2016
ANNUAL REPORT

mainstreet
health investments

2016 Achievements

APRIL: Acquired $303 million portfolio of 11 health care properties as part of a reverse takeover

JUNE: Completed $110 million initial equity offering for the acquisition of 13 additional properties

OCTOBER: Executed $74 million equity offering used in the acquisition of five properties in the U.S. and four properties in Canada

NOVEMBER: Internalized management and created an industry-leading asset management platform

DECEMBER: Executed $45 million convertible debt offering for the acquisition of three memory care properties

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A LETTER FROM OUR CEO

March 2017

Dear Shareholders:

Wow! What a year we had at Mainstreet Health Investments. I am sincerely thankful to have each of you as partners as we work to build a leading health care real estate company. In mid-2016, we launched Mainstreet Health Investments with a strategy to invest in a diversified portfolio of health care real estate with strong yields that provide stable cash flow and growth opportunities to our shareholders. In less than one year as an independent public company, we have not only met our initial goals, but exceeded many of them. We are well on our way to becoming one of the premier health care real estate companies in North America.

Let me highlight a few of our accomplishments in 2016:

2016 – A Transformative Year

- Assembled a deeply experienced management team, board of directors and strategic advisors with a proven track record of success
- Acquired an initial portfolio of 11 health care properties valued at over $303 million as part of a reverse takeover transaction in April
- Completed an initial equity offering in June, which raised nearly $110 million, and acquired 13 additional properties
- Executed a $74 million equity offering in October with proceeds used primarily to acquire five properties in the U.S. and four properties in Canada
- Internalized management and created an industry-leading asset management platform
- Executed a $45 million convertible debt offering in December and acquired three memory care properties
- Provided mezzanine financing on 12 development projects, which we have the option to purchase upon completion

As of December 31, 2016, we had over $680 million of assets, including a portfolio of 36 properties with approximately 4,500 beds and suites. Our in-service assets and those under development span nine U.S. states and Ontario, Canada, and are diversified by both property type and operator.

Making a Difference

We know that we own more than just real estate and that portfolio strength is more than its monetary value. Our properties are operated by premier health care operators. We view our relationships with these operators as important partnerships that allow them to make a positive impact on the lives of their residents. We are privileged to play a part in the positive transformation of health care across North America.

Well Positioned

We strive to be the absolute best at everything we do. We aim to create long-term shareholder value by acquiring high quality health care properties and partnering with best-in-class health care providers. In doing so we serve the health care consumer and provide a foundation for long-term value to you, our shareholders.

The future is bright. We continue to source high quality investment opportunities and build a portfolio with exceptional risk-adjusted returns. We continue to positively impact lives and transform health care, providing our investors **an investment opportunity that matters.** We are proud of what we've been able to accomplish in the last year and look forward to serving you in 2017 and for many years to come.

In appreciation for your support,

Scott White
CEO
Mainstreet Health Investments

MAINSTREET HEALTH INVESTMENTS INC.

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

March 29, 2017

Basis of presentation

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

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

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

Forward-looking disclaimer

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

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

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

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

Business Overview

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

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

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

2016 in Review and 2017 Outlook

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

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

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

Recent Activities

Recent Acquisitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Recent Offerings and Debt Activity

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

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

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

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

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

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

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

Other Recent Activities

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

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

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

Selected Financial Information

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

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

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

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

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

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

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

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

Interest income was favorable compared to the forecast for the three and six month periods ending December 31, 2016, primarily due to additional mezzanine loans placed during the period that were not contemplated in the forecast. The Company has placed 10 mezzanine loans with principal balances totaling $21.4 million in addition to those included in the original forecast. The increase due to these additional placements for the six month period were offset by the timing of the placement of the loan receivable to MS Webster Holdings, LLC. The forecast included interest income on this loan receivable beginning July 1, 2016, however the loan was placed on September 2, 2016. Mainstreet LLC paid the Company $63 of interest income support for this time period, however that amount is recorded as an offset to loans receivable, and will be amortized into income over the life of the loan.

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

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

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

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

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

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

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

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

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

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

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

Revenue

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

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

Finance Cost

Finance cost consists of the following:

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

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

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

Real Estate Tax Expense

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

General and Administrative Expense

General and administrative expense consists of the following:

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

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

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

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

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

Change in Value of Investment Properties

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

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

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

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

Change in Value of Derivative Instruments

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

Income Tax Expense

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. For the three and twelve months ended December 31, 2016, deferred tax expense was $3,916 and $5,536, respectively.

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

Cash Flow Analysis

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

Cash Provided by Operating Activities

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

Cash Provided by Financing Activities

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

Cash Used in Investing Activities

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

Financial Position

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

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

Summary of Quarterly Results

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

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

Debt Strategy and Indebtedness

Debt Strategy

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

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

Indebtedness

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

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

Debt to Gross Book Value

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

Fixed Charge Coverage Ratio

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

Repayment Summary

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

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

Contractual Commitments

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

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

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

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

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

Dividends payable relates to the December 2016 dividend declared.

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

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

Financial Instruments and Other Instruments

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

Off-Balance Sheet Items

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

Transactions Between Related Parties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Significant Areas of Estimation

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

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

(i) Change in value of investment properties:

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

Significant Accounting Policies and Changes in Accounting Policies

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

Risks and Uncertainties

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

Controls and Procedures

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

Disclosure Controls and Procedures

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

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

Internal Controls Over Financial Reporting

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

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

Outstanding Shares

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

Financial Measures

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

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

Funds From Operations

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

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

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

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

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

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

Adjusted Funds From Operations

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

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

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

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

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

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

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

Operating Cash Flow Reconciliation

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

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

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

Cash Distributions

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

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

Operational Measures

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

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

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

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

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

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

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

Operator Lease Coverage

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

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

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

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

Operator Occupancy

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

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

Subsequent Events

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

Consolidated Financial Statements
(Expressed in U.S. dollars)

MAINSTREET HEALTH INVESTMENTS INC.

Year ended December 31, 2016 and the period from
October 7, 2015 (date of formation) to December 31, 2015

KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto ON M5H 2S5
Canada
Tel 416-777-8500
Fax 416-777-8818

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Mainstreet Health Investments Inc.

We have audited the accompanying consolidated financial statements of Mainstreet Health Investments Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the year ended December 31, 2016 and the period from October 7, 2015 (date of formation) to December 31, 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mainstreet Health Investments Inc. as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2016 and the period from October 7, 2015 (date of formation) to December 31, 2015 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 29, 2017
Toronto, Canada

MAINSTREET HEALTH INVESTMENTS INC.

Consolidated Statements of Financial Position
(Expressed in thousands of U.S. dollars)

		December 31, 2016		December 31, 2015
Assets				
Current Assets:				
Cash	$	7,651	$	7,189
Restricted cash		—		2,500
Tenant and other receivables		7,040		843
Other (note 4)		2,122		96
		16,813		10,628
Non-current Assets:				
Loans receivable (note 3)		29,081		—
Derivative instruments (note 9)		1,543		—
Investment in joint ventures (note 6)		917		—
Investment properties (note 5)		628,471		268,425
Investment in MS-SW Development Fund Holdings, LLC		894		—
		660,906		268,425
Total Assets	$	677,719	$	279,053
Liabilities and Shareholders' Equity				
Current Liabilities:				
Accounts payable and accrued liabilities	$	2,387	$	1,670
Accrued real estate taxes		6,915		4,531
Construction payable (note 5)		6,442		—
Note payable to related party (note 10)		—		2,500
Dividends payable		1,978		—
Unearned revenue		—		1,790
Mortgages payable (note 8)		47,889		—
		65,611		10,491
Non-current Liabilities:				
Credit facility (note 7)		225,290		144,692
Mortgages payable (note 8)		41,827		—
Convertible debentures (note 11)		41,214		108,891
Deferred tax liability (note 20)		5,583		—
Other non-current liabilities		957		—
		314,871		253,583
Total Liabilities	$	380,482	$	264,074
Share capital (note 13)		308,551		20,734
Contributed surplus		244		—
Convertible debentures		1,130		—
Cumulative deficit		(12,617)		(5,755)
Accumulated other comprehensive loss		(71)		—
Total Shareholders' Equity		297,237		14,979
Commitments and contingencies (note 21)				
Subsequent events (notes 3 and 27)				
Total liabilities and shareholders' equity	$	677,719	$	279,053

See accompanying notes to consolidated financial statements.

MAINSTREET HEALTH INVESTMENTS INC.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in thousands of U.S. dollars, except per share amounts)

	Year ended December 31, 2016	Period from October 7, 2015 to December 31, 2015
Revenue:		
Rental (note 15)	$ 39,436	$ 5,107
Lease revenue from joint ventures (note 6)	455	—
Other income (notes 3 and 19)	974	—
	40,865	5,107
Expenses (income):		
Finance costs (note 16)	13,967	2,808
Real estate tax expense	5,044	—
General and administrative expenses (notes 17 and 18)	5,178	1,266
Change in value of investment properties - IFRIC 21	1,299	843
Change in value of investment properties (note 5)	6,507	5,945
Change in value of derivative instruments (note 9)	(1,543)	—
Income before income taxes	10,413	(5,755)
Income tax expense:		
Deferred (note 20)	5,536	—
Net income (loss)	$ 4,877	$ (5,755)
Items to be reclassified to net income (loss) in subsequent periods		
Other comprehensive loss:		
Unrealized loss on translation of foreign operations	(71)	—
Total comprehensive income (loss)	$ 4,806	$ (5,755)
Income (loss) per share:		
Basic	$ 0.30	$ (2.78)
Diluted	$ 0.30	$ (2.78)

See accompanying notes to consolidated financial statements.

