

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

INVESQUE INC.

Three and six months ended June 30, 2019 and 2018
(Unaudited)

INVESQUE INC.

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

	June 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash	\$ 20,551	\$ 26,978
Tenant and other receivables	17,339	15,544
Loans receivable (note 2)	2,544	12,241
Other (note 3)	9,834	5,598
	<u>50,268</u>	<u>60,361</u>
Non-current assets:		
Loans receivable (note 2)	39,761	20,181
Derivative instruments (note 8)	11	1,722
Investment in joint ventures (note 5)	106,080	84,658
Investment properties (note 4)	1,021,217	1,115,530
Other non-current assets (note 3)	3,009	1,507
	<u>1,170,078</u>	<u>1,223,598</u>
Total assets	<u>\$ 1,220,346</u>	<u>\$ 1,283,959</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,640	\$ 9,871
Accrued real estate taxes	11,459	11,052
Dividends payable	3,322	3,253
Liability to previous owner of Care	—	9,676
Credit facilities (note 6)	—	12,647
Mortgages payable (note 7)	23,873	49,444
Other current liabilities (note 10)	2,048	2,030
	<u>51,342</u>	<u>97,973</u>
Non-current liabilities:		
Credit facilities (note 6)	405,249	325,493
Mortgages payable (note 7)	167,980	253,886
Convertible debentures (note 9)	90,378	89,745
Derivative instruments (note 8)	7,870	651
Deferred tax liability (note 20)	3,773	7,011
Other non-current liabilities (note 10)	15,509	12,785
Non-controlling interest liability	3,062	2,947
	<u>693,821</u>	<u>692,518</u>
Total liabilities	745,163	790,491
Shareholders' equity:		
Common share capital (note 12)	501,343	493,165
Equity settled deferred shares	142	—
Preferred share capital (note 12)	71,106	71,106
Contributed surplus	400	400
Equity component of convertible debentures	1,671	1,671
Cumulative deficit	(99,202)	(69,785)
Accumulated other comprehensive income	(277)	(3,089)
Total shareholders' equity	475,183	493,468
Commitments and contingencies (note 21)		
Subsequent events (note 19, 21, and 24)		
Total liabilities and shareholders' equity	<u>\$ 1,220,346</u>	<u>\$ 1,283,959</u>

See accompanying notes to condensed consolidated interim financial statements.

INVESQUE INC.

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue:				
Rental (note 14)	\$ 27,530	\$ 28,127	\$ 55,547	\$ 50,322
Lease revenue from joint ventures (note 5)	746	751	1,497	1,517
Other income	548	476	1,004	554
	28,824	29,354	58,048	52,393
Expenses (income):				
Finance costs from operations (note 15)	9,837	8,685	18,907	15,187
Real estate tax expense	550	251	14,978	9,451
General and administrative expenses (note 16)	4,124	3,161	7,605	5,894
Direct property operating expenses (note 17)	1,243	686	2,545	686
Transaction costs for business combination (notes 24)	1,696	322	1,696	6,438
Diligence costs for transactions not pursued	633	70	633	70
Allowance for credit losses on loans and interest receivable (note 2)	673	724	1,164	1,974
Change in non-controlling interest liability	99	738	155	779
Change in fair value of investment properties - IFRIC 21	3,617	3,212	(6,807)	(3,126)
Change in fair value of investment properties (note 4)	14,578	(2,110)	9,721	211
Change in fair value of financial instruments (notes 8)	7,524	(94)	9,335	(1,491)
	44,574	15,645	59,932	36,073
Income (loss) from joint ventures (note 5)	(7,238)	1,593	(11,051)	2,399
Income (loss) before income taxes	(22,988)	15,302	(12,935)	18,719
Income tax expense (recovery):				
Deferred (note 20)	(6,086)	4,757	(3,238)	5,855
Current (note 20)	—	18	—	18
	(6,086)	4,775	(3,238)	5,873
Net income (loss)	\$ (16,902)	\$ 10,527	\$ (9,697)	\$ 12,846
Other comprehensive income (loss):				
Items to be reclassified to net income (loss) in subsequent periods				
Unrealized gain (loss) on translation of foreign operations	1,357	(1,246)	2,812	(1,752)
Total comprehensive income (loss)	\$ (15,545)	\$ 9,281	\$ (6,885)	\$ 11,094
Income (loss) per share (note 13):				
Basic	\$ (0.31)	\$ 0.20	\$ (0.18)	\$ 0.27
Diluted	\$ (0.31)	\$ 0.18	\$ (0.18)	\$ 0.24

See accompanying notes to condensed consolidated interim financial statements.

INVESQUE INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Expressed in thousands of U.S. dollars)

Six months ended June 30, 2019 and 2018

(Unaudited)

	Common share capital	Equity settled deferred shares	Preferred share capital	Contributed surplus	Equity component of convertible debentures	Cumulative deficit	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2019	\$ 493,165	\$ —	\$ 71,106	\$ 400	\$ 1,671	\$ (69,785)	\$ (3,089)	493,468
Net loss	—	—	—	—	—	(9,697)	—	(9,697)
Other comprehensive income	—	—	—	—	—	—	2,812	2,812
Common shares issued, net of issuance costs (note 12)	4,878	—	—	—	—	—	—	4,878
Common shares issued under the Company's dividend reinvestment plan	3,277	—	—	—	—	—	—	3,277
Dividends declared on common shares	—	—	—	—	—	(19,720)	—	(19,720)
Common shares purchased under NCIB (note 12)	(2)	—	—	—	—	—	—	(2)
Amortization of equity settled deferred shares	—	142	—	—	—	—	—	142
Common shares issued through conversion of convertible debentures.	25	—	—	—	—	—	—	25
Balance, June 30, 2019	\$ 501,343	\$ 142	\$ 71,106	\$ 400	\$ 1,671	\$ (99,202)	\$ (277)	475,183

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

See accompanying notes to condensed consolidated interim financial statements.

INVESQUE INC.

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

Three and six months ended June 30, 2019 and 2018

(Unaudited)

	Six months ended June 30, 2019		Six months ended June 30, 2018	
Cash flows from operating activities:				
Net income (loss)	\$	(9,697)	\$	12,846
Items not involving cash:				
Fair value adjustment of investment properties		9,721		211
Fair value adjustment of financial instruments		9,335		(1,491)
Allowance for credit losses on loans and interest receivable		1,164		1,974
Straight-line rent		(4,648)		(5,564)
Finance costs from operations		18,907		15,187
Change in non-controlling interest liability		155		779
Loss (income) from joint ventures		11,051		(2,399)
Change in fair value of investment in MS-SW Development Fund Holdings, LLC		—		(100)
Deferred income tax		(3,238)		5,855
Interest paid		(18,332)		(15,126)
Interest income received		165		647
Change in non-cash operating working capital:				
Tenant and other receivables		(9,932)		(6,002)
Accounts payable and accrued liabilities		(1,718)		(368)
Unearned revenue		(339)		(731)
Other assets		(4,221)		(3,853)
Other liabilities		2,748		2,254
Accrued real estate taxes		(180)		4,800
Net cash provided by operating activities	\$	941	\$	8,919
Cash flows from financing activities:				
Proceeds from credit facilities	\$	84,800	\$	148,074
Payments on credit facilities		(20,740)		(23,000)
Debt issuance costs paid		(382)		(2,521)
Proceeds from mortgages payable		7,777		6,604
Payments of mortgages payable		(27,930)		(1,880)
Proceeds from settlement of interest rate swap		104		—
Dividends paid to common shareholders		(16,374)		(15,934)
Payment for repurchase of common shares		(2)		—
Proceeds from issuance of preferred share capital		—		45,000
Cash provided by financing activities	\$	27,253	\$	156,343
Cash flows from investing activities:				
Additions to investment properties	\$	(58,154)	\$	(166,821)
Dispositions of investment properties		9,887		—
Distributions from joint ventures		3,042		5,535
Contributions to joint ventures		(2,178)		(635)
Distributions to non-controlling interest partners		(40)		(63)
Proceeds from income support agreement		190		83
Construction costs		—		(3,414)
Payments to previous owner of Care		(9,676)		—
Issuance of loans receivable		(3,150)		(10,167)
Repayment of loans receivable		2,458		5,276
Proceeds from sale of interest in assets to joint venture partner (note 5)		23,000		—
Cash used in investing activities	\$	(34,621)	\$	(170,206)
(Decrease) increase in cash and cash equivalents		(6,427)		(4,944)
Cash and cash equivalents, beginning of period		26,978		12,958
Cash and cash equivalents, end of period	\$	20,551	\$	8,014

See accompanying notes to condensed consolidated interim financial statements.

