MAINSTREET HEALTH INVESTMENTS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017

August 8, 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 and six months ended June 30, 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 and six months ended June 30, 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, the unaudited MD&A for the year ended December 31, 2016 and the unaudited condensed consolidated interim financial statements and notes of the Company for the three and six months ended June 30, 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 August 8, 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 owns 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 June 30, 2017, the Company owns a portfolio of 34 properties in the United States comprised of 14 long-term care facilities, 12 memory care and assisted living facilities and 8 transitional care properties. The Company 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 from an unrelated third party for a purchase price of $38,000. This acquisition was completed on May 10, 2017. The properties are located within the Los Angeles and Phoenix metropolitan areas, and are 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. The release from these lease obligations resulted in the forfeiture of $750 in lease security deposits, which was recognized in other income during the three months ended June 30, 2017. On May 1, 2017, the Company entered into a lease agreement with a replacement operator with respect to the Houston, Texas property which commenced on August 1, 2017.

On June 6, 2017 the Company amended the terms of the Facility (as defined below) (the "Facility Recast") to extend the maturity date of the term loan from October 30, 2019 to June 6, 2022 and extend the the maturity date of the revolving line of credit from October 31, 2018 to June 6, 2021 with an additional one year extension option. The Facility Recast also increased the total Facility capacity from $285,000 to $300,000. The term loan capacity remained consistent at $200,000 while the revolving line of credit capacity increased from $85,000 to $100,000. The amended Facility also includes an accordion feature that would extend the capacity of the total revolving line of credit, the total term commitment or both, by an aggregate amount of $200,000 bringing the total capacity of the Facility to $500,000.

On July 25, 2017, the Company announced it has entered into a definitive agreement to sell the Wichita, Kansas and Fort Worth, Texas properties to Mainstreet Property Group, LLC ("Mainstreet LLC") for a combined purchase price of approximately $47,298. The transaction is subject to standard closing conditions, including satisfactory completion of due diligence, and is expected to close on or before December 29, 2017. In conjunction with this transaction, lease agreements to operate both properties were entered into by an affiliate of Mainstreet LLC and the income support agreement entered into with Mainstreet LLC on November 1, 2016 (the "Income Support Agreement") has been terminated. The triple-net lease agreements, with rent commencing on July 15, 2017, have initial terms of 15 years and are at market rates, which are equal to the payments previously received under the Income Support Agreement.

Selected Financial Information

(dollar amounts in thousands of U.S. Dollars, except per share amounts)	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Operational information				
Income properties	38	21	38	21
Weighted average lease term to maturity (excludes renewal options)	13.7 years	14.1 years	13.7 years	14.1 years
Weighted average facility age	12.5 years	16.1 years	12.5 years	16.1 years
Summary financial information				
Gross book value	$ 728,832	$ 677,719	$ 728,832	$ 677,719
Total indebtedness	$ 401,900	$ 356,220	$ 401,900	$ 356,220
Debt to gross book value %	55.1%	52.6%	55.1%	52.6%
Weighted average interest rate (1)	4.5%	4.1%	4.5%	4.1%
Revenue	$ 17,196	8,625	$ 32,718	$ 15,979
Finance cost	$ 4,885	$ 4,030	$ 9,231	$ 8,471
General and administrative expenses	$ 2,084	$ 1,396	$ 4,471	$ 1,888
Net income	$ 4,706	$ (773)	$ 9,689	$ (2,178)
Total comprehensive income	$ 5,206	$ (773)	$ 10,346	$ (2,178)
Earnings per share	$ 0.15	$ (0.09)	$ 0.30	$ (0.40)
Diluted Earnings per share	$ 0.15	$ (0.09)	$ 0.30	$ (0.40)
Funds from operations (FFO) (3)	$ 7,671	$ 1,815	$ 14,455	$ 3,082
FFO per share (3)	$ 0.24	$ 0.21	$ 0.45	$ 0.21
Diluted FFO per share	$ 0.23	$ 0.21	$ 0.43	$ 0.57
Adjusted funds from operations (AFFO) (3)	$ 8,278	$ 3,848	$ 16,349	$ 7,171
AFFO per share (3)	$ 0.26	$ 0.44	$ 0.51	$ 1.32
Diluted AFFO per share	$ 0.24	$ 0.44	$ 0.48	$ 1.32
Common share dividends declared	$ 5,943	$ 1,386	$ 11,883	$ 1,386
Dividends declared per share	$ 0.18417	$ 0.05729	$ 0.36834	$ 0.05729
Payout ratio (2)	72%	36%	73%	19%

(1) Weighted average interest rates for the three and six month periods ending June 30, 2017 includes $227,477 of the Company's debt that is fixed with interest rate swaps.

