INVESQUE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE YEAR ENDED DECEMBER 31, 2018

March 13, 2019

Basis of presentation

Financial data in this Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") is for the year ended December 31, 2018. Financial data has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

This MD&A is intended to provide readers with an assessment of the performance of Invesque Inc. (the "Company") for the year ended December 31, 2018. This MD&A should be read in conjunction with the audited consolidated financial statements and notes of the Company for the years ended December 31, 2018 and 2017.

Additional information relating to the Company, including the Company's annual information form for the year ended December 31, 2018 (the "2018 AIF"), will be available on SEDAR at www.sedar.com.

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

Forward-looking disclaimer

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

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

Factors that could cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, but are not limited to, general economic conditions, competitive uncertainties and contingencies, demographic and industry trends, legislative and regulatory changes, tax laws and those factors set forth under the heading "Risks and Uncertainties" in this MD&A and 2018 AIF. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive. When relying on forward-looking statements to make decisions, with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events.

These forward-looking statements are made as of March 13, 2019 and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law.

Financial Measures not Defined Under IFRS

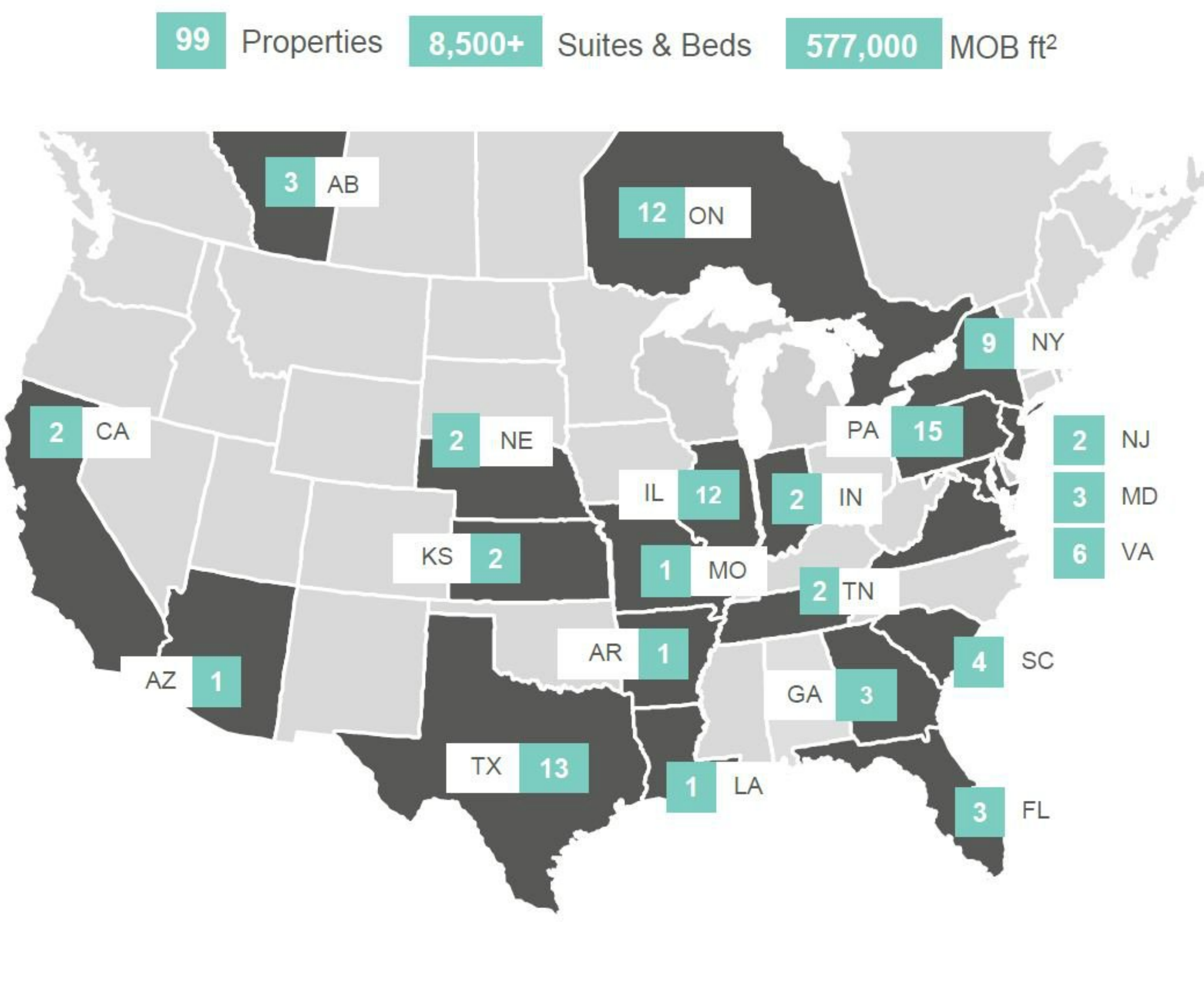
Certain terms used in this MD&A are performance measures that are not defined by IFRS such as Funds From Operations ("FFO"), Adjusted Funds From Operations ("AFFO"), FFO and AFFO as adjusted to exclude diligence costs for transactions not pursued, consolidated income (loss) adjusted for IFRIC 21, fixed charge coverage ratio, payout ratio, earnings before interest, income taxes, depreciation, amortization and rent ("EBITDAR"), earnings before interest, income taxes, depreciation, amortization, rent and management fees ("EBITDARM") and any related per share amounts used by the Company to measure, compare and explain the operating results and financial performance of the Company. Such performance measures do not have standardized meanings under IFRS and therefore may not be comparable to similar measures presented by other issuers. Such performance measures should not be construed as alternatives to income (loss) and comprehensive income (loss) or cash flows from operating activities calculated in accordance with IFRS. Further, the supplemental measures used by management may not be comparable to similar measures presented by other real estate enterprises. Management believes that these terms are relevant measures in comparing the Company's performance to industry data and assessing its ability to meet its ongoing obligations.

Business Overview

Invesque Inc. is a corporation continued under the *Business Corporations Act* (British Columbia). Effective January 3, 2018, the Company changed its name from "Mainstreet Health Investments Inc." to "Invesque Inc.". The registered office of the Company is located at 700 W Georgia Street, 25th Floor, Vancouver, British Columbia V7Y 1B3 and the head office of the Company is located at 333 Bay Street, Suite 3400, Toronto, Ontario, M5H 2S7.

The Company is a North American health care real estate company with a growing portfolio of high quality health care properties and medical office buildings located in the United States and Canada that partners with industry leading operators to invest across the health care spectrum. The Company's current portfolio includes investments in assisted living, independent living, memory care, transitional care, long-term care, and medical office properties, which are operated by best-in-class operators primarily under long-term leases and joint venture arrangements. For the Company's seniors housing properties, it generally owns the land and buildings and leases them to operators on a long-term, triple-net lease basis or has an interest in both the property and operations in joint ventures and joint arrangements with the operating partner at the facility. Under a triple-net lease structure, the tenant operators assume the operational risks and expenses associated with operating a seniors housing and care facility on the leased premises. The tenant operators provide and manage the service offerings available at the facilities, deliver all care services, and maintain the buildings. The Company's multi-tenant medical office portfolio is operated via a third party asset management contract with Mohawk Realty Advisors Ltd.

As of March 13, 2019, the Company owns or has a majority interest in a portfolio of 84 properties in the United States comprised of 14 long-term care facilities, 52 assisted living and memory care facilities, 14 transitional care properties, and 4 medical office buildings ("MOB"). The Company also owns 11 medical office buildings and jointly owns the real estate of 4 seniors housing and care facilities in Canada.



Management believes that certain characteristics of the North American seniors housing and care industry, including favorable demographic trends, increasing demand with stagnant supply of new facilities and the shift from high cost hospitals for post-acute care to lower cost settings such as skilled nursing facilities, provide for a unique investment opportunity. The increased demand for healthcare facilities further enforces the growing demand for healthcare spending in medical office buildings as well. Management also believes that, as a result of the high quality of the Company's properties, its triple-net lease and joint venture structures and its relationships with reputable operators and industry participants, the Company is well-positioned to succeed in the industry by capitalizing on these market opportunities.