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Notes to Condensed Consolidated Interim Financial Statements

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Three and six months ended June 30, 2019 and 2018

(Unaudited)

Invesque Inc. (the "Company") was incorporated on May 31, 2007 under the Business Corporations Act (Ontario). Effective April 4, 2016, the Company changed its name from "Kingsway Arms Retirement Residences Inc." to "Mainstreet Health Investments Inc." and continued under the laws of the Province of British Columbia. Effective January 3, 2018, the Company changed its name from "Mainstreet Health Investments Inc." to "Invesque Inc." and continued under the laws of the Province of British Columbia. The Company's registered office is 2500 - 700 W Georgia Street, Vancouver, British Columbia V7Y 1B3.

The Company is a North American health care real estate company with a growing portfolio of high quality properties located in the United States and Canada. The Company partners with industry leaders to invest across the health care spectrum. Specifically, the Company will look to acquire and invest in predominately transitional care, long-term care, memory care, assisted living, independent living and medical office properties. At June 30, 2019, the Company owns interests in a portfolio of 101 health care and senior living properties.

1. Basis of preparation:

Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2018 issued on March 13, 2019, and which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB

These condensed consolidated interim financial statements were approved by the Board of Directors of the Company and authorized for issuance on August 14, 2019.

These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the consolidated financial statements as at and for the year ended December 31, 2018 except the following IFRS standards which were adopted in 2019:

- (i) On January 13, 2016, the IASB issued IFRS 16, Leases ("IFRS 16"). IFRS 16 replaces IAS 17, Leases ("IAS 17"). The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset, representing its right to use the underlying asset and a lease liability, representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease.

The Company adopted IFRS 16 effective January 1, 2019 using the modified retrospective approach without restatement of prior periods. On January 1, 2019 the Company recognized both a right-of-use asset and lease liability of \$1,490. There was no impact to equity as a result of the adoption of IFRS 16.

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

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2. Loans receivable:

Loans receivable issued as at June 30, 2019 and December 31, 2018 are detailed in the table below:

Debtor	Loan Type	June 30, 2019	December 31, 2018	Issued Date	Maturity Date ⁽¹⁾	Current Interest Rate	PIK Interest Rate
MS-SW Mezzanine Fund, LLC	Mezzanine loan	\$ 1,269	\$ 1,271	September 1, 2016	September 1, 2020	10.5%	4.0%
MS Surprise, LLC	Mezzanine loan	2,964	2,965	November 1, 2016	October 1, 2021	10.5%	3.0%
MS Parker Holdings II, LLC	Mezzanine loan	3,799	3,725	November 1, 2016	September 1, 2021	12.0%	4.0%
Mainstreet Investment Company, LLC	Interest-only loan	3,932	3,932	December 22, 2016	December 22, 2018	8.5%	1.5%
Autumnwood Lifestyles Inc.	Revolving credit facility	1,146	1,100	November 1, 2016	October 31, 2018 ⁽³⁾	8.0%	—%
Autumnwood Lifestyles Inc.	Loan receivable	382	367	June 29, 2017	On Demand	8.0%	—%
Symcare ML, LLC	Loan receivable	7,295	7,206	October 20, 2017	December 31, 2033	2.5%	2.5%
MCA Memory Care America, LLC	Loan receivable	300	300	November 6, 2017	April 1, 2019	10.0%	—%
Mainstreet Development Fund III, LP	Loan receivable	652	652	November 28, 2017	On Demand	6.5%	—%
Mainstreet Development Fund II, LP	Loan receivable	427	397	January 31, 2018	On Demand	15.0%	—%
Mainstreet Development Fund II, LP	Loan receivable	484	507	February 23, 2018	On Demand	15.0%	—%
Premier Senior Living, LLC ⁽⁶⁾	Loan receivable	700	700	August 16, 2013 ⁽²⁾	August 16, 2025	8.7%	—%
Ellipsis Real Estate Partners	Loan receivable	3,143	4,043	May 4, 2018	May 4, 2028	—%	10.0%
Symcare ML, LLC	Loan receivable	10,869	7,557	December 26, 2018	December 31, 2033	—%	10.0%
PAIF-MS, LLC	Loan receivable	—	1,900	December 31, 2018	January 25, 2019	5.0%	—%
YAL Borrower LLC	Interest-only loan	1,500	2,000	December 31, 2018	December 30, 2020	5.0%	—%
YAL Borrower LLC	Loan receivable	2,000	2,000	December 31, 2018	December 30, 2020	5.0%	—%
Hillcrest Millard, LLC	Loan receivable	468	—	January 1, 2019	January 1, 2028	—%	5.0%
Hillcrest Firethorn, LLC	Loan receivable	438	—	January 1, 2019	November 1, 2027	—%	5.0%
Bridgemoor Transitional Care Operations, LLC ⁽⁵⁾	Loan receivable	1,653	—	June 5, 2019	June 5, 2035	—%	—%
MOC Webster, LLC	Loan receivable	73	—	June 5, 2019	June 5, 2035	—%	—%
RHS Propco Mooresville, LLC	Loan receivable	5,000	—	June 28, 2019	July 1, 2024	8.5%	—%
Jaguarundi Ventures, LP	Loan receivable	3,170	—	June 5, 2019	June 5, 2029	—%	—%
Allowance for losses on loans receivable		(11,500)	(10,341)				
Carrying value of loans recorded at amortized cost		\$ 40,164	\$ 30,281				
Javelina Ventures, LLC	Loan receivable - FVTPL	2,141	2,141	December 31, 2018	⁽⁴⁾	—%	5.0%
Carrying value of loans receivable		42,305	32,422				
Less current portion		2,544	12,241				
Long-term portion		\$ 39,761	\$ 20,181				

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

(2) Loan assumed through acquisition on February 1, 2018. Loan was originally issued by Care PSL Holdings LLC on August 16, 2013.

(3) Maturity date is the later of October 31, 2018 and the completion of the expansion projects at the Marina Point and Red Oak Facilities. The projects are not yet complete.

(4) The repayment of this loan is pursuant to Javelina Ventures Operating Agreement in which net available cash from operations will be used to repay the principal and accrued interest on this loan.

(5) This loan was issued to MOC Fort Worth, LLC; MOC Round Rock, LLC; MOC San Antonio II, LLC; MOC Webster, LLC; and Bridgemoor Transitional Care Operations, LLC.

(6) This loan was issued to Park Terrace Operating, LLC; Seneca Lake Terrace Operating, LLC; and Premier Senior Living, LLC.

\$21,796 of the loans outstanding as at June 30, 2019 in the table above are made to current tenant operators.

On December 26, 2018, a subsidiary of the Company entered into a loan agreement with the tenant operator of the Symphony Portfolio ("Symcare") with a total capacity of \$15,000 and a maturity date of January 1, 2033. As at June 30, 2019, Symcare

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had drawn \$10,869 on this loan (December 31, 2018 - \$7,557). The loan earns 10% interest accruing to the balance of the loan through December 1, 2019. Through and including December 1, 2022, half of the interest will accrue to the loan balance with the remaining portion payable at a current pay rate on a monthly basis. Commencing January 1, 2023 the full amount of monthly interest payments shall be paid each month.

