MAINSTREET HEALTH INVESTMENTS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE YEAR ENDED DECEMBER 31, 2016

March 29, 2017

Basis of presentation

Financial data in this Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") is for the year ended December 31, 2016. Financial data has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

This MD&A is intended to provide readers with an assessment of the performance of Mainstreet Health Investments Inc. (the "Company") for the year ended December 31, 2016. This MD&A should be read in conjunction with the audited consolidated financial statements and notes of the Company for the year ended December 31, 2016 and the period from October 7, 2015 (date of formation) to December 31, 2015 (the "Financial Statements").

All financial information is in thousands of U.S. dollars unless otherwise noted.

Forward-looking disclaimer

Certain information in this MD&A may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements (which involve significant risks and uncertainties and should not be read as guarantees of future performance or results) include statements related to, among other things, the expected seniors housing and care industry and demographic trends, acquisitions, development activities, future maintenance and leasing expenditures, financing, the availability of financing sources and income taxes. Management of the Company (“Management”) believes that the expectations reflected in forward-looking statements are based upon reasonable assumptions; however, Management can give no assurance that actual results will be consistent with these forward-looking statements.

Without limiting the foregoing, the words “believe”, “expect”, “anticipate”, “should”, “may”, "will", “intend”, “estimate” and similar expressions identify forward-looking statements.

Factors that could cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, but are not limited to, general economic conditions, competitive uncertainties and contingencies, demographic and industry trends, legislative and regulatory changes, tax laws and those factors set forth under the heading “Risks and Uncertainties” in this MD&A. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive. When relying on forward-looking statements to make decisions, with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events.

These forward-looking statements are made as of March 29, 2017 and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law.

Business Overview

Mainstreet Health Investments Inc. is a corporation continued under the BCBCA. The registered office of the Company is located at 2500 - 700 W Georgia Street, Vancouver, British Columbia V7Y 1B3 and the head office of the Company is located at 333 Bay Street Suite 3400, Toronto, Ontario, M5H 2S7.

The Company has been formed primarily to own income-producing seniors housing and care properties throughout the United States and Canada. Specifically, the Company looks to acquire and invest in properties which offer predominately transitional care, long-term care, memory care, assisted living, and independent living programs. The Company owns the land and buildings and leases them to operators on a long-term, triple-net lease basis. Under a triple-net lease structure, the tenant operators assume the operational risks and expenses associated with operating a seniors housing and care facility on the leased premises. The tenant operators provide and manage the service offerings available at the facilities, deliver all care services and maintain the buildings. As of December 31, 2016, the Company owns a portfolio of 31 properties in the United States comprised of 12 long-term care facilities, 11 memory care and assisted living facilities and 8 transitional care properties. The Company also has also entered into a joint arrangement with Autumnwood (the “Joint Venture”), which jointly operates the real estate of four seniors housing and care facilities located in the province of Ontario, and through a joint venture, operates each of the respective facilities.

Management believes that certain characteristics of the North American senior housing and care industry provide a significant opportunity to continue to expand the Company's portfolio of properties. These characteristics include favorable demographic trends, increasing demand, stagnant supply of new facilities and a shift of some services from traditional hospitals to post-acute care centers and long-term care facilities. Management also believes that the Company is well-positioned to participate in the sector and capitalize on its projected growth by investing in high quality properties, and partnering with financially and operationally strong tenant operators.

2016 in Review and 2017 Outlook

The Company was able to capitalize on favorable capital and acquisitions markets in 2016, completing its initial public offering in June (the "June Offering"), a follow on offering in October (the "October Offering"), and a convertible debenture offering in December. All of the capital raises were paired with accretive acquisitions and investments. The Company ended the year with $678 million in gross book value of assets, an internalized management team, and a strong operating base platform from which to grow.

The U.S. and Canadian macroeconomies have experienced periods of volatility caused by the oil pricing and markets, Brexit, and the U.S. presidential election and correlating uncertainty. The 10 year U.S. Treasury rate fluctuated between 1.5% and 2.0% for most of the year but ended the year at its high point of 2.3%. With the Company’s high proportion of fixed rate debt, it is in a strong position to prosper in the volatile market conditions.

Due to uncertain macroeconomic conditions, we do not expect significant growth in interest rates in the near term, with any increases expected to be gradual. This should provide a positive environment for the Company to continue to finance accretive acquisitions and to refinance existing debt obligations under favorable terms.

Recent Activities

Recent Acquisitions

The following asset acquisitions were completed during the year ended December 31, 2016:

	Hanover Park	Scranton 7 Properties	Mainstreet LLC Properties acquired June 2, 2016	Hearth Properties	Mainstreet LLC Properties acquired November 1, 2016	Evanston	Autumnwood Properties	MCA Properties	Total
Number of properties acquired:	1	7	3	2	4	1	4	3	25
Net assets acquired:									
Investment properties	$ 34,574	$ 29,351	$ 59,774	$ 41,159	$ 77,759	$ 23,035	$ 40,463	$ 45,105	$ 351,220
Assumed mortgages	—	—	(33,106)	(17,985)	(38,926)	—	(22,090)	—	(112,107)
Mezzanine loan applied against purchase	—	—	—	—	(9,371)	—	—	—	(9,371)
Working capital balances	(733)	—	(2,257)	—	(2,984)	(189)	(71)	(5)	(6,239)
	$ 33,841	$ 29,351	$ 24,411	$ 23,174	$ 26,478	$ 22,846	$ 18,302	$ 45,100	$ 223,503
Consideration paid/funded by:									
Cash	(30,341)	(29,351)	(24,670)	(23,174)	(28,554)	(22,846)	(12,090)	(45,100)	(216,126)
Deposit applied against purchase price	(3,500)	—	—	—	—	—	—	—	(3,500)
Common shares issued	—	—	—	—	—	—	(6,212)	—	(6,212)
Development lease receivable	—	—	259	—	2,076	—	—	—	2,335
	$ (33,841)	$ (29,351)	$ (24,411)	$ (23,174)	$ (26,478)	$ (22,846)	$ (18,302)	$ (45,100)	$ (223,503)

On April 29, 2016, a wholly owned subsidiary of the Company acquired one property in respect of which the Company had previously entered into a purchase agreement (Hanover Park, the eleventh property of the Symphony Portfolio, the first ten of which were acquired in October 2015) for $34,075 plus transaction costs.

On June 2, 2016, a wholly owned subsidiary of the Company acquired a portfolio of seven properties in Scranton, Pennsylvania (the "Scranton Portfolio") for a purchase price of $29,091 plus transaction costs. The Scranton Portfolio was owned 50% by an entity that is owned 100% by the chairman of the Company.

On June 2, 2016, a wholly owned subsidiary of the Company acquired three properties located in Chesterton, Indiana; Mooresville, Indiana; and Topeka, Kansas, respectively, for a combined purchase price of $59,821 plus transaction costs. These properties were majority owned by the chairman of the Company.

The Company assumed a mortgage payable in the amount of $13,890 upon acquisition of the Chesterton, Indiana property. The mortgage requires interest only payments and bears interest at a fixed rate of 4.0%. The Chesterton, Indiana property mortgage was repaid in full on November 1, 2016 using proceeds from the Company's credit facility.

The Company assumed a mortgage payable in the amount of $9,162 upon acquisition of the Mooresville, Indiana property. The mortgage requires interest only payments and bears interest at a fixed rate of 4.0%. The Mooresville, Indiana property mortgage was repaid in full on November 1, 2016 using proceeds from the Company's credit facility.

At the acquisition date, the Topeka, Kansas property was under development, and a wholly owned subsidiary of the Company entered into a development lease in conjunction with its purchase of the property, whereby the vendor of the property, Mainstreet LLC, agreed to fund payment until rental income commenced. Upon execution of the development lease, the Company recorded a development lease receivable of $259, which reduced the cost of the investment property acquired. The property is operational and rent commenced on August 1, 2016. As at December 31, 2016, the Company has received full payment of $259 related to the development lease receivable. The Company also assumed a mortgage payable in the amount of $10,053 upon acquisition of the Topeka, Kansas property. The mortgage required interest only payments and bears interest at a variable rate of prime. Subsequent to the assumption of the Topeka, Kansas property mortgage, the Company drew an additional $2,432 to fund the completion of its construction. The Topeka, Kansas property mortgage was repaid in full on November 3, 2016 using proceeds from the Company's credit facility.