Recent Activities

Recent Acquisitions and Dispositions

The following asset acquisitions and dispositions were completed during the year ended December 31, 2018:

	Lincoln	Round Rock	Care	Grand Brook	San Antonio/ Webster	Mohawk MOB	Buffalo MOB	Keepsake	Traditions Portfolio	Total
Number of consolidated properties acquired (disposed):	1	1	24	3	2	14	1	1	(7)	40
Net assets acquired (disposed):										
Investment properties	$ 21,501	$ 22,836	$ 191,009	$ 21,695	$ 49,094	$ 136,894	$ 8,155	$ 11,096	$ (69,135)	$ 393,145
Investment in joint ventures	—	—	84,813	—	—	—	—	—	—	84,813
Mortgages repaid (assumed)	(11,668)	(13,158)	(123,589)	—	(25,706)	—	—	(5,837)	—	(179,958)
Mezzanine loan applied against purchase	(3,723)	—	—	—	(2,697)	—	—	—	—	(6,420)
Working capital balances	—	(990)	(572)	(50)	(2,920)	(465)	(39)	(363)	(576)	(5,975)
Non-controlling interest liability	—	—	(1,188)	—	—	—	—	—	16,040	14,852
	$ 6,110	$ 8,688	$ 150,473	$ 21,645	$ 17,771	$ 136,429	$ 8,116	$ 4,896	$ (53,671)	$ 300,457
Consideration paid/ funded (received):										
Cash	6,110	8,688	2,067	4,621	17,771	22,833	1,544	4,679	(49,671)	18,642
Proceeds from Secured Revolving Facility	—	—	—	17,024	—	—	—	—	—	17,024
Proceeds from Mohawk Facility, net	—	—	—	—	—	81,899	6,572	—	—	88,471
Issuance of common shares	—	—	148,406	—	—	31,080	—	—	—	179,486
Accrued transaction costs	—	—	—	—	—	1,307	—	217	—	1,524
Income support receivable	—	—	—	—	—	(690)	—	—	—	(690)
Loans issued to buyer	—	—	—	—	—	—	—	—	(4,000)	(4,000)
	$ 6,110	$ 8,688	$ 150,473	$ 21,645	$ 17,771	$ 136,429	$ 8,116	$ 4,896	$ (53,671)	$ 300,457

On January 10, 2018, a wholly owned subsidiary of the Company acquired a newly constructed transitional care facility located in Lincoln, Nebraska. The property was acquired for a purchase price of $21,451 plus transaction costs. The acquisition was funded by the assumption of $11,668 in mortgage debt, a $3,723 credit received in satisfaction of a mezzanine loan held by the Company with respect to this property, and available cash on hand.

On January 31, 2018, a wholly owned subsidiary of the Company acquired a newly constructed transitional care facility located in Round Rock, Texas. The property was acquired for a purchase price of $22,769 plus transaction costs. The acquisition was funded by the assumption of $13,158 in mortgage debt and available cash on hand. At the time of closing, the Company also assumed $597 of liabilities related to the remaining development costs of the property, which was funded through additional draws on the mortgage payable.

On February 1, 2018, a wholly owned subsidiary of the Company completed the acquisition of Care Investment Trust, LLC ("Care") from Tiptree Inc. The acquisition of Care includes an ownership interest in 42 seniors housing and care properties in the United States. The Care portfolio is comprised of 35 independent living, assisted living, and memory care properties and seven skilled nursing facilities located in 11 states. The Care portfolio consists of 24 properties leased to operators under long-term triple-net leases and 18 operating properties in joint venture arrangements in which the Company owns the majority joint venture interest in the real estate and the operations.

The contractual purchase price of the Company's interest in the Care portfolio was $425,000, subject to working capital adjustments and transaction costs. The purchase was funded by the assumption of $123,589 of property level indebtedness (including a mark-to-market discount adjustment of $1,219), the issuance of 16,647,236 common shares at a fixed issuance price of $9.75 per common share and $919 of cash. The fair value of the common shares issued on the closing date of the transaction, which was based on the adjusted quoted market price of the Company's common shares on February 1, 2018, was $146,736. The Care acquisition is accounted for as a business combination, and as a result, transaction costs are expensed as incurred. For the year ended December 31, 2018, the consolidated statement of income and comprehensive income includes transaction costs of $6,444 related to this transaction. The Company incurred additional transaction costs for business combination of $2,073 during the year ended December 31, 2017 related to this transaction. The purchase agreement also contained provisions for a post-closing true up of working capital items. The working capital true up was paid by the Company on July 3, 2018 through a combination of cash on hand of $1,148 and the issuance of common shares with a value of $1,670.

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

On February 23, 2018, the Company purchased two transitional care facilities located in San Antonio, Texas and Webster, Texas for a combined purchase price of $49,054 plus transaction costs. This transaction was funded through the assumption of $25,706 of mortgages payable, a $2,697 credit received in satisfaction of a mezzanine loan held by the Company with respect to the Webster, Texas property, and available cash on hand. At the time of closing, the Company also assumed $2,920 of liabilities related to the remaining development costs of the properties, which was funded through additional draws on the mortgages payable.

On May 1, 2018, the Company purchased 14 multi-tenant medical office buildings located in seven markets throughout Canada and the United States from Mohawk Medical Properties Real Estate Investment Trust and its subsidiary, Mohawk Medical Operating Partnership (I) LP, (collectively, "Mohawk REIT") for a combined purchase price of $136,894. The acquisition was funded through a combination of new debt of $81,899, net of loan fees, the issuance of 3,606,616 common shares at a fixed issuance price of $9.75 per common share, and available cash on hand. Mohawk Realty Advisors Ltd. and its affiliates (collectively, "Mohawk") will continue to provide asset and property management for the properties. On the day of purchase, the Company prepaid to the asset manager an amount equal to the fee due for the initial two year term of the asset management agreement.

The Company entered into an income support agreement in conjunction with its purchase of the properties from Mohawk REIT, whereby the seller agreed to fund monthly payments to supplement rental income until certain leasing metrics are met. Upon execution of the income support agreement, the Company recorded an income support receivable of $690, which reduced the cost of the investment properties acquired.

On July 9, 2018, a wholly owned subsidiary of the Company completed the acquisition of a medical office building in Williamsville, New York for $7,732 plus transaction costs. The acquisition was funded by $6,572 in new borrowings on the

Mohawk Facility (as defined below) and available cash on hand. Mohawk Realty Advisors Ltd. and its affiliates provide asset and property management services for the property.

On October 31, 2018, the Company purchased a memory care and assisted living facility ("Keepsake") in Syracuse, New York for $11,018, plus transaction costs. The transaction was funded by the assumption of mortgage debt of $5,837 and available cash on hand.

On December 31, 2018, the Company sold its interest in a portfolio of seven properties located in Georgia (collectively, the "Traditions Portfolio") for total consideration of $70,000, less transaction costs. Concurrently with the sale of the portfolio, the Company repaid the outstanding mortgage balance of $28,670 and a prepayment penalty of $293. $16,040 represents the portion of the net sale proceeds owed to the Company's partner in the portfolio. The Traditions Portfolio was acquired as part of the acquisition of Care, at which time the Company and the prior owners of Care entered into an agreement whereby the two parties will evenly share net proceeds from the sale of the Traditions Portfolio in the event of a sale. The Company recorded a liability of $10,676 representing the proceeds owed to the prior owner.

Subsequent Events

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

On January 22, 2019, the Company entered into a purchase agreement with the tenant operator of the Symphony portfolio ("Symcare") to purchase three buildings. Total consideration is expected to be $52,000 plus transaction costs, and the acquisition is expected to be funded by cash on hand and an issuance of $5,000 of the Company's shares to Symcare. This acquisition will be consummated at an attractive yield for Symcare which will help enhance the performance of the overall Symcare portfolio. In exchange, the original master lease with Symcare will be amended to consolidate these new buildings with the existing Symcare master lease and resetting the maturity date to 15 years from closing. The Company will recognize an adjustment of rent to fair market value upon closing, and the amended master lease will include a fair market value rent feature which will reset rents to fair market value at specified dates in the future. Any rent reset taking place after the initial acquisition date will increase rents to the extent supported by performance of the underlying properties under the terms of the master lease, but do not include a feature to reduce rent. The impact of the expected initial rent on the valuation of investment properties currently owned is reflected in change fair value of investment properties in the consolidated statements of income and comprehensive income.

Other Recent Activities

On December 22, 2017, the Company entered into subscription agreements with respect to the issuance of Class A convertible preferred shares to certain funds managed by Magnetar Financial LLC (collectively, "Magnetar") for aggregate gross proceeds of $54,000, to be funded in multiple series. The first series was funded on the day of the agreement, resulting in the issuance of 2,802,009 Class A Series 1 Convertible Preferred Shares (the "Series 1 Preferred Shares") for aggregate gross proceeds of $26,500. On February 2, 2018, the Company amended the terms of the subscription agreements to increase the amount of the subscription to approximately $71,500. The second series was funded on February 9, 2018, resulting in the issuance of 3,172,086 Class A Series 2 Preferred Shares (the "Series 2 Preferred Shares") for aggregate gross proceeds of $30,000. On March 29, 2018, the third and final series was funded, resulting in the issuance of 1,586,042 Class A Series 3 Preferred Shares (the "Series 3 Preferred Shares", and together with the Series 1 Preferred Shares and the Series 2 Preferred Shares, the "Preferred Shares") on substantially the same terms as the other series for aggregate gross proceeds of $15,000.

