INVESQUE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

August 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 three and six months ended June 30, 2018. 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 three and six months ended June 30, 2018. 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 and the unaudited condensed consolidated interim financial statements and notes of the Company for the three and six months ended June 30, 2018.

Additional information relating to the Company, including the Company's annual information form dated March 29, 2018 (the "2017 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 the MD&A for the year ended December 31, 2017 and 2017 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 August 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

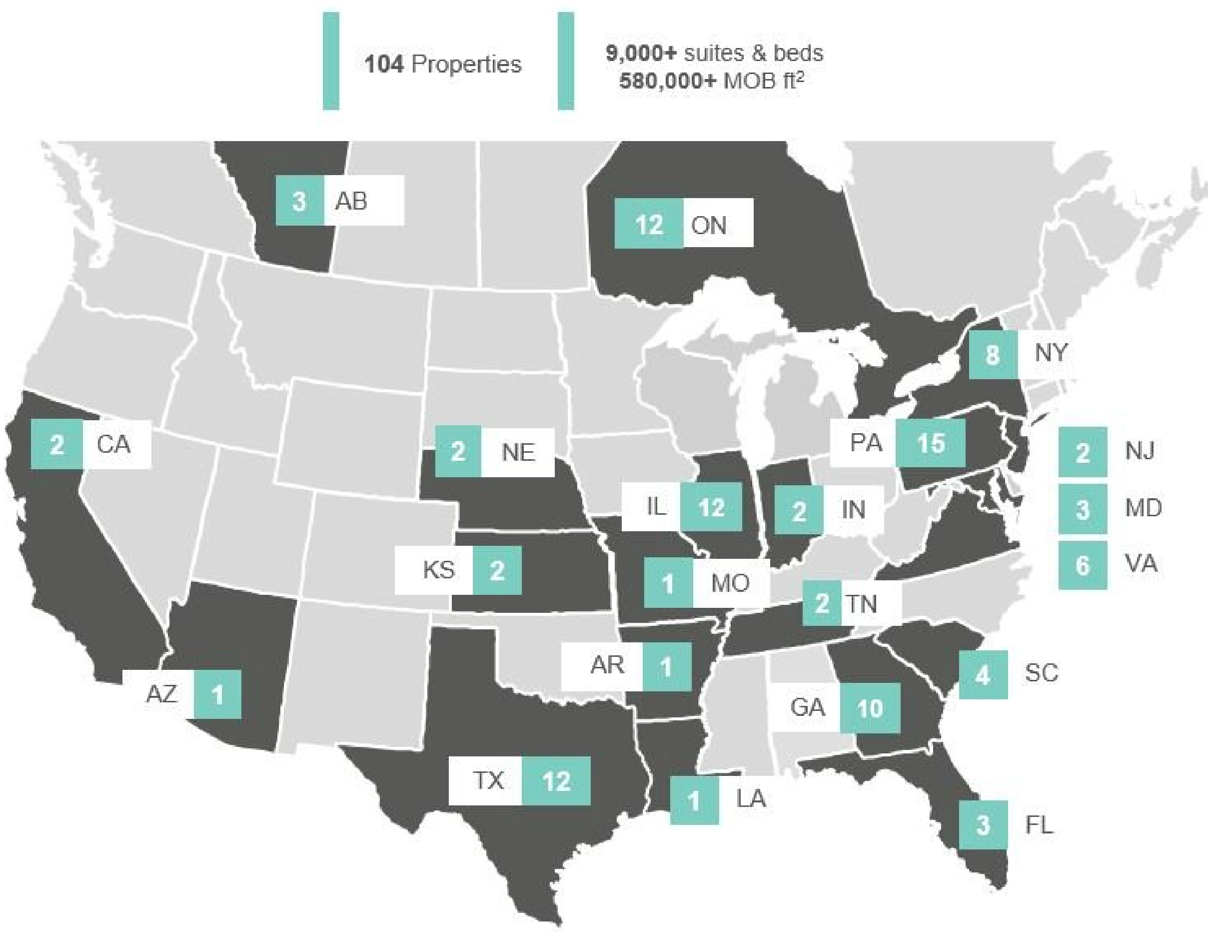
Certain terms used in this MD&A are performance measures that are not defined by IFRS such as Funds From Operations ("FFO"), Adjusted Funds From Operations ("AFFO"), consolidated income (loss) adjusted for IFRIC 21, fixed charge coverage ratio, payout ratio, earnings before interest, income taxes, depreciation, 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 700 W Georgia Street, 25th Floor, 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 that partners with industry leading operators to invest across the health care spectrum. The Company's current portfolio includes investments in assisted living, independent living, memory care, transitional care, long-term care, and medical office properties, which are operated by best-in-class operators primarily under long-term leases and joint venture arrangements. For the Company's seniors housing properties, it 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. The Company's multi-tenant medical office portfolio is operated via a third party asset management contract with Mohawk Realty Advisors Ltd.

As of August 14, 2018, the Company owns or has a majority interest in a portfolio of 89 properties in the United States comprised of 21 long-term care facilities, 50 assisted living and memory care facilities, 14 transitional care properties, and 4 medical office buildings. The Company also owns 11 medical office buildings in Canada and jointly owns the real estate of four seniors housing and care facilities located in the province of Ontario.



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 health care real estate industry provide significant opportunity to expand the Company's portfolio of properties. Management also believes that, as a result of the high quality of the Company's properties, its triple-net leasing and joint venture structures, and its relationships with reputable operators and industry participants, the Company is well-positioned to succeed in the industry by capitalizing on these market opportunities.

Recent Activities

Recent Acquisitions

The following investment properties were acquired during the 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

On January 10, 2018, a wholly owned subsidiary of the Company acquired a newly constructed transitional care facility located in Lincoln, Nebraska. The property was acquired for a purchase price of $21,451 plus transaction costs. 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.

