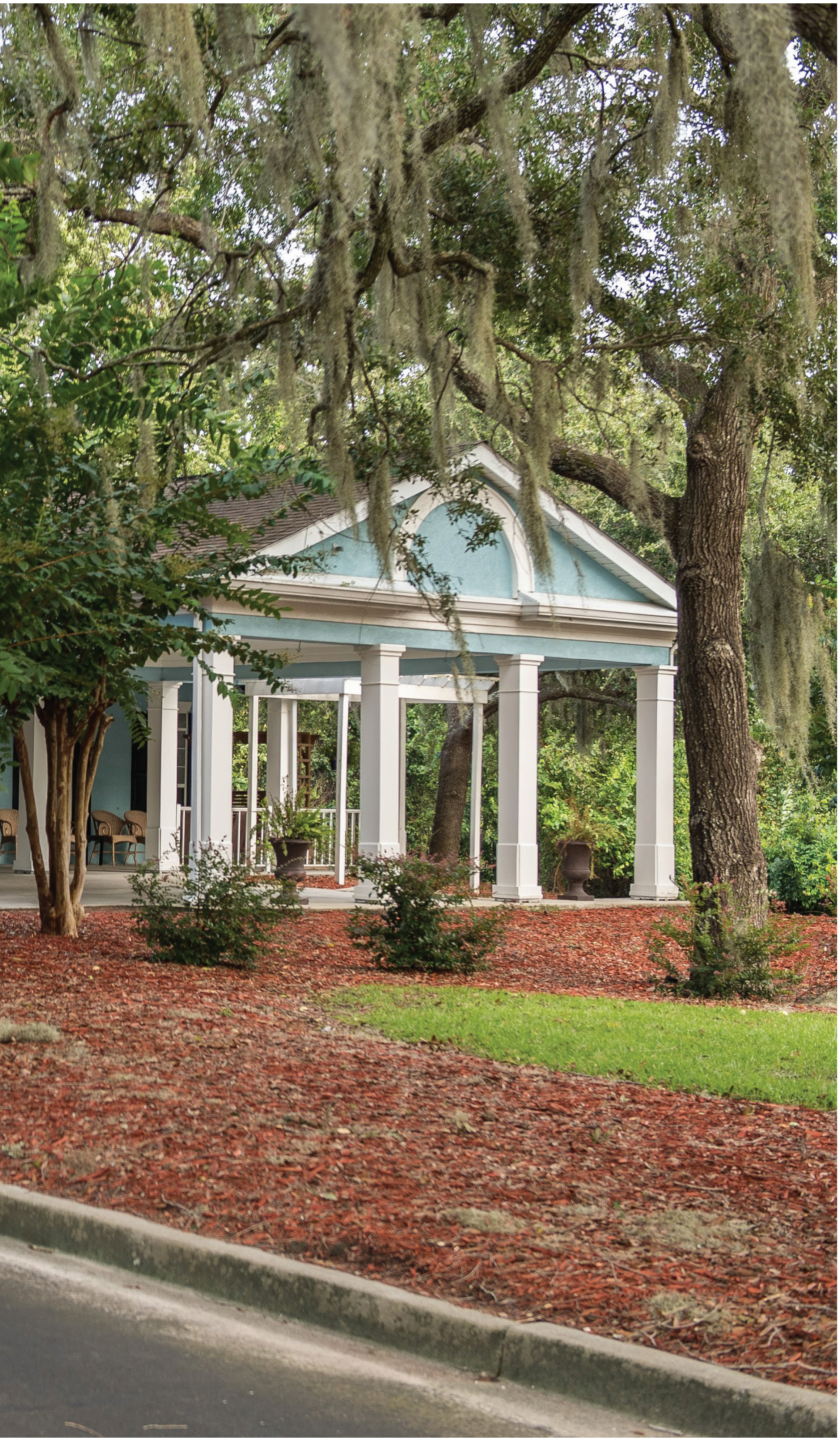

The River Oaks | *Port Royal, South Carolina*

Invesque

2017 Annual Report
April 2018

2017 Achievements

January

Appointed Scott White as CEO

March

Announced Partnership with Ensign

September

Appointed Rick Turner as Chairman of the Board of Directors

Chuck Herman joined the Board

Adlai Chester rejoined as Chief Investment Officer

November

Transformation acquistion of Care Investment Trust

Purchased three-property transitional care portfolio

Rebranded to Invesque

December

Preferred equity private placement

Acquisition of three-property memory care portfolio

In this Document

April 2018

Dear Shareholders:

"Wow! What a year we had…"

This is how I started my letter to shareholders a year ago. As I look back on 2017, my first thought again is WOW! WHAT A YEAR WE HAD! As we reflect on 2017, it is truly amazing what we have accomplished in our first full year as a public company.

When we launched in mid-2016, our team set out to build a world class company with an investment strategy to invest in a diversified portfolio of high quality health care real estate with strong yields that provide our shareholders with stable dividends and superior risk adjusted returns. Over the course of 2017 and now into 2018, we have executed on this strategy and created one of the premier health care real estate companies in North America.

2017 — A Year of Significant Growth and Diversification

- Acquired three assisted living / transitional care properties in California and Arizona for approximately $38 million in a sale-leaseback transaction with The Ensign Group
- Acquired three newly-developed transitional care properties in Missouri, Nebraska and Texas for approximately $68 million
- Announced the acquisition of Care Investment Trust, a portfolio of 42 senior housing and care properties spread across the United States for approximately $425 million through the issuance of Invesque shares as the acquisition currency. This transaction closed in February of 2018
- Closed on $26 million of preferred equity in a private placement to one of our existing institutional investors
- Added industry veteran Chuck Herman to our Board of Directors

2018 — Off to a Fast Start

I would be remiss if I looked back on 2017 without at least mentioning the exceptional activity we have seen in the first few months of 2018.

- Completed our rebranding to Invesque
- Upsized previously announced preferred equity private placement to $71 million
- Acquired two transitional care properties and three memory care buildings totaling $73 million
- Announced the acquisition of Mohawk Medical, a portfolio of 14 medical office buildings in Canada and the United States for approximately $142 million with the use of Invesque shares as the acquisition currency. This transaction is expected to close in the second quarter of this year.

Diversity and Scale

In 2017 we significantly grew and diversified the portfolio by increasing the number of operator partners, geographic locations, type of assets and investment structures. Without including the Mohawk Medical acquisition, our portfolio today has the following attributes:

- Approximately $1.3 billion in gross book value
- 89 properties
- 9,000+ beds/suites
- 11 years average property age
- 19 U.S. states and one Canadian province
- 19 high-quality operators
- Diversified mix of private pay seniors housing, skilled nursing properties and medical office buildings

There is no doubt that we are a different company today than when I wrote this letter a year ago. As a frame of reference, at the end of 2016 our portfolio consisted of just 36 properties across nine states and one Canadian province, approximately $680 million in gross book value, approximately 4,500 beds/suites and only nine operating partners. Today, we are larger, more diversified, stronger and better positioned for continued growth and to exceed expectations.

The Invesque Team and Partners

By so many different metrics, 2017 was a successful year. It took a team to succeed. I am truly grateful for the Invesque team who worked tirelessly to create shareholder value. We are all thankful for our operating partners who drive the value that is created every day in our buildings across North America. They are on the ground providing care for the thousands of residents who live in our buildings. And most of all, we are truly thankful for you, our investors and partners. Your confidence in us is something we take very seriously. We know we work for you and must earn your trust and confidence every single day.

A Look Ahead

The Invesque team has clearly demonstrated an ability to execute on our strategy by sourcing and closing attractive investment opportunities. In fewer than two years, we have built an amazing platform. But we are just getting started and aren't resting on our laurels. We continue to work hard every day to identify new accretive transactions and create shareholder value. We remain disciplined in our approach and our focus and look forward to serving you in 2018 and for many years to come. We are honored to have your support and commitment and will work relentlessly to build the premier health care real estate company in North America.

In continued appreciation of your support,

Scott White
CEO
Invesque

INVESQUE INC.

(FORMERLY MAINSTREET HEALTH INVESTMENTS INC.)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE YEAR ENDED DECEMBER 31, 2017

March 14, 2018

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, 2017. Financial data has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

This MD&A is intended to provide readers with an assessment of the performance of Invesque Inc. (the "Company") for the year ended December 31, 2017. This MD&A should be read in conjunction with the audited consolidated financial statements and notes of the Company for the years ended December 31, 2017 and 2016.

Additional information relating to the Company, including the Company's annual information form dated March 29, 2017 (the "2016 AIF") can be found on SEDAR at www.sedar.com.

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

Forward-looking disclaimer

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

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

Factors that could cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, but are not limited to, general economic conditions, competitive uncertainties and contingencies, demographic and industry trends, legislative and regulatory changes, tax laws and those factors set forth under the heading "Risks and Uncertainties" in this MD&A and 2016 AIF. 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 14, 2018 and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law.

Financial Measures not Defined Under IFRS

Certain terms used in this MD&A are performance measures that are not defined by IFRS such as Funds From Operations ("FFO"), Adjusted Funds From Operations ("AFFO"), consolidated income (loss) adjusted for IFRIC 21, fixed charge coverage ratio, payout ratio, earnings before interest, income taxes, depreciation, amortization and rent ("EBITDAR"), earnings before interest, income taxes, depreciation, amortization, rent and management fees ("EBITDARM") and any related per share amounts used by the Company to measure, compare and explain the operating results and financial performance of the Company. Such performance measures should not be construed as alternatives to income (loss) and comprehensive income (loss) or cash flows from operating activities 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 that these terms are relevant measures in comparing the Company's performance to industry data and assessing it's ability to meet its ongoing obligations.

Business Overview

Invesque Inc. is a corporation continued under the *Business Corporations Act* (British Columbia). Effective January 3, 2018, the Company changed its name from "Mainstreet Health Investments Inc." to "Invesque Inc.". 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 is a North American health care real estate company with a growing portfolio of high quality properties located in the United States and Canada and operated by best-in-class health care, senior living and care operators primarily under long-term leases and joint ventures. The Company partners with industry leaders to invest across the health care spectrum. The Company generally owns the land and buildings and leases them to operators on a long-term, triple-net lease basis or has an interest in both the property and operations in joint ventures and joint arrangements with the operating partner at the facility. 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, 2017, the Company owns a portfolio of 36 properties in the United States comprised of 14 long-term care facilities, 12 memory care and assisted living facilities and 10 transitional care properties. The Company has also entered into a joint arrangement with Autumnwood, which jointly owns the real estate of four seniors housing and care facilities located in the province of Ontario, and through a joint venture, operates each of the respective facilities.

The Company also issues financing for the development and operation of seniors housing and care properties. The development financing is generally 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. This financing often provides the Company with the right to purchase the development upon its substantial completion at fair market value. These financings provide the Company with an identifiable and actionable pipeline from which to grow the Company organically.

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

Recent Activities

Recent Acquisitions and Dispositions

The following asset acquisitions and dispositions were completed during the year ended December 31, 2017:

	Ensign Properties	Columbia	Omaha	Houston II	Wichita	Total
Number of properties acquired (disposed):	3	1	1	1	(1)	5
Net assets acquired (disposed):						
Investment properties	$ 38,229	$ 21,420	$ 24,629	$ 22,018	$ (22,761)	$ 83,535
Assumed mortgages	—	(8,781)	(9,925)	(12,514)	—	(31,220)
Mezzanine loan applied against purchase	—	(411)	(965)	(2,661)	—	(4,037)
Working capital balances	—	(1,937)	(1,991)	—	83	(3,845)
	$ 38,229	$ 10,291	$ 11,748	$ 6,843	$ (22,678)	$ 44,433
Consideration paid/funded (received) by:						
Cash	2,229	10,291	11,970	6,843	(22,678)	8,655
Proceeds from mortgage payable	30,000	—	—	—	—	30,000
Proceeds from Secured Revolving Facility	6,000	—	—	—	—	6,000
Development lease funded	—	—	(222)	—	—	(222)
	$ 38,229	$ 10,291	$ 11,748	$ 6,843	$ (22,678)	$ 44,433

On May 10, 2017, a wholly owned subsidiary of the Company acquired three properties (the "Ensign Properties") for a combined purchase price of $38,000 plus transaction costs. One property is located in Glendale, Arizona and provides long term and transitional care services. The other two properties are located in Rosemead, California and primarily provide combined assisted living and transitional care services. Each property is leased to a subsidiary of The Ensign Group, Inc. under a triple net master lease. The Company entered into new mortgage secured by all three Ensign Properties to fund $30,000 of the purchase price. The debt bears interest at a variable rate of LIBOR plus 350 basis points through its maturity date of June 1, 2022. The Company funded the remainder of the purchase with cash on hand and $6,000 in proceeds from the Secured Revolving Facility (as defined below).

On November 28, 2017 the Company purchased three transitional care facilities located in Columbia, Missouri; Omaha, Nebraska and Houston, Texas from Mainstreet LLC for a purchase price of $68,000 plus transaction costs. The Company funded the transaction through a combination of assumed debt, the retirement of the Company's mezzanine loans outstanding on the three properties, cash on hand and equity in the unencumbered Wichita, Kansas property, which was sold concurrently to Mainstreet LLC for $22,775 plus transaction costs. The Company held mezzanine loans on these properties with a total principal and PIK Interest balance of $4,037, which were repaid as a credit towards the combined purchase price at closing.

At the acquisition date, the Omaha, Nebraska property was under development, and the vendor of the property, Mainstreet LLC, agreed to fund payment for two months until rental income commences. The Company recorded a development lease receivable of $222, which reduced the cost of the investment property acquired. The Company has received full payment related to the development lease receivable as of December 31, 2017.

At the acquisition date, the Company assumed a mortgage payable in the amount of $8,781 on the property located in Columbia, Missouri. The mortgage requires interest only payments and bears interest at a variable rate of LIBOR plus 300 basis points through the mortgage's maturity date of December 23, 2018. Subsequent to the assumption of the Columbia, Missouri property mortgage, the Company drew an additional $1,816 as of December 31, 2017 to fund its construction.

At the acquisition date, the Company assumed a mortgage payable in the amount of $9,925 on the property located in Omaha, Nebraska. The mortgage requires interest only payments and bears interest at a variable rate of LIBOR plus 325 basis points through its maturity date of December 31, 2018. Subsequent to the assumption of the Omaha Nebraska property mortgage, the Company drew an additional $2,024 as of December 31, 2017 to fund its construction.

At the acquisition date, the Company assumed a mortgage payable in the amount of $12,514 on the property located in Houston, Texas. The mortgage requires interest only payments and bears interest at a variable rate of LIBOR plus 300 basis points through its maturity date of June 25, 2018.

At the time of closing the Company also assumed $3,870 of liabilities related to the remaining development costs of the properties which was recorded as a construction payable in the consolidated statement of financial position.

Other Recent Activities

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

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

On December 22, 2017, the Company entered into subscription agreements in respect of the issuance of class A convertible preferred shares to certain funds managed by Magnetar Financial LLC (collectively, "Magnetar") for aggregate gross proceeds of $54,000, to be funded in multiple series. The first series was funded on the day of the agreement resulting in the issuance of 2,802,009 Class A Series 1 Convertible Preferred Shares (the "Series 1 Preferred Shares") for aggregate gross proceeds of $26,500. The second tranche of the private placement closed in February 2018, and the third tranche of the private placement is expected to close by May 31, 2018 (see "*Subsequent Events*" for additional information).

Subsequent Events

On January 10, 2018, a wholly owned subsidiary of the Company acquired a newly constructed transitional care facility located in Lincoln, Nebraska from Mainstreet LLC. The property was acquired for a purchase price of $21,614 plus transaction costs. The acquisition was funded by the assumption of $11,668 in mortgage debt, a $3,756 credit received in satisfaction of a mezzanine loan held by the Company with respect to this property, and available cash on hand.

