INVESQUE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE THREE MONTHS ENDED MARCH 31, 2018

May 15, 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 months ended March 31, 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 months ended March 31, 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 months ended March 31, 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 May 15, 2018 and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law.

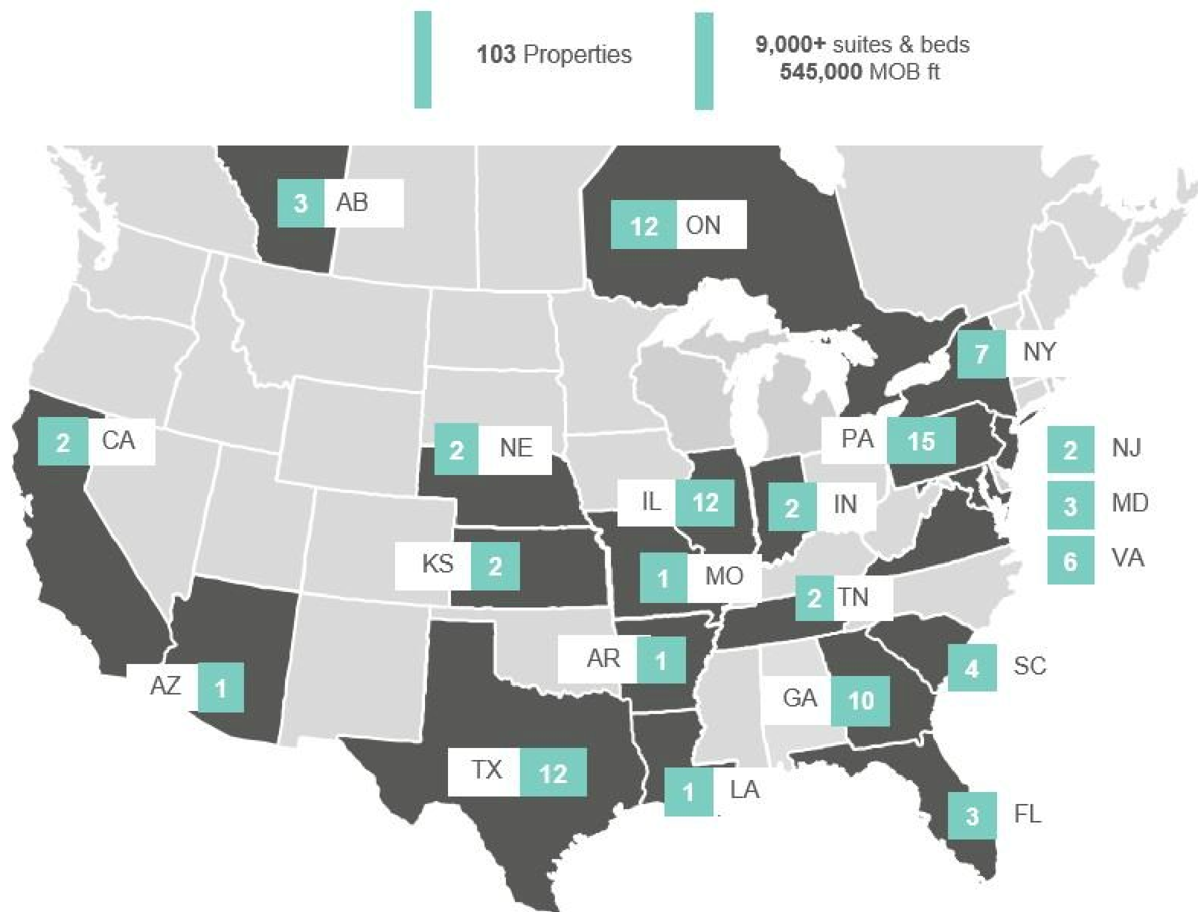
Financial Measures not Defined Under IFRS

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 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. The Company generally owns the land and buildings and leases them to operators on a long-term, triple-net lease basis or has an interest in both the property and operations in joint ventures and joint arrangements with the operating partner at the facility. Under a triple-net lease structure, the tenant operators assume the operational risks and expenses associated with operating a seniors housing and care facility on the leased premises. The tenant operators provide and manage the service offerings available at the facilities, deliver all care services and maintain the buildings. As of May 15, 2018, the Company owns or has a majority interest in a portfolio of 88 properties in the United States comprised of 21 long-term care facilities, 50 assisted living and memory care facilities, 14 transitional care properties and 3 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 senior housing and care industry provide a significant opportunity to continue to expand the Company's portfolio of properties. These characteristics include favorable demographic trends, increasing demand, stagnant supply of new facilities and a shift from high cost hospitals for post-acute care to lower

cost settings such as long-term care facilities. 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 three months ended March 31, 2018:

	Lincoln	Round Rock	Care	Grand Brook	San Antonio/ Webster	Total
Number of consolidated properties acquired:	1	1	24	3	2	31
Net assets acquired:						
Investment properties	$ 21,501	$ 22,836	$ 188,772	$ 21,695	$ 49,094	$ 303,898
Investment in joint ventures	—	—	87,300	—	—	87,300
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)	(1,098)	(50)	(2,920)	(5,058)
Non-controlling interest liability	—	—	(1,316)	—	—	(1,316)
	$ 6,110	$ 8,688	$ 150,069	$ 21,645	$ 17,771	$ 204,283
Consideration paid/funded (received) by:						
Cash	6,110	8,688	919	4,621	17,771	38,109
Proceeds from Secured Revolving Facility	—	—	—	17,024	—	17,024
Issuance of common shares	—	—	146,736	—	—	146,736
Estimated working capital true up payable	—	—	2,414	—	—	2,414
	$ 6,110	$ 8,688	$ 150,069	$ 21,645	$ 17,771	$ 204,283

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 will be funded through future draws on the mortgages payable.