MAINSTREET HEALTH INVESTMENTS INC.

Consolidated Statement of Changes in Shareholders' Equity
(Expressed in thousands of U.S. dollars)
Year ended December 31, 2016 and the period from October 7, 2015 (date of formation) to December 31, 2015

	Share capital	Contributed surplus	Equity component of convertible debentures	Cumulative deficit	Accumulated other comprehensive loss	Total
Balance, January 1, 2016	$ 20,734	$ —	$ —	$ (5,755)	$ —	$ 14,979
Net income	—	—	—	4,877	—	4,877
Other comprehensive loss	—	—	—	—	(71)	(71)
Shares issued	301,466	—	—	—	—	301,466
Issuance costs, net of tax	(13,699)	—	—	—	—	(13,699)
Dividends declared	—	—	—	(11,739)	—	(11,739)
Shares issued under the Dividend Reinvestment Plan	50	—	—	—	—	50
Convertible debentures, net of tax	—	—	1,130	—	—	1,130
Proceeds from income support agreement	—	244	—	—	—	244
Balance, December 31, 2016	$ 308,551	$ 244	$ 1,130	$ (12,617)	$ (71)	$ 297,237

	Share capital	Contributed surplus	Equity component of convertible debentures	Cumulative deficit	Accumulated other comprehensive income	Total
Balance, October 7, 2015	$ —	$ —	$ —	$ —	$ —	$ —
Net income	—	—	—	(5,755)	—	(5,755)
Shares issued	20,734	—	—	—	—	20,734
Balance, December 31, 2015	$ 20,734	$ —	$ —	$ (5,755)	$ —	$ 14,979

See accompanying notes to consolidated financial statements.

MAINSTREET HEALTH INVESTMENTS INC.

Consolidated Statement of Cash Flows
(Expressed in thousands of U.S. dollars)
Year ended December 31, 2016 and the period from October 7, 2015 (date of formation) to December 31, 2015

	Year ended December 31, 2016	Period from October 7, 2015 to December 31, 2016
Cash flows from operating activities:		
Net income (loss)	$ 4,877	$ (5,755)
Items not involving cash:		
Fair value adjustment of investment properties	6,507	5,945
Fair value adjustment of derivative instruments	(1,543)	—
Straight-line rent	(4,224)	(567)
Finance costs	13,967	2,808
Listing expense	700	—
Deferred income tax	5,536	—
Interest paid	(11,383)	(425)
Change in non-cash operating working capital:		
Tenant and other receivables	(6,197)	(843)
Accounts payable	970	150
Unearned revenue	(1,790)	1,790
Other assets	(585)	(96)
Other liabilities	956	—
Real estate taxes payable	1,449	843
Net cash provided by operating activities	$ 9,240	$ 3,850
Cash flows from financing activities:		
Proceeds from credit facility	$ 112,601	$ 147,015
Payments on credit facility	(31,616)	
Debt issuance costs paid	(2,043)	(2,415)
Proceeds from mortgages payable	26,902	—
Payments of mortgages payable	(48,985)	—
Proceeds from issuance of convertible debentures	42,762	107,961
Proceeds from notes payable	3,900	4,500
Repayments of notes payable	(6,400)	(2,000)
Proceeds from issuance of shares	184,051	20,734
Payments for share issuance costs	(14,089)	—
Dividends paid to common shareholders	(9,711)	—
Proceeds from income support agreement	244	—
Proceeds from issuance of preferred equity	10,300	—
Repayment of preferred equity	(10,300)	—
Cash provided by financing activities	$ 257,616	$ 275,795
Cash flows from investing activities		
Acquisitions and additions to investment properties	$ (220,938)	$ (269,956)
Deposit paid for acquisitions	—	(2,500)
Contributions to joint ventures	(917)	—
Construction costs	(6,087)	—
Issuance and acquisition of loans receivable	(38,452)	—
Cash used in investing activities	$ (266,394)	$ (272,456)
Increase in cash and cash equivalents	462	7,189
Cash and cash equivalents, beginning of period	7,189	—
Cash and cash equivalents, end of period	$ 7,651	$ 7,189
Supplemental disclosure relating to non-cash activities:		
Exchange of convertible debentures (note 11)	$ 111,171	$ —
Assumption of mortgages payable on acquisition of investment properties (notes 5 and 8)	$ 112,107	$ —
Non-cash interest accrued as capital on convertible debentures (note 11)	$ 2,280	$ —

See accompanying notes to consolidated financial statements.

Mainstreet Health Investments Inc. (the “Company’’) was incorporated on May 31, 2007 under the Business Corporations Act (Ontario). Effective April 4, 2016, the Company changed its name from "Kingsway Arms Retirement Residences Inc." to "Mainstreet Health Investments Inc." and continued under the laws of the Province of British Columbia. The Company's registered office is 2500 - 700 W Georgia Street, Vancouver, British Columbia V7Y 1B3.

On April 4, 2016, the Company acquired Mainstreet Investment Company, LLC’s ("MS Investment") interest in a joint venture, Mainstreet Health Holdings Inc. (“MHI Holdco”), for consideration consisting of the issuance of 81,160,000 common shares and 307,659,850 non-voting shares of the Company. MS Investment is owned 100% by the chairman of the Company.

On May 26, 2016, the Company filed a prospectus relating to an offering ("the Offering") of 9,500,000 common shares of the Company. Upon completion of the offering on June 2, 2016, the Company acquired the remaining shares of MHI Holdco subsequent to the conversion of the outstanding 2015 Convertible Debentures (note 11) of MHI Holdco into common shares of MHI Holdco. This acquisition is a reverse takeover transaction which has been accounted for as an asset acquisition in which MHI Holdco has been identified as the acquirer of the Company and the acquisition has been recorded in accordance with IFRS 2, Share-based Payment. As the former shareholder of MHI Holdco owned a controlling interest in the Company at the closing of the transaction, the financial statements of the Company reflect the historical results of MHI Holdco and the acquisition of the net assets of the Company at fair value on the date of closing.

The Company has been formed primarily to own income-producing seniors housing and care properties throughout the United States and Canada. Specifically, the Company will look to acquire and invest in properties which offer predominately transitional care, long-term care, memory care assisted living and independent living programs that are leased to operators under triple net leases. At December 31, 2016, the Company owns a portfolio of 35 seniors housing and care properties.

1. Basis of preparation:

(a) Statement of compliance:

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standard Board ("IASB").

These consolidated financial statements were approved by the Board of Directors of the Company and authorized for issuance on March 29, 2017.

(b) Basis of measurement:

These consolidated financial statements have been prepared on a historical cost basis, except for cash, restricted cash, investment properties, derivative financial instruments, investment in MS-SW Development Fund Holdings, LLC, subscription receipts, deferred shares and the 2015 Convertible Debentures, which are measured at fair value through profit and loss ("FVTPL").

(c) Principles of consolidation:

(i) Transactions eliminated on consolidation:

The consolidated financial statements comprise the financial statements of the Company and its 100% owned subsidiaries as of December 31, 2016, including MHI International Holdings Inc., Mainstreet Health US Holdings Inc., Mainstreet Health Holdings, LP and project specific limited partnerships. All intercompany transactions and balances are eliminated on consolidation.

(ii) Joint arrangements:
A joint venture is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint operation is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

These consolidated financial statements include the Company's proportionate share of each of the assets, liabilities, revenue and income and expenses of joint operations on a line-by-line basis. Joint ventures are included in the Company's consolidated financial statements as investments using the equity method, whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the net assets. The Company's share of joint venture profit or loss is included in the consolidated statements of comprehensive income (loss).

(d) Functional and presentation currency:

The consolidated financial statements are presented in U.S. dollars, which is the functional and presentational currency of the Company.

Assets and liabilities of operations having a functional currency other than the U.S. dollars are translated at the rate of exchange at the consolidated balance sheet dates. Revenue and expenses are translated at average rates for the year, unless exchange rates fluctuated significantly during the year, in which case the exchange rates at the dates of the transaction are used. Gains or losses on translating a foreign operation are included in OCI as a component of equity.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. Foreign currency denominated monetary assets and liabilities are translated using the prevailing rate of exchange at the consolidated balance sheet dates. Gains and losses on translation of monetary items are recognized in the consolidated statements of income in general and administrative expenses.

(d) Use of estimation and uncertainty:

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these 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. Assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending December 31, 2016 are as follows:

(i) Investment properties:

The estimates used when determining the fair value of investment properties are capitalization rates and stabilized future cash flows. The capitalization rate applied is reflective of the characteristics, location and market of each investment property. The stabilized future cash flows of each investment property are based upon rental income from current leases and assumptions about market rent from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. Management determines fair value internally utilizing internal financial information, external market data and capitalization rates provided by independent industry experts.