(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 and six month periods ended June 30, 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 ended			Six-month periods ended		
	June 30, 2017 Actual	June 30, 2017 Forecast	$ Variance	June 30, 2017 Actual	June 30, 2017 Forecast	$ Variance
Revenue:						
Rental	$ 14,599	$ 11,576	$ 3,023	$ 28,286	$ 23,146	$ 5,140
Lease revenue from joint ventures	697	—	697	1,404	—	1,404
Other income	1,900	183	1,717	3,028	367	2,661
	17,196	11,759	5,437	32,718	23,513	9,205
Expenses (income):						
Finance costs	4,885	2,526	2,359	9,231	5,053	4,178
Real estate tax expense	485	—	485	8,344	6,965	1,379
General and administrative expenses	2,084	1,011	1,073	4,471	1,913	2,558
Change in value of investment properties - IFRIC 21	2,043	1,741	302	(3,811)	(3,483)	(328)
Change in value of investment properties	(1,692)	1,186	(2,878)	(1,639)	2,381	(4,020)
Change in value of financial instruments	1,249	—	1,249	(936)	—	(936)
Income before income taxes	8,142	5,295	2,847	17,058	10,684	6,374
Income tax expense:						
Current	28	112	(84)	28	223	(195)
Deferred	3,408	2,095	1,313	7,341	4,221	3,120
	3,436	2,207	1,229	7,369	4,444	2,925
Net income	$ 4,706	$ 3,088	$ 1,618	$ 9,689	$ 6,240	$ 3,449
Funds from operations (FFO)	$ 7,671	$ 6,369	$ 1,302	$ 14,455	$ 12,842	$ 1,613
Adjusted funds from operations (AFFO)	$ 8,278	$ 5,583	$ 2,695	$ 16,349	$ 11,238	$ 5,111
FFO per share	$ 0.24	$ 0.28	$ (0.04)	$ 0.45	$ 0.56	$ (0.11)
AFFO per share	$ 0.26	$ 0.25	$ 0.01	$ 0.51	$ 0.50	$ 0.01

The rental revenue and lease revenue from joint ventures increase compared to forecast for the three and six months ending June 30, 2017 is primarily due to acquisitions completed during the fourth quarter of 2016 and second quarter of 2017, which were not contemplated in the forecast.

Other income was favorable compared to the forecast for the three and six month periods ending June 30, 2017, primarily due interest earned on additional mezzanine loans placed that were not contemplated in the forecast. The Company has placed 10 mezzanine loans with balances totaling $21,840 in addition to those included in the original forecast. In addition, the Company recognized $750 of income related to security deposits forfeited during the period ended June 30, 2017, which was not contemplated in the forecast.

Finance costs were unfavorable compared to the forecast for the three and six month periods ended June 30, 2017 primarily due to an increased balance on the credit facilities, interest on convertible debentures and mortgages payable, all in connection with the acquisitions completed during the fourth quarter of 2016 and second quarter of 2017, which were not contemplated in the forecast.

Real estate tax expense was unfavorable compared to the forecast for the three and six month periods ended June 30, 2017 primarily due to additional properties acquired in the fourth quarter of 2016 and second quarter of 2017.

General and administrative expenses for the three and six months ended June 30, 2017 were unfavorable compared to forecast, primarily due to the acquisitions during the fourth 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 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 and six months ended June 30, 2017 includes expense related to employee grants that was not contemplated in the forecast. Deferred share expense also includes expense associated with a separation agreement entered into between the Company and its former chief executive officer, who resigned during the period.

The variance in the change in value of investment properties - IFRIC 21 relative to forecast for the three and six month periods ended June 30, 2017 are the result of additional properties acquired in the fourth quarter of 2016 and second quarter of 2017.

Change in value of investment properties was favorable relative to forecast for the three and six month periods ended June 30, 2017 primarily due to adjustments to record investment properties at fair value based on the Company's estimate of fair value using level 3 inputs as of June 30, 2017. These adjustments were not contemplated in the forecast.

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.

Forecasted current income taxes were related to expected withholdings on distributions from 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 in the United States. Actual current income taxes recorded during the period relate to income earned from the acquisitions the Company made in Canada during the fourth quarter of 2016, which were not contemplated in the forecast.