On January 31, 2018, a wholly owned subsidiary of the Company acquired a newly constructed transitional care facility located in Round Rock, Texas. 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 was funded through additional draws on the mortgages payable during the first and second quarter of 2018.

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 end 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 was $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.

On February 9, 2018, a wholly owned subsidiary of the Company acquired three properties located in Garland, Texas; Grapevine, Texas; and McKinney, Texas (collectivley, 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 for a combined purchase price of $49,054 plus transaction costs. This transaction was funded through the assumption of $25,706 of mortgages payable, a $2,697 credit received in satisfaction of a mezzanine loan held by the Company with respect to the Webster, Texas property, and available 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 additional draws on the mortgages payable during the first and second quarter of 2018.

On May 1, 2018, the Company purchased 14 multi-tenant medical office buildings located in seven markets throughout 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 was funded through a combination of new debt of $81,899, net of loan fees, the issuance of 3,630,794 common shares at a fixed issuance price of $9.75 per common share, and available cash on hand. Upon closing, Mohawk Realty Advisors Ltd. and its affiliates (collectively, "Mohawk") continued 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 fee due for the initial two year term of the asset management agreement.

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.

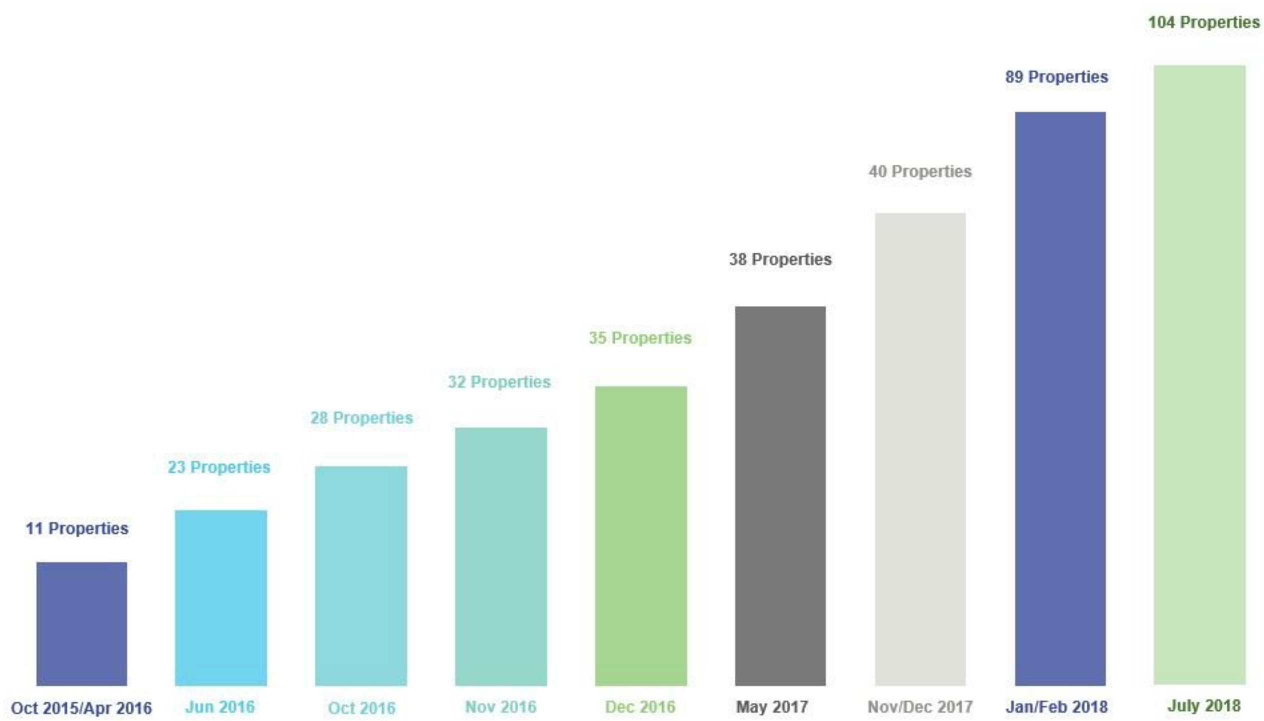
Other Recent Activities

On December 22, 2017, the Company entered into subscription agreements with respect to 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. 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. 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.

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. The acquisition was funded by $6,572 in new borrowings on the Mohawk Facility (as defined below) and available cash on hand. Mohawk Realty Advisors Ltd. and its affiliates will provide asset and property management services for the property.

The following chart outlines the Company's growth through property acquisitions:



Selected Financial Information

(dollar amounts in thousands of U.S. Dollars, except per share amounts)	As at June 30,	
	2018	2017
Investment properties	103	38
Weighted average lease term to maturity (excludes renewal options)	11.7 years	13.6 years
Weighted average facility age	11.8 years	12.0 years
Total assets	$ 1,328,568	$ 690,564
Total indebtedness	$ 728,216	$ 364,778
Debt to total assets %	54.8%	52.8%
Weighted average interest rate (1)	4.9%	4.2%

