

INVESQUE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE YEAR ENDED DECEMBER 31, 2019

March 11, 2020

Basis of presentation

Financial data in this Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") is for the year ended December 31, 2019. Financial data has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

This MD&A is intended to provide readers with an assessment of the performance of Invesque Inc. (the "Company") for the year ended December 31, 2019. 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, 2019 and 2018.

Additional information relating to the Company, including the Company's annual information form for the year ended December 31, 2019 (the "2019 AIF"), can be found on SEDAR at www.sedar.com.

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

Forward-looking disclaimer

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

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

Factors that could cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, but are not limited to, general economic conditions, competitive uncertainties and contingencies, demographic and industry trends, legislative and regulatory changes, tax laws and those factors set forth under the heading "Risks and Uncertainties" in this MD&A and 2019 AIF. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive. When relying on forward-looking statements to make decisions, with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events.

These forward-looking statements are made as of March 11, 2020 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"), fixed charge coverage ratio, payout ratio, effective 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 do not have standardized meanings under IFRS and therefore may not be comparable to similar measures presented by other issuers. 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 its ability to meet its ongoing obligations. Please refer to the "Financial Measures not Defined Under IFRS" section of this MD&A.

Business Overview

Invesque Inc. is a corporation continued under the *Business Corporations Act* (British Columbia). 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 an investment thesis focused on the premise that an aging demographic in North America will continue to utilize health care services in growing proportion to the overall economy. The Company currently capitalizes on this opportunity by investing in a highly diversified portfolio of income generating properties across the health care spectrum. The Company's portfolio includes investments in independent living, assisted living, memory care, skilled nursing, transitional care and medical office properties, which are operated primarily under long-term leases and joint venture arrangements with industry leading operating partners. The Company's portfolio also includes investments in owner-occupied seniors housing properties in which it owns the real estate and provides management services through its subsidiary management company.

Description of the Company's asset types are as follows:

- **Independent Living ("IL") Communities:** IL communities are the least medically-intensive type of seniors housing and care properties. Unlike AL (defined below) communities and SNFs/LTCs (defined below), IL communities generally do not offer nursing, rehabilitative care or therapy services and typically do not provide assistance with daily living activities. Rather, IL communities are designed as a seniors housing and care option for those who are able to perform their own basic activities of daily living and need little or no medical assistance. IL communities come in many forms ranging from age-restricted apartment communities to villa homes which are on a retirement village campus or part of a continuing care retirement community. IL communities in North America are generally unregulated and unlicensed, with some exceptions for IL communities providing more extensive care services. Most IL communities receive revenue through private pay sources, such as residents paying directly out of pocket and private insurance, rather than government sources.
- **Assisted Living ("AL") and Memory Care ("MC") Communities:** AL and MC communities play a key role in the continuum of seniors housing and care, as they bridge the gap between IL communities and SNFs/LTCs (defined below). AL communities provide relatively independent elderly persons with typical amenities associated with less medically-intensive seniors housing and care as well as assistance with activities of daily living and some healthcare services. Services provided at AL communities typically include 24-hour care for resident protection, an emergency response system, supervision for persons with disabilities, housekeeping, maintenance and transportation. MC communities are substantially similar to AL communities because they also focus on elderly persons who need assistance with activities of daily living and healthcare services but differ from AL communities because MC residents need to be cared for in a secured environment to prevent seniors from leaving the community in a confused state. AL and MC communities in the United States are typically licensed and regulated by state and local governments rather than the federal government. In Canada, AL communities are licensed or certified and regulated in most jurisdictions but are typically less regulated than LTCs (defined below). Licensure for MC communities is generally identical to AL licensure except for specific building requirements including locked exterior doors secured by keys or an access code. AL communities receive most of their revenues through private pay sources and may also receive revenue from third-party pay sources, including federal, state and provincial governments.
- **Skilled Nursing Facilities ("SNFs") and Long-Term Care Facilities ("LTCs"):** SNFs, as referred to in the United States, and LTCs, as referred to in Canada, are senior care facilities that provide a room, meals and assistance with daily life activities and have licensed nursing staff on duty 24 hours per day. These facilities provide the most intensive level of medical and nursing care in a residential setting for seniors, typically treating residents with physical or mental impairments that prevent them from living in IL or AL communities. In many cases, these facilities supplement hospital care by providing care to patients who require medical and therapeutic services but are stable enough to have these services provided in a facility that is less expensive than a hospital or other post-acute care setting. The SNF and LTC segment includes services to patients requiring medical and/or nursing care and rehabilitation services for post-operative procedures including hip or knee replacements and cardiac surgeries, among others. SNFs and LTCs also provide transitional care services, and facilities that specialize in this type of care are often referred to as Transitional Care Centers ("TCCs"). TCCs are designed for patients transitioning from the hospital to their home after a surgery or an acute health episode. TCCs, a sub-segment of SNFs and LTCs, are the most common destination for post-acute care patients requiring short-term, physician-ordered intense rehabilitation for post-operative procedures. They are staffed by registered nurses, therapists, pharmacists and social workers. SNFs and LTCs in North America are subject to extensive federal, state and provincial regulation, including licensing requirements and

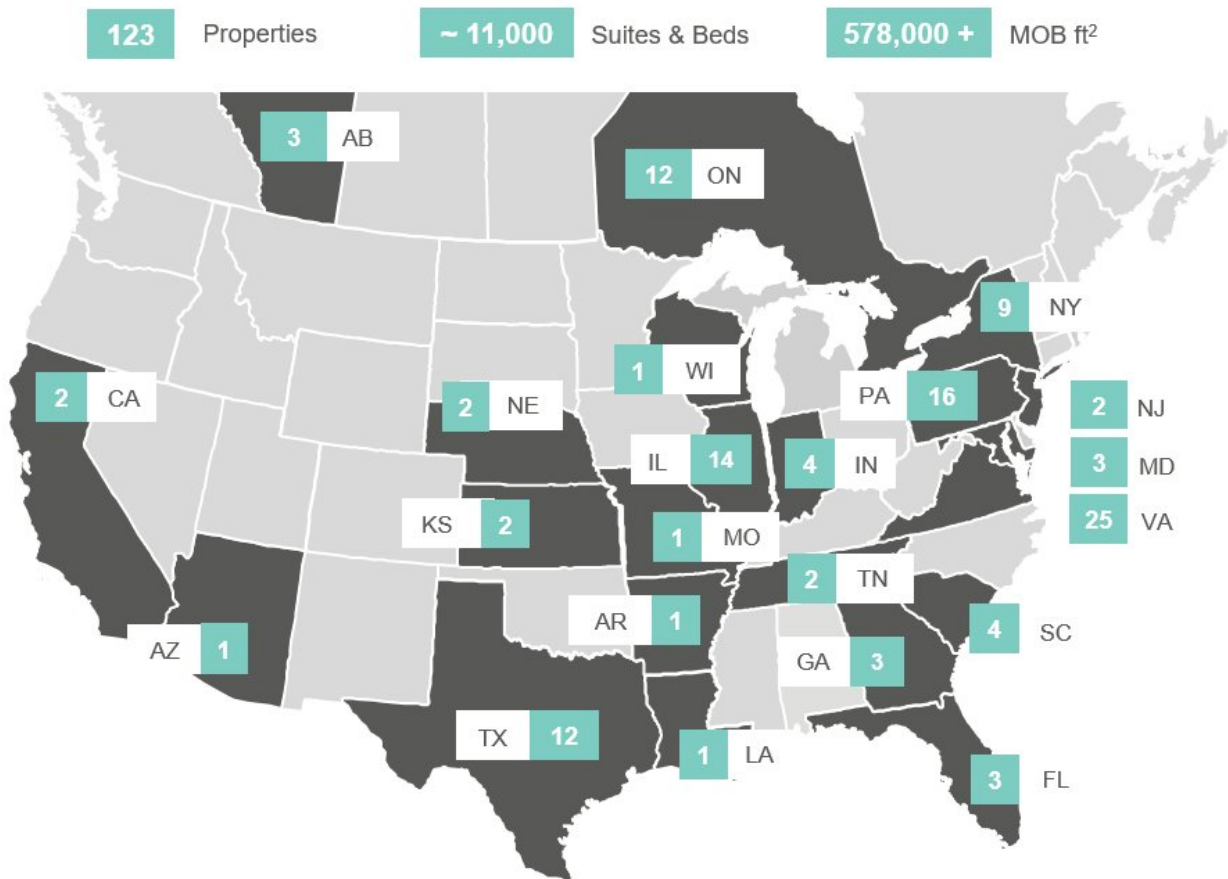
regulations relating to government funding. SNFs and LTCs receive revenue from private pay sources and third-party pay sources, including federal, state and provincial governments and insurance companies.

For the Company's SNF and TCC properties, it generally owns the land and buildings and leases them to third party operators on a long-term, triple-net lease basis. For its IL and AL properties, it either owns the land and buildings and leases them to third party operators on a long-term, triple-net basis, has an interest in both the property and operations in joint ventures and joint arrangements with the operating partner at the facility, or wholly owns and operates the property. For the triple-net lease structured assets, the tenant operators assume the operational risks and expenses associated with operating a seniors housing and care facility on the leased premises. The tenant operators provide and manage the service offerings available at the facilities, deliver all care services, and maintain the buildings.

