



Invesque

2  
0  
2  
1

# ANNUAL REPORT

Streamlined. Strengthened.  
Set Up for Future Success.

PUBLISHED MAY 2022

# Contents

- 1 Our Company
- 2 Our Culture
- 4 Our Portfolio
- 6 Commonwealth Senior Living
- 8 From the Chairman and CEO
- 11 Financial Report
- 127 Corporate and Shareholder Information



# Our Company

## Name Anatomy

### [In-ves-k]

Invesque is derived from the root word **[invest]** and the adjective suffix **[esque]** meaning **[to resemble]**.

## Name Description

Invesque is a real estate investment firm specializing in nimble, transparent interaction; creative flexibility; and reliable, trusted portfolio management. Invesque is similar to, yet unique in practice, to traditional investment firms.

---

## Investing. Uniquely.

Invesque is a North American health care real estate company with an investment thesis focused on the premise that an aging demographic in North America will continue to utilize health care services in growing proportion to the overall economy. Invesque currently capitalizes on this opportunity by investing in a portfolio of income generating properties across the health care spectrum. Invesque's portfolio includes investments in independent living, assisted living, memory care, skilled nursing, and medical office properties. These are operated under long-term leases and joint venture arrangements with industry leading operating partners. Invesque's portfolio also includes investments in owner-occupied seniors housing properties in which Invesque owns the real estate and provides management services through its subsidiary management company, Commonwealth Senior Living.



# Our Culture

At Invesque, our culture is an integral part of who we are and is something we are proud to showcase. Invesque made the list for **2021 Best Places to Work in Indiana** in the Small Companies category for the second year in a row.



## In-Person Events Return

During the first part of 2021, Invesque employees came together virtually with happy hours, cooking classes, beer brewing, and more. As 2021 continued, in-person events returned, and the team celebrated Invesque's 5th Birthday, attended an Indianapolis Colts game, and made up for lost time with team lunches and other team-building outings. We believe that the time apart as a result of the COVID-19 pandemic made us stronger, and we appreciate our time together even more as a team.

## New Office Build-out

In December 2021, Invesque decided to pursue a new office space build-out in Fishers, Indiana. The new office space will be located in the Nickel Plate District, close to the Nickel Plate Trail and Nickel Plate District Amphitheater, and in the center of Fishers' latest contemporary dining, shopping, and entertainment areas. The new office features include interchangeable "open" offices, collaboration areas, stand-up desks, state-of-the-art conference room, and kitchen. Completion is set for mid-summer 2022.



"At the end of the day, the most important investment Invesque will ever make is the one we make in our team."

– Scott White, Chairman and CEO

### Core Values



#### Family

Family truly matters. Possessing a work-life balance is crucial to success as a fast-paced company.



#### Teamwork

It takes a team to achieve greatness and success. Invesque firmly believes that everyone in the company plays an important role in its success.



#### Excellence

Everything we do demands our very best. We must insist on excellence in all things, constantly seeking to do better, and focusing on each detail.



#### Positive Energy

At Invesque, high energy and a positive attitude are mandatory. We work with a sense of urgency, accomplishing as much as we can today.