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenue	$ 29,354	$ 16,087	$ 52,393	$ 30,524
Finance costs	$ 8,685	$ 3,776	$ 15,187	$ 7,037
General and administrative expenses	$ 3,231	$ 2,084	$ 5,964	$ 4,471
Direct property operating expenses	$ 686	$ —	$ 686	$ —
Income from joint ventures	$ 1,593	$ —	$ 2,399	$ —
Net income	$ 10,527	$ 4,706	$ 12,846	$ 9,689
Total comprehensive income	$ 9,281	$ 5,206	$ 11,094	$ 10,346
Net income per share	$ 0.20	$ 0.15	$ 0.27	$ 0.30
Diluted net income per share	$ 0.18	$ 0.15	$ 0.24	$ 0.30
Funds from operations (FFO) (3)	$ 15,042	$ 7,671	$ 27,222	$ 14,455
FFO per share (3)	$ 0.29	$ 0.24	$ 0.57	$ 0.45
Diluted FFO per share (3)	$ 0.25	$ 0.23	$ 0.50	$ 0.44
Adjusted funds from operations (AFFO) (3)	$ 12,953	$ 8,278	$ 23,037	$ 16,349
AFFO per share (3)	$ 0.25	$ 0.26	$ 0.49	$ 0.51
Diluted AFFO per share (3)	$ 0.21	$ 0.24	$ 0.42	$ 0.48
Common share dividends declared	$ 9,482	$ 5,943	$ 17,494	$ 11,883
Dividends declared per share	$ 0.18417	$ 0.18417	$ 0.36834	$ 0.36834
Payout ratio (2)	73%	72%	76%	73%
General and administrative expenses to total asset %	0.24%	0.30%	0.45%	0.65%

(1) The Company's weighted average interest rates at June 30, 2018 and 2017 included $339,096 and $227,477, 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.

(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.

Results of Operations - Three and Six Months Ended June 30, 2018
(unless otherwise stated, amounts are in thousands of U.S. dollars)

Revenue

	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	514	—	514	—
Other tenant recoveries	124	—	202	—
Total rental revenue	28,127	14,599	50,322	28,286
Lease revenue from joint ventures	751	697	1,517	1,404
Other income	476	791	554	834
Total revenue	$ 29,354	$ 16,087	$ 52,393	$ 30,524

Cash rentals received and straight-line rent adjustments relate to lease agreements under which the Company leases its income properties to its tenants. Property tax recoveries represent the revenue recognized for the real estate taxes for which the tenants are primarily responsible to pay. CAM recoveries represents the recovery of common area maintenance expenses in investment properties that are not triple-net leased, primarily within the Company's medical office buildings. Other tenant recoveries include recoveries for insurance and replacement reserves. Rental revenue increased for the three and six months ended June 30, 2018 due to the acquisition of 45 consolidated properties during the current year and annual rent escalators.

Lease revenue from joint ventures represents revenue earned under lease arrangements with four operating entities, which are jointly owned by the Company.

Other income for the three and six months ended June 30, 2018 related primarily to parking income earned at the medical office buildings. Other income for the three and six months ended June 30, 2017 related to security deposits forfeited during the period.

Finance Costs

Finance costs consist of the following:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	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	(777)	(1,109)	(1,549)	(2,194)
	$ 8,685	$ 3,776	$ 15,187	$ 7,037

Finance costs are primarily related to interest and amortization on the Company's credit facilities and mortgages payable. Interest expense increased in the three and six months ended June 30, 2018 as compared to the prior year periods primarily due to mortgage debt assumed on new property acquisitions and a new credit facility that funded the purchase of 14 medical office buildings on May 1, 2018 (the "Mohawk Facility"). A portion of the increase is also attributable to increases in the one month LIBOR rate, which drives the credit facilities and mortgages; this has an impact on the portion of the balance that is not covered by interest rate swaps, in addition to the higher overall balances. Additionally, the Company refinanced several mortgages during the prior year and the current 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 income earned on outstanding loans receivable decreased in the three and six months ended June 30, 2018 as compared to the prior year periods due to the repayment of interest earning loans during the third and fourth quarter of 2017 and the first quarter of 2018.

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

For the three and six months ended June 30, 2018, real estate tax expense was $251 and $9,451, 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 are recovered from the Company's tenants under the provisions of their triple net leases. The increase in real estate tax expense as compared to the prior year period is primarily due to the acquisition of the 45 consolidated properties during the current year.

The following table presents real estate tax expense and change in value of investment properties - IFRIC 21 together with property tax recoveries to show the net effect of real estate taxes on the Company's condensed consolidated statements of income and comprehensive income for the periods presented. The expense in excess of property tax revenue is due to properties that are not fully leased. For the three and six months ended June 30, 2018, the expense in excess of property tax revenue relates to the medical office building properties.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Property tax recoveries	$ 3,380	$ 2,411	$ 6,242	$ 4,327
Real estate tax expense	(251)	(485)	(9,451)	(8,344)
Change in value of investment properties - IFRIC 21	(3,212)	(2,043)	3,126	3,811
	$ (83)	$ (117)	$ (83)	$ (206)

General and Administrative Expense

General and administrative expense consists of the following:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	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

Compensation and benefits expense includes the cost of salaries, bonuses, and benefits during the period. The increase in compensation and benefits over the prior year periods was primarily due to an increase in personnel of the Company as its portfolio has grown, including individuals who joined the Company in conjunction with the Care acquisition.

Asset management fees for the current period related to the contractual fee due under an asset management agreement with Mohawk. Concurrently with the purchase of the Mohawk properties in the current period, the Company entered into an asset management agreement under which Mohawk would continue to provide asset and property management services for the properties for an initial term of two years.

Professional fees is comprised of costs incurred for external legal counsel, accounting fees and other professional services. The increase in professional fees for the three and six months ended June 30, 2018 as compared to the prior year periods is primarily due to an increase in services provided due to growth in the Company.

Deferred share compensation expense for the six months ended June 30, 2018 decreased over the prior year period due to additional expense associated with a separation agreement entered into between the Company and its former chief executive officer during the first quarter of 2017. The increase in deferred share compensation expense for the three months ended June 30, 2018 is due to expense associated with additional shares granted in 2018.

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 periods was primarily due to growth associated with additional properties owned and expenses associated with the re-branding of the Company due to the name change, effective January 3, 2018.

