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

INVESQUE INC.

Three and six months ended June 30, 2018 and 2017
(Unaudited)

INVESQUE INC.

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

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash	$ 8,014	$ 12,958
Tenant and other receivables	14,464	7,564
Loans receivable (note 3)	21,124	11,446
Other (note 4)	8,656	1,182
	52,258	33,150
Non-current assets:		
Loans receivable (note 3)	12,433	24,985
Derivative instruments (note 9)	4,658	2,827
Investment in joint ventures (note 6)	83,598	980
Investment properties (note 5)	1,174,075	721,991
Investment in MS-SW Development Fund Holdings, LLC	1,172	1,072
Other non-current assets (note 4)	374	—
	1,276,310	751,855
Total assets	$ 1,328,568	$ 785,005
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 14,506	$ 5,400
Accrued real estate taxes	12,427	8,056
Construction payable	1,186	1,097
Dividends payable	3,237	1,987
Unearned revenue	125	814
Credit facilities (note 7)	16,939	5,958
Mortgages payable (note 8)	92,447	52,351
Other current liabilities (note 11)	1,202	—
	142,069	75,663
Non-current liabilities:		
Credit facilities (note 7)	322,070	210,974
Mortgages payable (note 8)	254,466	117,158
Convertible debentures (note 10)	42,294	41,936
Derivative instruments (note 9)	148	99
Deferred tax liability (note 21)	17,471	10,291
Other non-current liabilities (note 11)	11,321	9,500
Non-controlling interest liability	1,903	—
	649,673	389,958
Total liabilities	791,742	465,621
Shareholders' equity:		
Common share capital (note 13)	489,880	310,459
Preferred Share capital (note 13)	71,138	26,353
Contributed surplus	400	400
Equity component of convertible debentures	1,130	1,130
Cumulative deficit	(25,157)	(20,145)
Accumulated other comprehensive income	(565)	1,187
Total shareholders' equity	536,826	319,384
Commitments and contingencies (note 22)		
Subsequent events (note 25)		
Total liabilities and shareholders' equity	$ 1,328,568	$ 785,005

See accompanying notes to condensed consolidated interim financial statements.

INVESQUE INC.

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenue:				
Rental (note 15)	$ 28,127	$ 14,599	$ 50,322	$ 28,286
Lease revenue from joint ventures (note 6)	751	697	1,517	1,404
Other income	476	791	554	834
	29,354	16,087	52,393	30,524
Expenses (income):				
Finance costs (note 16)	8,685	3,776	15,187	7,037
Real estate tax expense	251	485	9,451	8,344
General and administrative expenses (note 17)	3,231	2,084	5,964	4,471
Direct property operating expenses (note 18)	686	—	686	—
Transaction costs for business combination (note 5)	322	—	6,438	—
Changes in non-controlling interest liability	738	—	779	—
Change in value of investment properties - IFRIC 21	3,212	2,043	(3,126)	(3,811)
Change in value of investment properties (note 5)	(2,110)	(1,692)	211	(1,639)
Change in value of financial instruments (notes 3 and 9)	630	1,249	483	(936)
	15,645	7,945	36,073	13,466
Income from joint ventures (note 6)	1,593	—	2,399	—
Income before income taxes	15,302	8,142	18,719	17,058
Income tax expense:				
Deferred (note 21)	4,757	3,408	5,855	7,341
Current (note 21)	18	28	18	28
	4,775	3,436	5,873	7,369
Net income	$ 10,527	$ 4,706	$ 12,846	$ 9,689
Other comprehensive income (loss):				
Items to be reclassified to net income (loss) in subsequent periods				
Unrealized gain (loss) on translation of foreign operations	(1,246)	500	(1,752)	657
Total comprehensive income	$ 9,281	$ 5,206	$ 11,094	$ 10,346
Income per share (note 14):				
Basic	$ 0.20	$ 0.15	$ 0.27	$ 0.30
Diluted	$ 0.18	$ 0.15	$ 0.24	$ 0.30

See accompanying notes to condensed consolidated interim financial statements.

INVESQUE INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Expressed in thousands of U.S. dollars)
Six months ended June 30, 2018 and 2017

	Common share capital	Preferred Share capital	Contributed surplus	Equity component of convertible debentures	Cumulative deficit	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2018 as previously reported	$ 310,459	$ 26,353	$ 400	$ 1,130	$ (20,145)	$ 1,187	$ 319,384
Impact of adopting IFRS 9 (note 2)	—	—	—	—	(364)	—	(364)
Adjusted balance, January 1, 2018	$ 310,459	$ 26,353	$ 400	$ 1,130	$ (20,509)	$ 1,187	$ 319,020
Net income	—	—	—	—	12,846	—	12,846
Other comprehensive loss	—	—	—	—	—	(1,752)	(1,752)
Common shares issued, net of issuance costs (note 13)	179,110	—	—	—	—	—	179,110
Preferred Shares issued, net of issuance costs (note 13)	—	44,785	—	—	—	—	44,785
Shares issued under the Company's dividend reinvestment plan	311	—	—	—	—	—	311
Dividends declared on common shares	—	—	—	—	(17,494)	—	(17,494)
Balance, June 30, 2018	$ 489,880	$ 71,138	$ 400	$ 1,130	$ (25,157)	$ (565)	$ 536,826

	Common 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	—	—	—	9,689	—	9,689
Other comprehensive income	—	—	—	—	657	657
Common shares issued, net of issuance costs	333	—	—	—	—	333
Shares issued under the Company's dividend reinvestment plan	166	—	—	—	—	166
Dividends declared on common shares	—	—	—	(11,883)	—	(11,883)
Proceeds from income support agreement	—	156	—	—	—	156
Balance, June 30, 2017	$ 309,050	$ 400	$ 1,130	$ (14,811)	$ 586	$ 296,355

See accompanying notes to condensed consolidated interim financial statements.

INVESQUE INC.

