MAINSTREET HEALTH INVESTMENTS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE THREE MONTHS ENDED MARCH 31, 2017

May 5, 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 three months ended March 31, 2017. 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 three months ended March 31, 2017. 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 and the unaudited condensed consolidated interim financial statements and notes of the Company for the three months ended March 31, 2017.

Additional information relating to the Company, including the Company's annual information form dated March 29, 2017, is on SEDAR at www.sedar.com.

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 May 5, 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 Business Corporations Act (British Columbia). 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 March 31, 2017, 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, which jointly owns 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.

Recent Activities

On March 3, 2017 the Company filed a base shelf prospectus with the securities regulatory authorities in each of the provinces and territories of Canada. The prospectus is valid for a 25-month period, during which time the Company may offer and issue, from time to time, common shares, preferred shares, debt securities, warrants, subscription receipts and units, or any combination thereof, having an aggregate offering price of $500,000. The intention of the base shelf prospectus is to allow the Company to more quickly access capital when market opportunities permit.

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 $38,000. 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. On May 1, 2017, the Company entered into a lease agreement with a replacement operator with respect to the Houston, Texas property. The lease will commence at the earlier of 90 days from the date of the lease or 10 days after the facility is licensed. The Houston, Texas property will continue to collect income support payments until rent commences on this lease. The Wichita, Kansas and Fort Worth, Texas facilities will continue to collect income support payments until a replacement operator is identified and rent commences.

Selected Financial Information

(dollar amounts in thousands of U.S. Dollars, except per share amounts)		Three months ended March 31, 2017		Three months ended March 31, 2016
Operational information				
Income properties		35		10
Weighted average lease term to maturity (excludes renewal options)		13.6 years		14.6 years
Weighted average facility age		12.0 years		16.1 years
Summary financial information				
Gross book value	$	690,564		281,359
Total debt	$	364,778		144,806
Debt to gross book value %		52.8%		51.5%
Weighted average interest rate (1)		4.19%		3.43%
Revenue	$	15,522		7,354
Finance cost	$	4,346	$	4,441
General and administrative expenses	$	2,387	$	492
Net income	$	4,983	$	(1,406)
Total comprehensive income	$	5,140	$	(1,406)
Earnings per share	$	0.15	$	(0.68)
Funds from operations (FFO) (3)	$	6,784	$	1,266
FFO per share (3)	$	0.21	$	0.61
Adjusted funds from operations (AFFO) (3)	$	8,071	$	3,321
AFFO per share (3)	$	0.25	$	1.60
Common share dividends declared	$	5,940	$	—
Dividends declared per share	$	0.18417	$	—
Payout ratio (2)		74%		—%

(1) Weighted average interest rate includes $200,000 of debt on the Company's credit facility which is fixed at 4.16% by the Interest Rate Swap at March 31, 2017. The entire outstanding balance on the Company's credit facility was fixed at 4.2% by the Company's interest rate swap at March 31, 2016.

(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 three month period ended March 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 offering of common shares on June 2, 2016 (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		
	March 31, 2017 Actual	March 31, 2017 Forecast	$ Variance
Revenue:			
Rental	$ 13,687	$ 11,570	$ 2,117
Lease revenue from joint ventures	707	—	707
Interest income	1,128	184	944
	15,522	11,754	3,768
Expenses:			
Finance costs	4,346	2,527	1,819
Real estate tax expense	7,859	6,965	894
	12,205	9,492	2,713
Income from operations	3,317	2,262	1,055
Fair value gain on investment properties	(5,801)	(4,029)	(1,772)
Change in value of financial instruments	(2,185)	—	(2,185)
General and administrative expenses	2,387	902	1,485
Income before income taxes	8,916	5,389	3,527
Income tax expense:			
Current	—	111	(111)
Deferred	3,933	2,126	1,807
	3,933	2,237	1,696
Net income	$ 4,983	$ 3,152	$ 1,831
Funds from operations (FFO)	$ 6,784	$ 6,473	$ 311
Adjusted funds from operations (AFFO)	$ 8,071	$ 5,655	$ 2,416
FFO per share	$ 0.21	$ 0.28	$ (0.07)
AFFO per share	$ 0.25	$ 0.25	$ —

The rental revenue and lease revenue from joint ventures increase compared to forecast for the three months ending March 31, 2017 is primarily due to acquisitions completed during the fourth quarter of fiscal 2016, which were not contemplated in the forecast.