For the three and six months ended June 30, 2018, the Company's general and administrative expense as a percentage of total assets was 0.24% and 0.45%, respectively, (three and six months ended June 30, 2017 - 0.30% and 0.65%, respectively) and has decreased compared to the comparable prior year periods, which demonstrates the Company's ability to grow its asset base while decreasing the level of general and administrative expenses as a percentage of total assets.

Direct Property Operating Expenses

Direct property operating expense consists of the following:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	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	$ —

The direct property operating expenses in the current period related to expenses at the 14 multi-tenant medical office buildings acquired on May 1, 2018.

Transaction Costs for Business Combination

Transaction costs for business combination for the three and six months ended June 30, 2018 included transaction costs incurred in relation to the acquisition of Care on February 1, 2018.

Change in Value of Investment Properties

The change in value of investment properties was an increase of $2,110 for the three months ended June 30, 2018 and a decrease of $211 for the six months ended June 30, 2018, respectively. The change in value of investment properties was primarily driven by an adjustment to record investment properties at fair value based on the Company's estimate of fair value using level 3 inputs as of June 30, 2018 and an adjustment to offset the impact of the increase in straight-line rent receivable.

Change in Value of Financial Instruments

Change in value of financial instruments is comprised of changes in the Company's interest rate swap agreements, changes in the value of income support receivable and changes in value of mezzanine loans receivable. For the three and six months ended June 30, 2018, the Company recognized income of $94 and $1,491, respectively, related to increases in value of interest rate swaps. The income was offset by changes in the allowance for losses on loans receivable of $724 and $1,974 for three and six months ended June 30, 2018 due primarily to the increased allowance on loans that experienced an increase in credit risk. For the three and six months ended June 30, 2017, the Company recognized losses of $696 and $171, respectively, related to increases in value of interest rate swaps. For the three and six months ended June 30, 2017, the Company recognized loss (income) of $553 and ($1,107), respectively, related to the value of the income support receivable.

Income from Joint Ventures

Income from joint ventures represents the Company's share of income from unconsolidated entities. The Company acquired an interest in 18 joint venture properties on February 1, 2018 as part of the acquisition of the Care portfolio. The income from joint ventures during the three and six months ended June 30, 2018 is primarily related to income from operations and the impact of changes in fair value of interest rate swaps and investment properties at the properties acquired.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Income from joint ventures	$ 1,593	$ —	$ 2,399	$ —

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, accordingly, are not subject to income tax. Taxable income or loss of the partnerships is allocated to their partners.

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

For the three and six months ended June 30, 2018, the Company had current income tax expense of $18 and $18, respectively (three and six months ended June 30, 2017 - $28 and $28). 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.

Unrealized Gain (Loss) on Translation of Foreign Operations

Unrealized loss on translation of foreign operations for the three and six months ended June 30, 2018 was due to the change in value of the Canadian dollar as compared to the U.S. dollar during the period.

Cash Flow Analysis

	Six months ended June 30,	
	2018	2017
Cash provided by operating activities	$ 8,919	$ 18,033
Cash provided by financing activities	156,426	32,108
Cash used in investing activities	(170,289)	(54,874)
Decrease in cash and cash equivalents	$ (4,944)	$ (4,733)

Cash Provided by Operating Activities

Cash provided by operating activities for the six months ended June 30, 2018 decreased over the comparable prior year period primarily due to $6,438 of transaction costs for business combination incurred in connection with the acquisition of the Care portfolio. In addition, for the same transaction, the Company incurred $2,073 of transaction costs for business combination which were expensed in the consolidated statements of income and comprehensive income for the three months ended December 31, 2017 but paid during the six months ended June 30, 2018. The Company also paid $1,125 in cash interest on its 2016 Convertible Debentures during the six months ended June 30, 2018; no comparable payment was made in the prior year during the six months ended June 30, 2017.

Cash Provided by Financing Activities

Cash provided by financing activities for the six month period ended June 30, 2018 was $156,426 as compared to cash provided by financing activities of $32,108 in the prior year period. The current period cash provided by financing activities was primarily driven by net proceeds from the credit facilities and mortgage activity and proceeds from the issuance of the Series 2 Preferred Shares in February of 2018 and Series 3 Preferred Shares in March of 2018. These proceeds were offset by debt issuance costs incurred in association with new and refinanced mortgages and property acquisitions. In addition, the Company paid dividends of $15,934 during the period.

Cash provided by financing activities in the six month period ended June 30, 2017 included net proceeds from credit facilities and mortgages payable of $47,120 offset by debt issuances costs of $3,454 and dividends paid of $11,714.

Cash Used in Investing Activities

Cash used in investing activities for the six months ended June 30, 2018 was $170,289. This was primarily due to $166,821 used for property acquisitions in January, February, and May of 2018 and capital expenditures made during the six month period. The Company also issued loans receivable for $10,167, received $5,276 as repayment of mezzanine loans receivable, and paid construction payables of $3,414.

For the six months ended June 30, 2017, the Company used $47,014 for the acquisition of three properties and capital expenditures. In addition, the Company issued mezzanine loans for $3,152 and paid construction payables of $4,708.

Reconciliation of Consolidated Statements of Income

Consolidated income, 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 adjusted for IFRIC 21 does not have any standardized meaning prescribed by IFRS.

