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

MAINSTREET HEALTH INVESTMENTS INC.

Three and nine months ended September 30, 2017 and 2016
(Unaudited)

MAINSTREET HEALTH INVESTMENTS INC.

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

		September 30, 2017		December 31, 2016
Assets				
Current assets:				
Cash	$	3,908	$	7,651
Tenant and other receivables		9,011		7,040
Other (notes 3 and 16)		948		2,122
		13,867		16,813
Non-current assets:				
Loans receivable (note 2)		27,594		29,081
Derivative instruments (note 8)		1,926		1,543
Investment in joint ventures (note 5)		987		917
Investment properties (note 4)		684,980		628,471
Investment in MS-SW Development Fund Holdings, LLC		1,022		894
		716,509		660,906
Total assets	$	730,376	$	677,719
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	2,947	$	2,387
Accrued real estate taxes		9,569		6,915
Construction payable		1,605		6,442
Dividends payable		1,985		1,978
Credit facilities (note 6)		5,888		—
Mortgages payable (note 7)		18,624		47,889
		40,618		65,611
Non-current liabilities:				
Credit facilities (note 6)		220,494		225,290
Mortgages payable (note 7)		113,410		41,827
Convertible debentures (note 9)		41,758		41,214
Derivative instruments (note 8)		399		—
Deferred tax liability (note 17)		15,867		5,583
Other non-current liabilities		1,558		957
		393,486		314,871
Total liabilities	$	434,104	$	380,482
Share capital (note 10)		309,579		308,551
Contributed surplus		400		244
Convertible debentures		1,130		1,130
Cumulative deficit		(16,191)		(12,617)
Accumulated other comprehensive income (loss)		1,354		(71)
Total shareholders' equity		296,272		297,237
Commitments and contingencies (note 18)				
Subsequent events (note 16)				
Total liabilities and shareholders' equity	$	730,376	$	677,719

See accompanying notes to condensed consolidated interim financial statements.

MAINSTREET HEALTH INVESTMENTS INC.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue:				
Rental (note 12)	$ 15,814	$ 10,869	$ 44,100	$ 26,840
Lease revenue from joint ventures (note 5)	746	—	2,150	—
Other income (notes 2 and 16)	982	168	4,010	177
	17,542	11,037	50,260	27,017
Expenses (income):				
Finance costs (note 13)	5,355	2,396	14,586	10,867
Real estate tax expense	430	26	8,774	4,647
General and administrative expenses (notes 14 and 15)	2,166	955	6,637	2,843
Change in value of investment properties - IFRIC 21	1,865	1,614	(1,946)	(468)
Change in value of investment properties (note 4)	374	3,292	(1,265)	5,886
Change in value of financial instruments (notes 3, 8 and 16)	(155)	(1,003)	(1,091)	1,663
Income before income taxes	7,507	3,757	24,565	1,579
Income tax expense:				
Deferred (note 17)	2,936	1,620	10,277	1,620
Current (note 17)	—	—	28	—
Net income (loss)	$ 4,571	$ 2,137	$ 14,260	$ (41)
Items to be reclassified to net income (loss) in subsequent periods				
Other comprehensive income:				
Unrealized income on translation of foreign operations	768	—	1,425	—
Total comprehensive income (loss)	$ 5,339	$ 2,137	$ 15,685	$ (41)
Income (loss) per share (note 11):				
Basic and diluted	$ 0.14	$ 0.09	$ 0.44	$ —

See accompanying notes to condensed consolidated interim financial statements.

MAINSTREET HEALTH INVESTMENTS INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Expressed in thousands of U.S. dollars)
Nine months ended September 30, 2017 and 2016
(Unaudited)

	Share capital	Contributed surplus	Equity component of convertible debentures	Cumulative deficit	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2017	$ 308,551	$ 244	$ 1,130	$ (12,617)	$ (71)	$ 297,237
Net income	—	—	—	14,260	—	14,260
Other comprehensive income (loss)	—	—	—	—	1,425	1,425
Shares issued	770	—	—	—	—	770
Dividends declared	—	—	—	(17,834)	—	(17,834)
Shares issued under the Dividend Reinvestment Plan	258	—	—	—	—	258
Proceeds from income support agreement	—	156	—	—	—	156
Balance, September 30, 2017	$ 309,579	$ 400	$ 1,130	$ (16,191)	$ 1,354	$ 296,272

	Share capital	Contributed surplus	Equity component of convertible debentures	Cumulative deficit	Accumulated other comprehensive income	Total
Balance, January 1, 2016	$ 20,734	$ —	$ —	$ (5,755)	$ —	$ 14,979
Loss for the period	—	—	—	(41)	—	(41)
Shares issued	221,121	—	—	—	—	221,121
Issuance costs	(10,177)	—	—	—	—	(10,177)
Shares issued under the Dividend Reinvestment Plan	8	—	—	—	—	8
Dividends Declared	—	—	—	(5,843)	—	(5,843)
Proceeds from income support agreement	—	122	—	—	—	122
Balance, September 30, 2016	$ 231,686	$ 122	$ —	$ (11,639)	$ —	$ 220,169

See accompanying notes to condensed consolidated interim financial statements.

MAINSTREET HEALTH INVESTMENTS INC.