Interest income was favorable compared to the forecast for the three month period ending March 31, 2017, primarily due to additional mezzanine loans placed that were not contemplated in the forecast. The Company has placed 10 mezzanine loans with balances totaling $21,646 in addition to those included in the original forecast. In addition, the Company earned interest income of $122 on a loan receivable with a balance of $5,021 as at March 31, 2017, which was not contemplated in the forecast.

Finance costs were unfavorable compared to the forecast for the three month period ended March 31, 2017 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.

Real estate tax expense was unfavorable compared to the forecast for the three month period ended March 31, 2017 primarily due to additional properties acquired in the fourth fiscal quarter of 2016.

Fair value loss on investment properties was favorable relative to forecast for the three month period ended March 31, 2017 primarily due to fair value adjustments made with respect to the IFRIC 21 adjustment for real estate taxes and straight line rent. These fair value adjustments were both favorable to forecast as a result of additional properties acquired in the fourth fiscal quarter of 2016.

The Company did not forecast changes in value of its derivative instrument or its income support receivable; therefore, the variance in the fair value of financial instruments is entirely due to actual changes in fair value of the interest rate swap and the income support receivable.

General and administrative expenses for the three months ended March 31, 2017 were unfavorable compared to forecast, primarily due to the acquisitions during the fourth fiscal quarter of 2016 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. In addition, general and administrative expense includes expense related to the Company's deferred share incentive plan. Deferred share expense for the three months ended March 31, 2017 includes expense related to employee grants that was not contemplated in the forecast. It also includes deferred share expense associated with a separation agreement entered into between the Company and its former chief executive officer, who resigned during the period.

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 income from acquisitions made during the fourth fiscal quarter of 2016, which were not contemplated in the forecast.

Funds from operations was favorable to forecast primarily due to the impact of acquisitions made during the fourth fiscal quarter of 2016, which were not contemplated in the forecast. The favorable impact was partially offset by increased general and administrative expenses as described above.

Adjusted funds from operations was favorable to forecast primarily due to the impact of acquisitions made during the fourth fiscal quarter of 2016, which were not contemplated in the forecast. In addition, the Company received payments under an income support agreement entered into with respect to certain acquisitions made on November 1, 2016. These payments are not treated as revenue in the condensed consolidated interim statements of income (loss) and comprehensive income (loss). Because they represent cash received and available for use by the Company, the payments received have been included in adjusted funds from operations. The favorable impact was partially offset by increased general and administrative expenses as described above.

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 FFO per share was $0.27 and AFFO per share was $0.23.

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 Months Ended March 31, 2017
(unless otherwise stated, amounts are in thousands of U.S. dollars)

Revenue

	Three months ended March 31, 2017	Three months ended March 31, 2016
Cash rentals received	$ 10,396	$ 5,377
Straight-line rent adjustments	1,375	822
Property tax recoveries	1,916	1,155
	13,687	7,354
Lease revenue from joint ventures	707	—
Interest income	1,128	—
Total revenue	$ 15,522	$ 7,354

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. The increase in rental revenues is due to additional properties acquired. Rental revenues for the three months ended March 31, 2017 include revenue from 31 income properties, whereas rental revenues for the three months ended March 31, 2016 include revenues from 10 income properties.

Lease revenue from joint ventures represents revenue earned under lease arrangements with four operating entities which are jointly owned by the Company. Interest income relates to interest income earned on outstanding loans receivable. The Company had no outstanding loans receivable in the prior year period.

Finance Cost

Finance cost consists of the following:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Interest expense on the Facility	$ 2,215	$ 1,334
Interest expense on mortgages payable	807	—
Interest expense on notes payable	—	36
Interest expense on convertible debentures	563	2,722
Amortization expense	573	155
Interest rate swap payments	191	194
Mark-to-market debt adjustments	(3)	—
	$ 4,346	$ 4,441

Finance costs are primarily related to interest and amortization on the Company's credit facility entered into on October 30, 2015 (the "Facility") and mortgages payable. Interest expense increased in the three months ended March 31, 2017 compared to prior period due primarily to additional Facility funds drawn associated with the assets acquired in the fourth fiscal quarter of 2016. The Company had no mortgages payable outstanding for the three months ended March 31, 2016.