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

Six months ended June 30, 2018	Consolidated statements of income and comprehensive income	IFRIC 21 property tax adjustment	Consolidated income adjusted for IFRIC 21
Revenue:			
Cash rentals received	$ 37,800	$ —	$ 37,800
Straight-line rent adjustments	5,564	—	5,564
Property tax recoveries	6,242	—	6,242
CAM recoveries	514	—	514
Other tenant recoveries	202	—	202
Lease revenue from joint ventures	1,517	—	1,517
Other income	554	—	554
	52,393	—	52,393
Expenses (income):			
Finance costs	15,187	—	15,187
Real estate tax expense	9,451	(3,126)	6,325
General and administrative expenses	5,964	—	5,964
Direct property operating expenses	686	—	686
Transaction costs for business combination	6,438	—	6,438
Changes in non-controlling interest liability	779	—	779
Change in value of investment properties - IFRIC 21	(3,126)	3,126	—
Change in value of investment properties	211	—	211
Change in value of financial instruments	483	—	483
	36,073		36,073
Income from joint ventures	2,399	—	2,399
Income before income taxes	18,719	—	18,719
Income tax expense:			
Deferred	5,855	—	5,855
Current	18	—	18
Net income	$ 12,846	$ —	$ 12,846

Three months ended June 30, 2018		Consolidated statements of income and comprehensive income		IFRIC 21 property tax adjustment		Consolidated income adjusted for IFRIC 21
Revenue:						
Cash rentals received	$	21,238	$	—	$	21,238
Straight-line rent adjustments		2,871		—		2,871
Property tax recoveries		3,380		—		3,380
Property tax recoveries		514		—		514
CAM recoveries		124		—		124
Lease revenue from joint ventures		751		—		751
Other income		476		—		476
		29,354		—		29,354
Expenses (income):						
Finance costs		8,685		—		8,685
Real estate tax expense		251		3,212		3,463
General and administrative expenses		3,231		—		3,231
Direct property operating expenses		686		—		686
Transaction costs for business combination		322		—		322
Changes in non-controlling interest liability		738		—		738
Change in value of investment properties - IFRIC 21		3,212		(3,212)		—
Change in value of investment properties		(2,110)		—		(2,110)
Change in value of financial instruments		630		—		630
		15,645				15,645
Income from joint ventures		1,593		—		1,593
Income before income taxes		15,302		—		15,302
Income tax expense:						
Deferred		4,757		—		4,757
Current		18		—		18
Net income	$	10,527	$	—	$	10,527

Six months ended June 30, 2017		Consolidated statements of income and comprehensive income		IFRIC 21 property tax adjustment		Consolidated income adjusted for IFRIC 21
Revenue:						
Cash rentals received	$	21,212	$	—	$	21,212
Straight-line rent adjustments		2,747		—		2,747
Property tax recoveries		4,327		—		4,327
Property tax recoveries		—		—		—
CAM recoveries		—		—		—
Lease revenue from joint ventures		1,404		—		1,404
Other income		834		—		834
		30,524		—		30,524
Expenses (income):						
Finance costs		7,037		—		7,037
Real estate tax expense		8,344		(3,811)		4,533
General and administrative expenses		4,471		—		4,471
Direct property operating expenses		—		—		—
Transaction costs for business combination		—		—		—
Changes in non-controlling interest liability		—		—		—
Change in value of investment properties - IFRIC 21		(3,811)		3,811		—
Change in value of investment properties		(1,639)		—		(1,639)
Change in value of financial instruments		(936)		—		(936)
		13,466				13,466
Income from joint ventures		—		—		—
Income before income taxes		17,058		—		17,058
Income tax expense:						
Deferred		7,341		—		7,341
Current		28		—		28
Net income	$	9,689	$	—	$	9,689

Three months ended June 30, 2017	Consolidated statements of income and comprehensive income	IFRIC 21 property tax adjustment	Consolidated income adjusted for IFRIC 21
Revenue:			
Cash rentals received	$ 10,816	$ —	$ 10,816
Straight-line rent adjustments	1,372	—	1,372
Property tax recoveries	2,411	—	2,411
Property tax recoveries	—	—	—
CAM recoveries	—	—	—
Lease revenue from joint ventures	697	—	697
Other income	791	—	791
	16,087	—	16,087
Expenses (income):			
Finance costs	3,776	—	3,776
Real estate tax expense	485	2,043	2,528
General and administrative expenses	2,084	—	2,084
Direct property operating expenses	—	—	—
Transaction costs for business combination	—	—	—
Changes in non-controlling interest liability	—	—	—
Change in value of investment properties - IFRIC 21	2,043	(2,043)	—
Change in value of investment properties	(1,692)	—	(1,692)
Change in value of financial instruments	1,249	—	1,249
	7,945		7,945
Income from joint ventures	—	—	—
Income before income taxes	8,142	—	8,142
Income tax expense:			
Deferred	3,408	—	3,408
Current	28	—	28
Net income	$ 4,706	$ —	$ 4,706

Financial Position

Total assets of $1,328,568 are comprised primarily of $1,174,075 of investment properties, which represents the fair market value of the Company's portfolio of properties, including capital expenditures, for the period ended June 30, 2018. Cash on hand at June 30, 2018 was $8,014, total loans receivable were $33,557, and other assets were $9,030. Other assets primarily consisted of $1,146 of prepaid asset management fees, $3,181 of security deposits and costs related to future acquisitions, $2,072 of escrows held by lenders, $594 of income support receivable, $636 of prepaid expense, $206 of furniture, fixtures, and equipment, and $1,195 of other costs. Tenant and other receivables of $14,464 is primarily comprised of real estate tax and rent receivables. The loans receivable balance related mainly 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 $4,658 represented the fair market value of interest rate swap agreements that are assets to the Company.