#### Fun

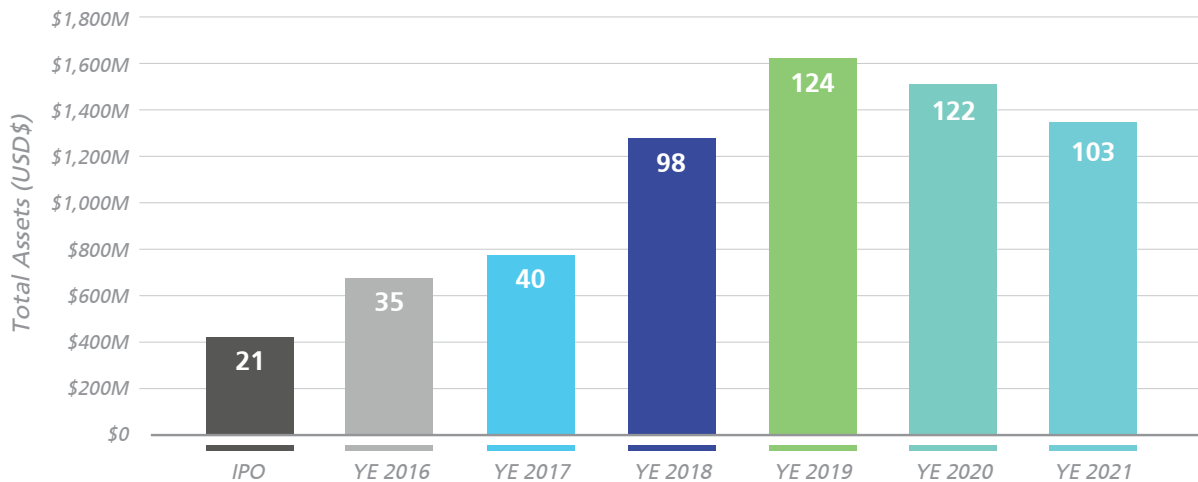
Every day is a journey. Along the way, we genuinely want to enjoy our work and those we work with.



### Transformation Since Inception

Invesque’s portfolio has transformed significantly since the IPO in 2016. At that time, the small portfolio was almost exclusively made up of skilled nursing assets managed by a handful of operators under long-term, triple-net leases. Since 2016, Invesque grew rapidly with a strategy of building a highly diversified portfolio of cash generating health care real estate assets. Over the last five years, Invesque has added a portfolio of medical office buildings, numerous seniors housing assets – some of which are subject to triple-net leases and some that are structured as joint ventures – and also acquired a management company, Commonwealth Senior Living. The management company, when combined with the properties that Commonwealth Senior Living manages for Invesque, now represents almost one-third of Invesque's annual portfolio NOI.

### Total Assets (USD\$) and Property Count by Year



### Portfolio Diversification as of December 31, 2021

#### Seniors Housing

- 65 properties
- Independent Living, Assisted Living, and Memory Care
- Managed by nine operators via triple-net leases, joint ventures, and by subsidiary management company Commonwealth Senior Living
- 58% of NOI

#### Skilled Nursing

- 23 properties
- Long-Term Care and Post-Acute Rehab
- Managed by six operators via triple-net leases
- 34% of NOI

#### Medical Office

- 15 properties
- Managed by Jones Lang Lasalle
- 8% of NOI

## Geographic Footprint



**Commonwealth Senior Living at Bel Air**

1415 St Francis Road  
Bel Air, Maryland 21014

- Built in 2002 / Renovated in 2016
- 52 beds AL / MC
- Operated by Commonwealth Senior Living

**North Houston Transitional Care**

9814 Grant Road  
Houston, Texas 77070

- Built in 2017
- 94 Beds TCC / AL
- Operated by The Providence Group

## Industry Leading Partners



# Commonwealth Senior Living

Founded in 2002 with just three communities and acquired by Invesque in August of 2019, Commonwealth Senior Living (“Commonwealth”) has grown into a leading provider of seniors housing in the United States. As a result of the dedication, quality, and commitment to seniors and their families, Commonwealth has become one of the largest and premier operators in the Mid-Atlantic of independent living, assisted living, and memory care communities. Commonwealth currently manages over thirty properties in the region.

## Sweet Memories

Commonwealth’s Sweet Memories Neighborhood features award-winning programs specifically designed to elevate and enhance the experience of residents with dementia and Alzheimer’s disease. Sweet Memories includes fine art, life stations to recreate universally familiar “scenes”, and a Serenity Room with calming music and scents.

## Today from the Bay

Commonwealth has partnered with Sam Rust Seafood, a locally-owned seafood distributor since 1938. This partnership supports local fishermen while also bringing fresh, sustainable seafood directly to Commonwealth residents. These fishermen provide Commonwealth with scallops, oysters, shrimp, trout, bass, clams, crab, and flounder.