Interest expense on convertible debentures for the three months ended March 31, 2016 was related to the 2015 Convertible Debentures. The 2015 Convertible Debentures had an outstanding principal balance of $110,252 at March 31, 2016, and were repaid in full on June 2, 2016. Interest expense on convertible debentures for the three months ended March 31, 2017 consisted of interest on the 2016 Convertible Debentures, which consists of $45,000 aggregate principal amount of convertible unsecured subordinated debentures issued on December 16, 2016.

Real Estate Tax Expense

Real estate tax expense was $7,859 for the three months ended March 31, 2017 (2016 - $4,621), which represents property tax expensed for the year for properties owned on January 1, 2017, 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 March 31, 2017	Three months ended March 31, 2016
Compensation and benefits	$ 753	$ —
Management and administrative fees	68	161
Professional fees	397	331
Deferred share compensation	741	—
Other	428	—
	$ 2,387	$ 492

Compensation and benefits expense includes the cost of salaries, bonuses and benefits during the period. There was no cost associated with these items in the prior year period as the Company was managed by an external asset manager.

Management and administrative fees include amounts paid to Mainstreet Asset Management, Inc. ("MAMI") for services provided under the First Asset Management Agreement (as defined below) for the three months ended March 31, 2016 and under the administrative services agreement for the three months ended March 31, 2017.

There were no deferred shares granted or outstanding during the three months ended March 31, 2016.

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. No such corresponding expenses were incurred in the three months ended March 31, 2016.

Change in Value of Investment Properties

The change in value of investment properties was a decrease of $53 for the three months ended March 31, 2017. The decrease was primarily due to an adjustment to record investment properties at fair value based on the Company's estimate of fair value using level 3 inputs as of March 31, 2017 and an adjustment to offset the impact of the increase in straight-line rent receivable.

Change in Value of Financial Instruments

The favorable impact of the change in value of financial instruments of $2,185 for the three months ended March 31, 2017, relates to the recognition of the fair value of the Company's interest rate swap and a fair value adjustment to income support receivable. The interest rate swap accounted for $525 of the change, and represents the fair value adjustments during the period as a result of fluctuating market interest rates. The interest rate swap is not designated as a hedge and is marked to fair value each reporting period. The Company revalued the income support receivable related to the Wichita, Kansas; Houston, Texas and Fort Worth, Texas properties, and has recorded a benefit of $1,660 for the three months ended March 31, 2017.

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 months ended March 31, 2017, deferred tax expense was $3,933. There was no deferred tax expense recorded for the three months ended March 31, 2016.

For the three months ended March 31, 2017 and 2016, the Company had no current income tax expense. 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 the periods presented.

Cash Flow Analysis

	Three months ended March 31, 2017	Three months ended March 31, 2016
Cash provided by operating activities	$ 11,199	$ 118
Cash provided by financing activities	2,043	959
Cash used in investing activities	(13,762)	(1,834)
Increase in cash and cash equivalents	$ (520)	$ (757)

Cash Provided by Operating Activities

Cash provided by operating activities for the three months ended March 31, 2017 increased over the comparable prior year period primarily due to the net impact of operating cash flows of acquisitions made and loans receivable issued. The change in cash provided by operating activities was also impacted by changes in working capital balances.

Cash Provided by Financing Activities

Cash provided by financing activities for the three months ended March 31, 2017 increased over the comparable prior year period as a result of net activity on the Facility of $12,762, the proceeds of which were used in part to fund the mortgages payable repayments of $37,812. The Company also had proceeds from mortgages payable of $33,706 and paid debt issuance costs of $878 during the period. In the prior year period, the Company had proceeds of $1,000 from a note payable. Additionally, the Company paid $5,857 of dividends to common shareholders during the three months ended March 31, 2017, but did not pay dividends during the comparable prior year period.

Cash Used in Investing Activities

Cash used in investing activities for the three months ended March 31, 2017 was $13,762. This was primarily due to the capital expenditures made during the period of $7,584. In addition, the Company issued loans receivable for $2,879, paid construction payables of $2,549 and made a deposit on a future acquisition of $750. For the three months ended March 31, 2016, $1,158 of the cash used in investing activities was for deposits paid on acquisitions and prepaid acquisition costs, and $676 was used for capital expenditures.