Total liabilities of $791,742 includes current liabilities of $142,069 (see "*Liquidity and Capital Resources*" for additional information) and non-current liabilities of $649,673. The current liabilities included $12,427 of real estate taxes payable. Of the real estate taxes payable, $452 related to the period prior to the Company's ownership of the respective properties, and the seller provided cash consideration at closing for this amount. The remaining $11,975 of real estate taxes payable related to real estate tax liabilities. Accounts payable and accrued liabilities represented $14,506 of the balance in current liabilities. In addition, current liabilities included $92,447 representing the current portion of mortgages payable, net of loan fees; $16,939 representing the current balance outstanding on the credit facilities, net of loan fees; $1,186 of construction payables; and $3,237 of dividends payable. Non-current liabilities included $254,466 representing the non-current portion of mortgages payable, net of loan fees; $322,070 representing the non-current balance outstanding on the credit facilities, net of loan fees; and $17,471 of deferred tax liability. Other non-current liabilities of $11,321 primarily consisted of security deposits received from tenants and a liability related to 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 April 1, 2016 through June 30, 2018:

	Three months ended June 30, 2018	Three months ended March 31, 2018	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
Revenue	$ 29,354	$ 23,039	$ 17,806	$ 17,542	$ 17,196	$ 15,522	$ 13,849	$ 11,037
Finance costs	8,685	6,502	5,531	5,355	4,885	4,346	3,100	2,396
Real estate tax expense (income)	251	9,200	(11)	430	485	7,859	397	26
General and administrative expenses	3,231	2,733	1,928	2,166	2,084	2,387	2,115	955
Direct property operating	686	—	—	—	—	—	—	—
Transaction costs for business combination	322	6,116	2,073	—	—	—	—	—
Changes in non-controlling interest liability	738	41	—	—	—	—	—	—
Change in value of investment properties - IFRIC 21	3,212	(6,338)	2,255	1,865	2,043	(5,854)	1,767	1,614
Change in value of investment properties	(2,110)	2,321	10,111	374	(1,692)	53	622	3,292
Change in value of financial instruments	630	(147)	(1,201)	(155)	1,249	(2,185)	(3,206)	(1,003)
Income from joint ventures	1,593	806	—	—	—	—	—	—
Deferred income tax expense	4,757	1,098	(4,906)	2,936	3,408	3,933	3,916	1,620
Current income tax expense	18	—	23	—	28	—	—	—
Net income	10,527	2,319	2,003	4,571	4,706	4,983	5,138	2,137
Income per share: Basic	$ 0.20	$ 0.05	$ 0.06	$ 0.14	$ 0.15	$ 0.15	$ 0.17	$ 0.09
Income per share: Diluted	$ 0.18	$ 0.05	$ 0.06	$ 0.14	$ 0.15	$ 0.15	$ 0.17	$ 0.09
Funds from operations (1)	15,042	5,591	6,007	7,726	7,671	6,784	5,803	6,046
Funds from operations per share: Basic (1)	$ 0.29	$ 0.27	$ 0.19	$ 0.24	$ 0.24	$ 0.21	$ 0.20	$ 0.25
Funds from operations per share: Diluted (1)	$ 0.25	$ 0.24	$ 0.18	$ 0.23	$ 0.23	$ 0.20	$ 0.19	$ 0.25
Adjusted funds from operations (1)	12,953	10,092	7,509	7,062	8,278	8,071	7,149	5,511
Adjusted funds from operations per share: Basic (1)	$ 0.25	$ 0.23	$ 0.23	$ 0.22	$ 0.26	$ 0.25	$ 0.24	$ 0.23
Adjusted funds from operations per share: Diluted (1)	$ 0.21	$ 0.20	$ 0.22	$ 0.21	$ 0.24	$ 0.24	$ 0.24	$ 0.23

(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.*

The Company's results for the past eight quarters have primarily been affected by the timing of additional property acquisitions 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, 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 majority of accrued real estate taxes will be paid by the Company's tenants under our triple net lease structure. As at June 30, 2018, current liabilities totaled $142,069, exceeding current assets of $52,258 and resulting in a working capital deficiency of $89,811. 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 $5,477 was available as at June 30, 2018, (iii) property specific mortgages and refinancings, (iv) issuance of Preferred Shares, and (v) issuance of common shares, subject to market conditions.

The Company, while considering externally imposed capital requirements, sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets. 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 response to 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 gaining quicker access to 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 with respect to 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. On March 29, 2018, the third and final series was funded, resulting 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 an undertaking to the Toronto Stock Exchange not to convert the Series 1 Preferred Shares at a conversion price below $6.00. 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 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, taking into account availability of financing, market conditions, and the financial characteristics of the properties, seeks to maintain a combination of short, medium, and long-term debt maturities that are appropriate for the overall debt level of its portfolio. 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 with a fixed rate, and to have a debt maturity schedule spread over a time horizon which allows the Company to effectively manage interest rate risk and to be in a position to finance within the Company's target debt levels when investment opportunities become available. Management monitors the Company's debt by reviewing the debt to total assets ratio, interest coverage ratio, debt maturity schedule, and ratio of fixed versus floating rate debt. Over the long-term, the Company strives to have a portfolio with an average years to maturity of 5-8 years. The Company targets a long-term debt level of 50-55% of total assets, a fixed rate debt level of 70-85% of its total debt, and a minimum fixed charge coverage ratio of 1.75.

To manage interest rate risk, the Company may enter into interest rate swap agreements from time to time. The Company does not designate its interest rate swaps as hedges, and they are marked to fair value each reporting period through finance costs 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)	3.9
Mohawk Facility	64,857	4.5% (1)	4.8
Mortgages payable	248,494	5.1% (1)	5.9
2016 Convertible Debentures	45,000	5.0%	3.6
	558,351	4.8%	4.9
Variable Rate Indebtedness			
Revolver	$ 45,395	5.3%	2.9
Mohawk Facility	16,647	4.3%	4.8
Secured Revolving Facility	17,024	7.6%	0.5
Mortgages payable	101,218	5.2%	1.6
	180,284	5.4%	2.1
Total Indebtedness	$ 738,635	4.9%	4.2
Less loan fees and issue costs, net of amortization and accretion	(7,845)		
Equity component of convertible debentures, excluding issue costs and taxes	(1,648)		
Mark-to-market adjustment, net	(926)		
Carrying amount	$ 728,216		

(1) Weighted average interest rates as at June 30, 2018 included debt that is fixed with interest rate swaps.

