollars, unless otherwise stated)

Restricted Units

The REIT grants restricted units ("RU's") under the Plan. The RU's granted vest 100% on the fifth anniversary of their respective grant dates and are subject to forfeiture until the recipients of the awards have held office in their current position with or provided services to the REIT for a specified period of time.

RU's are recognized based on the grant date fair value and re-measured at each reporting date. The grant agreements provide that the awards will be satisfied upon vesting for: (i) trust units issued from REIT treasury, or (ii) a cash payment as determined by the REIT, with the result that the awards are classified as cash-settled unit-based payments and presented and classified as liabilities.

The restricted units may, if specified at the time of grant, accrue distributions during the vesting period and accrued distributions will be paid by the REIT when the applicable units vest.

As at	June 30, 2023		December 31, 2022	
	Number of RU's	Weighted Average Grant Date Fair Value per unit	Number of RU's	Weighted Average Grant Date Fair Value per unit
RU's outstanding, beginning of year	**196,758**	**$ 12.08**	—	$ —
New grants and distributions	418,587	8.22	196,758	12.08
RUs Outstanding	**615,345**	**$ 12.03**	**196,758**	**$ 12.08**

The fair value of the outstanding RU's was $0.2 million as at June 30, 2023 and is based on the market price of the REIT's unit. The fair value is adjusted for changes in the market price of the REIT's units and recorded as a liability with a corresponding impact on compensation expense included as part of general and administrative expenses in the period in which the change occurs.

Performance Units

The REIT grants performance units ("PU's") under the Plan with a three-year performance period. The performance units are and will be subject to both non-market and market conditions consisting of both absolute and relative performance over a three-year period and settled for trust units upon vesting.

As at	June 30, 2023		December 31, 2022	
	Number of PUs	Weighted Average Grant Date Fair Value per unit	Number of PUs	Weighted Average Grant Date Fair Value per unit
PUs outstanding, beginning of year	706,758	10.92	—	—
New grants and distributions	1,135,687	8.22	706,758	10.92
PUs Outstanding	**1,842,445**	**$ 9.26**	**706,758**	**$ 10.92**

The estimated fair value of the outstanding PU's was $0.1 million as at June 30, 2023 and is subject to both internal and external performance measures.

Grant date	July 4, 2022	April 14, 2023
PUs granted	706,758	1,084,225
Weighted average remaining term to vesting	1.5	2.5
Average volatility rate	21.0 %	20.0 %
Weighted average risk free interest rate	4.6 %	5.7 %

(in thousands of Canadian dollars, unless otherwise stated)

The REIT's unit-based compensation expense recognized as part of general and administrative expense was:

For the three and six months ended June 30,	2023	2022
Deferred Units	$ 2,716	$ 8,554
Restricted Units	579	—
Performance Units	2,130	—
Unit-based compensation expense	$ 5,425	$ 8,554
Fair value remeasurement:		
Deferred Units	$ (6,971)	$ (3,617)
Restricted Units	(342)	—
Performance Units	(2,272)	—
Total fair value remeasurement	$ (9,585)	$ (3,617)

(in thousands of Canadian dollars, unless otherwise stated)

11. 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 during the six months ended June 30, 2023.

	REIT units	Amount
Balance, December 31, 2022	**240,647,589**	**$ 2,503,875**
Units issued through distribution reinvestment plan (i)	2,175,190	18,222
Units issued under deferred unit plan (note 14)	151,940	1,205
Balance, June 30, 2023	**242,974,719**	**$ 2,523,302**

(i) The REIT had established a distribution reinvestment plan (“DRIP”) for its unitholders, which allows participants to reinvest their monthly cash distributions in additional REIT units at an effective discount that is determined by applying 3% to the REIT's weighted average unit trading value for the five trading days immediately preceding the relevant distribution date. During the quarter, the Board approved the elimination of the 3% bonus distribution under the DRIP, commencing with the June 2023 distribution. The DRIP will remain suspended until further notice. For the six months ended June 30, 2023, the REIT's DRIP participation rate was 15.7% (June 30, 2022 - 17.9%).