(ii) Accounting for convertible debentures:

Management exercises judgment in determining the allocation of the debt and equity components of convertible debentures. The liability allocation is based upon the fair value of a similar liability that does not have an equity conversion option and the residual is allocated to the equity component.

(iii) Other:

Estimates are also made in the determination of the fair value of financial instruments and include assumptions and estimates regarding future interest rates, the relative creditworthiness of the Company to its counterparties, the credit risk of the Company's counterparties relative to the Company, the estimated future cash flows and discount rates.

(e) Critical judgments:

Judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

(i) Accounting for leases:

The Company uses judgment regarding the present value of lease payments, the fair value of assets and the determination of the lease term in assessing the classification of its leases as operating leases, in particular with long-term leases in single operator properties. The Company has determined that all of its leases are operating leases.

(ii) Accounting for acquisitions:

Management must assess whether an acquisition should be accounted for as an asset purchase or business combination. This assessment impacts the accounting treatment of transaction costs, the allocation of the costs associated with the acquisition and whether or not goodwill should be recognized. The Company's acquisitions are generally determined to be asset purchases as the Company does not generally acquire an integrated set of processes as part of the acquisition transaction.

2. Significant accounting policies:

(a) Cash and cash equivalents:

Cash and cash equivalents consists of cash on hand and highly liquid marketable investments with an original maturity of 90 days or less at their date of purchase and are stated at cost, which approximates fair value. As at December 31, 2016 and 2015, there were no cash equivalents.

(b) Restricted cash:

The Company's restricted cash represents a deposit account required by a purchase agreement. The deposit held in restricted cash was released upon completion of the purchase transaction.

(c) Investment properties:

Investment properties are held to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business. All of the Company's income properties and properties under development are investment properties. On acquisition, investment properties are initially recorded at cost, including transaction costs. Subsequent to initial recognition, the Company uses the fair value model to account for investment properties under International Accounting Standard ("IAS") 40, Investment Property. Under the fair value model, investment properties are recorded at fair value, which is determined based on available market evidence, at the statement of financial position date. Related fair value gains and losses are recorded in net income (loss) and comprehensive income (loss) for the period in the period in which they arise.

Subsequent capital expenditures are added to the carrying value of the investment properties only when it is probable that future economic benefits will flow to the property and the cost can be measured reliably.

Properties under development include those properties, or components thereof, that will undergo activities that will take a substantial period of time to prepare the properties for their intended use as income properties. Properties under development are also adjusted to fair value at each consolidated balance sheet date with fair value adjustments recognized in net income.

Investment property is classified as held for sale when the property is available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of investment properties, its sale is highly probable and expected to be completed with one year. Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal.

(d) Loans receivable:

Loans receivable are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the loans receivable are measured at amortized cost using the effective interest method, less any impairment losses.

(e) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(i) in the principal market for the asset or liability; or

(ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interests.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is not observable.

For assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(f) Financial instruments:

The Company classifies financial assets and liabilities according to their characteristic and the related management's intention for use on an ongoing basis.

The following summarizes the Company's classification and measurement of financial assets and liabilities:

Financial assets and liabilities	Classification	Subsequent measurement
Cash	FVTPL	Fair value
Restricted cash	FVTPL	Fair value
Tenant and other receivables	Loans and receivables	Amortized cost
Development lease receivable	Loans and receivables	Amortized cost
Loans receivable	Loans and receivables	Amortized cost
Derivative instruments	FVTPL	Fair value
Investment in MS-SW Development Fund Holdings, LLC	FVTPL	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Accrued real estate taxes	Other financial liabilities	Amortized cost
Construction payable	Other financial liabilities	Amortized cost
Note payable to related party	Other financial liabilities	Amortized cost
Dividends payable	Other financial liabilities	Amortized cost
Mortgages payable	Other financial liabilities	Amortized cost
Credit facility	Other financial liabilities	Amortized cost
2015 Convertible Debentures	FVTPL	Fair value
2016 Convertible Debentures	Other financial liabilities	Amortized cost

(i) Non-derivative financial assets and financial liabilities - recognition and derecognition:

Financial assets and liabilities at fair value through profit or loss are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument. Other financial assets and liabilities are recognized on the date they are originated.

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire, or when the Company transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or when the Company neither transfers nor retains substantially all of the risk and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial asset that is created or retained by the Company is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligations are discharged or canceled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(ii) 2015 Convertible debentures:

A financial liability is classified at FVTPL if it is classified as held-for-trading or is designated as such upon initial recognition. The terms of the underlying agreements of the 2015 Convertible Debentures allow the holders to convert for a variable number of shares and are hybrid instruments comprising a host liability related to the principal and interest amounts due, plus an embedded derivative instrument related to the conversion option. Management has determined that the hybrid instruments qualify for measurement as one instrument at FVTPL. Any gains or losses arising on remeasurement are recognized in net income (loss) and comprehensive income (loss).

(iii) 2016 Convertible debentures:

The 2016 Convertible Debentures are a compound financial instrument as they contain both a liability and an equity component.

At the date of issuance, the liability component of the 2016 Convertible Debentures is recognized at its estimated fair value of a similar liability that does not have an equity conversion option and the residual is allocated to the equity component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of the 2016 Convertible Debenture is measured at amortized cost using the effective interest rate method. The equity component is not remeasured subsequent to initial recognition and will be transferred to share capital when the conversion option is exercised, or, if unexercised at maturity. Interest, losses and gains relating to the financial liability are recognized in net income (loss) and comprehensive income (loss).

(iv) Impairment of non-derivative financial assets:

Financial assets not classified as FVTPL are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of an asset and that the loss event has had a negative effect on the estimated future cash flows of that asset which can be estimated reliably.

An impairment loss with respect to investments measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in the consolidated statements of income (loss) and comprehensive income (loss) and are reflected in an allowance account against the investments. Interest on the impaired assets continues to be recognized through the unwinding of the discount if it is considered collectible. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(v) Derivative instruments:

The Company uses derivative financial instruments to manage interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. If a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, the combined instrument is not measured at fair value through profit or loss.

Derivative financial instruments, including embedded derivatives that must be separately accounted for, are initially valued at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized immediately in net income (loss) and comprehensive income (loss).

(g) Revenue recognition:

(i) Lease revenue from third party operators:

The Company accounts for its leases with operators as operating leases given that it has retained substantially all of the risks and benefits of ownership of investment properties.

Revenue includes rent earned from tenants under triple-net lease agreements, in which the tenant operators assume all operational risk and operating expenses associated with the investment properties, realty tax recoveries on certain investment properties where the Company is the primary obligor and other incidental income. Lease-related revenue is recognized as revenue over the term of the underlying leases. Other revenue is recognized at the time the service is provided.

The Company applies the straight-line method of recognizing rental revenue, whereby the total amount of rental revenue to be received from leases is accounted for on a straight-line basis over the term of the lease.

(ii) Lease revenue from joint ventures:

The Company earns revenue under lease arrangements with operating entities which are jointly owned with Autumnwood Lifestyles Inc. ("Atumnwood") (note 6). The leases are accounted for as operating leases and lease revenue is recognized over the term of the underlying leases.

(iii) Interest income:

Interest income received from borrowers are recognized in the consolidated statements of income (loss) and comprehensive income (loss) using the effective interest method.

(h) Employee benefits:

(i) Short-term benefits:

Short-term employee benefit obligations, including vacation and bonus payments, are measured on an undiscounted basis and are expensed as the related service is provided. Liabilities are recognized for the amounts expected to be paid within 12 months as the Company has an obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. Short-term employee benefits are recorded in accounts payable and other liabilities.

(ii) Share-based payment plans:

The Company maintains a Deferred Share Incentive Plan for its employees and directors. This plan is considered cash-settled and the fair value of the amount payable is recognized as an expense with a corresponding increase in liabilities, over the employees' service period. The awards are fair-valued on the basis of the share price at each reporting period and at the settlement date and the change in fair value on the amortized share-based compensation expense is recognized as compensation expense.

(i) Levies:

In accordance with IFRS Interpretations Committee ("IFRIC") 21, Levies ("IFRIC 21"), for its properties located in the United States, the Company recognizes the full amount of annual property tax liabilities at the point in time when the realty tax obligation is imposed.

(j) Income taxes:

Income tax expense comprises current and deferred tax. Tax is recognized in net income (loss) except to the extent it relates to a business combination, or items recognized directly in equity or other comprehensive income (loss).

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustments to tax payable or receivable in respect of previous years. It is measured using rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

(i) Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

(ii) Temporary differences related to investments in subsidiaries and associates to the extent that the Company is able to control the timing of reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

(iii) Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(k) IFRS amendments adopted in 2016:

On December 18, 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company has adopted these amendments in its consolidated financial statements. The adoption of these amendments did not have a material impact on the consolidated financial statements.

(l) IFRS standards and amendments issued but not yet effective:

(i) On January 7, 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows ("IAS 7"). The amendments apply prospectively for annual periods beginning on or after January 1, 2017 and require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company intends to adopt the amendments to IAS 7 in its financial statements for the year beginning on January 1, 2017 and satisfy the new requirements by disclosing a reconciliation between the opening and closing balances for liabilities from financing activities.