The unfavorable variance in deferred income taxes relative to forecast is primarily due to the additional income from acquisitions made during the fourth 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 quarter of 2016 and second quarter of 2017, 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 quarter of 2016 and second quarter of 2017, which were not contemplated in the forecast. In addition, the Company received payments under the 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 to 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 $0.26 and $0.53 for the three and six months ended June 30, 2017, respectively. Forecast AFFO per share was $0.23 and $0.46 for the three and six months ended June 30, 2017, respectively, including the shares from the over-allotment

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 subsequent to June 2, 2016, except for the acquisition of the Hearth on James property.

Results of Operations - Three and Six Months Ended June 30, 2017
(unless otherwise stated, amounts are in thousands of U.S. dollars)

Revenue

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Cash rentals received	$ 10,816	$ 6,289	$ 21,212	$ 11,666
Straight-line rent adjustments	1,372	943	2,747	1,765
Property tax recoveries	2,411	1,384	4,327	2,539
	14,599	8,616	28,286	15,970
Lease revenue from joint ventures	697	—	1,404	—
Other income	1,900	9	3,028	9
Total revenue	$ 17,196	$ 8,625	$ 32,718	$ 15,979

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 and six months ended June 30, 2017 include revenue from 31 income properties, whereas rental revenues for the three and six months ended June 30, 2016 include revenues from 20 income properties.

Lease revenue from joint ventures represents revenue earned under lease arrangements with four operating entities which are jointly owned by the Company. Other income relates to interest income earned on outstanding loans receivable as well as $750 of income related to security deposits forfeited during the period ended June 30, 2017. The Company has 12 loans outstanding as at June 30, 2017. The Company had one loan outstanding in the prior year period, which was issued on June 23, 2016.

Finance Cost

Finance cost consists of the following:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Interest expense on credit facilities	$ 2,560	$ 1,458	$ 4,775	$ 2,791
Interest expense on mortgages payable	966	101	1,773	101
Interest expense on notes payable	—	36	—	72
Interest expense on convertible debentures	563	1,899	1,126	4,621
Preferred share dividends	—	83	—	83
Amortization and accretion expense	654	171	1,227	327
Interest rate swap payments	145	282	336	476
Mark-to-market debt adjustments	(3)	—	(6)	—
	$ 4,885	$ 4,030	$ 9,231	$ 8,471

Finance costs are primarily related to interest and amortization on the Company's credit facilities and mortgages payable. Interest expense increased in the three and six months ended June 30, 2017 compared to prior period due primarily to additional debt incurred associated with the assets acquired in the fourth fiscal quarter of 2016 and second fiscal quarter of 2017. A portion of the increase is also attributable to increases in the one month LIBOR rate, which has an impact on the Company's variable rate debt.

Interest expense on convertible debentures for the three and six months ended June 30, 2016 was related to the 2015 Convertible Debentures. The 2015 Convertible Debentures were repaid in full on June 2, 2016. Interest expense on convertible debentures for the three and six months ended June 30, 2017 consisted of interest on the 2016 Convertible Debentures.

Real Estate Tax Expense

Real estate tax expense was $485 and $8,344 for the three and six months ended June 30, 2017, respectively (three and six months ended June 30, 2016 - $0 and $4,621, respectively), which represents property tax expensed for the year for properties owned on the tax assessment date (generally January 1), 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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Compensation and benefits	$ 855	$ 137	$ 1,608	$ 137
Management and administrative fees	67	250	135	411
Professional fees	431	785	1,079	1,036
Deferred share compensation	354	81	1,095	81
Other	377	143	554	223
	$ 2,084	$ 1,396	$ 4,471	$ 1,888

Compensation and benefits expense includes the cost of salaries, bonuses and benefits during the period. The prior year three and six month periods include cost of salaries, bonuses and benefits for five direct employees of the Company beginning April 1, 2016. The current year compensation and benefits expense for the three and six month periods ended increased compared to the prior year as a result of the internalization of management on November 1, 2016.

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 and six months ended June 30, 2016 and under an administrative services agreement for the three and six months ended June 30, 2017.

The decrease in professional fees for the three and six month periods ended June 30, 2017 as compared to the comparable prior year periods is primarily due to non-recurring costs incurred in the prior year associated with the reverse takeover transaction and formation of the Company.

Deferred share compensation for the prior year three and six month periods ended June 30, 2016 relates to a grant of shares made on June 2, 2016. The expense for the three and six month periods ended June 30, 2017 increased over the prior year due to expense associated with employee grants made after June 2, 2016, as well as expense associated with a separation agreement entered into between the Company and its former chief executive officer, who resigned during the period.

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. The increase as compared to the prior year three and six month periods is primarily due to growth associated with additional properties owned.