## CSL Promise to Veterans

Commonwealth honors those who have served our country with much pride and respect. All veterans’ pictures are displayed on the Wall of Valor, representing them throughout each community in the Assisted Living and Sweet Memories neighborhoods. Each veteran has a service star placed outside the door of their suite to identify them as a veteran. Throughout the year, Commonwealth holds numerous Veteran Appreciation programs across the portfolio.



“Commonwealth’s commitment to seniors and families makes them a standout operator in the industry. We could not be more proud of their navigation of the COVID-19 pandemic and look forward to celebrating their future successes.”

– Adlai Chester, Chief Investment Officer





# Commonwealth Cares



## Commonwealth core values are:

- We care about people
- We do the right thing
- We are passionate, have fun, and celebrate success
- We speak up! It's our responsibility
- We take ownership and add value in all we do
- We are respectful

Commonwealth's non-profit, Commonwealth Cares, helps employees suffering from severe financial hardship resulting from catastrophic events in their lives by making grants available for those who meet low-income and other requirements. Since its inception, Commonwealth Cares has funded over \$600,000 to Commonwealth associates in need. This program proved especially beneficial in 2020 and 2021 as frontline associates were battling the COVID-19 pandemic. The foundation of Commonwealth Cares is built from the same framework of values as Commonwealth Senior Living.

# From the Chairman and CEO



---

**Streamlined.  
Strengthened.  
Set Up for Future  
Success.**

As I sat down to write this last year, I had high hopes for strong and stable performance for Invesque's portfolio in 2021. Early last year, positive news regarding the COVID-19 vaccine rollout in the United States, which was prioritized for seniors and healthcare workers, provided optimism that the seniors housing and skilled nursing industries would return to a more normal operating cadence and the decline in occupancy and overall financial performance seen in 2020 across the industry would begin its rebound. As 2021 progressed, new COVID-19 variants emerged and constantly evolving national and local guidelines regarding the re-opening and day-to-day operation of communities in our industry provided for an environment that remained extremely challenged.

As I sit here writing this letter almost one third of the way through 2022, I am once again very optimistic about the future. Invesque's seniors housing portfolio has made a great positive movement in occupancy growth over the last four to five months. Our subsidiary management company, Commonwealth, saw record long-term move-in numbers in the early parts of 2022 and is continuing to build on census across their portfolio. Most of our partners successfully rolled out larger than normal rate increases to residents earlier this year in an effort to offset increased operating expenses, primarily related to staffing. If you were to tour a community today, it likely feels a lot more like it did in 2019 than in 2020 or 2021 as it relates to resident activities, communal dining, and family visitation policies. This is a small example of progress being made in our portfolio compared to where we were twelve months ago, and I am confident that the near-term and long-term outlook for our industry is bright.

The aging population, specifically in the United States, is growing at a rate that is unprecedented. We have heard for years that the "silver tsunami" is coming and that the impact to our industry will be significant. It is estimated that by the year 2034, the number of older adults will be higher than the number of children for the first time in our history. According to the United States Census Bureau, it is estimated that by 2030 nearly 20% of all Americans will be at retirement age. These trends highlight the significant demand that is headed our way. We are working in earnest to ensure the Invesque portfolio is positioned properly to take advantage of this demographic trend that should increase the demand of our assets immensely in the coming years.

As you may recall, Invesque grew faster than any other public real estate company in the United States in the three years following our IPO in mid-2016. Many of the large transactions that facilitated this growth for the company were portfolio transactions that included a small portion of non-strategic assets that we knew would not be long-term holds for the company. During 2021, we spent a significant amount of time and resources evaluating every asset in our portfolio. We challenged ourselves with diffi-

cult questions. Was the right operator managing each of our assets? Were some of our older communities good candidates for renovation and/or expansion projects? Did the demographics in certain markets support the community size and unit mix of our existing asset based on new supply that had entered the respective market over the last three to five years? This detailed building by building analysis resulted in the sale of over US\$210 million of assets in 2021. Following these sales, our portfolio NOI exposure to skilled nursing has been reduced to approximately 34% from nearly 40% at the beginning of the year and our company will now rely more heavily on income generated from our private-pay seniors housing portfolio, including our subsidiary operating platform, Commonwealth. I expect that you will continue to see this trend through 2022 and into the future as we look to create a simpler structure with our preferred operating partners.