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in thousands of U.S. dollars)
Nine months ended September 30, 2017 and 2016
(Unaudited)

	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Cash flows from operating activities:		
Net income (loss)	$ 14,260	$ (41)
Items not involving cash:		
Fair value adjustment of investment properties	(1,265)	5,886
Fair value adjustment of financial instruments	(1,091)	1,663
Straight-line rent	(4,316)	(2,946)
Finance costs	14,586	10,867
Change in fair value of investment in MS-SW Development Fund Holdings, LLC	(128)	—
Deferred income tax	10,277	—
Listing expense	—	700
Interest paid	(12,285)	(8,667)
Change in non-cash operating working capital:		
Tenant and other receivables	(1,962)	(182)
Accounts payable and accrued liabilities	(12)	(1,272)
Unearned revenue	—	387
Other assets	2,339	(1,339)
Other liabilities	1,373	563
Real estate taxes payable	2,654	(2,883)
Deferred tax liability	—	1,620
Net cash provided by operating activities	$ 24,430	$ 4,356
Cash flows from financing activities:		
Proceeds from credit facilities	$ 29,991	$ 54,601
Payments on credit facilities	(27,347)	(31,616)
Debt issuance costs paid	(3,657)	(724)
Proceeds from mortgages payable	80,141	1,953
Payments of mortgages payable	(38,619)	(18)
Proceeds from notes payable	—	3,900
Repayments of notes payable	—	(6,400)
Proceeds from issuance of shares	—	109,250
Payments for share issuance costs	—	(10,177)
Dividends paid to common shareholders	(17,569)	(4,349)
Proceeds from income support agreement	156	122
Proceeds from issuance of preferred equity	—	10,300
Repayment of preferred equity	—	(10,300)
Cash provided by financing activities	$ 23,096	$ 116,542
Cash flows from investing activities		
Additions to investment properties	$ (47,991)	$ (107,934)
Construction payable	(4,837)	—
Deposit paid for acquisitions	—	(3,180)
Issuance of loans receivable	(5,045)	(8,789)
Repayment of loans receivable	6,604	—
Prepaid acquisition costs	—	(273)
Cash used in investing activities	$ (51,269)	$ (120,176)
(Decrease) increase in cash and cash equivalents	(3,743)	722
Cash and cash equivalents, beginning of period	7,651	7,189
Cash and cash equivalents, end of period	$ 3,908	$ 7,911

See accompanying notes to condensed consolidated interim financial statements.

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

On April 4, 2016, the Company acquired Mainstreet Investment Company, LLC's ("MS Investment") interest in a joint venture, Mainstreet Health Holdings Inc. ("MHI Holdco"), for consideration consisting of the issuance of 81,160,000 common shares and 307,659,850 non-voting shares of the Company. MS Investment is owned 100% by the former chairman of the Company.

On May 26, 2016, the Company filed a prospectus relating to an offering ("the Offering") of 9,500,000 common shares of the Company. Upon completion of the offering on June 2, 2016, the Company acquired the remaining shares of MHI Holdco subsequent to the conversion of the outstanding 2015 Convertible Debentures of MHI Holdco into common shares of MHI Holdco. This acquisition is a reverse takeover transaction which has been accounted for as an asset acquisition in which MHI Holdco has been identified as the acquirer of the Company and the acquisition has been recorded in accordance with IFRS 2, Share-based Payment. As the former shareholder of MHI Holdco owned a controlling interest in the Company at the closing of the transaction, the financial statements of the Company reflect the historical results of MHI Holdco and the acquisition of the net assets of the Company at fair value on the date of closing.

The Company has been formed primarily to own income-producing seniors housing and care properties throughout the United States and Canada. Specifically, the Company will look to acquire and invest in properties which offer predominately transitional care, long-term care, memory care, assisted living and independent living programs that are leased to operators under triple-net leases. At September 30, 2017, the Company owns a portfolio of 38 seniors housing and care properties.

1. Basis of preparation:

Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2016 issued on March 29, 2017, and which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB.

These condensed consolidated interim financial statements were approved by the Board of Directors of the Company and authorized for issuance on November 3, 2017.

These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the consolidated financial statements as at and for the year ended December 31, 2016.

Future changes in accounting policies:

On July 24, 2014, the IASB issued the complete IFRS 9, Financial Instruments ("IFRS 9"). The effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and it must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 introduces new requirements for the classification and measurement of financial assets, changes to financial liabilities, amendments to the impairment model for "expected credit loss", and a new general hedge accounting standard, which aligns hedge accounting more closely with risk management. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The Company expects to complete its assessment of the impact of adopting IFRS 9 in the fourth quarter of 2017, and the extent of the impact of adoption has not yet been determined.

On May 28, 2014, the IASB issued IFRS 15, Revenue from Contracts With Customers ("IFRS 15"). The new standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 will replace IAS 11, Construction Contracts, IAS 18, Revenue, International Financial Reporting Interpretations Committee ("IFRIC") 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfer of Assets from Customers, and Standing Interpretation

Committee 31, Revenue - Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS. The Company intends to adopt the new standard in its financial statements for the annual period beginning on January 1, 2018. The Company expects to complete its assessment of the impact of adopting IFRS 9 in the fourth quarter of 2017, and the extent of the impact of adoption has not yet been determined.

2. Loans receivable:

The Company has issued mezzanine loans to entities which are wholly owned subsidiaries of Mainstreet Property Group, LLC ("Mainstreet LLC"), which is majority owned by the former chairman of the Company and was a related party on the date the loans were issued (see note 16). The loans have been issued for the development of seniors housing and care properties in the United States. The mezzanine loans provide for annual interest, of which a portion is payable at a current pay rate on a monthly basis ("Current Interest"), with the remaining portion of interest accruing until the earlier of the loan's maturity or prepayment ("PIK Interest"). The mezzanine loans provide the Company with the right to purchase the development upon its substantial completion at fair market value. The Company’s interest in the mezzanine loans is secured behind the construction lender by a pledge of equity interests in the developments and, in some instances, a second mortgage position in the real estate. The mezzanine loans are guaranteed by Mainstreet LLC.

On December 22, 2016, a subsidiary of the Company entered into an interest only loan agreement with MS Investment with a capacity of $5,000 to be used by MS Investment for development costs, operating capital expenditures or other costs, of which $2,500 of the loan was advanced to MS Investment on December 22, 2016, and an additional $2,500 was advanced on January 6, 2017.