The Company's multi-tenant medical office portfolio is operated via third party property and asset management contracts with Mohawk Realty Advisors Ltd ("Mohawk").

As of March 11, 2020, the Company owns or has a majority interest in a portfolio of 108 properties in the United States, comprised of 74 assisted living and memory care facilities, 17 skilled nursing facilities, 13 transitional care properties, and 4 medical office buildings. In Canada, the Company owns an interest in 15 properties comprised of 11 medical office buildings and 4 seniors housing and care facilities.

The Company's geographic footprint as of March 11, 2020:



Management believes that certain characteristics of the North American seniors housing and care industry, including favorable demographic trends, increasing demand with stagnant supply of new facilities and the shift from high cost hospitals for post-acute care to lower cost settings such as skilled nursing facilities, provide for a unique investment opportunity. The increased demand for health care facilities further enforces the growing demand for health care spending in medical office buildings as well. Management also believes that, as a result of the high quality of the Company's properties, its triple-net lease 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 and disposition

The following asset acquisitions and dispositions were completed during the year ended December 31, 2019:

	Allen, TX	Symcare Properties	Mooresville, IN	Constant Care	Total
Number of consolidated properties acquired (disposed):	1	3	(1)	3	6
Net assets acquired (disposed):					
Investment properties	\$ 8,136	\$ 51,323	\$ (14,991)	\$ 29,962	\$ 74,430
Working capital balances	—	(586)	104	—	(482)
	\$ 8,136	\$ 50,737	\$ (14,887)	\$ 29,962	\$ 73,948
Consideration paid/funded (received):					
Cash	2,445	46,937	(9,887)	25,613	65,108
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)
Issuance of Exchangeable Units	—	—	—	2,049	2,049
Repayment of loan receivable principal and accrued interest	—	—	—	2,300	2,300
	\$ 8,136	\$ 50,737	\$ (14,887)	\$ 29,962	\$ 73,948

On January 16, 2019, the Company acquired a memory care facility leased to an operator located in Allen, TX for a contractual 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 for a contractual purchase price of \$22,000 plus transaction costs funded with cash on hand. The building is operated by an affiliate of the tenant operator of the Symphony Portfolio ("Symcare"). 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 affiliates of Symcare for a contractual purchase price 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 Mooresville, IN for total consideration of \$15,000, less transaction costs. This was the only property in the portfolio being leased by this operator, and the Company believes its resources can be better utilized in other relationships with more growth opportunity. 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 is interest only at an annual rate of 8.5% and matures July 1, 2024.

On August 30, 2019, the Company purchased three memory care facilities located in Fishers, IN; Greenwood, IN; and Zionsville, IN for a total contractual purchase price of \$30,786, plus transaction costs. The transaction was funded by the repayment of \$2,300 of outstanding loans receivable principal and accrued interest, issuance of \$2,049 in Class B LP units with the right to exchange units into common shares of the Company at the option of the unit holder ("Exchangeable Units"), and cash on hand.

Recent business combination

The following table summarizes the preliminary allocation of the purchase price to each major category of assets acquired and liabilities assumed at the date of acquisition and the major categories of consideration transferred for acquisitions which were accounted for as business combinations under IFRS 3. The fair value allocations are based on preliminary purchase allocations conducted by management. As the acquisition is within the measurement period under IFRS 3, it continues to be refined. The Company is gathering information to finalize fair value of the property, plant and equipment, embedded derivatives and mortgages.

	Commonwealth Tranche I	Commonwealth Tranche II	Greenfield Transition	Total
Properties Acquired	17	3	13	33
Property, plant and equipment	\$ 286,695	\$ 58,051	\$ 36,430	\$ 381,176
Construction in progress	893	—	—	893
Assumption of mortgages payable	(9,523)	(34,475)	(22,522)	(66,520)
Mark to market debt adjustments	(278)	(2,876)	—	(3,154)
Working capital balances	(2,964)	1,010	559	(1,395)
Previous interest in joint venture	—	—	(9,863)	(9,863)
	\$ 274,823	\$ 21,710	\$ 4,604	\$ 301,137
Consideration paid:				
Issuance of preferred units	53,587	12,093	—	65,680
Proceeds from Commonwealth Facility	174,069	—	—	174,069
Satisfaction of rent receivable	—	—	1,522	1,522
Cash on hand	47,167	9,617	3,082	59,866
	\$ 274,823	\$ 21,710	\$ 4,604	\$ 301,137

Commonwealth Acquisition

On August 1, 2019, a wholly owned subsidiary of the Company closed on the first tranche of the purchase of Commonwealth Senior Living, LLC ("Commonwealth"). The first tranche of the acquisition includes 17 private pay seniors housing properties in addition to the Commonwealth management company (collectively, "Commonwealth Tranche I"). The Commonwealth management company operates all 17 properties purchased.

The total contractual purchase price for Commonwealth Tranche I was \$285,357 for property, plant and equipment and \$893 for construction in progress related to development projects ongoing at certain properties in the portfolio, 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.

On December 23, 2019, a wholly owned subsidiary of the Company closed on the second tranche of the purchase of Commonwealth which included the acquisition of 3 private pay seniors housing properties (collectively, "Commonwealth Tranche II"). The 3 properties are operating by the Commonwealth management company. The total contractual purchase price of Commonwealth Tranche II was \$55,000. The acquisition was funded through the assumption of \$34,475 in debt secured by the properties, the issuance of \$12,093 of preferred interests in the Company's acquiring subsidiary entity and cash on hand. For the year ended December 31, 2019, the consolidated statement of income (loss) and comprehensive income (loss) includes transaction costs of \$4,556 related to the acquisition of Commonwealth.

Greenfield Transition

On June 29, 2019, the Company entered into an agreement with Greenfield Senior Living ("Greenfield") whereby the Company would acquire 100% of Greenfield's interests in 13 properties in which the Company already has an ownership interest

("Greenfield Transition"). Ten of these properties were previously triple-net leased to Greenfield and the Company acquired Greenfield's interest in the operations at each property. The remaining three properties were previously held in a joint arrangement and were managed by Greenfield. The Company acquired Greenfield's 20% interest in both the property and the operations in the three previously held in a joint venture.

On September 3, 2019, three properties that were previously triple-net leased to Greenfield transitioned operations to a subsidiary of the Company. During October of 2019, seven properties that were previously triple-net leased to Greenfield transitioned operations. As of the date of this transition, the assets were determined to be owner occupied property, and the corresponding assets are classified as property, plant and equipment.

On August 2, 2019, a property that was previously held in a joint arrangement and managed by Greenfield transitioned operations to the management of Commonwealth. On October 1, 2019, a property that was previously held in a joint arrangement and managed by Greenfield transitioned operations to the management of Commonwealth. As of the date of this transition, the assets were determined to be owner occupied property, and the corresponding assets are classified as property, plant and equipment.

As of December 31, 2019, the Company completed the Greenfield Transition and acquired Greenfield's ownership interest in 13 properties. The total contractual purchase price was \$4,708 which was funded through satisfaction of outstanding rent receivable of \$1,522 owed by Greenfield and cash on hand. For the year ended December 31, 2019, the consolidated statement of income (loss) and comprehensive income (loss) includes transaction costs of \$1,342 related to the Greenfield Transition.

On December 31, 2019, the remaining property from the joint arrangement transitioned full ownership to a subsidiary of the Company and still remained under the operations of Greenfield. The assets are currently classified as held for sale on the consolidated statements of financial position. The community, located in Arlington, TX, was sold on February 28, 2020 for total consideration of \$12,450, less transaction costs. The consideration was paid in the form of cash and an \$8,000 repayment of the mortgage secured by the property.

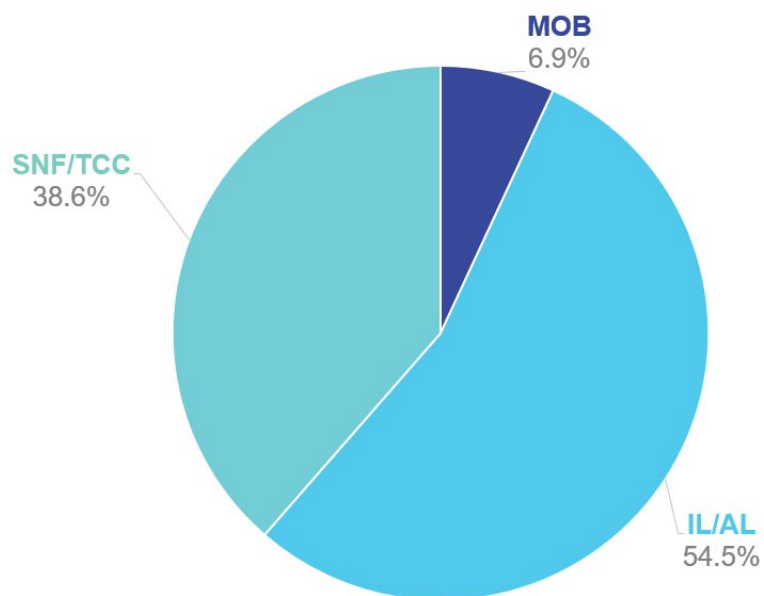
Other Recent Activity

On June 5, 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.