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in thousands of U.S. dollars)
Six months ended June 30, 2018 and 2017

		Six months ended June 30, 2018		Six months ended June 30, 2017
Cash flows from operating activities:				
Net income	$	12,846	$	9,689
Items not involving cash:				
Fair value adjustment of investment properties		211		(1,639)
Fair value adjustment of financial instruments		483		(936)
Straight-line rent		(5,564)		(2,747)
Finance costs		15,187		7,037
Changes in non-controlling interest liability		779		—
Income from joint ventures		(2,399)		—
Change in fair value of investment in MS-SW Development Fund Holdings, LLC		(100)		(83)
Deferred income tax		5,855		7,341
Interest paid		(15,126)		(6,612)
Interest income received		647		2,194
Change in non-cash operating working capital:				
Tenant and other receivables		(6,002)		(679)
Accounts payable and accrued liabilities		(368)		229
Unearned revenue		(731)		153
Other assets		(3,853)		2,310
Other liabilities		2,254		1,095
Accrued real estate taxes		4,800		681
Net cash provided by operating activities	$	8,919	$	18,033
Cash flows from financing activities:				
Proceeds from credit facilities	$	148,074	$	29,991
Payments on credit facilities		(23,000)		(24,847)
Debt issuance costs paid		(2,521)		(3,454)
Proceeds from mortgages payable		6,604		80,141
Payments of mortgages payable		(1,880)		(38,165)
Dividends paid to common shareholders		(15,934)		(11,714)
Proceeds from income support agreement		83		156
Proceeds from issuance of Preferred Share capital (note 13)		45,000		—
Cash provided by financing activities	$	156,426	$	32,108
Cash flows from investing activities:				
Additions to investment properties	$	(166,821)	$	(47,014)
Distributions from joint ventures		5,535		—
Contributions to joint ventures		(635)		—
Distributions to minority interest partners		(63)		—
Construction costs		(3,414)		(4,708)
Deposit paid for acquisitions		—		—
Issuance of loans receivable		(10,167)		(3,152)
Repayment of loans receivable		5,276		—
Cash used in investing activities	$	(170,289)	$	(54,874)
Increase (decrease) in cash and cash equivalents		(4,944)		(4,733)
Cash and cash equivalents, beginning of period		12,958		7,651
Cash and cash equivalents, end of period	$	8,014	$	2,918

See accompanying notes to condensed consolidated interim 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 Province of British Columbia. The Company's registered office is 2500 - 700 W Georgia Street, Vancouver, British Columbia V7Y 1B3.

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 and 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. 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 health care providers. At June 30, 2018, the Company owns an interest in a portfolio of 103 health care and senior living properties.

1. Basis of preparation:

Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2017 issued on March 14, 2018, and which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB.

These condensed consolidated interim financial statements were approved by the Board of Directors of the Company and authorized for issuance on August 14, 2018.

2. Significant accounting policies:

The accounting policies used in these condensed consolidated interim financial statements are consistent with those in the audited annual consolidated financial statements of the Company for the year ended December 31, 2017 with the exception of new accounting policies adopted as a result of acquisitions made during the six months ended June 30, 2018 and policies which became effective January 1, 2018 as follows:

a) Non-controlling interest liability

The Company records third-party interests in the net assets of consolidated entities which do not qualify to be classified as equity as non-controlling interest liabilities. Such interests are initially recognized at fair value and are subsequently measured at amortized cost, with any changes recorded as change in non-controlling interest liability in the consolidated statement of income and comprehensive income.

b) Amendments to IFRS 2 Share-based payment ("IFRS 2")

The Company adopted amendments to IFRS 2, beginning on January 1, 2018, the mandatory effective date. There was no material impact from the adoption of the amendments to IFRS 2.

c) IFRS 9 Financial Instruments ("IFRS 9")

The Company adopted IFRS 9 which replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"), beginning on January 1, 2018, the mandatory effective date. The adoption of IFRS 9 was generally applied retrospectively, with the impact recognized as an adjustment to opening retained earnings as at January 1, 2018.

IFRS 9 contains a new classification and measurement approach which requires financial assets to be classified and measured based on the business model in which they are managed 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 and fair value through profit or loss, and eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

(i) It is held within a business model whose objective is to hold assets to collect contractual cash flows; and

(ii) Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost as described above are measured at fair value.

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 fair value through profit or loss 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.

The following table summarizes the classification impacts upon adoption of IFRS 9.

Asset/Liability	Classification under IAS 39	Classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Loans receivable	Loans and receivables	Amortized cost
Tenant and other receivables	Loans and receivables	Amortized cost
Credit facilities	Other liabilities at amortized cost	Amortized cost
Mortgages payable	Other liabilities at amortized cost	Amortized cost
Convertible debentures	Other liabilities at amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other liabilities at amortized cost	Amortized cost
Derivative instruments	Fair value through profit and loss	Fair value through profit and loss

IFRS 9 introduces a new single expected credit loss (“ECL”) impairment model for all financial assets and certain off-balance sheet loan commitments and guarantees. The ECL model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This differs from the Company's previous approach where the allowance recorded on performing loans was designed to capture only incurred losses whether or not they have been specifically identified.

The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans ("Stage 1") and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination ("Stage 2"). The allowance for assets in Stage 2 will be higher than for those in Stage 1 as a result of the longer time horizon associated with this stage. An additional stage ("Stage 3") requires lifetime losses for all credit impaired assets.

IFRS 9 requires consideration of past events, current market conditions and reasonable supportable information about future economic conditions which is available without undue cost or effort, in determining whether there has been a significant increase in credit risk, and in calculating the amount of expected losses. The standard also requires future economic conditions be based on an unbiased, probability-weighted assessment of possible future outcomes.

The determination of a significant increase in credit risk takes into account different factors and will vary by nature of investment. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due or certain criteria are met which are specific to the individual borrower based on judgment.

The Company actively monitors loans receivable and other investments and applies judgment in determining whether there has been a significant increase in credit risk. The Company considers a financial asset to be in default when the borrower is more than 90 days past due or when there is objective evidence that there has been a deterioration of credit quality to the extent the Company no longer has reasonable assurance as to the timely collection of the full amount of principal and interest.