On June 7, 2023, 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. No units were repurchased during the period.

(in thousands of Canadian dollars, unless otherwise stated)

12. Non-Controlling Interests

The following tables present summarized accounts for Vital Trust and the investment property Fritz-Lang-Platz 6, held by a subsidiary of the REIT, NWI Gesundheitsimmobilien GmbH & Co. KG, where non-controlling or partial interests are owned by a third party.

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

As at June 30, 2023	Vital Trust	Fritz-Lang-Platz 6	Total
REIT's ownership interest	28.0 %	94.9 %	
Total assets	$ 2,773,950	$ 23,279	$ 2,797,229
Total liabilities	1,185,712	7,992	1,193,704
Net assets	$ 1,588,238	$ 15,287	$ 1,603,525
Attributable to:			
Unitholders of the REIT	448,375	14,145	462,520
Non-controlling interests	1,139,863	1,142	1,141,005
	$ 1,588,238	$ 15,287	$ 1,603,525

	For the three months ended June 30, 2023			For the three months ended June 30, 2022		
	Vital Trust	Fritz-Lang-Platz 6	Total	Vital Trust	Fritz-Lang-Platz 6	Total
Revenue from investment properties	$ 35,519	$ 474	$ 35,993	$ 31,464	$ 365	$ 31,829
Net income (loss) attributable to:						
Unitholders of the REIT	(30,818)	75	(30,743)	20,415	(18)	20,397
Non-controlling interests	(75,237)	(81)	(75,318)	47,096	8	47,104
Net income (loss)	$ (106,055)	$ (6)	$ (106,061)	$ 67,511	$ (10)	$ 67,501
Total comprehensive income (loss) attributable to:						
Unitholders of the REIT	(47,498)	(397)	(47,895)	(6,621)	(149)	(6,770)
Non-controlling interests	(117,896)	(104)	(118,000)	(27,902)	(8)	(27,910)
Total comprehensive income (loss)	$ (165,394)	$ (501)	$ (165,895)	$ (34,523)	$ (157)	$ (34,680)
Distributions attributable to non-controlling interests	$ 9,857	$ —	$ 9,857	$ 9,596	$ —	$ 9,596

(in thousands of Canadian dollars, unless otherwise stated)

	For the six months ended June 30, 2023			For the six months ended June 30, 2022		
	Vital Trust	**Fritz-Lang-Platz 6**	**Total**	Vital Trust	Fritz-Lang-Platz 6	Total
Revenue from investment properties	**$ 73,685**	**$ 948**	**$ 74,633**	$ 64,888	$ 808	$ 65,696
Net income (loss) attributable to:						
Unitholders of the REIT	**(27,002)**	**(561)**	**(27,563)**	35,698	195	35,893
Non-controlling interests	**(66,918)**	**(69)**	**(66,987)**	82,166	19	82,185
Net income (loss)	**$ (93,920)**	**$ (630)**	**$ (94,550)**	$ 117,864	$ 214	$ 118,078
Total comprehensive income (loss) attributable to:						
Unitholders of the REIT	**(51,908)**	**(650)**	**(52,558)**	12,964	(279)	12,685
Non-controlling interests	**(130,440)**	**(73)**	**(130,513)**	18,605	(15)	18,590
Total comprehensive income (loss)	**$ (182,348)**	**$ (723)**	**$ (183,071)**	$ 31,569	$ (294)	$ 31,275
Distributions attributable to non-controlling interests	**$ 19,839**	**$ —**	**$ 19,839**	$ 18,171	$ —	$ 18,171

The difference between the net income (loss) and total comprehensive income (loss) reflects the movements during the three and six months ended June 30, 2023, attributable to the translation of accounts related to the REIT's net investments in Vital Trust and Fritz-Lang-Platz 6, being foreign operations of the REIT.

