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

MAINSTREET HEALTH INVESTMENTS INC.

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

MAINSTREET HEALTH INVESTMENTS INC.

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

		September 30, 2016		December 31, 2015
Assets				
Current Assets:				
Cash	$	7,911	$	7,189
Restricted Cash		100		2,500
Other (note 5)		9,966		939
		17,977		10,628
Non-current Assets				
Investment properties (note 6)		426,009		268,425
Loans receivable (note 4)		8,789		—
		434,798		268,425
Total Assets	$	452,775	$	279,053
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable	$	808	$	309
Accrued real estate taxes		6,542		4,531
Accrued interest expense		759		431
Accrued convertible debenture interest		—		930
Note payable to related party (note 10)		—		2,500
Mortgages payable (note 8)		35,652		—
Dividends payable		1,485		—
Unearned revenue		2,176		1,790
		47,422		10,491
Non-current liabilities:				
Credit facility (note 7)		167,857		144,692
Mortgage payable (note 8)		13,481		—
Convertible debentures (note 11)		—		108,891
Derivative instruments (note 9)		1,663		—
Deferred tax liability (note 19)		1,620		
Other non-current liabilities		563		—
		185,184		253,583
Total liabilities	$	232,606	$	264,074
Share capital (note 13)		231,686		20,734
Contributed surplus		122		—
Cumulative deficit		(11,639)		(5,755)
Total shareholders' equity		220,169		14,979
Commitments and contingencies (note 20)				
Subsequent events (note 8, note 21)				
Total liabilities and shareholders' equity	$	452,775	$	279,053

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)

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

		Three months ended September 30, 2016		Nine months ended September 30, 2016
Revenue:				
Rental (note 15)	$	10,869	$	26,840
Interest income (note 4)		168		177
		11,037		27,017
Expenses (income):				
Finance costs (note 16)		2,396		10,867
Real estate tax expense		26		4,647
		2,422		15,514
Income from operations		8,615		11,503
General and administrative expenses (note 18)		955		2,843
Change in value of investment properties - IFRIC 21		1,614		(468)
Change in value of investment properties (note 6)		3,292		5,886
Change in value of derivative instruments (note 9)		(1,003)		1,663
Income before income taxes		3,757		1,579
Income tax expense:				
Deferred (note 19)		1,620		1,620
Net income (loss) and comprehensive income (loss)	$	2,137	$	(41)
Earnings (loss) per share (note 14):				
Basic and diluted	$	0.09	$	—

See accompanying notes to condensed consolidated interim financial statements.

MAINSTREET HEALTH INVESTMENTS INC.

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

	Share capital	Contributed surplus	Cumulative deficit	Total
Balance, January 1, 2016	$ 20,734	$ —	$ (5,755)	$ 14,979
Net income	—	—	(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 Statement of Cash Flows
(Expressed in thousands of U.S. dollars)
Nine months ended September 30, 2016
(Unaudited)

		Nine months ended September 30, 2016
Cash flows from operating activities:		
Net loss	$	(41)
Items not involving cash:		
Fair value adjustment of investment properties		5,886
Fair value adjustment of derivative instruments		1,663
Straight-line rent		(2,946)
Real estate tax recovery revenue		(4,153)
Finance costs		10,867
Listing expense		700
Interest paid		(8,667)
Change in non-cash operating working capital:		
Prepaid expenses		(182)
Accounts payable		(1,272)
Unearned revenue		387
Other assets		(1,339)
Other liabilities		563
Real estate taxes payable		1,270
Deferred tax liability		1,620
Net cash provided by operating activities	$	4,356
Cash flows from financing activities:		
Proceeds from credit facility	$	54,601
Payments on credit facility		(31,616)
Debt issuance costs paid		(724)
Proceeds from mortgages payable		1,953
Payments of mortgages payable		(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		(4,349)
Proceeds from income support agreement		122
Proceeds from issuance of preferred equity		10,300
Repayment of preferred equity		(10,300)
Cash provided by financing activities	$	116,542
Cash flows from investing activities		
Acquisitions and additions to investment properties	$	(107,934)
Deposit paid for acquisitions		(3,180)
Prepaid acquisition costs		(273)
Issuance of loans receivable		(8,789)
Cash used in investing activities	$	(120,176)
Increase in cash and cash equivalents		722
Cash and cash equivalents, beginning of period		7,189
Cash and cash equivalents, end of period	$	7,911
Supplemental disclosure relating to non-cash activities:		
Exchange of convertible debentures (note 11)	$	111,171
Assumption of mortgages payable on acquisition of investment properties (note 8)	$	47,579
Non-cash interest accrued as capital on convertible debentures (note 11)	$	2,280