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.

d) Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, replacing all existing guidance in IFRS related to revenue, including (but not limited to) IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 15 *Agreements for the Construction of Real Estate*.

IFRS 15 contains a single, control-based model that applies to contracts with customers and provides 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 adopted IFRS 15 beginning on January 1, 2018, using the cumulative effect method, which means that the Company did not apply the requirements of IFRS 15 to the comparative period presented. The effect of initially applying this standard would have been recognized at January 1, 2018, however, the adoption of IFRS 15 did not have an impact on the timing of recognition or measurement of revenue.

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

3. Loans receivable:

Loans receivable issued as at June 30, 2018 are detailed in the table below:

Debtor	Loan Type	June 30, 2018	December 31, 2017	Issued Date	Maturity Date (1)	Current Interest Rate	PIK Interest Rate
MS-SW Mezzanine Fund, LLC	Mezzanine loan	$ 4,030	$ 3,964	September 1, 2016	September 1, 2020	10.5%	4.0%
MS Webster Holdings, LLC	Mezzanine loan	—	2,640	September 2, 2016	September 2, 2020	10.5%	3.0%
MS Lincoln Holdings, LLC	Mezzanine loan	—	3,697	September 30, 2016	October 1, 2020	10.5%	4.0%
MS Surprise, LLC	Mezzanine loan	2,921	2,878	November 1, 2016	October 1, 2021	10.5%	3.0%
MS Parker Holdings II, LLC	Mezzanine loan	3,653	3,581	November 1, 2016	September 1, 2021	12.0%	4.0%
Mainstreet Investment Company, LLC	Interest-only loan	3,904	5,075	December 22, 2016	December 22, 2018	8.5%	1.5%
Autumnwood Lifestyles Inc.	Revolving credit facility	1,142	1,193	November 1, 2016	October 31, 2018	8.0%	—%
Autumnwood Lifestyles Inc.	Loan receivable	1,142	1,193	June 29, 2017	October 16, 2020	8.0%	—%
Symcare ML, LLC	Loan receivable	7,118	7,032	October 20, 2017	June 30, 2019	2.5%	2.5%
MCA Memory Care America, LLC	Loan receivable	303	606	November 6, 2017	November 6, 2018	10.0%	—%
Mainstreet Development Fund III, LP	Loan receivable	652	652	November 28, 2017	On Demand	6.5%	—%
Autumnwood Lifestyles Inc.	Loan receivable	1,261	1,318	December 19, 2017	August 12, 2018	—%	—%
Mainstreet Property Group, LLC	Loan receivable	—	2,602	December 29, 2017	February 28, 2018	7.0%	—%
Mainstreet Development Fund II, LP	Loan receivable	526	—	January 31, 2018	On Demand	15.0%	—%
Mainstreet Development Fund II, LP	Loan receivable	368	—	February 23, 2018	On Demand	15.0%	—%
Autumnwood Lifestyles Inc	Loan receivable	758	—	March 16, 2018	On Demand	—%	—%
Symcare ML, LLC	Loan receivable	5,805	—	March 26, 2018	June 30, 2019	2.5%	2.5%
Park Terrace Operating, LLC, Seneca Lake Terrace Operating, LLC, Premier Senior Living, LLC	Loan receivable	700	—	August 16, 2013 (2)	August 16, 2025	8.7%	—%
Ellipsis Real Estate Partners	Loan receivable	1,611		May 4, 2018	May 4, 2028	14.5%	—%
Allowance for losses on loans receivable		(2,337)	—				
Carrying value		$ 33,557	$ 36,431				
Less current portion		21,124	11,446				
Long-term portion		$ 12,433	$ 24,985				

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

(2) Loan assumed during the acquisition of Care (defined below) on February 1, 2018. Loan was originally issued by Care PSL Holdings LLC on August 16, 2013.

On March 26, 2018, a subsidiary of the Company entered into a loan agreement with the tenant operator of the Symphony Portfolio ("Symcare") for a principal amount of $3,659 with provisions for an additional $2,000 line of credit. The loan earns 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"). The maturity date of the loan is June 30, 2019. On June 29, 2018, the loan was amended to extend the line of credit to $2,122.

On May 4, 2018, a subsidiary of the Company entered into a development agreement with Ellipsis Real Estate Partners LLC ("Ellipsis") and issued a loan of $1,600 to fund the development of seniors housing and medical office properties in the U.S. The loan earns 14.5% annual interest and the principal amount and all accrued interest is due the earlier of the maturity date, May 4, 2028, or the sale of certain development projects. Through the development agreement, the Company has committed to funding an additional $2,400 to Ellipsis.

Allowance for Credit Losses (“ACL”)

The allowance for credit losses recorded in the condensed consolidated interim statement of financial position is maintained at a level that the Company considers adequate to absorb credit-related losses on loans receivable. The allowance for credit losses is $2,337 as at June 30, 2018.

Allowance on Performing Loans

The Company maintains an allowance in order to cover impairment in the existing portfolio for loans that have not yet been individually identified as impaired. The approach to establishing and maintaining the allowance for performing loans is based on the requirements of IFRS.

Under the IFRS 9 ECL methodology, an allowance is recorded for expected credit losses on financial assets regardless of whether there has been an actual loss event. The Company recognizes a loss allowance at an amount equal to 12 month expected credit losses, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1). The Company will record expected credit losses over the remaining life of performing financial assets which are considered to have experienced a significant increase in credit risk (Stage 2).

The determination of a significant increase in credit risk takes into account different factors and varies by nature of investment. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due or certain criteria are met which are specific to the individual borrower based on judgment.

The Company considers past events, current market conditions and reasonable forward-looking supportable information about future economic conditions in calculating the amount of expected losses. In considering the lifetime of a loan, the contractual period of the loan, including prepayment, extension and other options are generally used. The Company’s ECL methodology also requires the use of experienced credit judgment to incorporate the estimated impact of factors that are not captured in the modeled ECL results.