A subsidiary of the Company has entered into a credit agreement with Autumnwood Lifestyles Inc., ("Autumnwood") with a capacity of CDN$1,500. The credit agreement is to be used for capital expenditures, property level principal and interest expense and other debt service obligations in respect of Autumnwood's interest in four properties located in Ontario, Canada, and of which the Company and Autumnwood are partners in joint arrangements.

A subsidiary of the Company has entered into a loan agreement with Autumnwood for the purpose of funding pre-development costs on expansion projects at two of the properties in which the Company and Autumnwood are partners in joint arrangements. The Company will own a 50% joint interest in these developments, consistent with its ownership in the other joint arrangements with Autumnwood. As at September 30, 2017, the Company has loaned CDN$1,000 to fund pre-development costs at the expansion projects.

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

Loans receivable issued as of September 30, 2017 are detailed in the table below:

Debtor	Loan Type	September 30, 2017	December 31, 2016	Maturity Year	Current Interest Rate	PIK Interest Rate
MS Houston Holdings II, LLC	Mezzanine loan	$ 2,652	$ 2,576	2020 (1)	10.5%	4.0%
MS-SW Mezzanine Fund, LLC	Mezzanine loan	3,934	3,835	2020 (1)	10.5%	4.0%
MS Webster Holdings, LLC	Mezzanine loan	2,616	2,545	2020 (1)	10.5%	3.0%
MS Lincoln Holdings, LLC	Mezzanine loan	3,660	3,552	2020 (1)	10.5%	4.0%
MS Aurora Holdings II, LLC	Mezzanine loan	—	3,678	2021 (1)	12.0%	4.0%
MS Phoenix Holdings, LLC	Mezzanine loan	—	2,810	2021 (1)	10.5%	3.0%
MS Surprise, LLC	Mezzanine loan	2,857	2,793	2021 (1)	10.5%	3.0%
MS Parker Holdings II, LLC	Mezzanine loan	3,546	3,441	2021 (1)	12.0%	4.0%
MS Columbia MO Holdings, LLC	Mezzanine loan	414	406	2018 (1)	10.5%	4.0%
MS Omaha Holdings, LLC	Mezzanine loan	961	936	2018 (1)	10.5%	4.0%
Mainstreet Investment Company, LLC	Interest-only loan	5,057	2,509	2018	8.5%	1.5%
Autumnwood Lifestyles Inc.	Revolving credit facility	1,095	—	2018	8.0%	—%
Autumnwood Lifestyles Inc.	Loan receivable	802	—	2020	—%	—%
		$ 27,594	$ 29,081			

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

On July 25, 2017, the Company received total payments of $6,673 representing full repayment of outstanding principal, accrued PIK Interest and current interest, as of the repayment date, on the mezzanine loans receivable from MS Aurora Holdings II, LLC and MS Phoenix Holdings, LLC.

3. Other current assets:

Other current assets are as follows:

	September 30, 2017	December 31, 2016
Prepaid expense	$ 374	$ 128
Security deposits paid on future acquisitions	217	217
Income support receivable (note 16)	—	1,208
Other	357	569
	$ 948	$ 2,122

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

4. Investment properties:

(a) Investment properties:

	Number of Properties		Amount
January 1, 2016	10	$	268,425
Acquisitions of income properties	25		351,220
Capital expenditures	—		11,109
Increase in straight-line rents	—		4,224
Fair value adjustment	—		(6,507)
Balance, December 31, 2016	35	$	628,471
Acquisitions of income properties	3		38,229
Capital expenditures	—		9,760
Increase in straight-line rents	—		4,316
Fair value adjustment	—		1,265
Translation of foreign operations	—		2,939
Balance, September 30, 2017	38	$	684,980
Property tax liability under IFRIC 21			(2,583)
Fair value adjustment to investment properties - IFRIC 21			2,583
		$	684,980

At September 30, 2017, the Company used an internal valuation process to value the investment properties. Third party appraisers are engaged to prepare valuations on a portion of the portfolio annually such that one third of the portfolio is valued externally each year, and every property in the portfolio is valued externally at least once every five years.

Acquired investment properties are initially measured at cost, including directly attributable acquisition costs, when the transactions are deemed to be asset acquisitions. Subsequent to initial recognition, investment properties are measured at fair value, determined based on available market evidence. The Company uses alternative valuation methods such as the direct capitalized income approach, discounted cash flow projections (Level 3 inputs) or recent transaction prices. The fair value of investment properties reflects rental income from current leases and assumptions about rental income from future leases in light of current market conditions.

The significant unobservable assumptions used in determining fair value of investment properties measured using the capitalized income approach with total value of $621,001 as at September 30, 2017 (December 31, 2016 - $589,835) are set out in the following table:

	September 30, 2017	December 31, 2016
Capitalization rate - range	6.50% - 8.25%	6.50% - 8.25%
Capitalization rate - weighted average	7.86%	7.81%

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

The fair value of investment properties measured using the capitalized income approach is most sensitive to changes in capitalization rates. At September 30, 2017, a 25 basis point increase or decrease in the weighted average capitalization rate would decrease the fair value of the investment properties by $19,199 (December 31, 2016 - $19,306) or increase the fair value of the investment properties by $20,469 (December 31, 2016 - $20,567), respectively.

(b) Acquisitions

		Total
Number of properties acquired		3
Net assets acquired:		
Investment properties	$	38,229
	$	38,229
Consideration paid/funded by:		
Cash	$	2,229
Proceeds from mortgage payable		30,000
Proceeds from Secured Revolving Facility		6,000
	$	38,229

On May 10, 2017, a wholly owned subsidiary of the Company acquired three properties (the "Ensign Properties") for a combined purchase price of $38,000 plus transaction costs. One property is located in Glendale, Arizona and provides long term and transitional care services. The other two properties are located in Rosemead, California and primarily provide combined assisted living and transitional care services. Each property is leased to a subsidiary of The Ensign Group, Inc. under a triple net master lease. The Company entered into new mortgage secured by all three Ensign Properties to fund $30,000 of the purchase price. The debt bears interest at a variable rate of LIBOR plus 350 basis points through its maturity date of June 1, 2022. The Company funded the remainder of the purchase with cash on hand and $6,000 in proceeds from the Secured Revolving Facility (note 6).