At the time of closing the Company also assumed $2,249 of liabilities related to the remaining development costs of the property which were recorded as a development cost liability on the statement of financial position. There is no remaining development cost liability related to the Topeka, Kansas property as at December 31, 2016.

On August 5, 2016, a wholly owned subsidiary of the Company acquired one property located in Syracuse, New York ("Hearth at Greenpoint") in respect of which the Company had previously entered into a purchase agreement. The Hearth at Greenpoint property was acquired for a purchase price of $32,967 plus transaction costs. The Company assumed mortgage debt on the property of $13,994 including a mark-to-market adjustment of $723. The assumed mortgage debt bears interest at a fixed rate of 6.8% annually and matures on September 1, 2018. On December 8, 2016, the Company refinanced the Hearth at Greenpoint mortgage payable with a new loan of $20,026. The new mortgage bears interest at a fixed rate of 4.55% and requires interest-only payments for an initial 24 month period, followed by principal and interest payments through its maturity date of January 1, 2027.

On October 18, 2016, a wholly owned subsidiary of the Company acquired one property located in Syracuse, New York ("Hearth on James") in respect of which the Company had previously entered into a purchase agreement. The Hearth on James property was acquired for a purchase price of $6,878 plus transaction costs. The Company assumed mortgage debt on the property of $3,991 including a mark-to-market adjustment of $269. The assumed mortgage debt bears interest at a fixed rate of 4.08% annually and matures on March 1, 2049.

On November 1, 2016, a wholly owned subsidiary of the Company acquired four properties located in Leawood, Kansas; Houston ,Texas; Fort Worth, Texas and Wichita, Kansas, respectively, for a combined purchase price of $92,321 plus transaction costs. The Company held mezzanine loans on these properties with a total principal and PIK Interest balance of $9,371, which were repaid as a credit towards the combined purchase price at closing. These properties were majority owned by the chairman of the Company.

At the acquisition date, all four properties were under development, and a wholly owned subsidiary of the Company entered into an income support agreement in conjunction with its purchase of the property, whereby the vendor of the property, Mainstreet LLC, agreed to fund payment until rental income commences. Upon execution of the income support agreement, the Company recorded a development lease receivable of $2,076, which reduced the cost of the investment properties acquired. The Leawood, Kansas property is operational and rent commenced on December 1, 2016. The Company has received total payments of $869 related to the development lease receivables as of December 31, 2016.

At the acquisition date, the Company assumed a mortgage payable in the amount of $12,231 on the Leawood, Kansas property. The mortgage requires variable interest only payments at the prime rate through its maturity date of August 28, 2017. Subsequent to the assumption of the Leawood, Kansas property mortgage, the Company drew an additional $1,624 as of December 31, 2016 to fund its construction.

At the acquisition date, the Company assumed a mortgage payable in the amount of $8,697 on the Houston, Texas property. The mortgage requires interest only payments and bears interest at a variable rate of LIBOR plus 325 basis points through its maturity date of June 1, 2017. Subsequent to the assumption of the Houston, Texas property mortgage, the Company drew an additional $2,052 as of December 31, 2016 to fund its construction.

At the acquisition date, the Company assumed a mortgage payable in the amount of $9,280 on the Fort Worth, Texas property. The mortgage requires variable interest only payments at the prime rate through its maturity date of September 25, 2017. Subsequent to the assumption of the Fort Worth, Texas property mortgage, the Company drew an additional $723 as of December 31, 2016 to fund its construction.

At the acquisition date, the Company assumed a mortgage payable in the amount of $8,718 on the Wichita, Kansas property. The mortgage requires interest only payments and bears interest at a variable rate of LIBOR plus 325 basis points through its maturity date of June 1, 2017. Subsequent to the assumption of the Wichita, Kansas property mortgage, the Company drew an additional $965 as of December 31,2016 to fund its construction.

At the time of closing the Company also assumed $2,984 of liabilities related to the remaining development costs of the properties which was recorded as a construction cost liability in the statement of financial position. Subsequent to the acquisition date, an additional $7,297 of construction was completed on these properties as of December 31, 2016, with an additional $7,036 remaining to be completed. The Company received a credit from Mainstreet LLC at closing in the amount of $17,317 related to the construction costs to be completed.

On November 1, 2016, a wholly owned subsidiary of the Company acquired a property in Evanston, Illinois ("Evanston") for a purchase price of $22,900 plus transaction costs.

On November 1, 2016, a wholly owned subsidiary of the Company acquired a 50% interest in two properties located in the province of Ontario, Canada ("Red Oak" and "Marina Point") for a total purchase price of $16,824 plus transaction costs. The Company assumed mortgage debt on the Red Oak property of $3,010, which bears interest at a fixed rate of 3.9% annually and matures on September 1, 2017. The Company assumed mortgage debt on the Marina Point property of $6,269, which bears interest at a fixed rate of 4.3% annually and matures on August 5, 2024.

On November 4, 2016, a wholly owned subsidiary of the Company acquired a 50% interest in two properties located in the province of Ontario, Canada ("Amberwood" and "SMG") for a total purchase price of $21,973 plus transaction costs. The Company assumed mortgage debt on the Amberwood property of $4,425, which bears interest at a fixed rate of 3.9% annually and matures on August 5, 2019. The Company assumed mortgage debt on the SMG property of $8,386, which bears interest at a fixed rate of 4.2% annually and matures on June 5, 2024.

On December 16, 2016, a wholly owned subsidiary of the Company acquired a portfolio of three properties located in San Antonio, Texas; New Braunfels, Texas and Little Rock, Arkansas (together, the "MCA Properties"), respectively, for a combined purchase price of $44,300 plus transaction costs. The acquisition was funded primarily by the issuance of convertible debentures and cash on hand.

Recent Offerings and Debt Activity

On April 4, 2016, the Company acquired all of the shares of Mainstreet Health Holdings Inc. ("MHI Holdco") held by Mainstreet Investment Company, LLC ("MS Investment") in consideration for 81,160,000 common shares and 307,659,850 non-voting shares of the Company. The non-voting shares were converted to common shares, and all common shares were consolidated on a 250:1 basis upon completion of the Offering described below.

On May 26, 2016, the Company filed a prospectus relating to an offering of 9,500,000 common shares of the Company. Upon completion of the Offering on June 2, 2016, the Company acquired the remaining shares of MHI Holdco subsequent to the conversion of the outstanding convertible debentures of MHI Holdco into common shares of MHI Holdco.

The shareholders of MHI Holdco received 518,094 common shares of the Company and the convertible debenture holders received 11,117,010 common shares of the Company, both on a post-consolidation basis. The Company has been identified as the accounting acquiree rather than the accounting acquirer and the transaction is considered to be a reverse-takeover. As the former shareholders of MHI Holdco owned a controlling interest in the Company, the financial statements of the Company reflect the historical results of MHI Holdco since it's inception on October 7, 2015 and the acquisition of the net assets of the Company at their fair value on the date of closing. However, the equity structure (i.e. the number and type of shares issued) reflects the equity structure of the Company.

On June 2, 2016, the Company completed the issuance of 9,500,000 common shares for gross proceeds of $95,000. The underwriters of the transaction were granted an overallotment option to purchase up to an additional 1,425,000 common shares within 30 days of the completion of the offering. The overallotment option was exercised in full on June 21, 2016 resulting in gross proceeds of $14,250.

On October 6, 2016, the Company closed its offering of 7,406,000 subscription receipts (the "Subscription Receipts") at a price of $10.10 per Subscription Receipt, which includes 966,000 Subscription Receipts acquired upon the exercise by the underwriters of an overallotment option granted to them by the Company. On October 28, 2016, the Subscription Receipts were exchanged for common shares of the Company pursuant to the terms of the Subscription Receipts.

On October 31, 2016, the Company exercised the accordion feature on the Facility (as defined below) and increased its total capacity from $200,000 to $285,000. Subsequent to this transaction, the term loan component of the Facility has a capacity of $200,000, and the revolving line of credit component of the Facility has a capacity of $85,000. On November 1, 2016, the Company used proceeds from the Facility to repay in full two existing mortgages totaling $23,053 on the Chesterton, Indiana and Mooresville, Indiana properties. On November 3, 2016, the Company used proceeds from the Facility to repay in full one existing mortgage totaling $12,485 on the Topeka, Kansas property.