(ii) On January 19, 2016 the IASB issued amendments to IAS 12, Income Taxes ("IAS 12"). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The Company will adopt the amendments to IAS 12 in its financial statements for the year beginning on January 1, 2017 and does not expect the amendments will have a material impact on the financial statements.

(iii) On June 20, 2016, the IASB issued amendments to IFRS 2, Share-based Payment ("IAS 2"), clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The amendments provide requirements on the accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled, share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company intends to adopt the amendments to IFRS 2 in its financial statements for the year beginning on January 1, 2018. The extent of the impact of adoption of the amendment has not yet been determined.

(iv) On July 24, 2014, the IASB issued the complete IFRS 9, Financial Instruments ("IFRS 9 (2014)"). The effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and it must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets, changes to financial liabilities, amendments to the impairment model for "expected credit loss", and a new general hedge accounting standard, which aligns hedge accounting more closely with risk management. The Company intends to adopt IFRS 9 (2014) in its consolidated financial statements for the year beginning on January 1, 2018. The extent of the impact of adoption of the new standard has not yet been determined.

(v) On January 13, 2016, the IASB issued IFRS 16, Leases ("IFRS 16"). IFRS 16 will replace IAS 17, Leases ("IAS 17"). The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset, representing its right to use the underlying asset and a lease liability, representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15, Revenue from Contracts with Customers, at or before the date of initial adoption of IFRS 16. The Company intends to adopt these amendments in its consolidated financial statements for the year beginning on January 1, 2019. The extent of the impact of adoption of the new standard has not yet been determined.

(vi) On May 28, 2014, the IASB issued IFRS 15, Revenue from Contracts With Customers ("IFRS 15"). The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11, Construction Contracts, IAS 18, Revenue, International Financial Reporting Interpretations Committee ("IFRIC") 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfer of Assets from Customers, and Standing Interpretation Committee 31, Revenue - Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The Company intends to adopt IFRS 15 in its consolidated financial statements for the year beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

3. Loans receivable:

The Company has issued mezzanine loans to entities which are wholly owned subsidiaries of Mainstreet Property Group, LLC ("Mainstreet LLC"), which is majority owned by the chairman of the Company and is a related party. 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 ("Current Interest"), 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. The Company's interest in the mezzanine loans is secured behind the construction lender by a pledge of equity interests in the developments and, in some instances, a second mortgage position in the real estate. All of the mezzanine loans are full recourse loans to the parent entities of the development.

On December 22, 2016, a subsidiary of the Company entered into an interest only loan agreement with MS Investment with a capacity of $5.0 million to be used by MS Investment for development costs, operating capital expenditures or other costs, of which $2.5 million of the loan was advanced to MS Investment on December 22, 2016, and an additional $2.5 million 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 as PIK Interest and due at the repayment of the loan. The loan matures on December 22, 2018.

Mezzanine loans receivable issued as of December 31, 2016 are detailed in the table below:

Debtor	Loan Type		December 31, 2016	Maturity Date	Current Interest Rate	PIK Interest Rate
MS Houston Holdings II, LLC	Mezzanine Loan	$	2,576	2020 (1)	10.5%	4.0%
MS-SW Mezzanine Fund, LLC	Mezzanine Loan		3,835	2020 (1)	10.5%	4.0%
MS Webster Holdings, LLC	Mezzanine Loan		2,545	2020 (1)	10.5%	3.0%
MS Lincoln Holdings, LLC	Mezzanine Loan		3,552	2020 (1)	10.5%	4.0%
MS Aurora Holdings II, LLC	Mezzanine Loan		3,678	2021 (1)	12.0%	4.0%
MS Phoenix Holdings, LLC	Mezzanine Loan		2,810	2021 (1)	10.5%	3.0%
MS Surprise, LLC	Mezzanine Loan		2,793	2021 (1)	10.5%	3.0%
MS Parker Holdings II, LLC	Mezzanine Loan		3,441	2021 (1)	12.0%	4.0%
MS Columbia MO Holdings, LLC	Mezzanine Loan		406	2018 (1)	10.5%	4.0%
MS Omaha Holdings, LLC	Mezzanine Loan		936	2018 (1)	10.5%	4.0%
Mainstreet Investment Company, LLC	Interest-only loan		2,509	2018	8.5%	1.5%
		$	29,081			

(1) due at the time of sale of the property if sale occurs earlier than the stated maturity date

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

4. Other current assets:

Current other assets are as follows:

	December 31, 2016	December 31, 2015
Prepaid expense	$ 128	$ 96
Prepaid acquisition costs	233	—
Income support receivable	1,208	—
Other	553	—
	$ 2,122	$ 96

5. Investment properties:

(a) Investment properties:

	Number of Properties	Amount
Balance, October 7, 2015	—	$ —
Acquisitions of income properties	10	273,803
Increase in straight-line rents	—	567
Fair value adjustment	—	(5,945)
Balance, December 31, 2015	10	$ 268,425
Acquisitions of income properties	25	351,220
Capital expenditures	—	11,109
Increase in straight-line rents	—	4,224
Fair value adjustment	—	(6,507)
Balance, December 31, 2016	35	$ 628,471

At December 31, 2016, the Company used an internal valuation process to value the investment properties. Third party appraisers are engaged to prepare valuations on a portion of the portfolio annually such that one third of the portfolio is valued externally each year, and every property in the portfolio is valued externally at least once every five years.

The fair value of each investment property is determined using the direct capitalized income approach. The stabilized future cash flows are divided by an overall capitalization rate. The capitalization rates are derived from a combination of third-party appraisals and industry market data (Level 3 inputs). A significant increase (decrease) in capitalization rate estimates in isolation would result in significantly lower (higher) fair value.

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

The significant unobservable assumptions used in determining fair value of investment properties are set out in the following table:

	December 31, 2016	December 31, 2015
Capitalization rate - range	6.50% - 8.25%	8.00%
Capitalization rate - weighted average	7.81%	8.00%

The fair value of investment properties is most sensitive to changes in capitalization rates. At December 31, 2016, a 25 basis point increase or decrease in the weighted average capitalization rate would decrease the fair value of the investment properties by $19,306 (December 31, 2015 - $8,134) or increase the fair value of the investment properties by $20,567 (December 31, 2015 - $8,658), respectively.

(b) Acquisitions - year ended December 31, 2016

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

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

(ii) 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the year ended December 31, 2016, the Company capitalized $175 of interest on these development properties.

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

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

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

(x) On December 16, 2016, a wholly owned subsidiary of the Company acquired a portfolio of three properties located in San Antonio, Texas; New Braunfels, Texas and Little Rock, Arkansas (together, the "MCA Properties"), respectively, for a combined purchase price of $44,300 plus transaction costs.

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

(c) Acquisitions - period ended December 31, 2015

On October 30, 2015, the Company indirectly acquired a portfolio (the "Symphony Portfolio") of nine skilled nursing facilities and one assisted living facility located in the United States for a total purchase price of approximately $268,425, as adjusted pursuant to the terms of the purchase agreement and incurred $5,378 of transaction costs. Upon completion of the acquisition, the existing leases and operating agreements were terminated and the properties were leased to Symcare ML, LLC pursuant to a master lease agreement.

The purchase of the Symphony Portfolio has been accounted for as an asset acquisition. The identifiable net assets acquired, based on preliminary allocations, are as follows:

Number of properties acquired:		10
Net assets acquired	$	273,803
Working capital balances		(3,847)
Net assets acquired for cash	$	269,956

6. Joint arrangements:

As at December 31, 2016, the following are the Company's joint arrangements:

Joint arrangement	Number of properties	Location	Company ownership	Consolidation type
Mainstreet-Autumnwood Landlord (1)	4	Canada	50%	Joint operation
Mainstreet-Autumnwood Operator (2)	4	Canada	50%	Joint venture

(1) The Company directly holds its interest in the real estate joint operation.
(2) These joint venture arrangements have been structured through separate legal entities, and lease the properties from the joint operation landlord.

The operating Company has entered into joint arrangements in respect of certain of its investment properties, as detailed in the table above. There are risks which arise from the joint arrangements, including the willingness of the other partners to contribute or withdraw funds and a change in creditworthiness of the partner.

The Company and Autumnwood (referred to as the "landlords") each owns a 50% direct beneficial interest in the real estate assets and are jointly obligated for the related mortgages for a portfolio of 4 properties, which under IFRS 11, Joint Arrangements ("IFRS 11"), are accounted for as joint operations.

The Company's 50% interest in the operations of these properties is held through separate legal entities (collectively referred to as "Mainstreet-Autumnwood Operator"), which under IFRS 11 are accounted for as joint ventures using the equity method.

Mainstreet-Autumnwood Operators have leased the real estate from the landlords under their respective lease agreements. These leases are for three-year periods, with 6 automatic renewals every third anniversary for a total of 21 years. The Company's share of the landlords' lease receipts, $455 for the year ended December 31, 2016 (2015 - NIL), is reported as lease revenue and is included in lease revenue from joint ventures. Mainstreet-Autumnwood Operator lease expense is included in the share of net income (loss) from joint ventures in the consolidated statements of comprehensive income.