On February 1, 2018, a wholly owned subsidiary of the Company completed the acquisition of Care Investment Trust, LLC ("Care") from Tiptree Inc. 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 months ended March 31, 2018, the condensed consolidated interim statements of income and comprehensive income includes transaction costs of $6,116 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 Company has estimated this true up will be $2,414. The estimated working capital true up payable will be settled in the second quarter of 2018, and will be paid through a combination of cash on hand and the issuance of common shares.

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

On February 23, 2018, the Company purchased two transitional care facilities located in San Antonio, Texas and Webster, Texas for a combined purchase price of $49,054 plus transaction costs. This transaction was funded through the assumption of $25,705 of mortgages payable, the retirement of the Company's mezzanine loan outstanding on the Webster, Texas property of $2,697 and cash on hand. At the time of closing the Company also assumed $2,920 of liabilities related to the remaining development costs of the properties which will be funded through future draws on the mortgages payable.

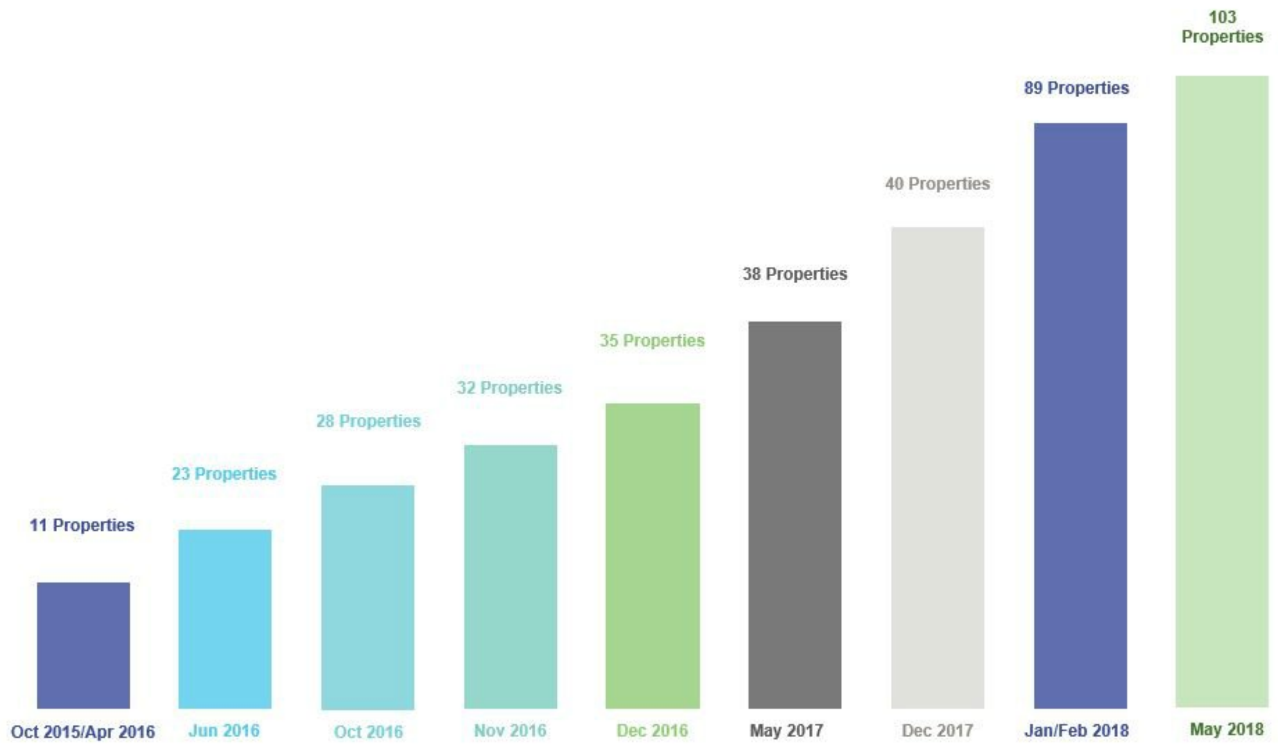
Other Recent Activities

On December 22, 2017, the Company entered into subscription agreements in respect of the issuance of class A convertible preferred shares to certain funds managed by Magnetar Financial LLC (collectively, "Magnetar") for aggregate gross proceeds of $54,000, to be funded in multiple series. The first series was funded on the day of the agreement resulting in the issuance of 2,802,009 Class A Series 1 Convertible Preferred Shares (the "Series 1 Preferred Shares") for aggregate gross proceeds of $26,500. 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 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 approximately CAD$177,740. Upon closing, Mohawk Realty Advisors Ltd. and its affiliates will continue to provide asset and property management for the properties. The acquisition was funded through a combination of new debt, cash on hand, and an issuance of the Company's common shares at a fixed price of $9.75 per share.