Change in Value of Investment Properties

The change in value of investment properties was an increase of $1,692 and $1,639 for the three and six months ended June 30, 2017, respectively. The increase 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 June 30, 2017 and an adjustment to offset the impact of the increase in straight-line rent receivable.

Change in Value of Financial Instruments

Change in value of financial instruments is comprised of changes in the Company's interest rate swap agreements and changes in the value of the income support receivable. For the three and six months ended June 30, 2017, the Company recognized a $553 loss and a $1,107 gain, respectively, related to the value of the income support receivable. The decline in the value income support receivable is a result of the lease agreements the Company entered into in July 2017. Effective with the commencement of those agreements, the income support agreement was terminated, and the Company will begin receiving lease rental payments. There was no income support receivable recorded in the comparable prior year period.

For the three and six months ended June 30, 2017, the Company recorded a $696 and $171 loss, respectively, in the value of interest rate swaps. The change in value of interest rate swaps in the prior year three and six months ended June 30, 2016 was a decrease of $816 and $2,666, respectively. The interest rate swaps are not designated as hedges and are marked to fair value each reporting period.

Income Tax Expense

For the Canadian and U.S. corporate subsidiaries of the Company, income tax expense is comprised of 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 six months ended June 30, 2017, deferred tax expense was $3,408 and 7,341. There was no deferred tax expense recorded for the three and six months ended June 30, 2016.

For the three and six months ended June 30, 2017 the Company had current income tax expense of $28 (three and six months ended June 30, 2016 - NIL). 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

	Six months ended June 30,	
	2017	2016
Cash provided by operating activities	$ 18,033	$ 1,907
Cash provided by financing activities	32,108	99,366
Cash used in investing activities	(54,874)	(90,391)
(Decrease) increase in cash and cash equivalents	$ (4,733)	$ 10,882

Cash Provided by Operating Activities

Cash provided by operating activities for the six months ended June 30, 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 six months ended June 30, 2017 was $32,108 as compared to cash provided by financing activities of $99,366 in the prior year period. The current period cash provided by financing activities was primarily driven by net proceeds from credit facility and mortgage activity offset by debt issuance costs incurred associated with new and refinanced mortgages, property acquisitions and the Facility Recast. In addition, the Company paid dividends of $11,714 during the period.

Financing costs provided in the prior year six month period ended June 30, 2016 included $99,314 of proceeds from the issuance of shares, net of issuance costs. It also included net proceeds from credit facilities of $2,552 and the net repayment of notes payable of $2,500.

Cash Used in Investing Activities

Cash used in investing activities for the six months ended June 30, 2017 was $54,874. This was primarily due to $47,014 used for the purchase of the Ensign Properties on May 10, 2017 and capital expenditures made during the period. In addition, the Company issued loans receivable for $3,152 and paid construction payables of $4,708.

For the three months ended June 30, 2016, the Company used $86,728 in the acquisition of 11 properties and capital expenditures. In addition, the Company issued a mezzanine loan for $2,520 and paid a deposit on a future acquisition of $1,000.

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.

Six months ended June 30, 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	$ 21,212	$ —	$ 21,212
Straight-line rent adjustments	2,747	—	2,747
Property tax recoveries	4,327	—	4,327
Lease revenue from joint ventures	1,404	—	1,404
Other income	3,028	—	3,028
	32,718	—	32,718
Expenses (income):			
Finance costs	9,231	—	9,231
Real estate tax expense	8,344	(3,811)	4,533
General and administrative expenses	4,471	—	4,471
Change in value of investment properties - IFRIC 21	(3,811)	3,811	—
Change in value of investment properties	(1,639)	—	(1,639)
Change in value of financial instruments	(936)	—	(936)
Income before income taxes	17,058	—	17,058
Income tax expense:			
Deferred	7,341	—	7,341
Current	28	—	28
Net income (loss)	$ 9,689	$ —	$ 9,689

Three months ended June 30, 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	$ 10,816	$ —	$ 10,816
Straight-line rent adjustments	1,372	—	1,372
Property tax recoveries	2,411	—	2,411
Lease revenue from joint ventures	697	—	697
Other income	1,900	—	1,900
	17,196	—	17,196
Expenses (income):			
Finance costs	4,885	—	4,885
Real estate tax expense	485	2,043	2,528
General and administrative expenses	2,084	—	2,084
Change in value of investment properties - IFRIC 21	2,043	(2,043)	—
Change in value of investment properties	(1,692)	—	(1,692)
Change in value of financial instruments	1,249	—	1,249
Income before income taxes	8,142	—	8,142
Income tax expense:			
Deferred	3,408	—	3,408
Current	28	—	28
Net income (loss)	$ 4,706	$ —	$ 4,706