2016 Convertible Debentures

On December 16, 2016, the Company issued an aggregate principal amount of $45,000 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 and commencing 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 June 30, 2018, the Company's total consolidated indebtedness was approximately $728,216, which represents 54.8% of total assets. Excluding the convertible debentures, total consolidated indebtedness was approximately $685,922, which was 51.6% of total assets. Fixed rate debt represented approximately 75.6% 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, which are comprised of interest expense payable in cash, regularly scheduled principal payments, and preferred dividends paid. For the period ended June 30, 2018, the fixed charge coverage ratio of the Company was 2.21.

Repayment Summary

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

Contractual Commitments

A summary of future contractual commitments as at June 30, 2018, including expected interest payments, is as follows:

	Total	Remaining 2018	2019	2020	2021	2022	2023	Thereafter
Credit facilities	$ 404,451	$ 25,145	$ 15,061	$ 15,103	$ 58,981	$ 207,446	$ 82,715	$ —
Mortgages payable	415,946	83,271	37,811	57,994	21,086	58,211	30,296	127,277
Convertible debentures	54,000	1,125	2,250	2,250	2,250	46,125	—	—
Accounts payable and accrued liabilities	14,506	14,506	—	—	—	—	—	—
Accrued real estate taxes	12,427	12,427	—	—	—	—	—	—
Construction payable	1,186	1,186	—	—	—	—	—	—
Dividends payable	3,237	3,237	—	—	—	—	—	—
Other current liabilities	1,202	1,202	—	—	—	—	—	—
Other non-current liabilities	11,321	695	252	222	84	—	—	10,068
Purchase commitments	6,272	6,272		—	—	—	—	—
Total Commitments	$ 924,548	$ 149,066	$ 55,374	$ 75,569	$ 82,401	$ 311,782	$ 113,011	$ 137,345

Credit facilities are comprised of the Company's credit facility (the "Facility") entered into on October 31, 2015, as amended on June 6, 2017 and on December 7, 2017, a secured revolving credit facility (the "Secured Revolving Facility") entered into on February 24, 2017, as amended on February 9, 2018, and a secured credit facility (the "Mohawk Facility") entered into on May 1, 2018, as amended on June 28, 2018. The credit facilities combined have an outstanding balance of $339,009 as of June 30, 2018.

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

Accounts payable consisted primarily of professional fees, other general and administrative costs payable, accrued interest, and other accrued costs.

Dividends payable relate to the June 2018 dividend declared.

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

On March 31, 2016, a subsidiary of the Company entered into a purchase and sale agreement to acquire a portfolio of three properties in Syracuse, New York for total consideration of $50,863. As of June 30, 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.

A subsidiary of the Company entered into a purchase and sale agreement to acquire a multi-tenant medical office building in Williamsville, New York for $7,732. This transaction was completed on July 9, 2018, and the acquisition was funded by $6,572 in new borrowings on the Mohawk Facility and available cash on hand.

Financial Instruments and Other Instruments

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

Off-Balance Sheet Items

There were no off-balance sheet items as of June 30, 2018.

Transactions Between Related Parties

On December 22, 2017, the Company entered into subscription agreements with respect to the issuance of Class A convertible preferred shares to 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 funding of 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 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 based on current market conditions. The valuation of investment properties is one of the principal estimates and uncertainties of the Company. Refer to note 5 of the condensed consolidated interim financial statements of the Company for the period ended June 30, 2018 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 consolidated financial statements for the period ended December 31, 2017. See also note 2 of the condensed consolidated interim financial statements for the period ended June 30, 2018 with respect to the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

Risks and Uncertainties

See "Risk Factors" in the Company's 2017 AIF 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 to 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 about 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 to be done of, the design of our internal controls over financial reporting as at June 30, 2018, and based on that assessment, they determined that the Company's internal controls over financial reporting were appropriately designed in accordance with the 2013 COSO framework as published by the Committee of Sponsoring Organizations of the Treadway Commission.

There were no changes in internal controls over financial reporting that occurred during the three and six months ended June 30, 2018 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Outstanding Shares

As of August 14, 2018, 52,930,745 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 August 14, 2018, there were 2,802,009 Series 1 Preferred Shares outstanding, 3,172,086 Series 2 Preferred Shares outstanding and 1,586,042 Series 3 Preferred Shares outstanding. The Series 1 Preferred Shares, Series 2 Preferred Shares, and Series 3 Preferred Shares are convertible into freely tradable shares of the Company. As of August 14, 2018, assuming the voluntary conversion of all of the Series 1 Preferred Shares, Series 2 Preferred Shares, and Series 3 Preferred Shares then outstanding, a total of 7,731,772 common shares would be issued.

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 to most accurately identify 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 of 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 presents 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 purposes of calculating diluted FFO per share.