	For the three months ended June 30, 2023			For the three months ended June 30, 2022		
	Vital Trust	**Fritz-Lang-Platz 6**	**Total**	Vital Trust	Fritz-Lang-Platz 6	Total
Cash flows from (used in):						
Operating	**$ 13,950**	**$ (45)**	**$ 13,905**	$ 18,756	$ 65	$ 18,821
Investing	**3,956**	**793**	**4,749**	(107,571)	(53)	(107,624)
Financing	**(15,045)**	**(827)**	**(15,872)**	99,836	(156)	99,680
Effect of foreign currency translation	**(1,163)**	**45**	**(1,118)**	(1,337)	6	(1,331)
Net change in cash	**$ 1,698**	**$ (34)**	**$ 1,664**	$ 9,684	$ (138)	$ 9,546

	For the six months ended June 30, 2023			For the six months ended June 30, 2022		
	Vital Trust	**Fritz-Lang-Platz 6**	**Total**	Vital Trust	Fritz-Lang-Platz 6	Total
Cash flows from (used in):						
Operating	**$ 12,906**	**$ (2,079)**	**$ 10,827**	$ 46,646	$ 228	$ 46,874
Investing	**(37,422)**	**1,645**	**(35,777)**	(176,270)	$ (58)	(176,328)
Financing	**23,447**	**(2,683)**	**20,764**	143,244	$ (279)	142,965
Effect of foreign currency translation	**(813)**	**—**	**(813)**	(2,689)	$ 6	(2,683)
Net change in cash	**$ (1,882)**	**$ (3,117)**	**$ (4,999)**	$ 10,931	$ (103)	$ 10,828
Cash balance at period end	**$ 8,804**	**$ 161**	**$ 8,965**	$ 17,708	$ 36	$ 17,744

The REIT is subject to restrictions over the extent to which it can access cash 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 the REIT's ownership interests of 28.0% and 94.9%, respectively.

(in thousands of Canadian dollars, unless otherwise stated)

13. Rental Revenue

The components of rental revenue are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
Rental income	**$ 99,853**	$ 89,342	**$ 200,502**	$ 168,749
Operating cost recoveries	**$ 15,248**	$ 9,455	**31,319**	28,093
Property tax and insurance recoveries	**$ 9,276**	$ 11,677	**25,877**	16,450
Other revenue	**$ 2,127**	$ 1,888	**4,130**	3,534
Rental revenue	**$ 126,504**	$ 112,362	**$ 261,828**	$ 216,826

14. Supplemental Cash Flow Information

(i) Cash, cash equivalents and restricted cash

As at	**June 30, 2023**	December 31, 2022
Cash and cash equivalents	**$ 68,224**	$ 87,987
Restricted cash	**60**	47
Total cash, cash equivalents and restricted cash	**$ 68,284**	$ 88,034

Restricted cash represents cash held in the REIT's designated bank accounts pledged as collateral for the Brazil term debt (note 8).

(ii) Changes in Non-Cash Working Capital Balances

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
Accounts receivable	**$ 9,745**	$ (232)	**$ (9,733)**	$ 15,807
Other assets	**12,952**	7,331	**8,358**	9,353
Accounts payable and accrued liabilities	**(2,153)**	(5,085)	**4,819**	(18,976)
Changes in non-cash working capital balances	**$ 20,544**	$ 2,014	**$ 3,444**	$ 6,184

(iii) Non-Cash Financing and Investing Activities

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
Non-cash distributions to unitholders under the DRIP (note 11)	**$ 9,160**	8,408	**$ 18,222**	$ 16,369
Units issued under unit-based compensation plan (note 10)	**1,205**	—	**1,205**	811
Non-cash distributions from unlisted securities under dividend reinvestment program (note 7)	**—**	—	**—**	3,156

(in thousands of Canadian dollars, unless otherwise stated)

(iv) Finance expenses (income)

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	**2023**	2022
Amortization of deferred financing costs	**$ 2,993**	$ 2,746	**$ 5,963**	$ 4,967
Amortization of marked to market adjustment	**—**	(329)	**—**	(419)
Distributions on Exchangeable Units	**342**	342	**684**	684
Fair value adjustment of Class B exchangeable units	**(3,745)**	(2,924)	**(5,506)**	(2,958)
Accretion of financial liabilities	**745**	1,473	**5,788**	10,046
Fair value adjustment of Convertible Debentures	**(10,981)**	(6,875)	**(14,179)**	(9,725)
Convertible Debenture issuance costs	**4,489**	—	**4,510**	—
Total finance expense (income), net	**$ (6,157)**	$ (5,567)	**$ (2,740)**	$ 2,595