Loans receivable and associated allowance for losses on loans receivable as at June 30, 2019 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Loans receivable, net of loan fees	\$ 39,978	\$ —	\$ 13,827	\$ 53,805
Allowance for losses on loans receivable	(398)	—	(11,102)	(11,500)
Loans receivable, net of allowances	\$ 39,580	\$ —	\$ 2,725	\$ 42,305

The changes in the allowance for credit losses during the six months ended June 30, 2019 are shown in the following table:

	Stage 1	Stage 2	Stage 3	Total
Balance as at December 31, 2018	\$ 293	\$ 78	\$ 9,970	\$ 10,341
Allowance for credit losses				
Remeasurement	—	—	1,053	1,053
Transfer to/(from)				
Stage 1	(3)	—	3	—
Stage 2	—	(76)	76	—
Stage 3	—	—	—	—
Total allowance for credit losses	\$ 290	\$ 2	\$ 11,102	\$ 11,394
Fundings	141	—	—	141
Repayments	(33)	(2)	—	(35)
Balance as at June 30, 2019	\$ 398	\$ —	\$ 11,102	\$ 11,500

During the six months ended June 30, 2019, \$300 and \$1,563 of loans receivable were transferred from Stage 1 to Stage 3 and from Stage 2 to Stage 3, respectively due to credit impairment. As at June 30, 2019, \$13,827 of loans receivable are categorized as Stage 3. For the three and six months ended June 30, 2019, a loss of \$668 and \$1,159, respectively was recorded in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) due to the increased allowance on the Stage 3 loans and general allowance recorded on new loans issued. For the three and six months ended June 30, 2019, the Company recorded a loss of \$5 and \$5, respectively in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) due to an allowance on uncollectible interest receivable.

The Company recognized a loss of \$148 and \$301 for the three and six months ended June 30, 2019, respectively, in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) related to the impairment associated with the mezzanine loan to MS Parker II Holdings, LLC. The development project associated with the loan has been terminated, and certain loan guarantees have been assessed to have decreased in value. The Company recorded an allowance to reduce the recoverable value of the loan to the value of the land held by the project, for which the Company has a first mortgage position.

The Company recognized a loss of \$0 and \$297 for the three and six months ended June 30, 2019, respectively, in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) related to the impairment of the loan receivable to MCA Memory Care America, LLC. The loan receivable was due April 1, 2019 and is in default as the borrower has not repaid principal or interest. The Company has moved the balance of this loan to Stage 3 and has recorded a full allowance against this loan to reflect the increased credit risk.

The Company recognized a loss of \$455 and \$455 for the three and six months ended June 30, 2019, respectively, in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) related to the impairment of

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the loan receivable to the Mainstreet Development Funds II and III. The loans receivable are secured by municipal bonds and the value of the loans have exceed the Company's estimate of the recoverable value of the bonds. The Company has moved the balance of this loan to Stage 3 and has recorded an allowance against this loan to reflect the value of the collateralized bonds.

3. Other assets:

Other assets are as follows:

	June 30, 2019	December 31, 2018
Prepaid expense	\$ 1,328	\$ 519
Prepaid management fees	436	648
Security deposits and costs related to future acquisitions	5,293	1,048
Income support receivable	157	337
Escrow deposits held by lenders	1,807	2,565
Furniture, fixtures, and equipment	552	507
Right-of-use asset	1,404	—
Other	1,866	1,481
	\$ 12,843	\$ 7,105
Current	\$ 9,834	\$ 5,598
Non-current	3,009	1,507
	\$ 12,843	\$ 7,105

Escrow deposits held by lenders includes amounts held for use in payment of real estate taxes, property insurance and replacement reserves. A security deposit of \$4,000 was applied to the acquisition of Commonwealth Senior Living, LLC ("Commonwealth") which was completed on August 1, 2019 (note 24).

The Company adopted IFRS 16 effective January 1, 2019 using the modified retrospective approach resulting in the capitalization of its office lease which is included in other non-current assets. As at June 30, 2019, the Company has a right-of-use asset in respect to its office lease totaling \$1,404 with a 7 year lease term which began in 2018. During the three and six months ended June 30, 2019, amortization of right-of-use assets of \$44 and \$86 was recorded in the condensed consolidated interim statements of financial position.

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4. Investment properties:

(a) *Investment properties:*

	Number of Properties	Amount
Balance, December 31, 2018	80	\$ 1,115,530
Acquisitions of income properties	4	59,459
Sale of income property	(1)	(14,991)
Acquisition of control over a property previously owned through a joint venture	1	13,082
Contribution of investment properties to joint venture (note 5)	(8)	(161,047)
Capital expenditures	—	3,132
Increase in straight-line rents	—	4,648
Fair value adjustment	—	(9,721)
Tenant inducements	—	4,837
Translation of foreign operations	—	6,288
Balance, June 30, 2019	76	\$ 1,021,217
Property tax liability under IFRIC 21		(6,692)
Fair value adjustment to investment properties - IFRIC 21		6,692
		\$ 1,021,217

At June 30, 2019, the Company used an internal valuation process to value its investment properties. Third party appraisers are engaged to prepare valuations on a portion of the portfolio annually such that one third of the portfolio is valued externally each year, and every property in the portfolio is valued externally at least once every five years.

Acquired investment properties are initially measured at cost, including directly attributable acquisition costs, when the transactions are deemed to be asset acquisitions. Acquisition costs related to business combinations are expensed in the period incurred. Subsequent to initial recognition, investment properties are measured at fair value, determined based on available market evidence. The Company uses alternative valuation methods such as the direct capitalized income approach, discounted cash flow projections (Level 3 inputs) or recent transaction prices. The fair value of investment properties reflects rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The fair value of the discount on below market loans entered into by the Company is recognized as tenant inducements at the time the commitment is made.

On April 1, 2019, the Company exchanged its majority ownership interest in the operations of a property, located in Lansdale, PA, that was owned through a joint venture for the partner's minority ownership interest in the real estate of the property resulting in the acquisition of control over the real estate. The transaction resulted in the consolidation of investment property of \$13,082 and assumption of mortgages payable of \$9,743.

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The significant unobservable assumptions used in determining fair value of investment properties measured as at June 30, 2019 and December 31, 2018 are set out in the following table:

	June 30, 2019	December 31, 2018
Capitalization rate - range	6.50% - 8.50%	6.50% - 8.25%
Capitalization rate - weighted average	7.84%	7.89%
Terminal capitalization rate - range	5.70% - 9.25%	5.70% - 9.25%
Terminal capitalization rate - weighted average	6.82%	7.04%
Discount rate - range	6.70% - 9.00%	6.70% - 9.00%
Discount rate - weighted average	7.59%	7.74%

The fair value of investment properties is most sensitive to changes in capitalization rates, terminal capitalization rates and discount rates. Changes in the capitalization rates, terminal capitalization rates and discount rates would result in the following changes in the fair value of the Company's investment properties:

	June 30, 2019	December 31, 2018
Investment property valued using direct capitalization income approach	\$ 834,951	\$ 925,895
Investment property valued using discounted cash flow projection	\$ 177,506	\$ 183,582
Investment property valued using other methods	\$ 8,760	\$ 6,053
Capitalization rate:		
25-basis point increase	\$ (25,957)	\$ (28,559)
25-basis point decrease	\$ 27,691	\$ 30,448
Terminal capitalization rate:		
25-basis point increase	\$ (4,445)	\$ (4,281)
25-basis point decrease	\$ 4,806	\$ 4,629
Discount rate:		
25-basis point increase	\$ (2,102)	\$ (2,479)
25-basis point decrease	\$ 2,141	\$ 2,535

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(b) Acquisitions and dispositions - six months ended June 30, 2019

	Allen, TX	Symcare Properties	Mooreville, IN	Total
Number of consolidated properties acquired (disposed):	1	3	(1)	3
Net assets acquired (disposed):				
Investment properties	\$ 8,136	\$ 51,323	\$ (14,991)	\$ 44,468
Working capital balances	—	(586)	104	(482)
	\$ 8,136	\$ 50,737	\$ (14,887)	\$ 43,986
Consideration paid/funded (received):				
Cash	2,445	46,937	(9,887)	39,495
Proceeds from mortgage payable, net of fees	5,591	—	—	5,591
Deposit applied against purchase price	100	—	—	100
Common shares issued	—	3,800	—	3,800
Loans issued to buyer	—	—	(5,000)	(5,000)
	\$ 8,136	\$ 50,737	\$ (14,887)	\$ 43,986

On January 16, 2019, the Company acquired a memory care facility leased to an operator located in Allen, TX for a purchase price of \$8,100 plus transaction costs. The Company entered into a new mortgage secured by the property to fund \$5,693 of the purchase price and funded the remainder of the purchase with cash on hand.