On December 16, 2016, the Company completed the distribution of $45,000 aggregate principal amount of convertible subordinated debentures (the "2016 Convertible Debentures") of the Company. The debentures are due January 31, 2022 and bear interest at an annual rate of 5.0%, payable semi-annually in arrears on July 31 and January 31 of each year until their maturity. The Company used the proceeds to fund a portion of the MCA Properties acquisition described above.

Other Recent Activities

On April 4, 2016 the Company entered into an asset management agreement (the "Asset Management Agreement") with Mainstreet Asset Management Inc. ("MAMI"), which is owned 100% by the chairman of the Company. Under the terms of the Asset Management Agreement, the Company was required to pay an asset management fee of (i) 0.3% of the Gross Book Value of the Company (as defined in the Asset Management Agreement) up to a Gross Book value of $1.0 billion plus (ii) 0.1% of the Gross Book Value of the Company in excess of $1.0 billion.

On April 4, 2016 The Company directly and indirectly entered into two development agreements (together, the "Development Agreements") with Mainstreet Property Group, LLC ("Mainstreet LLC") pursuant to which the Company has the right to provide mezzanine financing for projected construction costs for all suitable development properties identified by Mainstreet LLC. The Company will have an option to acquire any property for which it has provided mezzanine financing pursuant to the terms set out in the Development Agreements.

On November 1, 2016, concurrent with the closing of the November 1, 2016 transactions described above, the Company announced that it had completed the internalization of asset management functions. The Asset Management Agreement was terminated effective October 31, 2016, and no fees or penalties were or will be paid to the Asset Manager. In connection with internalization, the Company and MAMI entered into an administrative services agreement pursuant to which MAMI is required to provide the Company with certain administrative services, including information technology support and equipment as well as dedicated office space for a period of up to two years, in exchange for a one time fee of $65 and a monthly fee of $23.

Selected Financial Information

(dollar amounts in thousands of U.S. Dollars, except per share amounts)	Three months ended December 31, 2016	Year ended December 31, 2016	Period from October 7, 2015 to December 31, 2015
Operational information			
Income properties	35	35	10
Weighted average lease term to maturity (excludes renewal options)	13.9 years	13.9 years	14.8 years
Weighted average facility age	11.7 years	11.7 years	16.1 years
Summary financial information			
Gross book value	$ 677,719	$ 677,719	$ 279,053
Total debt	$ 356,220	$ 356,220	$ 144,692
Debt to gross book value %	52.6%	52.6%	51.9%
Weighted average interest rate [(1)]	4.21%	4.21%	3.24%
Revenue	$ 13,849	$ 40,865	$ 5,107
Finance cost	$ 3,100	$ 13,967	$ 2,808
General and administrative expenses	$ 2,115	$ 5,178	$ 1,266
Net income	$ 5,138	$ 4,877	$ (5,755)
Total comprehensive income	$ 5,066	$ 4,806	$ (5,755)
Earnings per share	$ 0.17	$ 0.30	$ (2.78)
Funds from operations (FFO) [(3)]	$ 5,803	$ 14,736	$ 190
FFO per share [(3)]	$ 0.20	$ 0.91	$ 0.09
Adjusted funds from operations (AFFO) [(3)]	$ 7,149	$ 19,571	$ 1,574
AFFO per share [(3)]	$ 0.24	$ 1.21	$ 0.76
Common share dividends declared	$ 5,896	$ 11,739	$ —
Dividends declared per share	$ 0.18417	$ 0.42563	$ —
Payout ratio [(2)]	82%	60%	—%

(1) Weighted average interest rate includes $200 million of debt on the Company's credit facility which is fixed at 4.16% by the Interest Rate Swap.

(2) Payout ratio is a financial measure not defined under IFRS. Payout ratio is calculated by dividing the common share dividends declared by AFFO. The Company made its first monthly dividend declaration for the period beginning June 2, 2016.

(3) FFO and AFFO are financial measures not defined under IFRS. Please refer to the "Financial Measures" section of this MD&A.

While the Company believes per share measures to be an effective means of evaluating performance, net income and comprehensive income per share, FFO per share and AFFO per share for the twelve month period ended December 31, 2016 do not provide a normalized basis on which per share amounts should be evaluated due to the Company's reverse takeover transaction that closed on April 4, 2016 (the "Reverse Takeover"), the June Offering, and the timing of the property acquisitions.

Actual Results Versus the Forecast
(unless otherwise stated, amounts are in thousands of U.S. dollars)

	Three-month periods ending			Six-month periods ending		
	December 31, 2016 Actual	December 31, 2016 Forecast	$ Variance	December 31, 2016 Actual	December 31, 2016 Forecast	$ Variance
Revenue:						
Rental	$ 12,596	$ 11,527	$ 1,069	$ 23,465	$ 22,903	$ 562
Lease revenue from joint ventures	455	—	455	455	—	455
Interest income	798	184	614	966	368	598
	13,849	11,711	2,138	24,886	23,271	1,615
Expenses:						
Finance costs	3,100	2,529	571	5,496	5,065	431
Real estate tax expense	397	—	397	423	—	423
	3,497	2,529	968	5,919	5,065	854
Income from operations	10,352	9,182	1,170	18,967	18,206	761
Fair value loss on investment properties	2,389	2,934	(545)	7,295	5,773	1,522
Change in value of derivative instruments	(3,206)	—	(3,206)	(4,209)	—	(4,209)
General and administrative expenses	2,115	901	1,214	3,070	1,798	1,272
Income before income taxes	9,054	5,347	3,707	12,811	10,635	2,176
Income tax expense:						
Current	—	111	(111)	—	222	(222)
Deferred	3,916	2,110	1,806	5,536	4,192	1,344
	3,916	2,221	1,695	5,536	4,414	1,122
Net income	$ 5,138	$ 3,126	$ 2,012	$ 7,275	$ 6,221	$ 1,054
Funds from operations (FFO)	$ 5,803	$ 6,463	$ (660)	$ 11,849	$ 12,772	$ (923)
Adjusted funds from operations (AFFO)	$ 7,149	$ 5,599	$ 1,550	$ 12,660	$ 11,128	$ 1,532
FFO per share	$ 0.20	$ 0.28	$ (0.08)			
AFFO per share	$ 0.24	$ 0.25	$ (0.01)			

The rental revenue increase compared to forecast for the three and six months ending December 31, 2016 is primarily due to the acquisitions completed during the fourth quarter of fiscal 2016, which were not contemplated in the forecast. The incremental revenue earned from acquisitions was partially offset by a decrease compared to the forecast related to the Hearth at Greenpoint and Hearth on James (together, the "Hearth Properties"). The Hearth Properties were anticipated to be acquired as of July 1, 2016, or the beginning of the forecast period. Hearth at Greenpoint was acquired on August 5, 2016, and Hearth on James was acquired on October 18, 2016.

Interest income was favorable compared to the forecast for the three and six month periods ending December 31, 2016, primarily due to additional mezzanine loans placed during the period that were not contemplated in the forecast. The Company

has placed 10 mezzanine loans with principal balances totaling $21.4 million in addition to those included in the original forecast. The increase due to these additional placements for the six month period were offset by the timing of the placement of the loan receivable to MS Webster Holdings, LLC. The forecast included interest income on this loan receivable beginning July 1, 2016, however the loan was placed on September 2, 2016. Mainstreet LLC paid the Company $63 of interest income support for this time period, however that amount is recorded as an offset to loans receivable, and will be amortized into income over the life of the loan.

Finance costs were unfavorable compared to the forecast for the three and six month periods ended December 31, 2016 primarily due to an increased credit facility balance, interest on convertible debentures and mortgages assumed, all in connection with the acquisitions completed during the fourth fiscal quarter of 2016 which were not contemplated in the forecast. In addition, actual finance costs include a $919 yield maintenance premium paid upon the refinancing of debt, which was not included in the forecast. These increases were slightly offset by the timing of the acquisition of the Hearth Properties as discussed above.

Fair value loss on investment properties was favorable relative to forecast for the three and six month periods ended December 31, 2016 primarily due to fair value adjustments made to investment properties during the quarter ended December 31, 2016, which were not contemplated in the forecast. This was partially offset by an unfavorable variance due to an increase in fair value adjustments to offset straight-line rent and property tax recoveries due to the acquisitions completed during the fourth fiscal quarter of 2016.

The Company did not forecast changes in value of its derivative instrument, therefore the variance is entirely due to actual changes in fair value of the interest rate swap.