Reconciliation of Condensed Consolidated Interim Statements of Income (Loss)

Consolidated income (loss) as adjusted for IFRIC 21 is a non-IFRS measure representing the adjustment of property tax expense on all investment properties located in the United States, based on the period of ownership throughout the period presented. Consolidated income (loss) adjusted for IFRIC 21 does not have any standardized meaning proscribed by IFRS.

The following tables provide a reconciliation from the Company's condensed consolidated interim statements of income (loss) and comprehensive income (loss) prepared in accordance with IFRS to consolidated income (loss), adjusted for IFRIC 21, as described above, for the affected reporting periods presented.

Three months ended March 31, 2017	Condensed consolidated interim statements of income (loss) and comprehensive income (loss)	IFRIC 21 property tax adjustment	Consolidated income (loss) adjusted for IFRIC 21
Revenue:			
Cash rentals received	$ 10,396	$ —	$ 10,396
Straight-line rent adjustments	1,375	—	1,375
Property tax recoveries	1,916	—	1,916
Lease revenue from joint ventures	707	—	707
Other income	1,128	—	1,128
	15,522	—	15,522
Expenses (income):			
Finance costs	4,346	—	4,346
Real estate tax expense	7,859	(5,854)	2,005
General and administrative expenses	2,387	—	2,387
Change in value of investment properties - IFRIC 21	(5,854)	5,854	—
Change in value of investment properties	53	—	53
Change in value of financial instruments	(2,185)	—	(2,185)
Income before income taxes	8,916	—	8,916
Income tax expense:			
Deferred	3,933	—	3,933
Net income (loss)	$ 4,983	$ —	$ 4,983

Three months ended March 31, 2016	Condensed consolidated interim statements of income (loss) and comprehensive income (loss)	IFRIC 21 property tax adjustment	Consolidated income (loss) adjusted for IFRIC 21
Revenue:			
Cash rentals received	$ 5,377	$ —	$ 5,377
Straight-line rent adjustments	822	—	822
Property tax recoveries	1,155	—	1,155
	7,354	—	7,354
Expenses (income):			
Finance costs	4,441	—	4,441
Real estate tax expense	4,621	(3,466)	1,155
General and administrative expenses	492	—	492
Change in value of investment properties - IFRIC 21	(3,466)	3,466	—
Change in value of investment properties	822	—	822
Change in value of financial instruments	1,850	—	1,850
Income before income taxes	(1,406)	—	(1,406)
Income tax expense:			
Deferred	—	—	—
Net income (loss)	$ (1,406)	$ —	$ (1,406)

Financial Position

Total assets of $690,564 is primarily comprised of $637,728 of investment properties, which represents the fair market value of Company's portfolio of properties including capital expenditures during the three months ended March 31, 2017. Cash on hand at March 31, 2017 was $7,131, other assets were $2,744, and loans receivable were $32,215. Other assets primarily consists of $1,243 of amounts owed under income support agreements, $967 of deposits paid on future acquisitions, $356 of prepaid expense and $178 of other costs. Tenant and other receivables of $6,826 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 $393,592 includes current liabilities of $34,485 and non-current liabilities of $359,107. The current liabilities include $7,076 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 $6,566 of which relates to real estate tax liabilities. Accounts payable and accrued liabilities represents $4,232 of the balance in current liabilities. In addition, current liabilities includes $17,303 representing the current portion of mortgages payable, net of loan fees, a $3,893 construction cost liability and $1,981 to record a dividend payable. Non-current liabilities include the balance outstanding on the Facility of $237,918, which is net of loan fees, $68,156 representing the non-current portion of mortgages payable, net of loan fees, and a $9,516 deferred tax liability. Other non-current liabilities of $2,116 primarily consists of security deposits received from tenants and a liability related deferred shares granted under the Company's deferred share incentive plan.