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

The following tables summarize the information about the Company's investment in joint ventures, which have been accounted for under the equity method:

	Year ended December 31, 2016	Period from October 7, 2015 to December 31, 2015
Contributions to joint ventures	$ 917	$ —

	December 31, 2016	December 31, 2015
Current assets	$ 495	$ —
Non-current assets	2,086	—
Total assets	$ 2,581	$ —
Current liabilities	$ 783	$ —
Non-current liabilities	—	—
Total liabilities	$ 783	$ —
Net investment in joint ventures	$ 917	$ —

Included in current assets is $169 (2015 - NIL) in cash and cash equivalents.

	Year ended December 31, 2016	Period from October 7, 2015 to December 31, 2015
Revenue	$ 1,637	$ —
Expenses	1,612	—
Net income	$ 25	$ —
Company's share of net income from joint ventures	$ —	$ —

Related party transactions occur between the Company and its joint ventures. These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to between the parties. Except as disclosed elsewhere in these consolidated financial statements, the related party balances are included in accounts payable and receivable, and in lease revenue. As of December 31, 2016, $185 (2015 - NIL) of the Company's accounts receivable relate to its investment in joint ventures.

7. Credit facility:

The credit facility is recorded net of loan fees, which are capitalized when paid and amortized into finance cost over the terms of the related loans using the effective interest rate method.

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

	December 31, 2016	December 31, 2015
Credit facility outstanding	$ 228,000	$ 147,015
Finance costs, net	(2,710)	(2,323)
Carrying value	$ 225,290	$ 144,692

On October 30, 2015, the Company entered into a credit facility agreement (the "Facility"). On October 31, 2016, the Company exercised the accordion feature on the Facility and increased its total capacity from $200,000 to $285,000. As of December 31, 2016, the Company has received commitments from banks to fulfill $200,000 of the term loan capacity and $85,000 of the revolving line of credit capacity. The term loan has a maturity date of October 30, 2019. The revolving line of credit has a maturity date of October 30, 2018, and has a one year extension option. At December 31, 2016, the Facility is secured by 22 properties located in the United States. As at December 31, 2016, the security provided the Company with a borrowing base of $228,118, which represents the maximum amount that can be drawn. The Facility provides for interest-only payments during the term and a borrowing rate of LIBOR plus 300 basis points.

At December 31, 2016, total borrowings outstanding under the Facility were $228,000, and the borrowing rate was 3.77%. Future principal repayments are as follows:

	Aggregate principal payments
2017	$ —
2018	28,000
2019	200,000
Total	$ 228,000

8. Mortgages payable:

Mortgages payable consist of the following as at December 31, 2016:

	December 31, 2016
Mortgages payable	$ 89,950
Mark-to-market adjustment, net	268
Finance costs, net	(502)
Carrying value	$ 89,716
Less current portion	47,889
Long-term portion, December 31, 2016	$ 41,827

The weighted average contractual interest rate of the Company's mortgages payable as of December 31, 2016 is 4.10%. Mortgages payable are collateralized by investment properties with a fair value of $161,334 at December 31, 2016. Maturity dates on mortgages payable range from 2017 to 2049, and the weighted average years to maturity is 5.2 years at December 31, 2016.

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

Future principal payments on the mortgages payable as at December 31, 2016 are as follows:

	Regular principal payments	Principal due on maturity	Total principal payments
2017	$ 788	$ 47,211	$ 47,999
2018	755	—	755
2019	1,022	4,071	5,093
2020	1,009	—	1,009
2021	1,057	—	1,057
Thereafter	7,117	26,920	34,037
	$ 11,748	$ 78,202	$ 89,950

9. Derivative financial instruments:

To manage interest rate risk, management of the Company entered into an interest rate swap agreement effective January 29, 2016 (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 4.2%. 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 statement of net income (loss) and comprehensive income (loss). The Company determined the fair value of its interest rate swap to be an asset of $1,543 at December 31, 2016 based on a market comparison technique. The determination was made using Level 2 inputs. The Company recognized income of $1,543 for the year ended December 31, 2016 in the consolidated statement of net income (loss) and comprehensive income (loss) related to the change in value of the interest rate swap.

10. Note payable to related party:

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.

11. Convertible debentures:

(i) 2015 Convertible Debentures

On October 29, 2015, the Company issued convertible subordinated debentures (the "2015 Convertible Debentures") in the aggregate principal amount of $107,961, maturing October 29, 2020. The Convertible Debentures bear interest at the following rates: (i) 10% per annum for the period commencing on October 29, 2015 and ending on and including October 28, 2016; and (ii) 8.5% per annum for the annual period commencing on October 29, 2016 and each year thereafter; in each case payable on a quarterly basis commencing on December 31, 2015, fifty percent (50.0%) in cash and fifty percent (50.0%) by capitalizing the interest accrued and payable as an increase to the principal amount.

All or any portion of the 2015 Convertible Debentures were convertible into shares of the Company at any time based on the conversion formula outlined in the 2015 Convertible Debentures agreement. Upon completion of the Offering on June 2,

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

2016, the holders of the 2015 Convertible Debentures with an outstanding balance of $111,171 exchanged their interest into 1,111,708 common shares of MHI Holdco. The holders then converted all of their common shares in MHI Holdco, which included 51,810 common shares held prior to the exchange of the 2015 Convertible Debentures, into 11,635,104 common shares of the Company.
The 2015 Convertible Debentures principal activity during the period ended December 31, 2016 is as follows:

	December 31, 2016	December 31, 2015
Convertible Debentures balance, December 31, 2015	$ 108,891	$ 107,961
Interest capitalized as principal	2,280	930
Convertible Debentures exchanged for common shares of the Company	(111,171)	—
Convertible Debentures balance, December 31, 2016	$ —	$ 108,891

(ii) 2016 Convertible Debentures

On December 16, 2016, the Company issued $45,000 aggregate principal amount of convertible unsecured subordinated debentures (the “2016 Convertible Debentures”). The 2016 Convertible Debentures are due on January 31, 2022 and bear interest at an annual rate of 5.00% payable semi-annually in arrears on July 31 and January 31 of each year commencing on July 31, 2017.

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. Holders converting their 2016 Convertible Debentures will be entitled to receive, in addition to the applicable number of Common Shares, accrued and unpaid interest thereon for the period from the last interest payment date up to and including the last record date set by the Company prior to the date of conversion for determining the holders of Common Shares entitled to receive dividends on the Common Shares prior to conversion.

On or after January 31, 2020 and prior to January 31, 2021, the 2016 Convertible Debentures may be redeemed by the Company in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the Current Market Price, as defined in the Company’s Indenture, is not less than 125% of the conversion price. On or after January 31, 2021, the 2016 Convertible Debentures may be redeemed by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued interest.

Subject to regulatory approval and provided no event of default has occurred, the Company may, at its option, elect to satisfy its obligation to pay the principal amount of the 2016 Convertible Debentures on redemption or maturity through, in whole or in part, the issuance of freely tradable common shares. The number of common shares to be issued in respect of each debenture will be determined by dividing the principal amount of the debenture by 95% of the Current Market Price, as defined in the indenture. In addition, subject to regulatory approval and provided no event of default has occurred, common shares may be issued with the proceeds used by Company the to satisfy the obligations to pay interest on the 2016 Convertible Debentures.

The 2016 Convertible Debentures are comprised of the following:

	December 31, 2016
Issued	$ 45,000
Issue costs, net of amortization	(2,138)
Equity component, excluding issue costs and taxes	(1,648)
2016 Convertible Debentures, end of year	$ 41,214

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

Interest costs related to the 2016 Convertible Debentures are recorded in financing costs using the effective interest rate method.

12. Preferred shares:

On April 28, 2016, the Company issued $10,300 of non-voting preferred shares. The preferred shares entitled the holder to a fixed cash dividend per share at a rate of 8.5% per year, which dividend was to increase to an annual rate of 10.5% if the preferred shares had not been redeemed within three months of issuance. The preferred shares were redeemed upon completion of the Offering on June 2, 2016.

13. Share capital:

The following number and value of common shares were issued and outstanding as at December 31, 2016:

	Shares			Value
Share capital of MHI Holdco at October 7, 2015 and December 31, 2015	—		$	20,734
As at January 1, 2016 - shares of the Company	81,160	(1)		—
Issued on April 4, 2016 - reverse takeover transaction	1,555,279	(1)		—
Issued on June 2, 2016 - reverse takeover transaction	11,635,104			111,871
Issued on June 2, 2016	9,500,000			86,143
Issued on June 21, 2016	1,425,000			13,412
Issued on October 31, 2016	7,406,000			70,129
Issued on November 1, 2016	352,334			3,566
Issued on November 4, 2016	262,117			2,646
Issued pursuant to the Company's dividend reinvesment plan	5,361			50
	32,222,355		$	308,551

(1) Common share values reflect the 250:1 share conversion which was effective June 2, 2016

(i) On December 2, 2015, the Company agreed to acquire all of the shares of MHI Holdco held by MS Investment, representing approximately 75% of the issued and outstanding shares of MHI Holdco, in consideration for the issuance of 81,160,000 pre-consolidation common shares and 307,659,850 pre-consolidation non-voting shares ("Non-Voting Shares") in the capital of the Company. These shares were consolidated on a 250:1 basis upon completion of the offering described in (iii) below. The non-voting Shares were converted to common shares in connection with the closing of the offering described in (iii) below.