On January 31, 2018, a wholly owned subsidiary of the Company acquired a newly constructed transitional care facility located in Round Rock, Texas from Mainstreet LLC. The property was acquired for a purchase price of $22,769 plus transaction costs. The acquisition was funded by the assumption of $13,755 in mortgage debt and available cash on hand.

On February 1, 2018, a wholly owned subsidiary of the Company completed the acquisition of Care Investment Trust, LLC ("Care") from Tiptree Inc. This transformative acquisition includes an ownership interest in 42 seniors housing and care properties in the United States. The Care portfolio is comprised of 35 independent living, assisted living and memory care properties, and seven skilled nursing facilities located in 11 states. Of the 42 properties acquired, 24 of the properties are leased to operators under long-term triple-net lease and 18 of the properties are held through joint venture arrangements with seniors housing operators in which the Company owns the majority of the real estate and the operations.

The contractual purchase price of the Company's interest in the Care portfolio was $425,000, subject to working capital adjustments and transaction costs. The purchase price was funded by the assumption of approximately $260,708 in property level indebtedness and the issuance of 16,647,236 common shares at a fixed issuance price of $9.75 per common share. Transaction costs and certain working capital adjustments were settled with available cash on hand. This transaction is expected to be accounted for as a business combination and as a result transaction costs are expensed as incurred. For the year ended December 31, 2017, the consolidated statements of income and comprehensive income includes expense of $2,073 related to this transaction. The Company expects to incur additional expense of approximately $5,672 related to this transaction.

On February 2, 2018, the Company amended the terms of the subscription agreements to increase the amount of the subscription to approximately $71,500. The second series was funded on February 9, 2018, resulting in the issuance of 3,172,086 Class A Series 2 Preferred Shares (the "Series 2 Preferred Shares") for aggregate gross proceeds of $30,000. The third and final series is expected to be funded prior to May 31, 2018 and result in the issuance of 1,586,042 Class A Series 3 Preferred Shares (the "Series 3 Preferred Shares" and together with the Series 1 Preferred Shares and the Series 2 Preferred Shares, the "Preferred Shares") on substantially the same terms as the other series for aggregate gross proceeds of $15,000.

On February 9, 2018, a wholly owned subsidiary of the Company acquired three properties located in Garland, Texas; Grapevine, Texas and McKinney, Texas (together, the "Grand Brook Properties"), respectively, for a combined purchase price of $21,500 plus transaction costs. The acquisition was funded by cash on hand and $17,024 in proceeds from the Secured Revolving Facility.

On February 23, 2018, the Company purchased two transitional care facilities located in San Antonio, Texas and Webster, Texas from Mainstreet, LLC for a combined purchase price of $51,967 plus transaction costs. This transaction was funded through the assumption of $25,705 of mortgages payable, the retirement of the Company's mezzanine loan outstanding on the Webster, Texas property of $2,697 and cash on hand. At the time of closing the Company also assumed $5,819 of liabilities related to the remaining development costs of the properties which will be funded through future draws on the mortgages payable.

On March 2, 2018, the Company announced it had entered into an arrangement agreement ("Arrangement Agreement") with Mohawk Medical Properties Real Estate Investment Trust and its subsidiary, Mohawk Medical Operating Partnership (I) LP (collectively, "Mohawk REIT") to acquire all of the outstanding units of Mohawk REIT, for approximately CAD$177,740, subject to certain adjustments. Mohawk REIT owns 14 multi-tenant medical office buildings located in seven markets throughout Canada and the United States. Upon closing, Mohawk Realty Advisors Ltd. and its affiliates will continue to provide asset and property management for the properties. The acquisition is expected to be funded through a combination of new debt, cash on hand, and an issuance of the Company's common shares at a fixed price of $9.75 per share.

Selected Financial Information

(dollar amounts in thousands of U.S. Dollars, except per share amounts)	As at December 31,		
	2017	2016	2015
Investment properties	40	35	10
Weighted average lease term to maturity (excludes renewal options)	13.3 years	13.9 years	14.8 years
Weighted average facility age	11.5 years	11.7 years	16.1 years
Total assets	$ 785,005	$ 677,719	$ 279,053
Total indebtedness	$ 428,377	$ 356,220	$ 144,692
Debt to total assets %	54.6%	52.6%	51.9%
Weighted average interest rate (1)	4.6%	4.2%	3.2%

	Year ended December 31, 2017	Year ended December 31, 2016	Period from October 7, 2015 to December 31, 2015
Revenue	$ 68,066	$ 40,865	$ 5,107
Finance costs	$ 20,117	$ 13,967	$ 2,808
General and administrative expenses	$ 8,565	$ 5,178	$ 1,266
Net income (loss)	$ 16,263	$ 4,877	$ (5,755)
Total comprehensive income	$ 17,521	$ 4,806	$ (5,755)
Net income per share	$ 0.50	$ 0.30	$ (2.78)
Diluted net income per share	$ 0.50	$ 0.30	$ (2.78)
Funds from operations (FFO) (3)	$ 28,188	$ 14,736	$ 190
FFO per share (3) (4)	$ 0.87	$ 0.91	$ 0.09
Diluted FFO per share (3) (4)	$ 0.85	$ 0.90	$ 0.09
Adjusted funds from operations (AFFO) (3)	$ 30,920	$ 19,571	$ 1,574
AFFO per share (3) (4)	$ 0.96	$ 1.21	$ 0.76
Diluted AFFO per share (3) (4)	$ 0.91	$ 1.20	$ 0.76
Common share dividends declared	$ 23,791	$ 11,739	$ —
Dividends declared per share	$ 0.73668	$ 0.42563	$ —
Payout ratio (2)	77%	60%	—%

(1) The Company's weighted average interest rates as at December 31, 2017, 2016 and 2015 includes $227,070, $200,000 and $147,015, respectively, of the Company's debt that is fixed with interest rate swaps.

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

(3) FFO and AFFO, and related per share amounts, are financial measures not defined under IFRS. Please refer to the "Financial Measures not Defined Under IFRS" section of this MD&A.

(4) The year ended December 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 2016 Offering and the timing of the property acquisitions.

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 offering of common shares on June 2, 2016 (the "June 2016 Offering"), and the timing of the 2016 property acquisitions.

Results of Operations - Three and Twelve Months Ended December 31, 2017
(unless otherwise stated, amounts are in thousands of U.S. dollars)

Revenue

	Three months ended December 31, 2017	Three months ended December 31, 2016	Years ended December 31, 2017	Years ended December 31, 2016
Cash rentals received	$ 12,170	$ 9,154	$ 45,372	$ 28,895
Straight-line rent adjustments	1,666	1,279	5,982	4,224
Property tax recoveries	2,252	2,164	8,834	6,317
	16,088	12,597	60,188	39,436
Lease revenue from joint ventures	737	455	2,887	455
Other income	981	797	4,991	974
Total revenue	$ 17,806	$ 13,849	$ 68,066	$ 40,865

Cash rentals received and straight-line rent adjustments relate to lease agreements pursuant to which the Company leases its income properties to its tenants. Property tax recovery represents the revenue recognized for the real estate taxes for which the tenants are primarily responsible to pay. The increase in rental revenues is primarily due to additional properties acquired and annual rent escalators. Rental revenues for the year ended December 31, 2017 include revenue from 36 income properties, whereas rental revenues for the year ended December 31, 2016 include revenues from 28 income properties.

Lease revenue from joint ventures represents revenue earned under lease arrangements with four operating entities which are jointly owned by the Company. Other income relates to interest income earned on outstanding loans receivable as well as, for the twelve month period, $750 of income related to security deposits forfeited during the quarter ended June 30, 2017.

Finance Costs

Finance costs consist of the following:

	Three months ended December 31, 2017	Three months ended December 31, 2016	Years ended December 31, 2017	Years ended December 31, 2016
Interest expense on credit facilities	$ 2,800	$ 1,937	$ 10,337	$ 6,179
Interest expense on mortgages payable	1,606	633	4,822	1,217
Interest expense on notes payable	—	—	—	72
Interest expense on convertible debentures	562	94	2,250	4,715
Preferred share dividends	—	—	—	83
Amortization and accretion expense	561	336	2,345	887
Interest rate swap payments	5	258	374	999
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
Amortization of mark-to-market debt adjustments	(3)	(88)	(11)	(115)
Fair value gain on subscription receipts	—	(667)	—	(667)
	$ 5,531	$ 3,100	$ 20,117	$ 13,967

Finance costs are primarily related to interest and amortization on the Company's credit facilities and mortgages payable. Interest expense increased in the year ended December 31, 2017 compared to prior period due primarily to additional debt incurred associated with the assets acquired in the fourth fiscal quarter of 2016 and second fiscal quarter of 2017. A portion of the increase is also attributable to increases in the one month LIBOR rate, which has an impact on the Company's variable rate debt. Additionally, the Company refinanced several mortgages during the year to longer term instruments, which are at slightly higher rates in the short term, but are at fixed rates through their respective terms.

Interest expense on convertible debentures for the twelve months ended December 31, 2016 was primarily related to the 2015 Convertible Debentures, which were repaid in full on June 2, 2016. Interest expense on convertible debentures for the year ended December 31, 2017 consisted of interest on the 2016 Convertible Debentures (as defined below).

Real Estate Tax Expense & Change in Value of Investment Properties - IFRIC 21

Real estate tax (income) expense was ($11) and $8,763 for the three and twelve month periods ended December 31, 2017, respectively (three and twelve month periods ended December 31, 2016 - $397 and $5,044, respectively), which represents property tax expensed for the year for properties owned on the tax assessment date (generally January 1), in accordance with the provisions of *IFRIC 21, Levies*. Real estate taxes resulted in income during the three months ended December 31, 2017 due to adjustments made to prior estimates as actual invoices were received. Real estate tax are recovered from the Company's tenants under the provisions of their triple net leases.

The following table presents real estate tax expense and change in value of investment property - IFRIC 21 together with real estate tax recoveries to show the net effect of real estate taxes on the Company's consolidated statements of income and comprehensive income for the periods presented.

	Three months ended December 31,		Years ended December 31,	
	2017	2016	2017	2016
Property tax recoveries	$ 2,252	$ 2,164	$ 8,834	$ 6,317
Real estate tax income (expense)	11	(397)	(8,763)	(5,044)
Change in value of investment properties - IFRIC 21	(2,255)	(1,767)	(309)	(1,299)
	$ 8	$ —	$ (238)	$ (26)

General and Administrative Expense

General and administrative expense consists of the following:

	Three months ended December 31,		Years ended December 31,	
	2017	2016	2017	2016
Compensation and benefits	$ 899	$ 1,296	$ 3,333	$ 1,580
Management and administrative fees	67	159	270	896
Professional fees	396	290	1,942	1,044
Deferred share compensation	315	143	1,614	352
Loss on currency conversion	9	41	3	41
Listing expense	—	—	—	700
Diligence costs for transactions not pursued	—	22	491	22
Other	242	164	912	543
	$ 1,928	$ 2,115	$ 8,565	$ 5,178

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

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

Professional fees is comprised of costs incurred for external legal counsel, accounting fees and other professional services. The increase in professional fees for the year ended December 31, 2017 as compared to the prior year is primarily due to an increase in services provided due to growth in the Company and the level of service required subsequent to the internalization of management on November 1, 2016.

Deferred share compensation for the prior year ended December 31, 2016 relates to a grant of shares made on June 2, 2016. The expense for the year ended December 31, 2017 increased over the prior year due to a full year of expense for the June 2, 2016 grant as well as expense associated with employee grants made after June 2, 2016. There was additional expense associated with a separation agreement entered into between the Company and its former chief executive officer. In addition, during the fourth quarter of 2017, the Company issued a service provider $100 of deferred shares in satisfaction of an outstanding invoice.

The listing expense is a non-cash listing expense recorded in connection with the June 2016 Offering.

Diligence costs for transactions not pursued during the three and twelve months ended December 31, 2017 include expenses related to the evaluation of investment opportunities that did not result in a purchase transaction. These costs were primarily incurred during the quarter ended September 30, 2017, and were the result of the Company's pursuit of a significant investment, which the Company ultimately decided was not in the best interest of its shareholders.

Other general and administrative expense primarily includes the cost of insurance, fees earned by directors of the Company, travel and entertainment expense, investor relations and marketing. The increase as compared to the prior year is primarily due to growth associated with additional properties owned and expenses associated with the rebranding of the Company due to the name change effective January 3, 2018.

Transaction Costs for Business Combination

Transaction costs for business combination for the three and twelve months ended December 31, 2017 include transactions cost incurred in 2017 related to the acquisition of Care on February 1, 2018. These costs related primarily to legal expenses, opinion fees and appraisal costs.

Change in Value of Investment Properties

The change in value of investment properties was a decrease of $10,111 and $8,846 for the three and twelve month periods ended December 31, 2017, respectively. The change in value is primarily due to an adjustment to record investment properties at fair value based on the Company's estimate of fair value using level 3 inputs as of December 31, 2017. This was partially offset by an adjustment to offset the impact of the increase in straight-line rent receivable.

Change in Value of Financial Instruments

Change in value of financial instruments is comprised of changes in the Company's interest rate swap agreements and changes in the value of the income support receivable. For the twelve month period ended December 31, 2017, the Company recognized income of $1,107 related to the value of the income support receivable. In July 2017, the Company entered lease agreements on the remaining unleased properties and the Income Support Agreement (as defined below) was terminated. Rent for the properties commenced on July 15, 2017. There was no activity related to the income support receivable in the three months ended December 31, 2017. There were no changes in fair value of income support receivable recognized in the consolidated statements of income (loss) and comprehensive income (loss) during the comparable prior year periods.

For the three and twelve month periods ended December 31, 2017, the Company recorded income of $1,201 and $1,185, respectively, in the value of interest rate swaps. The Company recorded income related to the value of interest rate swaps in the prior year three and twelve month periods ended December 31, 2016 of $3,206 and $1,543, respectively. These changes represent the fair value adjustments during the period and reflect the impact of increased market interest rates. The interest rate swaps are not designated as hedges and are marked to fair value each reporting period.

Income Tax Expense

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

For the three and twelve month periods ended December 31, 2017 the Company had current income tax expense of $23 and $51, respectively (three and twelve month periods ended December 31, 2016 - NIL). The Company anticipates that future current income tax expense will result from distributions from its U.S. subsidiaries to the Canadian corporation, which will be subject to a 5% withholding tax. No such distributions were made during the periods presented.

Cash Flow Analysis

	Years ended December 31,	
	2017	2016
Cash provided by operating activities	$ 40,814	$ 9,240
Cash provided by financing activities	40,188	257,616
Cash used in investing activities	(75,695)	(266,394)
Increase in cash and cash equivalents	$ 5,307	$ 462

Cash Provided by Operating Activities

Cash provided by operating activities for the twelve months ended December 31, 2017 increased over the comparable prior year period primarily due to twelve months of operating activity in the current year, which included acquisitions made throughout 2017. Also, cash from operating activities includes the net impact of operating cash flows of acquisitions made and loans receivable issued during the current year. The change in cash provided by operating activities was also impacted by changes in working capital balances and security deposits received.

Cash Provided by Financing Activities

Cash provided by financing activities for the twelve month period ended December 31, 2017 was $40,188 as compared to cash provided by financing activities of $257,616 in the prior year period. The current period cash provided by financing activities was primarily driven by net proceeds from credit facility and mortgage activity and proceeds from the issuance of the Series 1 Preferred Shares in December 2017. These proceeds were offset by debt issuance costs incurred associated with new and refinanced mortgages, property acquisitions and the Facility Recast. In addition, the Company paid dividends of $23,414 during the period.

Financing costs provided in the twelve month period ended December 31, 2016 included $169,962 of proceeds from the issuance of shares, net of issuance costs. It also included net proceeds from credit facilities and mortgages payable of $56,859, proceeds from issuance of convertible debentures of $42,762, the net repayment of notes payable of $2,500 and dividends paid of $9,711.