15. Related Party Transactions

(a) The Class B exchangeable units of NWI Healthcare LP ("NWI LP") are entirely held by Northwest Value Partners Inc. and affiliates ("NWVP"). Paul Dalla Lana, Chairman of the Board of Trustees and Chief Executive Officer ("CEO") of the REIT as at June 30, 2023, is the sole shareholder, sole director and President of NWVP. On August 8, 2023, Paul Dalla Lana stepped away from the Board of Trustees and resigned as Chief Executive Officer.

Distributions declared on the Class B exchangeable units of NWI LP held by NWVP totaled $0.3 and $0.7 million for the three and six months ended June 30, 2023 (for the three and six months ended months ended June 30, 2022 - $0.3 and $0.7 million) and have been accounted for as finance costs in the consolidated statements of income (loss) and comprehensive income (loss).

As at June 30, 2023, NWVP indirectly owned approximately 8.3% of the REIT through a combination of REIT units and Class B exchangeable units, and approximately 7.6% on a fully diluted basis assuming conversion of the REIT's convertible debentures and redemption of all of its vested units under the unit-based compensation plan (December 31, 2022 - 8.8% and 8.1%, respectively).

As at June 30, 2023, the CEO held a total of 1,025 vested REIT deferred units valued at $0.1 million (December 31, 2022 - 992 deferred units valued at $0.1 million) and 1,057,082 performance units valued at $3.8 million ((December 31, 2022 - 423,869 performance units valued at $5.0 million) under the REIT's equity incentive plan that are scheduled to vest in 3 years from the grant date.

(b) As at June 30, 2023, the REIT had $0.8 million receivable from NWVP that is included in other assets (December 31, 2022 - $0.5 million payable that was included in accounts payable and accrued liabilities).

The REIT incurred charges from NWVP of $0.2 million, including applicable sales taxes, during the three months ended June 30, 2023, which included (i) expense reimbursements of $0.1 million, and; (ii) the cost of NWVP personnel seconded to the REIT totaling $0.1 million. These charges were recorded as part of general and administrative expenses and transaction costs in the consolidated statements of income (loss) and comprehensive Income (loss)

During the three months ended June 30, 2023, the REIT advanced $1.0 million to NWVP. Subsequent to June 30, 2023, NWVP repaid $0.7 million of such advances to the REIT.

The REIT incurred charges from NWVP of $1.8 million, including applicable sales taxes, during the six months ended June 30, 2023, which included (i) annual base and performance-based compensation for CEO management services of $1.3 million excluding deferred units held by the CEO as outlined in note 15(a) above, (ii) expense reimbursements of $0.2 million, and; (iii) the cost of NWVP personnel seconded to the REIT totaling $0.1 million. The aforementioned charges were recorded as part of general and administrative expenses and transaction costs in the consolidated statements of income (loss) and comprehensive income (loss).

(in thousands of Canadian dollars, unless otherwise stated)

During the six months ended June 30, 2023 the REIT made payments to NWVP of $1.8 million, net of advances, to settle the charges noted above.

(c) As at June 30, 2023, included in accounts payable and accrued liabilities are Class B exchangeable unit distributions payable to NWVP and affiliates in the amount of $0.1 million (December 31, 2022 - $0.1 million), which were settled subsequent to period end.

16. Segmented Information

The REIT operates in one industry segment being the healthcare real estate industry; however the REIT monitors and operates its European, Americas and Australasian operations separately. The CEO assesses the performance of each of these operating segments based on a measure of operating income (loss). The location of the corporate head office is located in Canada, therefore, the REIT includes its corporate assets and liabilities and related operating results as part of the Americas segment. The significant accounting policies for each of the segments are the same as those for the REIT.

During the three and six months ended June 30, 2023, one tenant in Brazil accounted for 10% (for the three and six months ended June 30, 2022 - 11%) of the total revenue from investment properties.