General and administrative expenses for the three and six months ended December 31, 2016 were unfavorable compared to forecast, primarily due to certain one-time asset management internalization costs which totaled $646 during the period. In addition, the Company completed accretive acquisitions during the periods that were not contemplated in the forecast. The accretive transactions were utilized to support increased general and administrative expense, in order to internalize asset management and to create a long-term, sustainable operating platform focused on future growth.

Forecasted current income taxes were related to expected withholdings on distributions out of Mainstreet Health U.S. Holdings Inc. to the Company, which would be subject to a 5% withholding tax. Mainstreet Health U.S. Holdings Inc. did not distribute to the Company during the period, and therefore no current income tax was incurred.

The unfavorable variance in deferred income taxes relative to forecast is primarily due to the additional acquisitions made during the fourth fiscal quarter of 2016, which were not contemplated in the forecast.

Funds from operations was unfavorable to forecast primarily due to one time costs incurred associated with the internalization of asset management, as well as, for the six month period, the timing of the acquisition of the Hearth Properties. These were offset by additional earnings attributable to the acquisitions made and additional mezzanine loans placed during the fourth fiscal quarter of 2016.

Adjusted funds from operations was consistent with the forecast, with additional earnings attributable to the acquisitions made and additional mezzanine loans placed during the fourth fiscal quarter of 2016 offsetting incremental expenses incurred in connection with the internalization of asset management.

FFO per share and AFFO per share for the forecast period did not assume the exercise of the over-allotment option in connection with the June Offering. The over-allotment option was exercised on June 2, 2016, and an additional 1,425,000 common shares of the Company were issued as compared to the forecast. Including the shares from the over-allotment option, forecast AFFO per share was $0.24, which is in line with actual results.

FFO per share and AFFO per share also did not assume the October Offering, the issuance of convertible debentures on December 16, 2016 or any of the acquisitions or mezzanine loan placements that took place during the fourth fiscal quarter of 2016, except for the acquisition of the Hearth on James property.

Results of Operations - Three and Twelve Months Ended December 31, 2016
(unless otherwise stated, amounts are in thousands of U.S. dollars)

Revenue

	Three months ended December 31, 2016	Year ended December 31, 2016
Cash rentals received	$ 9,154	$ 28,895
Straight-line rent adjustments	1,278	4,224
Property tax recoveries	2,164	6,317
	12,596	39,436
Lease revenue from joint ventures	455	455
Interest income	798	974
Total revenue	$ 13,849	$ 40,865

Cash rentals received and straight-line rent adjustments relate to lease agreements pursuant to which the Company indirectly leases its income properties to its tenants. All of the Company's leases are triple-net, and property tax recovery represents the revenue recognized for the real estate taxes for which the tenants are responsible to pay. Lease revenue from joint ventures represents revenue earned under lease arrangements with 4 operating entities which are jointly owned by the Company. Interest income relates to interest income earned on outstanding loans receivable, and increased in the fourth quarter due to an increased number of mezzanine loans outstanding.

Finance Cost

Finance cost consists of the following:

	Three months ended December 31, 2016	Year ended December 31, 2016
Interest expense on the Facility	$ 1,937	$ 6,179
Interest expense on mortgages payable	633	1,217
Interest expense on notes payable	—	72
Interest expense on Convertible Debentures	94	4,715
Preferred share dividends	—	83
Amortization expense	336	887
Write off of MTM adjustment on refinanced debt	(609)	(609)
Non-cash write-off of deferred financing costs from refinancing	287	287
Yield maintenance premium on refinanced debt	919	919
Interest rate swap payments	258	999
Mark-to-market debt adjustments	(88)	(115)
Fair value gain on subscription receipts	(667)	(667)
	$ 3,100	$ 13,967

Finance costs are primarily related to interest and amortization on the Company's Facility and mortgages payable. Expense increased in the three months ended December 31, 2016 compared to prior periods due to additional Facility funds drawn and mortgages payable assumed with the acquisitions completed. Additionally, the Company issued $45,000 aggregate principal amount of convertible unsecured subordinated debentures on December 16, 2016.

On November 1, 2016, the Company completed the redemption of subscription receipts in exchange for the issuance of 7,406,000 common shares. Upon conversion to common shares, the subscription receipts were adjusted to fair value and a corresponding gain of approximately $667 recorded as a finance cost.

Real Estate Tax Expense

Real estate tax expense was $397 and $5,044 for the three and twelve month periods ended December 31, 2016, which represents property tax expensed for the year for properties owned on January 1, 2016, primarily in accordance with the provisions of *IFRIC 21, Levies*. Real estate tax will be recovered from the Company's tenants under the provisions of their triple net leases.

General and Administrative Expense

General and administrative expense consists of the following:

	Three months ended December 31, 2016	Year ended December 31, 2016
Compensation and benefits	$ 1,296	$ 1,580
Management and administrative fees	159	896
Professional fees	290	1,044
Deferred share compensation	143	352
Loss on currency conversion	41	41
Listing expense	—	700
Other	186	565
	$ 2,115	$ 5,178

Compensation and benefits expense includes the cost of salaries, bonuses and benefits during the period. The amounts earned in the three months ended December 31, 2016 increased over prior periods due to the internalization of asset management on November 1, 2016 and bonuses awarded during the period. The accretive transactions completed in the three months ended December 31, 2016 were utilized to support increased general and administrative expense, in order to internalize asset management and to create a long-term, sustainable operating platform focused on future growth.

Management fees include amounts paid to MAMI for services provided under the First Asset Management Agreement (as defined below) from January 1, 2016 to April 3, 2016, the Second Asset Management Agreement (as defined below) from April 4, 2016 to October 31, 2016 and under the administrative services agreement from November 1, 2016 to December 31, 2016.

The listing expense is a non-cash listing expense recorded in connection with the June Offering.

Other general and administrative expense primarily includes the cost of insurance, fees earned by directors of the Company, travel and entertainment expense, investor relations and marketing.

Change in Value of Investment Properties

The change in value of investment properties was a decrease of $622 for the three months ended December 31, 2016. The decrease was primarily due to a net $212 adjustment to record investment properties at fair value based on the Company's estimate of fair value using level 3 inputs as of December 31, 2016 and a $1,278 adjustment to offset the impact of the increase in straight-line rent receivable. These decreases were offset by an increase of $868 related to payments received under development leases receivable.

In addition, there was a $1,767 decrease to the value of investment properties representing the offset of the receivable related to real estate tax recoveries recorded under *IFRIC 21, Levies*.

The change in value of investment properties was a decrease of $6,507 for the twelve months ended December 31, 2016. The decrease was primarily due to a net decrease of $3,410 to record investment properties at fair value based on the Company's estimate of fair value using level 3 inputs as of December 31, 2016, and a decrease of $4,224 to offset the impact of the increase in straight-line rent receivable. These decreases were offset by an increase of $1,127 related to payments received under development leases receivable.

In addition, there was a $1,299 decrease to the value of investment properties representing the offset of the receivable related to real estate tax recoveries recorded under *IFRIC 21, Levies*.

Change in Value of Derivative Instruments

The favorable impact of the change in value of derivative instruments of $3,206 and $1,543 for the three and twelve months ended December 31, 2016, respectively, relates to the recognition of the fair value of an interest rate swap ("Interest Rate Swap") pursuant to an interest rate swap agreement (the "Swap Agreement") entered into during the period. This change represents the fair value adjustments during the period and reflects the impact of increased market interest rates. The Interest Rate Swap is not designated as a hedge and is marked to fair value each reporting period.

Income Tax Expense

For the Canadian and U.S. corporate subsidiaries of the Company, income tax expense comprises current and deferred tax. Certain of the Company's subsidiaries are limited partnerships, and are accordingly not subject to income tax. Taxable income or loss of the partnerships is allocated to their partners.

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 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. For the three and twelve months ended December 31, 2016, deferred tax expense was $3,916 and $5,536, respectively.

For each of the three and twelve months ended December 31, 2016, the Company had current income tax expense of $0. The Company anticipates that future current income tax expense will result from distributions from its U.S. subsidiaries to the Canadian corporation, which will be subject to a 5% withholding tax. No such distributions were made during 2016.

Cash Flow Analysis

		Year ended December 31, 2016
Cash provided by operating activities	$	9,240
Cash provided by financing activities		257,616
Cash used in investing activities		(266,394)
Increase in cash and cash equivalents	$	462

Cash Provided by Operating Activities

Cash provided by operating activities for the twelve months ended December 31, 2016 was $9,240. This was primarily due to cash received for rent and interest on mezzanine loans, partially offset by cash paid for interest, real estate taxes and operating expenses.