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

On November 9, 2018 the Toronto Stock Exchange approved the Company's notice of intention to make a normal course issuer bid ("NCIB") for a portion of its common shares. Pursuant to the notice, the Company is authorized to acquire up to a maximum of 2,647,954 of its Units, or approximately 5% of the Company's 52,959,070 outstanding Shares as of November 1, 2018, for cancellation over the next 12 months. Purchases under the NCIB will be made through the facilities of the Toronto Stock Exchange or through a Canadian alternative trading system and in accordance with applicable regulatory requirements at a price per Share equal to the market at the time of acquisition. The number of Shares that can be purchased pursuant to the NCIB is subject to a daily maximum of 7,918 Shares, subject to the Company's ability to make one block purchase of Shares per calendar week that exceeds such limits. Any Shares purchased under the NCIB will be canceled upon purchase. During the year ended December 31, 2018, the Company acquired 60,300 shares.

On December 20, 2018 the Company entered into an agreement for an unsecured credit facility (the "Unsecured Facility") with a $400,000 capacity. The Unsecured Facility is comprised of a $200,000 term loan and a $200,000 revolving line of credit. The term loan has a maturity date of December 20, 2023, while the revolving line of credit has a maturity date of December 20, 2022, with a one year extension option, subject to lender approval. The Unsecured Facility bears interest at a rate of LIBOR or base rate plus an applicable margin based on the Company's consolidated leverage ratio. The borrowing capacity of the Unsecured Facility is based on the undepreciated book value of an unencumbered pool of assets. Per the agreement, the Company's leverage cannot exceed 62.5% through December 31, 2019, reducing to 60% thereafter. The agreement also provides for the Company's leverage to increase to 65% for two quarters following any material acquisition. Per the agreement, the fixed charge ratio shall not be less than 1.75 to 1.0.

Selected Financial Information

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

	As at December 31, 2018	As at December 31, 2017	As at December 31, 2016
Consolidated properties	80	40	35
Weighted average lease term to maturity (excludes renewal options)(4)	11.8 years	13.3 years	13.9 years
Average facility age	10.2 years	11.5 years	11.7 years
Total assets	$ 1,283,959	$ 785,005	$ 677,719
Total indebtedness	$ 731,215	$ 428,377	$ 356,220
Debt to total assets %	57.0%	54.6%	52.6%
Weighted average interest rate (1)	4.8%	4.6%	4.2%
Joint venture properties	18	—	—
Joint venture total assets	$ 299,286	$ 4,152	$ 2,581
Joint venture indebtedness	$ 176,742	$ —	$ —
Joint venture debt to total assets %	59.1%	n/a	n/a
Joint venture weighted average interest rate (5)	4.8%	n/a	n/a

	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Revenue	$ 113,927	$ 64,004	$ 39,966
Finance costs	$ 38,264	$ 16,055	$ 13,068
General and administrative expenses	$ 13,412	$ 8,074	$ 5,178
Direct property operating expenses	$ 3,126	$ —	$ —
Income from joint ventures	$ 5,450	$ —	$ —
Net income (loss)	$ (12,275)	$ 16,263	$ 4,877
Total comprehensive income (loss)	$ (16,551)	$ 17,521	$ 4,806
Net income (loss) per share	$ (0.24)	$ 0.50	$ 0.30
Diluted net income (loss) per share	$ (0.24)	$ 0.50	$ 0.30
Funds from operations (FFO) (3)	$ 48,219	$ 28,188	$ 14,736
FFO per share (3)	$ 0.96	$ 0.87	$ 0.91
Diluted FFO per share (3)	$ 0.83	$ 0.85	$ 0.90
Adjusted funds from operations (AFFO) (3)	$ 43,105	$ 30,920	$ 19,571
AFFO per share (3)	$ 0.86	$ 0.96	$ 1.21
Diluted AFFO per share (3)	$ 0.74	$ 0.91	$ 1.20
Common share dividends declared	$ 37,001	$ 23,791	$ 11,739
Dividends declared per share	$ 0.73668	$ 0.73668	$ 0.42563
Payout ratio (2)	86%	77%	60%
General and administrative expenses to total asset %	1.04%	1.03%	0.76%

(1) The Company's weighted average interest rates at December 31, 2018, 2017 and 2016 included $348,287, $227,070 and $200,000, respectively, of the Company's debt that is fixed with interest rate swaps.

(2) Payout ratio is a financial measure not defined under IFRS. Payout ratio is calculated by dividing the common share dividends declared by AFFO.

(3) FFO and AFFO, and related per share amounts, are financial measures not defined under IFRS. Please refer to the "Financial Measures not Defined Under IFRS" section of this MD&A.

(4) The weighted average lease term to maturity does not include the medical office building portfolio.

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

While the Company believes per share measures to be an effective means of evaluating performance, net income and comprehensive income per share, FFO per share and AFFO per share for the twelve month period ended December 31, 2016 do not provide a normalized basis on which per share amounts should be evaluated due to the Company's reverse takeover transaction that closed on April 4, 2016 (the "Reverse Takeover"), the offering of common shares on June 2, 2016 (the "June 2016 Offering"), and the timing of the 2016 property acquisitions.

Results of Operations - Three and Twelve Months Ended December 31, 2018
(unless otherwise stated, amounts are in thousands of U.S. dollars)

Revenue

	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Cash rentals received	$ 21,631	$ 12,170	$ 82,192	$ 45,372
Straight-line rent adjustments	2,564	1,666	10,831	5,982
Property tax recoveries	3,643	2,252	14,327	8,834
CAM recoveries	772	—	2,038	—
Total rental revenue	28,610	16,088	109,388	60,188
Lease revenue from joint ventures	732	737	2,991	2,887
Other income	611	50	1,548	929
Total revenue	$ 29,953	$ 16,875	$ 113,927	$ 64,004

Cash rentals received and straight-line rent adjustments relate to lease agreements under which the Company leases its income properties to its tenants. Property tax recoveries represent the revenue recognized for the real estate taxes for which the tenants are primarily responsible to pay. CAM recoveries represents the recovery of common area maintenance expenses in investment properties that are not triple-net leased, primarily within the Company's medical office building portfolio. Rental revenue increased for the year ended December 31, 2018 due to the acquisition of 47 consolidated properties during the current year and annual rent escalators. Included in rental revenue for the three and twelve months ended December 31, 2018 is $1,193 and $5,336, respectively, of cash rental revenue from the Traditions Portfolio, which was sold on December 31, 2018.

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

Other income for the three and twelve months ended December 31, 2018 related primarily to parking income earned at the medical office buildings. There was no comparable income related to parking in the prior year period as this income is generated within the Company's medical office building portfolio. Other income for the year ended December 31, 2017 primarily related to security deposits forfeited during quarter ended June 30, 2017.

Finance Costs from Operations

Finance costs from operations consist of the following:

	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Interest expense on credit facilities	$ 4,237	$ 2,800	$ 15,778	$ 10,337
Interest expense on mortgages payable	4,697	1,606	17,096	4,822
Interest expense on convertible debentures	1,313	562	3,317	2,250
Amortization and accretion expense	834	561	2,819	2,345
Interest rate swap payments (receipts)	(350)	5	(1,226)	374
Write-off of deferred financing costs from refinancing	3,708	—	3,708	—
Amortization of mark-to-market debt adjustments	22	(3)	79	(11)
Interest income from loans receivable	(924)	(931)	(3,307)	(4,062)
	$ 13,537	$ 4,600	$ 38,264	$ 16,055

Finance costs are primarily related to interest and amortization on the Company's credit facilities and mortgages payable. Interest expense increased in the year ended December 31, 2018 as compared to the prior year primarily due to mortgage debt assumed on new property acquisitions and a new credit facility that partially funded the purchase of 15 medical office buildings (the "Mohawk Facility"). A portion of the increase is also attributable to increases in the one-month LIBOR rate, which has an impact on the Company's variable rate debt. Additionally, the Company refinanced several mortgages during the prior year and in the current year to longer term instruments, which are at slightly higher rates in the short-term, but are at fixed rates through their respective terms. The Company incurred $3,708 of expense to write-off loan fees associated with the early extinguishment of credit facilities and mortgages in the year ended December 31, 2018. Of the loan fees written off, $3,178 related to the Company's secured revolving credit facility entered into on February 24, 2017, as amended on February 9, 2018 and October 26, 2018 (the "Secured Revolving Facility"), which was replaced with the Unsecured Facility on December 20, 2018. Interest expense on convertible debentures increased over the comparable prior year due to the 2018 Convertible Debentures issued August 24, 2018. Interest income earned on outstanding loans receivable decreased in the year ended December 31, 2018 as compared to the prior year due to the repayment of interest earning loans during the third and fourth quarter of 2017 and the first quarter of 2018.

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

For the three and twelve months ended December 31, 2018, real estate tax expense (income) was $535 and $11,796, respectively (three and twelve months ended December 31, 2017 - ($11) and $8,763, respectively), which represents property tax expensed for the year for properties owned on the tax assessment date (generally January 1), in accordance with the provisions of *IFRIC 21, Levies*. Real estate taxes are recovered from the Company's tenants under the provisions of their leases. The increase in real estate tax expense as compared to the prior year period is primarily due to the acquisition of the 47 consolidated properties during the current year. Real estate taxes resulted in income during the three months ended December 31, 2017 due to adjustments made to prior estimates as actual invoices were received.