See accompanying notes to condensed consolidated interim financial statements.

1. Nature and description of the Company:

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 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 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, the financial statements of the Company reflect the historical results of MHI Holdco and the acquisition of the net assets of the Company at their 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 properties which offer predominately transitional care, long-term care and assisted living programs, including short-term rehabilitation and memory care special care units that are leased to operators under triple net leases. At September 30, 2016, the Company owns a portfolio of 22 seniors housing and care properties.

2. 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 annual financial statements of MHI Holdco for the period from October 7, 2015 to December 31, 2015, which were included in the Company's prospectus filed May 26, 2016, and which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB.

These consolidated financial statements were approved by the Board of Directors of the Company and authorized for issuance on November 8, 2016.

3. Significant accounting policies:

The significant accounting policies and critical accounting judgments as disclosed in the MHI Holdco's consolidated financial statements as at December 31, 2015 and for the period from October 7, 2015 to December 31, 2015 have been applied consistently in the preparation of these unaudited interim condensed consolidated financial statements. The following additional accounting policy has been adopted during the period:

Derivative instruments:

The Company uses derivative financial instruments to manage interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

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

Derivative financial instruments, including embedded derivatives that must be separately accounted for, are initially valued at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized immediately in profit or loss.

4. Loans receivable:

The Company has issued certain mezzanine loans to entities which are wholly owned subsidiaries of Mainstreet Property Group, LLC ("Mainstreet LLC"), which is majority owned by the chairman of the Company and is a related party. 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. Mezzanine loans receivable issued as of September 30, 2016 are detailed in the table below:

Debtor	Loan Type		Balance September 30, 2016	Maturity Date	Current Interest Rate	PIK Interest Rate
MS Houston Holdings II, LLC	Mezzanine Loan	$	2,551	2020 (1)	10.5%	4.0%
MS-SW Mezzanine Fund, LLC	Mezzanine Loan		3,716	2020 (1)	10.5%	4.0%
MS Webster Holdings, LLC	Mezzanine Loan		2,522	2020 (1)	10.5%	3.0%
		$	8,789			

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

5. Other assets:

Current other assets are as follows:

		September 30, 2016		December 31, 2015
Property tax recovery receivable	$	4,965	$	843
Rent receivable		291		—
Interest receivable		103		
Prepaid expense		170		96
Prepaid acquisition costs		273		—
Deposits on future acquisitions		3,079		—
Investment in MS-SW Development Fund Holdings, LLC		837		
Other		248		—
	$	9,966	$	939

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

6. Investment properties:

(a) Investment properties:

	Number of Properties		Amount
Balance, October 7, 2015	—	$	—
Acquisitions of investment properties	10		273,803
Increase in straight-line rents	—		567
Fair value adjustment	—		(5,945)
Balance, December 31, 2015	10	$	268,425
Acquisitions of investment properties	12		157,642
Capital expenditures	—		2,882
Increase in straight-line rents	—		2,946
Fair value adjustment	—		(5,886)
Balance, September 30, 2016	22	$	426,009
Property tax liability under IFRIC 21			(1,527)
Fair value adjustment to investment properties - IFRIC 21			1,527
		$	426,009

Investment properties consist of income properties and are carried at fair value. The fair value of each investment property is determined using the capitalized net operating income approach. The stabilized net operating income for the period is divided by an overall capitalization rate. The capitalization rates are derived from a combination of third-party appraisals and industry market data (Level 3 inputs).