Six months ended June 30, 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	$ 11,666	$ —	$ 11,666
Straight-line rent adjustments	1,765	—	1,765
Property tax recoveries	2,539	—	2,539
Lease revenue from joint ventures	—	—	—
Other income	9	—	9
	15,979	—	15,979
Expenses (income):			
Finance costs	8,471	—	8,471
Real estate tax expense	4,621	(2,082)	2,539
General and administrative expenses	1,888	—	1,888
Change in value of investment properties - IFRIC 21	(2,082)	2,082	—
Change in value of investment properties	2,593	—	2,593
Change in value of financial instruments	2,666	—	2,666
Income before income taxes	(2,178)	—	(2,178)
Income tax expense:			
Deferred	—	—	—
Current	—	—	—
Net income (loss)	$ (2,178)	$ —	$ (2,178)

Three months ended June 30, 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	$ 6,289	$ —	$ 6,289
Straight-line rent adjustments	943	—	943
Property tax recoveries	1,384	—	1,384
Lease revenue from joint ventures	—	—	—
Other income	9	—	9
	8,625	—	8,625
Expenses (income):			
Finance costs	4,030	—	4,030
Real estate tax expense	—	1,384	1,384
General and administrative expenses	1,396	—	1,396
Change in value of investment properties - IFRIC 21	1,384	(1,384)	—
Change in value of investment properties	1,772	—	1,772
Change in value of financial instruments	816	—	816
Income before income taxes	(773)	—	(773)
Income tax expense:			
Deferred	—	—	—
Current	—	—	—
Net income (loss)	$ (773)	$ —	$ (773)

Financial Position

Total assets of $728,832 is primarily comprised of $681,226 of investment properties, which represents the fair market value of the Company's portfolio of properties including capital expenditures during the six months ended June 30, 2017. Cash on hand at June 30, 2017 was $2,918, other assets were $994, and loans receivable were $32,767. Other assets primarily consists of $293 of amounts owed under income support agreements, $217 of deposits paid on future acquisitions, $386 of prepaid expense and $98 of other costs. Tenant and other receivables of $7,200 is primarily comprised of real estate tax and rent receivables. The loans receivable balance primarily relates to the issuance of mezzanine loans to a related party for the development of seniors housing and care properties in the United States.

Total liabilities of $432,477 includes current liabilities of $262,435 and non-current liabilities of $170,042. The current liabilities include $7,596 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 $7,086 of which relates to real estate tax liabilities. Accounts payable and accrued liabilities represents $4,040 of the balance in current liabilities. In addition, current liabilities includes $18,191 representing the current portion of mortgages payable, net of loan fees, $228,740 representing the balance outstanding on the credit facilities, net of loan fees (please refer to the "Liquidity and Capital Resources" section of this MD&A), $1,734 in construction payables and $1,981 to record a dividend payable. Non-current liabilities include $113,387 representing the non-current portion of mortgages payable, net of loan fees, and a $12,927 deferred tax liability. Other non-current liabilities of $1,718 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 October 7, 2015 through June 30, 2017:

	Three months ended June 30, 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	$ 17,196	$ 15,522	$ 13,849	$ 11,037	$ 8,625	$ 7,354	$ 5,107
Finance costs	4,885	4,346	3,100	2,396	4,030	4,441	2,808
Real estate tax expense	485	7,859	397	26	—	4,621	—
General and administrative expenses	2,084	2,387	2,115	955	1,396	492	1,266
Change in value of investment properties - IFRIC 21	2,043	(5,854)	1,767	1,614	1,384	(3,466)	843
Change in value of investment properties	(1,692)	53	622	3,292	1,772	822	5,945
Change in value of financial instruments	1,249	(2,185)	(3,206)	(1,003)	816	1,850	—
Deferred income tax expense	3,408	3,933	3,916	1,620	—	—	—
Current income tax expense	28	—	—	—	—	—	—
Net income (loss)	4,706	4,983	5,138	2,137	(773)	(1,406)	(5,755)
Income (loss) per share: Basic	$ 0.15	$ 0.15	$ 0.17	$ 0.09	$ (0.09)	$ (0.68)	$ (2.78)
Income (loss) per share: Diluted	$ 0.15	$ 0.15	$ 0.17	$ 0.09	$ (0.09)	$ (0.68)	$ (2.78)
Funds from operations [(1)]	7,671	6,784	5,803	6,046	1,815	1,266	190
Funds from operations per share: Basic	$ 0.24	$ 0.21	$ 0.20	$ 0.25	[(2)]	[(2)]	[(2)]
Funds from operations per share: Diluted	$ 0.23	$ 0.20	$ 0.19	$ 0.25	[(2)]	[(2)]	[(2)]
Adjusted funds from operations [(1)]	8,278	8,071	7,149	5,511	3,848	3,321	1,574
Adjusted funds from operations per share: Basic	$ 0.26	$ 0.25	$ 0.24	$ 0.23	[(2)]	[(2)]	[(2)]
Adjusted funds from operations per share: Diluted	$ 0.24	$ 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, and the period ended 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 credit facilities, 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. 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 with the intention of allowing the Company to more quickly access capital when market opportunities permit.