Summary of Quarterly Results

The following table summarizes the Company's quarterly unaudited financial information from January 1, 2016 through March 31, 2017:

	Three months ended March 31, 2017	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	$ 15,522	$ 13,849	$ 11,037	$ 8,625	$ 7,354	$ 5,107
Finance costs	4,346	3,100	2,396	4,030	4,441	2,808
Real estate tax expense	7,859	397	26	—	4,621	—
General and administrative expenses	2,387	2,115	955	1,616	492	1,266
(Gain)/loss in value of investment properties - IFRIC 21	(5,854)	1,767	1,614	1,384	(3,466)	843
(Gain)/loss in value of investment properties	53	622	3,292	1,772	822	5,945
(Gain)/loss in value of financial instruments	(2,185)	(3,206)	(1,003)	816	1,850	—
Deferred income tax expense	3,933	3,916	1,620	—	—	—
Net income (loss)	4,983	5,138	2,137	(993)	(1,406)	(5,755)
Income (loss) per share: Basic	$ 0.15	$ 0.17	$ 0.09	$ (0.11)	$ (0.68)	$ (2.78)
Income (loss) per share: Diluted	$ 0.15	$ 0.17	$ 0.09	$ (0.11)	$ (0.68)	$ (2.78)
Funds from operations (1)	6,784	5,803	6,046	1,595	1,266	190
Funds from operations per share: Basic	$ 0.21	$ 0.20	$ 0.25	(2)	(2)	(2)
Funds from operations per share: Diluted	$ 0.20	$ 0.19	$ 0.25	(2)	(2)	(2)
Adjusted funds from operations (1)	8,071	7,149	5,511	3,628	3,321	1,574
Adjusted funds from operations per share: Basic	$ 0.25	$ 0.24	$ 0.23	(2)	(2)	(2)
Adjusted funds from operations per share: Diluted	$ 0.24	$ 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 and March 31, 2016 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. The Company is in compliance with all such covenants as at March 31, 2017.

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, for 70-85% of its debt to be of fixed rate and for a fixed charge coverage ratio to be a minimum of 1.75.

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.

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.

Indebtedness

	Principal Amount	Weighted Average Interest Rate	Years to Maturity
Fixed Rate Indebtedness			
Term loan	$ 200,000	4.2% (1)	2.6
Mortgages payable	45,385	4.3%	9.4
Convertible debentures	45,000	5.0%	4.8
	290,385	4.3%	4.0
Variable Rate Indebtedness			
Revolver	40,763	4.0%	1.6
Mortgages payable	40,670	3.5%	4.9
	81,433	3.8%	3.2
Total Indebtedness	$ 371,818	4.2%	3.8
Less loan fees and issue costs, net of amortization and accretion	(5,657)		
Equity component of convertible debentures, excluding issue costs and taxes	(1,648)		
Mark-to-market adjustment, net	265		
Carrying amount	$ 364,778		

(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 March 31, 2017, the Company's total consolidated indebtedness is approximately $364,778, which represents approximately 52.8% of gross book value. Excluding the convertible debentures, total consolidated indebtedness is approximately $323,377, which is 46.8% of gross book value. Fixed rate debt represents approximately 78.1% 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 three months ended March 31, 2017 the fixed charge coverage ratio of the Company is 3.53.

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.

Contractual Commitments

A summary of future contractual commitments as at March 31, 2017, including expected interest payments, is as follows:

	Total	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Facility	$ 265,037	$ 10,075	$ 50,107	$ 204,855	$ —	$ —	$ —
Mortgages payable	106,803	19,990	4,137	8,322	4,107	4,112	66,135
Convertible debentures	55,875	2,250	2,250	2,250	2,250	46,875	—
Accounts payable and accrued liabilities	4,232	4,232	—	—	—	—	—
Real estate taxes payable	7,076	7,076	—	—	—	—	—
Construction payable	3,893	3,893	—	—	—	—	—
Dividends payable	1,981	1,981	—	—	—	—	—
Other non-current liabilities	2,116	532	169	59	—	—	1,356
Purchase commitment	49,018	49,018	—	—	—	—	—

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 March 31, 2017, 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 March 31, 2017, the Facility is secured by 24 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 March 31, 2017, the security provided the Company with a borrowing base of $240,763, 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 professional fees, other general and administrative fees payable, accrued interest and other accrued costs.

Dividends payable relates to the March 2017 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 three properties in Syracuse, New York for total consideration of $50,863. As of March 31, 2017, one 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.

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 $38,000. 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.

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 March 31, 2017.