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

	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Property tax recoveries	$ 3,643	$ 2,252	$ 14,327	$ 8,834
Real estate tax expense	(535)	11	(11,796)	(8,763)
Change in fair value of investment properties - IFRIC 21	(3,186)	(2,255)	(2,801)	(309)
	$ (78)	$ 8	$ (270)	$ (238)

General and Administrative Expense

General and administrative expense consists of the following:

	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Compensation and benefits	$ 1,809	$ 899	$ 6,273	$ 3,333
Asset management and administrative fees	125	67	421	270
Professional fees	490	396	2,544	1,942
Deferred share compensation	241	315	1,283	1,614
Other	1,121	251	2,891	915
	$ 3,786	$ 1,928	$ 13,412	$ 8,074

Compensation and benefits expense includes the cost of salaries, bonuses, and benefits during the period. The increase in compensation and benefits over the prior year periods was primarily due to an increase in personnel of the Company as its portfolio has grown, including individuals who joined the Company in conjunction with the Care acquisition.

Asset management fees for the current period related to the contractual fee due under an asset management agreement with Mohawk. Concurrently with the purchase of the Mohawk properties in the current year, the Company entered into an asset management agreement under which Mohawk would continue to provide asset and property management services for the properties for an initial term of two years.

Professional fees is comprised of costs incurred for external legal counsel, accounting fees and other professional services. The increase in professional fees for the three and twelve month periods ended December 31, 2018 as compared to the prior year periods is primarily due to an increase in services provided due to growth in the Company.

Deferred share compensation expense for the year ended December 31, 2018 decreased over the prior year due to additional expense associated with a separation agreement entered into between the Company and its former chief executive officer during the first quarter of 2017 as well as the vesting and issuance of shares for the initial grant. Deferred share compensation expense for the twelve months ended December 31, 2018 decreased over the prior year period due to a decline in share price causing a fair value change in the deferred share liability.

Other general and administrative expense primarily includes foreign exchange loss (gain), cost of insurance, fees earned by directors of the Company, travel and entertainment expense, investor relations, and marketing. The increase as compared to the prior year periods was primarily due to growth associated with additional properties owned and expenses associated with the re-branding of the Company due to the name change, effective January 3, 2018. It also includes a $260 estimate for a legal settlement related to a suit the Company is party to with respect to a development investment.

For the three and twelve months ended December 31, 2018, the Company's general and administrative expense as a percentage of total assets was 0.29% and 1.04%, respectively, (three and twelve months ended December 31, 2017 - 0.25% and 1.03%, respectively). For the year ended December 31, 2018, general and administrative expense as a percentage of total assets decreased over the comparable prior year, which demonstrates the Company's ability to grow its asset base while decreasing the level of general and administrative expenses as a percentage of total assets. For the three months ended December 31, 2018, general and administrative expense as a percentage of total assets increased compared to the prior year period due to the sale of the Traditions Portfolio at December 31, 2018 and the decrease to the fair value of investment property in the current quarter.

Direct Property Operating Expenses

Direct property operating expenses consist of the following:

	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Repairs and maintenance	$ 284	$ —	$ 744	$ —
Utilities	283	—	829	—
Property management fees	144	—	380	—
Services	251	—	642	—
Other	67	—	135	—
Non-recoverable operating expenses	155	—	396	—
	$ 1,184	$ —	$ 3,126	$ —

The direct property operating expenses in the current periods relate to expenses at the 15 multi-tenant medical office buildings the Company owns. These buildings were all acquired in the current year, and there are no comparable prior period expenses.

Transaction Costs for Business Combination

Transaction costs for business combination for the year ended December 31, 2018 were $6,444 (for the year ended December 31, 2017 - $2,073) and included transaction costs incurred in relation to the acquisition of Care on February 1, 2018.

Diligence Costs for Transactions Not Pursued

Diligence costs for transactions not pursued for the year ended December 31, 2018 were $2,041 (for the year ended December 31, 2017 - $491) and include expenses related to the evaluation of investment opportunities that did not result in a purchase transaction. These costs are the result of investments which the Company ultimately decided were not in the best interest of its shareholders. The costs in the current year and prior year relate to different investment opportunities.

Allowance for Credit Losses on Loans and Interest Receivable

Allowance for credit losses on loans and interest receivable for the three and twelve months ended December 31, 2018 were $8,807 and $11,336, respectively (2017 - NIL). During the three and twelve months ended December 31, 2018, the Company recorded losses of $7,448 and $9,977, respectively primarily related to impairment of outstanding loans receivable issued to MS Parker Holdings II, LLC; Mainstreet Investment Company, LLC; MS Surprise, LLC and MS-SW Development Fund Holdings, LLC. The change in fair value of interest and other receivables for the three and twelve months ended December 31, 2018 of $1,359 and $1,359, respectively (2017 - NIL), relates to the recording of an allowance for credit losses related to interest and other receivables.

Change in Non-controlling Interest Liability

The change in non-controlling interest liability was an increase of $120 and $17,927 for the three and twelve months ended December 31, 2018, respectively (2017 - NIL). These costs are the result of the portion of net income attributed to the non-controlling interest partners of the consolidated properties. During the third quarter of 2018, the change in non-controlling interest liability included $16,575 of increase due to the change in fair value of investment property from the Traditions Portfolio that was attributed to the non-controlling interest partner.

Change in Fair Value of Investment Properties

The change in fair value of investment properties was a decrease of $43,256 and $14,385 for the three and twelve months ended December 31, 2018, respectively (the three and twelve months ended December 31, 2017 - $10,111 and $8,846, respectively). The change in fair value of investment properties was primarily driven by an adjustment to record investment properties at fair value based on the Company's estimate of fair value using level 3 inputs as of December 31, 2018. The fair value adjustment is being driven by in increase in value of the Traditions Portfolio to adjust its fair value to its sale price and a decrease in fair value attributable primarily to the impact of the anticipated changes to the master lease covering the Symcare portfolio as discussed in the Recent Activities section of this MD&A. Also included in the change in fair value of investment properties is an adjustment to offset the impact of the increase in straight-line rent receivable.

Change in Fair Value of Financial Instruments

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

	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Change in fair value of interest rate swaps	$ (3,774)	$ 1,201	$ (1,949)	$ 1,185
Change in fair value of equity investment in MS-SW Development Fund Holdings, LLC	(376)	—	(376)	—
Change in fair value of income support receivable	—	—	—	1,107
Total income (loss) from change in fair value of financial instruments	$ (4,150)	$ 1,201	$ (2,325)	$ 2,292

The change in fair value of financial instruments for the three and twelve months ended December 31, 2018 was primarily due to the change in fair value of interest rate swaps. The change in fair value of equity investments in MS-SW Development Fund Holdings, LLC is due to a change in fair value of the developments underlying this equity investment. The equity was invested to fund a portion of the development of three transitional care properties. The Company has received its equity investment and related returns on two of the properties, and has recorded a fair value loss on the portion of its investment associated with the third property. Change in fair value of financial instruments is also comprised of changes in the Company's interest rate swap agreements.

For the twelve month period ended December 31, 2017, the Company recognized income of $1,107 related to the value of the income support receivable.

Change in Fair Value of Contingent Consideration

On August 31, 2018, the Company entered into a purchase and sale agreement to sell the Traditions Portfolio located in Georgia. The Traditions Portfolio was acquired as part of the acquisition of Care, at which time the Company and the prior owners of Care entered into an agreement whereby the two parties agreed to evenly share net proceeds from the sale of the Traditions Portfolio in the event of a sale. Change in fair value of contingent consideration represents the change in fair value of the estimated amounts due to the former owner upon sale of the Traditions Portfolio. For the three and twelve months ended December 31, 2018, the Company recorded a change in fair value of contingent consideration of $(495) and $10,676, respectively.

Income from Joint Ventures

	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Income from joint ventures	$ 2,077	$ —	$ 5,450	$ —

Income from joint ventures represents the Company's share of income from unconsolidated entities. The Company acquired an interest in 18 joint venture properties on February 1, 2018 as part of the acquisition of the Care portfolio. The income from joint ventures during the three and twelve months ended December 31, 2018 is primarily related to income from operations and the impact of changes in fair value of interest rate swaps and investment properties.

Income Tax Expense/Recovery

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

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

The Company anticipates that future current income tax expense will result from distributions from its U.S. subsidiaries to the Canadian corporation, which will be subject to a 5% withholding tax. No such distributions were made during the periods presented.

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

Unrealized gain (loss) on translation of foreign operations for the three and twelve months ended December 31, 2018 of $(3,680) and $(4,276), respectively (for the three and twelve months ended December 31, 2017 - $(167) and $1,258, respectively) was due to the change in value of the Canadian dollar as compared to the U.S. dollar during the period.