On July 23, 2019, the Company entered subscription agreements with certain funds managed by Magnetar Financial LLC (collectively, "Magnetar"), a significant shareholder of the Company, in respect of the issuance of Class A Series 4 convertible preferred shares (the "Series 4 Preferred Shares") for aggregate proceeds of \$14,550. On August 27, 2019, the fourth series funded and resulted in the issuance of 1,538,461 Series 4 Preferred Shares.

On July 26, 2019, the Company entered into a credit agreement with affiliates of 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. On December 5, 2019, the Company repaid \$15,000 on the facility.

As of March 11, 2020, the Company's portfolio composition by asset type based on forward looking net operating income projections is as follows:



Selected Financial Information

(dollar amounts in thousands of U.S. Dollars, except per share amounts)

	As at December 31,		
	2019	2018	2017
Consolidated investment properties	69	80	40
Consolidated owner occupied properties	33	—	
Weighted average lease term to maturity (excludes renewal options) ⁽⁴⁾	13.2 years	11.8 years	13.3 years
Average facility age	10.2 years	10.2 years	11.5 years
Total assets	\$ 1,630,738	\$ 1,283,959	\$ 785,005
Total indebtedness	\$ 1,013,475	\$ 731,215	\$ 428,377
Debt to total assets %	62.1%	57.0%	54.6%
Weighted average interest rate ⁽¹⁾	4.6%	4.8%	4.6%
Joint venture properties	22	18	—
Joint venture total assets	\$ 418,445	\$ 299,286	\$ 4,152
Joint venture indebtedness	\$ 247,051	\$ 176,742	\$ —
Joint venture debt to total assets %	59.0%	59.1%	n/a
Joint venture weighted average interest rate ⁽⁵⁾	4.4%	4.8%	n/a
	Year ended	Year ended	Year ended
	December 31, 2019	December 31, 2018	December 31, 2017
Revenue	\$ 148,407	\$ 113,927	\$ 64,004
Direct property operating expenses	\$ 33,533	\$ 3,126	\$ —
Finance costs	\$ 41,633	\$ 38,264	\$ 16,055
General and administrative expenses	\$ 18,092	\$ 13,412	\$ 8,074
Income (loss) from joint ventures	\$ (6,799)	\$ 5,450	\$ —
Net income (loss)	\$ (5,359)	\$ (12,275)	\$ 16,263
Net income (loss) per share	\$ (0.10)	\$ (0.24)	\$ 0.50
Diluted net income per share	\$ (0.10)	\$ (0.21)	\$ 0.50
Funds from operations (FFO) ⁽³⁾	\$ 46,122	\$ 48,219	\$ 28,188
FFO per share ⁽³⁾	\$ 0.85	\$ 0.96	\$ 0.87
Diluted FFO per share ⁽³⁾	\$ 0.73	\$ 0.83	\$ 0.85
Adjusted funds from operations (AFFO) ⁽³⁾	\$ 41,223	\$ 43,105	\$ 30,920
AFFO per share ⁽³⁾	\$ 0.76	\$ 0.86	\$ 0.96
Diluted AFFO per share ⁽³⁾	\$ 0.65	\$ 0.74	\$ 0.91
Common share dividends declared	\$ 39,764	\$ 37,001	\$ 23,791
Dividends declared per share	\$ 0.73668	\$ 0.73668	\$ 0.73668
Payout ratio ⁽²⁾	96%	86%	77%
Effective payout ratio ⁽²⁾	78%	84%	77%

(1) The Company's weighted average interest rates at December 31, 2019, 2018 and 2017 included \$570,229, \$348,287, and \$227,070, respectively, of the Company's debt that is fixed with interest rate swaps.

(2) Payout ratio and effective payout ratio are financial measures not defined under IFRS. Payout ratio is calculated by dividing the common share dividends declared by AFFO. Effective payout ratio is calculated by dividing common share dividends payable in cash, as adjusted for DRIP participation, 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.

(4) The weighted average lease term to maturity does not include the medical office building portfolio nor owner occupied properties.

(5) The Company's joint venture weighted average interest rate at December 31, 2019 and 2018 included \$115,280 and \$83,769, respectively, of the joint ventures debt that is fixed with interest rate swaps.

Results of Operations - Three and Twelve Months Ended December 31, 2019

(unless otherwise stated, amounts are in thousands of U.S. dollars)

Revenue

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Contractual rental revenue	\$ 16,787	\$ 21,631	\$ 75,950	\$ 82,192
Straight-line rent adjustments	2,169	2,564	8,964	10,831
Amortization of tenant inducements	(101)	—	(158)	—
Property tax recoveries	3,709	3,643	15,243	14,327
CAM recoveries	847	772	3,199	2,038
Total rental revenue	23,411	28,610	103,198	109,388
Resident rental and related revenue	25,828	—	38,467	—
Lease revenue from joint ventures	771	732	3,024	2,991
Other income	1,799	611	3,718	1,548
Total revenue	\$ 51,809	\$ 29,953	\$ 148,407	\$ 113,927

Contractual rentals received and straight-line rent adjustments relate to lease agreements under which the Company leases its investment properties to its tenants. Property tax recoveries represent the revenue recognized for the real estate taxes for which the tenants are primarily responsible to pay. CAM recoveries represent the recovery of common area maintenance expenses in investment properties that are not triple-net leased, primarily within the Company's medical office building portfolio. The decrease in rental revenue was primarily driven by eight properties that were contributed to a joint venture on June 5, 2019 and are no longer consolidated offset by the timing of the prior year acquisition of the medical office building portfolio on May 1, 2018. It was also impacted by 10 properties that were previously triple-net leased to Greenfield for which management was transitioned to Commonwealth and Heritage, an operator in which the Company has a previous relationship. For these 10 transitioned properties, the Company no longer recognizes contractual rental revenue but instead receives resident rental and related revenue. In addition, for the twelve month period ended December 31, 2019, the year over year changes were impacted by the prior year timing of the acquisition of Care Investment Trust, LLC ("Care"), which closed on February 1, 2018.

Resident rental and related revenue relates to operating revenue at the wholly owned properties managed by Commonwealth and Heritage. This revenue primarily consists of rental revenue paid by residents in the Company's owner occupied properties.

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

Other income for the three and twelve months ended December 31, 2019 related primarily to parking income earned at the medical office buildings and management fee income earned from communities managed by Commonwealth but that are not owned by the Company. Commonwealth currently manages four properties that are not owned by the Company. The increase for the three month period was due to \$455 of a tax recovery from a local municipality related to taxes paid in a prior year. Other income for the three and twelve months ended December 31, 2018 primarily related to parking income earned from the medical office building portfolio purchased on May 1, 2018 and the equity return earned on the investment in MS-SW Development Fund Holdings, LLC. The increase for the twelve month period was due to the timing of the acquisition of the medical office building portfolio which closed May 1, 2018 and the management fee income earned by the Commonwealth management company.

Direct Property Operating Expenses

Direct property operating expenses consist of the following:

	Three months ended December 31, 2019			Three months ended December 31, 2018		
	Owner occupied property	Medical office buildings	Total	Owner occupied property	Medical office buildings	Total
Repairs and maintenance	\$ 552	\$ 438	\$ 990	\$ —	\$ 284	\$ 284
Utilities	792	385	1,177	—	283	283
Property management fees	—	144	144	—	144	144
Compensation and benefits	13,224	—	13,224	—	—	—
Other services and supplies	1,708	287	1,995	—	251	251
Real estate taxes	533	—	533	—	—	—
Other	2,752	239	2,991	—	222	222
	\$ 19,561	\$ 1,493	\$ 21,054	\$ —	\$ 1,184	\$ 1,184

	Year ended December 31, 2019			Year ended December 31, 2018		
	Owner occupied properties	Medical office buildings	Total	Owner occupied properties	Medical office buildings	Total
Repairs and maintenance	\$ 763	\$ 1,539	\$ 2,302	\$ —	\$ 744	\$ 744
Utilities	1,163	1,369	2,532	—	829	829
Property management fees	—	574	574	—	380	380
Compensation and benefits	19,226	—	19,226	—	—	—
Other services and supplies	2,562	1,022	3,584	—	642	642
Real estate taxes	715	—	715	—	—	—
Other	3,782	818	4,600	—	531	531
	\$ 28,211	\$ 5,322	\$ 33,533	\$ —	\$ 3,126	\$ 3,126

The direct property operating expenses relate to expenses at the 15 multi-tenant medical office buildings the Company acquired on May 1, 2018 and the Company's 33 owner occupied properties. The owner occupied properties include the 17 Commonwealth properties acquired on August 1, 2019, 3 Commonwealth properties acquired on December 23, 2019, 10 properties that have been transitioned from Greenfield management to Commonwealth at various dates during the third and fourth quarter of 2019, and 2 properties that have been transitioned from Greenfield management to Heritage. Increases in both the three and twelve month periods ended December 31, 2019 are due to the timing of the acquisitions.

Depreciation and amortization expense

For the three and twelve months ended December 31, 2019, depreciation and amortization expense was \$9,032 and \$14,440 (three and twelve months ended December 31, 2018 - NIL), which relates to the straight-line depreciation over the useful life of the Company's owner occupied property, plant and equipment. The Company amortizes the value of in place leases over the average lease life.