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 March 31,	
	2018	2017
Investment properties	89	35
Weighted average lease term to maturity (excludes renewal options)	12.0 years	13.6 years
Weighted average facility age	11.5 years	12.0 years
Total assets	$ 1,178,848	$ 690,564
Total indebtedness	$ 623,782	$ 364,778
Debt to total assets %	52.9%	52.8%
Weighted average interest rate (1)	4.9%	4.2%
General and administrative expenses to total asset %	0.23%	0.35%

	Three months ended March 31, 2018	Three months ended March 31, 2017
Revenue	$ 23,039	$ 14,437
Finance costs	$ 6,502	$ 3,261
General and administrative expenses	$ 2,733	$ 2,387
Income from joint ventures	$ 806	$ —
Net income	$ 2,319	$ 4,983
Total comprehensive income	$ 1,813	$ 5,140
Net income per share	$ 0.05	$ 0.15
Diluted net income per share	$ 0.05	$ 0.15
Funds from operations (FFO) (3)	$ 11,707	$ 6,784
FFO per share (3)	$ 0.27	$ 0.21
Diluted FFO per share (3)	$ 0.24	$ 0.20
Adjusted funds from operations (AFFO) (3)	$ 10,092	$ 8,071
AFFO per share (3)	$ 0.23	$ 0.25
Diluted AFFO per share (3)	$ 0.20	$ 0.24
Common share dividends declared	$ 8,012	$ 5,940
Dividends declared per share	$ 0.18417	$ 0.18417
Payout ratio (2)	79%	74%

(1) The Company's weighted average interest rates at March 31, 2018 and 2017 includes $252,714 and $200,000, 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 Months Ended March 31, 2018
(unless otherwise stated, amounts are in thousands of U.S. dollars)

Revenue

	Three months ended March 31, 2018	Three months ended March 31, 2017
Cash rentals received	$ 16,562	$ 10,396
Straight-line rent adjustments	2,693	1,375
Property tax recoveries	2,862	1,916
	22,117	13,687
Lease revenue from joint ventures	766	707
Other income	156	43
Total revenue	$ 23,039	$ 14,437

Cash rentals received and straight-line rent adjustments relate to lease agreements pursuant to which the Company leases its income properties to its tenants. Property tax recovery represents the revenue recognized for the real estate taxes for which the tenants are primarily responsible to pay. The increase in rental revenues is primarily due to additional properties acquired and annual rent escalators. Rental revenues increased for the three months ended March 31, 2018 due to the impact of 31 consolidated properties acquired during the period.

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

Finance Costs

Finance costs consist of the following:

	Three months ended March 31, 2018	Three months ended March 31, 2017
Interest expense on credit facilities	$ 3,016	$ 2,215
Interest expense on mortgages payable	3,251	807
Interest expense on convertible debentures	563	563
Amortization and accretion expense	598	584
Interest rate swap payments	(167)	191
Amortization of mark-to-market debt adjustments	13	(3)
Interest income from loans receivable	(772)	(1,096)
	$ 6,502	$ 3,261

Finance costs are primarily related to interest and amortization on the Company's credit facilities and mortgages payable. Interest expense increased in the three months ended March 31, 2018 compared to prior year period due primarily to mortgage debt assumed on new property acquisitions. A portion of the increase is also attributable to the credit facilities and is driven by increases in the one month LIBOR rate, which has an impact on the portion of the balance that is not covered by an interest rate swap, in addition to higher overall balances. Additionally, the Company refinanced several mortgages during the prior year and current quarter 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 months ended March 31, 2018 compared to the prior year period due to the repayment of interest earning loans during the third and fourth quarter of 2017 and current quarter in 2018.

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

Real estate tax expense was $9,200 for the three month period ended March 31, 2018 and $7,859 for the three month period ended March 31 2017, 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 impact of the 31 consolidated properties acquired during the period.

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

		Three months ended March 31, 2018		Three months ended March 31, 2017
Property tax recoveries	$	2,862	$	1,916
Real estate tax expense		(9,200)		(7,859)
Change in value of investment properties - IFRIC 21		6,338		5,854
	$	—	$	(89)

General and Administrative Expense

General and administrative expense consists of the following:

		Three months ended March 31, 2018		Three months ended March 31, 2017
Compensation and benefits	$	1,339	$	753
Management and administrative fees		68		68
Professional fees		574		648
Deferred share compensation		254		741
Foreign exchange loss		13		—
Other		485		177
	$	2,733	$	2,387

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 period is primarily due to an increase in personnel of the Company as the portfolio has grown, including individuals who joined the Company in conjunction with the Care acquisition.