The transaction, which closed on April 4, 2016, resulted in a reverse takeover of the Company in which MS Investment acquired approximately 95% of the issued and outstanding shares of the Company and an 80% voting interest in the Company (with the balance of their equity interest being held in the form of Non-Voting Shares).

(ii) On June 2, 2016 the Company acquired all of the remaining outstanding shares of MHI Holdco subsequent to the conversion of the 2015 Convertible Debentures issued by MHI Holdco into shares of MHI Holdco. The shareholders of MHI Holdco received 518,094 common shares of the Company and the 2015 Convertible Debenture holders received 11,117,010 common shares of the Company, both on a post-consolidation basis. The Company has been identified as the accounting acquiree rather than the accounting acquirer and the transaction is considered to be a reverse-takeover. As the former shareholders of MHI Holdco owned a controlling interest in the Company at the closing of the transaction, the financial statements of the Company reflect the historical results of MHI Holdco and the acquisition of the net assets of the Company at their fair value on the date of closing. However, the equity structure (i.e. the number and type of shares issued) reflects the equity structure of the Company.

At the closing of the transaction the Company did not meet the definition of a business and, therefore, the acquisition of the Company was not considered to be a business combination. The acquisition of the Company was accounted for in accordance with IFRS 2, Share-Based Payment, reported as the issuance of common shares and an expense of $700, which is measured by calculating the difference between (i) the fair value of the number of shares that MHI Holdco would have to issue in order to provide the same percentage ownership of the combined entity to the shareholders of the Company as they would have in the combined entity as a result of the reverse-takeover; and (ii) the fair value of the identifiable net assets of the Company on June 2, 2016.

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

(iv) On October 6, 2016, the Company closed its offering of 7,406,000 subscription receipts (the "Subscription Receipts") at a price of $10.10 per Subscription Receipt for gross proceeds of $74,800, which included 966,000 Subscription Receipts acquired upon the exercise by the underwriters of an overallotment option granted to them by the Company.

(v) On October 31, 2016, the Company completed the redemption of the subscription receipts in exchange for the issuance of 7,406,000 common shares. Upon conversion to common shares, the subscription receipts were adjusted to fair value and approximately $70,129, net of transaction costs, was transferred to shareholders' equity with a corresponding gain of approximately $667 recorded in the consolidated statements of income (loss) and comprehensive income (loss) as a finance cost.

(vi) On November 1, 2016, the Company issued 352,334 common shares as partial consideration for the acquisition of two properties located in the province of Ontario, Canada.

(vii) On November 3, 2016, the Company issued 262,117 common shares as partial consideration for the acquisition of two properties located in the province of Ontario, Canada.

(viii) For the twelve months ended December 31, 2016, the Company declared dividends payable in cash on common shares of $11,739 (2015 - NIL).

(ix) Prior to the June 2, 2016 transactions described above, the Company previously issued 10,171 stock options which are fully vested and remain exercisable at CDN$25.00 per share (2,642,800 at CDN$0.10 per share prior to the 250:1 share consolidation described in (i) above). The stock options expire between February 7, 2017 and June 14, 2018.

(x) Prior to the June 2, 2016 transactions described above, the Company previously issued 4,400 share purchase warrants which remain exercisable at CDN$25.00 per warrant (1,100,000 at CDN$0.10 per warrant prior to the 250:1 share consolidation described in (i) above). The share purchase warrants expire between July 23, 2017 and June 14, 2018.

14. Earnings per share:

Basic income (loss) per share is calculated using the weighted average number of shares outstanding during the period. The calculation of diluted income (loss) per share, is calculated using the “if-converted” method and to the extent the conversion is dilutive, assumes all convertible securities have been converted at the beginning of the period, or at the time of issuance, if later, and any charges or returns on the convertible securities, on an after-tax basis, are removed from net earnings. The after-tax interest on 2016 Convertible Debentures have been removed from net earnings and the weighted average number of shares has been increased by the number of shares, which would be issued on conversion of the 2016 Convertible Debentures, pro-rated for the number of days in the period the 2016 Convertible Debentures were outstanding. The outstanding options, share purchase warrants and unvested deferred shares, if exercised, would be anti-dilutive to net income (loss) per share. Accordingly their potential exercise has been ignored in calculating the diluted net income (loss) per share.

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

The following table reconciles the numerator and denominator of the basic and diluted earnings per share computation:

Net income (loss):

	Year ended December 31, 2016	Period from October 7, 2015 to December 31, 2015
Net income (loss) for basic net income (loss) per share	$ 4,877	$ (5,755)
Add: after-tax interest on 2016 Convertible Debentures	94	—
Net income (loss) for diluted net income (loss) per share	$ 4,971	$ (5,755)

Denominator for basic and diluted net income (loss) per share:

	Year ended December 31, 2016	Period from October 7, 2015 to December 31, 2015
Weighted average number of shares: Basic	16,236,291	2,073,373
Weighted average shares issued if all 2016 Convertible Debentures were converted	178,838	—
Weighted average number of shares: Diluted	16,415,129	2,073,373

Net income (loss) per share:

	Year ended December 31, 2016	Period from October 7, 2015 to December 31, 2015
Basic and diluted	$ 0.30	$ (2.78)

For the year ended December 31, 2016, the weighted average number of common shares outstanding has been calculated as the average of:

(i) For the period from October 7, 2015 to June 2, 2016 the weighted average number of ordinary shares of MHI Holdco outstanding during the period multiplied by the share conversion ratio.
(ii) For the period from June 2, 2016 to December 31, 2016 the actual number of ordinary shares of the Company outstanding during that period.

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

15. Rental revenue:

Rental revenue consists of the following:

	Year ended December 31, 2016	Period from October 7, 2015 to December 31, 2015
Cash rentals received	$ 28,895	$ 3,697
Straight-line rent adjustments	4,224	567
Property tax recovery	6,317	843
	$ 39,436	$ 5,107

The Company is scheduled to receive rental income from operators under the provisions of long term non-cancellable operating leases with lease terms of 10 to 15 years, with options to extend up to an additional 20 years. These leases are triple net and include renewal options and rent escalation clauses.

The tenant operator of the Symphony Portfolio ("Symcare") of 11 properties pays rent pursuant to a master lease. For the year ended December 31, 2016, rental revenue from this tenant comprised approximately 83% (2015 - 100%) of the Company's consolidated rental revenue for the period.

Future minimum rentals to be received as of December 31, 2016 are as follows:

Less than 1 year	$ 41,634
Between 1 and 5 years	174,256
More than 5 years	441,808
	$ 657,698

Future minimum rentals in the above table attributable to Symcare represent approximately 60% of the total.

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

16. Finance costs:

Finance costs consist of the following:

	Year ended December 31, 2016	Period from October 7, 2015 to December 31, 2015
Interest expense on the credit facility	$ 6,179	$ 813
Interest expense on mortgages payable	1,217	—
Interest expense on notes payable	72	44
Interest expense on Convertible Debentures	4,715	1,859
Preferred share dividends	83	—
Amortization of finance costs	887	92
Interest rate swap payments	999	—
Write off of MTM adjustment on refinanced debt	(609)	—
Non-cash write-off of deferred financing costs from refinancing	287	—
Yield maintenance premium on refinanced debt	919	—
Amortization of mark-to-market debt adjustments	(115)	—
Fair value gain on subscription receipts	(667)	—
	$ 13,967	$ 2,808

17. General and administrative:

General and administrative costs consist of the following:

	Year ended December 31, 2016	Period from October 7, 2015 to December 31, 2015
Compensation and benefits	$ 1,580	$ —
Management fees	896	111
Professional fees	1,044	1,132
Deferred share compensation	352	—
Loss on currency conversion	41	—
Listing expense	700	—
Other	565	23
	$ 5,178	$ 1,266

18. Deferred share incentive plan:

On May 25, 2016, the shareholders of the Company voted on and approved a deferred share incentive plan (the "Deferred Share Incentive Plan").

Each director of the Company is given the right to participate in the Deferred Share Incentive Plan. Each Director who elects to participate shall receive a portion of his or her fees earned for service on the Board (the "Elected Amount") in the form of deferred shares in lieu of cash ("Individual Contributed Deferred Shares"). In addition, the Deferred Share Incentive Plan provides that the Corporation shall match 100% of the Elected Amount for each director such that the aggregate number of deferred shares issued to each such director annually shall be equal in value to two times the Elected Amount for such director ("Company Contributed Deferred Shares").

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

Under the Deferred Share Incentive Plan, deferred shares may be granted from time to time to participants in the Deferred Share Incentive Plan at the discretion of the Board or the Compensation, Governance and Nominating Committee ("Discretionary Deferred Shares")

Wherever cash dividends are paid on the common shares, additional deferred shares are credited to the Participant's account. The number of such additional Deferred Shares is calculated by multiplying the aggregate number of Deferred Shares held on the relevant dividend record date by the amount of the dividend paid by the Company on each common share, and dividing the result by the market value of the common shares on the dividend date.