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.

As at June 30, 2017 the Company did not meet certain minimum liquidity and maximum indebtedness requirements under the terms of its credit facilities agreements. The agreements have since been amended to remove the minimum liquidity requirement for the compliance test date of June 30, 2017 and to modify the maximum indebtedness requirements in a manner which results in the Company meeting the modified requirements for the compliance test date of June 30, 2017. As the Company did not have an unconditional right to defer settlement of the credit facilities for at least twelve months as at June 30, 2017, amounts outstanding under the credit facilities have been classified as current liabilities in the condensed consolidated interim statement of financial position as at June 30, 2017. The non-compliance at June 30, 2017 was due to the timing of two mezzanine loan repayments, which the Company anticipated it would receive prior to the end of the period. These $6,673 in repayments were received in full on July 25, 2017. The Company expects to have sufficient cash flow from operations to maintain compliance with this covenant going forward.

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 5-8 years. The Company targets a long-term 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.

To manage interest rate risk, the Company may enter into interest rate swap agreements from time to time. On November 30, 2016, the Company increased the principal amount of an existing interest rate swap agreement from $147,015 to $200,000, the amount outstanding on the term loan, effectively fixing the LIBOR rate at 1.16% through October 30, 2019. On April 15, 2017, the Company entered into two interest rate swap agreements with a combined principal amount of $27,477. This balance represents the outstanding balance on two variable rate mortgages payable with the same interest rate and term. The interest rate swap agreements fix the interest rate on the outstanding principal at 4.55% through their maturity on March 15, 2024. The Company does not designate its interest rate swaps as hedges and they are marked to fair value each reporting period through finance cost in the condensed consolidated interim statements of income and other comprehensive income.

Indebtedness

	Principal Amount	Weighted Average Interest Rate	Years to Maturity
Fixed Rate Indebtedness			
Term loan	$ 200,000	4.4% [(1)]	4.9
Mortgages payable	88,967	2.2% [(1)]	8.3
Convertible debentures	45,000	5.0%	4.6
	333,967	4.5%	5.8
Variable Rate Indebtedness			
Revolver	27,145	4.5%	3.9
Secured Revolving Facility	6,000	6.6%	0.7
Mortgages payable	43,731	4.6%	3.5
	76,876	4.7%	3.4
Total Indebtedness	$ 410,843	4.5%	5.4
Less loan fees and issue costs, net of amortization and accretion	(7,557)		
Equity component of convertible debentures, excluding issue costs and taxes	(1,648)		
Mark-to-market adjustment, net	262		
Carrying amount	$ 401,900		

(1) Weighted average interest rates for the three and six month periods ending June 30, 2017 includes debt that is fixed with interest rate swaps.

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 June 30, 2017, the Company's total consolidated indebtedness is approximately $401,900, which represents approximately 55.1% of gross book value. Excluding the convertible debentures, total consolidated indebtedness is approximately $360,318, which is 49.4% of gross book value. Fixed rate debt represents approximately 81.3% 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 six months ended June 30, 2017 the fixed charge coverage ratio of the Company is 3.37.

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 June 30, 2017, including expected interest payments, is as follows:

	Total	2017	2018	2019	2020	2021	Thereafter
Credit facilities	$ 233,145	$ 233,145	$ —	$ —	$ —	$ —	$ —
Mortgages payable	166,732	19,777	6,521	11,143	7,005	6,991	115,295
Convertible debentures	55,313	2,250	2,250	2,250	2,250	46,313	—
Accounts payable and accrued liabilities	4,040	4,040	—	—	—	—	—
Real estate taxes payable	7,596	7,596	—	—	—	—	—
Construction payable	1,734	1,734	—	—	—	—	—
Dividends payable	1,981	1,981	—	—	—	—	—
Other non-current liabilities	1,718	812	111	111	80	—	604
Purchase commitment	11,018	11,018	—	—	—	—	—
Total Commitments	483,277	282,353	8,882	13,504	9,335	53,304	115,899

Credit facilities is comprised of the Company's credit facility (the "Facility") entered into on October 31, 2015, as amended on June 6, 2017 and a secured revolving credit facility entered into on February 24, 2017. The credit facilities combined have an outstanding balance of $233,145 as of June 30, 2017.