As at June 30, 2023		**Americas**		**Europe**		**Australasia**		**Total**
Investment properties	**$**	**2,706,591**	**$**	**1,443,205**	**$**	**2,827,258**	**$**	**6,977,054**
Mortgages and loans payable	**$**	**1,715,522**	**$**	**745,790**	**$**	**1,194,176**	**$**	**3,655,488**
As at December 31, 2022		**Americas**		**Europe**		**Australasia**		**Total**
Investment properties	$	2,778,776	$	711,962	$	3,121,797	$	6,612,535
Mortgages and loans payable	$	1,842,853	$	343,004	$	1,220,004	$	3,405,861

For the three months ended June 30, 2023		**Americas**		**Europe**		**Australasia**		**Total**
Operating Income								
Revenue from investment properties	$	62,015	$	25,735	$	38,754	$	126,504
Property operating costs		18,821		4,793		4,869		28,483
Net property operating income		43,194		20,942		33,885		98,021
Other Income								
Interest and other		1,316		343		2,306		3,965
Management fees		(6,947)		722		2,979		(3,246)
Share of income from equity accounted investment		—		(5,601)		(20,270)		(25,871)
		(5,631)		(4,536)		(14,985)		(25,152)
Mortgage and loan interest expense		34,784		10,035		12,368		57,187
General and administrative expenses		8,251		3,206		4,078		15,535
Transaction costs		6,335		8,044		4,034		18,413
Foreign exchange (gain) loss		(4,511)		5		1,714		(2,792)
		44,859		21,290		22,194		88,343
Operating income (loss)	$	(7,296)	$	(4,884)	$	(3,294)	$	(15,474)

(in thousands of Canadian dollars, unless otherwise stated)

For the three months ended June 30, 2022	Americas	Europe	Australasia	Total
Operating Income				
Revenue from investment properties	$ 43,528	$ 22,753	$ 36,396	$ 102,677
Property operating costs	15,793	3,329	6,488	25,610
Net property operating income	27,735	19,424	29,908	77,067
Other Income				
Interest and other	1,096	2	1,412	2,510
Development revenue	—	2,564	—	2,564
Management fees	—	742	6,353	7,095
Share of income (loss) from equity accounted investment	—	(901)	6,069	5,168
	1,096	2,407	13,834	17,337
Mortgage and loan interest expense	14,528	1,576	7,283	23,387
General and administrative expenses	4,734	2,384	3,191	10,309
Transaction costs	1,256	4,464	(121)	5,599
Development costs	—	2,348	—	2,348
Foreign exchange (gain) loss	(560)	7	(41)	(594)
	19,958	10,779	10,312	41,049
Operating income (loss)	$ 8,873	$ 11,052	$ 33,430	$ 53,355

For the six months ended June 30, 2023	Americas	Europe	Australasia	Total
Operating Income				
Revenue from investment properties	$ 130,815	$ 50,756	$ 80,257	**$ 261,828**
Property operating costs	46,658	9,734	11,994	**68,386**
Net property operating income	84,157	41,022	68,263	**193,442**
Other income				
Interest and other	2,675	616	4,790	**8,081**
Management fees	—	1,453	6,026	**7,479**
Share of income from equity accounted investments	—	(5,496)	(16,387)	**(21,883)**
	2,675	(3,427)	(5,571)	**(6,323)**
Mortgage and loan interest expense	67,550	17,255	24,038	**108,843**
General and administrative expenses	14,712	5,503	8,356	**28,571**
Transaction costs	9,254	9,861	4,318	**23,433**
Foreign exchange (gain) loss	(11,105)	—	1,097	**(10,008)**
	80,411	32,619	37,809	**150,839**
Operating income (loss)	$ 6,421	$ 4,976	$ 24,883	**$ 36,280**

(in thousands of Canadian dollars, unless otherwise stated)