#### Invesque Highlights from 2021 include the following:

- Completed the sale of 19 skilled nursing and seniors housing assets, representing almost 2,100 beds, aimed at streamlining and strengthening the portfolio
- Throughout 2021, reduced consolidated leverage by over 500 basis points via dispositions, refinancing activities, and organic cash flow generation. Additionally, borrowing costs were reduced by 20 basis points during the year
- Successfully extended the maturity of the Company's US\$200 million revolving credit facility by one year. The credit facility is now due in December 2023, and reduced the required Consolidated Fixed Charge Coverage Ratio from 1.60x to 1.50x
- Announced an amendment and partial redemption of US\$20.0 million of the 2022 Convertible Debentures, which were redeemed in January 2022. The remaining outstanding Debentures were amended to change the interest rate to 7.00%, effective January 31, 2022, and extend the maturity date of the remaining outstanding 2022 Convertible Debentures to January 31, 2025
- Named one of the Best Places to Work in Indiana by the Indiana Chamber of Commerce and Best Companies Group for the second year in a row

In addition to our company highlights, I remain extremely proud of the ongoing efforts of our operating partners. The last 24 months have been challenging to say the least, and our operators and their teams have shown up day after day to provide a safe environment for the frailest population. We are in awe of everything they all do and honored to have them as part of the broader Invesque family.

Although our portfolio did not see the financial results that I envisioned in 2021, I remain extremely bullish on the long-term viability of the seniors housing industry. We have taken numerous steps to streamline the portfolio, strengthen the balance sheet, and set the company up for future success.

#### Thank you for the continued support,

**Scott White**

Chairman and Chief Executive Officer  
Invesque





# **INVESQUE INC.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE YEAR ENDED DECEMBER 31, 2021**

**March 11, 2022**

## **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, 2021. 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, 2021. 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, 2021 and 2020.

Additional information relating to the Company, including the Company's annual information form for the year ended December 31, 2021 (the "2021 AIF"), can be found on SEDAR at [www.sedar.com](http://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 impact of COVID-19 on the business, operations and financial performance of the Company, 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 2021 AIF, including risks relating to the effect of COVID-19 on the business, operations and financial performance of the Company. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive. When relying on forward-looking statements to make decisions, with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events.

These forward-looking statements are made as of March 11, 2022 and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law.

## **Financial Measures not Defined Under IFRS**

Certain terms used in this MD&A are performance measures that are not defined by IFRS such as Funds From Operations ("FFO"), Adjusted Funds From Operations ("AFFO"), fixed charge coverage ratio, payout ratio, effective payout ratio, earnings before interest, income taxes, depreciation, amortization and rent ("EBITDAR"), earnings before interest, income taxes, depreciation, amortization, rent and management fees ("EBITDARM"), revenue per occupied room 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 loss and comprehensive loss or cash flows from operating activities calculated in accordance with IFRS. Further, the supplemental measures used by management may not be comparable to similar measures presented by other real estate enterprises. Management believes that these terms are relevant measures in comparing the Company's performance to industry data and assessing its ability to meet its ongoing obligations. Please refer to the "Financial Measures" section of this MD&A for a more detailed description of FFO and AFFO and a reconciliation to IFRS measures.

## Business Overview

Invesque Inc. is a corporation continued under the *Business Corporations Act* (British Columbia). The registered office of the Company is located at 700 W Georgia Street, 25th Floor, Vancouver, British Columbia V7Y 1B3 and the head office of the Company is located at 333 Bay Street, Suite 3400, Toronto, Ontario, M5H 2S7.