Allowance on Impaired Loans

Allowances for impaired loans (Stage 3) are recorded for individually identified impaired loans to reduce their carrying value to the expected recoverable amount. The Company reviews loans receivable on an ongoing basis to assess whether any loans should be classified as impaired and whether an allowance or write-off should be recorded. To determine the amount, the Company expects to recover from an individually significant impaired loan, the Company uses the value of the estimated future cash flows discounted at the loan’s original effective interest rate. The determination of estimated future cash flows of a collateralized impaired loan reflects the expected realization of the underlying security, net of expected costs and any amounts legally required to be paid to the borrower.

The Company recognized a loss of $189 and $1,519 for the three and six months ended June 30, 2018, respectively, in the condensed consolidated interim statement of income and comprehensive income related to the impairment associated with the mezzanine loan on MS Parker II Holdings, LLC. The development project associated with the loan has been terminated, and certain loan guarantees have been assessed to have decreased in value. The Company recorded an allowance to reduce the recoverable value of the loan to the value of the land held by the project, for which the Company has a first mortgage position.

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

Loans receivable and associated allowance for losses on loans receivable as at June 30, 2018 are as follows:

		Stage 1		Stage 2		Stage 3		Total
Loans receivable, net of loan fees	$	19,840	$	12,401	$	3,653	$	35,894
Allowance for losses on loans receivable		(198)		(620)		(1,519)		(2,337)
Loans receivable, net of allowances	$	19,642	$	11,781	$	2,134	$	33,557

As at June 30, 2018, $3,653 of loans receivable are categorized as Stage 3. As at June 30, 2018, $12,401 of loans receivable were transferred from Stage 1 to Stage 2 due to an increase in credit risk. For the three and six months ended June 30, 2018, a loss of $724 and $1,974 was recorded as a change in fair value of financial instruments in the condensed consolidated interim statements of income and comprehensive income due to the increased allowance on the Stage 2 and Stage 3 loans.

4. Other assets:

Other assets are as follows:

		June 30, 2018		December 31, 2017
Prepaid expense	$	636	$	328
Prepaid management fees (note 5)		1,146		—
Security deposits and costs related to future acquisitions		3,181		765
Income support receivable (note 5)		594		—
Escrow deposits held by lenders		2,072		—
Furniture, fixtures, and equipment		206		—
Other		1,195		89
	$	9,030	$	1,182
Current	$	8,656	$	1,182
Non-current		374		—
	$	9,030	$	1,182

Escrow deposits held by lenders includes amounts collected from the Company and held for use in payment of real estate taxes, property insurance and replacement reserves.

(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, 2017	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
Acquisitions of income properties	45		443,183
Capital expenditures	—		7,649
Increase in straight-line rents	—		5,564
Fair value adjustment	—		(211)
Translation of foreign operations	—		(4,101)
Balance, June 30, 2018	85	$	1,174,075
Property tax liability under IFRIC 21			(6,138)
Fair value adjustment to investment properties - IFRIC 21			6,138
		$	1,174,075

At June 30, 2018, 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. Acquisition costs related to business combinations are expensed in the period incurred. 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 $1,089,723 as at June 30, 2018 (December 31, 2017 - $637,204) are set out in the following table:

	June 30, 2018	December 31, 2017
Capitalization rate - range	6.50% - 12.00%	6.50% - 8.25%
Capitalization rate - weighted average	8.00%	7.96%

The fair value of investment properties measured using the capitalized income approach is most sensitive to changes in capitalization rates. At June 30, 2018, a 25 basis point increase or decrease in the weighted average capitalization rate would decrease the fair value of the investment properties by $33,355 (December 31, 2017 - $19,456) or increase the fair value of the investment properties by $35,550 (December 31, 2017 - $20,727), respectively.

(b) Acquisitions - six months ended June 30, 2018

	Lincoln	Round Rock	Care	Grand Brook	San Antonio/ Webster	Mohawk	Total
Number of consolidated properties acquired:	1	1	24	3	2	14	45
Net assets acquired:							
Investment properties	$ 21,501	$ 22,836	$ 190,782	$ 21,695	$ 49,094	$ 137,275	$ 443,183
Investment in joint ventures	—	—	85,154	—	—	—	85,154
Assumed mortgages	(11,668)	(13,158)	(123,589)	—	(25,706)	—	(174,121)
Mezzanine loan applied against purchase	(3,723)	—	—	—	(2,697)	—	(6,420)
Working capital balances	—	(990)	(194)	(50)	(2,920)	(654)	(4,808)
Non-controlling interest liability	—	—	(1,316)	—	—	—	(1,316)
	$ 6,110	$ 8,688	$ 150,837	$ 21,645	$ 17,771	$ 136,621	$ 341,672
Consideration paid/funded (received):							
Cash	6,110	8,688	919	4,621	17,771	22,589	60,698
Proceeds from Secured Revolving Facility	—	—	—	17,024	—	—	17,024
Proceeds from Mohawk Facility, net	—	—	—	—	—	81,899	81,899
Issuance of common shares	—	—	146,736	—	—	31,516	178,252
Working capital true up payable	—	—	3,182	—	—	—	3,182
Accrued transaction costs	—	—	—	—	—	1,307	1,307
Income support receivable	—	—	—	—	—	(690)	(690)
	$ 6,110	$ 8,688	$ 150,837	$ 21,645	$ 17,771	$ 136,621	$ 341,672

i) 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 $21,451 plus transaction costs and is accounted for as an asset acquisition. The acquisition was funded by the assumption of $11,668 in mortgage debt, a $3,723 credit received in satisfaction of a mezzanine loan held by the Company with respect to this property, and available cash on hand.

ii) 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 and is accounted for as an asset acquisition. 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 was funded through draws on the mortgage payable.

iii) On February 1, 2018, a wholly owned subsidiary of the Company completed the acquisition of Care Investment Trust, LLC ("Care") from Tiptree Inc. The acquisition of Care 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. The Care portfolio consists of 24 properties leased to operators under long-term triple-net leases and 18 operating properties in joint venture arrangements in which the Company owns the majority joint venture interest in 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 was funded by the assumption of $123,589 of property level indebtedness (including a mark-to-market discount adjustment of $1,219), the issuance of 16,647,236 common shares at a fixed issuance price of $9.75 per common share and $919 of cash. The fair value of the common shares issued on the closing date of the transaction, which was based on the adjusted quoted market price of the Company's common shares on February 1, 2018, was $146,736. The Care acquisition is accounted for as a business combination and as a result transaction costs are expensed as incurred. For the three and six months ended June 30, 2018, the condensed consolidated interim statements of income and comprehensive income includes transaction costs of $322 and $6,438, respectively, related to this transaction. The Company incurred additional transaction costs for business combination of $2,073 during the year ended December 31, 2017 related to this transaction. The purchase agreement also contained provisions for a post-closing true up of working capital items, and the true up is $3,182. The working capital true up payable was paid on July 3, 2018 through a combination of cash on hand of $1,148 and the issuance of common shares with a value of $2,034.