Cash Provided by Financing Activities

Cash provided by financing activities for the twelve months ended December 31, 2016 was $257,616. This was primarily driven by the net cash provided by the issuance of shares of $169,962. In addition, cash provided by financing activities increased by a net $80,985 drawn on the Facility and $42,762 of net proceeds from the issuance of the 2016 Convertible Debentures. These increases were partially offset by a net $22,083 paydown of mortgages payable, a net $2,500 of notes payable repaid during the period, $9,711 of dividends paid to common shareholders and debt issuance costs paid of $2,043.

Cash Used in Investing Activities

Cash used in investing activities for the twelve months ended December 31, 2016 was $266,394. This was primarily due to the acquisitions and capital expenditures made during the period of $220,938. In addition, the Company issued and acquired mezzanine loans for $38,452, paid construction costs of $6,087 and made investments in joint ventures of $917.

Financial Position

Total assets of $677,719 is primarily comprised of $628,471 of investment properties, which represents the fair market value of Company's portfolio of properties including capital expenditures during the twelve months ended December 31, 2016. Cash on hand at December 31, 2016 was $7,651, other assets were $2,122, and loans receivable were $29,081. Other assets primarily consists of $1,208 of amounts owed under development leases, $361 of prepaid costs and $533 of other costs. Tenant and other receivables of $7,040 is primarily comprised of real estate tax and rent receivables. The loans receivable balance primarily relates to the issuance of mezzanine loans for the development of seniors housing and care properties in the United States.

Total liabilities of $380,482 includes current liabilities of $65,611 and non-current liabilities of $314,871. The current liabilities include $6,915 of real estate taxes payable, of which $510 relates to the period prior to the Company's ownership of the respective properties, and for which cash consideration was provided by the seller at closing, and $6,405 of which relates to real estate tax liabilities. Accounts payable and accrued liabilities represents $2,387 of the balance in current liabilities. Current liabilities also includes $47,889 representing the current portion of mortgages payable, net of loan fees, assumed on a property acquired during the period. Also included in current liabilities is a $6,442 construction cost liability. Other current liabilities also include $1,978 to record a dividend payable. Non-current liabilities include the balance outstanding on the Facility of $225,290, which is net of loan fees, $41,827 representing the non-current portion of mortgages payable, net of loan fees, and a $5,583 deferred tax liability.

Summary of Quarterly Results

The following table summarizes the Company's quarterly unaudited financial information from its date of formation, October 7, 2015 through December 31, 2016:

	Three months ended December 31, 2016	Three months ended September 30, 2016	Three months ended June 30, 2016	Three months ended March 31, 2016	Period from October 7, 2015 to December 31, 2015
Revenue	$ 13,849	$ 11,037	$ 8,625	$ 7,354	$ 5,107
Finance costs	3,100	2,396	4,030	4,441	2,808
Real estate tax expense	397	26	—	4,621	—
General and administrative expenses	2,115	955	1,396	492	1,266
(Gain)/loss in value of investment properties - IFRIC 21	1,767	1,614	1,384	(3,466)	843
(Gain)/loss in value of investment properties	622	3,292	1,772	822	5,945
(Gain)/loss in value of derivative instruments	(3,206)	(1,003)	816	1,850	—
Net income (loss)	5,138	2,137	(773)	(1,406)	(5,755)
Income (loss) per share: Basic	$ 0.17	$ 0.09	$ (0.09)	$ 0.68	$ (2.78)
Income (loss) per share: Diluted	$ 0.17	$ 0.09	$ (0.09)	$ 0.68	$ (2.78)
Funds from operations [(1)]	5,803	6,046	1,815	1,266	190
Funds from operations per share: Basic	$ 0.20	$ 0.25	[(2)]	[(2)]	[(2)]
Funds from operations per share: Diluted	$ 0.19	$ 0.25	[(2)]	[(2)]	[(2)]
Adjusted funds from operations [(1)]	7,149	5,511	3,848	3,321	1,574
Adjusted funds from operations per share: Basic	$ 0.24	$ 0.23	[(2)]	[(2)]	[(2)]
Adjusted funds from operations per share: Diluted	$ 0.24	$ 0.23	[(2)]	[(2)]	[(2)]

(1) Funds from operations and adjusted funds from operations are supplemental measures which are not defined by IFRS, see *Financial Measures* below.

(2) The three months ended June 30, 2016, March 31, 2016 and the period from October 7, 2015 to December 31, 2015 do not provide a normalized basis on which FFO or AFFO per share should be evaluated due to the Reverse Takeover, the June Offering and the timing of the property acquisitions. Accordingly, we have not included per share values.

Liquidity and Capital Resources

The Company's objectives when managing capital are to ensure sufficient liquidity to pursue its organic growth combined with strategic acquisitions, and to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk and preserves the ability to meet financial obligations.

The capital of the Company consists of mortgages payable, the Facility, convertible debentures and shareholders' equity.

The Company sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets, as well as with consideration of externally imposed capital requirements. In managing its capital structure, the Company monitors performance throughout the period to ensure working capital requirements are funded from operations, available cash on deposit and available financing. The Company may make changes to its capital structure in order to support the broader corporate strategy or in light of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue equity or new debt, issue new debt with different characteristics to replace existing debt, or reduce the amount of existing debt.

The real estate industry is capital-intensive by nature. As a result, debt capital is an important aspect in managing the business. In addition, financial leverage is used to enhance terms from purchased real estate. The Company actively monitors debt maturities and available debt financing options.

Under the terms of the Company's credit facility, the Company is required to meet certain financial and non-financial covenants that are customary for the nature and phase of the Company's current business structure.

Debt Strategy and Indebtedness

Debt Strategy

The Company seeks to maintain a combination of short, medium and long-term debt maturities that are appropriate for the overall debt level of its portfolio, taking into account availability of financing and market conditions and the financial characteristics of the properties. The Company utilizes conventional property-specific secured mortgages and secured floating rate bank financing, as well as unsecured and non-recourse financing. Management's objectives are to access the lowest cost debt with flexible terms, to diversify the Company's lender base, to have a large portion of debt be of fixed rate, and to have a debt maturity schedule spread over a time horizon in order to effectively manage interest rate risk and to be in a position to finance the Company within its target debt levels when investment opportunities are available. Over the long-term, the Company strives to have a portfolio average years to maturity of 6-8 years. The Company targets a debt level of 50-55% of gross book value, and 70-85% of its debt be of fixed rate.

Management monitors the Company's debt by reviewing debt to gross book value ratio, interest coverage ratio, debt maturity schedule, and the ratio of fixed versus floating rate debt.

Indebtedness

	Principal Amount	Weighted Average Interest Rate	Years to Maturity
Fixed Rate Indebtedness			
Term loan	$ 200,000	4.2% (1)	2.8
Mortgages payable	45,660	4.3%	9.7
Convertible debentures	43,352	5.0%	5.1
	289,012	4.3%	4.3
Variable Rate Indebtedness			
Revolver	28,000	3.8%	1.8
Mortgages payable	44,290	3.9%	0.6
	72,290	3.8%	1.1
Total Indebtedness	$ 361,302	4.2%	3.6
Less Loan Fees	(5,350)		
Mark-to-market adjustment, net	268		
Carrying Amount	$ 356,220		

(1) The Company entered into a Swap Agreement effectively fixing the interest rate at 4.16% through October 30, 2019.

Debt to Gross Book Value

Debt to gross book value is calculated by dividing the total indebtedness, net of loan costs, by the gross book value of the Company. At December 31, 2016, the Company's total consolidated indebtedness is approximately $356,220, which represents approximately 52.6% of gross book value. Excluding the convertible debentures, total consolidated indebtedness is approximately $315,006, which is 46.5% of gross book value. Fixed rate debt represents approximately 80.0% of the Company's gross total indebtedness.

Fixed Charge Coverage Ratio

The Company's fixed charge coverage ratio is calculated by dividing earnings before interest, taxes, depreciation and amortization by certain fixed charges comprised of interest expense payable in cash, regularly scheduled principal payments and preferred dividends paid. For the year ended December 31, 2016 the fixed charge coverage ratio of the Company is 2.85 (2015 - 2.84).

Repayment Summary

Management attempts to stagger the maturity of the Company's fixed rate debt with the objective of achieving a distribution of maturities over a time horizon. This strategy reduces the Company's exposure to interest rate fluctuations on its fixed rate debt in any one period and reduces liquidity risk. From time to time, the Company will assume existing debt upon the acquisition of income properties, and the maturity of such debt may not fit within the overall target debt maturity profile of the Company.