Cash Flow Analysis

	Years ended December 31,	
	2018	2017
Cash provided by operating activities	$ 24,972	$ 40,814
Cash provided by financing activities	132,250	40,032
Cash used in investing activities	(143,202)	(75,539)
Increase in cash and cash equivalents	$ 14,020	$ 5,307

Cash Provided by Operating Activities

Cash provided by operating activities for the twelve months ended December 31, 2018 decreased over the comparable prior year period primarily due to $6,444 of transaction costs for business combination incurred in connection with the acquisition of the Care portfolio and $2,041 of diligence costs for transactions not pursued. In addition, for the Care transaction, the Company incurred $2,073 of transaction costs for business combination which were expensed in the consolidated statements of income and comprehensive income for the three months ended December 31, 2017 but paid during the twelve months ended December 31, 2018. The Company also paid $2,250 in cash interest on its 2016 Convertible Debentures during the twelve months ended December 31, 2018; comparatively, only $1,125 was paid during the twelve months ended December 31, 2017.

Cash Provided by Financing Activities

Cash provided by financing activities for the twelve month period ended December 31, 2018 was $132,250 as compared to $40,032 in the prior year period. The current period cash provided by financing activities was primarily driven by net proceeds from the credit facilities and mortgage activity, proceeds from the issuance of the Series 2 Preferred Shares in February of 2018 and Series 3 Preferred Shares in March of 2018 and proceeds from the issuance of the 2018 Convertible Debentures in August 2018. These proceeds were offset by debt issuance costs incurred in association with new and refinanced mortgages, new credit facilities and the 2018 Convertible Debentures. In addition, the Company paid dividends of $34,952 during the period.

Cash provided by financing activities in the twelve month period ended December 31, 2017 included net proceeds from credit facilities and mortgages payable of $40,897 and proceeds of $26,500 from the issuance of the Series 1 Preferred Shares were received in December 2017 offset by debt issuances costs of $3,951 and dividends paid of $23,414.

Cash Used in Investing Activities

Cash used in investing activities for the twelve months ended December 31, 2018 was $143,202. This was primarily due to $186,632 used for property acquisitions and capital expenditures made during the twelve month period. The Company also issued loans receivable for $29,288 and paid construction payables of $4,600. These uses of cash in investing activities were offset by the receipt of $20,091 as repayment of mezzanine loans receivable, proceeds from the sale of investment properties of $49,671, and net distributions from investments in joint ventures.

For the twelve months ended December 31, 2017, the Company used $77,359 for the acquisition of properties and capital expenditures. In addition, the Company issued loans receivable for $20,925, received 9,629 as repayment of mezzanine loans receivable and paid construction payables of $9,214.

Reconciliation of Consolidated Statements of Income

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

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

Year ended December 31, 2018	Consolidated statements of income and comprehensive income	IFRIC 21 property tax adjustment	Consolidated income adjusted for IFRIC 21
Revenue:			
Cash rentals received	$ 82,192	$ —	$ 82,192
Straight-line rent adjustments	10,831	—	10,831
Property tax recoveries	14,327	—	14,327
CAM recoveries	2,038	—	2,038
Lease revenue from joint ventures	2,991	—	2,991
Other income	1,548	—	1,548
	113,927	—	113,927
Expenses (income):			
Finance costs from operations	38,264	—	38,264
Real estate tax expense	11,796	2,801	14,597
General and administrative expenses	13,412	—	13,412
Direct property operating expenses	3,126	—	3,126
Transaction costs for business combination	6,444	—	6,444
Diligence costs for transactions not pursued	2,041	—	2,041
Allowance for credit losses for loans and interest receivable	11,336	—	11,336
Changes in non-controlling interest liability	17,927	—	17,927
Change in fair value of investment properties - IFRIC 21	2,801	(2,801)	—
Change in fair value of investment properties	14,385	—	14,385
Change in fair value of financial instruments	2,325	—	2,325
Change in fair value of contingent consideration	10,676	—	10,676
	134,533	—	134,533
Income from joint ventures	5,450	—	5,450
Income before income taxes	(15,156)	—	(15,156)
Income tax expense (recovery):			
Deferred	(2,881)	—	(2,881)
Net income (loss)	$ (12,275)	$ —	$ (12,275)

Three months ended December 31, 2018	Consolidated statements of income and comprehensive income	IFRIC 21 property tax adjustment	Consolidated income adjusted for IFRIC 21
Revenue:			
Cash rentals received	$ 21,631	$ —	$ 21,631
Straight-line rent adjustments	2,564	—	2,564
Property tax recoveries	3,643	—	3,643
CAM recoveries	772	—	772
Lease revenue from joint ventures	732	—	732
Other income	611	—	611
	29,953	—	29,953
Expenses (income):			
Finance costs from operations	13,537	—	13,537
Real estate tax expense	535	3,186	3,721
General and administrative expenses	3,786	—	3,786
Direct property operating expenses	1,184	—	1,184
Allowance for credit losses for loans and interest receivable	8,807	—	8,807
Changes in non-controlling interest liability	120	—	120
Change in fair value of investment properties - IFRIC 21	3,186	(3,186)	—
Change in fair value of investment properties	43,256	—	43,256
Change in fair value of financial instruments	4,150	—	4,150
Change in fair value of contingent consideration	(495)	—	(495)
	78,066	—	78,066
Income (loss) from joint ventures	2,077	—	2,077
Income (loss) before income taxes	(46,036)	—	(46,036)
Income tax expense (recovery):			
Deferred	(12,243)	—	(12,243)
Current	(18)	—	(18)
Net income (loss)	$ (33,775)	$ —	$ (33,775)

Year ended December 31, 2017	Consolidated statements of income and comprehensive income	IFRIC 21 property tax adjustment	Consolidated income adjusted for IFRIC 21
Revenue:			
Cash rentals received	$ 45,372	$ —	$ 45,372
Straight-line rent adjustments	5,982	—	5,982
Property tax recoveries	8,834	—	8,834
Lease revenue from joint ventures	2,887	—	2,887
Other income	929	—	929
	64,004	—	64,004
Expenses (income):			
Finance costs from operations	16,055	—	16,055
Real estate tax expense	8,763	309	9,072
General and administrative expenses	8,074	—	8,074
Transaction costs for business combination	2,073	—	2,073
Diligence costs for transactions not pursued	491	—	491
Change in fair value of investment properties - IFRIC 21	309	(309)	—
Change in fair value of investment properties	8,846	—	8,846
Change in fair value of financial instruments	(2,292)	—	(2,292)
	42,319	—	42,319
Income before income taxes	21,685	—	21,685
Income tax expense:			
Deferred	5,371	—	5,371
Current	51	—	51
Net income	$ 16,263	$ —	$ 16,263

Three months ended December 31, 2017	Consolidated statements of income and comprehensive income	IFRIC 21 property tax adjustment	Consolidated income adjusted for IFRIC 21
Revenue:			
Cash rentals received	$ 12,170	$ —	$ 12,170
Straight-line rent adjustments	1,666	—	1,666
Property tax recoveries	2,252	—	2,252
Lease revenue from joint ventures	737	—	737
Other income	50	—	50
	16,875	—	16,875
Expenses (income):			
Finance costs from operations	4,600	—	4,600
Real estate tax expense	(11)	2,255	2,244
General and administrative expenses	1,928	—	1,928
Transaction costs for business combination	2,073	—	2,073
Change in fair value of investment properties - IFRIC 21	2,255	(2,255)	—
Change in fair value of investment properties	10,111	—	10,111
Change in fair value of financial instruments	(1,201)	—	(1,201)
	19,755	—	19,755
Income (loss) before income taxes	(2,880)	—	(2,880)
Income tax expense (recovery):			
Deferred	(4,906)	—	(4,906)
Current	23	—	23
Net income	$ 2,003	$ —	$ 2,003

Financial Position

Total assets of $1,283,959 are comprised primarily of $1,115,530 of investment properties, which represents the estimated fair market value of the Company's portfolio of properties, including capital expenditures, as at December 31, 2018. Cash on hand at December 31, 2018 was $26,978, total loans receivable were $32,422, and other assets were $7,105. Total loans receivable includes $14,763 of loans to the tenant operator Symcare. Other assets primarily consisted of $648 of prepaid asset management fees, $1,048 of security deposits and costs related to potential acquisitions, $2,565 of escrows held by lenders, $337 of income support receivable, $519 of prepaid expense, $507 of furniture, fixtures, and equipment, and $1,481 of other costs. Tenant and other receivables of $15,544 is primarily comprised of real estate tax and rent receivables. The loans receivable balance related mainly to the issuance of loans for the development and operation of seniors housing and care properties in the United States and Canada. The Company's derivative asset balance of $1,722 represented the fair market value of interest rate swap agreements that are assets to the Company.