5. Joint arrangements:

As at September 30, 2017, the following are the Company's joint arrangements:

Joint arrangement	Number of properties	Location	Company ownership	Consolidation type
Mainstreet-Autumnwood Landlord (1)	4	Canada	50%	Joint operation
Mainstreet-Autumnwood Operator (2)	4	Canada	50%	Joint venture

(1) The Company directly holds its interest in the real estate joint operation.
(2) These joint venture arrangements have been structured through separate legal entities and lease the properties from the joint operation landlord.

The Company and Autumnwood (referred to as the "landlords") each owns a 50% direct beneficial interest in the real estate assets and are jointly obligated for the related mortgages for a portfolio of four properties, which under IFRS 11, Joint Arrangements ("IFRS 11"), are accounted for as joint operations.

The Company’s 50% interest in the operations of these properties is held through separate legal entities (collectively referred to as "Mainstreet-Autumnwood Operators"), which under IFRS 11 are accounted for as joint ventures using the equity method.

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

Mainstreet-Autumnwood Operators have leased the real estate from the landlords under their respective lease agreements. These leases are for three-year periods, with six automatic renewals every third anniversary for a total of 21 years. For the three and nine months ended September 30, 2017, $746 and $2,150, respectively (three and nine months ended September 30, 2016 - NIL), the Company's share of the landlords' lease receipts, is reported as lease revenue from joint ventures. Mainstreet-Autumnwood Operators lease expense is included in the share of net income (loss) from joint ventures in the condensed consolidated interim statements of income (loss) and comprehensive income (loss).

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

	September 30, 2017		December 31, 2016	
Current assets	$	381	$	495
Non-current assets		2,278		2,086
Total assets	$	2,659	$	2,581
Current liabilities	$	577	$	783
Non-current liabilities		56		—
Total liabilities	$	633	$	783
Net investment in joint ventures	$	987	$	917

	Three months ended September 30,				Nine months ended September 30,			
	2017		2016		2017		2016	
Revenue	$	2,731	$	—	$	7,744	$	—
Expenses		2,652		—		7,614		—
Net income	$	79	$	—	$	130	$	—
Company's share of net income from joint ventures	$	—	$	—	$	—	$	—

Related party transactions occur between the Company and its joint ventures. These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to between the parties. Except as disclosed elsewhere in these condensed consolidated interim financial statements, the related party balances are included in accounts payable and receivable and in lease revenue from joint ventures. As of September 30, 2017, $28 (2016 - $185) of the Company's accounts receivable relate to its investment in joint ventures.

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

6. Credit facilities:

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

	September 30, 2017		December 31, 2016	
Facility	$	224,645	$	228,000
Secured Revolving Facility		6,000		—
Finance costs, net		(4,263)		(2,710)
Carrying value	$	226,382	$	225,290
Less current portion		5,888		—
Long-term portion	$	220,494	$	225,290

On February 24, 2017, a wholly owned subsidiary of the Company entered into a secured revolving credit facility ("Secured Revolving Facility") for the purpose of financing property acquisitions. The Secured Revolving Facility has a maximum capacity of $25,000 and matures on February 24, 2018. Interest on the Secured Revolving Facility is variable in nature and is dependent on the security provided to the lender. The Secured Revolving Facility provides the ability to draw funds as a first priority mortgage up to 55% of the value of the collateral property, and a second priority mortgage up to 95% of the value of the collateral property. On May 10, 2017, the Company borrowed $6,000 on the Secured Revolving Facility in connection with the purchase of the Ensign Properties.

On June 6, 2017 the Company amended the terms of its credit facility (the "Facility") agreement to extend the maturity date of the term loan from October 30, 2019 to June 6, 2022 and extend the the maturity date of the revolving line of credit from October 31, 2018 to June 6, 2021 with an additional one year extension option, subject to lender approval (the "Facility Recast"). The Facility was also amended to increase the total Facility capacity from $285,000 to $300,000. The term loan capacity remained consistent at $200,000 while the revolving line of credit capacity increased from $85,000 to $100,000. The amended agreement includes an accordion feature that would extend the capacity of the total revolving line of credit, the total term commitment or both, bringing the total capacity of the Facility to $500,000. As at September 30, 2017, the Facility is secured by 24 properties located in the United States. As at September 30, 2017, the security provided the Company with a borrowing base of $238,871, which represents the maximum amount that can be drawn. The Facility provides for interest-only payments during the term and a borrowing rate of LIBOR plus 275 basis points when the Company's leverage is less than 50%, LIBOR plus 300 basis points when the Company's leverage is greater than or equal to 50% but less than 55%, and LIBOR plus 325 basis points when the Company's leverage is greater than or equal to 55%. Per the agreement, the Company's leverage cannot exceed 60%.

At September 30, 2017, total borrowings outstanding under the Facility were $224,645, and the borrowing rate was 4.49%. At September 30, 2017, total borrowings outstanding under the Secured Revolving Facility were $6,000 and the borrowing rate was 6.74%.

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

7. Mortgages payable:

Mortgages payable consist of the following as at September 30, 2017:

		September 30, 2017		December 31, 2016
Mortgages payable	$	133,123	$	89,950
Mark-to-market adjustment, net		260		268
Finance costs, net		(1,349)		(502)
Carrying value	$	132,034	$	89,716
Less current portion		18,624		47,889
Long-term portion	$	113,410	$	41,827

The weighted average contractual interest rate of the Company's mortgages payable as of September 30, 2017 is 4.49% (December 31, 2016 - 4.10%). Mortgages payable are collateralized by investment properties with a fair value of $211,933 at September 30, 2017. Maturity dates on mortgages payable range from 2017 to 2049, and the weighted average years to maturity is 6.6 years at September 30, 2017.