The key valuation assumptions used in determining fair value of investment properties are set out in the following table:

	September 30, 2016	December 31, 2015
Capitalization rate - range	6.50% - 8.25%	8.00%
Capitalization rate - weighted average	7.91%	8.00%

The fair value of investment properties is most sensitive to changes in capitalization rates. At September 30, 2016, a 25 basis point increase or decrease in the weighted average capitalization rate would decrease the fair value of the investment properties by $13,055 or increase the fair value of the investment properties by $13,908, respectively.

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

(b) Acquisitions - nine months ended September 30, 2016

	Hanover Park	Scranton 7 Properties	Hearth at Greenpoint	Others	Total
Number of properties acquired:	1	7	1	3	12
Net assets acquired:					
Investment properties	$ 34,574	$ 29,351	$ 33,943	$ 59,774	$ 157,642
Deposit applied against purchase price	(3,500)	—	—	—	(3,500)
Assumed mortgages	—	—	(13,994)	(33,585)	(47,579)
Working capital balances	(733)	—	—	(1,778)	(2,511)
	$ 30,341	$ 29,351	$ 19,949	$ 24,411	$ 104,052
Consideration paid/funded by:					
Cash on hand and credit facility applied to investment properties	(30,341)	(29,351)	(19,949)	(24,670)	(104,311)
Development lease receivable	—	—	—	259	259
	$ (30,341)	$ (29,351)	$ (19,949)	$ (24,411)	$ (104,052)

On April 29, 2016, a wholly owned subsidiary of the Company acquired one property in respect of which the Company had previously entered into a purchase agreement (Hanover Park, the eleventh property of the Symphony Portfolio, the first ten of which were acquired in October 2015) for $34,075 plus transaction costs. In order to fund this acquisition, the Company applied the $3,500 security deposit, issued $10,300 of preferred equity, amended an existing note payable to draw an additional $1,500 and drew an additional $19,360 on the Facility.

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 chairman of the Company.

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. The Topeka, Kansas property is currently 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 will fund payment until rental income commences. Upon execution of the development lease, the Company recorded a development lease receivable of $259, which reduced the cost of the investment property acquired. The property is operational and rent commenced on August 1, 2016. As at September 30, 2016, the Company has received full payment of $259 related to the development lease receivable. These properties were owned 100% by the chairman of the Company.

On August 5, 2016, a wholly owned subsidiary of the Company acquired one property located in Syracuse, New York ("Hearth at Greenpoint") in respect of which the Company had previously entered into a purchase agreement. The Hearth at Greenpoint property was acquired for a purchase price of $32,967 plus transaction costs. The Company assumed mortgage debt on the property of $13,994 including a mark-to-market adjustment of $723. The assumed mortgage debt bears interest at a fixed rate of 6.8% annually and matures on September 1, 2018.

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

7. Credit facility:

The credit facility is 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, 2016		December 31, 2015	
Credit facility outstanding	$	170,000	$	147,015
Finance costs, net		2,143		2,323
Carrying value	$	167,857	$	144,692

On October 30, 2015, the Company entered into a credit facility agreement (the "Facility"). The Facility includes a term loan with capacity of $150,000, as well as an option to provide a revolving line of credit with capacity of $50,000. The line of credit includes an accordion feature that would extend the capacity of the revolving line of credit to $150,000, bringing the total capacity of the Facility to $300,000. As of September 30, 2016, the Company has received commitments from banks to fulfill $150,000 of the term loan capacity and $50,000 of the revolving line of credit capacity. The term loan has an initial maturity date of October 30, 2019. The revolving line of credit has an initial maturity date of October 30, 2018, and has a one year extension option. At September 30, 2016, the Facility is secured by the 11 Symphony Portfolio properties and the Scranton 7 Portfolio. As of September 30, 2016, the security provided the Company with a borrowing base of $181,616. The Facility provides for interest-only payments during the term and a borrowing rate of LIBOR plus 300 basis points.