Total liabilities of $790,491 includes current liabilities of $97,973 (see "Liquidity and Capital Resources" for additional information) and non-current liabilities of $692,518. The current liabilities included $11,052 of real estate taxes payable. Of the real estate taxes payable, $309 related to the period prior to the Company's ownership of the respective properties, and the seller provided cash consideration at closing for this amount. Accounts payable and accrued liabilities represented $9,871 of the balance in current liabilities. In addition, current liabilities included $49,444 representing the current portion of mortgages payable, net of loan fees; $12,647 representing the current balance outstanding on the credit facilities, net of loan fees; $10,676 of contingent consideration liability and $3,253 of dividends payable. Non-current liabilities included $253,886 representing the non-current portion of mortgages payable, net of loan fees; $325,493 representing the non-current balance outstanding on the credit facilities, net of loan fees; $89,745 of the convertible debentures, net of fees; $7,011 of deferred tax liability; and $2,947 of non-controlling interest liability. Other non-current liabilities of $12,785 primarily consisted of security deposits received from tenants and a liability related to deferred shares granted under the Company's deferred share incentive plan.

Summary of Quarterly Results

The following table summarizes the Company's quarterly unaudited financial information from January 1, 2017 through December 31, 2018:

	Three months ended December 31, 2018	Three months ended September 30, 2018	Three months ended June 30, 2018	Three months ended March 31, 2018	Three months ended December 31, 2017	Three months ended September 30, 2017	Three months ended June 30, 2017	Three months ended March 31, 2017
Revenue	$ 29,953	$ 31,581	$ 29,354	$ 23,039	$ 16,875	$ 16,605	$ 16,092	$ 14,432
Finance costs	13,537	9,540	8,685	6,502	4,600	4,418	3,776	3,261
Real estate tax expense (income)	535	1,810	251	9,200	(11)	430	485	7,859
General and administrative expenses	3,786	3,732	3,231	2,733	1,928	1,763	2,040	2,343
Direct property operating	1,184	1,256	686	—	—	—	—	—
Transaction costs for business combination	—	6	322	6,116	2,073	—	—	—
Diligence costs for transactions not pursued	—	1,971	70	—	—	403	44	44
Allowance for credit losses on loans and interest receivable	8,807	555	724	1,250	—	—	—	—
Changes in non-controlling interest liability	120	17,028	738	41	—	—	—	—
Change in fair value of investment properties - IFRIC 21	3,186	2,741	3,212	(6,338)	2,255	1,865	2,043	(5,854)
Change in fair value of investment properties	43,256	(29,082)	(2,110)	2,321	10,111	374	(1,692)	53
Change in fair value of financial instruments	4,150	(334)	(94)	(1,397)	(1,201)	(155)	1,249	(2,185)
Change in fair value of contingent consideration	(495)	11,171	—	—	—	—	—	—
Income from joint ventures	2,077	974	1,593	806	—	—	—	—
Deferred income tax expense (recovery)	(12,243)	3,507	4,757	1,098	(4,906)	2,936	3,408	3,933
Current income tax expense	(18)	—	18	—	23	—	28	—
Net income (loss)	(33,775)	8,654	10,527	2,319	2,003	4,571	4,706	4,983
Income (loss) per share: Basic	$ (0.64)	$ 0.16	$ 0.20	$ 0.05	$ 0.06	$ 0.14	$ 0.15	$ 0.15
Income (loss) per share: Diluted	$ (0.64)	$ 0.14	$ 0.18	$ 0.05	$ 0.06	$ 0.14	$ 0.15	$ 0.15
Funds from operations [(1)]	8,596	12,401	15,042	5,591	6,007	7,726	7,671	6,784
Funds from operations per share: Basic [(1)]	$ 0.16	$ 0.23	$ 0.29	$ 0.27	$ 0.19	$ 0.24	$ 0.24	$ 0.21
Funds from operations per share: Diluted [(1)]	$ 0.15	$ 0.20	$ 0.25	$ 0.24	$ 0.18	$ 0.23	$ 0.23	$ 0.20
Adjusted funds from operations [(1)]	10,300	10,541	12,953	10,092	7,509	7,062	8,278	8,071
Adjusted funds from operations per share: Basic [(1)]	$ 0.19	$ 0.20	$ 0.25	$ 0.23	$ 0.23	$ 0.22	$ 0.26	$ 0.25
Adjusted funds from operations per share: Diluted [(1)]	$ 0.17	$ 0.17	$ 0.21	$ 0.20	$ 0.22	$ 0.21	$ 0.24	$ 0.24

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

The Company's results for the past eight quarters have primarily been affected by the timing of additional property acquisitions and changes in the fair value of investment properties and financial instruments. Refer to the "Recent Activities" section of this MD&A for details of the timing of property acquisitions.

Liquidity and Capital Resources

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

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

The Company expects to meet its working capital requirements with respect to accounts payable and accrued liabilities and dividends payable through cash on hand and operating cash flows. The majority of accrued real estate taxes will be paid by the Company's tenants under the triple net lease structures. As at December 31, 2018, current liabilities totaled $97,973, exceeding current assets of $60,361 and resulting in a working capital deficiency of $37,612. The Company expects to be able to meet all of its obligations as they become due utilizing some or all of the following sources of liquidity: (i) cash flow generated from operations, (ii) credit facilities, under which $65,375 was available as at December 31, 2018, (iii) property specific mortgages and refinancings, (iv) issuance of preferred shares, (v) issuance of convertible debentures, and (vi) issuance of common shares, subject to market conditions.

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

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

Preferred Equity

On December 22, 2017, the Company entered into subscription agreements with respect to the issuance of Class A convertible preferred shares to Magnetar for aggregate gross proceeds of $54,000, to be funded in multiple series. The first series was funded on the day of the agreement, resulting in the issuance of 2,802,009 Series 1 Preferred Shares for aggregate gross proceeds of $26,500. On February 2, 2018, the Company amended the terms of the subscription agreements to, among other things, increase the amount of the subscription to approximately $71,500. The second series was funded on February 9, 2018, resulting in the issuance of 3,172,086 Series 2 Preferred Shares for aggregate gross proceeds of $30,000. On March 29, 2018, the third and final series was funded, resulting in the issuance of 1,586,042 Series 3 Preferred Shares on substantially the same terms as the other series for aggregate gross proceeds of $15,000.

The Preferred Shares are non-voting and are initially convertible into common shares of the Company on a one-for-one basis at the option of the holder based on an initial liquidation preference and a conversion price of $9.75. The Series 1 Preferred Shares are also convertible at the option of the Company in certain circumstances, and the Company has delivered an undertaking to the Toronto Stock Exchange not to convert the Series 1 Preferred Shares at a conversion price below $6.00. The Preferred Shares were issued at a price per share equal to the initial liquidation preference of $9.75, subject to a 3% discount. The liquidation preference of the Preferred Shares accrues at a rate of 5.65% per annum, compounded quarterly, increasing the number of common shares into which each Preferred Share is convertible at the fixed rate, and is subject to further adjustments in certain circumstances.

As at December 31, 2018, the Preferred Shares are convertible into 7,945,285 common shares of the Company.

Debt Strategy and Indebtedness

Debt Strategy

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

To manage interest rate risk, the Company may enter into interest rate swap agreements from time to time. The Company does not designate its interest rate swaps as hedges, and they are marked to fair value each reporting period through finance costs in the consolidated statements of income and other comprehensive income.

Indebtedness

		Principal Amount	Weighted Average Interest Rate	Years to Maturity
Fixed Rate Indebtedness				
Unsecured Term loan	$	200,000	4.3% (1)	5.0
Unsecured Revolver		25,000	4.8% (1)	4.0
Mohawk Facility		62,461	4.5% (1)	4.3
Mortgages payable		228,925	4.6% (1)	7.1
2016 Convertible Debentures		45,000	5.0%	3.1
2018 Convertible Debentures		50,000	6.0%	4.8
		611,386	4.7%	5.5
Variable Rate Indebtedness				
Unsecured Revolver	$	19,900	4.7%	4.0
Mohawk Facility		21,286	4.7%	4.3
Secured Revolving Facility		12,740	6.3%	0.5
Mortgages payable		77,245	5.6%	1.6
		131,171	5.4%	2.3
Total Indebtedness	$	742,557	4.8%	4.9
Less loan fees and issue costs, net of amortization and accretion		(8,075)		
Equity component of convertible debentures, excluding issue costs and taxes		(2,384)		
Mark-to-market adjustment, net		(883)		
Carrying amount	$	731,215		

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

Joint Venture Indebtedness

	Principal Amount	Weighted Average Interest Rate	Years to Maturity
Fixed rate mortgages payable	$ 100,028	4.3% (1)	3.2
Variable rate mortgages payable	76,874	5.4%	1.5
Total Indebtedness	$ 176,902	4.8%	2.5
Less loan fees, net of amortization	(160)		
Carrying amount	176,742		

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

Weighted Average Interest Rate

During the period from December 31, 2016 to December 31, 2018, the one-month LIBOR rate has increased 227% while the Company's weighted average interest rate for the comparable period has increased only 14%. This highlights that the Company has successfully maintained stable rates in rising a interest rate environment through effective use of interest rate swaps and debt refinancings.