Future principal payments on the mortgages payable as at September 30, 2017 are as follows:

		Regular principal payments		Principal due on maturity		Total principal payments
2017	$	451	$	16,867	$	17,318
2018		1,761		—		1,761
2019		2,294		4,382		6,676
2020		2,564		—		2,564
2021		2,668		—		2,668
Thereafter		11,315		90,821		102,136
	$	21,053	$	112,070	$	133,123

8. Derivative financial instruments:

To manage interest rate risk, management of the Company entered into an interest rate swap agreement effective January 29, 2016 (the "Swap Agreement"). In the Swap Agreement, the Company agreed to exchange the difference between fixed and variable rate interest on a principal amount of $147,015 effectively fixing the one month LIBOR rate at 1.2%. On November 30, 2016, the Company increased the principal amount for which interest is exchanged under the Swap Agreement to $200,000 effectively fixing the one month LIBOR rate at 1.16% through its maturity on October 30, 2019. The interest rate swap is not designated as a hedge and is marked to fair value each reporting period through finance cost in the consolidated statement of income (loss) and comprehensive income (loss). The Company determined the fair value of its interest rate swap to be an asset of $1,926 at September 30, 2017 based on a market comparison technique. The determination was made using Level 2 inputs. The Company recognized income of $126 and $383 for the three and nine months ended September 30, 2017, respectively (three and nine months ended September 30, 2016 - ($1,003) and $1,663, respectively), in the condensed consolidated interim statement of income (loss) and comprehensive income (loss) related to the change in value of the interest rate swap.

The Company entered into an interest rate swap agreement effective April 15, 2017 (the "Leawood Swap Agreement") to manage the interest rate risk associated with the mortgage for the Leawood Property. In the Leawood Swap Agreement, the Company agreed to exchange the difference between fixed and variable rate interest on a principal amount of $14,092 effectively fixing the interest at 4.55% through its maturity on March 15, 2024. The interest rate swap is not designated as a hedge and is marked to fair value each reporting period through finance cost in the consolidated statement of income(loss) and comprehensive income (loss). The Company determined the fair value of its interest rate swap to be a liability of $205 at September 30, 2017 based on a market comparison technique. The determination was made using Level 2 inputs. The Company recognized income (loss) of $15 and ($205) for the three and nine months ended September 30, 2017 in the condensed consolidated interim statement of income (loss) and comprehensive income (loss) related to the change in value of the interest rate swap.

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

The Company entered into an interest rate swap agreement effective April 15, 2017 (the "Topeka Swap Agreement") to manage the interest rate risk associated with the mortgages for the Topeka Property. In the Topeka Swap Agreement, the Company agreed to exchange the difference between fixed and variable rate interest on a principal amount of $13,385 effectively fixing the interest at 4.55% through its maturity on March 15, 2024. The interest rate swap is not designated as a hedge and is marked to fair value each reporting period through finance cost in the consolidated statement of income(loss) and comprehensive income (loss). The Company determined the fair value of its interest rate swap to be a liability of $194 at September 30, 2017 based on a market comparison technique. The determination was made using Level 2 inputs. The Company recognized income (loss) of $14 and ($194) for the three and nine months ended September 30, 2017 in the condensed consolidated interim statement of income (loss) and comprehensive income (loss) related to the change in value of the interest rate swap.

9. Convertible debentures:

2016 Convertible Debentures

As at September 30, 2017 the 2016 Convertible Debentures are comprised of the following:

	September 30, 2017		December 31, 2016	
Issued	$	45,000	$	45,000
Issue costs, net of amortization and accretion of equity component		(1,594)		(2,138)
Equity component, excluding issue costs and taxes		(1,648)		(1,648)
2016 Convertible Debentures	$	41,758	$	41,214

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

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

10. Share capital:

The following number and value of common shares were issued and outstanding as at September 30, 2017:

	Shares		Value
Balance, December 31, 2015	—	$	20,734
Shares issued	32,216,994		287,767
Issued pursuant to the Company's dividend reinvestment plan	5,361		50
Balance, December 31, 2016	32,222,355		308,551
Issued on settlement of Deferred Share Incentive Plan	82,854		770
Issued pursuant to the Company's dividend reinvestment plan	28,182		258
Balance, September 30, 2017	32,333,391	$	309,579

On March 3, 2017 the Company filed a base shelf prospectus with the securities regulatory authorities in each of the provinces and territories of Canada. The prospectus is valid for a 25-month period, during which time the Company may offer and issue, from time to time, common shares, preferred shares, debt securities, warrants, subscription receipts and units, or any combination thereof, having an aggregate offering price of $500,000. The intention of the base shelf prospectus is to allow the Company to more quickly access capital when market opportunities permit.

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

11. Earnings per share:

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

Net income (loss):

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Net income (loss) for basic net income (loss) per share	$ 4,571	$ 2,137	$ 14,260	$ (41)
Add: after-tax interest, amortization and accretion on 2016 Convertible Debentures	739	—	2,225	—
Net income (loss) for diluted net income (loss) per share	$ 5,310	$ 2,137	$ 16,485	$ (41)

Denominator for basic and diluted net income (loss) per share:

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Weighted average number of shares, including fully vested deferred shares: Basic	32,344,025	24,203,173	32,304,637	11,746,530
Weighted average shares issued if all 2016 Convertible Debentures were converted	4,090,909	—	4,090,909	—
Weighted average number of shares: Diluted	36,434,934	24,203,173	36,395,546	11,746,530

Net income (loss) per share:

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Basic and diluted	$ 0.14	$ 0.09	$ 0.44	$ —

For the period ended September 30, 2016, the weighted average number of common shares outstanding has been calculated as the average of:

(i) For the period from January 1, 2016 to June 2, 2016 the weighted average number of ordinary shares of MHI Holdco outstanding during the period multiplied by the share conversion ratio.
(ii) For the period from June 2, 2016 to September 30, 2016 the actual number of ordinary shares of the Company outstanding during that period.