At September 30, 2016, total borrowings outstanding under the Facility were $170,000, and the borrowing rate was 3.52%. Future principal repayments are as follows:

		Aggregate principal payments
2018	$	20,000
2019	$	150,000

8. Mortgages payable:

Current mortgages payable consist of the following as at September 30, 2016:

	September 30, 2016	
Mortgages payable	$	48,790
Mark-to-market adjustment, net		695
Finance costs, net		(352)
Carrying value	$	49,133
Less current portion		35,652
Long-term portion, September 30, 2016	$	13,481

The weighted average contractual interest rate of the Company's mortgages payable as of September 30, 2016 is 4.63%. Mortgages payable are collateralized by investment properties with a fair value of $91,536 at September 30, 2016.

On June 2, 2016, the Company assumed a mortgage payable in the amount of $13,890 upon acquisition of the Chesterton, Indiana property. The mortgage requires interest only payments and bears interest at a fixed rate of 4.0%. The Chesterton, Indiana property mortgage was repaid in full on November 1, 2016 using proceeds from the Company's credit facility.

On June 2, 2016, the Company assumed a mortgage payable in the amount of $9,162 upon acquisition of the Mooresville, Indiana property. The mortgage requires interest only payments and bears interest at a fixed rate of 4.0%. The Mooresville, Indiana property mortgage was repaid in full on November 1, 2016 using proceeds from the Company's credit facility.

On June 2, 2016, the Company assumed a mortgage payable in the amount of $10,533 upon acquisition of the Topeka, Kansas property. The mortgage requires interest only payments and bears interest at a variable rate of prime, which was 3.5% at September 30, 2016. Subsequent to the assumption of the Topeka, Kansas property mortgage, the Company drew an additional $1,953 to fund the completion of its construction. This amount was credited to the Company upon acquisition and was funded by the developer of the property. The Topeka, Kansas property mortgage was repaid in full on November 3, 2016 using proceeds from the Company's credit facility.

On August 5, 2016, the Company assumed a mortgage payable with a fair value of $13,994 (including a mark-to-market adjustment of $723) upon acquisition of the Hearth at Greenpoint property. The mortgage requires monthly principal and interest payments and bears interest at a contractual fixed rate of 6.8% through its maturity date of September 1, 2018.

9. Derivative 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. The Swap Agreement effectively fixes interest at a rate of 4.2% through its maturity on October 30, 2019. The interest rate swap is not designated as a hedge and will be marked to fair value each reporting period through finance cost in the consolidated interim statement of profit and comprehensive income. The Company determined the fair value of its interest rate swap to be a liability of $1,663 at September 30, 2016 based on market-observable inputs, including forward pricing models using present value calculations. The determination was made using Level 2 inputs. The Company recognized income of $(1,003) and expense of $1,663 for the three and nine month periods ended September 30, 2016, respectively, in the consolidated interim statement of profit and comprehensive income related to the change in value of the interest rate swap.

10. Note payable to related party:

On October 30, 2015, the Company entered into a $2,500 note payable with an entity that is owned 100% by the chairman of the Company. On February 26, 2016, this note was amended and increased by $1,000. On April 29, 2016, this note was further increased by $1,500. The note payable had an original maturity date of October 30, 2016 and bears interest at a rate of 5.0% per annum. The note payable of $5,000 and all accrued interest was repaid in full on June 2, 2016.

11. Convertible debentures:

On October 29, 2015, the Company issued convertible subordinated debentures ("Convertible Debentures") in the aggregate principal amount of $107,961, maturing October 29, 2020. The Convertible Debentures bear interest at the following rates: (i) 10% per annum for the period commencing on October 29, 2015 and ending on and including October 28, 2016; and (ii) 8.5% per annum for the annual period commencing on October 29, 2016 and each year thereafter; in each case payable on a quarterly basis commencing on December 31, 2015, fifty percent (50.0%) in cash and fifty percent (50.0%) by capitalizing the interest accrued and payable as an increase to the principal amount.