2016 Convertible Debentures

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

2018 Convertible Debentures

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

Debt to Total Assets

Debt to total assets is calculated by dividing the total indebtedness, net of loan costs, by the total assets of the Company. At December 31, 2018, the Company's total consolidated indebtedness was approximately $731,215, which represents 57.0% of total assets. Excluding the convertible debentures, total consolidated indebtedness was approximately $641,470, which was 50.0% of total assets. Fixed rate debt represented approximately 82.3% of the Company's gross total indebtedness.

Fixed Charge Coverage Ratio

The Company's fixed charge coverage ratio is calculated by dividing earnings before interest, taxes, depreciation and amortization by certain fixed charges, which are comprised of interest expense payable in cash, regularly scheduled principal payments, and preferred dividends paid. For the period ended December 31, 2018, the fixed charge coverage ratio of the Company was 2.05.

Repayment Summary

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

Contractual Commitments

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

	Total	2019	2020	2021	2022	2023	Thereafter
Credit facilities	$ 410,556	$ 27,929	$ 14,830	$ 14,790	$ 59,614	$ 293,393	$ —
Mortgages payable	372,584	62,135	30,941	23,580	73,383	42,628	139,917
Convertible debentures	118,192	5,567	5,250	5,250	49,125	53,000	—
Accounts payable and accrued liabilities	9,871	9,871	—	—	—	—	—
Accrued real estate taxes	11,052	11,052	—	—	—	—	—
Dividends payable	3,253	3,253	—	—	—	—	—
Liability to previous owner of Care	9,676	9,676	—	—	—	—	—
Other current liabilities	2,030	2,030	—	—	—	—	—
Other non-current liabilities	12,785	1,151	1,380	225	—	—	10,029
Purchase commitments	8,100	8,100	—	—	—	—	—
Total Commitments	$ 958,099	$ 140,764	$ 52,401	$ 43,845	$ 182,122	$ 389,021	$ 149,946

Credit facilities are comprised of the Company's Unsecured Facility entered into on December 20, 2018, Secured Revolving Facility entered into on February 24, 2017, as amended on February 9, 2018 and October 26, 2018, and the Mohawk Facility entered into on May 1, 2018, as amended on June 28, 2018. The credit facilities combined have an outstanding balance of $338,140 as of December 31, 2018.

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

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

Dividends payable relate to the December 2018 dividend declared.

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

On August 31, 2018, the Company entered into a purchase and sale agreement to sell the Traditions Portfolio located in Georgia. The Traditions Portfolio was acquired as part of the acquisition of Care, at which time the Company and the prior owners of Care entered into an agreement whereby the two parties will evenly share net proceeds from the sale of the Traditions Portfolio in the event of a sale. Liability to previous owner of Care represents the fair value of the estimated amounts due to the former owner upon sale of the Traditions Portfolio. On January 7, 2019, the Company paid the previous owner $9,676 of this outstanding liability.

On November 14, 2018, the Company entered into a purchase and sale agreement to purchase a property located in Allen, TX for a purchase price of $8,100 plus transaction costs. The transaction was completed on January 16, 2019 and funded by a new mortgage secured by the property of $5,693 and cash on hand.

Financial Instruments and Other Instruments

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

Off-Balance Sheet Items

There were no off-balance sheet items as of December 31, 2018.

Transactions Between Related Parties

On December 22, 2017, the Company entered into subscription agreements with respect to the issuance of Class A convertible preferred shares to Magnetar to be funded in multiple series. The purpose of the transaction was to raise proceeds to be used for the repayment of debt, general working capital purposes, and funding of future acquisitions.

The first series of the private placement was funded on the day of the agreement resulting in the issuance of 2,802,009 Series 1 Preferred Shares for aggregate gross proceeds of $26,500. The second series was funded on February 9, 2018, resulting in the issuance of 3,172,086 Series 2 Preferred Shares for aggregate gross proceeds of $30,000. On March 29, 2018, the third and final series was funded, resulting in the issuance of 1,586,042 Series 3 Preferred Shares on substantially the same terms as the other series for aggregate gross proceeds of $15,000.

A member of the Board of Directors of the Company has an ownership interest in a marketing firm ("JDA Worldwide"). For the year ended December 31, 2018, the Company incurred $307 of marketing costs in the consolidated statements of income and comprehensive income related to services performed by JDA Worldwide.

Significant Areas of Estimation

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

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

Change in fair value of investment properties:

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

Impairment of loans receivable:

The Company reviews loans receivable on an ongoing basis to assess whether any loans should be classified as impaired and whether an allowance or write-off should be recorded. Allowances for impaired loans are recorded for individually identified impaired loans to reduce their carrying value to the expected recoverable amount. To determine the amount, the Company expects to recover from an individually significant impaired loan, the Company uses the value of the estimated future cash flows discounted at the loan's original effective interest rate. The determination of estimated future cash flows of a collateralized impaired loan reflects the expected realization of the underlying security, net of expected costs and any amounts legally required to be paid to the borrower. Refer to note 3 of the consolidated financial statements of the Company for the period ended December 31, 2018 for further information on estimates and assumptions made in determination of the impairment recorded on loans receivable.

Significant Accounting Policies and Changes in Accounting Policies

A summary of significant accounting policies and changes in accounting policies is set forth in notes 1 and 2, respectively, of the consolidated financial statements for the period ended December 31, 2018.

Risks and Uncertainties

See "Risk Factors" in the Company's 2018 AIF for a discussion of risks that could materially affect the Company, which risk factors are incorporated herein by reference.

Controls and Procedures

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

Disclosure Controls and Procedures

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

Internal Controls Over Financial Reporting

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

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

Outstanding Shares

As of March 13, 2019, 53,058,043 common shares in the capital of the Company were issued and outstanding.

Each 2016 Convertible Debenture is convertible into freely tradable common shares of the Company at the option of the holder at any time prior to the earlier of January 31, 2022 and the last business day immediately preceding the date specified by the Company for redemption, at a conversion price of $11.00 per common share. If all outstanding 2016 Convertible Debenture were converted into common shares of the Company, it would result in the issuance of 4,090,909 additional common shares.

As of March 13, 2019, there were 2,802,009 Series 1 Preferred Shares outstanding, 3,172,086 Series 2 Preferred Shares outstanding and 1,586,042 Series 3 Preferred Shares outstanding. The Series 1 Preferred Shares, Series 2 Preferred Shares, and Series 3 Preferred Shares are convertible into freely tradable common shares of the Company. As of March 13, 2019, assuming the voluntary conversion of all of the Series 1 Preferred Shares, Series 2 Preferred Shares, and Series 3 Preferred Shares then outstanding, a total of 7,945,285 common shares would be issued.

Financial Measures

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

Funds From Operations

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

To the extent the Company's 2016 Convertible Debentures and 2018 Convertible Debentures were dilutive to FFO per share, the related interest, amortization, and accretion expense has been added back to calculate a diluted FFO for purposes of calculating diluted FFO per share.

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

	Three months ended December 31, 2018	Three months ended December 31, 2017	Years ended December 31, 2018	Years ended December 31, 2017
Net income (loss) for the period	$ (33,775)	$ 2,003	$ (12,275)	$ 16,263
Add/(deduct):				
Change in fair value of investment properties	46,442	12,366	17,186	9,155
Property taxes accounted for under IFRIC 21	(3,186)	(2,255)	(2,801)	(309)
Change in fair value of financial instruments	4,150	(1,201)	2,325	(2,292)
Change in fair value of contingent consideration	(495)	—	10,676	—
Deferred income tax expense	(12,243)	(4,906)	(2,881)	5,371
Transaction costs for business combination	—	—	6,444	—
Allowance for credit losses on loans and interest receivable	8,807	—	11,336	—
Change in non-controlling interest liability in respect of the above	(86)	—	17,459	—
Adjustments for equity accounted entities	(1,018)	—	750	—
Funds from operations	$ 8,596	$ 6,007	$ 48,219	$ 28,188
Interest, amortization and accretion expense on 2016 Convertible Debentures	742	740	2,967	2,965
Interest, amortization and accretion expense on 2018 Convertible Debentures	899	—	1,277	—
Total diluted funds from operations	$ 10,237	$ 6,747	$ 52,463	$ 31,153
Weighted average number of shares, including fully vested deferred shares: Basic	53,046,230	32,377,271	50,273,295	32,323,269
Weighted average shares issued if all 2016 Convertible Debentures were converted	4,090,909	4,090,909	4,090,909	4,090,909
Weighted average shares issued if all 2018 Convertible Debentures were converted	4,672,897	—	1,664,320	—
Weighted average shares issued if all Preferred Shares were converted	7,838,949	304,566	6,975,227	76,558
Weighted average number of shares: Diluted	69,648,985	36,772,746	63,003,751	36,490,736
Funds from operations per share	$ 0.16	$ 0.19	$ 0.96	$ 0.87
Diluted funds from operations per share	$ 0.15	$ 0.18	$ 0.83	$ 0.85

Adjusted Funds From Operations

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

AFFO is a financial measure not defined under IFRS, and AFFO, as presented herein, may not be comparable to similar measures presented by other real estate investment trusts or real estate enterprises.