For the six months ended June 30, 2022	Americas	Europe	Australasia	Total
Operating Income				
Revenue from investment properties	$ 98,763	$ 44,783	$ 70,957	$ **214,503**
Property operating costs	31,935	6,631	9,987	$ **48,553**
Net property operating income	66,828	38,152	60,970	**165,950**
Other income				
Interest and other	226	3,747	3,811	$ **7,784**
Development revenue	—	—	—	$ **—**
Management fees	—	1,907	14,544	$ **16,451**
Share of income from equity accounted investments	—	1,681	22,049	$ **23,730**
	226	7,335	40,404	**47,965**
Mortgage and loan interest expense	38,601	3,134	16,176	$ **57,911**
General and administrative expenses	12,318	3,193	7,628	$ **23,139**
Transaction costs	4,789	6,813	516	$ **12,118**
Development costs	—	3,430	—	$ **3,430**
Foreign exchange (gain) loss	(5,620)	13	1,008	$ **(4,599)**
	50,088	16,583	25,328	**91,999**
Operating income (loss)	$ 16,966	$ 28,904	$ 76,046	$ **121,916**

17. Commitments and Contingent Liabilities

(a) The REIT obtains letters of credit to support its obligations with respect to construction work and additions to its investment properties and to satisfy mortgage financing requirements. As at June 30, 2023, the REIT has a total of $2.7 million (December 31, 2022 - $2.8 million) in outstanding letters of credit under the REIT's secured revolving floating rate credit facility, which forms part of the total Credit Facilities discussed in note 8. These letters of credit relate to construction work that is being performed on the REIT's investment properties. The REIT does not expect any of these standby letters of credit to be drawn upon and, therefore, no corresponding liability has been recorded.

(b) Pursuant to the disposition of the REIT's 70% interest in AREIT units as part of the formation of a joint venture arrangement during the year ended December 31, 2020, the REIT indemnified the joint venture partner for potential tax liabilities related to AREIT's investment properties contributed to the joint venture. 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 the sale and contribution of European investment properties by the REIT to the European JV in 2020, the REIT has indemnified its joint venture partner for potential tax liabilities related to these 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) The REIT has entered into acquisition and construction agreements on certain development properties and is committed to associated costs of $254.1 million as at June 30, 2023 where timing is discretionary (December 31, 2022 - $238 million).

(e) In 2021, a subsidiary of the REIT entered into a commitment with a charitable Hospital Foundation to make a total contribution of $8.6 million over 10 years ($0.7 million per annum) to support eligible investment initiatives in capital infrastructure or equipment. Donations are expensed in the period incurred. The commitment with the Foundation is contingent on unanimous agreement by the Foundation and the REIT's management of the annual plan with respect to eligible initiatives.

(f) In 2022, The REIT pledged a contribution of $5.0 million to the University of Toronto in support of research on impacts of the pandemic on health systems across the world. As at June 30, 2023, $2.2 million has been paid by the REIT. Contributions are expensed in the period incurred.

(g) The REIT indemnifies individuals who have acted at the REIT's request to be a trustee, 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. As such, the REIT has not recognized a provision related to the indemnification.

(h) 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.

18. 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 estimated fair value of each investment property, with the exception of certain properties under development, using the discounted cash flow method and direct capitalization method. Note 4 outlines the key assumptions used by the REIT in determining the estimated fair values of its investment properties.

Certain derivative instruments are valued using valuation techniques with market-observable inputs (Level 2) and include the forward contracts and interest rate swaps. 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. The put and call options and investment in unlisted securities are valued using internal models using observable and unobservable inputs, reflecting assumptions that market participants would use when pricing the assets (Level 3).

In accordance with IFRS 13, if an asset or liability measured at fair value has a bid and 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 2) as a practical expedient for fair value measurement for its Class B exchangeable units, certain unit based liabilities and convertible debentures.

The fair value of the REIT's mortgages and loans payable 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.