All or any portion of the Convertible Debentures were convertible into shares of the Company at any time based on the conversion formula outlined in the Convertible Debentures agreement. Upon completion of the Offering on June 2, 2016, the holders of the Convertible Debentures with an outstanding balance of $111,171 exchanged their interest into 1,111,708 common shares of MHI Holdco. The holders then converted all of their common shares in MHI Holdco, which included 51,810 common shares held prior to the exchange of convertible debentures, into 11,635,104 common shares of the Company.

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

Convertible Debentures principal activity during the period ended September 30, 2016 is as follows:

Convertible Debentures balance, December 31, 2015	$	108,891
Interest capitalized as principal		2,280
Convertible Debentures exchanged for common shares of the Company		(111,171)
Convertible Debentures balance, September 30, 2016	$	—

12. Preferred shares:

On April 28, 2016, the Company issued $10,300 of non-voting preferred shares. The preferred shares entitled the holder to a fixed cash dividend per share at a rate of 8.5% per year, which dividend would increase to an annual rate of 10.5% if the preferred shares were not redeemed within three months of issuance. The Company was required to redeem the preferred shares upon the earlier of completion of the Offering and October 20, 2020. The preferred shares were redeemed upon completion of the Offering on June 2, 2016.

13. Share capital:

The following number and value of common shares were issued and outstanding as at September 30, 2016:

	Shares			Value
As at January 1, 2016 - shares of the Company	81,160	(1)	$	—
As at January 1, 2016 - share capital of MHI Holdco	—			20,734
Issued on April 4, 2016 - reverse takeover transaction	1,555,279	(1)		—
Issued on June 2, 2016 - reverse takeover transaction	11,635,104			111,871
Issued on June 2, 2016	9,500,000			85,688
Issued on June 21, 2016	1,425,000			13,385
Issued pursuant to the Company's dividend reinvesment plan	774			8
	24,197,317		$	231,686

(1) Common share values reflect the 250:1 share conversion which was effective June 2, 2016

(i) On December 2, 2015, the Company agreed to acquire all of the shares of MHI Holdco held by MS Investment, representing approximately 75% of the issued and outstanding shares of MHI Holdco, in consideration for the issuance of 81,160,000 pre-consolidation common shares and 307,659,850 pre-consolidation non-voting shares ("Non-Voting Shares") in the capital of the Company. These shares were consolidated on a 250:1 basis upon completion of the offering described in (iii) below. The non-voting Shares were converted to common shares in connection with the Closing of the offering described in (iii) below.

The transaction, which closed on April 4, 2016, resulted in a reverse takeover of the Company in which MS Investment acquired approximately 95% of the issued and outstanding shares of the Company and an 80% voting interest in the Company (with the balance of their equity interest being held in the form of Non-Voting Shares).

(ii) On June 2, 2016 the Company acquired all of the remaining outstanding shares of MHI Holdco subsequent to the conversion of the convertible debentures issued by MHI Holdco into shares of MHI Holdco. The shareholders of MHI Holdco received 518,094 common shares of the Company and the convertible debenture holders received 11,117,010 common shares of the Company, both on a post-consolidation basis. The Company has been identified as the accounting acquiree rather than the accounting acquirer and the transaction is considered to be a reverse-takeover. As the former shareholders of MHI Holdco own a controlling interest in the Company, the financial statements of the Company reflect the historical results of MHI Holdco and the acquisition of the net assets of the Company at their fair value on the date of closing. However, the equity structure (i.e. the number and type of shares issued) reflects the equity structure of the Company.

At the closing of the transaction the Company did not meet the definition of a business and, therefore, the acquisition of the Company was not considered to be a business combination. The acquisition of the Company was accounted for in accordance with IFRS 2, Share-Based Payment, reported as the issuance of common shares and an expense of $700, which is measured by calculating the difference between (i) the fair value of the number of shares that MHI Holdco would have to issue in order to provide the same percentage ownership of the combined entity to the shareholders of the Company as they would have in the combined entity as a result of the reverse-takeover; and (ii) the fair value of the identifiable net assets of the company on the closing date.