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

12. Rental revenue:

Rental revenue consists of the following:

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Cash rentals received	$ 11,990	$ 8,075	$ 33,202	$ 19,741
Straight-line rent adjustments	1,569	1,180	4,316	2,946
Property tax recovery	2,255	1,614	6,582	4,153
	$ 15,814	$ 10,869	$ 44,100	$ 26,840

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

The tenant operator of the Symphony Portfolio ("Symcare") of 11 properties pays rent pursuant to a master lease. For the three and nine months ended September 30, 2017, rental revenue from this tenant comprised approximately 55% and 59%, respectively (three and nine months ended September 30, 2016 - 78% and 89%, respectively), of the Company's consolidated rental revenue for the period.

13. Finance costs:

Finance costs consist of the following:

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Interest expense on credit facilities	$ 2,762	$ 1,450	$ 7,537	$ 4,242
Interest expense on mortgages payable	1,443	483	3,216	584
Interest expense on notes payable	—	—	—	72
Interest expense on convertible debentures	562	—	1,688	4,621
Preferred share dividends	—	—	—	83
Amortization and accretion expense	557	226	1,784	552
Interest rate swap payments	33	265	369	741
Amortization of mark-to-market debt adjustments	(2)	(28)	(8)	(28)
	$ 5,355	$ 2,396	$ 14,586	$ 10,867

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

14. General and administrative:

General and administrative costs consist of the following:

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Compensation and benefits	$ 826	$ 147	$ 2,434	$ 284
Management and administrative fees	68	326	203	737
Professional fees	467	198	1,546	1,234
Deferred share compensation	204	128	1,299	209
Diligence costs for transactions not pursued	403	—	491	—
Other	198	156	664	379
	$ 2,166	$ 955	$ 6,637	$ 2,843

15. Deferred share incentive plan:

At September 30, 2017, the number of deferred shares granted and outstanding and vested are as follows:

	Granted/ Outstanding	Fully Vested
As at January 1, 2017	81,545	20,041
Discretionary Deferred Shares granted	134,119	68,722
Individual Contributed Deferred Shares (vested immediately)	22,017	22,017
Company Contributed Deferred Shares	22,017	4,664
Dividend equivalents automatically granted on deferred shares	11,143	4,246
Shares Forfeited	(9,076)	—
Shares issued upon vesting of deferred shares	(82,854)	(82,854)
As at September 30, 2017	178,911	36,836

For the three and nine months ended September 30, 2017, expense recognized in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) related to deferred share grants was $204 and $1,299, respectively (three and nine months ended September 30, 2016 - $128 and $209). A deferred share liability of $881 (2016 - $352) is included in other non-current liabilities in the condensed consolidated interim statements of financial position as at September 30, 2017.

16. Related party transactions:

Except as disclosed elsewhere in the condensed consolidated interim financial statements, related party transactions as at and for the three and nine months ended September 30, 2017 included the following:

(i) For the three and nine months ended September 30, 2017, the Company paid asset management and administrative services fees of $68 and $203, respectively (three and nine months ended September 30, 2016 - $326 and $737, respectively), to Mainstreet Asset Management, Inc ("MAMI"), which is owned 100% by the former chairman of the Company. Prior to the completion of the reverse takeover transaction on April 4, 2016, the fee was payable pursuant to an asset management agreement (the "First Asset Management Agreement") dated October 29, 2015, and called for an asset management fee equal to 3.0% of gross rentals received. On April 4, 2016, the Company entered into a new asset management agreement with MAMI (the "Second Asset Management Agreement" and together with the First Asset Management Agreement, the "Asset Management Agreements"), which called for management fees payable at a rate of 0.3% of the estimated gross book value of the Company up to a gross book value of $1,000,000, plus 0.1% of the gross book value of the Company in excess of $1,000,000.

On November 1, 2016, the Company completed the internalization of asset management functions. The Second Asset Management Agreement was terminated effective October 31, 2016, and no fees or penalties were or will be paid to MAMI. In connection with internalization, the Company and MAMI entered into an administrative services agreement pursuant to which MAMI is required to provide the Company with certain administrative services, including information technology support and equipment as well as dedicated office space for a period of up to two years, in exchange for a one time fee of $65 and a monthly fee of $23.

(ii) MS Investment, which is owned 100% by the former chairman of the Company, owns 1,555,279 common shares of the Company. The Company pays dividends on these common shares whenever common share dividends are declared and paid.

(iii) The Company has issued certain mezzanine loans to entities which are wholly owned subsidiaries of Mainstreet LLC. The loans have been issued for the development of seniors housing and care properties in the United States. The mezzanine loans provide for annual interest, of which a portion is payable at a current pay rate on a monthly basis, with the remaining portion of interest accruing until the earlier of the loan's maturity or prepayment ("PIK Interest"). The mezzanine loans provide the Company with the right to purchase the development upon its substantial completion at fair market value.

(iv) On October 30, 2015, the Company entered into a $2,500 note payable with an entity that is owned 100% by the former chairman of the Company. On February 26, 2016, this note was amended and increased by $1,000. On April 14, 2016, $1,400 of this note was repaid. On April 28, 2016, this note was further increased by $1,500. The note payable had an original maturity date of October 30, 2016 and an interest rate of 5.0% per annum. The note payable of $3,600 and all accrued interest was repaid in full on June 2, 2016.

On April 26, 2016, a subsidiary of the Company entered into a $1,400 note payable with an entity that is owned 100% by the former chairman of the Company. The note payable had an original maturity date of October 30, 2016 and an interest rate of 5.0% per annum. The note payable of $1,400 and all accrued interest was repaid in full on June 2, 2016.