Finance Costs from Operations

Finance costs from operations consist of the following:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Interest expense on credit facilities	\$ 6,947	\$ 4,237	\$ 22,665	\$ 15,778
Interest expense on mortgages payable	2,683	4,697	11,922	17,096
Interest expense on convertible debentures	1,313	1,313	5,249	3,317
Distributions on Exchangeable Units	60	—	80	—
Dividends on Commonwealth preferred units	902	—	1,475	—
Amortization and accretion expense	1,022	834	3,882	2,819
Interest rate swap receipts	218	(350)	(86)	(1,226)
Write-off of deferred financing costs from refinancing	—	3,708	82	3,708
Amortization of mark-to-market debt adjustments	(41)	22	25	79
Interest income from loans receivable	(1,080)	(924)	(3,661)	(3,307)
	\$ 12,024	\$ 13,537	\$ 41,633	\$ 38,264

Finance costs are primarily related to interest and amortization on the Company's credit facilities and mortgages payable. Interest expense on credit facilities increased in the year ended December 31, 2019 as compared to the prior year primarily due to additional borrowings, including the Commonwealth Facility, used to fund new property acquisitions and to repay individual property mortgage debt. Interest expense on mortgages payable decreased due to the impact of repaying individual property mortgage debt with funds from the credit facilities, as well as the impact of eight properties contributed to a joint venture which are no longer consolidated effective June 5, 2019. Interest expense on convertible debentures increased over the comparable prior year due to the 2018 Convertible Debentures issued August 24, 2018. The Commonwealth preferred units issued to fund the Commonwealth transactions earn an initial dividend rate of 6.50% per annum.

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

For the three and twelve months ended December 31, 2019, real estate tax expense was \$339 and \$15,844 (three and twelve months ended December 31, 2018 - \$535 and \$11,796), 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 additional properties acquired in the prior year. Real estate tax expense on the Company's owner occupied properties is included in direct property operating expense in the consolidated statements of income (loss) and comprehensive income (loss).

The following table presents real estate tax expense and change in fair value of investment properties - IFRIC 21 together with property tax recoveries to show the net effect of real estate taxes on the Company's consolidated statements of income (loss) and comprehensive income (loss) for the periods presented. The expense in excess of property tax revenue is primarily due to properties that are not fully occupied, generally within the medical office building portfolio.

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Property tax recoveries	\$ 3,709	\$ 3,643	\$ 15,243	\$ 14,327
Real estate tax expense	(339)	(535)	(15,844)	(11,796)
Change in fair value of investment properties - IFRIC 21	(3,551)	(3,186)	(29)	(2,801)
	\$ (181)	\$ (78)	\$ (630)	\$ (270)

General and Administrative Expense

General and administrative expense consists of the following:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Compensation and benefits	\$ 3,711	\$ 1,809	\$ 9,067	\$ 6,273
Asset management and administrative fees	125	125	499	421
Professional fees	790	490	3,090	2,544
Deferred share compensation	849	241	2,653	1,283
Other	750	1,121	2,783	2,891
	<u>\$ 6,225</u>	<u>\$ 3,786</u>	<u>\$ 18,092</u>	<u>\$ 13,412</u>

Compensation and benefits expense includes the cost of salaries, bonuses, and benefits during the period. The increase in compensation and benefits expense for the three and twelve months periods ended December 31, 2019 is due to the compensation related to employees of the Commonwealth management company and an adjustment to the Company's bonus accrual.

Asset management fees relate to the contractual fee due under an asset management agreement with Mohawk to manage the Company's portfolio of medical office buildings. The asset management agreement has an initial term of two years.

Professional fees is comprised of costs incurred for external legal counsel, accounting fees and other professional services. The increase in professional fees for the three and twelve month periods ended December 31, 2019 as compared to the prior year period is primarily due to an increase in services provided due to growth in the Company.

Deferred share compensation expense for the three and twelve months ended December 31, 2019 increased over the prior year primarily due to increased amount of discretionary shares issued with respect to officer and director grants.

Other general and administrative expense primarily includes cost of insurance, fees earned by directors of the Company, travel and entertainment expense, franchise and licensure taxes, investor relations, marketing, and foreign exchange loss (gain). The decrease as compared to prior year periods was primarily due to costs in 2018 related to the re-branding of the Company due to the name change effective January 3, 2018 and a legal settlement accrued for in Q4 of 2018 related to a suit the Company was party to with respect to a development investment.

Transaction Costs for Business Combination

For the three and twelve months ended December 31, 2019, the Company incurred transaction costs for business combination of \$1,638 and \$5,898, respectively, related to the acquisition of Commonwealth and the acquisition of 100% of Greenfield's interests in 13 properties in which the Company already has an ownership interest. Transaction costs for business combination for the prior year comparable periods were \$0 and \$6,444, respectively, and included transaction costs incurred in relation to the acquisition of Care on February 1, 2018.

Diligence Costs for Transactions Not Pursued

The Company incurred diligence costs for transactions not pursued for the three and twelve months ended December 31, 2019 of \$0 and \$633, respectively (three and twelve months ended December 31, 2018 - \$0 and \$2,041, respectively) and included expenses related to the evaluation of investment opportunities that did not result in a purchase transaction. These costs are the result of investments which the Company ultimately decided were not in the best interest of its shareholders. The costs in the current year and prior year relate to different investment opportunities.

Allowance for Credit Losses on Loans and Interest Receivable

Allowance for credit losses on loans and interest receivable for the three and twelve months ended December 31, 2019 was \$(9) and \$1,003, respectively (three and twelve months ended December 31, 2018 - \$8,807 and \$11,336). The (recoveries) losses are related to a change in collectability estimates with respect to loans receivable and related interest receivables.

Change in Non-controlling Interest Liability

The change in non-controlling interest liability was an increase of \$160 and \$504 for the three and twelve months ended December 31, 2019, respectively, (three and twelve months ended December 31, 2018 - \$120 and \$17,927). These costs are the result of the portion of net income attributed to the non-controlling interest partners of the consolidated properties, and the decrease from the prior year periods is primarily due to non-cash fair value adjustments. During the third quarter of 2018, the change in non-controlling interest liability included \$16,575 of increase due to the change in fair value of investment property from the Traditions Portfolio that was attributed to the non-controlling interest partner.

Change in Fair Value of Investment Properties

The change in fair value of investment properties was an increase of \$(2,705) and decrease of \$6,046 for the three and twelve months ended December 31, 2019, respectively, (three and twelve months ended December 31, 2018 - \$43,256 decrease and \$14,385 decrease, respectively). The change in fair value of investment properties was primarily driven by an adjustment to record investment properties at fair value based on the Company's estimate of fair value using level 3 inputs as of December 31, 2019.

Change in Fair Value of Financial Instruments

Change in fair value of financial instruments consists of the following:

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Change in fair value of interest rate swaps	\$ (4,710)	\$ 3,774	\$ 9,379	\$ 1,949
Change in fair value of equity investment in MS-SW Development Fund Holdings, LLC	—	376	—	376
Total loss (income) from change in fair value of financial instruments	\$ (4,710)	\$ 4,150	\$ 9,379	\$ 2,325

The change in fair value of financial instruments for the three and twelve months ended December 31, 2019 and 2018 was primarily due to the change in fair value of interest rate swaps due to changes in variable interest rates that underly the corresponding interest rate swaps. Interest rate swaps are used to manage interest costs on debt. 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.

The change in fair value of financial instruments for the three and twelve months ended December 31, 2018 was also due to the change in fair value of equity investments in MS-SW Development Fund Holdings, LLC caused by a change in fair value of the developments underlying this equity investment.

Change in Fair Value of Contingent Consideration

For the three and twelve months ended December 31, 2018, the Company recorded a change in fair value of contingent consideration of \$(495) and \$10,676, respectively, related to the sale of the portfolio of seven properties located in Georgia (collectively, "Traditions Portfolio"). Change in fair value of contingent consideration represents the change in fair value of the estimated amounts due to the former owner upon sale of the Traditions Portfolio.

Income (loss) from Joint Ventures

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Revenue	\$ 13,329	\$ 23,789	\$ 52,564	\$ 59,153
Property operating expense	(9,329)	(20,779)	(37,067)	(46,889)
Finance costs	(2,380)	(1,735)	(8,048)	(6,065)
Depreciation expense	338	(324)	(995)	(1,189)
Change in fair value of financial instruments	1,479	(1,008)	(2,465)	(373)
Change in fair value of investment properties	1,908	2,134	(10,788)	813
Income (loss) from joint ventures	\$ 5,345	\$ 2,077	\$ (6,799)	\$ 5,450

Income (loss) from joint ventures represents the Company's share of net 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. On June 5, 2019, the Company contributed its interest in eight properties to a joint venture and as a result the Company unconsolidated the properties. The Company has additionally obtained control of three of the Care portfolio properties and consolidated their results. The loss from joint ventures during the three and twelve months ended December 31, 2019 is primarily related to the change in fair value of investment properties offset by income from operations.

Income Tax Expense/Recovery

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

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

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.

Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Translation of Foreign Operations

Unrealized gain (loss) on translation of foreign operations for the three and twelve months ended December 31, 2019 of \$1,281 and \$3,294, respectively, (three and twelve months ended December 31, 2018 - \$(3,680) and \$(4,276)) was due to the change in value of the Canadian dollar as compared to the U.S. dollar during the period.