Management, when appropriate, strives to minimize variable rate debt. To manage interest rate risk, management of the Company entered the Swap Agreement effective January 29, 2016. In the Swap Agreement, the Company agreed to exchange the difference between fixed and variable rate interest on a principal amount of $147,015 effectively fixing the interest at 4.20%. On November 30, 2016, the company increased the principal amount for which interest is exchanged under the Swap Agreement to $200,000 effectively fixing the interest at a rate of 4.16% through its maturity on October 30, 2019. The strategy of the Interest Rate Swap is to convert variable interest cash outflows into known fixed interest cash outflows.

Contractual Commitments

A summary of future contractual commitments as at December 31, 2016, including expected interest payments, is as follows:

	Total	2017	2018	2019	2020	2021	Thereafter
Facility	$ 253,792	$ 9,547	$ 37,338	$ 206,907	$ —	$ —	$ —
Mortgages payable	106,875	50,864	2,572	6,807	2,591	2,591	41,450
Convertible debentures	56,438	2,250	2,250	2,250	2,250	2,250	45,188
Accounts payable and accrued liabilities	2,387	2,387	—	—	—	—	—
Real estate taxes payable	6,915	6,915	—	—	—	—	—
Construction payable	6,442	6,442	—	—	—	—	—
Dividends payable	1,978	1,978	—	—	—	—	—
Other non-current liabilities	957	204	133	16	—	—	604
Purchase commitment	11,018	11,018	—	—	—	—	—

On October 30, 2015, the Company entered into a credit facility agreement (the "Facility"). On October 31, 2016, the Company exercised the accordion feature on the Facility and increased its total capacity from $200,000 to $285,000. As of December 31, 2016, the Company has received commitments from banks to fulfill $200,000 of the term loan capacity and $85,000 of the revolving line of credit capacity. The term loan has a maturity date of October 30, 2019. The revolving line of credit has a maturity date of October 30, 2018, and has a one year extension option. At December 31, 2016, the Facility is secured by 21 properties located in the United States. The Facility provides for interest-only payments during the term and a borrowing rate of LIBOR plus 300 basis points. As at December 31, 2016, the security provided the Company with a borrowing base of $228,118, which represents the maximum amount that can be drawn.

Mortgages payable is comprised of mortgages secured by individual investment properties.

Accounts payable relate primarily to accrued realty taxes, professional fees and other accrued costs.

Dividends payable relates to the December 2016 dividend declared.

Other non-current liabilities relates to the issuance of deferred shares under the Company's deferred share incentive plan, and security deposits received from tenant operators.

On March 31, 2016, a subsidiary of the Company entered into a purchase and sale agreement to acquire a portfolio of 3 properties in Syracuse, New York (the "Hearth Portfolio") for total consideration of $50,863. As of December 31, 2016, 1 of these properties, Keepsake Village at Greenpoint, has yet to be acquired. The Company has a commitment to acquire Keepsake Village at Greenpoint for total consideration of $11,018.

Financial Instruments and Other Instruments

To manage interest rate risk, the Company entered into the Swap Agreement. In the Swap Agreement, the Company agreed to exchange the difference between fixed and variable rate interest on a principal amount of $147,015 effectively fixing the interest at 4.20%. On November 30, 2016, the company increased the principal amount for which interest is exchanged under the Swap Agreement to $200,000 effectively fixing the interest at a rate of 4.16% through its maturity on October 30, 2019. The Interest Rate Swap is not designated as a hedge and is marked to fair value each reporting period through finance cost in the consolidated statements of income and other comprehensive income.

Off-Balance Sheet Items

There were no off-balance sheet items as of December 31, 2016.

Transactions Between Related Parties

During the year ended December 31, 2016, the following related party transactions occurred:

The Company paid an asset management and administrative services fees of $896 (2015 - $111) to an asset management company (the "Asset Manager"), which is owned 100% by the chairman of the Company. Prior to the completion of the Reverse Takeover on April 4, 2016, the fee was payable pursuant to an asset management agreement (the "First Asset Management Agreement") dated October 29, 2015, and required the Company to pay an asset management fee equal to 3.0% of gross rentals received. On April 4, 2016, the Company entered into a new asset management agreement with the same Asset Manager (the "Second Asset Management Agreement" and together with the First Asset Management Agreement, the "Asset Management Agreements"), which required the Company to pay management fees at a rate of 0.3% of the estimated gross book value of the Company up to a gross book value of $1,000,000, plus 0.1% of the gross book value of the Company in excess of $1,000,000.

On November 1, 2016, the Company announced that it had completed the internalization of asset management functions. The Second Asset Management Agreement was terminated effective October 31, 2016, and no fees or penalties were or will be paid to the Asset Manager. In connection with internalization, the Company and Mainstreet Asset Management, Inc ("MAMI"), which is 100% owned by the chairman of the Company, entered into an administrative services agreement pursuant to which MAMI will provide the Company with certain administrative services, including information technology support and equipment as well as dedicated office space for a period of up to two years, in exchange for a one time fee of $65 and a monthly fee of $23.

MS Investment owns 1,555,279 common shares of the Company. The Company pays dividends on these common shares whenever common share dividends are declared and paid.

On October 30, 2015, the Company entered into a $2,500 note payable with an entity that is owned 100% by the chairman of the Company. On February 26, 2016, this note was amended and increased by $1,000. On April 14, 2016, $1,400 of this note was repaid. On April 28, 2016, this note was further increased by $1,500. The note payable had an original maturity date of October 30, 2016 and an interest rate of 5.0% per annum. The note payable of $3,600 and all accrued interest was repaid in full on June 2, 2016.

On April 26, 2016, a subsidiary of the Company entered into a $1,400 note payable with an entity that is owned 100% by the chairman of the Company. The note payable had an original maturity date of October 30, 2016 and an interest rate of 5.0% per annum. The note payable of $1,400 and all accrued interest was repaid in full on June 2, 2016.

On April 4, 2016, the Company entered into a development agreement with Mainstreet LLC, which is majority owned by the chairman of the Company, with the right to provide mezzanine financing for projected construction costs for all suitable development properties identified by Mainstreet LLC. The Company will have an option to acquire any property for which it has provided mezzanine financing pursuant to the terms set out in the development agreement. As at December 31, 2016, the Company has $26,572 in outstanding mezzanine financing receivable from wholly owned subsidiaries of Mainstreet LLC.

On June 2, 2016, a wholly owned subsidiary of the Company acquired three properties located in Chesterton, Indiana; Mooresville, Indiana; and Topeka, Kansas, respectively, for a combined purchase price of $59,821 plus transaction costs. These properties were acquired from wholly owned subsidiaries of Mainstreet LLC.

At the acquisition date, the Topeka, Kansas property was under development, and a wholly owned subsidiary of the Company entered into a development lease in conjunction with its purchase of the property, whereby the vendor of the property, Mainstreet LLC, agreed to fund payment until rental income commenced. Upon execution of the development lease, the Company recorded a development lease receivable of $259, which reduced the cost of the investment property acquired and which was subsequently paid.

At the time of closing the Company also assumed $2,249 of liabilities related to the remaining development costs of the property which were recorded as a development cost liability on the statement of financial position. There is no remaining development cost liability related to the Topeka, Kansas property as at December 31, 2016.

On June 2, 2016, a wholly owned subsidiary of the Company acquired a portfolio of seven properties in Scranton, Pennsylvania (the "Scranton Portfolio") for a purchase price of $29,091 plus transaction costs. The Scranton Portfolio was owned 50% by an entity that is owned 100% by the chairman of the Company.

On November 1, 2016, a wholly owned subsidiary of the Company acquired four properties located in Leawood, Kansas; Houston, Texas; Fort Worth, Texas and Wichita, Kansas, respectively, for a combined purchase price of $92,321 plus transaction costs. These properties were acquired from wholly owned subsidiaries of Mainstreet LLC.

At the acquisition date, all four properties were under development, and a wholly owned subsidiary of the Company entered into a development lease in conjunction with its purchase of the property, whereby the vendor of the property, Mainstreet LLC, agreed to fund payment until rental income commences. Upon execution of the development leases, the Company recorded a development lease receivable of $2,076, which reduced the cost of the investment properties acquired. The Leawood, Kansas property is operational and rent commenced on December 1, 2016. The Company has received total payments of $869 related to the development lease receivables as of December 31, 2016.