Deferred share compensation expense for the three months ended March 31, 2018 decreased over the prior year due to additional expense associated with a separation agreement entered into between the Company and its former chief executive officer during the three months ended March 31, 2017.

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 period is primarily due to growth associated with additional properties owned and expenses associated with the rebranding of the Company due to the name change effective January 3, 2018.

For the three months ended March 31, 2018, the Company's general and administrative expense as a percentage of total assets was 0.23% (three months ended March 31, 2017 - 0.35%) which has decreased compared to the prior year period showing that the Company can grow its asset base while maintaining a consistent general and administrative expense.

Transaction Costs for Business Combination

Transaction costs for business combination for the three months ended March 31, 2018 include transaction costs incurred in related to the acquisition of Care on February 1, 2018.

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.

Change in Value of Investment Properties

The change in value of investment properties was a decrease of $2,321 for the three month period ended March 31, 2018. The change in value of investment properties is primarily driven by an adjustment to offset the impact of the increase in straight-line rent receivable, partially offset by an adjustment to record investment properties at fair value based on the Company's estimate of fair value using level 3 inputs.

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 month period ended March 31, 2018, the Company recognized income of $1,398 related to increases in value of interest rate swaps. This gain was offset by changes in the allowance for losses on loans receivable of $1,251. During the prior year period, the Company recognized income of $525 related to increases in value of interest rate swaps in addition to a favorable impact from changes in value of income support receivable of $1,660.

Income Tax Expense

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

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

For the three months ended March 31, 2018 and 2017, the Company had no current income tax expense. 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 months ended March 31, 2018 is due to the change in value of the Canadian dollar against the U.S. dollar during the current quarter.

Cash Flow Analysis

		Three months ended March 31, 2018		Three months ended March 31, 2017
Cash provided by operating activities	$	1,983	$	11,199
Cash provided by financing activities		57,625		2,043
Cash used in investing activities		(57,674)		(13,762)
Increase (decrease) in cash and cash equivalents	$	1,934	$	(520)

Cash Provided by Operating Activities

Cash provided by operating activities for the three months ended March 31, 2018 decreased over the comparable prior year period primarily due to $6,116 of transaction costs for business combination, incurred in connection with the acquisition of the Care portfolio. In addition, the Company paid $2,073 of transaction costs for business combination for the same transaction which were expensed in the consolidated statements of income and comprehensive income for the three months ended December 31, 2017, but were paid during the three months ended March 31, 2018. In addition, the Company paid $1,125 in cash interest on its 2016 Convertible Debentures during the period ended March 31, 2018, no comparable payment was made during the prior year period ended March 31, 2017.

Cash Provided by Financing Activities

Cash provided by financing activities for the three month period ended March 31, 2018 was $57,625 as compared to cash provided by financing activities of $2,043 in the prior year period. The current period cash provided by financing activities was primarily driven by net proceeds from credit facility and mortgage activity and proceeds from the issuance of the Series 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 associated with new and refinanced mortgages and property acquisitions. In addition, the Company paid dividends of $6,849 during the period.

Financing costs provided in the three month period ended March 31, 2017 included net proceeds from credit facilities and mortgages payable of $8,656 offset by debt issuances costs of $878 and dividends paid of $5,857.

Cash Used in Investing Activities

Cash used in investing activities for the three months ended March 31, 2018 was $57,674. This was primarily due to $57,272 used for properties acquired in January and February of 2018 and capital expenditures made during the three month period. In addition, the Company issued loans receivable for $6,696, received $5,276 as repayment of mezzanine loans receivable and paid construction payables of $2,945.

For the three months ended March 31, 2017, the Company used $7,584 in capital expenditures. In addition, the Company issued mezzanine loans for $2,879, paid construction payables of $2,549, and made a deposit on a future acquisition of $750.

Reconciliation of Consolidated Statements of Income (Loss)

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

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

Three months ended March 31, 2018		Consolidated statements of income (loss) and comprehensive income (loss)		IFRIC 21 property tax adjustment		Consolidated income (loss) adjusted for IFRIC 21
Revenue:						
Cash rentals received	$	16,562	$	—	$	16,562
Straight-line rent adjustments		2,693		—		2,693
Property tax recoveries		2,862		—		2,862
Lease revenue from joint ventures		766		—		766
Other income		156		—		156
		23,039		—		23,039
Expenses (income):						
Finance costs		6,502		—		6,502
Real estate tax expense		9,200		(6,338)		2,862
General and administrative expenses		2,733		—		2,733
Transaction costs for business combination		6,116		—		6,116
Changes in non-controlling interest liability		41		—		41
Change in value of investment properties - IFRIC 21		(6,338)		6,338		—
Change in value of investment properties		2,321		—		2,321
Change in value of financial instruments		(147)		—		(147)
		20,428				20,428
Income from joint ventures		806		—		806
Income before income taxes		3,417		—		3,417
Income tax expense:						
Deferred		1,098		—		1,098
Net income	$	2,319	$	—	$	2,319