During the three months ended June 30, 2018 the purchase equation in respect of the acquisition of the Care portfolio was recast to reflect actual amounts of working capital assumed. This recast did not result in any changes to previously reported net income.

For the three and six months end June 30, 2018, the Care portfolio has contributed revenue of $5,591 and $8,843, respectively, and net income of $8,813 and $11,269, respectively, since its acquisition. Had the acquisition of the Care portfolio take place on January 1, 2018, revenue for the Company for the six months ended June 30, 2018 would have been $53,861 and net income for the Company for the six months ended June 30, 2018 would have been $14,813.

iv) 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 and is accounted for as an asset acquisition. The acquisition was funded by cash on hand and $17,024 in proceeds from the Secured Revolving Facility.

v) 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 $49,054 plus transaction costs and is accounted for as an asset acquisition. This transaction was funded through the assumption of $25,706 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 $2,920 of liabilities related to the remaining development costs of the properties which was funded through future draws on the mortgages payable.

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

vi) On May 1, 2018, the Company purchased 14 multi-tenant medical office buildings located in Canada and the United States from Mohawk Medical Properties Real Estate Investment Trust and its subsidiary, Mohawk Medical Operating Partnership (I) LP (collectively, "Mohawk REIT") for a combined purchase price of $137,275. The acquisition, which is accounted for as an asset acquisition, was funded through a combination of a new credit facility of $81,899, net of loan fees, and the issuance of 3,630,794 common shares and cash on hand. Upon closing, Mohawk Realty Advisors Ltd. and its affiliates will continue to provide asset and property management for the properties. On the day of purchase, the Company prepaid to the asset manager an amount equal to the contractual fee due under the two year initial term of the asset management agreement (note 4).

The Company entered into an income support agreement in conjunction with its purchase of the properties from Mohawk REIT, whereby the seller agreed to fund monthly payments to supplement rental income until certain leasing metrics are met. Upon execution of the income support agreement, the Company recorded an income support receivable of $690, which reduced the cost of the investment properties acquired.

6. Joint arrangements:

As at June 30, 2018, the following are the Company's joint arrangements:

Joint arrangement	Number of properties	Location	Company ownership	Consolidation type
Invesque-Autumnwood Landlord	4	Canada	50%	Joint operation (1)
Invesque-Autumnwood Operator	4	Canada	50%	Joint venture (2)
Calamar	2	United States	75%	Joint venture (3)
Greenfield I	3	United States	80%	Joint venture (3)
Greenfield II	1	United States	80%	Joint venture (3)
Heritage JV	3	United States	80%	Joint venture (3)
Heritage Newtown	1	United States	80%	Joint venture (3)
Heritage Harleysville	1	United States	90%	Joint venture (3)
Phoenix Fayetteville	1	United States	90%	Joint venture (3)
Royal JV	5	United States	80%	Joint venture (3)
Royal Eatonton	1	United States	65%	Joint venture (3)

(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.
(3) These joint venture arrangements have been structured through separate legal entities. The joint venture owns an interest in separate legal entities which own the real estate and operations.

The Company has entered into a number of joint arrangements for the purpose of jointly owning and operating certain of its seniors housing investments as detailed in the table above.

The Company and Autumnwood each owns a 50% direct beneficial interest in the real estate assets of the Invesque-Autumnwood Landlord entity and are jointly obligated for the related mortgages for a portfolio of four properties which are accounted for as joint operations and are accounted for under the proportionate consolidation method. The Company's 50% interest in the operations of these properties is held through separate legal entities (collectively referred to as "Invesque-Autumnwood Operators"), which under IFRS 11, Joint Arrangements, are accounted for as joint ventures using the equity method. Invesque-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, $751 and $1,517 for the three and six months ended June 30, 2018 (three and six months ended June 30, 2017 - $697 and $1,404), is reported as lease revenue from joint ventures. Invesque-

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

Autumnwood Operators lease expense is included in the share of income from joint ventures in the condensed consolidated interim statements of income and comprehensive income.

In connection with the acquisition of the Care portfolio on February 1, 2018, the Company acquired an interest in 18 properties held in joint arrangements. In these joint arrangements the Company owns an interest in the real estate and operations through separate legal entities at each of the properties, and has management agreements in place to provide for the day to day operations resulting in joint control of the interests. Each of these joint arrangements are accounted for as joint ventures using the equity method and the Company's share of net income is included in income from joint ventures in the condensed consolidated interim 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:

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Distributions received from joint ventures	$ 1,572	$ —	$ 5,535	$ —

	June 30, 2018	December 31, 2017
Cash	$ 4,958	$ 91
Tenant and other receivables	1,738	1,713
Other	2,077	164
Current assets	8,773	1,968
Investment properties	265,713	—
Property, plant and equipment	28,486	2,184
Loans receivable	3,862	—
Derivative instruments	2,993	
Other non-current assets	880	—
Total assets	$ 310,707	$ 4,152
Accounts payable and accrued liabilities	$ 5,731	$ 2,240
Mortgages payable - current	2,916	—
Current liabilities	8,647	2,240
Mortgages payable - non-current	175,343	—
Unearned revenue	990	—
Other non-current liabilities	576	—
Total liabilities, excluding net assets attributable to owners	$ 185,556	$ 2,240
Net assets	$ 125,151	$ 1,912
Company's share of investment in joint ventures	$ 83,598	$ 980
Joint venture partners' interest	$ 41,553	$ 932