Cash Used in Investing Activities

Cash used in investing activities for the twelve months ended December 31, 2017 was $75,695. This was primarily due to $77,359 used for properties acquired in May 2017 and November 2017 and capital expenditures made during the year. In addition, the Company issued loans receivable for $20,925, received $9,629 as repayment of mezzanine loans receivable and paid construction payables of $9,214.

For the twelve months ended December 31, 2016, the Company used $220,938 in the acquisition of properties and capital expenditures. In addition, the Company issued mezzanine loans for $38,452, paid construction payables of $6,087, and made investments in joint ventures of $917.

Reconciliation of Consolidated Statements of Income (Loss)

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

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

Year ended December 31, 2017	Consolidated statements of income (loss) and comprehensive income (loss)	IFRIC 21 property tax adjustment	Consolidated income (loss) adjusted for IFRIC 21
Revenue:			
Cash rentals received	$ 45,372	$ —	$ 45,372
Straight-line rent adjustments	5,982	—	5,982
Property tax recoveries	8,834	—	8,834
Lease revenue from joint ventures	2,887	—	2,887
Other income	4,991	—	4,991
	68,066	—	68,066
Expenses (income):			
Finance costs	20,117	—	20,117
Real estate tax expense	8,763	309	9,072
General and administrative expenses	8,565	—	8,565
Transaction costs for business combination	2,073		2,073
Change in value of investment properties - IFRIC 21	309	(309)	—
Change in value of investment properties	8,846	—	8,846
Change in value of financial instruments	(2,292)	—	(2,292)
Income before income taxes	21,685	—	21,685
Income tax expense:			
Deferred	5,371	—	5,371
Current	51	—	51
Net income (loss)	$ 16,263	$ —	$ 16,263

Three months ended December 31, 2017	Consolidated statements of income (loss) and comprehensive income (loss)	IFRIC 21 property tax adjustment	Consolidated income (loss) adjusted for IFRIC 21
Revenue:			
Cash rentals received	$ 12,170	$ —	$ 12,170
Straight-line rent adjustments	1,666	—	1,666
Property tax recoveries	2,252	—	2,252
Lease revenue from joint ventures	737	—	737
Other income	981	—	981
	17,806	—	17,806
Expenses (income):			
Finance costs	5,531	—	5,531
Real estate tax expense	(11)	2,255	2,244
General and administrative expenses	1,928	—	1,928
Transaction costs for business combination	2,073	—	2,073
Change in value of investment properties - IFRIC 21	2,255	(2,255)	—
Change in value of investment properties	10,111	—	10,111
Change in value of financial instruments	(1,201)	—	(1,201)
Income before income taxes	(2,880)	—	(2,880)
Income tax expense:			
Deferred	(4,906)	—	(4,906)
Current	23	—	23
Net income (loss)	$ 2,003	$ —	$ 2,003

Year ended December 31, 2016	Consolidated statements of income (loss) and comprehensive income (loss)	IFRIC 21 property tax adjustment	Consolidated income (loss) adjusted for IFRIC 21
Revenue:			
Cash rentals received	$ 28,895	$ —	$ 28,895
Straight-line rent adjustments	4,224	—	4,224
Property tax recoveries	6,317	—	6,317
Lease revenue from joint ventures	455	—	455
Other income	974	—	974
	40,865	—	40,865
Expenses (income):			
Finance costs	13,967	—	13,967
Real estate tax expense	5,044	1,299	6,343
General and administrative expenses	5,178	—	5,178
Transaction costs for business combination	—	—	—
Change in value of investment properties - IFRIC 21	1,299	(1,299)	—
Change in value of investment properties	6,507	—	6,507
Change in value of financial instruments	(1,543)	—	(1,543)
Income before income taxes	10,413	—	10,413
Income tax expense:			
Deferred	5,536	—	5,536
Current	—	—	—
Net income (loss)	$ 4,877	$ —	$ 4,877

Three months ended December 31, 2016	Consolidated statements of income (loss) and comprehensive income (loss)	IFRIC 21 property tax adjustment	Consolidated income (loss) adjusted for IFRIC 21
Revenue:			
Cash rentals received	$ 9,154	$ —	$ 9,154
Straight-line rent adjustments	1,279	—	1,279
Property tax recoveries	2,164	—	2,164
Lease revenue from joint ventures	455	—	455
Other income	797	—	797
	13,849	—	13,849
Expenses (income):			
Finance costs	3,100	—	3,100
Real estate tax expense	397	1,767	2,164
General and administrative expenses	2,115	—	2,115
Transaction costs for business combination	—	—	—
Change in value of investment properties - IFRIC 21	1,767	(1,767)	—
Change in value of investment properties	621	—	621
Change in value of financial instruments	(3,206)	—	(3,206)
Income before income taxes	9,055	—	9,055
Income tax expense:			
Deferred	3,916	—	3,916
Current	—	—	—
Net income (loss)	$ 5,139	$ —	$ 5,139

Financial Position

Total assets of $785,005 are primarily comprised of $721,991 of investment properties, which represents the fair market value of the Company's portfolio of properties including capital expenditures during the year ended December 31, 2017. Cash on hand at December 31, 2017 was $12,958, other assets were $1,182, and total loans receivable were $36,431. Other assets primarily consists of $548 of prepaid acquisition costs, $217 of deposits paid on future acquisitions, $328 of prepaid expense and $89 of other costs. Tenant and other receivables of $7,564 is primarily comprised of real estate tax and rent receivables. The loans receivable balance primarily relates to the issuance of loans for the development of seniors housing and care properties in the United States and Canada. The Company's derivative asset balance of $2,827 represents the fair market value of interest rate swap agreements that are an asset to the Company.

Total liabilities of $465,621 includes current liabilities of $75,663 and non-current liabilities of $389,958. The current liabilities include $8,056 of real estate taxes payable, of which $510 relates to the period prior to the Company's ownership of the respective properties, and for which cash consideration was provided by the seller at closing, and $7,546 of which relates to real estate tax liabilities. Accounts payable and accrued liabilities represents $5,400 of the balance in current liabilities. In addition, current liabilities includes $52,351 representing the current portion of mortgages payable, net of loan fees, $5,958 representing the current balance outstanding on the credit facilities, net of loan fees, $1,097 in construction payables and $1,987 to record a dividend payable. Non-current liabilities include $117,158 representing the non-current portion of mortgages payable, net of loan fees, $210,974 representing the non-current balance outstanding on the credit facilities, net of loan fees, and a $10,291 deferred tax liability. Other non-current liabilities of $9,500 primarily consists of security deposits received from tenants and a liability related deferred shares granted under the Company's deferred share incentive plan.

Summary of Quarterly Results

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

	Three months ended December 31, 2017	Three months ended September 30, 2017	Three months ended June 30, 2017	Three months ended March 31, 2017	Three months ended December 31, 2016	Three months ended September 30, 2016	Three months ended June 30, 2016	Three months ended March 31, 2016
Revenue	$ 17,806	$ 17,542	$ 17,196	$ 15,522	$ 13,849	$ 11,037	$ 8,625	$ 7,354
Finance costs	5,531	5,355	4,885	4,346	3,100	2,396	4,030	4,441
Real estate tax expense (income)	(11)	430	485	7,859	397	26	—	4,621
General and administrative expenses	1,928	2,166	2,084	2,387	2,115	955	1,396	492
Change in value of investment properties - IFRIC 21	2,255	1,865	2,043	(5,854)	1,767	1,614	1,384	(3,466)
Change in value of investment properties	10,111	374	(1,692)	53	622	3,292	1,772	822
Change in value of financial instruments	(1,201)	(155)	1,249	(2,185)	(3,206)	(1,003)	816	1,850
Deferred income tax expense	(4,906)	2,936	3,408	3,933	3,916	1,620	—	—
Current income tax expense	23	—	28	—	—	—	—	—
Net income (loss)	2,003	4,571	4,706	4,983	5,138	2,137	(773)	(1,406)
Income (loss) per share: Basic	$ 0.06	$ 0.14	$ 0.15	$ 0.15	$ 0.17	$ 0.09	$ (0.09)	$ (0.68)
Income (loss) per share: Diluted	$ 0.06	$ 0.14	$ 0.15	$ 0.15	$ 0.17	$ 0.09	$ (0.09)	$ (0.68)
Funds from operations (1)	6,007	7,726	7,671	6,784	5,803	6,046	1,815	1,266
Funds from operations per share: Basic (1)	$ 0.19	$ 0.24	$ 0.24	$ 0.21	$ 0.20	$ 0.25	(2)	(2)
Funds from operations per share: Diluted (1)	$ 0.18	$ 0.23	$ 0.23	$ 0.20	$ 0.19	$ 0.25	(2)	(2)
Adjusted funds from operations (1)	7,509	7,062	8,278	8,071	7,149	5,511	3,848	3,321
Adjusted funds from operations per share: Basic (1)	$ 0.23	$ 0.22	$ 0.26	$ 0.25	$ 0.24	$ 0.23	(2)	(2)
Adjusted funds from operations per share: Diluted (1)	$ 0.22	$ 0.21	$ 0.24	$ 0.24	$ 0.24	$ 0.23	(2)	(2)

(1) Funds from operations and adjusted funds from operations, and related per share amounts, are supplemental measures which are not defined by IFRS, see *Financial Measures not Defined Under IFRS*.

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

The Company's results for the past eight quarters have primarily been affected by the Reverse Takeover, the June 2016 Offering, the timing of additional property acquisitions subsequent to the June 2016 Offering and changes in the fair value of investment properties and financial instruments. Refer to the "Recent Activities" section of this MD&A for details of the timing of property acquisitions.

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 levels of risk while preserving the ability to meet financial obligations.

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

The Company expects to meet its working capital requirements with respect to accounts payable and accrued liabilities, construction payable and dividends payable through cash on hand and operating cash flows. The balance of accrued real estate taxes will be paid by the Company's tenants under our triple net lease structure, except for $510 that 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. As at December 31, 2017, current liabilities totaled $75,663, exceeding current assets of $33,150, resulting in a working capital deficiency of $42,513. The Company expects to be able to meet all of its obligations as they become due utilizing some or all of the following sources of liquidity: (i) cash flow generated from operations, (ii) credit facilities, under which $23,976 was available as at December 31, 2017, (iii) property specific mortgages, (iv) issuance of Preferred Shares and (v) subject to market conditions, the issuance of common shares.

The Company sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets, as well as with consideration of externally imposed capital requirements. In managing its capital structure, the Company monitors performance throughout the period to ensure working capital requirements are funded from operations, available cash on deposit and available financing. The Company may make changes to its capital structure in order to support the broader corporate strategy or in light of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue equity or new debt, issue new debt with different characteristics to replace existing debt, or reduce the amount of existing debt. On March 3, 2017 the Company filed a base shelf prospectus with the securities regulatory authorities in each of the provinces and territories of Canada with the intention of allowing the Company to more quickly access capital when market opportunities permit.

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

Preferred Equity

On December 22, 2017, the Company entered into subscription agreements in respect of the issuance of class A convertible preferred shares to Magnetar for aggregate gross proceeds of $54,000, to be funded in multiple series. The first series was funded on the day of the agreement resulting in the issuance of 2,802,009 Series 1 Preferred Shares for aggregate gross proceeds of $26,500.

On February 2, 2018, the Company amended the terms of the subscription agreements to, among other things, increase the amount of the subscription to approximately $71,500. The second series was funded on February 9, 2018, resulting in the issuance of 3,172,086 Series 2 Preferred Shares for aggregate gross proceeds of $30,000. The third series is expected to be funded prior to May 31, 2018 and result in the issuance of 1,586,042 Series 3 Preferred Shares on substantially the same terms as the other series for aggregate gross proceeds of $15,000.

The Preferred Shares are non-voting and are initially convertible into common shares of the Company on a one-for-one basis at the option of the holder based on an initial liquidation preference and a conversion price of $9.75. The Series 1 Preferred Shares are also convertible at the option of the Company in certain circumstances, and the Company has agreed to deliver to an undertaking to the Toronto Stock Exchange not to covert the Series 1 Preferred Shares at a conversion price below $6.00. The Preferred Shares were (or in the case of the Series 3 Preferred Shares, are expected to be) issued at a price per share equal to the initial liquidation preference of $9.75, subject to a 3% discount. Following issuance, the liquidation preference of the Preferred Shares accrues at a rate of 5.65% per annum, compounded quarterly, increasing the number of common shares into which each Preferred Share is convertible at the fixed rate, and is subject to further adjustments in certain circumstances.

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. Management monitors the Company's debt by reviewing debt to total assets ratio, interest coverage ratio, debt maturity schedule, and the ratio of fixed versus floating rate debt. Over the long-term, the Company strives to have a portfolio average years to maturity of 5-8 years. The Company targets a long-term debt level of 50-55% of total assets, for 70-85% of its debt to be of fixed rate and for a fixed charge coverage ratio to be a minimum of 1.75.

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

Indebtedness

	Principal Amount	Weighted Average Interest Rate	Years to Maturity
Fixed Rate Indebtedness			
Term loan	$ 200,000	4.4% (1)	4.4
Mortgages payable	85,646	4.5% (1)	8.3
2016 Convertible Debentures	45,000	5.0%	4.1
	330,646	4.5%	5.4
Variable Rate Indebtedness			
Revolver	14,895	4.8%	3.4
Secured Revolving Facility	6,000	7.0%	0.2
Mortgages payable	85,022	4.7%	2.2
	105,917	4.8%	2.3
Total Indebtedness	$ 436,563	4.6%	4.6
Less loan fees and issue costs, net of amortization and accretion	(6,795)		
Equity component of convertible debentures, excluding issue costs and taxes	(1,648)		
Mark-to-market adjustment, net	257		
Carrying amount	$ 428,377		

(1) Weighted average interest rates as at December 31, 2017 includes debt that is fixed with interest rate swaps.

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 which commenced on July 31, 2017.

Debt to Total Assets

Debt to total assets is calculated by dividing the total indebtedness, net of loan costs, by the total assets of the Company. At December 31, 2017, the Company's total consolidated indebtedness is approximately $428,377, which represents approximately 54.6% of total assets. Excluding the convertible debentures, total consolidated indebtedness is approximately $386,441, which is 49.2% of total assets. Fixed rate debt represents approximately 75.7% 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, 2017 the fixed charge coverage ratio of the Company is 2.18.

Repayment Summary

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

Contractual Commitments

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

	Total	2018	2019	2020	2021	2022	Thereafter
Credit facilities	$ 263,396	$ 15,856	$ 9,793	$ 9,820	$ 24,133	$ 203,794	$ —
Mortgages payable	206,474	59,175	11,925	7,641	7,630	38,852	81,251
Convertible debentures	55,125	2,250	2,250	2,250	2,250	46,125	—
Accounts payable and accrued liabilities	5,400	5,400	—	—	—	—	—
Accrued real estate taxes	8,056	8,056	—	—	—	—	—
Construction payable	1,097	1,097	—	—	—	—	—
Dividends payable	1,987	1,987	—	—	—	—	—
Other non-current liabilities	9,500	751	185	160	—	—	8,404
Purchase commitments	59,570	59,570		—	—	—	—
Total Commitments	$ 610,605	$ 154,142	$ 24,153	$ 19,871	$ 34,013	$ 288,771	$ 89,655

Credit facilities is comprised of the Company's credit facility (the "Facility") entered into on October 31, 2015, as amended on June 6, 2017 and a secured revolving credit facility entered into on February 24, 2017 (the "Secured Revolving Facility"). The credit facilities combined have an outstanding balance of $216,932 as of December 31, 2017.

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

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

Dividends payable relates to the December 2017 dividend declared.