Three months ended March 31, 2017		Consolidated statements of income (loss) and comprehensive income (loss)		IFRIC 21 property tax adjustment		Consolidated income (loss) adjusted for IFRIC 21
Revenue:						
Cash rentals received	$	10,396	$	—	$	10,396
Straight-line rent adjustments		1,375		—		1,375
Property tax recoveries		1,916		—		1,916
Lease revenue from joint ventures		707		—		707
Other income		43		—		43
		14,437		—		14,437
Expenses (income):						
Finance costs		3,261		—		3,261
Real estate tax expense		7,859		(5,854)		2,005
General and administrative expenses		2,387		—		2,387
Transaction costs for business combination		—		—		—
Changes in non-controlling interest liability		—		—		—
Change in value of investment properties - IFRIC 21		(5,854)		5,854		—
Change in value of investment properties		53		—		53
Change in value of financial instruments		(2,185)		—		(2,185)
		5,521				5,521
Income from joint ventures		—		—		—
Income before income taxes		8,916		—		8,916
Income tax expense:						
Deferred		3,933		—		3,933
Net income	$	4,983	$	—	$	4,983

Financial Position

Total assets of $1,178,848 are primarily comprised of $1,027,385 of investment properties, which represents the fair market value of the Company's portfolio of properties including capital expenditures for the period ended March 31, 2018. Cash on hand at March 31, 2018 was $14,892, other assets were $3,575, and total loans receivable were $32,037. Other assets primarily consists of $335 of prepaid acquisition costs, $217 of deposits paid on future acquisitions, $2,192 of escrows held by lender, $440 of prepaid expense, $204 of furniture, fixtures, and equipment and $187 of other costs. Tenant and other receivables of $10,270 is primarily comprised of real estate tax and rent receivables. The loans receivable balance primarily relates to the issuance of loans for the development of seniors housing and care properties in the United States and Canada. The Company's derivative asset balance of $4,399 represents the fair market value of interest rate swap agreements that are an asset to the Company.

Total liabilities of $673,845 includes current liabilities of $132,442 and non-current liabilities of $541,403. The current liabilities include $10,467 of real estate taxes payable, of which $456 relates to the period prior to the Company's ownership of the respective properties, and for which cash consideration was provided by the seller at closing, and $10,011 of which relates to real estate tax liabilities. Accounts payable and accrued liabilities represents $9,199 of the balance in current liabilities. In addition, current liabilities includes $90,367 representing the current portion of mortgages payable, net of loan fees, $16,929 representing the current balance outstanding on the credit facilities, net of loan fees, $1,655 in construction payables and $3,011 to record a dividend payable. Non-current liabilities include $255,325 representing the non-current portion of mortgages payable, net of loan fees, $219,047 representing the non-current balance outstanding on the credit facilities, net of loan fees, and a $12,915 deferred tax liability. Other non-current liabilities of $10,628 primarily consists of security deposits received from tenants and a liability related deferred shares granted under the Company's deferred share incentive plan.

Summary of Quarterly Results

The following table summarizes the Company's quarterly unaudited financial information from April 1, 2016 through March 31, 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	Three months ended June 30, 2016
Revenue	$ 23,039	$ 17,806	$ 17,542	$ 17,196	$ 15,522	$ 13,849	$ 11,037	$ 8,625
Finance costs	6,502	5,531	5,355	4,885	4,346	3,100	2,396	4,030
Real estate tax expense (income)	9,200	(11)	430	485	7,859	397	26	—
General and administrative expenses	2,733	1,928	2,166	2,084	2,387	2,115	955	1,396
Transaction costs for business combination	6,116	2,073	—	—	—	—	—	—
Changes in non-controlling interest liability	41	—	—	—	—	—	—	—
Change in value of investment properties - IFRIC 21	(6,338)	2,255	1,865	2,043	(5,854)	1,767	1,614	1,384
Change in value of investment properties	2,321	10,111	374	(1,692)	53	622	3,292	1,772
Change in value of financial instruments	(147)	(1,201)	(155)	1,249	(2,185)	(3,206)	(1,003)	816
Income from joint ventures	806	—	—	—	—	—	—	—
Deferred income tax expense	1,098	(4,906)	2,936	3,408	3,933	3,916	1,620	—
Current income tax expense	—	23	—	28	—	—	—	—
Net income (loss)	2,319	2,003	4,571	4,706	4,983	5,138	2,137	(773)
Income (loss) per share: Basic	$ 0.05	$ 0.06	$ 0.14	$ 0.15	$ 0.15	$ 0.17	$ 0.09	$ (0.09)
Income (loss) per share: Diluted	$ 0.05	$ 0.06	$ 0.14	$ 0.15	$ 0.15	$ 0.17	$ 0.09	$ (0.09)
Funds from operations [(1)]	5,591	6,007	7,726	7,671	6,784	5,803	6,046	1,815
Funds from operations per share: Basic [(1)]	$ 0.27	$ 0.19	$ 0.24	$ 0.24	$ 0.21	$ 0.20	$ 0.25	[(2)]
Funds from operations per share: Diluted [(1)]	$ 0.24	$ 0.18	$ 0.23	$ 0.23	$ 0.20	$ 0.19	$ 0.25	[(2)]
Adjusted funds from operations [(1)]	10,092	7,509	7,062	8,278	8,071	7,149	5,511	3,848
Adjusted funds from operations per share: Basic [(1)]	$ 0.23	$ 0.23	$ 0.22	$ 0.26	$ 0.25	$ 0.24	$ 0.23	[(2)]
Adjusted funds from operations per share: Diluted [(1)]	$ 0.20	$ 0.22	$ 0.21	$ 0.24	$ 0.24	$ 0.24	$ 0.23	[(2)]