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

Accounts payable relate primarily to professional fees, other general and administrative costs payable, accrued interest and other accrued costs.

Dividends payable relates to the June 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 June 30, 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.

Financial Instruments and Other Instruments

To manage interest rate risk, the Company may enter into interest rate swap agreements from time to time. Please refer to the "Debt Strategy and Indebtedness" section of this MD&A.

Off-Balance Sheet Items

There were no off-balance sheet items as of June 30, 2017.

Transactions Between Related Parties

As at and for the three and six months ended June 30, 2017, the following related party transactions occurred:

For the three and six months ended June 30, 2017, the Company paid asset management and administrative services fees of $67 and $135, respectively (three and six months ended June 30, 2016 - $250 and $411, respectively), to 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 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.

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"). Pursuant to the Development Agreement, the mezzanine loans provide the Company with the right to purchase the development upon its substantial completion at fair market value.

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 June 30, 2017, the Company has $27,058 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 the 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 an income support 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 full payment of the initial $2,076 income support receivable recorded at acquisition. The Company has received additional payments under the Income Support Agreement of $815 as of June 30, 2017 due to the timing of lease commencements on the remaining properties.

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 $14,333 of construction was completed on these properties as of June 30, 2017. 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 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.

In July 2017, the Company entered into a definitive agreement to sell the Wichita, Kansas and Fort Worth, Texas properties to Mainstreet LLC for a combined purchase price of approximately $47,298. The transaction is subject to standard closing conditions, including satisfactory completion and due diligence, and is expected to close prior to December 31, 2017. In conjunction with this transaction, lease agreements to operate both properties were entered into by an affiliate of Mainstreet LLC and the Income Support Agreement has been terminated. The triple-net lease agreements have initial terms of 15 years and are at market rates, which are equal to the payments previously received under the Income Support Agreement. As a result of this transaction, the Company has revalued the income support receivable related to these properties, and has recorded a fair value gain (loss) of $(553) and $1,107 for the three and six months ended June 30, 2017, respectively, within change in financial instruments in the condensed consolidated interim statements of net income (loss) and comprehensive income (loss). As at June 30, 2017, the Company has included $293 of income support receivable within other current assets.

On July 25, 2017, the Company received total payments of $6,673 representing full repayment of outstanding principal, accrued PIK Interest and current interest, as of the repayment date, on the mezzanine loans receivable from MS Aurora Holdings II, LLC and MS Phoenix Holdings, LLC. The total carrying value of these mezzanine loans was $6,605 as at June 30, 2017.

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 June 30, 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:

	Three months ended June 30,		Six months ended June 30,	
(dollar amounts in thousands of U.S. Dollars)	2017	2016	2017	2016
Revenues:				
Other income - loan interest revenue	$ 1,108	$ 9	$ 2,199	$ 9
Other income - investment in MS-SW Development Fund Holdings, LLC	$ 42	—	83	—
Total	$ 1,150	$ 9	$ 2,282	$ 9
Expenses (income):				
General and administrative - management and administrative service fee	$ 67	$ 250	$ 135	$ 411
Finance costs - interest on related party note payable	—	36	—	72
Change in fair value of financial instruments	553	—	(1,107)	—
Total	$ 620	$ 286	$ (972)	$ 483

At June 30, 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)	June 30, 2017	December 31, 2016
Assets:		
Tenant and other receivables - interest receivable	$ 355	$ 307
Loans receivable	32,097	29,081
Investment in MS-SW Development Fund Holdings, LLC	977	894
Other - income support receivable	293	1,208
Total assets	$ 33,722	$ 31,490
Liabilities:		
Accounts payable	$ 59	$ 19
Construction payable	271	—
Total liabilities	$ 330	$ 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 condensed consolidated interim financial statements of the Company for the period ended June 30, 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 June 30, 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 and six months ended June 30, 2017 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Outstanding Shares

As of August 8, 2017, 32,274,320 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 income 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 income/loss, as defined under IFRS, for FFO and AFFO are presented below.

Funds From Operations

FFO means net income 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, a non IFRS measure, 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 income determined in accordance with IFRS.