On March 15, 2019, the Company acquired a skilled nursing property located in Oswego, IL from Symcare for a purchase price of \$22,000 plus transaction costs funded with cash on hand. The original master lease with Symcare was amended to include this new building.

On April 30, 2019, the Company purchased two buildings located in Chicago, IL and Glendale, WI from Symcare for total consideration of \$30,000 plus transaction costs. The transaction was funded by the issuance of 555,556 common shares and cash on hand. The original master lease with the Symcare operator was amended to include these new buildings.

On June 28, 2019, the Company sold its interest in a property located in Mooreville, IN for total consideration of \$15,000, less transaction costs. The consideration was paid in the form of cash and a \$5,000 loan receivable issued to the buyer of the property. The loan receivable earns annual interest of 8.5% and matures on July 1, 2024.

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5. Joint arrangements:

As at June 30, 2019, the following are the Company's joint arrangements:

Joint arrangement	Number of properties	Location	Company ownership	Consolidation type
Invesque-Autumnwood Landlord	4	Canada	50%	Joint operation ⁽¹⁾
Invesque-Autumnwood Operator	—	Canada	50%	Joint venture ⁽²⁾
Calamar	2	United States	75%	Joint venture ⁽³⁾
Greenfield JV	3	United States	80%	Joint venture ⁽³⁾
Heritage JV	3	United States	80%	Joint venture ⁽³⁾
Heritage Newtown	1	United States	80%	Joint venture ⁽³⁾
Heritage Harleysville	1	United States	90%	Joint venture ⁽³⁾
Phoenix Fayetteville	1	United States	90%	Joint venture ⁽³⁾
Royal JV	5	United States	80%	Joint venture ⁽³⁾
Royal Eatonton	1	United States	65%	Joint venture ⁽³⁾
Jaguarundi	8	United States	61%	Joint venture ⁽⁴⁾

(1) The Company directly holds its interest in the real estate joint operation.

(2) These joint venture arrangements have been structured through separate legal entities and lease the properties from the joint operation landlord.

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

(4) The joint venture owns an interest in separate legal entities which own the real estate and leases the properties to third party operators.

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

The Company and Autumnwood each owns a 50% direct beneficial interest in the real estate assets of the Invesque-Autumnwood Landlord entity and are jointly obligated for the related mortgages for a portfolio of four properties which are accounted for as joint operations and are accounted for under the proportionate consolidation method. The Company's 50% interest in the operations of these properties is held through separate legal entities (collectively referred to as "Invesque-Autumnwood Operators"), which under IFRS 11, Joint Arrangements, are accounted for as joint ventures using the equity method. Invesque-Autumnwood Operators have leased the real estate from the landlords under their respective lease agreements. These leases are for three-year periods, with six automatic renewals every third anniversary for a total of 21 years. The Company's share of the landlords' lease receipts, \$746 and \$1,497 for the three and six months ended June 30, 2019, respectively, (three and six months ended June 30, 2018 - \$751 and \$1,517, respectively), is reported as lease revenue from joint ventures. Invesque-Autumnwood Operators lease expense is included in the share of income from joint ventures in the consolidated statements of income and comprehensive income.

The Company has an interest in 17 properties and the operations at those properties held in joint arrangements. In these joint arrangements the Company owns an interest in the real estate and operations through separate legal entities at each of the properties, and has management agreements in place to provide for the day to day operations resulting in joint control of the interests. Each of these joint arrangements are accounted for as joint ventures using the equity method and the Company's share of net income is included in income from joint ventures in the consolidated statements of income and comprehensive income.

On June 4, 2019, the Company contributed 8 properties to a newly formed joint venture, Jaguarundi Ventures, LP. The Company received \$23,000 from its joint venture partner in the arrangement in exchange for a 39.49% interest in the joint venture. The properties contributed had an investment property value of \$161,047 and total mortgage indebtedness of \$102,692. The Company provides a guarantee on the outstanding mortgage balances of the joint venture in exchange for a fee equal to 15 basis points on the amount guaranteed. The Company earns an asset management fee of 25 basis points based on gross

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asset value.

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Cash contributions to joint ventures	\$ 1,116	\$ 635	\$ 2,178	\$ 635
Distributions received from joint ventures	\$ 2,579	\$ 1,572	\$ 3,042	\$ 5,535

	June 30, 2019		December 31, 2018	
	Net assets	Company share of net assets	Net assets	Company share of net assets
Cash	\$ 7,481	\$ 5,812	\$ 4,965	\$ 4,047
Tenant and other receivables	4,347	2,643	2,443	1,591
Other	2,260	1,892	1,349	1,021
Current assets	14,088	10,347	8,757	6,659
Investment properties	394,450	283,369	256,184	202,972
Property, plant and equipment	27,213	19,815	28,012	20,498
Loans receivable	7,289	3,367	3,864	39
Derivative instruments	—	—	2,024	1,726
Other non-current assets	1,383	1,195	445	325
Total assets	\$ 444,423	\$ 318,093	\$ 299,286	\$ 232,219
Accounts payable and accrued liabilities	\$ 8,259	\$ 6,092	\$ 6,511	\$ 4,945
Unearned revenue	791	651	1,066	873
Mortgages payable - current	63,648	13,245	32,323	25,382
Current liabilities	72,698	19,988	39,900	31,200
Mortgages payable - non-current	207,428	183,829	144,419	116,263
Loan payable to Invesque	3,170	3,170	—	—
Loan commitment liability	3,520	2,130	—	—
Other non-current liabilities	4,080	2,896	104	98
Total liabilities	\$ 290,896	\$ 212,013	\$ 184,423	\$ 147,561
Net assets	\$ 153,527	\$ 106,080	\$ 114,863	\$ 84,658

Loan commitment liability represents the fair value of commitments made by the Company to issue loans at rates below market value.

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	Three months ended June 30, 2019		Three months ended June 30, 2018	
	Net income (loss)	Company share of net income (loss)	Net income (loss)	Company share of net income (loss)
Revenue	\$ 19,099	\$ 12,856	\$ 19,228	\$ 13,127
Property operating expense	(14,318)	(9,269)	(14,307)	(9,312)
Finance costs	(2,433)	(1,875)	(2,069)	(1,637)
Depreciation expense	(433)	(325)	(432)	(325)
Change in fair value of financial instruments	(2,261)	(1,797)	424	352
Change in fair value of investment properties	(11,048)	(6,828)	(612)	(612)
Net income (loss), prior to distributions to owners	\$ (11,394)	\$ (7,238)	\$ 2,232	\$ 1,593

	Six months ended June 30, 2019		Six months ended June 30, 2018	
	Net income (loss)	Company share of net income (loss)	Net income (loss)	Company share of net income (loss)
Revenue	\$ 37,637	\$ 25,549	\$ 32,688	\$ 21,777
Property operating expense	(28,985)	(18,932)	(25,321)	(16,009)
Finance costs	(4,582)	(3,589)	(3,346)	(2,657)
Depreciation expense	(865)	(649)	(721)	(541)
Change in fair value of financial instruments	(3,052)	(2,458)	534	441
Change in fair value of investment properties	(15,672)	(10,972)	(612)	(612)
Net income (loss), prior to distributions to owners	\$ (15,519)	\$ (11,051)	\$ 3,222	\$ 2,399

Related party transactions occur between the Company and its joint ventures. These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to between the parties. Except as disclosed elsewhere in these condensed consolidated interim financial statements, the related party balances are included in accounts payable, other receivables, loans receivable, and lease revenue from joint ventures.

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The following table summarizes information about the mortgages payable at the joint ventures:

	June 30, 2019	December 31, 2018
Mortgages at fixed rates:		
Mortgages (principal) ⁽¹⁾	\$ 163,758	\$ 100,028
Interest rates	3.99% to 4.97%	3.24% to 5.68%
Weighted average interest rate	4.33%	4.26%
Mortgages at variable rates:		
Mortgages (principal)	\$ 108,235	\$ 76,874
Interest rates	LIBOR plus 2.40% to LIBOR plus 3.20%	LIBOR plus 2.75% to LIBOR plus 3.20%
Weighted average interest rate	5.28%	5.43%
Blended weighted average rate	4.71%	4.76%

(1) Includes \$115,613 of variable rate mortgages that are fixed with interest rate swaps.