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

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Revenue	$ 19,228	$ 2,494	$ 32,688	$ 5,013
Property operating expense	(14,307)	(2,481)	(25,321)	(4,962)
Finance costs	(2,069)	—	(3,346)	—
Depreciation expense	(432)	—	(721)	—
Other	(188)	—	(78)	—
Net income, prior to distributions to owners	$ 2,232	$ 13	$ 3,222	$ 51
Company's share of net income, prior to distributions to owners	$ 1,593	$ —	$ 2,399	$ —

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 condensed consolidated interim financial statements, the related party balances are included in accounts payable and other receivables and in lease revenue from joint ventures. As at June 30, 2018, $98 (December 31, 2017 - NIL) of the Company's accounts payable and other receivables 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.

	June 30, 2018	Borrowing rate at June 30, 2018	December 31, 2017	Borrowing rate at December 31, 2017
Facility	$ 245,395	5.34%	$ 214,895	4.82%
Secured Revolving Facility	17,024	7.59%	6,000	6.97%
Mohawk Facility	81,504	4.48%	—	—%
Finance costs, net	(4,914)		(3,963)	
Carrying value	$ 339,009		$ 216,932	
Less current portion	16,939		5,958	
Long-term portion	$ 322,070		$ 210,974	

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 June 30, 2018, the Facility is secured by 26 properties located in the United States. As at June 30, 2018, the security provided the Company with a borrowing base of $250,872, 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 the period ending June 30, 2018.

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 (note 5).

On May 1, 2018, a wholly owned subsidiary of the Company entered into a secured credit facility ("Mohawk Facility") for the purpose of funding the acquisition of 14 properties from Mohawk REIT. The facility has maximum commitment amounts of CAD$90,060, with a borrowing rate of the BA Rate plus 220 basis points, and USD$22,515, with a borrowing rate of LIBOR plus 220 basis points. The facility provides for interest-only payments through its maturity date of May 1, 2023. Per the terms of the agreement, CAD$4,858 and USD$1,228 are reserved for the construction of tenant improvements and the payment of leasing commissions for leases entered into after the closing of the transaction. On May 1, 2018, in conjunction with the acquisition from Mohawk REIT, the Company drew CAD$85,202 and USD$16,647. The facility also included an allocation of USD$4,460 for the acquisition of an additional medical office property in Williamsville, New York. On June 28, 2018, the Company amended the terms of the agreement to increase the borrowing capacity for the Williamsville, New York property to USD$6,572. The company drew the additional USD$6,572 in conjunction with the closing of the Williamsville asset on July 9, 2018 (note 25).

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

8. Mortgages payable:

Mortgages payable consist of the following as at June 30, 2018:

	June 30, 2018	December 31, 2017
Mortgages payable	$ 349,712	$ 170,668
Mark-to-market adjustment, net	(926)	257
Finance costs, net	(1,873)	(1,416)
Carrying value	$ 346,913	$ 169,509
Less current portion	92,447	52,351
Long-term portion	$ 254,466	$ 117,158

Mortgages payable are collateralized by investment properties with a fair value of $550,017 at June 30, 2018. Maturity dates on mortgages payable range from 2018 to 2049, and the weighted average years to maturity is 4.64 years at June 30, 2018.

Future principal payments on the mortgages payable as at June 30, 2018 are as follows:

	Regular principal payments	Principal due on maturity	Total principal payments	% of total principal payments
Remainder 2018	$ 2,272	$ 72,839	$ 75,111	21.48%
2019	5,432	19,219	24,651	7.05%
2020	5,536	41,277	46,813	13.39%
2021	5,125	6,706	11,831	3.38%
2022	4,478	46,376	50,854	14.54%
2023	3,917	20,952	24,869	7.11%
Thereafter	14,654	100,929	115,583	33.05%
	$ 41,414	$ 308,298	$ 349,712	100.00%

	June 30, 2018	December 31, 2017
Mortgages at fixed rates:		
Mortgages (principal) (1)	$ 248,494	$ 85,646
Interest rates	3.08% to 8.70%	3.87% to 4.66%
Weighted average interest rate	5.11%	4.46%
Mortgages at variable rates:		
Mortgages (principal)	$ 101,218	$ 85,022
Interest rates	LIBOR plus 2.5% to US Prime plus 0.5%	Banker's acceptance plus 1.47% to LIBOR plus 3.50%
Weighted average interest rate	5.15%	4.67%
Blended weighted average rate	5.13%	4.57%

(1) Includes variable rate mortgages that are fixed with interest rate swaps.

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

9. Derivative financial instruments:

Derivative financial instruments as at June 30, 2018 are detailed in the table below:

				Asset (Liability) Balance		Income (Loss) for the three months ended		Income (Loss) for the six months ended	
Swap	Maturity Date	Fixed Rate	Current notional amount	June 30, 2018	December 31, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
The Facility Term Swap	October 30, 2019	LIBOR fixed at 1.16%	$ 200,000	$ 3,538	$ 2,827	$ (104)	$ (268)	$ 710	$ 257
Leawood Swap	March 15, 2024	Interest rate fixed at 4.55%	13,723	356	(51)	119	(220)	407	(220)
Topeka Swap	March 15, 2024	Interest rate fixed at 4.55%	13,035	338	(48)	113	(208)	387	(208)
Red Oak Swap	January 18, 2021	Interest rate fixed at 3.77%	4,251	(11)	—	6	—	(11)	—
Park Terrace Swap[1]	December 18, 2020	LIBOR fixed at 2.42%	3,750	20	[1]	19	—	30	—
Seneca Lake Swap[1]	December 18, 2020	LIBOR fixed at 2.42%	4,238	23	[1]	24	—	32	—
Winchester Swap[1]	November 1, 2021	Interest rate fixed at 4.54%	6,755	237	[1]	31	—	40	—
Calhoun Swap[1]	May 31, 2019	LIBOR fixed at 1.75%	28,800	146	[1]	25	—	35	—
Mohawk Credit Facility Swap	July 2, 2020	Banker's Acceptance fixed at 2.33%	64,856 [2]	(137)	—	(139)	—	(139)	—
			Carrying Value	$ 4,510	$ 2,728	$ 94	$ (696)	1,491	(171)
			Derivative instruments (Asset)	$ 4,658	$ 2,827				
			Derivative instruments (Liability)	(148)	(99)				
				$ 4,510	$ 2,728				