Transactions Between Related Parties

As at and for the three months ended March 31, 2017, the following related party transactions occurred:

The Company paid asset management and administrative services fees of $68 (2016 - $161) to an MAMI, 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 MAMI (the "Second Asset Management Agreement"), 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 MAMI. In connection with internalization, the Company and MAMI, 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.

Mainstreet Investment Company, LLC ("MS Investment"), which is owned 100% by the chairman of the Company, 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 Property Group, LLC ("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 March 31, 2017, the Company has $26,815 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.

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 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 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 $1,927 related to the development lease receivables as of March 31, 2017.

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 $13,887 of construction was completed on these properties as of March 31, 2017, with an additional $446 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.

On March 13, 2017, the Company entered into an agreement to acquire two long-term care facilities and one assisted living facility from an unrelated third party for a purchase price of $38,000. 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. On May 1, 2017, the Company entered into a lease agreement with a replacement operator with respect to the Houston, Texas property. The lease will commence at the earlier of 90 days from the date of the lease or 10 days after the facility is licensed. The Houston, Texas property will continue to collect income support payments until rent commences on this lease. The Wichita, Kansas and Fort Worth, Texas facilities will continue to collect income support payments until a replacement operator is identified and rent commences. As at March 31, 2017, the Company has revalued the income support receivable related to these properties, and has recorded a fair value gain of $1,660 for the three months ended March 31, 2017 within change in financial instruments in the condensed consolidated interim statements of net income (loss) and comprehensive income (loss). As at March 31, 2017, the Company has included $1,243 of income support receivable within other current assets.

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

For the months ended March 31, 2017, the condensed consolidated interim statements of income and other comprehensive income include the following revenue and expenses resulting from above transactions with related parties:

(dollar amounts in thousands of U.S. Dollars)		Three months ended March 31, 2017		Three months ended March 31, 2016
Revenues:				
Other income - loan interest revenue	$	1,081	$	—
Other income - investment in MS-SW Development Fund Holdings, LLC		41		—
Total	$	1,122	$	—
Expenses (income):				
Operating - management fee	$	68	$	161
Finance costs - interest on related party note payable		—		36
Change in value of financial instruments		(1,660)		—
Total	$	(1,592)	$	197

At March 31, 2017 and December 31, 2016, the condensed consolidated interim statements of financial position include the following related party balances:

(dollar amounts in thousands of U.S. Dollars)		March 31, 2017		December 31, 2016
Assets:				
Loans receivable	$	31,836	$	29,081
Investment in MS-SW Development Fund Holdings, LLC		935		894
Other - income support receivable		1,243		1,208
Total assets	$	34,014	$	31,183
Liabilities:				
Accounts payable	$	391	$	19
Construction payable		277		—
Total liabilities	$	668	$	19

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:

Change in value of investment properties:

Acquired investment properties are initially measured at cost, including directly attributable acquisition costs, when the transactions are deemed to be asset acquisitions. Subsequent to initial recognition, investment properties are measured at fair value, determined based on available market evidence. The Company uses alternative valuation methods such as the direct capitalized income approach, discounted cash flow projections or recent transaction prices (Level 3 inputs). The fair value of investment properties reflects rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The valuation of investment properties is one of the principal estimates and uncertainties of the Company. Refer to note 4 to the Financial Statements of the Company for the period ended March 31, 2017 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.

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 of our internal controls over financial reporting as at March 31, 2017, and based on that assessment determined that the Company's internal controls over financial reporting were appropriately designed 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 three months ended March 31, 2017 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Outstanding Shares

As of May 5, 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.

In February 2017, the Real Property Association of Canada ("REALPAC") issued white papers with recommendations for calculations of FFO and AFFO and introduced a new cash flow measure, Adjusted Cash Flow from Operations ("ACFO"). The Company is currently reviewing the new guidance and evaluating its impact on our supplemental financial measures.