To the extent the Company's 2016 Convertible Debentures and 2018 Convertible Debentures were dilutive to AFFO per share, the related interest has been added back to calculate a diluted AFFO for purposes of calculating diluted AFFO per share.

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

	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Cash flows provided by operating activities	$ 8,822	$ 16,384	$ 24,972	$ 40,814
Change in non-cash working capital	1,191	(10,815)	5,531	(15,207)
Less: interest expense (1)	(12,681)	(4,042)	(35,366)	(13,721)
Less: change in non-controlling interest liability	(120)	—	(17,927)	—
Plus: income from joint ventures	2,077	—	5,450	—
Plus: change in fair value of investment in MS-SW Development Fund Holdings, LLC	60	50	214	178
Plus: interest paid	9,125	4,253	34,313	16,538
Less: interest received	(482)	(931)	(1,554)	(4,062)
Plus: transaction costs for business combination	—	2,073	6,444	2,073
Plus: non-cash portion of non-controlling interest expense	(86)	—	17,459	—
Plus: adjustments for equity accounted entities	(985)	—	783	—
Plus: deferred share incentive plan compensation	241	315	1,283	1,614
Plus: income support and development lease payments received	122	222	327	2,693
Plus: write-off of deferred financing costs from refinancing	3,708	—	3,708	—
Less: allowance for interest receivable	(292)	—	(1,065)	—
Less: capital maintenance reserve	(400)	—	(1,467)	—
Adjusted funds from operations	$ 10,300	$ 7,509	$ 43,105	$ 30,920
Interest expense on 2016 Convertible Debentures	563	562	2,251	2,250
Interest expense on 2018 Convertible Debentures	750	—	1,067	—
Total diluted adjusted funds from operations	$ 11,613	$ 8,071	$ 46,423	$ 33,170
Weighted average number of shares, including fully vested deferred shares: Basic	53,046,230	32,377,271	50,273,295	32,323,269
Weighted average shares issued if all 2016 Convertible Debentures were converted	4,090,909	4,090,909	4,090,909	4,090,909
Weighted average shares issued if all 2018 Convertible Debentures were converted	4,672,897	—	1,664,320	—
Weighted average shares issued if all Preferred Shares were converted	7,838,949	304,566	6,975,227	76,558
Weighted average number of shares: Diluted	69,648,985	36,772,746	63,003,751	36,490,736
Adjusted funds from operations per share	$ 0.19	$ 0.23	$ 0.86	$ 0.96
Diluted adjusted funds from operations per share	$ 0.17	$ 0.22	$ 0.74	$ 0.91
Dividends declared	$ 9,756	$ 5,957	$ 37,001	$ 23,791
AFFO payout ratio	95%	79%	86%	77%

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

The reduction in AFFO per share in the current year is the result of the Company incurring significant diligence costs for transactions that were ultimately not pursued. In addition, the Company entered into leases, each with 18 year terms, on two properties in Houston, Texas in which cash rent over the initial 12-18 month term was set to approximate debt service on the corresponding property. After the initial period, the leases will escalate to full yield. The Company expects the lease structure on the first property to transition to full yield in February of 2019. The second of these properties is expected to return to full yield by January of 2020.

Presented below are performance metrics adjusted to exclude the diligence costs for transactions not pursued, these measures are not financial measures defined under IFRS and, as presented herein, may not be comparable to similar measures presented by other real estate investment trusts or real estate enterprises. The Company believes this provides a more comparable basis to evaluate performance period over period, and an indication of future operations.

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
FFO, per above	$ 8,596	$ 6,007	$ 48,219	$ 28,188
Diligence costs for transactions not pursued	—	—	2,041	491
FFO, as adjusted	$ 8,596	$ 6,007	$ 50,260	$ 28,679
Interest, amortization and accretion expense on 2016 Convertible Debentures	742	740	2,967	2,965
Interest, amortization and accretion expense on 2018 Convertible Debentures	899	—	1,277	—
Total diluted FFO, as adjusted	$ 10,237	$ 6,747	$ 54,504	$ 31,644
FFO per share, as adjusted	$ 0.16	$ 0.19	$ 1.00	$ 0.89
Diluted FFO per share, as adjusted	$ 0.15	$ 0.18	$ 0.87	$ 0.87
Adjusted funds from operations, per above	$ 10,300	$ 7,509	$ 43,105	$ 30,920
Diligence costs for transactions not pursued	—	—	2,041	491
AFFO, as adjusted	$ 10,300	$ 7,509	$ 45,146	$ 31,411
Interest expense on 2016 Convertible Debentures	563	562	2,251	2,250
Interest expense on 2018 Convertible Debentures	750	—	1,067	—
Total diluted AFFO, as adjusted	$ 11,613	$ 8,071	$ 48,464	$ 33,661
AFFO per share, as adjusted	$ 0.19	$ 0.23	$ 0.90	$ 0.97
Diluted AFFO per share, as adjusted	$ 0.17	$ 0.22	$ 0.77	$ 0.92
Payout ratio, as adjusted	95%	79%	82%	76%

Cash Dividends

	Three months ended December 31,		Years ended December 31,	
	2018	2017	2018	2017
Cash flows provided by operating activities	$ 8,822	$ 16,384	$ 24,972	$ 40,814
Net income (loss)	(24,968)	4,076	(12,275)	16,263
Total dividends declared	9,756	5,957	37,001	23,791
Cash provided by operating activities in excess (shortfall) of total dividends	(934)	10,427	(12,029)	17,023
Excess (shortfall) of net income over total dividends	(34,724)	(1,881)	(49,276)	(7,528)

Non-cash items relating to fair value adjustments of investment properties and the Company's financial instruments, amortization of financing costs, deferred income tax expense, and non-cash listing expense are deducted from or added to net income and have no impact on cash available to pay current dividends. Total dividends for the twelve months ended December 31, 2018 exceeded cash flows provided by operating activities largely due to diligence costs for transactions not pursued of $2,041, and transaction costs for business combination of $6,444. In addition, for the Care transaction, the Company incurred $2,073 of transaction costs for business combination which were expensed in the consolidated statements of income and comprehensive income for the three months ended December 31, 2017 but paid during the twelve months ended December 31, 2018. Total dividends for the twelve months ended December 31, 2018 exceeded net income primarily due to non-cash items.

The Company believes its current distributions are sustainable.

Operational Measures

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

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

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

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

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

The majority of the income properties in the Company's portfolio are leased under long-term, triple-net leases. The Company believes relevant metrics for evaluating the performance of the underlying operations include operator lease coverage and occupancy. The Company's operator performance metrics are calculated utilizing data that is one quarter in arrears (i.e. as of and through September 30, 2018 for this reporting period), and, where master leases are in place for portfolios of multiple asset types, using allocated rents pursuant to consistent methodologies.

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

Triple Net Lease Portfolio

Operator Lease Coverage

Operator lease coverage is a measure of a tenant's ability to meet their cash rent and other obligations during its normal course of business. The Company believes that both EBITDAR and EBITDARM (as defined below) provide insight to the core operations at the facility level. Metrics provided below are for the trailing 12 month ("TTM") period for all stabilized assets. The stabilized triple-net lease portfolio through September 30, 2018 includes 36 properties.

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

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

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

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

Operator Occupancy

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

For the TTM period ended September 30, 2018, the Company's stabilized portfolio had an occupancy percentage of 85%.

Joint Venture/Joint Arrangement Portfolio

The Company’s joint venture/joint arrangement portfolio consists of seniors housing assets in which the Company has ownership of both the property and operations. The Company’s stabilized joint arrangement portfolio consists of 16 properties through September 30, 2018.

Based upon the Company’s ownership structure in these assets, the Company believes the most relevant operational metrics will include occupancy, net operating income and year over year revenue growth metrics. For the period ended September 30, 2018, the occupancy in the stabilized joint arrangement portfolio was 89%. As comparative periods become available in the Company’s ownership period, the Company anticipates that additional metrics will be included in future filings.

Medical Office Building Portfolio

The Company’s medical office building portfolio consists of multi tenant medical office buildings in which the Company has full ownership of the property. The Company’s stabilized medical office building portfolio consists of 11 properties through September 30, 2018 in the United States and Canada.

The Company utilizes occupancy as a percentage of gross leasable area in addition to other financial metrics when evaluating performance in its medical office building portfolio. For the period ended September 30, 2018, occupancy in the stabilized medical office building portfolio was 90%. As comparative periods become available in the Company's ownership period, the Company anticipates that additional metrics will be included in future filings.