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

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

The Company's results for the past eight quarters have primarily been affected by the Company's reverse takeover transaction that closed on April 4, 2016 (the "Reverse Takeover"), the offering of common shares on June 2, 2016 (the "June 2016 Offering"), the timing of additional property acquisitions subsequent to the June 2016 Offering and changes in the fair value of investment properties and financial instruments. Refer to the "Recent Activities" section of this MD&A for details of the timing of property acquisitions.

Liquidity and Capital Resources

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

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

The Company expects to meet its working capital requirements with respect to accounts payable and accrued liabilities, construction payable and dividends payable through cash on hand and operating cash flows. The majority of accrued real estate taxes will be paid by the Company's tenants under our triple net lease structure. As at March 31, 2018, current liabilities totaled $132,442, exceeding current assets of $39,057, resulting in a working capital deficiency of $93,385. The Company expects to be able to meet all of its obligations as they become due utilizing some or all of the following sources of liquidity: (i) cash flow generated from operations, (ii) credit facilities, under which $23,775 was available as at March 31, 2018, (iii) property specific mortgages, (iv) issuance of Preferred Shares and (v) subject to market conditions, the issuance of common shares.

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

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

Preferred Equity

On December 22, 2017, the Company entered into subscription agreements in respect of the issuance of class A convertible preferred shares to Magnetar for aggregate gross proceeds of $54,000, to be funded in multiple series. The first series was funded on the day of the agreement resulting in the issuance of 2,802,009 Series 1 Preferred Shares for aggregate gross proceeds of $26,500. On February 2, 2018, the Company amended the terms of the subscription agreements to, among other things, increase the amount of the subscription to approximately $71,500. The second series was funded on February 9, 2018, resulting in the issuance of 3,172,086 Series 2 Preferred Shares for aggregate gross proceeds of $30,000. 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 Series 1 Preferred Shares are also convertible at the option of the Company in certain circumstances, and the Company has agreed to deliver to an undertaking to the Toronto Stock Exchange not to covert the Series 1 Preferred Shares at a conversion price below $6.00. The Preferred Shares were (or in the case of the Series 3 Preferred Shares, are expected to be) issued at a price per share equal to the initial liquidation preference of $9.75, subject to a 3% discount. Following issuance, the liquidation preference of the Preferred Shares accrues at a rate of 5.65% per annum, compounded quarterly, increasing the number of common shares into which each Preferred Share is convertible at the fixed rate, and is subject to further adjustments in certain circumstances.

Debt Strategy and Indebtedness

Debt Strategy

The Company seeks to maintain a combination of short, medium and long-term debt maturities that are appropriate for the overall debt level of its portfolio, taking into account availability of financing and market conditions and the financial characteristics of the properties. The Company utilizes conventional property-specific secured mortgages and secured floating rate bank financing, as well as unsecured and non-recourse financing. Management's objectives are to access the lowest cost debt with flexible terms, to diversify the Company's lender base, to have a large portion of debt be of fixed rate, and to have a debt maturity schedule spread over a time horizon in order to effectively manage interest rate risk and to be in a position to finance the Company within its target debt levels when investment opportunities are available. Management monitors the Company's debt by reviewing debt to total assets ratio, interest coverage ratio, debt maturity schedule, and the ratio of fixed versus floating rate debt. Over the long-term, the Company strives to have a portfolio average years to maturity of 5-8 years. The Company targets a long-term debt level of 50-55% of total assets, for 70-85% of its debt to be of fixed rate and for a fixed charge coverage ratio to be a minimum of 1.75.

To manage interest rate risk, the Company may enter into interest rate swap agreements from time to time. 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]	4.2
Mortgages payable		210,155	4.5% [1]	6.9
2016 Convertible Debentures		45,000	5.0%	3.8
		455,155	4.5%	5.4
Variable Rate Indebtedness				
Revolver		22,895	5.1%	3.2
Secured Revolving Facility		17,024	6.0%	0.8
Mortgages payable		138,487	5.8%	1.8
		178,406	5.8%	1.9
Total Indebtedness	$	633,561	4.9%	4.4
Less loan fees and issue costs, net of amortization and accretion		(7,182)		
Equity component of convertible debentures, excluding issue costs and taxes		(1,648)		
Mark-to-market adjustment, net		(949)		
Carrying amount	$	623,782		

(1) Weighted average interest rates as at March 31, 2018 includes debt that is fixed with interest rate swaps.