(in thousands of Canadian dollars, unless otherwise stated)

The fair value hierarchy, by level of assets and liabilities measured at fair value in these consolidated financial statements or disclosed in the notes herein as at June 30, 2023 is as follows:

	Carrying value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Assets measured at fair value:				
Investment properties	$ **6,977,054**	$ **—**	$ **—**	$ **6,977,054**
Financial instruments	**57,945**	**—**	**57,945**	**—**
Investment in unlisted securities	**216,467**	**—**	**—**	**216,467**
Assets held for sale	**217,667**	**—**	**—**	**217,667**
Assets recorded at amortized cost:				
Loans receivable	**5,387**	**—**	**—**	**5,387**
Liabilities measured at fair value:				
Financial instruments	**2,881**	**—**	**2,881**	**—**
Convertible debentures	**347,341**	**347,341**	**—**	**—**
Class B LP exchangeable units	**10,739**	**—**	**10,739**	**—**
Unit-based compensation liabilities	**17,116**	**—**	**16,362**	**754**
Financial liabilities recorded at amortized cost:				
Mortgages and loans payable	**3,655,488**	**—**	**3,588,855**	**—**
Liabilities related to assets held for sale	**66,728**	**—**	**66,728**	**—**

19. 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 while adhering to the Declaration of Trust. 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.

As at June 30, 2023, the REIT is in compliance with its debt to gross book value ratio of the Declaration of Trust at 46.5% (December 31, 2022 - 45.3%).

(in thousands of Canadian dollars, unless otherwise stated)

As at		June 30, 2023		December 31, 2022
Debt				
Gross value of debt excluding convertible debentures (1)	**$**	**3,745,212**	$	3,855,247
Gross value of total debt (2)		**4,092,553**		4,130,517
Gross Book Value of Assets				
Total assets	**$**	**8,061,118**	$	8,514,000
Debt-to-Gross Book Value (Declaration of Trust)		**46.5 %**		45.3 %
Debt-to-Gross Book Value (including convertible debentures)		**50.8 %**		48.5 %

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

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

The REIT's capital management is also impacted by various financial covenants in certain loan agreements. As at June 30, 2023, the REIT is in compliance with all such financial covenants in respect of the loans and mortgages disclosed in note 9.

The REIT has multiple credit facilities that contain a common financial covenant requiring the REIT to maintain a prescribed equity amount, as defined. The key sensitivities associated with such covenant are the REIT's net operating income and overall capitalization rate, both of which impact the REIT's estimate of fair value in connection with its investment properties at period end. The REIT is monitoring these considerations as it relates to its compliance assessment in future periods.

20. Risk Management

In the normal course of business, the REIT is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them remain generally consistent with those disclosed in the annual consolidated financial statements as at and for the year ended December 31, 2022. Certain of these risks, and the actions taken to manage them, are as follows:

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. Accounts receivable consists of rental income and other revenue receivables from its commercial tenant base for monthly rental charges and interest receivable from term deposits. 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)

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.

The following table sets out the REIT's contractual cash flows which includes interest payments based on interest rates applicable June 30, 2023 on its mortgages and loans payable and convertible debentures:

	Carrying Amount	Contractual Cash Flows	2023	2024	2025	2026	2027	Thereafter
Accounts payable and accrued liabilities	$ 125,932	$ 125,932	$ 125,932	$ —	$ —	$ —	$ —	$ —
Income tax payable	15,221	15,221	15,221	—	—	—	—	—
Distributions payable	16,199	16,199	16,199	—	—	—	—	—
Liabilities related to AHFS	66,728	66,841	—	40,967	8,543	—	—	17,331
Mortgages and loans payable	3,643,487	3,666,373	234,999	468,026	1,367,235	667,017	382,117	546,979
Finance lease payable	12,001	12,001	964	1,619	1,248	1,134	768	6,268
Convertible debentures	347,341	366,500	125,000	—	—	—	155,250	86,250
	$ 4,226,909	$ 4,269,067	$ 518,315	$ 510,612	$ 1,377,026	$ 668,151	$ 538,135	$ 656,828

The REIT expects to repay or refinance all debts maturing over the next 12 months using existing liquidity, new or renewed financings with extended maturities, net proceeds from the issuance of convertible debentures (note 9) net proceeds from sales of investment properties classified as assets held for sale (note 4), strategic investment property sales and new financings or refinancing (note 8).