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

On March 31, 2016, a subsidiary of the Company entered into a purchase and sale agreement to acquire a portfolio of three properties in Syracuse, New York for total consideration of $50,863. As of December 31, 2017, one of these properties, Keepsake Village at Greenpoint, has yet to be acquired. The Company has a commitment to acquire Keepsake Village at Greenpoint for total consideration of $11,018.

On November 16, 2017 a subsidiary of the Company entered into a purchase and sale agreement to acquire a portfolio of 42 senior housing and care properties for a total consideration of $425,000. The transaction was completed in February of 2018.

On December 15, 2017 a subsidiary of the Company entered into a purchase and sale agreement to acquire a portfolio of three properties located in Garland, Texas; Grapevine, Texas and McKinney, Texas for total consideration of $21,500. The transaction completed in February of 2018.

On December 29, 2017 a subsidiary of the Company entered into a purchase and sale agreement to acquire a portfolio of four properties located in Lincoln, Nebraska; Round Rock, Texas; Webster, Texas and San Antonio, Texas for total consideration of $96,351. These properties were purchased in January and February of 2018.

Financial Instruments and Other Instruments

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

Off-Balance Sheet Items

There were no off-balance sheet items as of December 31, 2017.

Transactions Between Related Parties

Related party transactions during the years ended December 31, 2017 and 2016 include transactions between the Company and entities with an ownership interest held by Paul "Zeke" Turner, who served as chairman of the Company's board of directors from June 2, 2016 through September 19, 2017. Effective September 19, 2017, Mr. Turner resigned from his position on the board of directors of the Company, at which point he was no longer a related party. Mr. Turner owns or has a majority interest in certain entities with which the Company has transacted, including Mainstreet LLC, Mainstreet Asset Management, Inc ("MAMI") and MS Investment. These entities are considered related parties with respect to all transactions completed while Mr. Turner served on the Company's board of directors. As at and for the years ended December 31, 2017 and 2016, the following related party transactions occurred involving the former chairman of the Company or entities owned or controlled by him:

(i) For the year ended December 31, 2017, the Company paid asset management and administrative services fees of $270, (2016 - $896), to MAMI, which is owned 100% by the former chairman of the Company. Prior to the completion of the Reverse Takeover on April 4, 2016, the fee was payable pursuant to an asset management agreement (the "First Asset Management Agreement") dated October 29, 2015, and required the Company to pay an asset management fee equal to 3.0% of gross rentals received. On April 4, 2016, the Company entered into a new asset management agreement with MAMI (the "Second Asset Management Agreement"), which required the Company to pay management fees at a rate of 0.3% of the estimated gross book value of the Company up to a gross book value of $1,000,000, plus 0.1% of the gross book value of the Company in excess of $1,000,000.

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

(ii) 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.

(iii) On October 30, 2015, the Company entered into a $2,500 note payable with an entity that is owned 100% by the former 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 former 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 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, 2017, the Company has $16,760 (December 31, 2016 - $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.

(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 former 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 an income support agreement (the "Income Support Agreement") in conjunction with its purchase of the property, whereby the vendor of the property, Mainstreet LLC, agreed to fund payment until rental income commences. Upon execution of the development leases, the Company recorded an income support receivable of $2,076, which reduced the cost of the investment properties acquired. The Leawood, Kansas property is operational and rent commenced on December 1, 2016. The Company has received full payment of the initial $2,076 income support receivable recorded at acquisition. The Company has received additional payments under the Income Support Agreement of $1,107 as of December 31, 2017 due to the timing of lease commencements on the remaining properties.

At the time of closing the Company also assumed $2,984 of liabilities related to development costs of the properties which was recorded as a construction cost liability on the statement of financial position. Subsequent to the acquisition date, an additional $14,333 of construction was completed on these properties as of December 31, 2017. The Company received a credit from Mainstreet LLC at closing in the amount of $17,317 related to the construction costs to be completed.

(viii) On December 22, 2016, a subsidiary of the Company entered into a full recourse loan agreement with MS Investment with a capacity of $5,000 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.

(ix) In July 2017, the Company entered into an agreement to sell the Wichita, Kansas and Fort Worth, Texas properties to Mainstreet LLC for a combined purchase price of approximately $47,298. In conjunction with this transaction, lease agreements to operate both properties were entered into by an affiliate of Mainstreet LLC and the Income Support Agreement has been terminated. The triple-net lease agreements have initial terms of 15 years and are at market rates, which are equal to the payments previously received under the Income Support Agreement. The final income support payments were received in July 2017 and there is no remaining income support receivable related to these properties. Rent for the two properties commenced on July 15, 2017. The Company has recognized $1,726 of rental revenue for these properties for the year ended December 31, 2017.

Subsequent to the original agreement in July 2017, the purchase agreement was amended to exclude the Fort Worth, Texas property from the sale transaction. The lease agreement remains in place and the property will continue to be operated by an affiliate of Mainstreet LLC.

(x) On November 28, 2017 the Company purchased three transitional care facilities located in Columbia, Missouri; Omaha, Nebraska and Houston, Texas from Mainstreet LLC for a purchase price of $68,000 plus transaction costs. The Company funded the transaction through a combination of assumed debt, the retirement of the Company's mezzanine loans outstanding on the three properties, cash on hand and equity in the unencumbered Wichita, Kansas property, the sale of which was completed concurrently for $22,775 plus transaction costs. The Company held mezzanine loans on these properties with a total principal and PIK Interest balance of $4,037, which were repaid as a credit towards the combined purchase price at closing.

(xi) On July 25, 2017, the Company received total payments of $6,673 representing full repayment of outstanding principal, accrued PIK Interest and current interest, as of the repayment date, on the mezzanine loans receivable from MS Aurora Holdings II, LLC and MS Phoenix Holdings, LLC.

Other related party transactions

The Company entered into subscription agreements in respect of the issuance of class A convertible preferred shares to Magnetar for aggregate gross proceeds of $54,000, to be funded in multiple series. Magnetar is a related party of the Company as it beneficially owns or controls more than 10% of the Company's outstanding common shares. The purpose of the transaction was to raise proceeds to be used for the repayment of debt, general working capital purposes and to fund future acquisitions.

The first series of the private placement was funded on the day of the agreement resulting in the issuance of 2,802,009 Series 1 Preferred Shares for aggregate gross proceeds of $26,500. On February 2, 2018, the Company amended the terms of the subscription agreements to increase the amount of the subscription to approximately $71,500. The second series was funded on February 9, 2018, resulting in the issuance of 3,172,086 Series 2 Preferred Shares for aggregate gross proceeds of $30,000. The third series is expected to be funded prior to May 31, 2018 and result in the issuance of 1,586,042 Series 3 Preferred Shares on substantially the same terms as the other series for aggregate gross proceeds of $15,000.

Significant Areas of Estimation

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

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

Change in value of investment properties:

Acquired investment properties are initially measured at cost, including directly attributable acquisition costs, when the transactions are deemed to be asset acquisitions. Subsequent to initial recognition, investment properties are measured at fair value, determined based on available market evidence. The Company uses alternative valuation methods such as the direct capitalized income approach, discounted cash flow projections or recent transaction prices (Level 3 inputs).

The fair value of investment properties reflects rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The valuation of investment properties is one of the principal estimates and uncertainties of the Company. Refer to note 4 to the consolidated financial statements of the Company for the period ended December 31, 2017 for further information on estimates and assumptions made in determination of the fair value of investment properties.

Significant Accounting Policies and Changes in Accounting Policies

A summary of significant accounting policies and changes in accounting policies is set forth in notes 1 and 2, respectively, of the financial statements for the period ended December 31, 2017.

Risks and Uncertainties

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

Controls and Procedures

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

Disclosure Controls and Procedures

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

Internal Controls Over Financial Reporting

We are responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision of the design and operating effectiveness of our internal controls over financial reporting as at December 31, 2017, 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, 2017 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Outstanding Shares

As of March 14, 2018, 49,045,041 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 was converted into common shares of the Company, it would result in the issuance of 4,090,909 additional common shares.

As of March 14, 2018, there were 2,802,009 Series 1 Preferred Shares outstanding and 3,172,086 Series 2 Preferred Shares Outstanding. The Series 1 Preferred Shares and Series 2 Preferred Shares are convertible into freely tradable shares of the Company. As of March 14, 2018, assuming the voluntary conversion of all of the Series 1 Preferred Shares and Series 2 Preferred Shares then outstanding, a total of 6,032,991 common shares would be issuable.

Financial Measures

Funds From Operations ("FFO") and Adjusted Funds From Operations ("AFFO") are supplemental measures used by management to track the Company's performance. Management believes these terms reflect the operating performance and cash flow of the Company. The Company believes that AFFO and AFFO per share provide the most effective metric by which to evaluate the performance of the Company, and which most accurately identifies the cash flows available for distribution to shareholders. In February 2017, the Real Property Association of Canada ("REALPAC") issued white papers with recommendations for calculations of FFO and AFFO and introduced a new cash flow measure, Adjusted Cash Flow from Operations ("ACFO").

Funds From Operations

FFO means net income in accordance with IFRS, (i) plus or minus fair value adjustments on investment properties; (ii) plus or minus gains or losses from sales of investment properties; (iii) plus or minus certain other fair value adjustments; (iv) plus transaction costs expensed as a result of the purchase of property being accounted for as a business combination; (v) plus property taxes accounted for under IFRIC 21; and (vi) plus deferred income tax expense, after adjustments for equity accounted entities calculated to reflect FFO on the same basis as consolidated properties. The use of FFO, a non IFRS measure, combined with the required IFRS presentations, has been included for the purpose of improving the understanding of the operating results of the Company. FFO provides an operating performance measure that provides a perspective on the financial performance that is not immediately apparent from net income determined in accordance with IFRS.

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

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

	Three months ended December 31,		Years ended December 31,	
	2017	2016	2017	2016
Net income for the period	$ 2,003	$ 5,138	$ 16,263	$ 4,877
Add/(deduct):				
Change in fair value of investment properties	12,366	2,388	9,155	7,806
Property taxes accounted for under IFRIC 21	(2,255)	(1,766)	(309)	(1,273)
Change in fair value of financial instruments	(1,201)	(3,206)	(2,292)	(1,543)
Deferred income tax expense	(4,906)	3,916	5,371	5,536
Fair value gain on subscription receipts	—	(667)	—	(667)
Funds from operations	$ 6,007	$ 5,803	$ 28,188	$ 14,736
Interest, amortization and accretion expense on 2016 Convertible Debentures	740	94	2,965	94
Total diluted funds from operations	$ 6,747	$ 5,897	$ 31,153	$ 14,830
Weighted average number of shares, including fully vested deferred shares: Basic	32,377,271	29,607,972	32,323,269	16,236,291
Weighted average shares issued if all 2016 Convertible Debentures were converted	4,090,909	711,462	4,090,909	178,838
Weighted average shares issued if all Preferred Shares were converted	304,566	—	76,558	—
Weighted average number of shares: Diluted	36,772,746	30,319,434	36,490,736	16,415,129
Funds from operations per share	$ 0.19	$ 0.20	$ 0.87	$ 0.91
Diluted funds from operations per share	$ 0.18	$ 0.19	$ 0.85	$ 0.90

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

Adjusted Funds From Operations

The Company is of the view that AFFO is an effective measure of the cash generated from operations, after providing for certain adjustments. AFFO means cash provided by operating activities, subject to certain adjustments, including: (i) adjustments for certain non-cash working capital items that are not considered indicative of sustainable economic cash flow available for distribution, (ii) adjustments for interest expense on the credit facilities and mortgages payable that is included in finance costs, (iii) adjustments for cash paid for interest, (iv) adds back compensation expense related to the Company's deferred share incentive plan (v) adds back payments received under the Company's Income Support Agreement and development lease arrangements and (vi) 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,		Years ended December 31,	
	2017	2016	2017	2016
Cash flows provided by operating activities	$ 16,384	$ 4,884	$ 40,814	$ 9,240
Change in non-cash working capital	(10,815)	692	(15,207)	5,197
Less: interest expense (1)	(4,973)	(2,896)	(17,783)	(8,618)
Plus: interest paid	4,253	2,690	16,538	11,383
Plus: deferred share incentive plan compensation	315	143	1,614	352
Plus: income support and development lease payments received	222	990	2,693	1,371
Plus: one-time asset management internalization costs	—	646	—	646
Plus: investment in MS-SW Development Fund Holdings, LLC	50	—	178	—
Plus: Transaction costs for business combination	2,073	—	2,073	—
Adjusted funds from operations	$ 7,509	$ 7,149	$ 30,920	$ 19,571
Interest expense on 2016 Convertible Debentures	562	94	2,250	94
Total diluted adjusted funds from operations	$ 8,071	$ 7,243	$ 33,170	$ 19,665
Weighted average number of shares, including fully vested deferred shares: Basic	32,377,271	29,607,972	32,323,269	16,236,291
Weighted average shares issued if all 2016 Convertible Debentures were converted	4,090,909	711,462	4,090,909	178,838
Weighted average shares issued if all Preferred Shares were converted	304,566	—	76,558	—
Weighted average number of shares: Diluted	36,468,180	30,319,434	36,414,178	16,415,129
Adjusted funds from operations per share	$ 0.23	$ 0.24	$ 0.96	$ 1.21
Diluted adjusted funds from operations per share	$ 0.22	$ 0.24	$ 0.91	$ 1.20
Dividends declared	$ 5,957	$ 5,896	$ 23,791	$ 11,739
AFFO payout ratio	79%	82%	77%	60%

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

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 and the related capital structure of the Company during the corresponding period.

The reduction in AFFO per share in the current quarter is partially due to the increase in finance costs, which resulted from the Company's previous refinancing of certain properties, whereby the corresponding loan terms were extended and the interest rates fixed over a longer time frame. Over the long-term, the Company believes the stability and predictability resulting from the financings will provide economic benefit. In addition, the Company entered into leases, each with 18 year terms, on two properties in Houston, Texas where cash rent over the initial 12-18 month term was set to approximate debt service on the corresponding property. After the initial period, the leases will escalate to full yield. The first of these leases commenced on August 1, 2017, and the yield difference over the current quarter was $327 ($545 for the period from August 1, 2017 to December 31, 2017). The second of the leases commenced on December 5, 2017, and the yield difference over this period was $86. The Company expects the lease structure on these two properties to transition to full yield by January 2019 and June 2019, respectively.

Cash Dividends

	Three months ended December 31,		Years ended December 31,	
	2017	2016	2017	2016
Cash flows provided by operating activities	$ 16,384	$ 4,884	$ 40,814	$ 9,240
Net income	2,003	2,137	16,263	4,877
Total dividends declared	5,957	5,896	23,791	11,739
Cash provided by operating activities in excess (shortfall) of total dividends	10,427	(1,012)	17,023	(2,499)
Shortfall of net income over total dividends	(3,954)	(3,759)	(7,528)	(6,862)

Total dividends for the years ended December 31, 2017 and 2016 exceeded net income primarily due to non-cash items. Non-cash items relating to fair value adjustments of investment properties and the Company's financial instruments, amortization of financing costs, deferred income tax expense and non-cash listing expense are deducted from or added to net income and have no impact on cash available to pay current dividends. In addition, payments received with respect to the Company's Income Support Agreement and development lease payments received are not added to net income, but provide cash available to pay current dividends. Adjusting net income for these items results in an excess over dividends declared by $1,552 and $7,129 for the three and twelve months ended December 31, 2017, respectively (three and twelve months ended December 31, 2016 - $1,253 and $7,832, respectively).

Cash provided by operating activities increased in 2017 largely due to the acquisitions of investment property which took place in 2016, May 2017 and November 2017 and as a result, exceeded total dividends for the three and twelve month periods ended December 31, 2017. Total dividends for the three and twelve months ended December 31, 2016 exceeded cash provided by operating activities primarily due to the timing of payments in working capital accounts, including cash paid for real estate taxes related to the period prior to the Company's ownership of the respective properties for which cash consideration was provided by the seller at closing. In addition, payments received with respect to the Company's Income Support Agreement are not added to cash provided by operating activities, but provide cash available to pay current dividends.