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6. Credit facilities:

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

	June 30, 2019	Borrowing rate at June 30, 2019	December 31, 2018	Borrowing rate at December 31, 2018
Unsecured Facility Term ⁽¹⁾	\$ 200,000	4.26%	\$ 200,000	4.33%
Unsecured Facility Revolver ⁽³⁾	121,700	4.51%	44,900	4.75%
Secured Revolving Facility	—	—%	12,740	6.31%
Mohawk Facility USD denominated portion	21,286	4.60%	21,286	4.72%
Mohawk Facility CAD denominated portion ^{(1),(2)}	65,075	4.32%	62,461	4.53%
Finance costs, net	(2,812)	—	(3,247)	—
Carrying value	\$ 405,249	4.36%	\$ 338,140	4.52%
Less current portion	—		12,647	
Long-term portion	\$ 405,249		\$ 325,493	

(1) This facility is fixed with an interest rate swap.

(2) This facility is denominated in Canadian dollars with a principal amount of CAD\$85,202.

(3) \$75,000 of this facility is fixed with interest rate swaps.

Future principal repayments of the credit facilities are as follows:

	Aggregate principal payments
2019	\$ —
2020	—
2021	—
2022	121,700
2023	286,361
Total	\$ 408,061

7. Mortgages payable:

Mortgages payable consist of the following as at June 30, 2019:

	June 30, 2019	December 31, 2018
Mortgages payable	\$ 194,049	\$ 306,170
Mark-to-market adjustment, net	(838)	(883)
Finance costs, net	(1,358)	(1,957)
Carrying value	\$ 191,853	\$ 303,330
Less current portion	23,873	49,444
Long-term portion	\$ 167,980	\$ 253,886

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Mortgages payable are collateralized by investment properties with a fair value of \$318,853 at June 30, 2019. Maturity dates on mortgages payable range from 2019 to 2049, and the weighted average years to maturity is 6.60 years at June 30, 2019.

Future principal payments on the mortgages payable as at June 30, 2019 are as follows:

	Regular principal payments	Principal due on maturity	Total principal payments	% of total principal payments
2019	\$ 2,020	\$ 8,535	\$ 10,555	5.44%
2020	4,284	11,300	15,584	8.03%
2021	4,532	6,781	11,313	5.83%
2022	4,111	31,109	35,220	18.15%
2023	3,789	19,139	22,928	11.82%
Thereafter	19,734	78,715	98,449	50.73%
	\$ 38,470	\$ 155,579	\$ 194,049	100.00%

	June 30, 2019	December 31, 2018
Mortgages at fixed rates:		
Mortgages (principal) ⁽¹⁾	\$ 172,771	\$ 228,925
Interest rates	3.08% to 5.98%	3.08% to 5.98%
Weighted average interest rate	4.54%	4.58%
Mortgages at variable rates:		
Mortgages (principal)	\$ 21,278	\$ 77,245
Interest rates	LIBOR plus 2.75% to LIBOR plus 3.25%	LIBOR plus 2.5% to US Prime plus 0.5%
Weighted average interest rate	5.42%	5.56%
Blended weighted average rate	4.64%	4.82%

(1) Includes \$27,214 of variable rate mortgages that are fixed with interest rate swaps.

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8. Derivative financial instruments:

Derivative financial instruments as at June 30, 2019 are detailed in the table below:

Swap	Maturity date	Fixed rate	Notional amount	Asset (liability) balance		Income (loss) for the three months ended		Income (loss) for the six months ended	
				June 30, 2019	December 31, 2018	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
The Secured Facility Term Swap	October 30, 2019	LIBOR fixed at 1.16%	\$ 200,000	\$ —	\$ —	\$ —	\$ (104)	\$ —	\$ 710
The Unsecured Term	December 19, 2023	LIBOR fixed at 2.11%	200,000	(4,300)	1,189	(4,694)	—	(5,489)	—
The Unsecured Revolver	January 2, 2024	LIBOR fixed at 2.57%	25,000	(1,050)	(163)	(578)	—	(887)	—
The Unsecured Revolver	December 1, 2022	LIBOR fixed at 2.11%	50,000	(846)	—	(846)	—	(846)	—
Leawood Swap ⁽³⁾	March 15, 2024	Interest rate fixed at 4.55%	13,478	—	134	(231)	119	(407)	407
Topeka Swap ⁽³⁾	March 15, 2024	Interest rate fixed at 4.55%	12,802	—	128	(220)	113	(387)	387
Red Oak Swap ⁽¹⁾	January 18, 2021	Interest rate fixed at 3.77%	4,157	(43)	(17)	(6)	6	(26)	(11)
Park Terrace Swap	December 18, 2020	LIBOR fixed at 2.42%	3,750	—	4	—	19	(4)	30
Seneca Lake Swap	December 18, 2020	LIBOR fixed at 2.42%	4,238	—	4	—	24	(4)	32
Winchester Swap	November 1, 2021	Interest rate fixed at 4.54%	6,580	11	157	(92)	31	(146)	40
Calhoun Swap	May 31, 2019	LIBOR fixed at 1.75%	28,800	—	106	—	25	(3)	35
Mohawk Credit Facility Swap ⁽²⁾	May 1, 2023	Banker's Acceptance fixed at 2.12%	65,075	(1,067)	(126)	(702)	(139)	(917)	(139)
Grand Brook Swap	October 2, 2021	Interest rate fixed at 5.98%	15,876	(564)	(345)	(155)	—	(219)	—
Carrying value				\$ (7,859)	\$ 1,071	\$ (7,524)	\$ 94	\$ (9,335)	\$ 1,491
Derivative instruments (Asset)				\$ 11	\$ 1,722				
Derivative instruments (Liability)				(7,870)	(651)				
				\$ (7,859)	\$ 1,071				

1) The swap has a notional amount of CAD\$5,443

2) The swap is for a fixed amount of CAD\$85,202

3) Swap transferred to joint venture on June 5, 2019

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9. Convertible debentures:

As at June 30, 2019 the convertible debentures are comprised of the following:

	June 30, 2019	December 31, 2018
Issued	\$ 94,975	\$ 95,000
Issue costs, net of amortization and accretion of equity component	(2,213)	(2,871)
Equity component, excluding issue costs and taxes	(2,384)	(2,384)
Convertible debentures	\$ 90,378	\$ 89,745

Interest costs related to the convertible debentures are recorded in financing costs using the effective interest rate method.

On May 6, 2019, \$25 of convertible debentures were converted into 2,272 common shares.

10. Other liabilities:

Other liabilities are as follows:

	June 30, 2019	December 31, 2018
Deferred shares liability	\$ 1,669	\$ 1,756
Security deposits received from tenants	8,889	10,029
Escrows collected from tenant	1,322	1,575
Unearned revenue	503	303
Liability to previous owner of Care	886	1,000
Lease liability	1,404	—
Loan commitment liability (note 21)	2,661	—
Other	223	152
	\$ 17,557	\$ 14,815
Current	\$ 2,048	\$ 2,030
Non-current	15,509	12,785
	\$ 17,557	\$ 14,815

Loan commitment liability represents the fair value of commitments made by the Company to issue loans at rates below market value.