Cash Flow Analysis

	Year ended December 31,	
	2019	2018
Cash provided by operating activities	\$ 16,170	\$ 24,972
Cash provided by financing activities	278,664	132,250
Cash used in investing activities	(309,974)	(143,202)
Increase (decrease) in cash and cash equivalents	\$ (15,140)	\$ 14,020

Cash Provided by Operating Activities

Cash provided by operating activities decreased during the twelve month period ended December 31, 2019 as compared to the prior year. The changes were primarily due to decreases in non-cash operating working capital, driven by a portion of

accounts receivable from tenants which were satisfied by issuing loans receivable. The Company issued \$13,889 of loans receivable in satisfaction of rents due from tenants as part of its efforts to support the tenants with operating capital needs.

Cash Provided by Financing Activities

Cash provided by financing activities for the twelve month period ended December 31, 2019 was \$278,664 as compared to \$132,250 in the prior year period. The current period cash provided by financing activities was primarily driven by net proceeds from the credit facilities and mortgage activity. In addition, the Company paid cash dividends of \$32,509 during the period.

Cash provided by financing activities in the twelve month period ended December 31, 2018 included net proceeds from credit facilities and mortgages payable of \$80,373, proceeds of \$44,753 from the issuance of the Series 2 Preferred Shares in February of 2018 and Series 3 Preferred Shares in March of 2018, and proceeds of \$50,000 from the issuance of convertible debentures. These proceeds were offset by debt issuance costs incurred in association with new and refinanced mortgages of \$7,516 and cash dividends paid of \$34,952.

Cash Used in Investing Activities

Cash used in investing activities for the twelve months ended December 31, 2019 was \$309,974. This was primarily due to \$235,433 used for acquisitions of property, plant and equipment and \$93,002 used for acquisitions of investment property and capital expenditures made during the twelve month period. The Company also issued loans receivable for \$13,116, made a payment of \$9,676 to the previous owner of Care for its portion of the proceeds of the sale of the Traditions portfolio in December of 2018 and made cash contributions to investments in joint ventures. These uses of cash in investing activities were offset by the receipt of \$23,000 for the sale of an interest in the net assets contributed to the Jaguarundi joint venture and \$4,835 as repayment of loans receivable.

For the twelve months ended December 31, 2018, the Company used \$186,632 for the acquisition of properties and capital expenditures. In addition, the Company issued loans receivable for \$29,288, received \$20,091 as repayment of mezzanine loans receivable and paid construction payables of \$4,600.

Financial Position

Total assets of \$1,630,738 are comprised primarily of \$969,634 of investment properties, which represents the estimated fair market value of the Company's portfolio of properties, including capital expenditures, and \$459,942 of property, plant and equipment, net as at December 31, 2019. Cash on hand at December 31, 2019 was \$11,838, total loans receivable were \$48,902, investments in joint ventures were \$99,321, and other assets were \$10,743. Total loans receivable includes \$20,825 of loans to the tenant operator Symcare. Other assets primarily consisted of \$160 of prepaid asset management fees, \$159 of security deposits and costs related to potential acquisitions, \$3,038 of escrows held by lenders, \$63 of income support receivable, \$1,906 of prepaid expense, \$2,199 of right-of-use asset, \$1,071 of bond assets and \$2,147 of other costs. Tenant and other receivables of \$7,073 is primarily comprised of real estate tax and rent receivables. The loans receivable balance related mainly to the issuance of loans for the development and operation of seniors housing and care properties in the United States and Canada.

Total liabilities of \$1,150,594 includes current liabilities of \$95,913 (see "Liquidity and Capital Resources" for additional information) and non-current liabilities of \$1,054,681. The current liabilities included \$13,066 of real estate taxes payable. Of the real estate taxes payable, \$863 related to the period prior to the Company's ownership of the respective properties, and the seller provided cash consideration at closing for this amount. Accounts payable and accrued liabilities represented \$18,885 of the balance in current liabilities. In addition, current liabilities included \$43,024 representing the current portion of mortgages payable, net of loan fees and \$3,354 of dividends payable. Non-current liabilities included \$232,443 representing the non-current portion of mortgages payable, net of loan fees; \$632,390 representing the non-current balance outstanding on the credit facilities, net of loan fees; \$91,049 of the convertible debentures, net of fees; \$63,654 of Commonwealth preferred unit liability; \$7,966 of derivative liability; \$6,944 of deferred tax liability; and \$3,499 of non-controlling interest liability. Other non-current liabilities of \$16,736 primarily consisted of security deposits received from tenants, lease liability, loan commitment liability and a liability related to deferred shares granted under the Company's deferred share incentive plan.

Summary of Quarterly Results

The following table summarizes the Company's quarterly unaudited financial information from January 1, 2018 through December 31, 2019:

	Three months ended December 31, 2019	Three months ended September 30, 2019	Three months ended June 30, 2019	Three months ended March 31, 2019	Three months ended December 31, 2018	Three months ended September 30, 2018	Three months ended June 30, 2018	Three months ended March 31, 2018
Revenue	\$ 51,809	\$ 38,550	\$ 28,824	\$ 29,224	\$ 29,953	\$ 31,581	\$ 29,354	\$ 23,039
Finance costs	12,024	10,702	9,837	9,070	13,537	9,540	8,685	6,502
Real estate tax expense	339	527	550	14,428	535	1,810	251	9,200
General and administrative expenses	6,225	4,305	4,124	3,481	3,786	3,732	3,231	2,733
Direct property operating expenses	21,054	9,934	1,243	1,302	1,184	1,256	686	—
Depreciation and amortization expense	9,032	5,365	—	—	—	—	—	—
Transaction costs for business combination	1,638	2,564	1,696	—	—	6	322	6,116
Diligence costs for transactions not pursued	—	—	633	—	—	1,971	70	—
Allowance for credit losses on loans and interest receivable	(9)	(152)	673	491	8,807	555	724	1,250
Changes in non-controlling interest liability	160	189	99	56	120	17,028	738	41
Change in fair value of investment properties - IFRIC 21	3,551	3,285	3,617	(10,424)	3,186	2,741	3,212	(6,338)
Change in fair value of investment properties	(2,705)	(970)	14,578	(4,857)	43,256	(29,082)	(2,110)	2,321
Change in fair value of financial instruments	(4,710)	4,754	7,524	1,811	4,150	(334)	(94)	(1,397)
Change in fair value of contingent consideration	—	—	—	—	(495)	11,171	—	—
Income (loss) from joint ventures	5,345	(1,093)	(7,238)	(3,813)	2,077	974	1,593	806
Deferred income tax expense (recovery)	3,871	(700)	(6,086)	2,848	(12,243)	3,507	4,757	1,098
Current income tax expense	—	—	—	—	(18)	—	18	—
Net income (loss)	6,684	(2,346)	(16,902)	7,205	(33,775)	8,654	10,527	2,319
Income (loss) per share: Basic	\$ 0.12	\$ (0.04)	\$ (0.31)	\$ 0.14	\$ (0.64)	\$ 0.16	\$ 0.20	\$ 0.05
Income (loss) per share: Diluted	\$ 0.12	\$ (0.04)	\$ (0.31)	\$ 0.12	\$ (0.64)	\$ 0.14	\$ 0.18	\$ 0.05
Funds from operations ⁽¹⁾	10,547	12,507	10,445	12,623	8,596	12,401	15,042	5,591
Funds from operations per share: Basic ⁽¹⁾	\$ 0.19	\$ 0.23	\$ 0.19	\$ 0.24	\$ 0.16	\$ 0.23	\$ 0.29	\$ 0.27
Funds from operations per share: Diluted ⁽¹⁾	\$ 0.17	\$ 0.20	\$ 0.17	\$ 0.20	\$ 0.15	\$ 0.20	\$ 0.25	\$ 0.24
Adjusted funds from operations ⁽¹⁾	9,603	10,711	9,918	10,976	10,300	10,541	12,953	10,092
Adjusted funds from operations per share: Basic ⁽¹⁾	\$ 0.18	\$ 0.20	\$ 0.18	\$ 0.21	\$ 0.19	\$ 0.20	\$ 0.25	\$ 0.23
Adjusted funds from operations per share: Diluted ⁽¹⁾	\$ 0.15	\$ 0.17	\$ 0.16	\$ 0.18	\$ 0.17	\$ 0.17	\$ 0.21	\$ 0.20

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

The Company's results for the past eight quarters have primarily been affected by the timing of additional property acquisitions, business combinations, dispositions, transfers, changes in the fair value of investment properties and financial instruments and change in non-controlling interest liability. Refer to the "Recent Activities" section of this MD&A for details of the timing of property acquisitions.

Liquidity and Capital Resources

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

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

The Company expects to meet its working capital requirements with respect to accounts payable and accrued liabilities and dividends payable through cash on hand and operating cash flows. As at December 31, 2019, current liabilities totaled \$95,913, exceeding current assets of \$52,429, resulting in a working capital deficiency of \$43,484. Of the working capital deficiency of \$43,484, \$22,447 was refinanced subsequent to year end into a new, longer term financing. 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 \$23,085 was available as at December 31, 2019, (iii) property specific mortgages and refinancings, (iv) issuance of preferred shares, (v) issuance of convertible debentures, (vi) issuance of common shares, subject to market conditions, and (vii) alternative financing sources.