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

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

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

physician-ordered intense rehabilitation for post-operative procedures. They are staffed by registered nurses, therapists, pharmacists and social workers. SNFs and LTCs in North America are subject to extensive federal, state and provincial regulation, including licensing requirements and regulations relating to government funding. SNFs and LTCs receive revenue from private pay sources and third-party pay sources, including federal, state and provincial governments and insurance companies.

- **Medical Office Buildings ("MOBs"):** MOBs represent a large segment of health care real estate comprised of various outpatient health care settings. Outpatient care, sometimes referred to as ambulatory care, is defined as medical care or treatment that does not require an overnight stay in a hospital or medical facility. Unlike seniors housing and care properties, the utilization of outpatient care settings and MOBs is generally not age-restricted and is available to all segments of the population. In the United States, MOBs can house service providers that provide a wide variety of health care services, ranging from family medicine and geriatric care to plastic surgery, and those providers can each accept a wide variety of reimbursements for services, including private pay, Medicare, Medicaid and insurance and managed care plans. The Canadian medical office focuses strongly on the general practitioner as a primary referral source and magnet to attract patients to the MOB in order to support other tenants in the building. General practitioners provide referrals, prescriptions and recommendations for the patient to visit other physicians and practices within the building.

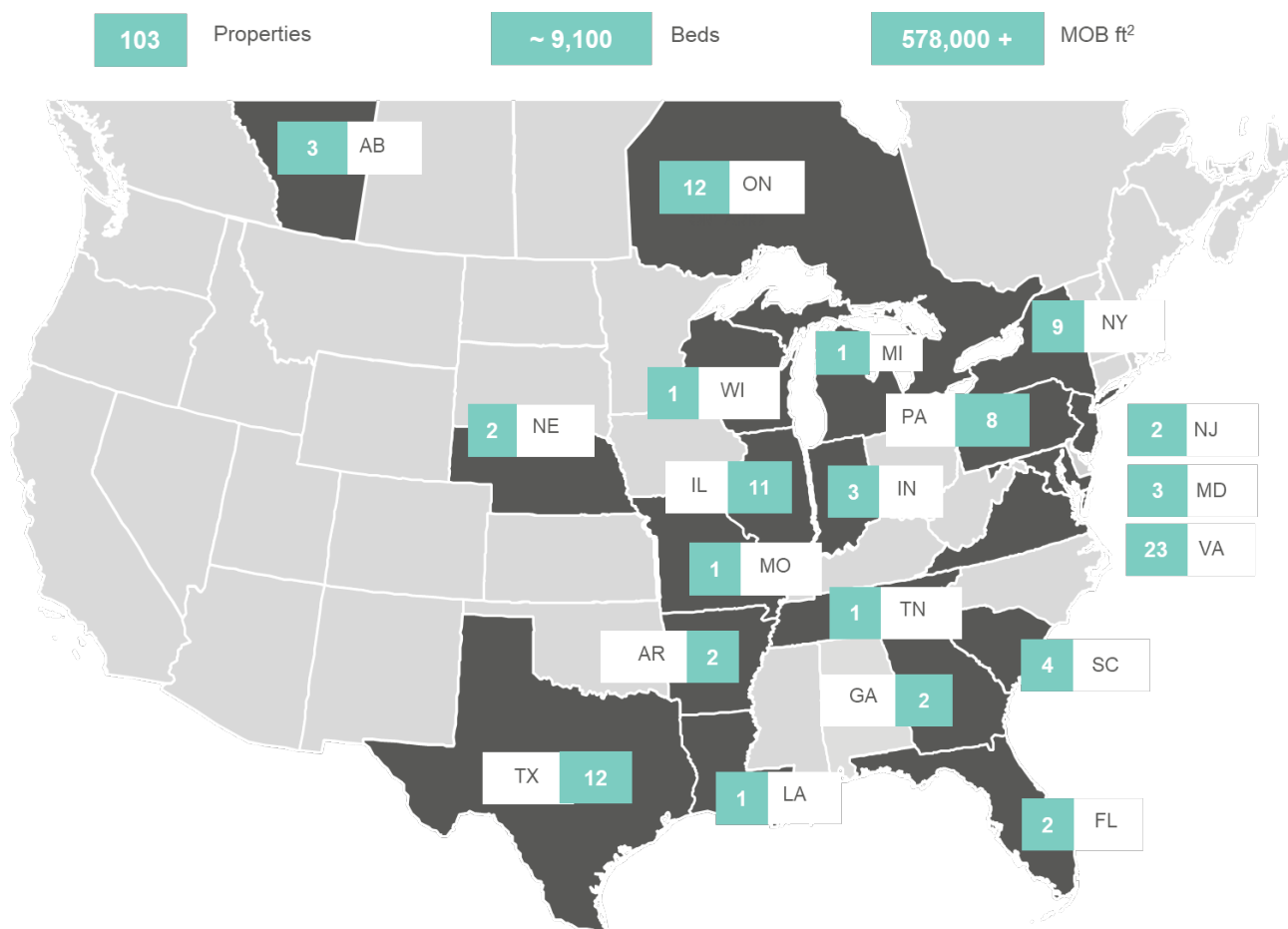
For the Company's SNF and TCC properties, it generally owns the land and buildings and leases them to third party operators on a long-term, triple-net lease basis. For its IL and AL properties, it either owns the land and buildings and leases them to third party operators on a long-term, triple-net basis,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