The excess of dividends over cash flow provided by operating activities during these prior year periods were temporary in nature and were funded through a combination of cash flows generated by property acquisitions and mezzanine loan investments during the third quarter of 2016, proceeds from the exercise of the over-allotment option on the June 2016 Offering and proceeds from credit facilities. The excess of dividends over cash flow provided by operating activities in the prior year does not change the Company's view about its ability to pay dividends in the future.

The Company declared its first monthly dividend for the period from June 2, 2016 to June 30, 2016.

Operational Measures

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

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

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

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

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

The majority of the income properties in the Company's portfolio are leased under long-term, triple-net leases. The Company believes relevant metrics to evaluating the performance in the underlying operations include operator lease coverage and occupancy. The Company's operator performance metrics are calculated utilizing data that is one quarter in arrears (i.e. as of and through September 30, 2017 for this reporting period), and, where master leases are in place for portfolios of multiple asset types, using allocated rents pursuant to consistent methodologies.

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

Operator Lease Coverage

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

EBITDAR (earnings before interest, income taxes, depreciation, amortization, and rent) lease coverage is calculated by taking the EBITDAR generated over the trailing twelve months divided by corresponding cash rent due over the same period. The Company's stabilized portfolio generated EBITDAR lease coverage of 1.2.

EBITDARM (earnings before interest, income taxes, depreciation, amortization, rent, and management fees) lease coverage is also used by the Company. Together with EBITDAR lease coverage, EBITDARM lease coverage allows the Company to evaluate operations at each property by eliminating management fees, which can vary based on the operator/tenant and its negotiated structure with the Company. The Company believes EBITDARM is valuable because it isolates the operational performance to the results of the direct operations within the facility. The Company's stabilized portfolio generated EBITDARM lease coverage of 1.5.

Through certain of its leases with operators, the Company has the ability to claw back the management fees that the operator is able to pay. This provision in the leases is enforceable when certain performance metrics are not met, as defined within the lease agreements. This mechanism further enhances the Company's position relative to the performance and risk mitigation within the portfolio. Specific to the stabilized portfolio, the Company has the ability to claw back management fees that would equate to an additional 0.2 of lease coverage, on an aggregate EBITDAR basis.

Operator Occupancy

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

For the trailing twelve months ended September 30, 2017, the Company's stabilized portfolio had an occupancy percentage of 87%.

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

INVESQUE INC.

(formerly Mainstreet Health Investments Inc.)

Years ended December 31, 2017 and 2016

KPMG LLP
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333 Bay Street, Suite 4600
Toronto ON M5H 2S5
Canada
Tel 416-777-8500
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Invesque Inc.

We have audited the accompanying consolidated financial statements of Invesque Inc. (formerly Mainstreet Health Investments Inc.), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, 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.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Invesque Inc. (formerly Mainstreet Health Investments Inc.) as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 14, 2018
Toronto, Canada

INVESQUE INC.

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

	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash	$ 12,958	$ 7,651
Tenant and other receivables	7,564	7,040
Loans receivable (note 3)	11,446	—
Other (note 4)	1,182	2,122
	33,150	16,813
Non-current assets:		
Loans receivable (note 3)	24,985	29,081
Derivative instruments (note 9)	2,827	1,543
Investment in joint ventures (note 6)	980	917
Investment properties (note 5)	721,991	628,471
Investment in MS-SW Development Fund Holdings, LLC	1,072	894
	751,855	660,906
Total assets	$ 785,005	$ 677,719
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 5,400	$ 2,387
Accrued real estate taxes	8,056	6,915
Construction payable	1,097	6,442
Dividends payable	1,987	1,978
Unearned revenue	814	—
Credit facilities (note 7)	5,958	—
Mortgages payable (note 8)	52,351	47,889
	75,663	65,611
Non-current liabilities:		
Credit facilities (note 7)	210,974	225,290
Mortgages payable (note 8)	117,158	41,827
Convertible debentures (note 11)	41,936	41,214
Derivative instruments (note 9)	99	—
Deferred tax liability (note 22)	10,291	5,583
Other non-current liabilities (note 12)	9,500	957
	389,958	314,871
Total liabilities	465,621	380,482
Common Share capital (note 15)	310,459	308,551
Preferred Share capital (note 15)	26,353	—
Contributed surplus	400	244
Convertible debentures	1,130	1,130
Cumulative deficit	(20,145)	(12,617)
Accumulated other comprehensive income (loss)	1,187	(71)
Total shareholders' equity	319,384	297,237
Commitments and contingencies (notes 15 and 23)		
Subsequent events (notes 3, 7, 15 and 29)		
Total liabilities and shareholders' equity	$ 785,005	$ 677,719

See accompanying notes to consolidated financial statements.

INVESQUE INC.

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

		Year ended December 31, 2017		Year ended December 31, 2016
Revenue:				
Rental (note 17)	$	60,188	$	39,436
Lease revenue from joint ventures (note 6)		2,887		455
Other income (notes 3 and 21)		4,991		974
		68,066		40,865
Expenses (income):				
Finance costs (note 18)		20,117		13,967
Real estate tax expense		8,763		5,044
General and administrative expenses (notes 19 and 20)		8,565		5,178
Transaction costs for business combination (note 29)		2,073		—
Change in value of investment properties - IFRIC 21		309		1,299
Change in value of investment properties (note 5)		8,846		6,507
Change in value of financial instruments (notes 4, 9 and 21)		(2,292)		(1,543)
Income before income taxes		21,685		10,413
Income tax expense:				
Deferred (note 22)		5,371		5,536
Current (note 22)		51		—
		5,422		5,536
Net income	$	16,263	$	4,877
Items to be reclassified to net income (loss) in subsequent periods				
Other comprehensive income (loss):				
Unrealized gain (loss) on translation of foreign operations		1,258		(71)
Total comprehensive income	$	17,521	$	4,806
Income per share (note 16):				
Basic and diluted	$	0.50	$	0.30

See accompanying notes to consolidated financial statements.

INVESQUE INC.

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in thousands of U.S. dollars)
Years ended December 31, 2017 and 2016

	Common Share capital	Preferred Share capital	Contributed surplus	Equity component of convertible debentures	Cumulative deficit	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2017	$ 308,551	$ —	$ 244	$ 1,130	$ (12,617)	$ (71)	$ 297,237
Net income	—	—	—	—	16,263	—	16,263
Other comprehensive income	—	—	—	—	—	1,258	1,258
Common shares issued, net	1,540	—	—	—	—	—	1,540
Preferred shares issued, net	—	26,353	—	—	—	—	26,353
Shares issued under the Dividend Reinvestment Plan	368	—	—	—	—	—	368
Dividends declared	—	—	—	—	(23,791)	—	(23,791)
Proceeds from income support agreement	—	—	156	—	—	—	156
Balance, December 31, 2017	$ 310,459	$ 26,353	$ 400	$ 1,130	$ (20,145)	$ 1,187	$ 319,384

	Common Share capital	Contributed surplus	Equity component of convertible debentures	Cumulative deficit	Accumulated other comprehensive income	Total
Balance, January 1, 2016	$ 20,734	$ —	$ —	$ (5,755)	$ —	$ 14,979
Net income	—	—	—	4,877	—	4,877
Other comprehensive loss	—	—	—	—	(71)	(71)
Common shares issued, net	287,767	—	—	—	—	287,767
Shares issued under the Dividend Reinvestment Plan	50	—	—	—	—	50
Dividends Declared	—	—	—	(11,739)	—	(11,739)
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

See accompanying notes to consolidated financial statements.

INVESQUE INC.

Consolidated Statements of Cash Flows
(Expressed in thousands of U.S. dollars)
Years ended December 31, 2017 and 2016

		Year ended December 31, 2017		Year ended December 31, 2016
Cash flows from operating activities:				
Net income	$	16,263	$	4,877
Items not involving cash:				
Fair value adjustment of investment properties		8,846		6,507
Fair value adjustment of financial instruments		(2,292)		(1,543)
Straight-line rent		(5,982)		(4,224)
Finance costs		20,117		13,967
Change in fair value of investment in MS-SW Development		(178)		—
Deferred income tax		5,371		5,536
Listing expense		—		700
Interest paid		(16,538)		(11,383)
Change in non-cash operating working capital:				
Tenant and other receivables		(524)		(6,197)
Accounts payable and accrued liabilities		1,681		970
Unearned revenue		814		(1,790)
Other assets		2,617		(585)
Other liabilities		9,414		956
Accrued real estate taxes		1,205		1,449
Net cash provided by operating activities	$	40,814	$	9,240
Cash flows from financing activities:				
Proceeds from credit facilities	$	34,741	$	112,601
Payments on credit facilities		(41,847)		(31,616)
Debt issuance costs paid		(3,804)		(2,043)
Proceeds from mortgages payable		90,204		26,902
Payments of mortgages payable		(42,201)		(48,985)
Proceeds from issuance of convertible debentures		—		42,762
Proceeds from notes payable		—		3,900
Repayments of notes payable		—		(6,400)
Proceeds from issuance of shares		—		184,051
Payments of share issuance costs		—		(14,089)
Dividends paid to common shareholders		(23,414)		(9,711)
Proceeds from income support agreement		156		244
Proceeds from issuance of Preferred Share capital (note 15)		26,500		—
Payments of Preferred Share issuance costs		(147)		—
Proceeds from issuance of preferred shares (note 14)		—		10,300
Repayment of preferred shares (note 14)		—		(10,300)
Cash provided by financing activities	$	40,188	$	257,616
Cash flows from investing activities:				
Additions to investment properties	$	(77,359)	$	(220,938)
Dispositions to investment properties		22,678		—
Contributions to joint ventures		—		(917)
Construction costs		(9,214)		(6,087)
Prepaid acquisition costs		(504)		—
Issuance of loans receivable		(20,925)		(38,452)
Repayment of loans receivable		9,629		—
Cash used in investing activities	$	(75,695)	$	(266,394)
Increase in cash and cash equivalents		5,307		462
Cash and cash equivalents, beginning of period		7,651		7,189
Cash and cash equivalents, end of period	$	12,958	$	7,651

See accompanying notes to consolidated financial statements.

Invesque 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. Effective January 3, 2018, the Company changed its name from "Mainstreet Health Investments Inc." to "Invesque Inc." and continued under the laws of the Providence 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.

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 of MHI Holdco into common shares of MHI Holdco. This acquisition was 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 is a North American health care real estate company with a growing portfolio of high quality properties located in the United States and Canada and operated by best-in-class senior living and care operators primarily under long-term leases and joint ventures. 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, 2017, the Company owns a portfolio of 40 seniors housing and care properties.

1. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements 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 14, 2018.

(b) Basis of measurement:

These consolidated financial statements have been prepared on a historical cost basis, except for 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, 2017, 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.

(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 other comprehensive income ("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.

(e) 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, 2017 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 estimates 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.

(f) 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 have generally been determined to be asset purchases as the Company did not 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, 2017 and 2016, there were no cash equivalents.

(b) 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 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 income and comprehensive income 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 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.

(c) 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.

(d) 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 consolidated 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.

(e) 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
Tenant and other receivables	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
Dividends payable	Other financial liabilities	Amortized cost
Mortgages payable	Other financial liabilities	Amortized cost
Credit facilities	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 allowed the holders to convert for a variable number of shares and were 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 determined that the hybrid instruments qualified for measurement as one instrument at FVTPL. Any gains or losses arising on remeasurement were recognized in 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 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 and comprehensive income 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 income (loss) and comprehensive income (loss).

(f) 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. ("Autumnwood") (note 6). The leases are accounted for as operating leases and lease revenue is recognized on a straight-line basis over the term of the underlying leases.

(iii) Interest income:

Interest income received from borrowers is recognized in the consolidated statements of income and comprehensive income using the effective interest method.

(g) 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.

(h) 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.

(i) Income taxes:

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

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.

Judgement is required to assess the interpretation of tax legislation when recognizing and measuring current and deferred tax assets and liabilities. The impact of different interpretations and applications could potentially be material. The Company recognizes a tax benefit from an uncertain tax position when it is probable that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Management's estimate of future taxable profits and the recognition of deferred tax assets are reviewed at each reporting date and deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) IFRS amendments adopted in 2017:

(i) The amendments to IAS 7, Statement of Cash Flows ("IAS 7") 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 adopted the amendments to IAS 7 in 2017 (note 13).

(ii) The amendments to IAS 12, Income Taxes ("IAS 12") 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 adopted the amendments to IAS 12 on January 1, 2017. The adoption of these amendments did not have a material impact on the consolidated financial statement.

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

(i) On June 20, 2016, the IASB issued amendments to IFRS 2, Share-based Payment ("IFRS 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 consolidated financial statements for the year beginning on January 1, 2018, and does not expect the amendments to have a significant impact on the consolidated financial statements.

(ii) The Company will adopt IFRS 9, Financial Instruments ("IFRS 9"), which replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), in its consolidated financial statements for the annual period beginning on January 1, 2018, the mandatory effective date. IFRS 9 will generally be applied retrospectively without restatement of comparative information.

IFRS 9 contains a new classification and measurement approach for financial assets to be classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and FVTPL, and eliminates the existing IAS 39 category of held to maturity, loans and receivables and available for sale.

For impairment of financial assets, IFRS 9 replaces the 'incurred loss' impairment model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as FVTPL are recognized in profit or loss, whereas under IFRS 9 the amount of change in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and the remaining amount of change in fair value is presented in profit or loss.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Company does not currently apply hedge accounting in its consolidated financial statements.

Management does not expect the adoption of IFRS 9 to have a material impact on the consolidated financial statements.

(iii) IFRS 15, Revenue from Contracts With Customers ("IFRS 15") is effective for annual periods beginning on or after January 1, 2018, and will replace IAS 11, Construction Contracts, IAS 18, Revenue, International Financial Reporting Interpretations Committee ("IFRIC") 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfer of Assets from Customers, and SIC 31, Revenue - Barter Transactions Involving Advertising Services.

IFRS 15 contains a single, control-based 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. IFRS 15 also includes additional disclosure requirements for revenue accounted for under the standard.

The Company will adopt IFRS 15 in its consolidated financial statements for the annual period beginning January 1, 2018. The Company plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognized at January 1, 2018. As a result, the Company will not apply the requirements of IFRS 15 to the comparative period presented. Management does not expect that the adoption of IFRS 15 will have a material impact on the consolidated financial statements. However, additional disclosure requirements may result in separate disclosure of revenue for service components that are part of a lease (i.e. a non-lease component).

(iv) 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 is still evaluating the impact of IFRS 16. In particular, the Company is assessing how the new standard may impact the allocation of consideration to each lease and non-lease component. The standard requires this allocation to be completed in accordance with the guidance in IFRS 15, that is, on the basis of relative standalone selling prices.

(v) On June 7, 2017, the IASB issued IFRIC Interpretation 23, Uncertainty over Income Tax Treatments ("IFRIC 23"), which provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. IFRIC 23 requires (i) an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; (ii) an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and (iii) if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount of expected value, depending on whichever method better predicts the resolution of the uncertainty. 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.

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 former chairman of the Company. 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. The mezzanine loans are guaranteed by Mainstreet LLC.

On December 22, 2016, a subsidiary of the Company entered into an interest only 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, of which $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.

A subsidiary of the Company has entered into a credit agreement with Autumnwood with a capacity of CDN$1,500. The credit agreement is to be used for capital expenditures, property level principal and interest expense and other debt service obligations in respect of Autumnwood's interest in four properties located in Ontario, Canada, and of which the Company and Autumnwood are partners in joint arrangements.