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income for the period	$ 10,527	$ 4,706	$ 12,846	$ 9,689
Add/(deduct):				
Change in fair value of investment properties	1,102	351	(2,915)	(5,450)
Property taxes accounted for under IFRIC 21	(3,212)	(2,043)	3,126	3,811
Change in fair value of financial instruments	630	1,249	483	(936)
Deferred income tax expense	4,757	3,408	5,855	7,341
Transaction costs for business combination	322	—	6,438	—
Non-controlling interests in respect of the above	582	—	573	—
Adjustments for equity accounted entities	334	—	816	—
Funds from operations	$ 15,042	$ 7,671	$ 27,222	$ 14,455
Interest, amortization and accretion expense on 2016 Convertible Debentures	742	737	1,484	1,486
Total diluted funds from operations	$ 15,784	$ 8,408	$ 28,706	$ 15,941
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 2016 Convertible Debentures were converted	4,090,909	4,090,909	4,090,909	4,090,909
Weighted average shares issued if all Preferred Shares were converted	7,628,390	—	6,151,080	—
Weighted average number of shares: Diluted	63,279,301	36,390,740	57,721,265	36,375,636
Funds from operations per share	$ 0.29	$ 0.24	$ 0.57	$ 0.45
Diluted funds from operations per share	$ 0.25	$ 0.23	$ 0.50	$ 0.44

Adjusted Funds From Operations

The Company maintains the view that AFFO is an effective measure of cash generated from operations, after providing for certain adjustments. AFFO means cash provided by operating activities, subject to certain adjustments, which include: (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) add backs for compensation expense related to the Company's deferred share incentive plan; (v) add backs for payments received under the Company's income support agreements 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 purposes of calculating diluted AFFO per share.

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

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Cash flows provided by operating activities	$ 7,200	$ 6,834	$ 8,919	$ 18,033
Change in non-cash working capital	3,354	817	3,900	(3,789)
Less: interest expense (1)	(8,010)	(3,125)	(13,901)	(5,816)
Less: non-controlling interest expense	(738)	—	(779)	—
Plus: income from joint ventures	1,593	—	2,399	—
Plus: investment in MS-SW Development Fund Holdings, LLC	50	42	100	83
Plus: interest paid	8,212	3,491	15,126	6,612
Less: interest received	(52)	(1,109)	(647)	(2,194)
Plus: transaction costs for business combination	322	—	6,438	—
Plus: non-cash portion of non-controlling interest expense	582	—	573	—
Plus: adjustments for equity accounting entities	334	—	816	—
Plus: deferred share incentive plan compensation	423	354	677	1,095
Plus: income support and development lease payments received	83	974	83	2,325
Less: capital maintenance reserve	(400)	—	(667)	—
Adjusted funds from operations	$ 12,953	$ 8,278	$ 23,037	$ 16,349
Interest expense on 2016 Convertible Debentures	562	563	1,125	1,126
Total diluted adjusted funds from operations	$ 13,515	$ 8,841	$ 24,162	$ 17,475
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 2016 Convertible Debentures were converted	4,090,909	4,090,909	4,090,909	4,090,909
Weighted average shares issued if all Preferred Shares were converted	7,628,390	—	6,151,080	—
Weighted average number of shares: Diluted	63,279,301	36,390,740	57,721,265	36,375,636
Adjusted funds from operations per share	$ 0.25	$ 0.26	$ 0.49	$ 0.51
Diluted adjusted funds from operations per share	$ 0.21	$ 0.24	$ 0.42	$ 0.48
Dividends declared	$ 9,482	$ 5,943	$ 17,494	$ 11,883
AFFO payout ratio	73%	72%	76%	73%

(1) Includes interest expense on the credit facilities, mortgages payable and 2016 Convertible Debentures and interest income earned on notes receivable included in finance costs.

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 in which 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 three and six months ended June 30, 2018 was $327 and $654, respectively. The second of the leases commenced on December 5, 2017, and the yield difference over the three and six months ended June 30, 2018 was $263 and $526, respectively. The Company expects the lease structure on these two properties to transition to full yield by January 2019 and June 2019, respectively. The Company entered into a lease with a 15 year term on a property in Columbia, Missouri in which cash rent over the initial 3 month term was set to approximate debt service on the property. The lease commenced on February 9, 2018, and the yield difference over the three and six months ended June 30, 2018 was $179 and $319.

Cash Dividends

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Cash flows provided by operating activities	$ 7,200	$ 6,834	$ 8,919	$ 18,033
Net income	10,527	4,706	12,846	9,689
Total dividends declared	9,482	5,943	17,494	11,883
Cash provided by operating activities in excess (shortfall) of total dividends	(2,282)	891	(8,575)	6,150
Excess (shortfall) of net income over total dividends	1,045	(1,237)	(4,648)	(2,194)

Total dividends for the three and six months ended June 30, 2018 exceeded cash flows provided by operating activities largely due to transaction costs for business combination of $322 and $6,438, respectively. Total dividends for the six months ended June 30, 2018 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.

Operational Measures

The Company reports on certain metrics related to the underlying operations in its stabilized income properties. The Company has defined stabilized income 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 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 for evaluating the performance of 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 March 31, 2018 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 information as provided by the operators and has not been independently verified by the Company.

Triple Net Lease Portfolio

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. The stabilized triple-net lease portfolio through March 31, 2018 includes 43 properties.

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 includes 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 dividing the TTM EBITDAR generated 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 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.

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 during the period by the maximum available revenue days available for the period. Metrics provided below are for the TTM period for all stabilized assets based on the Company's definition of stabilization.

For the TTM period ended March 31, 2018, the Company's stabilized portfolio had an occupancy percentage of 86%.

Joint Venture/Joint Arrangement Portfolio

The Company’s joint venture/joint arrangement portfolio consists of seniors housing assets in which the Company has ownership of both the property and operations. The Company’s stabilized joint arrangement portfolio consists of 21 properties through March 31, 2018.

Based upon the Company’s ownership structure in these assets, the Company believes the most relevant operational metrics will include occupancy, net operating income and year over year revenue growth metrics. For the period ended March 31, 2018, the occupancy in the stabilized joint arrangement portfolio was 87%. As comparative periods become available in the Company’s ownership period, the Company anticipates that additional metrics will be included in future filings.