(iii) On June 2, 2016, the Company completed the issuance of 9,500,000 common shares for gross proceeds of $95,000. The underwriters of the transaction were granted an overallotment option to purchase up to an additional 1,425,000 common shares within 30 days of the completion of the offering. The overallotment option was exercised in full on June 21, 2016 resulting in gross proceeds of $14,250.

(iv) For the three and nine months ended September 30, 2016, the Company declared dividends payable in cash on common shares of $4,456 and $5,842, respectively.

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

14. Earnings per share:

Basic and diluted earnings per share are calculated by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the three and nine months ended September 30, 2016.

	Three months ended September 30, 2016	Nine months ended September 30, 2016
Numerator for earnings per share:		
Income (loss) for the period	$ 2,137	$ (41)
Denominator for earnings per share:		
Weighted average number of common shares (basic and diluted)	24,203,173	11,746,530
Earnings per share - basic and diluted	$ 0.09	$ —

For the three and nine month periods 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.

15. Rental revenue:

Rental revenue consists of the following:

	Three months ended September 30, 2016	Nine months ended September 30, 2016
Cash rentals received	$ 8,075	$ 19,741
Straight-line rent adjustments	1,180	2,946
Property tax recovery	1,614	4,153
	$ 10,869	$ 26,840

The Company is scheduled to receive rental income from operators under the provisions of long term non-cancellable operating leases with lease terms of 10 to 15 years, with options to extend up to an additional 20 years. These leases are triple net and include renewal options and rent escalation clauses.

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

Future minimum rentals to be received as of September 30, 2016 are as follows:

Less than 1 year	$	33,966
Between 1 and 5 years		142,171
More than 5 years		363,796
	$	539,933

16. Finance costs:

Finance costs consist of the following:

		Three months ended September 30, 2016		Nine months ended September 30, 2016
Interest expense on the credit facility	$	1,450	$	4,242
Interest expense on mortgages payable		483		584
Interest expense on notes payable		—		72
Interest expense on Convertible Debentures		—		4,621
Preferred share dividends		—		83
Amortization expense		226		552
Interest rate swap payments		265		741
Mark-to-market debt adjustments		(28)		(28)
	$	2,396	$	10,867

17. Deferred share incentive plan:

On May 25, 2016, the shareholders of the Company voted on and approved a deferred share incentive plan (the "Deferred Share Incentive Plan").

Each director of the Company is given the right to participate in the Deferred Share Incentive Plan. Each Director who elects to participate shall receive a portion of his or her fees earned for service on the Board (the "Elected Amount") in the form of deferred shares in lieu of cash ("Individual Contributed Deferred Shares"). In addition, the Deferred Share Incentive Plan provides that the Corporation shall match 100% of the Elected Amount for each director such that the aggregate number of deferred shares issued to each such director annually shall be equal in value to two times the Elected Amount for such director ("Company Contributed Deferred Shares").

Under the Deferred Share Incentive Plan, deferred shares may be granted from time to time to participants in the Deferred Share Incentive Plan at the discretion of the Board or the Compensation, Governance and Nominating Committee ("Discretionary Deferred Shares")

Wherever cash dividends are paid on the common shares, additional deferred shares are credited to the Participant’s account. The number of such additional Deferred Shares is calculated by multiplying the aggregate number of Deferred Shares held on the relevant dividend record date by the amount of the dividend paid by the Company on each common share, and dividing the result by the market value of the common shares on the dividend date.

Individual Contributed Deferred Shares vest immediately upon grant. Company Contributed Deferred Shares, which are granted only to directors, generally vest in three equal installments on the first three anniversary dates of the grant.

Discretionary Deferred Shares may also be granted to participants and, where vesting is not specified in connection with the grant, such Discretionary Deferred Shares will vest on the second anniversary of the date of grant.

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

Additional deferred shares credited to a participant's account in connection with cash dividends vest on the same schedule as their corresponding Deferred Shares and are considered issued on the same date as the deferred shares in respect of which they were credited.