Individual Contributed Deferred Shares vest immediately upon grant. Company Contributed Deferred Shares, which are granted only to directors, generally vest in three equal installments on the first three anniversary dates of the grant.

Discretionary Deferred Shares may also be granted to participants and, where vesting is not specified in connection with the grant, such Discretionary Deferred Shares will vest on the second anniversary of the date of grant.

Additional deferred shares credited to a participant's account in connection with cash dividends vest on the same schedule as their corresponding Deferred Shares and are considered issued on the same date as the deferred shares in respect of which they were credited.

On April 5, 2016, the board approved the grant of 40,000 Discretionary Deferred Shares to certain officers of the Company, which grants were effective on closing of the Offering on June 2, 2016. Such Discretionary Deferred Shares will fully vest two years from the date of grant, or June 2, 2018.

At the meeting of shareholders held on May 25, 2016, shareholders approved an amendment to the Deferred Share Incentive Plan to increase the maximum number of common shares available for issuance under the Deferred Share Incentive Plan to 1,200,000.

At December 31, 2016, the number of deferred shares granted and outstanding and vested are as follows:

	Granted/ Outstanding	Fully Vested
As at January 1, 2016	—	—
Discretionary Deferred Shares granted	40,000	—
Individual Contributed Deferred Shares (vested immediately)	19,682	19,682
Company Contributed Deferred Shares	19,682	—
Dividend equivalents automatically granted on deferred shares	2,181	359
As at December 31, 2016	81,545	20,041

For the year ended December 31, 2016, expense recognized in the consolidated statements of income (loss) and comprehensive income (loss) related to deferred share grants was $352 (2015 - NIL). A deferred share liability of $352 (2015 - NIL) is included in other non-current liabilities in the consolidated statements of financial position as at December 31, 2016.

19. Related party transactions:

Except as disclosed elsewhere in the consolidated financial statements, related party transactions for the period ended December 31, 2016 included the following:

(i) The Company paid asset management and administrative services fees of $896 (2015 - $111) to an asset management company (the "Asset Manager"), which is owned 100% by the chairman of the Company. Prior to the completion of the reverse takeover transaction on April 4, 2016, the fee was payable pursuant to an asset management agreement (the "First

Asset Management Agreement") dated October 29, 2015, and called for an asset management fee equal to 3.0% of gross rentals received. On April 4, 2016, the Company entered into a new asset management agreement with the same Asset Manager (the "Second Asset Management Agreement" and together with the First Asset Management Agreement, the "Asset Management Agreements"), which called for management fees payable 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 completed the internalization of asset management functions. The Second Asset Management Agreement was terminated effective October 31, 2016, and no fees or penalties were or will be paid to the Asset Manager. In connection with internalization, the Company and Mainstreet Asset Management, Inc ("MAMI"), which is 100% owned by the chairman of the Company, entered into an administrative services agreement pursuant to which MAMI is required to provide the Company with certain administrative services, including information technology support and equipment as well as dedicated office space for a period of up to two years, in exchange for a one time fee of $65 and a monthly fee of $23.

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

(iii) 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.

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

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

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

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

(vi) 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.

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

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

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

(viii) On December 22, 2016, a subsidiary of the Company entered into a full recourse loan agreement with MS Investment with a capacity of $5.0 million to be used by MS Investment for development costs, operating capital expenditures or other costs. $2.5 million of the loan was advanced to MS Investment on December 22, 2016, and an additional $2.5 million 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.

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

For the periods ended December 31, 2016 and 2015 the consolidated statements of income (loss) and other comprehensive income (loss) include the following revenue and expenses resulting from transactions with Mainstreet LLC and its affiliates:

Transaction Type		Year ended December 31, 2016		Period from October 7, 2015 to December 31, 2015
Revenues:				
Other income - loan interest revenue	$	899	$	—
Other income - investment in MS-SW Development Fund Holdings, LLC		55		—
Total revenues	$	954	$	—
Expenses:				
Operating - management and administrative service fee	$	896	$	111
Finance costs - interest on related party note payable		72		44
Total expenses	$	968	$	155

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

Transaction Type		December 31, 2016		December 31, 2015
Assets:				
Loans receivable	$	29,081	$	—
Other - investment in MS-SW Development Fund Holdings, LLC		894		—
Other - development lease receivable		1,208		—
Total Assets	$	31,183	$	—
Liabilities:				
Accounts payable	$	19	$	3
Accrued interest		—		22
Note payable to related party		—		2,500
Total liabilities	$	19	$	2,525

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

20. Income taxes:

The income tax expense in the consolidated statements of net income (loss) and comprehensive income (loss) differs from that expected by applying the combined federal, provincial and state income tax rates of 26.5% (2015 - 26.5%). The differences for the years ended December 31, are as follows:

	Year ended December 31, 2016	Period from October 7, 2015 to December 31, 2015
Income (loss) before income taxes	$ 10,413	$ (5,755)
Income tax expense (recovery) at Canadian tax rate	2,759	(1,525)
Non-deductible expenses	398	—
Expense not subject to tax	307	—
Tax benefit not previously recognized	(1,032)	—
Difference in tax rate in foreign jurisdiction	3,104	(53)
Tax benefits not recognized	—	1,578
Income tax expense	$ 5,536	$ —

The Company has certain subsidiaries in the United States and Canada that are subject to tax on their taxable income. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below.

	December 31, 2016
Deferred tax assets:	
Net operating losses	$ 7,870
Investment properties	—
Other	183
Deferred tax assets	$ 8,053
Deferred tax liabilities:	
Investment properties	$ 12,574
Derivative instruments	625
Convertible debentures	437
Deferred tax liabilities	$ 13,636
Net deferred tax liability	$ (5,583)

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

The gross movement in deferred tax is as follows:

	Year ended December 31, 2016	Period from October 7, 2015 to December 31, 2015
Deferred tax liability, beginning balance	$ —	$ —
Deferred tax expense	5,536	—
Deferred tax liability charged to equity	47	—
Deferred tax liability, ending balance	$ 5,583	$ —

At December 31, 2016, U.S. subsidiaries had accumulated net operating losses available for carryforward for U.S. income tax purposes of $18,708. The federal net operating losses will expire in 2036. The state net operating losses will expire in 2028.

The Company has net operating losses and deductible temporary differences amounting to $13,728 in Canada at December 31, 2016 ($3,896 in its U.S. subsidiaries at December 31, 2015) for which no deferred tax asset has been recognized as it is not probable that future taxable profits will be available against which the Company can use the benefits therefrom. The net operating losses expire between 2026 and 2034.

21. Commitments and contingencies:

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

Pursuant to the Chesterton lease agreement and satisfaction of certain conditions, the tenant has an option prior to the end of the fifth year of the lease to increase rent to a level supported by certain metrics as identified in the lease agreement. In consideration for the exercise of such option, the Company is required to pay the tenant an amount equal to the capitalized value of the rent increase using a pre-determined capitalization rate. If such option is exercised, the tenant’s rent is also increased by an amount equal to the consideration paid multiplied by the capitalization rate. The Company has not recorded any balance in the financial statements associated with this commitment.

Pursuant to the Scranton Portfolio purchase and sale agreement, if certain conditions are met, the Company will be obligated to make an earn-out payment to the seller of the properties. Additionally, pursuant to the Scranton 7 lease agreement, if an earn-out payment is made, the tenant’s rent will increase at an amount equal to the consideration paid for the earn-out multiplied by a pre-determined rate. The Company has not recorded any balance in the financial statements associated with this commitment.

Pursuant to the Evanston lease agreement and satisfaction of certain conditions, the tenant has an option to increase rent to a level supported by certain metrics as identified in the lease agreement. In consideration for the exercise of such option, the Company is required to pay the tenant an amount equal to the capitalized value of the rent increase using a pre-determined capitalization rate. If such option is exercised, the tenant’s rent is also increased by an amount equal to the consideration paid multiplied by the capitalization rate. The Company has not recorded any balance in the financial statements associated with this commitment.

22. Capital management:

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.

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

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.

23. Fair value measurement:

The fair value hierarchy of assets and liabilities measured at fair value on a recurring basis in the consolidated statements of financial position is as follows:

	December 31, 2016			December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash	$ 7,651	$ —	$ —	$ 7,189	$ —	$ —
Restricted cash	—	—	—	2,500	—	—
Investment in MS-SW Development Fund Holdings LLC	—	—	894	—	—	—
Derivative instruments	—	1,543	—	—	—	—
Investment properties	—	—	628,471	—	—	268,425
2015 Convertible Debentures	—	—	—	—	—	(108,891)

For the assets and liabilities measured at fair value as at December 31, 2016, there were no transfers between Level 1, Level 2 and Level 3 liabilities during the period. For changes in fair value measurements of investment properties and 2015 Convertible Debentures included in Level 3 of the fair value hierarchy, refer to note 5 and note 11, respectively for details. The fair value of the Investment in MS-SW Development Fund Holdings LLC represents contributions made to the entity and the value of contractual returns accrued.