To the extent the Company's 2016 Convertible Debentures were dilutive to FFO per share, the related interest, amortization and accretion expense 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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net income (loss) for the period	$ 4,706	$ (773)	$ 9,689	$ (2,178)
Add/(deduct):				
Change in fair value of investment properties	351	3,156	(5,450)	512
Property taxes accounted for under IFRIC 21	(2,043)	(1,384)	3,811	2,082
Change in fair value of financial instruments	1,249	816	(936)	2,666
Deferred income tax expense	3,408	—	7,341	—
Funds from operations	$ 7,671	$ 1,815	$ 14,455	$ 3,082
Interest, amortization and accretion expense on 2016 Convertible Debentures	737	—	1,486	—
Total diluted funds from operations	$ 8,408	$ 1,815	$ 15,941	$ 3,082
Weighted average number of shares, including fully vested deferred shares: Basic	32,299,831	8,826,157	32,284,727	5,449,765
Weighted average shares issued if all 2016 Convertible Debentures were converted	4,090,909	—	4,090,909	—
Weighted average number of shares: Diluted	36,390,740	8,826,157	36,375,636	5,449,765
Funds from operations per share	$ 0.24	$ 0.21	$ 0.45	$ 0.57
Diluted funds from operations per share	$ 0.23	$ 0.21	$ 0.43	$ 0.57

While the Company believes per share measures to be an effective means of evaluating performance, FFO per share for the three and six month periods ended June 30, 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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Funds from operations	$ 7,671	$ 1,815	$ 14,455	$ 3,082
Add/(deduct):				
Straight-line rent adjustments	(1,372)	(943)	(2,747)	(1,765)
Interest expense on 2015 Convertible Debentures	—	1,899	—	4,621
Amortization and accretion expense	654	171	1,227	327
Mark-to-market debt adjustments	(3)	—	(6)	—
Deferred share incentive plan compensation	354	81	1,095	81
Income and other support payments	34	—	156	—
Development lease payments received	940	125	2,169	125
Non-cash listing expense	—	700	—	700
Adjusted funds from operations	$ 8,278	$ 3,848	$ 16,349	$ 7,171
Interest expense on 2016 Convertible Debentures	563	—	1,126	—
Total diluted adjusted funds from operations	$ 8,841	$ 3,848	$ 17,475	$ 7,171
Weighted average number of shares, including fully vested deferred shares: Basic	32,299,831	8,826,157	32,284,727	5,449,765
Weighted average shares issued if all 2016 Convertible Debentures were converted	4,090,909	—	4,090,909	—
Weighted average number of shares: Diluted	36,390,740	8,826,157	36,375,636	5,449,765
Adjusted funds from operations per share	$ 0.26	$ 0.44	$ 0.51	$ 1.32
Diluted adjusted funds from operations per share	$ 0.24	$ 0.44	$ 0.48	$ 1.32

While the Company believes per share measures to be an effective means of evaluating performance, AFFO per share for the three and six month period ended June 30, 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 and six months and ended June 30, 2017 and 2016:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Cash flows provided by operating activities	$ 6,834	$ 1,789	$ 18,033	$ 1,907
Change in non-cash working capital	817	(412)	(3,789)	2,059
Less: interest expense [(1)]	(4,234)	(1,958)	(8,010)	(3,522)
Plus: interest paid	3,491	4,223	6,612	6,521
Plus: deferred share incentive plan compensation	354	81	1,095	81
Plus: income support and development lease payments received	974	125	2,325	125
Plus: investment in MS-SW Development Fund Holdings, LLC	42	—	83	—
Adjusted funds from operations	$ 8,278	$ 3,848	$ 16,349	$ 7,171
Dividends declared	$ 5,943	$ 1,386	$ 11,883	$ 1,386
AFFO payout ratio	72%	36%	73%	19%

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

Cash Dividends

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Cash flows provided by operating activities	$ 6,834	$ 1,789	$ 18,033	$ 1,907
Net income (loss)	4,706	(773)	9,689	(2,178)
Total dividends declared	5,943	1,386	11,883	1,386
Cash provided by operations in excess of total dividends	891	403	6,150	521
Shortfall of net income over total dividends	(1,237)	(2,159)	(2,194)	(3,564)

Total dividends for the three and six months ended June 30, 2017 and 2016 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, amortization of financing costs, deferred income tax expense and non-cash listing expense are deducted from or added to net income and have no impact on cash available to pay current dividends. 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 dividends.

The Company declared one monthly dividend for the three and six month periods ended June 30, 2016, representing a dividend for the period from June 2, 2016 to June 30, 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 aggregate 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 March 31, 2017, the Company's stabilized portfolio had an occupancy percentage of 88%.