The Company, while considering externally imposed capital requirements, sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets. In managing its capital structure, the Company monitors performance throughout the period to ensure working capital requirements are funded from operations, available cash on deposit, and available financing. The Company may make changes to its capital structure in order to support the broader corporate strategy or in response to economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue equity or new debt, issue new debt with different characteristics to replace existing debt, or reduce the amount of existing debt.

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 to best adhere to its corporate strategy.

Preferred Equity

The Company entered into subscription agreements in prior periods with respect to the issuance of class A convertible preferred shares to affiliates of Magnetar for aggregate gross proceeds of \$71,500, 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.

On July 23, 2019, the Company entered subscription agreements in respect of the issuance of Class A convertible preferred shares (the "Series 4 Preferred Shares") for aggregate proceeds of \$14,550. On August 27, 2019 the fourth series funded resulted in the issuance of 1,538,461 Series 4 Preferred Shares. The purpose of the transaction was to raise proceeds to be used for the second tranche of the Commonwealth transaction.

The Series 4 Preferred Shares are convertible into common shares at a conversion price of \$9.75. The other terms of the Series 4 Preferred Shares will be substantially similar to the terms of the Company's Class A convertible preferred shares that are currently outstanding, except that the liquidation preference of the Series 4 Preferred Shares will accrue at a rate of 9.80% for the first 24 months following the issuance of the Series 4 Preferred Shares and 12.25% thereafter; the prepayment penalty on liquidation, mandatory conversion and redemption will be 1% of the initial liquidation amount if the applicable event occurs within the first six months after issuance and 0.5% of the initial liquidation amount if the applicable event occurs between 6 months and one year following the issuance; and the Series 4 Preferred Shares will contain a limitation on converting to common shares, without prior approval of the Toronto Stock Exchange, if such conversion would result in the issuance of common shares equal to or exceeding 10% of the common shares outstanding on the date the Series 4 Preferred Shares are issued.

As at December 31, 2019, the Preferred Shares are convertible into 10,006,860 common shares of the Company. The weighted average accretion rate of the four series of preferred shares is 6.32%.

Debt Strategy and Indebtedness

Debt Strategy

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

To manage interest rate risk, the Company may enter into interest rate swap agreements from time to time. Management's objectives are to source the lowest cost fixed rate debt within its targeted levels while laddering its fixed rate maturity schedule to effectively manage repricing risk. The Company does not designate its interest rate swaps as hedges, and they are marked to fair value each reporting period through change in fair value of financial instruments in the consolidated statements of income and other comprehensive income.

Indebtedness

	Principal Amount	Weighted Average Interest Rate	Years to Maturity ⁽²⁾
<u>Fixed Rate Indebtedness</u>			
Unsecured Term loan	\$ 200,000	4.5% ⁽¹⁾	4.0
Unsecured Revolver	25,000	5.0% ⁽¹⁾	3.0
Unsecured Revolver	50,000	4.6% ⁽¹⁾	3.0
Mohawk Facility	65,589	4.3% ⁽¹⁾	3.3
Magnetar Facility	15,000	8.5% ⁽¹⁾	0.6
Commonwealth Facility	176,000	3.8% ⁽¹⁾	4.6
Mortgages payable	241,451	4.8% ⁽¹⁾	10.1
2016 Convertible Debentures	44,975	5.0%	2.1
2018 Convertible Debentures	50,000	6.0%	3.8
	868,015	4.6%	5.5
<u>Variable Rate Indebtedness</u>			
Unsecured Revolver	\$ 98,750	4.2%	3.0
Mohawk Facility	21,286	4.0%	3.3
Mortgages payable	33,632	5.0%	0.3
	153,668	4.4%	2.4
Total indebtedness	\$ 1,021,683	4.6%	5.0
Less loan fees and issue costs, net of amortization and accretion	(8,121)		
Equity component of convertible debentures, excluding issue costs and taxes	(2,384)		
Mark-to-market adjustment, net	2,297		
Carrying amount	\$ 1,013,475		

(1) Weighted average interest rates as at December 31, 2019 included debt that is fixed with interest rate swaps.

(2) Years to maturity does not include the exercise of extension options, where available.

Joint Venture Indebtedness

	Principal Amount	Weighted Average Interest Rate	Years to Maturity
Fixed rate mortgages payable	\$ 163,307	4.3% ⁽¹⁾	5.0
Variable rate mortgages payable	84,745	4.6%	1.5
Total Indebtedness	\$ 248,052	4.4%	3.8
Less loan fees, net of amortization	(1,001)		
Carrying amount	\$ 247,051		
Company's share of carrying amount	\$ 178,060		

(1) Weighted average interest rates as at December 31, 2019 included debt that is fixed with interest rate swaps.

Weighted Average Interest Rate

During the period from December 31, 2018 to December 31, 2019 the Company has decreased its weighted average interest rate for the consolidated portfolio from 4.8% to 4.6%, or 20 basis points. During the period from December 31, 2018 to December 31, 2019 the Company has decreased its weighted average interest rate for the joint venture portfolio from 4.8% to 4.4%, or 40 basis points. This highlights that the Company has been successful over this time at managing interest rates through effective use of interest rate swaps and strategic debt refinacings. The Company has been able to capitalize on a decreasing interest rate environment to reduce interest costs for its shareholders.

2016 Convertible Debentures

On December 16, 2016, the Company issued an aggregate principal amount of \$45,000 of convertible unsecured subordinated debentures (the "2016 Convertible Debentures"). The 2016 Convertible Debentures are due on January 31, 2022 and bear interest at an annual rate of 5.00%, payable semi-annually in arrears on July 31 and January 31 of each year and commencing on July 31, 2017. On May 6, 2019, \$25 of the 2016 Convertible Debentures were converted into 2,272 common shares.

2018 Convertible Debentures

On August 24, 2018, the Company issued an aggregate principal amount of \$50,000 of convertible unsecured subordinated debentures ("2018 Convertible Debentures"). The 2018 Convertible Debentures are due on September 30, 2023 and bear interest at an annual rate of 6.00% payable semi-annually in arrears on March 31 and September 30 of each year commencing on March 31, 2019.

Debt to Total Assets

Debt to total assets is calculated by dividing the total consolidated indebtedness, net of loan costs, by the total consolidated assets of the Company. At December 31, 2019, the Company's total consolidated indebtedness was approximately \$1,013,475, which represents 62.1% of total assets. Excluding the convertible debentures, total consolidated indebtedness was approximately \$922,426, which was 56.6% of total assets. Fixed rate debt represented approximately 85.0% of the Company's gross total indebtedness.

Fixed Charge Coverage Ratio

The Company's fixed charge coverage ratio is calculated by dividing earnings before interest, taxes, depreciation and amortization by certain fixed charges, which are comprised of interest expense payable in cash, regularly scheduled principal payments, and preferred dividends paid. For the period ended December 31, 2019, the fixed charge coverage ratio of the Company was 1.89.

Repayment Summary

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

Contractual Commitments

A summary of future contractual commitments as at December 31, 2019, including expected interest payments, is as follows:

	Total	2020	2021	2022	2023	2024	Thereafter
Credit facilities principal	\$ 651,625	\$ 15,000	\$ —	\$ 173,750	\$ 286,875	\$ 176,000	\$ —
Credit facilities interest	105,261	27,878	27,078	26,827	16,701	6,777	—
Mortgages payable principal	275,083	36,175	23,357	32,987	46,322	24,140	112,102
Mortgages payable interest	75,061	11,228	10,527	8,998	7,767	5,183	31,358
Convertible debentures principal	94,975	—	—	44,975	50,000	—	—
Convertible debentures interest	17,622	5,249	5,249	4,124	3,000	—	—
Commonwealth preferred unit liability principal ⁽¹⁾	65,680	—	—	—	—	65,680	—
Commonwealth preferred unit liability interest	20,982	4,257	4,293	4,293	4,459	3,680	—
Accounts payable and accrued liabilities	18,885	18,885	—	—	—	—	—
Accrued real estate taxes	13,066	13,066	—	—	—	—	—
Dividends payable	3,354	3,354	—	—	—	—	—
Other current liabilities	3,015	3,015	—	—	—	—	—
Other non-current liabilities	16,736	3,052	1,299	763	488	386	10,748
Loan commitments	2,402	2,022	380	—	—	—	—
Total Commitments	\$1,363,747	\$ 143,181	\$ 72,183	\$ 296,717	\$ 415,612	\$ 281,846	\$ 154,208

(1) The liability has no stated maturity date. It is the Company's expectation that the liability will be repaid in 2024.

The credit facilities have an outstanding balance of \$646,959 as of December 31, 2019.

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

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

Dividends payable relate to the December 2019 dividend declared.

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

On June 5, 2019, the Company entered into agreements to fund future loans to tenants of the Jaguarundi Ventures, LP joint venture. On October 1, 2019, the Company amended the agreements to increase the future loan commitments to the tenants. As at December 31, 2019, the Company is committed to fund an additional \$2,402 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.