At the time of closing the Company also assumed $2,984 of liabilities related to development costs of the properties which was recorded as a construction cost liability on the statement of financial position. Subsequent to the acquisition date, an additional $7,297 of construction was completed on these properties as of December 31, 2016, with an additional $7,036 remaining to be completed. The Company received a credit from Mainstreet LLC at closing in the amount of $17,317 related to the construction costs to be completed.

The Company has issued certain mezzanine loans to entities which are wholly owned subsidiaries of Mainstreet LLC. The loans have been issued for the development of seniors housing and care properties in the United States. The mezzanine loans provide for annual interest, of which a portion is payable at a current pay rate on a monthly basis, with the remaining portion of interest accruing until the earlier of the loan's maturity or prepayment ("PIK Interest"). The mezzanine loans provide the Company with the right to purchase the development upon its substantial completion at fair market value.

On December 22, 2016, a subsidiary of the Company entered into a full recourse loan agreement with MS Investment with a capacity of $5,000 to be used by MS Investment for development costs, operating capital expenditures or other costs. $2,500 of the loan was advanced to MS Investment on December 22, 2016, and an additional $2,500 was advanced on January 6, 2017. The loan provides for an annual interest rate of 10.0%, of which 8.5% is payable at a current pay rate on a monthly basis, with an additional 1.5% accruing at PIK Interest and due at the repayment of the loan. The loan matures on December 22, 2018.

The Company expects to continue to transact with Mainstreet LLC and its affiliates as a result of the Development Agreements, income support agreement and administrative agreement.

During the period from October 7, 2015 to December 31, 2015, the following related party transactions occurred:

The Company paid an asset management fee to the Asset Manager. The fee was payable pursuant to the First Asset Management Agreement, and fees paid to the Asset Manager were $111. Included in accounts payable at December 31, 2015 is $3 payable to the Asset Manager

On October 30, 2015, the Company entered into a $2,500 note payable with an entity that is owned 100% by the chairman of the Company. On February 26, 2016, this note was amended and increased by $1,000. On April 14, 2016, $1,400 of this note was repaid. On April 28, 2016, this note was further increased by $1,500. The note payable had an original maturity

date of October 30, 2016 and an interest rate of 5.0% per annum. The note payable of $3,600 and all accrued interest was repaid in full on June 2, 2016.

Total interest accrued on the note payable for the period ended December 31, 2015 was $22.

On October 30, 2015, the Company received $2,000 in the form of a note payable to an entity which is owned 100% by a key executive of the Company. The note payable was issued on October 30, 2015, and bore interest at a rate of 8.0% annually. The note payable had an initial maturity date of October 30, 2020, but was repaid in full on December 18, 2015. Total interest paid with respect to the note payable was $22.

For the periods ended December 31, 2016, the consolidated statements of income and other comprehensive income include the following revenue and expenses resulting from transactions with related parties:

(dollar amounts in thousands of U.S. Dollars)		Year ended December 31, 2016		Period from October 7, 2015 to December 31, 2015
Revenues:				
Other income - loan interest revenue	$	899	$	—
Other income - investment in MS-SW Development Fund Holdings, LLC		55		—
Total revenues	$	954	$	—
Expenses:				
Operating - management fee	$	896	$	111
Finance costs - interest on related party note payable		72		44
Total expenses	$	968	$	155

At December 31, 2016 and 2015, the condensed consolidated interim statements of financial position include the following related party balances:

(dollar amounts in thousands of U.S. Dollars)		December 31, 2016		December 31, 2015
Assets:				
Loans receivable	$	29,081	$	—
Other - investment in MS-SW Development Fund Holdings, LLC		894		—
Other - development lease receivable		1,208		—
Total Assets	$	31,183	$	—
Liabilities:				
Accounts payable	$	19	$	3
Accrued interest		—		22
Note payable to related party		—		2,500
Total liabilities	$	19	$	2,525

Significant Areas of Estimation

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses throughout the period. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that may have a significant risk of resulting in a material adjustment within the next financial year are as follows:

(i) Change in value of investment properties:

Investment properties, which include income properties, are carried on the consolidated statement of financial position at fair value. The fair value of each investment property is determined using the direct capitalized income approach. The stabilized future cash flows are divided by an overall capitalization rate. The capitalization rates are derived from a combination of third-party appraisals and industry market data (Level 3 inputs). A significant increase (decrease) in capitalization rate estimates in isolation would result in significantly lower (higher) fair value. The valuation of investment properties is one of the principal estimates and uncertainties of the Company. Refer to note 5 to the Financial Statements of the Company for the period ended December 31, 2016 for further information on estimates and assumptions made in determination of the fair value of investment properties.

Significant Accounting Policies and Changes in Accounting Policies

A summary of significant accounting policies and changes in accounting policies is set forth in notes 1 and 2, respectively, of the Financial Statements for the period ended December 31, 2016.

Risks and Uncertainties

See "Risk Factors" in the Company's annual information form dated March 29, 2017 for a discussion of risks that could materially affect the Company.

Controls and Procedures

We are committed to maintaining effective disclosure controls and procedures and internal control over financial reporting. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that its objectives are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; and (ii) the impact of isolated errors. Additionally, controls may be circumvented by the unauthorized acts of individuals, by the collusion of two or more people or by management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2016, an evaluation was carried out, under the supervision of and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as defined under National Instrument 52-109. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures were effective December 31, 2016.

Internal Controls Over Financial Reporting

We are responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision of the design and operating effectiveness of our internal controls over financial reporting as at December 31, 2016, and based on that assessment determined that the Company's internal controls over financial reporting were appropriately designed and were operating effectively in accordance with the 2013 COSO framework as published by the Committee of Sponsoring Organizations of the Treadway Commission.

There were no changes in internal controls over financial reporting that occurred during the year ended December 31, 2016 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Outstanding Shares

As of March 29, 2017, 32,265,269 common shares in the capital of the Company were issued and outstanding. Additionally, each 2016 Convertible Debenture is convertible into freely tradable shares of the Company at the option of the holder at any time prior to the earlier of January 31, 2022 and the last business day immediately preceding the date specified by the Company for redemption, at a conversion price of $11.00 per common share. If every 2016 Convertible Debenture were converted into common shares of the Company, it would result in the issuance of 4,090,909 additional common shares.

Financial Measures

Funds From Operations ("FFO") and Adjusted Funds From Operations ("AFFO") are supplemental measures used by management to track the Company's performance. Such measures are not defined by IFRS and, therefore, should not be construed as alternatives to net profit calculated in accordance with IFRS. Further, the supplemental measures used by management may not be comparable to similar measures presented by other real estate enterprises. Management believes these terms reflect the operating performance and cash flow of the Company. The Company believes that AFFO and AFFO per share provide the most effective metric by which to evaluate the performance of the Company, and which most accurately identifies the cash flows available for distribution to shareholders.

Reconciliation to net profit/loss, as defined under IFRS, for FFO and AFFO are presented below.

Funds From Operations

FFO, consistent with the REALpac definition, means net profit in accordance with IFRS, (i) plus or minus fair value adjustments on investment properties; (ii) plus or minus gains or losses from sales of investment properties; (iii) plus or minus certain other fair value adjustments; (iv) plus transaction costs expensed as a result of the purchase of property being accounted for as a business combination; (v) plus property taxes accounted for under IFRIC-21; and (vi) plus deferred income tax expense, after adjustments for equity accounted entities calculated to reflect FFO on the same basis as consolidated properties.

The use of FFO, combined with the required IFRS presentations, has been included for the purpose of improving the understanding of the operating results of the Company. FFO provides an operating performance measure that provides a perspective on the financial performance that is not immediately apparent from net profit determined in accordance with IFRS.

To the extent the Company's 2016 Convertible Debentures were dilutive to FFO per share, the related interest has been added back to calculate a diluted FFO for the purpose of calculating diluted FFO per share.