On October 20, 2017, a subsidiary of the Company entered into a loan agreement with the tenant operator of the Symphony Portfolio ("Symcare") for a principal amount of $7,000 earning 5.00% 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"). To fund this loan, the Company and Symcare amended the terms of an agreement whereby the seller of the Symcare portfolio had deposited $7,000 of their sale proceeds into a holdback escrow account to protect against cash flow deficiencies through the end of calendar year 2018 (the "Additional Security Escrow Agreement"). The amended terms of the Additional Security Escrow Agreement released the funds previously held in the escrow account to the Company, which were in turn used to fund the loan to Symcare. The terms of the loan include similar provisions as the original Additional Security Escrow Agreement whereby the loan will be satisfied by the return of the security deposit if applicable rent coverage ratios or cash collection hurdles are met as defined in the agreement. The maturity date of the new loan is June 30, 2019. The Company recognized interest income of $70 for the year ended December 31, 2017 in the consolidated statement of income and comprehensive income related to this loan.

During November and December of 2017 the Company issued other short term loans with operating partners to fund development costs and short term working capital needs.

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

Loans receivable issued as of December 31, 2017 are detailed in the table below:

Debtor	Loan Type	December 31, 2017	December 31, 2016	Issued Date	Maturity Date (1)	Current Interest Rate	PIK Interest Rate
MS Houston Holdings II, LLC	Mezzanine loan	$ —	$ 2,576	June 23, 2016	June 23, 2020	10.5%	4.0%
MS-SW Mezzanine Fund, LLC	Mezzanine loan	3,964	3,835	September 1, 2016	September 1, 2020	10.5%	4.0%
MS Webster Holdings, LLC	Mezzanine loan	2,640	2,545	September 2, 2016	September 2, 2020	10.5%	3.0%
MS Lincoln Holdings, LLC	Mezzanine loan	3,697	3,552	September 30, 2016	October 1, 2020	10.5%	4.0%
MS Aurora Holdings II, LLC	Mezzanine loan	—	3,678	November 1, 2016	January 1, 2021	12.0%	4.0%
MS Phoenix Holdings, LLC	Mezzanine loan	—	2,810	November 1, 2016	September 1, 2021	10.5%	3.0%
MS Surprise, LLC	Mezzanine loan	2,878	2,793	November 1, 2016	October 1, 2021	10.5%	3.0%
MS Parker Holdings II, LLC	Mezzanine loan	3,581	3,441	November 1, 2016	September 1, 2021	12.0%	4.0%
MS Columbia MO Holdings, LLC	Mezzanine loan	—	406	December 23, 2016	December 31, 2018	10.5%	4.0%
MS Omaha Holdings, LLC	Mezzanine loan	—	936	December 22, 2016	December 31, 2018	10.5%	4.0%
Mainstreet Investment Company, LLC	Interest-only loan	5,075	2,509	December 22, 2016	December 22, 2018	8.5%	1.5%
Autumnwood Lifestyles Inc.	Revolving credit facility	1,193	—	November 1, 2016	October 31, 2018	8.0%	—%
Autumnwood Lifestyles Inc.	Loan receivable	1,193	—	June 29, 2017	October 16, 2020	—%	—%
Symcare ML, LLC	Loan receivable	7,032	—	October 20, 2017	June 30, 2019	2.5%	2.5%
MCA Memory Care America, LLC	Loan receivable	606	—	November 6, 2017	November 6, 2018	10.0%	—%
Mainstreet Development Fund II, LP	Loan receivable	652	—	November 28, 2017	June 1, 2018	6.5%	—%
Autumnwood Lifestyles Inc.	Loan receivable	1,318	—	December 19, 2017	August 12, 2018	—%	—%
Mainstreet Property Group, LLC	Loan receivable	2,602	—	December 29, 2017	February 28, 2018	7.0%	—%
	Carrying value	$ 36,431	$ 29,081				
	Less current portion	11,446	—				
	Long-term portion	$ 24,985	$ 29,081				

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

On July 25, 2017, the Company settled the $6,673 outstanding principal, accrued PIK Interest and current interest, as of the repayment date, on the mezzanine loans receivable from MS Aurora Holdings II, LLC and MS Phoenix Holdings, LLC.

On November 28, 2017, the Company received credit of $4,151 representing full repayment of outstanding principal, accrued PIK Interest and current interest, as of the repayment date, on the mezzanine loans receivable from MS Houston Holdings II, LLC, MS Columbia MO Holdings, LLC and MS Omaha Holdings, LLC in connection with the purchase of these properties from Mainstreet Property Group, LLC (note 5).

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

On January 10, 2018, the Company received total payments of $3,756 representing full repayment of outstanding principal, accrued PIK Interest and current interest, as of the repayment date, on the mezzanine loan receivable from MS Lincoln Holdings, LLC.

On January 10, 2018, the Company received $1,000 from MS Investment as repayment of a portion of their outstanding loan balance.

On February 23, 2018, the Company received $2,622 representing full repayment of principal and current interest, as of the repayment date, of the loan receivable from Mainstreet Property Group, LLC.

On February 23, 2018, the Company received total payments of $2,720 representing full repayment of outstanding principal, accrued PIK Interest and current interest, as of the repayment date, on the mezzanine loan receivable from MS Webster Holdings, LLC.

4. Other current assets:

Other current assets are as follows:

	December 31, 2017	December 31, 2016
Prepaid expense	$ 328	$ 128
Costs related to future acquisitions	548	16
Security deposits paid on future acquisitions	217	217
Income support receivable (note 21)	—	1,208
Other	89	553
	$ 1,182	$ 2,122

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

5. Investment properties:

(a) Investment properties:

	Number of Properties		Amount
January 1, 2016	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
Acquisitions of income properties	6		106,296
Sale of income properties	1		(22,761)
Capital expenditures	—		10,248
Increase in straight-line rents	—		5,982
Fair value adjustment	—		(8,846)
Translation of foreign operations	—		2,601
Balance, December 31, 2017	40	$	721,991
Property tax liability under IFRIC 21			(355)
Fair value adjustment to investment properties - IFRIC 21			355
		$	721,991

At December 31, 2017, the Company used an internal valuation process to value its 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.

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

(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 measured using the capitalized income approach with total value of $637,204 as at December 31, 2017 (December 31, 2016 - $589,835) are set out in the following table:

	December 31, 2017	December 31, 2016
Capitalization rate - range	6.50% - 8.25%	6.50% - 8.25%
Capitalization rate - weighted average	7.96%	7.81%

The fair value of investment properties measured using the capitalized income approach is most sensitive to changes in capitalization rates. At December 31, 2017, a 25 basis point increase or decrease in the weighted average capitalization rate would decrease the fair value of the investment properties by $19,456 (December 31, 2016 - $19,306) or increase the fair value of the investment properties by $20,727 (December 31, 2016 - $20,567), respectively.

(b) Acquisitions and dispositions - year ended December 31, 2017

	Ensign Properties	Columbia	Omaha	Houston II	Wichita	Total
Number of properties acquired (disposed):	3	1	1	1	(1)	5
Net assets acquired (disposed):						
Investment properties	$ 38,229	$ 21,420	$ 24,629	$ 22,018	$ (22,761)	$ 83,535
Assumed mortgages	—	(8,781)	(9,925)	(12,514)	—	(31,220)
Mezzanine loan applied against purchase	—	(411)	(965)	(2,661)	—	(4,037)
Working capital balances	—	(1,937)	(1,991)	—	83	(3,845)
	$ 38,229	$ 10,291	$ 11,748	$ 6,843	$ (22,678)	$ 44,433
Consideration paid/funded (received) by:						
Cash	2,229	10,291	11,970	6,843	(22,678)	8,655
Proceeds from mortgage payable	30,000	—	—	—	—	30,000
Proceeds from Secured Revolving Facility	6,000	—	—	—	—	6,000
Development lease funded	—	—	(222)	—	—	(222)
	$ 38,229	$ 10,291	$ 11,748	$ 6,843	$ (22,678)	$ 44,433

(i) On May 10, 2017, a wholly owned subsidiary of the Company acquired three properties (the "Ensign Properties") for a combined purchase price of $38,000 plus transaction costs. One property is located in Glendale, Arizona and provides long term and transitional care services. The other two properties are located in Rosemead, California and primarily provide combined assisted living and transitional care services. Each property is leased to a subsidiary of The Ensign Group, Inc. under a triple net master lease. The Company entered into a new mortgage secured by all three Ensign Properties to fund $30,000 of the purchase price. The debt bears interest at a variable rate of LIBOR plus 350 basis points through its maturity date of June 1, 2022. The Company funded the remainder of the purchase with cash on hand and $6,000 in proceeds from the Secured Revolving Facility (note 7).

(ii) On November 28, 2017 the Company purchased three transitional care facilities located in Columbia, Missouri; Omaha, Nebraska and Houston, Texas from Mainstreet LLC for a purchase price of $68,000 plus transaction costs. The Company funded the transaction through a combination of assumed debt, the retirement of the Company's mezzanine loans outstanding on the three properties, cash on hand and equity in the unencumbered Wichita, Kansas property, which was sold concurrently to Mainstreet LLC for $22,775 less transaction costs. The Company held mezzanine loans on these properties with a total principal and PIK Interest balance of $4,037, which were settled as a credit towards the combined purchase price at closing.

At the acquisition date, the Omaha, Nebraska property was under development, and the vendor of the property, Mainstreet LLC, agreed to fund payment for two months until rental income commenced. The Company recorded a development lease receivable of $222, which reduced the cost of the investment property acquired. The Company has received full payment related to the development lease receivable as of December 31, 2017. Rent for this property commenced January 9, 2018.

At the acquisition date, the Company assumed a mortgage payable in the amount of $8,781 on the property located in Columbia, Missouri. The mortgage requires interest only payments and bears interest at a variable rate equal to the rate of LIBOR plus 300 basis point through the mortgage's maturity date of December 23, 2018. Subsequent to the assumption of the Columbia, Missouri property mortgage, the Company drew an additional $1,816 as of December 31, 2017 to fund its construction.

At the acquisition date, the Company assumed a mortgage payable in the amount of $9,925 on the property located in Omaha, Nebraska. The mortgage requires interest only payments and bears interest at a variable rate of LIBOR plus 325 basis points through its maturity date of December 31, 2018. Subsequent to the assumption of the Omaha Nebraska property mortgage, the Company drew an additional $2,024 as of December 31, 2017 to fund its construction.

At the acquisition date, the Company assumed a mortgage payable in the amount of $12,514 on the property located in Houston, Texas. The mortgage requires interest only payments and bears interest at a variable rate of LIBOR plus 300 basis points through its maturity date of June 25, 2018.

At the time of closing the Company also assumed $3,870 of liabilities related to the remaining development costs of the properties which was recorded as a construction payable in the consolidated statement of financial position.

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

(c) 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 former 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 former chairman of the Company.

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, and the Company received full payment of $259 related to the development lease receivable during the period ended December 31, 2016.

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 was 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.

(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.

(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. The Company also assumed mortgage debt totaling $38,926 upon closing of the transaction. These properties were majority owned by the former 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.

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 $14,333 of construction was completed on these properties which was 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. The Company assumed mortgage debt on the Marina Point property of $6,269.

(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. The Company assumed mortgage debt on the SMG property of $8,386.

(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)

6. Joint arrangements:

As at December 31, 2017, 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 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 four 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 Operators"), 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 six automatic renewals every third anniversary for a total of 21 years. The Company's share of the landlords' lease receipts, $2,887 for the year ended December 31, 2017 (2016 - $455), is reported as lease revenue from joint ventures. Mainstreet-Autumnwood Operators lease expense is included in the share of income from joint ventures in the consolidated statements of income and comprehensive income.

The following tables summarize the information about the Company's investment in joint ventures, which have been accounted for under the equity method. During the year ended December 31, 2017, no contributions or distributions were made to the joint ventures. During the year ended December 31, 2016, the Company contributed its initial investment of $917 in the joint ventures and no distributions were made.

		December 31, 2017		December 31, 2016
Current assets	$	1,968	$	495
Non-current assets		2,184		2,086
Total assets	$	4,152	$	2,581
Current liabilities	$	2,240	$	783
Total liabilities	$	2,240	$	783
Net investment in joint ventures	$	980	$	917

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

	Year ended December 31, 2017		Year ended December 31, 2016	
Revenue	$	10,427	$	1,637
Expenses		10,421		1,612
Net income	$	6	$	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 from joint ventures. As of December 31, 2017, NIL (2016 - $185) of the Company's accounts receivable relate to its investment in joint ventures.

7. Credit facilities:

The credit facilities are 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.

	December 31, 2017		December 31, 2016	
Facility	$	214,895	$	228,000
Secured Revolving Facility		6,000		—
Finance costs, net		(3,963)		(2,710)
Carrying value	$	216,932	$	225,290
Less current portion		5,958		—
Long-term portion	$	210,974	$	225,290

On February 24, 2017, a wholly owned subsidiary of the Company entered into a secured revolving credit facility ("Secured Revolving Facility") for the purpose of financing property acquisitions. The Secured Revolving Facility has a maximum capacity of $25,000 and had an original maturity date of February 24, 2018. Interest on the Secured Revolving Facility is variable in nature and is dependent on the security provided to the lender. The Secured Revolving Facility provides the ability to draw funds as a first priority mortgage up to 55% of the value of the collateral property, and a second priority mortgage up to 95% of the value of the collateral property.

On February 9, 2018 the Company amended the terms of the Secured Revolving Facility to extend its maturity date to December 31, 2018 and reduce available capacity on a second priority mortgage from 95% to 80% of the value of the collateral property. In conjunction with the amendment, the Company repaid in full $6,000 then outstanding on the Secured Revolving Facility and received proceeds of $17,024 to fund the acquisition of the Grand Brook Properties (as defined in note 29).

On June 6, 2017 the Company amended the terms of its credit facility (the "Facility") agreement to extend the maturity date of the term loan from October 30, 2019 to June 6, 2022 and extend the maturity date of the revolving line of credit from October 31, 2018 to June 6, 2021 with an additional one year extension option, subject to lender approval (the "Facility Recast"). The Facility was also amended to increase the total Facility capacity from $285,000 to $300,000. The term loan capacity remained consistent at $200,000 while the revolving line of credit capacity increased from $85,000 to $100,000. The amended agreement includes an accordion feature that would extend the capacity of the total revolving line of credit, the total term commitment or both, bringing the total capacity of the Facility to $500,000. As at December 31, 2017, the Facility is secured by 24 properties located in the United States. As at December 31, 2017, the security provided the Company with a borrowing base of $238,871, 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 275 basis points when the Company's leverage is less than 50%, LIBOR plus 300 basis points when the Company's leverage is greater than or equal to 50% but less than 55%, and LIBOR plus 325 basis points when the Company's leverage is greater than or equal to 55%. Per the agreement, the Company's leverage cannot exceed 60%. On December 7, 2017 the Company amended the terms of the Facility which increased the allowable leverage rate to 65% through June 30, 2018.

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

At December 31, 2017, total borrowings outstanding under the Facility were $214,895, and the borrowing rate was 4.82%. At December 31, 2017, total borrowings outstanding under the Secured Revolving Facility were $6,000 and the borrowing rate was 6.97%. 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
2018	$	6,000
2019		—
2020		—
2021		14,895
2022		200,000
Total	$	220,895

8. Mortgages payable:

Mortgages payable consist of the following as at December 31, 2017:

		December 31, 2017		December 31, 2016
Mortgages payable	$	170,668	$	89,950
Mark-to-market adjustment, net		257		268
Finance costs, net		(1,416)		(502)
Carrying value	$	169,509	$	89,716
Less current portion		52,351		47,889
Long-term portion	$	117,158	$	41,827

Mortgages payable are collateralized by investment properties with a fair value of $276,905 at December 31, 2017. Maturity dates on mortgages payable range from 2018 to 2049, and the weighted average years to maturity is 5.27 years at December 31, 2017.