Financial Instruments and Other Instruments

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

Off-Balance Sheet Items

There were no off-balance sheet items as of December 31, 2019.

Transactions Between Related Parties

The Company entered into subscription agreements in prior periods in respect of the issuance of class A convertible preferred shares to certain funds managed by 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 shares for aggregate gross proceeds of \$71,500.

On June 5, 2019, the Company formed a joint venture, Jaguarundi Ventures, LP, with Magnetar. The Company contributed eight properties to the newly formed joint venture and received \$23,000 from Magnetar in exchange for a 39.49% interest in the joint venture. As at December 31, 2019, the Company has a loan receivable from Jaguarundi Ventures, LP of \$8,673 recorded representing the funds owed to the Company from the repayment proceeds of a joint venture credit agreement with a tenant of the joint venture.

On July 23, 2019, the Company entered subscription agreements in respect of the issuance of the Series 4 Preferred Shares to Magnetar for aggregate proceeds of \$14,550. On August 27, 2019 the fourth series funded resulted in the issuance of 1,538,461 Series 4 Preferred Shares. The purpose of the transaction was to raise proceeds to be used for the second tranche of the Commonwealth transaction.

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. On December 5, 2019, the Company repaid \$15,000 on the facility.

Critical Accounting Estimates

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 fair value of investment properties:

Acquired investment properties are initially measured at cost, including directly attributable acquisition costs, when the transactions are deemed to be asset acquisitions. Subsequent to initial recognition, investment properties are measured at fair value, determined based on available market evidence. The Company uses alternative valuation methods such as the direct capitalized income approach, discounted cash flow projections, or recent transaction prices (Level 3 inputs). The fair value of investment properties reflects rental income from current leases and assumptions about rental income from future leases based on current market conditions. The valuation of investment properties is one of the principal estimates and uncertainties of the Company. Refer to note 5 of the consolidated financial statements of the Company for the period ended December 31, 2019 for further information on estimates and assumptions made in determination of the fair value of investment properties.

Impairment of loans receivable:

The Company reviews loans receivable on an ongoing basis to assess whether any loans should be classified as impaired and whether an allowance or write-off should be recorded. Allowances for impaired loans are recorded for individually identified impaired loans to reduce their carrying value to the expected recoverable amount. To determine the amount,

the Company expects to recover from an individually significant impaired loan, the Company uses the value of the estimated future cash flows discounted at the loan's original effective interest rate. The determination of estimated future cash flows of a collateralized impaired loan reflects the expected realization of the underlying security, net of expected costs and any amounts legally required to be paid to the borrower. Refer to note 3 of the consolidated financial statements of the Company for the period ended December 31, 2019 for further information on estimates and assumptions made in determination of the impairment recorded on loans receivable.

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 year ended December 31, 2019.

Risks and Uncertainties

See "Risk Factors" in the Company's 2019 AIF for a discussion of risks that could materially affect the Company, which risk factors are incorporated herein by reference.

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

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

As of December 31, 2019, an evaluation was carried out, under the supervision of and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as defined under National Instrument 52-109. In making this assessment, the Chief Executive Officer and the Chief Financial Officer used the criteria set forth by the 2013 Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in Internal Control – Integrated Framework. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures were effective December 31, 2019.

Internal Controls Over Financial Reporting

The Company is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance about the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision of the design and effectiveness of our internal controls over financial reporting as at December 31, 2019, and based on that assessment, they determined that the Company's internal controls over financial reporting were appropriately designed and were operating effectively in accordance with the 2013 COSO framework as published by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company implemented controls with respect to the operations and assets associated with the Commonwealth transaction, in order to ensure adequate control over financial reporting of that business unit. These controls were included in management's assessment of the design and effectiveness of internal controls. There were no other changes in internal

controls over financial reporting that occurred during the year ended December 31, 2019 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Outstanding Shares

As of March 11, 2020, 54,893,237 common shares in the capital of the Company were issued and outstanding.

Each 2016 Convertible Debenture is convertible into freely tradable common 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 all outstanding 2016 Convertible Debenture were converted into common shares of the Company, it would result in the issuance of 4,088,637 additional common shares.

Each 2018 Convertible Debenture is convertible into freely tradable common shares of the Company at the option of the holder on or after September 30, 2021, and prior to September 30, 2022 at a conversion price of \$10.70 per common share. If all outstanding 2018 Convertible Debenture were converted into common shares of the Company, it would result in the issuance of 4,672,897 additional common shares.

As of March 11, 2020, there were 2,802,009 Series 1 Preferred Shares outstanding, 3,172,086 Series 2 Preferred Shares outstanding, 1,586,042 Series 3 Preferred Shares and 1,538,461 Class A Series 4 Preferred Shares. The Series 1 Preferred Shares, Series 2 Preferred Shares, Series 3 Preferred Shares, and Series 4 Preferred Shares are convertible into freely tradable common shares of the Company. As of March 11, 2020, assuming the voluntary conversion of all of the Series 1 Preferred Shares, Series 2 Preferred Shares, Series 3 Preferred Shares, and Series 4 Preferred Shares then outstanding, a total of 10,006,860 common shares would be issued.

As of March 11, 2020, assuming the voluntary conversion of all of the Exchangeable Units, a total of 327,869 common shares would be issued.

As of March 11, 2020, assuming the voluntary conversion of all of the Commonwealth preferred units, a total of 6,736,410 common shares would be issued.

Financial Measures

Funds From Operations ("FFO") and Adjusted Funds From Operations ("AFFO") are supplemental measures used by management to track the Company's performance. Management believes these terms reflect the operating performance and cash flow of the Company. The Company believes that AFFO and AFFO per share provide the most effective metric by which to evaluate the performance of the Company and to most accurately identify the cash flows available for distribution to shareholders.

Funds From Operations

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

FFO is a financial measure not defined under IFRS, and FFO, 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 and 2018 Convertible Debentures were dilutive to FFO per share, the related interest, amortization, and accretion expense has been added back to calculate a diluted FFO for purposes of calculating diluted FFO per share.

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

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Net income for the period	\$ 6,684	\$ (33,775)	\$ (5,359)	\$ (12,275)
Add/(deduct):				
Change in fair value of investment properties	846	46,442	6,075	17,186
Property taxes accounted for under IFRIC 21	(3,551)	(3,186)	(29)	(2,801)
Depreciation and amortization expense	9,009	—	14,349	—
Amortization of tenant inducements	101	—	158	—
Change in fair value of financial instruments	(4,710)	4,150	9,379	2,325
Change in fair value of contingent consideration	—	(495)	—	10,676
Deferred income tax expense	3,871	(12,243)	(67)	(2,881)
Transaction costs for business combination	1,638	—	5,898	6,444
Allowance for credit losses on loans and interest receivable	(9)	8,807	1,003	11,336
Change in non-controlling interest liability in respect of the above	1	(86)	(16)	17,459
Adjustments for equity accounted entities	(3,333)	(1,018)	14,731	750
Funds from operations	<u>\$ 10,547</u>	<u>\$ 8,596</u>	<u>\$ 46,122</u>	<u>\$ 48,219</u>
Interest, amortization and accretion expense on convertible units ⁽¹⁾	2,612	1,641	8,136	4,244
Total diluted funds from operations	<u>\$ 13,159</u>	<u>\$ 10,237</u>	<u>\$ 54,258</u>	<u>\$ 52,463</u>
Weighted average number of shares, including fully vested deferred shares: Basic	54,606,897	53,046,230	53,989,904	50,273,295
Weighted average shares issued if all convertible units were converted ⁽²⁾	24,559,698	16,602,755	19,869,931	12,730,456
Weighted average number of shares: Diluted	<u>79,166,595</u>	<u>69,648,985</u>	<u>73,859,835</u>	<u>63,003,751</u>
Funds from operations per share	\$ 0.19	\$ 0.16	\$ 0.85	\$ 0.96
Diluted funds from operations per share	\$ 0.17	\$ 0.15	\$ 0.73	\$ 0.83

(1) Interest, amortization and accretion on convertible units include 2016 Convertible Debentures, 2018 Convertible Debentures, Commonwealth preferred interest, and Exchangeable Units.

(2) Convertible units include 2016 Convertible Debentures, 2018 Convertible Debentures, Preferred Shares, Commonwealth preferred interest, and Exchangeable Units.

Adjusted Funds From Operations

The Company maintains the view that AFFO is an effective measure of cash generated from operations, after providing for certain adjustments. AFFO means cash provided by operating activities, subject to certain adjustments, which include: (i) adjustments for certain non-cash working capital items that are not considered indicative of sustainable economic cash flow available for distribution; (ii) adjustments for interest expense on the credit facilities and mortgages payable that is included in finance costs; (iii) adjustments for cash paid for interest; (iv) add backs for compensation expense related to the Company's deferred share incentive plan; (v) add backs for payments received under the Company's income support agreements and development lease arrangements; (vi) add backs for the write-off of deferred financing costs from refinancing; and (vii) 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 and 2018 Convertible Debentures were dilutive to AFFO per share, the related interest has been added back to calculate a diluted AFFO for purposes of calculating diluted AFFO per share.