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

	Credit facilities	Mortgages payable	Convertible debentures	Total
Balance, December 31, 2018	\$ 338,140	\$ 303,330	\$ 89,745	\$ 731,215
Proceeds from financing	84,800	7,777	—	92,577
Repayments	(20,740)	(25,182)	—	(45,922)
Scheduled principal payments	—	(2,748)	—	(2,748)
Mortgages contributed to joint venture (note 5)	—	(102,692)	—	(102,692)
Mortgages assumed on acquisition of control over a property previously owned through a joint venture (note 4)	—	9,743	—	9,743
Financing costs paid	(14)	(368)	—	(382)
Amortizing of financing costs and mark to market adjustments	475	1,017	658	2,150
Changes in foreign currency rates	2,588	976	—	3,564
Conversion of convertible debentures into common shares	—	—	(25)	(25)
Balance, June 30, 2019	\$ 405,249	\$ 191,853	\$ 90,378	\$ 687,480

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12. Share capital:

(a) Common shares:

The following number and value of common shares were issued and outstanding as at June 30, 2019:

	Common shares		Value
Balance, December 31, 2018	52,933,851	\$	493,165
Issued as consideration for acquisition of Symcare properties	555,556		3,800
Issued on settlement of Deferred Share Incentive Plan	150,912		1,078
Issued pursuant to the Company's dividend reinvestment plan	471,440		3,277
Shares acquired under NCIB	(300)		(2)
Issued through conversion of convertible debentures	2,272		25
Balance, June 30, 2019	54,113,731	\$	501,343

- (i) On November 9, 2018 the Toronto Stock Exchange approved the Company's notice of intention to make a normal course issuer bid ("NCIB") for a portion of its common shares. Pursuant to the notice, the Company is authorized to acquire up to a maximum of 2,647,954 of its Units, or approximately 5% of the Company's 52,959,070 outstanding Shares as of November 1, 2018, for cancellation over the next 12 months. Purchases under the NCIB will be made through the facilities of the Toronto Stock Exchange or through a Canadian alternative trading system and in accordance with applicable regulatory requirements at a price per Share equal to the market at the time of acquisition. The number of Shares that can be purchased pursuant to the NCIB is subject to a daily maximum of 7,918 Shares, subject to the Company's ability to make one block purchase of Shares per calendar week that exceeds such limits. Any Shares purchased under the NCIB will be canceled upon purchase. During the six months ended June 30, 2019, the Company acquired 300 shares.
- (ii) For the period ended June 30, 2019, the Company declared dividends payable on common shares of \$19,720, respectively (2018 - \$17,494). Of the \$19,720 dividends declared in the six month ended June 30, 2019, \$3,831 is satisfied in the form of shares issued through the dividend reinvestment plan (2018 - \$345).

(b) Preferred shares:

As at June 30, 2019, the number of preferred shares issued and outstanding is 7,560,137 with a value of \$71,106. As at June 30, 2019, the preferred shares are convertible into 8,183,308 common shares of the Company.

13. Earnings per share:

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

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

Net income:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Net income for basic and diluted net income per share	\$ (16,902)	\$ 10,527	\$ (9,697)	\$ 12,846

Denominator for basic and diluted net income per share:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Weighted average number of shares, including fully vested deferred shares: Basic	53,864,540	51,560,002	53,501,681	47,479,276
Weighted average shares issued if all preferred shares were converted	8,055,727	7,628,390	8,001,413	6,151,080
Weighted average number of shares: Diluted	61,920,267	59,188,392	61,503,094	53,630,356

Net income per share:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Basic	\$ (0.31)	\$ 0.20	\$ (0.18)	\$ 0.27
Diluted	\$ (0.31)	\$ 0.18	\$ (0.18)	\$ 0.24

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14. Rental revenue:

Rental revenue consists of the following:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Contractual rental revenue	\$ 20,414	\$ 21,362	\$ 41,446	\$ 38,002
Straight-line rent adjustments	2,294	2,871	4,648	5,564
Property tax recoveries	4,036	3,380	7,874	6,242
Revenue from services - CAM recoveries ⁽¹⁾	786	514	1,579	514
	\$ 27,530	\$ 28,127	\$ 55,547	\$ 50,322

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

The Company is scheduled to receive rental income from operators of its seniors housing and care properties under the provisions of long term non-cancellable operating leases, generally with lease terms of 10 to 15 years, with provisions for lease extensions at the option of the tenants. These leases are triple-net and include renewal options and rent escalation clauses.

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

The tenant Symcare operates a portfolio of 15 properties and pays rent pursuant to a master lease. For the three and six months ended June 30, 2019, rental revenue from this tenant comprised approximately 36% and 34%, respectively (three and six months ended June 30, 2018 - 32% and 35%, respectively), of the Company's consolidated rental revenue for the period.

Future minimum rentals to be received as of June 30, 2019 are as follows:

Less than 1 year	\$ 73,109
Between 1 and 5 years	290,058
More than 5 years	582,713
	\$ 945,880

Future minimum rentals in the above table attributable to Symcare represent approximately 50% of the total.

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15. Finance costs:

Finance costs consist of the following:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Interest expense on credit facilities	\$ 4,838	\$ 4,005	\$ 9,073	\$ 7,021
Interest expense on mortgages payable	3,150	4,567	6,800	7,818
Interest expense on convertible debentures	1,312	562	2,624	1,125
Amortization and accretion expense	1,339	653	2,050	1,251
Interest rate swap receipts	(47)	(347)	(162)	(514)
Write-off of deferred financing costs from refinancing	69	—	69	—
Amortization of mark-to-market debt adjustments	22	22	44	35
Interest income from loans receivable (note 2)	(846)	(777)	(1,591)	(1,549)
Finance costs from operations	\$ 9,837	\$ 8,685	\$ 18,907	\$ 15,187
Allowance for credit losses on loans and interest receivable	673	724	1,164	1,974
Change in non-controlling interest liability	99	738	155	779
Change in fair value of financial instruments	7,524	(94)	9,335	(1,491)
Total finance costs	\$ 18,133	\$ 10,053	\$ 29,561	\$ 16,449

16. General and administrative:

General and administrative costs consist of the following:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Compensation and benefits	\$ 1,448	\$ 1,327	\$ 3,198	\$ 2,666
Asset management and administrative fees	124	103	249	171
Professional fees	965	754	1,734	1,328
Deferred share compensation	784	423	1,133	677
Other	803	554	1,291	1,052
	\$ 4,124	\$ 3,161	\$ 7,605	\$ 5,894

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17. Direct property operating expenses:

Direct property operating expenses consist of the following:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Repairs and maintenance	\$ 373	\$ 173	\$ 756	\$ 173
Utilities	265	175	622	175
Property management fees	143	92	286	92
Services	253	152	488	152
Other	46	32	85	32
Non-recoverable operating expenses	163	62	308	62
	\$ 1,243	\$ 686	\$ 2,545	\$ 686

18. Deferred share incentive plan:

At June 30, 2019, the number of deferred shares granted and outstanding and vested are as follows:

	Granted/ Outstanding	Fully Vested
As at December 31, 2018	375,279	92,244
Discretionary Deferred Shares granted	581,935	95,497
Individual Contributed Deferred Shares (vested immediately)	25,459	25,459
Company Contributed Deferred Shares	13,165	19,221
Shares forfeited	(17,659)	—
Shares issued upon vesting of deferred shares	(150,912)	(150,912)
As at June 30, 2019	827,267	81,509

For the three and six months ended June 30, 2019, expense recognized in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) related to deferred shares was \$784 and \$1,133, respectively (three and six months ended June 30, 2018 - \$423 and \$677, respectively). A deferred share liability of \$1,669 (2018 - \$1,756) is included in other non-current liabilities in the condensed consolidated interim statements of financial position as at June 30, 2019. On May 14, 2019, the Company granted 292,825 equity settled deferred shares. During the six months ended June 30, 2019, the Company amortized \$142 of equity settled deferred shares. The table above includes dividends granted during the six months ended June 30, 2019 of 25,527 shares (2018 - 10,921 shares).

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19. Related party transactions:

Related party transactions in addition to those disclosed elsewhere in these financial statements are as follows:

The Company entered into subscription agreements in 2017 and 2018 in respect of the issuance of class A convertible preferred shares to certain funds managed by Magnetar Financial LLC (collectively, "Magnetar"), a significant shareholder of the Company, 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 Company issued 7,560,137 preferred shares for aggregate gross proceeds of \$71,500.

On June 4, 2019, the Company formed a joint venture, Jaguarundi Ventures, LP, with Magnetar (note 5). The Company contributed 8 properties to a newly formed joint venture and received \$23,000 from Magnetar in exchange for a 39.49% interest in the joint venture.

On July 23, 2019, the Company entered subscription agreements in respect of the issuance of Class A convertible preferred shares to Magnetar for aggregate proceeds of \$14,550. The fourth series is expected to be funded in the third quarter of 2019 and will result in the issuance of 1,538,461 Class A Series 4 Preferred Shares.