(v) On April 4, 2016 the Company entered into a development agreement with Mainstreet LLC, which is majority owned by the former chairman of the Company, with the right to provide mezzanine financing for projected construction costs for all suitable development properties identified by Mainstreet LLC. The Company will have an option to acquire any property for which it has provided mezzanine financing pursuant to the terms set out in the development agreement. As at September 30, 2017, the Company has $20,640 (December 31, 2016 - $26,572) in outstanding mezzanine financing receivable from wholly owned subsidiaries of Mainstreet LLC.

(vi) On June 2, 2016, a wholly owned subsidiary of the Company acquired three properties located in Chesterton, Indiana; Mooresville, Indiana; and Topeka, Kansas, respectively, for a combined purchase price of $59,821 plus transaction costs. These properties were acquired from wholly owned subsidiaries of Mainstreet LLC.

At the acquisition date, the Topeka, Kansas property was under development, and a wholly owned subsidiary of the Company entered into a development lease in conjunction with its purchase of the property, whereby the vendor of the property, Mainstreet LLC, agreed to fund payment until rental income commenced. Upon execution of the development lease, the Company recorded a development lease receivable of $259, which reduced the cost of the investment property acquired and which was subsequently paid.

At the time of closing the Company also assumed $2,249 of liabilities related to the remaining development costs of the property which were recorded as a development cost liability on the statement of financial position. There is no remaining development cost liability related to the Topeka, Kansas property.

(vii) On June 2, 2016, a wholly owned subsidiary of the Company acquired a portfolio of seven properties in Scranton, Pennsylvania (the "Scranton Portfolio") for a purchase price of $29,091 plus transaction costs. The Scranton Portfolio was owned 50% by an entity that is owned 100% by the former chairman of the Company.

(viii) On November 1, 2016, a wholly owned subsidiary of the Company acquired four properties located in Leawood, Kansas; Houston, Texas; Fort Worth, Texas and Wichita, Kansas, respectively, for a combined purchase price of $92,321 plus transaction costs. These properties were acquired from wholly owned subsidiaries of Mainstreet LLC.

At the acquisition date, all four properties were under development, and a wholly owned subsidiary of the Company entered into an income support agreement (the "Income Support Agreement") in conjunction with its purchase of the property, whereby the vendor of the property, Mainstreet LLC, agreed to fund payment until rental income commences. Upon execution of the development leases, the Company recorded an income support receivable of $2,076, which reduced the cost of the investment properties acquired. The Leawood, Kansas property is operational and rent commenced on December 1, 2016. The Company has received full payment of the initial $2,076 income support receivable recorded at acquisition. The Company has received additional payments under the Income Support Agreement of $1,107 as of September 30, 2017 due to the timing of lease commencements on the remaining properties.

At the time of closing the Company also assumed $2,984 of liabilities related to development costs of the properties which was recorded as a construction cost liability on the statement of financial position. Subsequent to the acquisition date, an additional $14,333 of construction was completed on these properties as of September 30, 2017. The Company received a credit from Mainstreet LLC at closing in the amount of $17,317 related to the construction costs to be completed.

(ix) On December 22, 2016, a subsidiary of the Company entered into a full recourse loan agreement with MS Investment with a capacity of $5,000 to be used by MS Investment for development costs, operating capital expenditures or other costs. $2,500 of the loan was advanced to MS Investment on December 22, 2016, and an additional $2,500 was advanced on January 6, 2017. The loan provides for an annual interest rate of 10.0%, of which 8.5% is payable at a current pay rate on a monthly basis, with an additional 1.5% accruing at PIK Interest and due at the repayment of the loan. The loan matures on December 22, 2018.

(x) In July 2017, the Company entered into a definitive agreement to sell the Wichita, Kansas and Fort Worth, Texas properties to Mainstreet LLC for a combined purchase price of approximately $47,298. The transaction is expected to close on or before December 29, 2017. In conjunction with this transaction, lease agreements to operate both properties were entered into by an affiliate of Mainstreet LLC and the Income Support Agreement has been terminated. The triple-net lease agreements have initial terms of 15 years and are at market rates, which are equal to the payments previously received under the Income Support Agreement. The final income support payments were received in July 2017 and there is no remaining income support receivable related to these properties. Rent for the two properties commenced on July 15, 2017. The Company has recognized $857 of rental revenue for these properties for the three and nine month periods ending September 30, 2017.

In October 2017, the Company entered into a definitive agreement to purchase three transitional care facilities located in Columbia, Missouri; Omaha, Nebraska and Houston, Texas from Mainstreet LLC for a purchase price of approximately $67,249. The Company intends to fund the transaction through a combination of assumed debt, the retirement of the Company's mezzanine loans outstanding on the three properties, cash on hand and equity in the unencumbered Wichita, Kansas property, which will close in conjunction with the purchase of the three assets. The July 25, 2017 agreement was amended with respect to the Wichita, Kansas property to include it in the above transaction for a purchase price of approximately $22,775. The Fort Worth property is expected to close separately on or before December 29, 2017 for a purchase price of approximately $25,221.

(xi) On July 25, 2017, the Company received total payments of $6,673 representing full repayment of outstanding principal, accrued PIK Interest and current interest, as of the repayment date, on the mezzanine loans receivable from MS Aurora Holdings II, LLC and MS Phoenix Holdings, LLC.

(xii) Effective September 19, 2017, Paul "Zeke" Turner resigned from his position on the board of directors of the Company. Mr. Turner owns or has a majority interest in certain entities with which the Company has transacted, including Mainstreet LLC, MAMI and MS Investment. These entities are considered related parties with respect to all transactions completed while Mr. Turner served on the Company's board of directors.