(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, 2017 are as follows:

	Regular principal payments	Principal due on maturity	Total principal payments	% of total principal payments
2018	$ 1,856	$ 50,528	$ 52,384	30.69%
2019	2,402	4,347	6,749	3.95%
2020	2,677	—	2,677	1.57%
2021	2,786	—	2,786	1.63%
2022	2,533	32,347	34,880	20.45%
Thereafter	8,884	62,308	71,192	41.71%
	$ 21,138	$ 149,530	$ 170,668	100.00%

	December 31, 2017	December 31, 2016
Mortgages at fixed rates:		
Mortgages (principal)	$ 85,646	$ 45,660
Interest rates	3.87% to 4.66%	3.87% to 4.55%
Weighted average interest rate	4.46%	4.31%
Mortgages at variable rates:		
Mortgages (principal)	$ 85,022	$ 44,290
Interest rates	Banker's acceptance plus 1.47% to LIBOR plus 3.50%	U.S. Prime to LIBOR plus 3.25%
Weighted average interest rate	4.67%	3.87%
Blended weighted average rate	4.57%	4.10%

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 one month LIBOR rate at 1.2%. 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 one month LIBOR rate at 1.16% 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 income and comprehensive income. The Company determined the fair value of its interest rate swap to be an asset of $2,827 at December 31, 2017 based on a market comparison technique. The determination was made using Level 2 inputs. The Company recognized income of $1,284 for the year ended December 31, 2017 (2016 - $1,543), in the consolidated statement of income and comprehensive income related to the change in value of the interest rate swap.

The Company entered into an interest rate swap agreement effective April 15, 2017 (the "Leawood Swap Agreement") to manage the interest rate risk associated with the mortgage for the Leawood Property. In the Leawood Swap Agreement, the Company agreed to exchange the difference between fixed and variable rate interest on a principal amount of $14,092 effectively fixing the interest at 4.55% through its maturity on March 15, 2024. 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 income and comprehensive income. The Company determined the fair value of its interest rate swap to be a liability of $51 at December 31, 2017 based on a market comparison technique. The determination was made using Level 2 inputs. The Company recognized a loss of $51 for the year ended December 31, 2017 in the consolidated statement of income and comprehensive income related to the change in value of the interest rate swap.

The Company entered into an interest rate swap agreement effective April 15, 2017 (the "Topeka Swap Agreement") to manage the interest rate risk associated with the mortgages for the Topeka Property. In the Topeka Swap Agreement, the Company agreed to exchange the difference between fixed and variable rate interest on a principal amount of $13,385 effectively fixing the interest at 4.55% through its maturity on March 15, 2024. 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 income and comprehensive income. The Company determined the fair value of its interest rate swap to be a liability of $48 at December 31, 2017 based on a market comparison technique. The determination was made using Level 2 inputs. The Company recognized a loss of $48 for the year ended December 31, 2017 in the consolidated statement of income and comprehensive income 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 former 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 former 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 bore 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, 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.

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

The 2015 Convertible Debentures principal activity is as follows:

		Value
2015 Convertible Debenture balance, December 31, 2015	$	108,891
Interest capitalized as principal		2,280
Convertible Debentures exchanged for common shares of the Company		(111,171)
2015 Convertible Debenture balance, December 31, 2016 and 2017	$	—

(i) 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.

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.

As at December 31, 2017 the 2016 Convertible Debentures are comprised of the following:

	December 31, 2017		December 31, 2016	
Issued	$	45,000	$	45,000
Issue costs, net of amortization and accretion of equity component		(1,416)		(2,138)
Equity component, excluding issue costs and taxes		(1,648)		(1,648)
2016 Convertible Debentures	$	41,936	$	41,214

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

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

12. Other non-current liabilities:

Other non-current liabilities are as follows:

	December 31, 2017	December 31, 2016
Deferred shares liability	$ 1,096	$ 352
Security deposits received from tenants	8,404	605
	$ 9,500	$ 957

13. Reconciliation of changes in liabilities arising from financing activities:

	Credit facilities	Mortgages payable	Convertible debentures	Total
Balance, December 31, 2016	$ 225,290	$ 89,716	$ 41,214	$ 356,220
Debt assumed through acquisitions	—	31,219	—	31,219
Proceeds from financing	34,741	90,204	—	124,945
Repayments	(41,847)	(40,693)	—	(82,540)
Scheduled principal payments	—	(1,508)	—	(1,508)
Financing costs paid	(2,571)	(1,233)	—	(3,804)
Amortizing of financing costs and mark to market adjustments	1,319	298	721	2,338
Changes in foreign currency rates	—	1,506	—	1,506
Balance, December 31, 2017	$ 216,932	$ 169,509	$ 41,935	$ 428,376

14. 2016 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.

15. Share capital:

(a) Common Shares:

The following number and value of common shares were issued and outstanding as at December 31, 2017:

	Common Shares	Value
Balance, December 31, 2015	—	$ 20,734
Shares issued	32,216,994	287,767
Issued pursuant to the Company's dividend reinvestment plan	5,361	50
Balance, December 31, 2016	32,222,355	308,551
Issued on settlement of Deferred Share Incentive Plan	94,826	1,540
Issued pursuant to the Company's dividend reinvestment plan	41,573	368
Balance, December 31, 2017	32,358,754	$ 310,459

(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 and comprehensive income 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) 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). At December 31, 2017, 540,000 of the stock options remain outstanding and expire on June 14, 2018.

(ix) 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). At December 31, 2017, 300,000 of the warrants remain outstanding and expire on June 14, 2018.

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

(xi) For the year ended December 31, 2017, the Company declared dividends payable in cash on common shares of $23,791 (2016 - $11,739).

(b) Preferred Shares:

On December 22, 2017, the Company entered into subscription agreements in respect of the issuance of class A convertible preferred shares ("Preferred Shares") for aggregate gross proceeds of $54,000, to be funded in multiple series. The first series was funded on the day of the agreement resulting in the issuance of 2,802,009 Class A Series 1 Convertible Preferred Shares (the "Series 1 Preferred Shares") for aggregate gross proceeds of $26,500.

On February 2, 2018, the Company amended the terms of the subscription agreements to increase the amount of the subscription to approximately $71,500. The second series was funded on February 9, 2018, resulting in the issuance of 3,172,086 Class A Series 2 Preferred Shares (the "Series 2 Preferred Shares") for aggregate gross proceeds of $30,000. The third and final series is expected to be funded prior to May 31, 2018 and result in the issuance of 1,586,042 Class A Series 3 Preferred Shares (the "Series 3 Preferred Shares") on substantially the same terms as the other series for aggregate gross proceeds of $15,000.

The Preferred Shares are non-voting and are initially convertible into common shares of the Company on a one-for-one basis at the option of the holder based on an initial liquidation preference and a conversion price of $9.75. The Preferred Shares were issued at a price per share equal to the initial liquidation preference of $9.75, subject to a 3% discount. Following issuance, the liquidation preference of the Preferred Shares will accrete at a rate of 5.65% per annum, compounded quarterly, increasing the number of common shares into which each Preferred Share is convertible at the fixed rate, and is subject to further adjustments in certain circumstances. In certain circumstances, the Company may redeem the Preferred Shares for an amount equal to their liquidation preference and may also require the conversion of the Preferred Shares. If the Preferred Shares are redeemed or mandatorily converted in the first year following issuance, the liquidation preference of such shares will include a 4% premium to the initial liquidation preference. This premium will be reduced by 1% per year in respect of redemptions or mandatory conversions in the second, third or fourth years following issuance.

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

16. Earnings per share:

Basic income per share is calculated using the weighted average number of shares outstanding during the period. The calculation of diluted income 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 2016 Convertible Debentures, options, share purchase warrants and unvested deferred shares, if exercised, would be anti-dilutive to net income per share. Accordingly their potential exercise has been ignored in calculating the diluted net income per share.

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

Net income:

	Year ended December 31, 2017	Year ended December 31, 2016
Net income for basic net income per share	$ 16,263	$ 4,877

Denominator for basic and diluted net income per share:

	Year ended December 31, 2017	Year ended December 31, 2016
Weighted average number of shares, including fully vested deferred shares: Basic	32,323,269	16,236,291
Weighted average shares issued if all Preferred Shares were converted	76,558	—
Weighted average number of shares: Diluted	32,399,827	16,236,291

Net income per share:

	Year ended December 31, 2017	Year ended December 31, 2016
Basic and diluted	$ 0.50	$ 0.30

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

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 January 1, 2016 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.

17. Rental revenue:

Rental revenue consists of the following:

	Year ended December 31, 2017	Year ended December 31, 2016
Cash rentals received	$ 45,372	$ 28,895
Straight-line rent adjustments	5,982	4,224
Property tax recovery	8,834	6,317
	$ 60,188	$ 39,436

The Company is scheduled to receive rental income from operators under the provisions of long term non-cancellable operating leases, generally with lease terms of 10 to 15 years, with provisions for lease extensions at the option of the tenants. 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, 2017, rental revenue from this tenant comprised approximately 58% (2016 - 83%), of the Company's consolidated rental revenue for the period.

Future minimum rentals to be received as of December 31, 2017 are as follows:

Less than 1 year	$ 51,457
Between 1 and 5 years	225,240
More than 5 years	528,016
	$ 804,713

Future minimum rentals in the above table attributable to Symcare represent approximately 46% of the total.

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

18. Finance costs:

Finance costs consist of the following:

	Year ended December 31, 2017	Year ended December 31, 2016
Interest expense on credit facilities	$ 10,337	$ 6,179
Interest expense on mortgages payable	4,822	1,217
Interest expense on notes payable	—	72
Interest expense on convertible debentures	2,250	4,715
Preferred share dividends	—	83
Amortization and accretion expense	2,345	887
Interest rate swap payments	374	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	(11)	(115)
Fair value gain on subscription receipts	—	(667)
	$ 20,117	$ 13,967

19. General and administrative:

General and administrative costs consist of the following:

	Year ended December 31, 2017	Year ended December 31, 2016
Compensation and benefits	$ 3,333	$ 1,580
Management and administrative fees	270	896
Professional fees	1,942	1,044
Deferred share compensation	1,614	352
Loss on currency conversion	3	41
Listing expense	—	700
Diligence costs for transactions not pursued	491	22
Other	912	543
	$ 8,565	$ 5,178

20. 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.

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, 2017, 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
Discretionary Deferred Shares granted	146,092	80,694
Individual Contributed Deferred Shares (vested immediately)	30,435	30,435
Company Contributed Deferred Shares	30,435	5,577
Dividend equivalents automatically granted on deferred shares	14,956	5,203
Shares Forfeited	(14,073)	—
Shares issued upon vesting of deferred shares	(94,826)	(94,826)
As at December 31, 2017	194,564	47,124

For the year ended December 31, 2017, expense recognized in the consolidated statements of income and comprehensive income related to deferred share grants was $1,614 (2016 - $352). A deferred share liability of $1,096 (2016 - $352) is included in other non-current liabilities in the consolidated statements of financial position as at December 31, 2017.

21. Related party transactions:

Related party transactions during the years ended December 31, 2017 and 2016 include transactions between the Company and entities with an ownership interest held by Paul "Zeke" Turner, who served as chairman of the Company's board of directors from June 2, 2016 through September 19, 2017. Effective September 19, 2017, Mr. Turner resigned from his position on the board of directors of the Company, at which point he was no longer a related party. Mr. Turner owns or has a majority interest in certain entities with which the Company has transacted, including Mainstreet LLC, Mainstreet Asset Management, Inc ("MAMI") and MS Investment. These entities are considered related parties with respect to all transactions completed while Mr. Turner served on the Company's board of directors. As at and for the years ended December 31, 2017 and 2016, the following related party transactions occurred involving the former chairman of the Company or entities owned or controlled by him:

(i) For the year ended December 31, 2017, the Company paid asset management and administrative services fees of $270 (2016 - $896), to MAMI, which is owned 100% by the former 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 MAMI (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 MAMI. 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.

(ii) The Company has issued certain mezzanine loans to entities which are wholly owned subsidiaries of Mainstreet LLC (note 3). 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.

(iii) On October 30, 2015, the Company entered into a $2,500 note payable with an entity that is owned 100% by the former 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 former 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 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, 2017, the Company has $16,760 (December 31, 2016 - $26,572) in outstanding mezzanine financing receivable from wholly owned subsidiaries of Mainstreet LLC. The Company has recognized income of $3,461 for the year ended December 31, 2017 (2016 - $899), in the consolidated statement of income and comprehensive income related to interest income on these mezzanine loans.

(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.

(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 former 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 an income support agreement (the "Income Support Agreement") in conjunction with its purchase of the property, whereby the vendor of the property, Mainstreet LLC, agreed to fund payment until rental income commences. Upon execution of the development leases, the Company recorded an income support receivable of $2,076, which reduced the cost of the investment properties acquired. The Leawood, Kansas property is operational and rent commenced on December 1, 2016. The Company has received full payment of the initial $2,076 income support receivable recorded at acquisition. The Company has received additional payments under the Income Support Agreement of $1,107 as of December 31, 2017 due to the timing of lease commencements on the remaining properties.

At the time of closing the Company also assumed $2,984 of liabilities related to development costs of the properties which was recorded as a construction cost liability on the statement of financial position. Subsequent to the acquisition date, an additional $14,333 of construction was completed on these properties as of December 31, 2017. The Company received a credit from Mainstreet LLC at closing in the amount of $17,317 related to the construction costs to be completed.

(viii) On December 22, 2016, a subsidiary of the Company entered into a full recourse loan agreement with MS Investment with a capacity of $5,000 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.

(ix) In July 2017, the Company entered into an agreement to sell the Wichita, Kansas and Fort Worth, Texas properties to Mainstreet LLC for a combined purchase price of approximately $47,298. In conjunction with this transaction, lease agreements to operate both properties were entered into by an affiliate of Mainstreet LLC and the Income Support Agreement has been terminated. The triple-net lease agreements have initial terms of 15 years and are at market rates, which are equal to the payments previously received under the Income Support Agreement. The final income support payments were received in July 2017 and there is no remaining income support receivable related to these properties. Rent for the two properties commenced on July 15, 2017. The Company has recognized $1,726 of rental revenue for these properties for the year ended December 31, 2017.

Subsequent to the original agreement in July 2017, the purchase agreement was amended to exclude the Fort Worth, Texas property from the sale transaction. The lease agreement remains in place and the property will continue to be operated by an affiliate of Mainstreet LLC.

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

(x) On November 28, 2017 the Company purchased three transitional care facilities located in Columbia, Missouri; Omaha, Nebraska and Houston, Texas from Mainstreet LLC for a purchase price of $68,000 plus transaction costs. The Company funded the transaction through a combination of assumed debt, the retirement of the Company's mezzanine loans outstanding on the three properties, cash on hand and equity in the unencumbered Wichita, Kansas property, the sale of which was completed concurrently for $22,775 plus transaction costs. The Company held mezzanine loans on these properties with a total principal and PIK Interest balance of $4,037, which were repaid as a credit towards the combined purchase price at closing.

(xi) On July 25, 2017, the Company received total payments of $6,673 representing full repayment of outstanding principal, accrued PIK Interest and current interest, as of the repayment date, on the mezzanine loans receivable from MS Aurora Holdings II, LLC and MS Phoenix Holdings, LLC.

Other related party transactions

The Company entered into subscription agreements in respect of the issuance of class A convertible preferred shares to certain funds managed by Magnetar Financial LLC (collectively, "Magnetar") for aggregate gross proceeds of $54,000, to be funded in multiple series. Magnetar is a related party of the Company as it beneficially owns or controls more than 10% of the Company's outstanding common shares. The purpose of the transaction was to raise proceeds to be used for the repayment of debt, general working capital purposes and to fund future acquisitions.