On July 26, 2019, the Company entered into a loan agreement with Magnetar for a principal amount of \$30,000, annual interest rate of 8.5%, and an initial maturity of one year with a one year extension option. The Company pledged its equity interests in properties located in Little Rock, AR; San Antonio, TX; and New Braunfels, TX against the loan.

20. Income taxes:

The income tax expense (recovery) in the consolidated statements of income and comprehensive income differs from that expected by applying the combined federal, provincial and state income tax rates of 26.5% (2018 - 26.5%). The differences for the three and six months ended June 30, 2019 and 2018 are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Income (loss) before income taxes	\$ (22,988)	\$ 15,302	\$ (12,935)	\$ 18,719
Income tax expense at Canadian tax rate	(6,091)	4,149	(3,427)	5,087
Non-deductible expenses	287	486	342	555
Difference in tax rate in foreign jurisdiction	(229)	122	(100)	213
Other	(53)	18	(53)	18
Income tax expense (recovery)	\$ (6,086)	\$ 4,775	\$ (3,238)	\$ 5,873

The gross movement in deferred tax is as follows:

	Six months ended June 30,	
	2019	2018
Deferred tax liability, beginning balance	\$ 7,011	\$ 10,291
Deferred tax expense	(3,238)	5,855
Deferred tax resulting from business combination	—	1,699
Deferred tax liability charged to equity	—	(333)
Other	—	(41)
Deferred tax liability, ending balance	\$ 3,773	\$ 17,471

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21. Commitments and contingencies:

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

There are risks which arise from the joint arrangements, including the willingness of the other partners to contribute or withdraw funds and a change in creditworthiness of the partner. As a result, there may be a requirement by the Company to contribute cash into the operating partnerships.

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

On December 31, 2018, the Company entered into an operating agreement with Javelina Ventures, LLC in which the Company will share in 5% of the net available cash flows from operations. Concurrently, the Company entered into an agreement to guarantee a total of \$5,000 of the mortgages on the properties operated by Javelina Ventures, LLC. The Company will earn an annual guaranty fee of \$225 until the loans have been repaid or the guaranty is released. The Company has not recorded any balance in the financial statements associated with this commitment.

On May 15, 2019, the Company entered into a purchase agreement to purchase three buildings for a total consideration of approximately \$30,672, plus transaction costs. The transaction is expected to be funded by new debt on the properties, repayment of a portion of the outstanding loans receivable, issuance of \$3,946 in common shares and cash on hand.

On June 5, 2019, the Company entered into agreements to fund future loans to tenants of the Jaguarundi Ventures, LP joint venture. As at June 30, 2019, the Company is committed to fund an additional \$7,170 pursuant to these agreements. The Company has recorded an associated loan commitment liability representing the fair value of these commitments, which were made at interest rates below market value.

The Company is committed to purchasing three additional Commonwealth properties as previously announced, subject to the approval of certain lenders of secured debt underlying the remaining three properties. The three additional buildings have a total consideration of approximately \$55,000 that is expected to be funded by the assumption of debt, the issuance of preferred interests in the Company's acquiring subsidiary entity and cash on hand.

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22. Fair value measurement:

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

	June 30, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative asset	\$ —	\$ 11	\$ —	\$ —	\$ 1,722	\$ —
Investment properties	—	—	1,021,217	—	—	1,115,530
Derivative liability	—	7,870	—	—	651	—
Deferred share liability	1,669	—	—	1,756	—	—

For the assets and liabilities measured at fair value as at June 30, 2019, there were no transfers between Level 1, Level 2 and Level 3 liabilities during the period. For changes in fair value measurements of investment properties included in Level 3 of the fair value hierarchy, refer to note 4 for details. The fair values of the derivative instruments represents estimates at a specific point in time using financial models, based on interest rates that reflect current market conditions, the credit quality of counterparties and interest rate curves. Fair value measurements of derivative instruments were estimated using Level 2 inputs.

Fair value of financial instruments:

The carrying amounts and fair values of financial instruments as shown in the condensed consolidated interim statements of financial position are shown in the table below. The table below excludes cash, restricted cash, tenant and other receivables, security deposits and costs related to future acquisitions, income support receivable, escrow deposits held by lenders, accounts payable and accrued liabilities, accrued real estate taxes, construction payable, liabilities to previous owner of Care, escrows collected from tenant, and dividend payable, as the carrying amounts of these assets and liabilities are a reasonable approximation of fair value due to their short term nature. The table also excludes security deposits received from tenants as the carrying amount is a reasonable approximation of fair value.

	June 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Loans receivable	\$ 42,305	\$ 42,361	\$ 32,422	\$ 32,361
Derivative instruments	11	11	1,722	1,722
Financial liabilities:				
Mortgages payable	191,853	194,049	303,330	306,170
Credit facilities	405,249	408,061	338,140	341,387
Derivative instruments	7,870	7,870	651	651
Convertible debentures	90,378	81,128	89,745	72,500
Loan commitment liability	2,661	2,661	—	—

Fair value represents management's estimates of the fair market value at a given point in time, which may not reflect fair value in the future. These calculations are subjective and require estimation, and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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23. Segments:

The Company's current portfolio includes investments in assisted living, independent living, memory care, transitional care, long-term care, and medical office properties. The Company's senior housing and care investments in assisted living, independent living, memory care, transitional care and long-term care share similar characteristics and are generally leased to operators on a long-term, triple-net lease basis. In some instances the Company has an interest in both the property and operations in joint ventures and joint arrangements with the operating partner at the facility. The Company considers these investments to be one reportable operating segment. The Company also has investments in 15 medical office buildings. This multi-tenant medical office portfolio has different characteristics that are evaluated by management, and is considered to be a separate reportable operating segment.

The following tables show net income (loss) by reportable segment for the three and six months ended June 30, 2019 and 2018:

	Three months ended June 30, 2019			
	Seniors housing and care	Medical office buildings	Corporate/ other	Total
Rental revenue	\$ 24,288	\$ 3,242	\$ —	\$ 27,530
Lease revenue from joint ventures	746	—	—	746
Other income	4	444	100	548
Finance cost	(7,945)	(1,028)	(864)	(9,837)
Real estate tax expense	(205)	(345)	—	(550)
General and administrative	(119)	(124)	(3,881)	(4,124)
Direct property operating	—	(1,243)	—	(1,243)
Transaction costs for business combination	—	—	(1,696)	(1,696)
Diligence costs for transactions not pursued	—	—	(633)	(633)
Allowance for credit losses on loans and interest receivable	(52)	—	(621)	(673)
Changes in non-controlling interest liability	(99)	—	—	(99)
Change in fair value of investment properties - IFRIC 21	(3,460)	(157)	—	(3,617)
Change in fair value of investment properties	(13,888)	(690)	—	(14,578)
Change in fair value of financial instruments	(6,820)	(704)	—	(7,524)
Loss from joint ventures	(7,238)	—	—	(7,238)
Income tax recovery (expense)	—	193	5,893	6,086
Net income (loss)	\$ (14,788)	\$ (412)	\$ (1,702)	\$ (16,902)
Expenditures for non-current assets:				
Acquisition of properties	\$ 29,300	\$ —	\$ —	\$ 29,300
Capital additions	1,805	88	—	1,893

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	Six months ended June 30, 2019			
	Seniors housing and care	Medical office buildings	Other	Total
Rental revenue	\$ 48,861	\$ 6,686	\$ —	\$ 55,547
Lease revenue from joint ventures	1,497	—	—	1,497
Other income	14	835	155	1,004
Finance cost	(15,033)	(2,052)	(1,822)	(18,907)
Real estate tax expense	(13,647)	(1,331)	—	(14,978)
General and administrative	(154)	(249)	(7,202)	(7,605)
Direct property operating	—	(2,545)	—	(2,545)
Transaction costs for business combination	—	—	(1,696)	(1,696)
Diligence costs for transactions not pursued	—	—	(633)	(633)
Allowance for credit losses on loans and interest receivable	(55)	—	(1,109)	(1,164)
Changes in non-controlling interest liability	(155)	—	—	(155)
Change in fair value of investment properties - IFRIC 21	6,490	317	—	6,807
Change in fair value of investment properties	(8,720)	(1,001)	—	(9,721)
Change in fair value of financial instruments	(8,418)	(917)	—	(9,335)
Loss from joint ventures	(11,051)	—	—	(11,051)
Income tax recovery (expense)	—	164	3,074	3,238
Net income (loss)	\$ (371)	\$ (93)	\$ (9,233)	\$ (9,697)
Expenditures for non-current assets:				
Acquisition of properties	\$ 59,459	\$ —	\$ —	\$ 59,459
Capital additions	2,665	467	—	3,132