On April 5, 2016, the board approved the grant of 40,000 Discretionary Deferred Shares to certain officers of the Company, which grants were effective on closing of the Offering on June 2, 2016. Such Discretionary Deferred Shares will fully vest two years from the date of grant, or June 2, 2018.

At the meeting of shareholders held on May 25, 2016, shareholders approved an amendment to the Deferred Share Incentive Plan to increase the maximum number of common shares available for issuance under the Deferred Share Incentive Plan to 1,200,000.

At September 30, 2016, the number of deferred shares granted and outstanding and vested are as follows:

	Granted/ Outstanding	Fully Vested
As at January 1, 2016	—	—
Discretionary Deferred Shares granted	40,000	—
Individual Contributed Deferred Shares (vested immediately)	12,822	12,822
Company Contributed Deferred Shares	12,822	—
Dividend equivalents automatically granted on Discretionary Deferred Shares	884	107
As at September 30, 2016	66,528	12,929

18. Related party transactions:

Except as disclosed elsewhere in the consolidated interim financial statements, related party transactions for the period ended September 30, 2016 included the following:

(i) The Company paid an asset management fee to an asset management company (the "Asset Manager"), which is owned 100% by the 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 the same Asset Manager (the "Second Asset Management Agreement" and together with the First Asset Management Agreement, the "Asset Management Agreements"), which calls 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.

(ii) MS Investment 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) On April 4, 2016 the Company entered into a development agreement with Mainstreet LLC, which is majority owned by the 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.

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

(iv) 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.

The Company expects to continue to transact with Mainstreet LLC and its affiliates as a result of the asset management agreement and Development Agreements executed during the period.

For the three and nine months ended September 30, 2016, the condensed consolidated interim statements of profit and other comprehensive income include the following revenue and expenses resulting from transactions with related parties:

Transaction Type	Three months ended September 30, 2016	Nine months ended September 30, 2016
Revenues:		
Other income - loan interest revenue	$ 168	$ 177
Total revenues	$ 168	$ 177
Expenses:		
Operating - management fee	$ 326	$ 737
Finance costs - interest on related party note payable	—	72
Total expenses	$ 326	$ 809

At September 30, 2016 and December 31, 2015, the condensed consolidated interim statements of financial position include the following related party balances:

Transaction Type	September 30, 2016	December 31, 2015
Assets:		
Loans receivable	$ 8,789	$ —
Other - investment in MS-SW Development Fund Holdings, LLC	837	—
Total Assets	$ 9,626	$ —
Liabilities:		
Accounts payable	$ 127	$ —
Note payable to related party	—	2,500
Total liabilities	$ 127	$ 2,500

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

19. Income taxes:

The Company has certain subsidiaries in the United States and Canada that are subject to tax on their taxable income. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below.

		September 30, 2016		December 31, 2015
Deferred tax assets:				
Net operating losses	$	3,351	$	211
Derivative instruments		674		—
Investment properties		—		1,289
Other		—		78
Deferred tax assets	$	4,025	$	1,578
Deferred tax liabilities:				
Investment properties	$	5,618	$	—
Other		27		—
Deferred tax liabilities	$	5,645	$	—
Subtotal	$	(1,620)	$	1,578
Net deferred tax not recognized		—		(1,578)
Net deferred tax asset (liability)	$	(1,620)	$	—

At September 30, 2016, U.S. subsidiaries had accumulated net operating losses available for carryforward for U.S. income tax purposes of $8,270.

The federal net operating losses will expire in 2036. The state net operating losses will expire in 2028.

The Company has net operating losses and deductible temporary differences in Canada amounting to $14,187 for which no deferred tax asset has been recognized as it is not probable that future taxable profits will be available against which the Company can use the benefits therefrom. The net operating losses expire between 2026 and 2034.

20. Commitments and contingencies:

On March 31, 2016, a subsidiary of the Company entered into a purchase and sale agreement to acquire a portfolio of 3 properties in Syracuse, New York (the "Hearth Portfolio") for total consideration of $50,863. As of September 30, 2016, 1 of these properties, Hearth at Greenpoint, had been acquired for total $32,967 plus transaction costs.

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 7 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.