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

Funds From Operations

FFO 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 March 31, 2017		Three months ended March 31, 2016
Net income for the period	$	4,983	$	(1,406)
Add/(deduct):				
Change in fair value of investment properties		(5,801)		(2,644)
Property taxes accounted for under IFRIC 21		5,854		3,466
Change in fair value of financial instruments		(2,185)		1,850
Deferred income tax expense		3,933		—
Funds from operations	$	6,784	$	1,266
Interest expense on 2016 Convertible Debentures	$	563	$	—
Total diluted funds from operations	$	7,347	$	1,266
Weighted average number of shares, including fully vested		32,269,623		2,073,373
Weighted average shares issued if all 2016 Convertible Debentures were converted		4,090,909		—
Weighted average number of shares: Diluted		36,360,532		2,073,373
Funds from operations per share	$	0.21	$	0.61
Diluted funds from operations per share	$	0.20	$	0.61

While the Company believes per share measures to be an effective means of evaluating performance, FFO per share for the three month period ended March 31, 2016 does not provide a normalized basis on which FFO per share should be evaluated due to the Reverse Takeover and the related capital structure of the Company during the corresponding period.

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 March 31, 2017	Three months ended March 31, 2016
Funds from operations	$ 6,784	$ 1,266
Add/(deduct):		
Straight-line rent adjustments	(1,375)	(822)
Interest expense on 2015 Convertible Debentures	—	2,722
Amortization and accretion expense	573	155
Mark-to-market debt adjustments	(3)	—
Deferred share incentive plan compensation	741	—
Income and other support payments	122	—
Development lease payments received	1,229	—
Adjusted funds from operations	$ 8,071	$ 3,321
Interest expense on 2016 Convertible Debentures	$ 563	$ —
Total diluted adjusted funds from operations	$ 8,634	$ 3,321
Weighted average number of shares, including fully vested	32,269,623	2,073,373
Weighted average shares issued if all 2016 Convertible Debentures were converted	4,090,909	—
Weighted average number of shares: Diluted	36,360,532	2,073,373
Adjusted funds from operations per share	$ 0.25	$ 1.60
Diluted adjusted funds from operations per share	$ 0.24	$ 1.60

While the Company believes per share measures to be an effective means of evaluating performance, AFFO per share for the three month period ended March 31, 2016 does not provide a normalized basis on which AFFO per share should be evaluated due to the Reverse Takeover and the related capital structure of the Company during the corresponding period.

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 March 31, 2017	Three months ended March 31, 2016
Cash flows provided by operating activities	$ 11,199	$ 118
Change in non-cash working capital	(4,606)	2,469
Less: interest expense [(1)]	(3,776)	(1,564)
Plus: interest paid	3,121	2,298
Plus: deferred share incentive plan compensation	741	—
Plus: income support and development lease payments received	1,351	—
Plus: investment in MS-SW Development Fund Holdings, LLC	41	—
Adjusted funds from operations	$ 8,071	$ 3,321
Distributions declared	$ 5,940	$ —
AFFO payout ratio	74%	—%

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

Cash Distributions

	Three months ended March 31, 2017	Three months ended March 31, 2016
Cash flows provided by operating activities	$ 11,199	$ 118
Net income	4,983	(1,406)
Total distributions	5,940	—
Cash provided by operations in excess of total distributions	5,259	118
Shortfall of net income over total distributions	(957)	(1,406)

Total distributions for the three months ended March 31, 2017 exceeded net income primarily due to non-cash items. Non-cash items relating to fair value adjustments of investment properties and the Company's financial instruments and amortization of financing costs 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.

The Company did not declare any distributions during the three months ended March 31, 2016.

Operational Measures

The Company reports 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/or undergoing a major renovation or otherwise being repositioned or in transition to a new operator; or
4. Held for sale.

The majority 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 December 31, 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. The metrics presented below represent all stabilized income properties, which include assist living, independent living, long-term care, and transitional care properties.

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 of 1.2.

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 of 1.6.

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 and risk mitigation within the portfolio. Specific to the stabilized portfolio, the Company has the ability to claw back management fees that would equate to an additional 0.2 of lease coverage, on an EBITDAR basis.

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 December 31, 2016, the Company's stabilized portfolio had an occupancy percentage of 88%.

Subsequent Events

On May 2, 2017, a Notice of Civil Claim was filed by Mainstreet Equity Corp. with the Supreme Court of British Columbia, challenging the Company's use of the name, "Mainstreet". The plaintiff claims that it has certain rights in respect of the name "Mainstreet" and related marks and that the Company has infringed upon such rights resulting in loss, damage and expenses to the plaintiff. The Company has retained legal counsel to review the merits of this claim and advise on the appropriate response and defense.