(1) These derivatives were assumed with the purchase of Care on February 1, 2018.
(2) The swap is for a fixed amount of CAD$85,202

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

10. Convertible debentures:

2016 Convertible Debentures

As at June 30, 2018 the 2016 Convertible Debentures are comprised of the following:

	June 30, 2018	December 31, 2017
Issued	$ 45,000	$ 45,000
Issue costs, net of amortization and accretion of equity component	(1,058)	(1,416)
Equity component, excluding issue costs and taxes	(1,648)	(1,648)
2016 Convertible Debentures	$ 42,294	$ 41,936

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

11. Other liabilities:

Other liabilities are as follows:

	June 30, 2018	December 31, 2017
Deferred shares liability	$ 1,253	$ 1,096
Security deposits received from tenants	10,068	8,404
Escrows collected from tenant	1,069	—
Other	133	—
	$ 12,523	$ 9,500
Current	$ 1,202	$ —
Non-current	11,321	9,500
	$ 12,523	$ 9,500

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

	Credit facilities	Mortgages payable	Convertible debentures	Total
Balance, December 31, 2017	$ 216,932	$ 169,509	$ 41,936	$ 428,377
Debt assumed through acquisitions	—	174,121	—	174,121
Proceeds from financing	148,074	6,604	—	154,678
Repayments	(23,000)	—	—	(23,000)
Scheduled principal payments	—	(1,880)	—	(1,880)
Financing costs paid	(1,593)	(713)	—	(2,306)
Amortizing of financing costs and mark to market adjustments	619	286	358	1,263
Changes in foreign currency rates	(2,023)	(1,014)	—	(3,037)
Balance, June 30, 2018	$ 339,009	$ 346,913	$ 42,294	$ 728,216

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

13. Share capital:

(a) Common shares:

The following number and value of common shares were issued and outstanding as at June 30, 2018:

	Common Shares		Value
Balance, December 31, 2016	32,222,355	$	308,551
Issued on settlement of Deferred Share Incentive Plan	94,826		870
Issued pursuant to the Company's dividend reinvestment plan	41,573		368
Recognition of previously unrecognized tax benefit of amortization of issuance cost	—		670
Balance, December 31, 2017	32,358,754		310,459
Issued as consideration for acquisition of Care (note 5)	16,647,236		146,736
Issued as consideration for acquisition of Mohawk (note 5)	3,630,794		31,516
Issued on settlement of Deferred Share Incentive Plan	57,891		526
Issued pursuant to the Company's dividend reinvestment plan	35,997		311
Recognition of previously unrecognized tax benefit of amortization of issuance cost	—		332
Balance, June 30, 2018	52,730,672	$	489,880

For the three and six months ended June 30, 2018, the Company declared dividends payable in cash on common shares of $9,482 and $17,494, respectively (three and six months ended June 30, 2017 - $5,943 and $11,883, respectively).

(b) Preferred Shares:

The following number and value of Preferred Shares were issued and outstanding as at June 30, 2018:

	Preferred Shares		Value
Balance, December 31, 2016	—	$	—
Issued Series 1 Preferred Shares	2,802,009		26,353
Balance, December 31, 2017	2,802,009		26,353
Issued Series 2 Preferred Shares	3,172,086		29,856
Issued Series 3 Preferred Shares	1,586,042		14,929
Balance, June 30, 2018	7,560,137	$	71,138

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 upon entering into 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 $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.

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

On March 29, 2018, the third and final series was funded, resulting 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.

As at June 30, 2018, the Preferred Shares are convertible into 7,731,772 common shares of the Company.

14. 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 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:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income for basic and diluted net income per share	$ 10,527	$ 4,706	$ 12,846	$ 9,689

Denominator for basic and diluted net income per share:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Weighted average number of shares, including fully vested deferred shares: Basic	51,560,002	32,299,831	47,479,276	32,284,727
Weighted average shares issued if all Preferred Shares were converted	7,628,390	—	6,151,080	—
Weighted average number of shares: Diluted	59,188,392	32,299,831	53,630,356	32,284,727

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

Net income per share:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Basic	$ 0.20	$ 0.15	$ 0.27	$ 0.30
Diluted	$ 0.18	$ 0.15	$ 0.24	$ 0.30

15. Rental revenue:

Rental revenue consists of the following:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Cash rentals received	$ 21,238	$ 10,816	$ 37,800	$ 21,212
Straight-line rent adjustments	2,871	1,372	5,564	2,747
Property tax recoveries	3,380	2,411	6,242	4,327
CAM recoveries (1)	514	—	514	—
Other tenant recoveries	124	—	202	—
	$ 28,127	$ 14,599	$ 50,322	$ 28,286

(1) Includes property services element in accordance with IFRS 15, Revenue from Contracts with Customers.

The Company is scheduled to receive rental income from operators of its seniors housing and care properties 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 Company is also scheduled to receive rental income from tenants of the medical office building portfolio. These leases, generally with lease terms of 5 to 10 years, include provisions for recovery of real estate taxes, insurance and costs associated with common area maintenance ("CAM").

The tenant operator of the Symphony Portfolio ("Symcare") of 11 properties pays rent pursuant to a master lease. For the three and six months ended June 30, 2018, rental revenue from this tenant comprised approximately 32% and 35%, respectively (three and six months ended June 30, 2017 - 61% and 62%, respectively), of the Company's consolidated rental revenue for the period.