Fair value of financial instruments:

The carrying amounts and fair values of financial instruments as shown in the consolidated statements of financial position are shown in the table below. The table below excludes cash, restricted cash, trade and other receivables, accounts payable, accrued real estate taxes, accrued interest expense, accrued convertible debenture interest, note payable to related party, dividend payable, and development cost liability, as the carrying amounts of these assets and liabilities are a reasonable approximation of fair value:

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

	December 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Investment in MS-SW Development Fund Holdings, LLC	$ 894	$ 894	$ —	$ —
Loans receivable	29,081	29,008	—	—
Derivative instruments	1,543	1,543	—	—
Financial liabilities:				
Mortgages payable	89,716	89,950	—	—
Credit facility	225,290	228,000	144,692	147,015
2015 Convertible Debentures	—	—	108,891	108,891
2016 Convertible Debentures	41,214	42,975	—	—

Fair value represents management's estimates of the fair market value at a given point in time, which may not reflect fair value in the future. These calculations are subjective and require estimation, and cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

(i) Investment in MS-SW Development Fund Holdings, LLC

Management has determined the fair value of this unlisted private equity investment using applicable inputs such as contractual rates of return and estimated future cash flows. Fair value measurements of this investment were estimated using Level 3 inputs.

(ii) Loans receivable

The fair value of loans receivable is determined by the discounted cash flow method using applicable inputs such as prevailing interest rates, contractual rates and discounts. Fair value measurements of these instruments were estimated using Level 3 inputs. The carrying values of short term loans generally approximate their fair values.

(iii) Derivative instruments

The fair values of the derivative instruments represents estimates at a specific point in time using financial models, based on interest rates that reflect current market conditions, the credit quality of counterparties and interest rate curves.

(iv) Mortgages payable and credit facility

The fair values of these instruments are estimates made at a specific point in time, based on relevant market information. These estimates are based on quoted market prices for the same or similar issues or on the current rates offered to the Company for similar financial instruments subject to similar risk and maturities. Fair value measurements of these instruments were estimated using Level 2 inputs. The carrying values of short-term and variable rate debt generally approximate their fair values.

(v) 2015 Convertible Debentures

The Company determined the fair value of the 2015 Convertible Debentures using a number of assumptions which reflect the overall value of the Company, such as the value of the Company's investment properties and changes in the actual and expected net cash flows of the Company, which are considered Level 3 fair value measurements.

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

24. Financial risk management:

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by senior management under guidelines approved by the Board of Directors. There have been no significant changes in the Company’s risk management policies and strategies since December 31, 2015.

(i) Market risk

Foreign currency risk:

Foreign exchange risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. A portion of the Company’s operations are located in Canada, resulting in the Company being subject to foreign currency fluctuations which may impact its financial position and results. In order to mitigate the risk, the Company’s borrowings on Canadian assets are also denominated in Canadian dollars to act as a natural hedge. In addition, Canadian dollar revenue was predominantly naturally hedged by Canadian dollar expenditures such as corporate professional fees, interest expense and administrative expenditures.

A $0.10 weakening of the Canadian dollar against the average U.S. dollar exchange rate of $1.326 for the year ended December 31, 2016 as well as the US dollar exchange rate as at December 31, 2016 of $1.325 would have decreased other comprehensive loss by approximately $1,306 and decreased net income by approximately $14. There would have been no impact on the period from October 7, 2015 to December 31, 2015. This analysis assumes that all other variable, in particular interest rates, remain constant. A $0.10 strengthening of the Canadian dollar against the U.S. dollar would have had the equal but opposite effect.

Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on the Facility, which bears interest based on the LIBOR rate, and certain mortgages payable, which bear interest at variable rates based on either LIBOR or prime rates. To manage interest rate risk, the Company entered into the Swap Agreement which effectively fixes interest on a portion of its variable rate debt. It may also enter into additional derivative financial instruments from time to time to mitigate interest rate risk. To limit exposure to the risk of higher interest rates at renewal, the Company spreads the maturities of its fixed-rate, long-term debt over time.

At December 31, 2016, the Company’s interest-bearing financial instruments were as follows:

	Carrying Amount	
	December 31, 2016	December 31, 2015
Fixed-rate financial liabilities	$ 284,675	$ 108,891
Variable-rate financial liabilities	$ 71,545	$ 144,692

An increase/decrease of 100-basis-points in interest rates at December 31, 2016 for the variable-rate financial instruments would have decreased/increased the income for the year by $723 (on a pre-tax basis).

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

(ii) Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the Company by failing to discharge its obligations. The Company is exposed to credit risk on all financial assets and its exposure is generally limited to the carrying amount on the consolidated statement of financial position. The Company actively manages its affairs to minimize its credit risk through careful selection and assessment of its credit parties and collateral based on knowledge obtained through means such as due diligence carried out in respect of leasing transactions to new operators. The Company also manages credit risk related to its cash balances by selection of reputable banking institutions.

(iii) Liquidity risk:

The Company is subject to the liquidity risk that it will not be able to meet its financial obligations as they come due. Although a portion of the cash flow generated by the investment properties is devoted to servicing outstanding debt and the 2016 Convertible Debentures, there can be no assurance that the Company will continue to generate sufficient cash flow from operations to meet interest payments and principal repayment obligations upon an applicable maturity date. If the Company is unable to meet principal or interest repayment obligations, it could be required to renegotiate such payments, issue additional equity or debt, or obtain other financing. The failure to make or renegotiate interest or principal payments, issue additional equity or debt, or obtain other financing could have a material adverse effect on the Company's financial condition and results of operations. The Company manages its liquidity risk through cash and debt management. The Company plans to address scheduled interest payments through operating cash flows and significant principal maturities through a combination of debt and equity financing.

The following are the contractual maturities of the Company's financial liabilities as at December 31, 2016, including expected interest payments where applicable:

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

25. Key management personnel compensation:

The remuneration of key management personnel of the Company for year ended December 31, 2016 and for the period from October 7, 2015 to December 31, 2015 is set forth in the table below. The Company completed the internalization of asset management on November 1, 2016 (note 19), and therefore, the table below sets forth the remuneration from November 1, 2016 to December 31, 2016, with the exception of the share based compensation.

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)

	Year ended December 31, 2016	Period from October 7, 2015 to December 31, 2015
Officers and directors compensation	$ 877	$ —
Post-employment benefits	24	—
Other benefits	8	—
Share based compensation	352	—
	$ 1,261	$ —

26. Segment:

The Company primarily owns income-producing seniors housing and care properties throughout the United States and Canada. In measuring performance, the Company does not distinguish or group its properties on a geographical or any other basis and, accordingly, has a single reportable segment. Management has applied judgment by aggregating its properties into one reportable segment for disclosure purposes. The Company's Chief Executive Officer is the chief decision maker and regularly reviews performance on an individual property basis.

At December 31, 2016, $589,835 of the Company's non-current assets, excluding financial instruments, are located in the United States and $39,554 are located in Canada. During the year ended December 31, 2016, the Company generated $39,436 of its revenues from properties located in the United States and $455 of its revenues from properties located in Canada.

27. Subsequent events:

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

Corporate and Unitholder Information

TRUSTEES AND/ OR DIRECTORS

Paul Ezekiel Turner,
Chairman

Richard Turner,
Lead Director [1] [3]

Dan Amadori, Director [3]

Brad Benbow, Director [2]

Rob Dickson, Director [1] [2]

Shaun Hawkins, Director [1] [3]

Katherine Vyse, Director [2]

[1] Audit Committee
[2] Compensation, Governance and Nominating Committee
[3] Investment Committee

OFFICERS AND SENIOR MANAGEMENT

Scott White,
Chief Executive Officer

Scott Higgs,
Chief Financial Officer

Matt Monson,
Vice President, Acquisitions and Business Development

Dennis Dechow,
Vice President, Asset Management Services

UNITHOLDER INFORMATION

Mainstreet Health Investments, Inc.
14390 Clay Terrace Boulevard,
Suite 205
Carmel, IN 46032
Telephone: 317-582-6971
www.mainstreethealthinvestments.com

Auditors
KPMG LLP
Toronto, Ontario

Legal Counsel
Goodmans LLP
Toronto, Ontario

Stock Exchange Listing
Toronto Stock Exchange (HLP.U)

Transfer Agent and Registrar
Computershare Trust
Company of Canada
Toronto, ON
Telephone: 800-564-6253

Unitholder and Investor Contact
Scott Higgs, Cheif Financial Officer
ir@mainstreethealthinvestments.com

Annual Meeting of Unitholders
11:00 am ET - May 4, 2017

Goodmans LLP
Bay Adelaide Centre
333 Bay Street, Suite 3400
Toronto, ON
M5H 2S7

DISTRIBUTION REINVESTMENT PLAN

Mainstreet Health Investments' Distribution Reinvestment Plan ("DRIP") allows unitholders to use their monthly cash distributions to steadily increase ownership in Mainstreet Health Investments without incurring any commission or brokerage fees.

Contact Us

14390 Clay Terrace Blvd., Ste. 205
Carmel, IN 46032

(317).582.6971

ir@mainstreethealthinvestments.com
www.mainstreethealthinvestments.com