The first series of the private placement was funded on the day of the agreement resulting in the issuance of 2,802,009 Series 1 Preferred Shares for aggregate gross proceeds of $26,500. On February 2, 2018, the Company amended the terms of the subscription agreements to increase the amount of the subscription to approximately $71,500. The second series was funded on February 9, 2018, resulting in the issuance of 3,172,086 Series 2 Preferred Shares for aggregate gross proceeds of $30,000. The third series is expected to be funded prior to May 31, 2018 and result in the issuance of 1,586,042 Series 3 Preferred Shares on substantially the same terms as the other series for aggregate gross proceeds of $15,000.

22. Income taxes:

The income tax expense in the consolidated statements of income (loss) and comprehensive income (loss) differs from that expected by applying the combined federal, provincial and state income tax rates of 26.5% (2016 - 26.5%). The differences for the years ended December 31, 2017 and 2016 are as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Income before income taxes	$ 21,685	$ 10,413
Income tax expense at Canadian tax rate	5,747	2,759
Non-deductible expenses	1,015	398
Expense not subject to tax	—	307
Tax benefit not previously recognized	—	(1,032)
Difference in tax rate in foreign jurisdiction	284	3,104
Change in tax rate in foreign jurisdiction	(1,692)	—
Other	17	—
Income tax expense	$ 5,371	$ 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.

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

	December 31, 2017		December 31, 2016	
Deferred tax assets:				
Net operating losses	$	10,941	$	7,870
Other		131		183
Deferred tax assets	$	11,072	$	8,053
Deferred tax liabilities:				
Investment properties	$	20,170	$	12,574
Derivative instruments		756		625
Convertible debentures		437		437
Deferred tax liabilities	$	21,363	$	13,636
Net deferred tax liability	$	(10,291)	$	(5,583)

The gross movement in deferred tax is as follows:

		Year ended December 31, 2017		Year ended December 31, 2016
Deferred tax liability, beginning balance	$	5,583	$	—
Deferred tax expense		5,371		5,536
Deferred tax liability charged to equity		(663)		47
Deferred tax liability, ending balance	$	10,291	$	5,583

On December 22, 2017, new U.S. tax legislation was enacted, commonly referred to as the Tax Cuts and Jobs Act of 2017 ("U.S. Tax Reform"). Among other significant changes, the U.S. Tax Reform lowers the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. For the year ended December 31, 2017, the Company has re-measured the deferred taxes to reflect the reduced federal rate of 21% effective January 1, 2018 which will apply in future years when these deferred taxes are settled or realized. The change in federal income tax rate has resulted in a one-time recovery of income tax of $1,692.

At December 31, 2017, U.S. subsidiaries had accumulated net operating losses available for carryforward for U.S. income tax purposes of $38,462 (2016 - $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 $11,198 in Canada at December 31, 2017 (2016 - $13,728) 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.

23. Commitments and contingencies:

On March 31, 2016, a subsidiary of the Company entered into a purchase and sale agreement to acquire a portfolio of three properties in Syracuse, New York for total consideration of $50,863. As of December 31, 2017, one of these properties, Keepsake Village at Greenpoint, has yet to be acquired. The Company has a commitment to acquire Keepsake Village at Greenpoint for total consideration of $11,018.

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 Portfolio 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.

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. As a result, there may be a requirement by the Company to contribute cash into the operating partnership.

24. 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.

The capital of the Company consists of mortgages payable, the credit facilities, convertible debentures, preferred shares and common shares.

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 facilities, 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.

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

25. 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, 2017			December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash	$ 12,958	$ —	$ —	$ 7,651	$ —	$ —
Investment in MS-SW Development Fund Holdings LLC	—	—	1,072	—	—	894
Derivative asset	—	2,827	—	—	1,543	—
Investment properties	—	—	721,991	—	—	628,471
Derivative liability	—	(99)	—	—	—	—

For the assets and liabilities measured at fair value as at December 31, 2017, 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 included in Level 3 of the fair value hierarchy, refer to note 4 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, trade and other receivables, accounts payable, accrued real estate taxes, accrued interest expense, accrued convertible debenture interest, dividend payable and development cost liability, as the carrying amounts of these assets and liabilities are a reasonable approximation of fair value:

	December 31, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Investment in MS-SW Development Fund Holdings, LLC	$ 1,072	$ 1,072	$ 894	$ 894
Loans receivable	36,431	36,431	29,081	29,008
Derivative instruments	2,827	2,827	1,543	1,543
Financial liabilities:				
Mortgages payable	169,509	170,668	89,716	89,950
Credit facilities	216,932	220,895	225,290	228,000
Derivative instruments	99	99	—	—
2016 Convertible Debentures	41,936	43,650	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, estimated future cash flows and market value of the associated development properties. 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) 2016 Convertible Debentures

The Company determined the fair value of the 2016 Convertible Debentures using a quoted market price which is considered a Level 1 input.

26. 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, 2016.

(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.

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. To manage interest rate risk, the Company entered into the Swap Agreement, the Leawood Swap Agreement and the Topeka 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.

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

At December 31, 2017, the Company's interest-bearing financial instruments were as follows:

	Carrying Amount	
	December 31, 2017	December 31, 2016
Fixed-rate financial liabilities	$ 324,354	$ 284,675
Variable-rate financial liabilities	$ 104,058	$ 71,545

An increase/decrease of 100-basis-points in interest rates at December 31, 2017 for the variable-rate financial instruments would have decreased/increased the income for the year by $1,059 (on a pre-tax basis) (2016 - $723).

(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.

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

The following are the contractual maturities of the Company's financial liabilities as at December 31, 2017, including expected interest payments where applicable:

	Total	2018	2019	2020	2021	2022	Thereafter
Credit facilities	$ 263,396	$ 15,856	$ 9,793	$ 9,820	$ 24,133	$ 203,794	$ —
Mortgages payable	206,474	59,175	11,925	7,641	7,630	38,852	81,251
Convertible debentures	55,125	2,250	2,250	2,250	2,250	46,125	—
Accounts payable and accrued liabilities	5,400	5,400	—	—	—	—	—
Accrued real estate taxes	8,056	8,056	—	—	—	—	—
Construction payable	1,097	1,097	—	—	—	—	—
Dividends payable	1,987	1,987	—	—	—	—	—
Other non-current liabilities	9,500	751	185	160	—	—	8,404
Purchase commitment	59,570	59,570		—	—	—	—
Total commitments	$ 610,605	$ 154,142	$ 24,153	$ 19,871	$ 34,013	$ 288,771	$ 89,655

27. Key management personnel compensation:

The remuneration of key management personnel of the Company for years ended December 31, 2017 and 2016 is set forth in the table below. The Company completed the internalization of asset management on November 1, 2016 (note 21), and therefore, the table below sets forth the remuneration from November 1, 2016 to December 31, 2016 and all of 2017, with the exception of the share based compensation.

	Year ended December 31, 2017	Year ended December 31, 2016
Officers and directors compensation	$ 1,637	$ 877
Post-employment benefits	—	24
Other benefits	53	8
Share based compensation	1,427	352
	$ 3,117	$ 1,261

28. 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. 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, 2017, $680,785 of the Company's non-current assets, excluding financial instruments, are located in the United States and $42,186 are located in Canada. During the year ended December 31, 2017, the Company generated $60,188 (2016 - $39,436), of its revenues, excluding other income, from properties located in the United States and $2,887 (2016 - $455) of its revenues from properties located in Canada.

29. Subsequent events:

On January 10, 2018, a wholly owned subsidiary of the Company acquired a newly constructed transitional care facility located in Lincoln, Nebraska from Mainstreet LLC. The property was acquired for a purchase price of $21,614 plus transaction costs. The acquisition was funded by the assumption of $11,668 in mortgage debt, a $3,756 credit received in satisfaction of a mezzanine loan held by the Company with respect to this property, and available cash on hand.

On January 31, 2018, a wholly owned subsidiary of the Company acquired a newly constructed transitional care facility located in Round Rock, Texas from Mainstreet LLC. The property was acquired for a purchase price of $22,769 plus transaction costs. The acquisition was funded by the assumption of $13,158 in mortgage debt and available cash on hand. At the time of closing the Company also assumed $597 of liabilities related to the remaining development costs of the property which will be funded through future draws on the mortgages payable.

On February 1, 2018, a wholly owned subsidiary of the Company completed the acquisition of Care Investment Trust, LLC ("Care") from Tiptree Inc. This transformative acquisition includes an ownership interest in 42 seniors housing and care properties in the United States. The Care portfolio is comprised of 35 independent living, assisted living and memory care properties, and seven skilled nursing facilities located in 11 states. Of the 42 properties acquired, 24 of the properties are leased to operators under long-term triple-net lease and 18 of the properties are held through joint venture arrangements with seniors housing operators in which the Company owns the majority of the real estate and the operations.

The contractual purchase price of the Company's interest in the Care portfolio was $425,000, subject to working capital adjustments and transaction costs. The purchase price was funded by the assumption of approximately $260,708 in property level indebtedness and the issuance of 16,647,236 common shares at a fixed issuance price of $9.75 per common share. Transaction costs and certain working capital adjustments were settled with available cash on hand. This transaction is expected to be accounted for as a business combination and as a result transaction costs are expensed as incurred. For the year ended December 31, 2017, the consolidated statements of income and comprehensive income includes expense of $2,073 related to this transaction. The Company expects to incur additional expense of approximately $5,672 related to this transaction.

On February 2, 2018, the Company amended the terms of the subscription agreements in respect to the issuance of Preferred Shares to increase the amount of the subscription to approximately $71,500. The second series was funded on February 9, 2018, resulting in the issuance of 3,172,086 Series 2 Preferred Shares for aggregate gross proceeds of $30,000. The third and final series is expected to be funded prior to May 31, 2018 and result in the issuance of 1,586,042 Series 3 Preferred Shares on substantially the same terms as the other series for aggregate gross proceeds of $15,000.

On February 9, 2018, a wholly owned subsidiary of the Company acquired three properties located in Garland, Texas; Grapevine, Texas and McKinney, Texas (together, the "Grand Brook Properties") for a combined purchase price of $21,500 plus transaction costs. The acquisition was funded by cash on hand and $17,024 in proceeds from the Secured Revolving Facility.

On February 23, 2018, the Company purchased two transitional care facilities located in San Antonio, Texas and Webster, Texas from Mainstreet, LLC for a combined purchase price of $51,967 plus transaction costs. This transaction was funded through the assumption of $25,705 of mortgages payable, the retirement of the Company's mezzanine loan outstanding on the Webster, Texas property of $2,697 and cash on hand. At the time of closing the Company also assumed $5,819 of liabilities related to the remaining development costs of the properties which will be funded through future draws on the mortgages payable.

On March 2, 2018, the Company announced it had entered into an arrangement agreement ("Arrangement Agreement") with Mohawk Medical Properties Real Estate Investment Trust and its subsidiary, Mohawk Medical Operating Partnership (I) LP (collectively, "Mohawk REIT") to acquire all of the outstanding units of Mohawk REIT, for approximately CAD$177,740, subject to certain adjustments. Mohawk REIT owns 14 multi-tenant medical office buildings located in seven markets throughout Canada and the United States. Upon closing, Mohawk Realty Advisors Ltd. and its affiliates will continue to provide asset and property management for the properties. The acquisition is expected to be funded through a combination of new debt, cash on hand, and an issuance of the Company's common shares at a fixed price of $9.75 per share.

Corporate Information

Trustees and/or Directors

Officers and Senior Management

Scott White,
Chief Executive Officer

Adlai Chester,
Chief Investment Officer

Scott Higgs,
Chief Financial Officer

Azin Lotfi,
General Counsel

Matt Monson,
VP – Acquisitions and Business Development

Dennis Dechow,
VP – Asset Management Services

Mark Lyons,
VP – Controller

John Petelik,
VP – Operations

Costa Lallas,
VP – Portfolio Management

Unitholder Information

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Legal Counsel

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Stock Exchange Listing

Toronto Stock Exchange (IVQ.U)

Transfer Agent and Registrar

Computershare Trust Company of Canada
Toronto, ON
Telephone: 800-564-6253

Unitholder and Investor Contact

Scott Higgs, Chief Financial Officer
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Annual Meeting of Unitholders

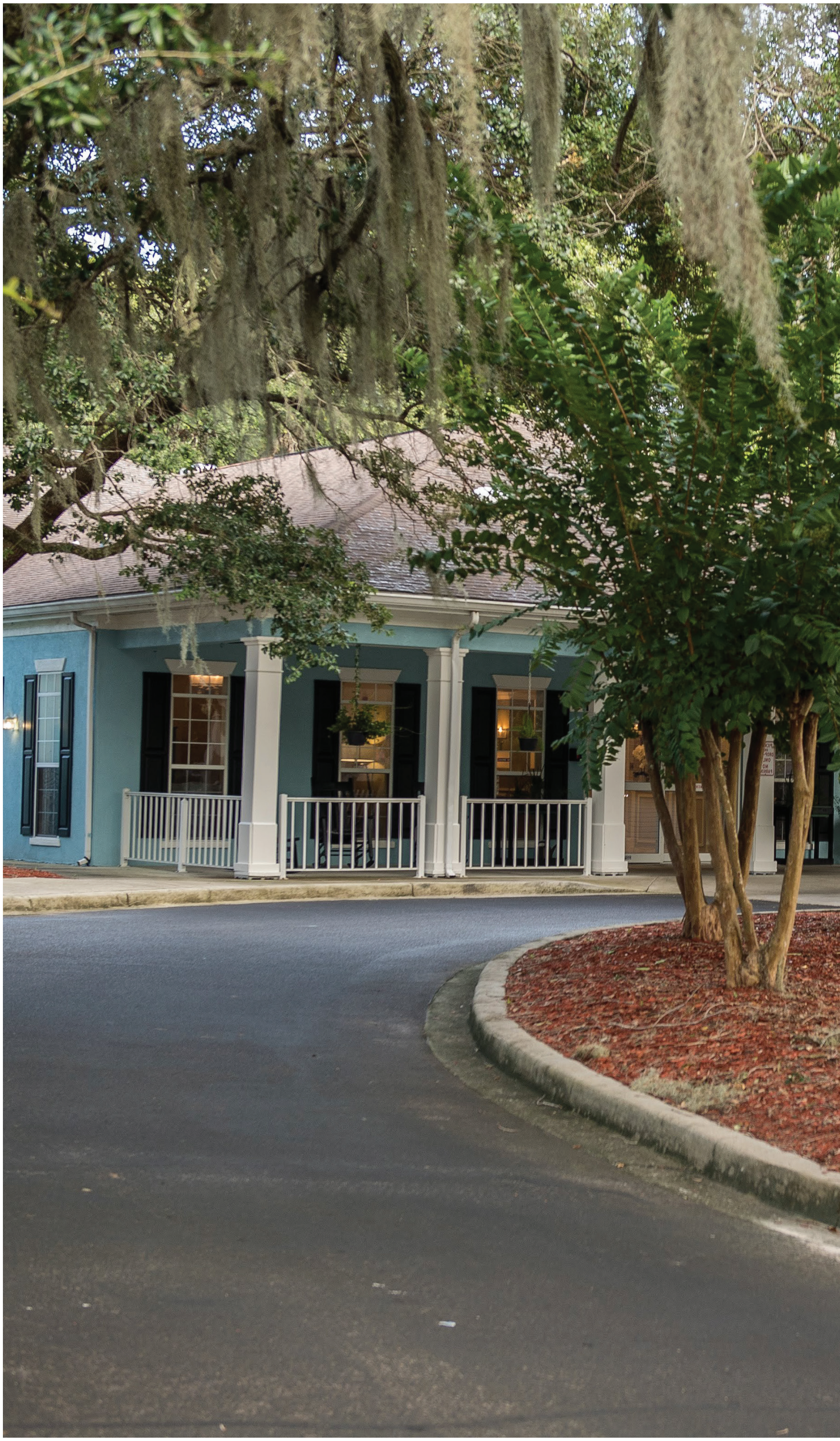
11:00 am ET - May 16, 2017

Goodmans LLP

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

Distribution Reinvestment Plan

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



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