2016 Convertible Debentures

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

Debt to Total Assets

Debt to total assets is calculated by dividing the total indebtedness, net of loan costs, by the total assets of the Company. At March 31, 2018, the Company's total consolidated indebtedness is approximately $623,782, which represents 52.9% of total

assets. Excluding the convertible debentures, total consolidated indebtedness is approximately $581,668, which is 49.3% of total assets. Fixed rate debt represents approximately 71.8% of the Company's gross total indebtedness.

Fixed Charge Coverage Ratio

The Company's fixed charge coverage ratio is calculated by dividing earnings before interest, taxes, depreciation and amortization by certain fixed charges comprised of interest expense payable in cash, regularly scheduled principal payments and preferred dividends paid. For the year ended March 31, 2018 the fixed charge coverage ratio of the Company is 2.28.

Repayment Summary

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

Contractual Commitments

A summary of future contractual commitments as at March 31, 2018, including expected interest payments, is as follows:

	Total	Remaining 2018	2019	2020	2021	2022	2023	Thereafter
Credit facilities	$ 281,865	$ 25,447	$ 10,154	$ 10,182	$ 32,288	$ 203,794	$ —	$ —
Mortgages payable	417,381	84,922	38,751	57,862	20,576	58,053	30,262	126,955
Convertible debentures	54,000	1,125	2,250	2,250	2,250	46,125	—	—
Accounts payable and accrued liabilities	9,199	9,199	—	—	—	—	—	—
Accrued real estate taxes	10,467	10,467	—	—	—	—	—	—
Construction payable	1,655	1,655	—	—	—	—	—	—
Dividends payable	3,011	3,011	—	—	—	—	—	—
Other current liabilities	814	814	—	—	—	—	—	—
Other non-current liabilities	10,628	803	152	123	8	—	—	9,542
Purchase commitments	27,243	27,243		—	—	—	—	—
Total Commitments	$ 816,263	$ 164,686	$ 51,307	$ 70,417	$ 55,122	$ 307,972	$ 30,262	$ 136,497

Credit facilities is comprised of the Company's credit facility (the "Facility") entered into on October 31, 2015, as amended on June 6, 2017 and a secured revolving credit facility entered into on February 24, 2017, as amended on February 9, 2018 (the "Secured Revolving Facility"). The credit facilities combined have an outstanding balance of $235,976 as of March 31, 2018.

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

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

Dividends payable relates to the March 2018 dividend declared.

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

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

On March 2, 2018, the Company announced it had entered into an arrangement agreement ("Arrangement Agreement") with Mohawk Medical Properties Real Estate Investment Trust and its subsidiary, Mohawk Medical Operating Partnership (I) LP (collectively, "Mohawk REIT") to acquire all of the outstanding units of Mohawk REIT, for approximately CAD$177,740, subject to certain adjustments. Mohawk REIT owns 14 multi-tenant medical office buildings located in seven markets throughout Canada and the United States. Upon closing, Mohawk Realty Advisors Ltd. and its affiliates will continue to provide asset and property management for the properties. This transaction was completed on May 1, 2018 and the acquisition was funded through a combination of new debt, cash on hand, and an issuance of the Company's common shares at a fixed price of $9.75 per share.

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 March 31, 2018.

Transactions Between Related Parties

On December 22, 2017, the Company entered into subscription agreements in respect of the issuance of class A convertible preferred shares to certain funds managed by Magnetar Financial LLC (collectively, "Magnetar") for aggregate gross proceeds of $54,000, to be funded in multiple series. The 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.

Significant Areas of Estimation

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

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

Change in value of investment properties:

Acquired investment properties are initially measured at cost, including directly attributable acquisition costs, when the transactions are deemed to be asset acquisitions. Subsequent to initial recognition, investment properties are measured at fair value, determined based on available market evidence. The Company uses alternative valuation methods such as the direct capitalized income approach, discounted cash flow projections or recent transaction prices (Level 3 inputs). The fair value of investment properties reflects rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The valuation of investment properties is one of the principal estimates and uncertainties of the Company. Refer to note 5 to the condensed consolidated interim financial statements of the Company for the period ended March 31, 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 in the notes to condensed consolidated interim financial statements for the period ended March 31, 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 annual information form dated March 29, 2018 for a discussion of risks that could materially affect the Company.

Controls and Procedures

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

Disclosure Controls and Procedures

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

Internal Controls Over Financial Reporting

We are responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision of the design of our internal controls over financial reporting as at March 31, 2018, and based on that assessment determined that the Company's internal controls over financial reporting were appropriately designed in accordance with the 2013 COSO framework as published by the Committee of Sponsoring Organizations of the Treadway Commission.

There were no changes in internal controls over financial reporting that occurred during the three months ended March 31, 2018 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Outstanding Shares

As of May 15, 2018, 52,686,794 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 May 15, 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 May 15, 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 7,628,316 common shares would be issuable.