More specifically, the REIT has (i) an unsecured credit facility totaling $125.0 million that is scheduled to mature in December 2023. The REIT is currently in negotiations with the lender to renew and extend such facility; (ii) secured revolving and non-revolving credit facilities totaling $310.1 million, a portion of which is set to mature in the fourth quarter of 2023, under certain circumstances, and in the aggregate no later than January 2024. The REIT expects to refinance the facility before maturity or repay using proceeds from other financing transactions; (iii) begun the process of securing a new financing in respect of investment properties previously unencumbered in the Americas segment; and (iv) entered into a trust deed and settlement with several parties, including a third party institutional investment partner, as well as, a manager and responsible entity of an Australian fund in which the REIT holds an investment in unlisted securities, which are valued at $216.5 million at June 30, 2023. The agreement stipulates, among other things, that the parties to the deed, will work in good faith to assist the REIT to divest its investment in these securities by June 30, 2024.

There are no assurances that the timing, amounts and terms of any refinancing, or other efforts as described above will be favorable or satisfactory to the REIT's liquidity and ability to settle loans payable as they become due.

The REIT's financial condition and results of operations would be adversely affected if it is 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 forecasts liquidity requirements to ensure it has the ability to meet operational needs by maintaining a sufficient and available combination of cash and debt capacity, and to ensure the REIT will meet its financial covenants related to debt agreements. Such forecasting involves a significant degree of judgment which takes into considerations current and projected macroeconomic conditions, the REIT’s cash collection efforts, working capital management, debt financing plans, and covenant compliance required under the terms of the debt agreements. The REIT's financial condition and results of operations would be adversely affected if such forecasts may not be achieved and if the REIT were unable to obtain cost-effective financing/refinancing or if it were unable to meet its other liquidity requirements from ongoing operating cash flows, inclusive of distributions.

Interest Rate Risk

The REIT is exposed to interest rate risk on its borrowings. It minimizes this risk by obtaining long-term fixed interest rate debt where appropriate. A portion of the REIT's debts and credit facilities are subject to variable rates. From time to time, the REIT may enter into interest rate derivative contracts or other financial instruments to limit its exposure to fluctuations in interest rates on its variable rate debt.

At June 30, 2023, $1.3 billion 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 or minus 1% change in the interest rates associated with variable rate debts would impact the net income (loss) and comprehensive income (loss) by $37.2 million annually with all other variables held constant.

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 value derived from 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 financings. The market price for the REIT's trust units, the REIT's convertible debentures, units of Vital Trust, and units in unlisted securities 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 sustained decline in the market price of the units of Vital Trust and unlisted securities 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 financings. To adapt to an increasingly volatile macro environment, the REIT amended certain covenants during the period and subsequently to provide additional flexibility. Additionally, the REIT is subject to covenants in respect of its unitholders' equity balance. These covenants may be impacted by significant changes in investment property valuation or changes in the REIT's capital structure.

21. Subsequent Events

i. On July 14, 2023, the REIT announced a distribution of $0.06667 per unit to unitholders of record on July 31, 2023, and paid on August 15, 2023.

ii. Subsequent to June 30, 2023, the REIT sold approximately $54.8 million (A$62.3 million) of its investment in unlisted securities, representing their carrying value as at June 30, 2023. The proceeds were used towards partial repayment of the Australasian term debt, secured by the underlying unlisted securities.

iii. On July 21, 2023, the REIT refinanced Australasian term debt maturing in September 2023 with an outstanding balance as at June 30, 2023 of $70.0 million and bearing variable rate interest of 6.35% to extend the weighted average term to maturity by 4 years. The refinanced facility bears interest at 5.95%.

iv. On August 2, 2023, the REIT executed an interim non-revolving tranche under its revolving credit facility to increase availability by $50.0 million. The tranche matures in October 2023 and can be extended until January 2024 under certain circumstances. The facility is secured by certain assets in the REIT's Americas portfolio and it bears interest ranging from 10.6% to 13.8%.

v. Subsequent to June 30, 2023, the REIT extended the maturity date of its revolving unsecured credit facility with an outstanding balance of $125.0 million credit facility by one year to November 2024, The facility bears interest ranging from 8.73% to 10.01% (previously 8.23% to 9.51%).

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