Future minimum rentals to be received as of June 30, 2018 are as follows:

Less than 1 year	$ 85,336
Between 1 and 5 years	352,116
More than 5 years	669,972
	$ 1,107,424

Future minimum rentals in the above table attributable to Symcare represent approximately 33% of the total.

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

16. Finance costs:

Finance costs consist of the following:

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Interest expense on credit facilities	$ 4,005	$ 2,560	$ 7,021	$ 4,775
Interest expense on mortgages payable	4,567	966	7,818	1,773
Interest expense on convertible debentures	562	563	1,125	1,126
Amortization and accretion expense	653	654	1,251	1,227
Interest rate swap payments (receipts)	(347)	145	(514)	336
Amortization of mark-to-market debt adjustments	22	(3)	35	(6)
Interest income from loans receivable (note 3)	(777)	(1,109)	(1,549)	(2,194)
	$ 8,685	$ 3,776	$ 15,187	$ 7,037

17. General and administrative:

General and administrative costs consist of the following:

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Compensation and benefits	$ 1,327	$ 855	$ 2,666	$ 1,608
Asset management and administrative fees	103	67	171	135
Professional fees	754	431	1,328	1,079
Deferred share compensation	423	354	677	1,095
Foreign exchange loss	75	—	88	—
Other	549	377	1,034	554
	$ 3,231	$ 2,084	$ 5,964	$ 4,471

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

18. Direct property operating expenses:

Direct property operating expenses consist of the following:

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Repairs and maintenance	$ 301	$ —	$ 301	$ —
Property management fees	92	—	92	—
Housekeeping	113	—	113	—
Parking expenses	48	—	48	—
Payroll expenses	80	—	80	—
Other	52	—	52	—
	$ 686	$ —	$ 686	$ —

19. Deferred share incentive plan:

At June 30, 2018, the number of deferred shares granted and outstanding and vested are as follows:

	Granted/ Outstanding	Fully Vested
As at January 1, 2017	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
Discretionary Deferred Shares granted	160,316	51,799
Individual Contributed Deferred Shares (vested immediately)	15,772	15,772
Company Contributed Deferred Shares	15,772	3,648
Dividend equivalents automatically granted on deferred shares	10,921	10,067
Shares issued upon vesting of deferred shares	(57,891)	(57,891)
As at June 30, 2018	339,454	70,519

For the three and six months ended June 30, 2018, expense recognized in the condensed consolidated interim statements of income and comprehensive income related to deferred share grants was $423 and $677, respectively (three and six months ended June 30, 2017 - $354 and $1,095). A deferred share liability of $1,253 (2017 - $1,096) is included in other non-current liabilities in the condensed consolidated interim statements of financial position as at June 30, 2018.

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

20. 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. 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.

On March 29, 2018, the third and final series was funded, resulting 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.

21. Income taxes:

The income tax expense in the condensed consolidated interim 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% (2017 - 26.5%). The differences for the three and six month ended June 30, 2018 and 2017 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Income before income taxes	$ 15,302	$ 8,142	$ 18,719	$ 17,058
Income tax expense at Canadian tax rate	4,149	2,158	5,087	4,521
Non-deductible expenses	486	95	555	309
Difference in tax rate in foreign jurisdiction	122	1,155	213	2,511
Other	18	28	18	28
Income tax expense	$ 4,775	$ 3,436	$ 5,873	$ 7,369

The gross movement in deferred tax is as follows:

	Six Months Ended June 30,	
	2018	2017
Deferred tax liability, beginning balance	$ 10,291	$ 5,583
Deferred tax expense	5,855	7,344
Deferred tax resulting from business combination	1,699	—
Deferred tax liability charged to equity	(333)	—
Other	(41)	—
Deferred tax liability, ending balance	$ 17,471	$ 12,927

22. 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 June 30, 2018, 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.

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

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 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 partnerships.

On May 1, 2018 in conjunction with the purchase of the Mohawk properties, the Company assumed a commitment to purchase a medical office building in Williamsville, New York for a total consideration of $7,732 plus transaction costs. This transaction was completed on July 9, 2018 (note 25).

23. Fair value measurement:

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

	June 30, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Investment in MS-SW Development Fund Holdings LLC	$ —	$ —	$ 1,172	$ —	$ —	$ 1,072
Derivative asset	—	4,658	—	—	2,827	—
Investment properties	—	—	1,174,075	—	—	721,991
Derivative liability	—	(148)	—	—	(99)	—

For the assets and liabilities measured at fair value as at June 30, 2018, 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 5 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 which are estimated to approximate fair value.

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

Fair value of financial instruments:

The carrying amounts and fair values of financial instruments as shown in the condensed consolidated interim 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:

	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Investment in MS-SW Development Fund Holdings, LLC	$ 1,172	$ 1,172	$ 1,072	$ 1,072
Loans receivable	33,557	33,984	36,431	36,431
Derivative instruments	4,658	4,658	2,827	2,827
Financial liabilities:				
Mortgages payable	346,913	349,712	169,509	170,668
Credit facilities	339,009	343,923	216,932	220,895
Derivative instruments	(148)	(148)	99	99
2016 Convertible Debentures	42,294	43,065	41,936	43,650

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.

24. 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 June 30, 2018, $1,111,325 of the Company's non-current assets, excluding financial instruments, are located in the United States (December 31, 2017 - $680,785) and $146,722 are located in Canada (December 31, 2017 - $42,186). During the three and six months ended June 30, 2018, the Company generated $26,684 and $48,957, respectively (three and six months ended June 30, 2017 - $14,599 and $28,286, respectively), of its revenues, excluding other income, from properties located in the United States and $2,670 and $3,436, respectively (three and six months ended June 30, 2017 - $697 and $1,404, respectively) of its revenues from properties located in Canada.

25. Subsequent events:

On July 9, 2018, a wholly owned subsidiary of the Company completed the acquisition of a medical office building in Williamsville, New York for $7,732 plus transaction costs. This transaction was funded by $6,572 in new borrowings on the Mohawk Facility and cash on hand. Mohawk Realty Advisors Ltd. and its affiliates will provide asset and property management services for the property.