(xiii) On October 4, 2017 the Company issued a $2,100 mortgage to an affiliate of Mainstreet LLC. The mortgage is secured by a first position in a parcel of land in San Antonio, Texas. The mortgage bears interest at a rate of 6.5% per annum, and matures on the earlier of November 27, 2017 or the date of sale of the mortgaged property. Mainstreet LLC currently has an agreement in place to sell the parcel of land, and expects to complete the sale and repayment of its mortgage with the Company on or before November 27, 2017.

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

For the periods ended September 30, 2017 and 2016 the condensed consolidated interim statements of income (loss) and other comprehensive income (loss) include the following revenue and expenses resulting from above transactions with Mainstreet LLC and its affiliates:

	Three months ended September 30,		Nine months ended September 30,	
Transaction Type	2017	2016	2017	2016
Revenues:				
Rental revenue	$ 857	$ —	$ 857	$ —
Other income - loan interest revenue	914	168	3,092	177
Other income - investment in MS-SW Development Fund Holdings, LLC	45	—	128	—
Total	$ 1,816	$ 168	$ 4,077	$ 177
Expenses (income):				
General and administrative - management and administrative service fee	$ 68	$ 326	$ 203	$ 737
Finance costs - interest on related party note payable	—	—	—	72
Change in fair value of financial instruments	—	—	(1,107)	—
Total	$ 68	$ 326	$ (904)	$ 809

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

At September 30, 2017 and December 31, 2016, the condensed consolidated interim statements of financial position include the following related party balances:

Transaction Type	September 30, 2017	December 31, 2016
Assets:		
Tenant and other receivables - interest receivable	$ 274	$ 307
Tenant and other receivables - property tax receivable	144	—
Tenant and other receivables - other	16	—
Loans receivable	25,697	29,081
Investment in MS-SW Development Fund Holdings, LLC	1,022	894
Other - income support receivable	—	1,208
Other - receivable	200	—
Total assets	$ 27,353	$ 31,490
Liabilities:		
Accounts payable	$ 23	$ 19
Construction payable	170	—
Total liabilities	$ 193	$ 19

17. Income taxes:

The income tax expense in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) differs from that expected by applying the combined federal, provincial and state income tax rates of 26.5% (2016 - 26.5%). The differences for the three and nine months ended September 30, 2017 and 2016 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Income before income taxes	$ 7,507	$ 3,757	$ 24,565	$ 1,579
Income tax expense at Canadian tax rate	1,988	996	6,509	419
Non-deductible expenses	56	242	365	242
Difference in tax rate in foreign jurisdiction	892	1,265	3,403	959
Tax benefits not recognized	—	(883)	—	—
Other	—	—	28	—
Income tax expense	$ 2,936	$ 1,620	$ 10,305	$ 1,620

18. Commitments and contingencies:

On March 31, 2016, a subsidiary of the Company entered into a purchase and sale agreement to acquire a portfolio of three properties in Syracuse, New York for total consideration of $50,863. As of September 30, 2017, one of these properties, Keepsake Village at Greenpoint, has yet to be acquired. The Company has a commitment to acquire Keepsake Village at Greenpoint for total consideration of $11,018.

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

Pursuant to the Scranton Portfolio purchase and sale agreement, if certain conditions are met, the Company will be obligated to make an earn-out payment to the seller of the properties. Additionally, pursuant to the Scranton Portfolio lease agreement, if an earn-out payment is made, the tenant's rent will increase at an amount equal to the consideration paid for the earn-out multiplied by a pre-determined rate. The Company has not recorded any balance in the financial statements associated with this commitment.

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

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

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

19. Fair value measurement:

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

	September 30, 2017			December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash	$ 3,908	$ —	$ —	$ 7,651	$ —	$ —
Investment in MS-SW Development Fund Holdings LLC	—	—	1,022	—	—	894
Derivative asset	—	1,926	—	—	1,543	—
Investment properties	—	—	684,980	—	—	628,471
Derivative liability	—	(399)	—	—	—	—

For the assets and liabilities measured at fair value as at September 30, 2017, there were no transfers between Level 1, Level 2 and Level 3 liabilities during the period. For changes in fair value measurements of investment properties included in Level 3 of the fair value hierarchy, refer to note 4 for details. The fair value of the Investment in MS-SW Development Fund Holdings LLC represents contributions made to the entity and the value of contractual returns accrued.

Fair value of financial instruments:

The carrying amounts and fair values of financial instruments as shown in the condensed consolidated interim statements of financial position are shown in the table below. The table below excludes cash, restricted cash, trade and other receivables, accounts payable, accrued real estate taxes, accrued interest expense, accrued convertible debenture interest, note payable to related party, dividend payable and development cost liability, as the carrying amounts of these assets and liabilities are a reasonable approximation of fair value:

	September 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Investment in MS-SW Development Fund Holdings, LLC	$ 1,022	$ 1,022	$ 894	$ 894
Loans receivable	27,594	27,551	29,081	29,008
Derivative instruments	1,926	1,926	1,543	1,543
Financial liabilities:				
Mortgages payable	132,034	133,123	89,716	89,950
Credit facilities	226,382	230,645	225,290	228,000
Derivative instruments	399	399	—	—
2016 Convertible Debentures	41,758	44,775	41,214	42,975

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

20. Segment:

The Company primarily owns income-producing seniors housing and care properties throughout the United States and Canada. In measuring performance, the Company does not distinguish or group its properties on a geographical or any other basis. Management has applied judgment by aggregating its properties into one reportable segment for disclosure purposes. The Company's Chief Executive Officer is the chief decision maker and regularly reviews performance on an individual property basis.

At September 30, 2017, $643,381 of the Company's non-current assets, excluding financial instruments, are located in the United States and $42,586 are located in Canada. During the three and nine months ended September 30, 2017, the Company generated $15,814 and $44,100 of its revenues, excluding other income, from properties located in the United States and $746 and $2,150 of its revenues from properties located in Canada.