21. Subsequent events:

On October 6, 2016, the Company closed its offering of 7,406,000 subscription receipts (the "Subscription Receipts") at a price of $10.10 per Subscription Receipt, which includes 966,000 Subscription Receipts acquired upon the exercise by the underwriters of an overallotment option granted to them by the Company. The Subscription Receipts are being used to finance the acquisitions of (i) a portfolio of four NextGen® post-acute transitional care properties currently under development and located in the states of Kansas and Texas; (ii) one post-acute transitional care and memory facility located in the state of Illinois; (iii) a 50% interest in two assisted living properties located in the province of Ontario, as well as the operating assets related thereto; and (iv) eight mezzanine loans advanced to Mainstreet Property Group, LLC, which is owned 100% by the chairman of the Company ("Mainstreet LLC") or an affiliate thereof in respect of certain development properties located in the states of Texas, Kansas, Arizona and Colorado (four of which relate to the development properties being purchased, as described in (i) above). The Subscription Receipts are also being used to finance a mezzanine loan from the Company to Mainstreet LLC or its affiliate in the amount of approximately $3.5 million to fund certain costs in connection with the development of a Mainstreet LLC NextGen® transitional care property located in the state of Nebraska. See note below regarding the Transactions for further information regarding the purchase price and source of funds.

On October 18, 2016, a wholly owned subsidiary of the Company acquired one property located in Syracuse, New York ("Hearth on James") in respect of which the Company had previously entered into a purchase agreement. The Hearth on James property was acquired for a purchase price of $6.9 million plus transaction costs. The Company assumed mortgage debt on the property of $3.7 million which bears interest at a fixed rate of 4.1% annually and matures on March 1, 2049.

On October 28, 2016, the Subscription Receipts were deemed to be exchanged for common shares of the Company pursuant to the terms of the Subscription Receipts.

On October 31, 2016, the Company exercised the accordion feature on its existing credit facility (the "Facility") and increased its total capacity from $200 million to $285 million. Subsequent to this transaction, the term loan component of the Facility has a capacity of $200 million, and the revolving line of credit component of the Facility has a capacity of $85 million. On November 1, 2016, the Company used proceeds from the additional capacity on the Facility to repay in full two existing mortgages totaling $23.0 million on the Chesterton, Indiana and Mooresville, Indiana properties. On November 3, 2016, the Company used proceeds from the additional capacity on the Facility to repay in full one existing mortgage totaling $12.5 million on the Topeka, Kansas property.

On November 1, 2016, the Company completed the acquisitions of interests in seven seniors housing and care properties and investments in five mezzanine loans (collectively, the "Transactions"). The aggregate purchase price for the Transactions was approximately $150 million, and was financed with (i) the net proceeds from the Subscription Receipts, including proceeds from the over-allotment; (ii) the assumption of approximately $65.6 million of existing property level indebtedness; (iii) the issuance of approximately $3.6 million of common shares of the Company to certain vendors of the two properties located in the province of Ontario; and (iv) cash on hand.

On November 1, 2016, concurrent with the closing of the transactions described above, the Company announced that it has 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 the Asset Manager. In connection with internalization, the Company and Mainstreet Asset Management, Inc ("MAMI"), which is 100% owned by the chairman of the Company, entered into an administrative services agreement pursuant to which MAMI will 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 $22.5.

On November 4, 2016, the Company acquired a 50% interest in two assisted and independent living properties located in Timmins, Ontario and Sudbury, Ontario, together with the operating assets related thereto, on a joint venture basis with Autumnwood Lifestyles Inc. ("Autumnwood"). The two properties comprise a total of 177 assisted living and 66 independent living suites and will be subject to the joint venture arrangements entered into by the Company and Autumnwood. The aggregate purchase price for the 50% interest in the two properties was approximately $22.6 million (assuming an exchange rate of Cdn$1.00 equals US$0.7456), which was financed by the assumption of approximately $12.9 million of property level indebtedness, cash and approximately $2.6 million of the Company's common shares issued to certain minority interest owners of the properties at $10.10 per common share.