Financial Measures

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

Funds From Operations

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

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

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

	Three months ended March 31, 2018		Three months ended March 31, 2017
Net income for the period	$	2,319	$	4,983
Add/(deduct):				
Change in fair value of investment properties		(4,017)		(5,801)
Property taxes accounted for under IFRIC 21		6,338		5,854
Change in fair value of financial instruments		(147)		(2,185)
Deferred income tax expense		1,098		3,933
Transaction costs for business combination		6,116		—
Funds from operations	$	11,707	$	6,784
Interest, amortization and accretion expense on 2016 Convertible Debentures		742		563
Total diluted funds from operations	$	12,449	$	7,347
Weighted average number of shares, including fully vested deferred shares: Basic		43,353,208		32,269,623
Weighted average shares issued if all 2016 Convertible Debentures were converted		4,090,909		4,090,909
Weighted average shares issued if all Preferred Shares were converted		4,653,161		—
Weighted average number of shares: Diluted		52,097,278		36,360,532
Funds from operations per share	$	0.27	$	0.21
Diluted funds from operations per share	$	0.24	$	0.20

Adjusted Funds From Operations

The Company is of the view that AFFO is an effective measure of the cash generated from operations, after providing for certain adjustments. AFFO means cash provided by operating activities, subject to certain adjustments, including: (i) adjustments for certain non-cash working capital items that are not considered indicative of sustainable economic cash flow available for distribution, (ii) adjustments for interest expense on the credit facilities and mortgages payable that is included in finance costs, (iii) adjustments for cash paid for interest, (iv) adds back compensation expense related to the Company's deferred share incentive plan (v) adds back payments received under the Company's income support 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 the purpose of calculating diluted AFFO per share.

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
Cash flows provided by operating activities	$ 1,983	$ 11,199
Change in non-cash working capital	547	(4,606)
Plus: income from joint ventures	806	—
Plus: depreciation and amortization from joint ventures	482	—
Less: joint venture fair value gain on financial instruments	(89)	—
Less: non-controlling interest expense	(41)	—
Less: interest expense (1)	(6,663)	(3,776)
Plus: interest paid	6,914	3,121
Plus: deferred share incentive plan compensation	254	741
Plus: income support and development lease payments received	—	1,351
Plus: investment in MS-SW Development Fund Holdings, LLC	50	41
Plus: Transaction costs for business combination	6,116	—
Less: capital maintenance reserve	(267)	—
Adjusted funds from operations	$ 10,092	$ 8,071
Interest expense on 2016 Convertible Debentures	563	563
Total diluted adjusted funds from operations	$ 10,655	$ 8,634
Weighted average number of shares, including fully vested deferred shares: Basic	43,353,208	32,269,623
Weighted average shares issued if all 2016 Convertible Debentures were converted	4,090,909	4,090,909
Weighted average shares issued if all Preferred Shares were converted	4,653,161	—
Weighted average number of shares: Diluted	52,097,278	36,360,532
Adjusted funds from operations per share	$ 0.23	$ 0.25
Diluted adjusted funds from operations per share	$ 0.20	$ 0.24
Dividends declared	$ 8,012	$ 5,940
AFFO payout ratio	79%	74%

(1) Includes interest on the credit facilities and mortgages payable 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 where cash rent over the initial 12-18 month term was set to approximate debt service on the corresponding property. After the initial period, the leases will escalate to full yield. The first of these leases commenced on August 1, 2017, and the yield difference over the current quarter was $327 ($327 for the three months ended December 31, 2017). The second of the leases commenced on December 5, 2017, and the yield difference over this period was $263 ($86 for the three months ended December 31, 2017). The Company expects the lease structure on these three 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 where 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 this period was $140.

Cash Dividends

	Three months ended March 31, 2018	Three months ended March 31, 2017
Cash flows provided by operating activities	$ 1,983	$ 11,199
Net income	2,319	4,983
Total dividends declared	8,012	5,940
Cash provided by operating activities in excess (shortfall) of total dividends	(6,029)	5,259
Shortfall of net income over total dividends	(5,693)	(957)

Total dividends for the three months ended March 31, 2018 exceeded cash flows provided by operating activities and net income primarily due to non-cash items and $6,116 of transaction costs for business combination. 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 regarding the underlying operations in its stabilized income properties. The Company has defined stabilized properties as follows:

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

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

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

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

The majority of the income properties in the Company's portfolio are leased under long-term, triple-net leases. The Company believes relevant metrics to evaluating the performance in the underlying operations include operator lease coverage and occupancy. The Company's operator performance metrics are calculated utilizing data that is one quarter in arrears (i.e. as of and through December 31, 2017 for this reporting period), and, where master leases are in place for portfolios of multiple asset types, using allocated rents pursuant to consistent methodologies.

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

Operator Lease Coverage

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

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

EBITDARM (earnings before interest, income taxes, depreciation, amortization, rent, and management fees) lease coverage is also used by the Company. Together with EBITDAR lease coverage, EBITDARM lease coverage allows the Company to evaluate operations at each property by eliminating management fees, which can vary based on the operator/tenant and its negotiated structure with the Company. The Company believes EBITDARM is valuable because it isolates the operational performance to the results of the direct operations within the facility. The Company's stabilized portfolio generated EBITDARM lease coverage of 1.6.

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

Operator Occupancy

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

For the trailing twelve months ended December 31, 2017, the Company's stabilized portfolio had an occupancy percentage of 85%.