The Company's FFO is calculated as follows (in thousands of U.S. dollars):

	Three months ended December 31, 2016	Twelve months ended December 31, 2016
Net income for the period	$ 5,138	$ 4,877
Add/(deduct):		
Change in fair value of investment properties	2,388	7,806
Property taxes accounted for under IFRIC 21	(1,766)	(1,273)
Fair value adjustment of derivative instruments	(3,206)	(1,543)
Deferred income tax expense	3,916	5,536
Fair value gain on subscription receipts	(667)	(667)
Funds from operations	$ 5,803	$ 14,736
Interest expense on 2016 Convertible Debentures	$ 94	$ 94
Total diluted funds from operations	$ 5,897	$ 14,830
Weighted average number of shares: Basic	29,607,972	16,236,291
Weighted average shares issued if all 2016 Convertible	711,462	178,838
Weighted average number of shares: Diluted	30,319,434	16,415,129
Funds from operations per share	$ 0.20	$ 0.91
Diluted funds from operations per share	$ 0.19	$ 0.90

While the Company believes per share measures to be an effective means of evaluating performance, FFO per share for the twelve month period ended December 31, 2016 does not provide a normalized basis on which FFO per share should be evaluated due to the Reverse Takeover , the June Offering, the October Offering and the timing of the property acquisitions.

Adjusted Funds From Operations

The Company is of the view that AFFO is an effective measure of the cash generated from operations, after providing for certain adjustments.

AFFO means FFO, subject to certain adjustments, including: (i) mark-to-market adjustments on mortgages, amortization of deferred financing costs, and compensation expense related to deferred share incentive plans, (ii) adjusting for any differences resulting from recognizing property rental revenues on a straight-line basis, (iii) interest expense on the convertible debentures issued in 2015, (iv) one-time asset management internalization costs and (v) other adjustments as determined by the directors of the Company in their sole discretion.

AFFO is a financial measure not defined under IFRS, and AFFO as presented herein may not be comparable to similar measures presented by other real estate investment trusts or real estate enterprises.

To the extent the Company's 2016 Convertible Debentures were dilutive to AFFO per share, the related interest has been added back to calculate a diluted AFFO for the purpose of calculating diluted AFFO per share.

The Company's AFFO is calculated as follows (in thousands of U.S. dollars):

	Three months ended December 31, 2016	Twelve months ended December 31, 2016
Funds from operations	$ 5,803	$ 14,736
Add/(deduct):		
Straight-line rent adjustments	(1,278)	(4,224)
Interest expense on 2015 Convertible Debentures	—	4,621
Amortization of financing costs	336	887
Mark-to-market debt adjustments	(88)	(115)
One-time costs associated with debt refinancing	597	597
Deferred share incentive plan compensation	143	352
Income and other support payments	122	244
Development lease payments received	868	1,127
One-time asset management internalization costs	646	646
Non-cash listing expense	—	700
Adjusted funds from operations	$ 7,149	$ 19,571
Interest expense on 2016 Convertible Debentures	$ 94	$ 94
Total diluted adjusted funds from operations	$ 7,243	$ 19,665
Weighted average number of shares: Basic	29,607,972	16,236,291
Weighted average shares issued if all 2016 Convertible Debentures were	711,462	178,838
Weighted average number of shares: Diluted	30,319,434	16,415,129
Adjusted funds from operations per share	$ 0.24	$ 1.21
Diluted adjusted funds from operations per share	$ 0.24	$ 1.20

While the Company believes per share measures to be an effective means of evaluating performance, AFFO per share for the twelve month period ended December 31, 2016 does not provide a normalized basis on which AFFO per share should be evaluated due to the Reverse Takeover, the June Offering, the October Offering and the timing of the property acquisitions.

Operating Cash Flow Reconciliation

The following table provides a reconciliation of cash flows provided by operating activities to AFFO for the three months and year ended December 31, 2016:

	Three months ended December 31, 2016	Year ended December 31, 2016
Cash flows provided by operating activities	$ 4,884	$ 9,240
Change in non-cash working capital	692	5,197
Less: interest expense [(1)]	(2,896)	(8,618)
Plus: interest paid	2,690	11,383
Plus: deferred share incentive plan compensation	143	352
Plus: income support and development lease payments received	990	1,371
Plus: one-time asset management internalization costs	646	646
Adjusted funds from operations	$ 7,149	$ 19,571
Distributions declared	$ 5,896	$ 11,739
AFFO payout ratio	82%	60%

(1) Includes interest on the Facility and mortgages payable included in finance costs.

Cash Distributions

	Three months ended December 31, 2016	Year ended December 31, 2016
Cash flows provided by operating activities	$ 4,884	$ 9,240
Net income	5,138	4,877
Total distributions	5,896	11,739
Shortfall of cash provided by operations over total distributions	(1,012)	(2,499)
Shortfall of net income over total distributions	(758)	(6,862)

Total distributions for the three months and year ended December 31, 2016 exceeded net income and cash flows provided by operating activities primarily due to non-cash items. Non-cash items relating to fair value adjustments of investment properties and the Company's derivative instrument, amortization of financing costs, and the write-off of costs associated with debt refinancings are deducted from or added to net income and have no impact on cash available to pay current distributions. In addition, payments received with respect to the Company's income support agreement and development lease payments received are not added to net income, but provide cash available to pay current distributions.

Operational Measures

The Company intends to report on certain metrics regarding the underlying operations in its stabilized income properties. The Company has defined stabilized properties as follows:

Long-term care facilities and transitional care properties - stabilized upon the earlier of 80% occupancy at the underlying operating level for two consecutive quarters and 24 months after opening.

Assisted living facilities - stabilized upon the earlier of 90% occupancy for two consecutive quarters and 36 months after opening.

Stabilized properties generally include any triple-net lease property unless it is:

1. A new development that is not yet complete,
2. Not yet stabilized and is within 12 months of the above criteria,
3. Newly acquired and undergoing a major renovation or otherwise being repositioned or in transition to a new operator; or
4. Held for sale.

All of the income properties in the Company's portfolio are leased under long-term, triple-net leases. The Company believes relevant metrics to evaluating the performance in the underlying operations include operator lease coverage and occupancy. The Company's operator performance metrics are calculated utilizing data that is one quarter in arrears (i.e. as of and through September 30, 2016 for this reporting period), and, where master leases are in place for portfolios of multiple asset types, using allocated rents pursuant to consistent methodologies.

All operator data is made available solely from the information as provided by the operators and has not been independently verified by the Company.

Operator Lease Coverage

Operator lease coverage is a measure of a tenant's ability to meet their cash rent and other obligations during its normal course of business. The Company believes that both EBITDAR and EBITDARM (as defined below) provide insight to the core operations at the facility level. Metrics provided below are for the trailing 12 month ("TTM") period for all stabilized assets. For purposes of the TTM calculations, the Company has included only the period for which the stabilized properties have been owned by the Company and, therefore, the TTM metrics shown may include less than 12 months in the calculations.

EBITDAR (earnings before interest, income taxes, depreciation, amortization, and rent) lease coverage is calculated by taking the EBITDAR generated over the trailing twelve months divided by corresponding cash rent due over the same period. The Company's stabilized portfolio generated EBITDAR lease coverage is 1.3.

EBITDARM (earnings before interest, income taxes, depreciation, amortization, rent, and management fees) lease coverage is also used by the Company. Together with EBITDAR lease coverage, EBITDARM lease coverage allows the Company to evaluate operations at each property by eliminating management fees, which can vary based on the operator/tenant and its negotiated structure with the Company. The Company believes EBITDARM is valuable because it isolates the operational performance to the results of the direct operations within the facility. The Company's stabilized portfolio generated EBITDARM lease coverage is 1.7.

Through certain of its leases with operators, the Company has the ability to claw back the management fees that the operator is able to pay. This provision in the leases is enforceable when certain performance metrics are not met, as defined within the lease agreements. This mechanism further enhances the Company's position relative to the performance in the portfolio.

Operator Occupancy

The Company also utilizes operator occupancy percentage to evaluate underlying operations within the portfolio. Occupancy percentage is calculated by dividing the actual number of revenue generated days occupied from the period by the maximum available revenue days available for the period. Metrics provided below are for the trailing 12 month period for all stabilized assets based on the Company's definition of stabilization.

For the trailing twelve months ended September 30th, 2016, the Company's stabilized portfolio had an occupancy percentage of 87%.

Subsequent Events

On March 13, 2017, the Company entered into an agreement to acquire two long-term care facilities and one assisted living facility for a purchase price of $38.0 million. The properties are located within the Los Angeles and Phoenix metropolitan areas, and will be leased under a triple-net master lease with an initial 20 year term and CPI-based annual escalators. In conjunction with this transaction, the Company agreed to release the seller from its current lease obligations on three transitional care facilities the Company owns in Wichita, Kansas; Houston, Texas and Fort Worth, Texas. These facilities will continue to collect income support payments until a replacement operator is identified.