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

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Cash flows provided by (used in) operating activities	\$ 13,279	\$ 8,822	\$ 16,170	\$ 24,972
Change in non-cash working capital	(6,666)	1,191	10,685	5,531
Less: interest expense ⁽¹⁾	(11,043)	(12,681)	(37,726)	(35,366)
Less: change in non-controlling interest liability	(160)	(120)	(504)	(17,927)
Plus: income (loss) from joint ventures	5,345	2,077	(6,799)	5,450
Plus: change in fair value of investment in MS-SW Development Fund Holdings, LLC	—	60	—	214
Plus: interest paid	10,553	9,125	39,411	34,313
Less: interest received	(232)	(482)	(694)	(1,554)
Plus: transaction costs for business combination	1,638	—	5,898	6,444
Plus: non-cash portion of non-controlling interest expense	1	(86)	(16)	17,459
Plus: adjustments for equity accounted entities	(3,177)	(985)	14,387	783
Plus: deferred share incentive plan compensation	849	241	2,653	1,283
Plus: income support and development lease payments received	47	122	283	327
Plus: write-off of deferred financing costs from refinancing	—	3,708	82	3,708
Less: allowance for interest receivable	—	(292)	—	(1,065)
Less: capital maintenance reserve	(831)	(400)	(2,607)	(1,467)
Adjusted funds from operations	<u>\$ 9,603</u>	<u>\$ 10,300</u>	<u>\$ 41,223</u>	<u>\$ 43,105</u>
Interest expense on convertible units ⁽³⁾	2,275	1,313	6,804	3,317
Total diluted adjusted funds from operations	<u>\$ 11,878</u>	<u>\$ 11,613</u>	<u>\$ 48,027</u>	<u>\$ 46,422</u>
Weighted average number of shares, including fully vested deferred shares: Basic	54,606,897	53,046,230	53,989,904	50,273,295
Weighted average shares issued if all convertible units were converted ⁽⁴⁾	24,559,698	16,602,755	19,869,931	12,730,456
Weighted average number of shares: Diluted	<u>79,166,595</u>	<u>69,648,985</u>	<u>73,859,835</u>	<u>63,003,751</u>
Adjusted funds from operations per share	\$ 0.18	\$ 0.19	\$ 0.76	\$ 0.86
Diluted adjusted funds from operations per share	\$ 0.15	\$ 0.17	\$ 0.65	\$ 0.74
Dividends declared	\$ 10,046	\$ 9,756	\$ 39,764	\$ 37,001
Payout ratio ⁽²⁾	105%	95%	96%	86%
Effective payout ratio ⁽²⁾	85%	92%	78%	84%

(1) Includes interest expense on the credit facilities, mortgages payable, convertible debentures, interest rate swaps, write off of deferred financing costs from refinancing and interest income earned on notes receivable included in finance costs.

(2) Payout ratio is calculated by dividing the common share dividends declared by AFFO. Effective payout ratio is calculated by dividing common share dividends payable in cash, as adjusted for Dividend Reinvestment Plan ("DRIP") participation, by AFFO.

(3) Interest on convertible units include 2016 Convertible Debentures, 2018 Convertible Debentures, Commonwealth preferred interest, and Exchangeable Units.

(4) Convertible units include 2016 Convertible Debentures, 2018 Convertible Debentures, Preferred Shares, Commonwealth preferred interest, and Exchangeable Units.

The Company deducts a capital maintenance reserve in its calculation of AFFO based on estimated quarterly expenditures related to sustaining and maintaining existing space. Expenditures that are related to new development or revenue enhancing renovations are excluded from this calculation.

Cash Dividends

	Three months ended September 30,		Year ended December 31,	
	2019	2018	2019	2018
Cash flows provided by operating activities	\$ 13,279	\$ 8,822	\$ 16,170	\$ 24,972
Net income (loss)	6,684	(33,775)	(5,359)	(12,275)
Total dividends declared	10,046	9,756	39,764	37,001
Excess (shortfall) of cash provided by operating activities over total dividends	3,233	(934)	(23,594)	(12,029)
Shortfall of net income over total dividends	(3,362)	(43,531)	(45,123)	(49,276)

Total dividends for the twelve months ended December 31, 2019 exceeded cash flows provided by operating activities largely due to working capital changes and cash flow from joint arrangements, which may be realized in the form of cash distributions to meet future cash needs. Total dividends for the three and twelve months ended December 31, 2019 exceeded net income primarily due to non-cash items, including fair value. Of the \$10,046 dividends declared in the three months ended December 31, 2019, \$1,918 was satisfied in the form of shares issued through the Dividend Reinvestment Plan ("DRIP"). The resulting cash provided by operating activities in excess of cash dividends for the three months ended December 31, 2019 is \$5,151 and the excess of net income over cash dividends is \$(1,444). Of the \$39,764 dividends declared in the twelve months ended December 31, 2019, \$7,687 was satisfied in the form of shares issued through the DRIP. The resulting cash provided by operating activities in shortfall of cash dividends for the twelve months ended December 31, 2019 is \$(15,907) and the shortfall of net income over cash dividends is \$(37,436).

The Company believes its current distributions are sustainable, based upon current run rates.

Operational Measures

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

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

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

Medical office buildings - stabilized upon the earlier of 90% occupancy, measured in physical occupancy of greater than 90% of the rentable square footage in the building, for two consecutive quarters and 36 months after opening.

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

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

The Company believes relevant metrics for evaluating the performance of the underlying operations in stable, triple-net leased assets include operator lease coverage and occupancy. The Company's operator performance metrics are calculated utilizing data that is one quarter in arrears (i.e. as of and through September 30, 2019 for this reporting period), and, where master leases are in place for portfolios of multiple asset types, using allocated rents pursuant to consistent methodologies.

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

Triple Net Lease Portfolio

The Company's triple net lease portfolio consists of 61 consolidated seniors housing and care properties and 8 seniors housing and care properties held in joint arrangements which are leased to operators on a long-term, triple net basis. Under a triple net lease structure, the tenant operators assume the operational risks and expenses associated with operating the facility. The Company's triple net leased portfolio has an average lease term to maturity, excluding renewal options, of 13.2 years.

Approximately 92% of the Company's forward 12 month rent from unaffiliated tenants in the triple net lease portfolio is currently subject to a master-lease or is subject to a lease where the Company has the right to consolidate multiple leases into a single master-lease.

Operator Lease Coverage

Operator lease coverage is a measure of a tenant's ability to meet their cash rent and other obligations during its normal course of business. The Company believes that both EBITDAR and EBITDARM (as defined below) provide insight to the core operations at the facility level. Metrics provided below are for the trailing 12 month ("TTM") period for all stabilized assets. The stabilized triple-net lease portfolio through September 30, 2019 includes 31 properties. The Company has excluded the Greenfield triple-net lease portfolio from the metrics provided below. As the Greenfield portfolio will transition to a seniors housing operating property ("SHOP") portfolio with Commonwealth, we believe excluding the corresponding portfolio from these metrics provides a more representative view of the go forward portfolio composition and its related performance.

For purposes of the TTM calculations, the Company has included only the period for which the stabilized properties have been owned by the Company and, therefore, the TTM metrics shown may include less than 12 months in the calculations. The metrics presented below represent all stabilized income properties, which includes assist living, independent living, long-term care, and transitional care properties.

EBITDAR (earnings before interest, income taxes, depreciation, amortization, and rent) lease coverage is calculated by dividing the TTM EBITDAR generated by corresponding cash rent due over the same period. The Company's stabilized portfolio generated EBITDAR lease coverage of 1.2 (2018 - 1.2).

EBITDARM (earnings before interest, income taxes, depreciation, amortization, rent, and management fees) lease coverage is also used by the Company. Together with EBITDAR lease coverage, EBITDARM lease coverage allows the Company to evaluate operations at each property by eliminating management fees, which can vary based on the operator/tenant and its negotiated structure with the Company. The Company believes EBITDARM is valuable because it isolates operational performance to the results of the direct operations within the facility. The Company's stabilized portfolio generated EBITDARM lease coverage of 1.5 (2018 - 1.5).

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

Operator Occupancy

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

For the TTM period ended September 30, 2019, the Company's stabilized portfolio had an occupancy percentage of 85%.

Seniors Housing Operating Properties

The Company's SHOP portfolio consists of 33 consolidated properties in which the Company wholly owns both the operations and the real estate of each community. The SHOP portfolio also includes 14 properties the Company owns an interest in both the operations and real estate through joint arrangements and where management services are provided to each community by a third party management company.

Based upon the Company's ownership structure in these assets, the Company believes the most relevant operational metrics include occupancy and year over year revenue and net operating income growth metrics. For the period ended September 30, 2019, the occupancy in the stabilized SHOP portfolio was 84%. As comparative and sufficient ownership periods become available in the Company's ownership period, the Company anticipates that additional metrics will be included in future filings.

Medical Office Building Portfolio

The Company's medical office building portfolio consists of 15 multi tenant medical office buildings in which the Company has full ownership of the property. The Company's stabilized medical office building portfolio consists of 11 properties through September 30, 2019 in the United States and Canada.

The Company utilizes occupancy as a percentage of gross leasable area in addition to other financial metrics when evaluating performance in its medical office building portfolio. For the period ended September 30, 2019, occupancy in the stabilized medical office building portfolio was 92%. As comparative periods become available in the Company's ownership period, the Company anticipates that additional metrics will be included in future filings.