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	Three months ended June 30, 2018			
	Seniors housing and care	Medical office buildings	Other	Total
Rental revenue	\$ 25,935	\$ 2,192	\$ —	28,127
Lease revenue from joint ventures	751	—	—	751
Other income	—	447	29	476
Finance cost	(8,082)	(612)	9	(8,685)
Real estate tax expense	—	(251)	—	(251)
General and administrative	(169)	(91)	(2,901)	(3,161)
Direct property operating	—	(686)	—	(686)
Transaction costs for business combination	—	—	(322)	(322)
Diligence costs for transactions not pursued	—	—	(70)	(70)
Allowance for credit losses on loans and interest receivable	(20)	—	(704)	(724)
Changes in non-controlling interest liability	(738)	—	—	(738)
Change in fair value of investment properties - IFRIC 21	(3,128)	(84)	—	(3,212)
Change in fair value of investment properties	2,110	—	—	2,110
Change in fair value of financial instruments	233	—	(139)	94
Income from joint ventures	1,593	—	—	1,593
Income tax expense	(97)	—	(4,678)	(4,775)
Net income (loss)	\$ 18,388	\$ 915	\$ (8,776)	\$ 10,527
Expenditures for non-current assets:				
Acquisition of properties	\$ —	\$ 137,275	\$ —	\$ 137,275
Capital additions	5,510	—	—	5,510

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	Six months ended June 30, 2018			
	Seniors housing and care	Medical office buildings	Other	Total
Rental revenue	\$ 48,130	\$ 2,192	\$ —	50,322
Lease revenue from joint ventures	1,517	—	—	1,517
Other income	7	447	100	554
Finance cost	(14,592)	(612)	17	(15,187)
Real estate tax expense	(9,200)	(251)	—	(9,451)
General and administrative	(317)	(91)	(5,486)	(5,894)
Direct property operating	—	(686)	—	(686)
Transaction costs for business combination	—	—	(6,438)	(6,438)
Diligence costs for transactions not pursued	—	—	(70)	(70)
Allowance for credit losses on loans and interest receivable	(19)	—	(1,955)	(1,974)
Changes in non-controlling interest liability	(779)	—	—	(779)
Change in fair value of investment properties - IFRIC 21	3,210	(84)	—	3,126
Change in fair value of investment properties	(211)	—	—	(211)
Change in fair value of financial instruments	1,630	—	(139)	1,491
Income from joint ventures	2,399	—	—	2,399
Income tax expense	(126)	—	(5,747)	(5,873)
Net income (loss)	\$ 31,649	\$ 915	\$ (19,718)	\$ 12,846
Expenditures for non-current assets:				
Acquisition of properties	\$ 305,908	\$ 137,275	\$ —	\$ 443,183
Capital additions	7,649	—	—	7,649

The following tables show assets and liabilities by reportable segment as at June 30, 2019 and December 31, 2018:

	As at June 30, 2019			
	Seniors housing and care	Medical office buildings	Other	Total
Investment properties	\$ 877,757	\$ 143,460	\$ —	\$ 1,021,217
Investment in joint ventures	106,080	—	—	106,080
Loans receivable	10,077	—	32,228	42,305
Other assets	20,369	1,583	28,792	50,744
Total assets	\$ 1,014,283	\$ 145,043	\$ 61,020	\$ 1,220,346
Mortgages payable	\$ 191,853	\$ —	\$ —	\$ 191,853
Credit facilities	319,945	85,304	—	405,249
Convertible debentures	—	—	90,378	90,378
Non-controlling interest liability	3,062	—	—	3,062
Other liabilities	27,449	2,407	24,765	54,621
Total liabilities	\$ 542,309	\$ 87,711	\$ 115,143	\$ 745,163

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	As at December 31, 2018			
	Seniors housing and care	Medical office buildings	Other	Total
Investment properties	\$ 975,914	\$ 139,616	\$ —	\$ 1,115,530
Investment in joint ventures	84,658	—	—	84,658
Loans receivable	—	—	32,422	32,422
Other assets	22,637	1,790	26,922	51,349
Total assets	\$ 1,083,209	\$ 141,406	\$ 59,344	\$ 1,283,959
Liability to previous owner of Care	\$ 9,676	\$ —	\$ —	\$ 9,676
Mortgages payable	303,330	—	—	303,330
Credit facilities	255,561	82,579	—	338,140
Convertible debentures	—	—	89,745	89,745
Non-controlling interest liability	2,947	—	—	2,947
Other liabilities	26,465	1,458	18,730	46,653
Total liabilities	\$ 597,979	\$ 84,037	\$ 108,475	\$ 790,491

In measuring performance, the Company does not distinguish or group its properties on a geographical basis. Management has applied judgment by aggregating its properties into two reportable segments for disclosure purposes. The Company's Chief Executive Officer is the chief decision maker and regularly reviews performance on an individual property basis and on the basis of the Company's reportable operating segments.

At June 30, 2019, \$969,913 of the Company's non-current assets, excluding financial instruments, are located in the United States (2018 - \$1,051,527) and \$160,393 are located in Canada (2018 - \$150,168). During the three and six months ended June 30, 2019, the Company generated \$25,536 and \$51,300, respectively (three and six months ended June 30, 2018 - \$26,684 and \$48,957), of its revenues, excluding other income, from properties located in the United States and \$2,740 and \$5,744 (three and six months ended June 30, 2018 - \$2,670 and \$3,436, respectively) of its revenues from properties located in Canada.

24. Subsequent events:

On August 1, 2019, a wholly owned subsidiary of the Company closed on the previously announced acquisition of Commonwealth Senior Living, LLC ("Commonwealth"). The acquisition includes 17 private pay seniors housing properties in addition to the Commonwealth management company. The Commonwealth management company operates all 17 properties in the Commonwealth portfolio and operates 6 properties outside of the portfolio owned by Invesque. The August 1, 2019 acquisition represents the first tranche of the acquisition of Commonwealth properties, and the Company remains committed to purchasing three additional properties as previously announced, subject to the approval of certain lenders of secured debt underlying the remaining three properties.

The total purchase price for the 17 properties and management company was \$285,357, subject to working capital adjustments and transaction costs. The acquisition was funded through \$176,000 in new debt secured by 16 of the properties, the assumption of \$9,537 in debt secured by one of the properties, the issuance of \$53,587 of preferred interests in the Company's acquiring subsidiary entity and cash on hand.

The \$176,000 new debt securing 16 properties has a maturity date of August 1, 2024, with 2 available extension options. It bears interest at a rate of LIBOR plus 215 basis points, but concurrent with the closing of the acquisition the Company entered into an interest rate swap agreement to fix LIBOR at 169 basis points through August 1, 2024, effectively fixing the interest rate at 3.84% for the initial 5 year term. The agreement also provides for an accordion feature that would extend the capacity of the loan by an additional \$50,000 subject to certain terms and conditions provided for in the agreement.

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The \$53,587 in preferred interests will initially be exchangeable by holders into common shares of the Company at a fixed exchange price of \$9.75 per common share. The preferred interests have an initial dividend rate of 6.50% per annum and a liquidation value equal to their unreturned initial capital contribution and any accrued and unpaid dividends. Under certain circumstances, the Company will have the right to redeem the preferred interests at its discretion for an amount specified in the operating agreement.

The Company has agreed to terms with Greenfield Senior Living ("Greenfield") whereby the Company will acquire 100% of Greenfield's interests in 13 properties in which the Company already has an ownership interest. Ten of these properties were previously triple-net leased to Greenfield and the Company will acquire Greenfield's interest in the operations at each property. Three of the properties were previously joint arrangements between the Company and Greenfield, and the Company will acquire Greenfield's interest in both the real estate and the operations.