The Company's multi-tenant MOB portfolio transitioned management to and is currently operated by the third party operator Jones Lang LaSalle ("JLL"). JLL is an industry leader in property management services and has significantly expanded the Company's capabilities in the medical office building portfolio. The portfolio was previously operated via third party property and asset management contracts with Mohawk Realty Advisors Ltd. The transition of management occurred in September 2020.

As of March 11, 2022, the Company owns or has a majority interest in a portfolio of 88 properties in the United States, comprised of 60 assisted living and memory care facilities, 12 skilled nursing facilities, 10 transitional care properties, 4 medical office buildings, and 3 properties held for sale. In Canada, the Company owns an interest in 15 properties comprised of 11 medical office buildings and 4 seniors housing and care facilities.



The Company's geographic footprint as of March 11, 2022:



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

### Liquidity Assessment and COVID-19 Risk

A novel strain of coronavirus causing the disease known as COVID-19 has spread throughout the world, including across the United States and Canada, causing the World Health Organization to declare the COVID-19 outbreak a pandemic in March 2020. In an attempt to contain the spread and impact of the pandemic, authorities throughout the United States and Canada have implemented measures such as travel bans and restrictions, stay-at-home orders, social distancing guidelines and limitations on other business activity. The pandemic has resulted in a significant economic downturn in the United States, Canada and globally, and has also led to disruptions and volatility in capital markets. These trends are likely to continue for the remainder of 2021 and beyond.

The pandemic has had an impact on results and operations of the Company, including decreased occupancy, delays in collections from tenants, and increased operating expenses. The Company announced on April 10, 2020 that it suspended the dividend for all common shares beginning from April 1, 2020 until further notice.

The Company expects that the pandemic could continue to have a negative affect on its results of operations, financial position and cash flows, particularly if negative economic and public health conditions in the United States and Canada

persist for a significant period of time. The ultimate impact of the pandemic on the Company's financial results will depend on future developments, which are uncertain. This includes, among other factors, the duration and severity of the pandemic as well as negative economic conditions arising therefrom, the impact of the pandemic on occupancy rates in the Company's communities, the volume of COVID-19 patients cared for across the portfolio, and the impact of government actions on the seniors housing industry and broader economy, including through existing and future stimulus efforts. The impact of COVID-19 has been partially offset to date by certain government stimulus programs which have helped to offset COVID-19 related expenses and compensate for lost revenues, but the Company is not able to provide assurance that such programs may continue to be available in the future. For the year ended December 31, 2021, the Company recognized \$3,730, of other income related to government grants funded through programs designed to assist seniors housing operators who have experienced both lost revenue and increased expenses during the COVID-19 pandemic (year ended December 31, 2020 - \$3,415). For the year ended December 31, 2021, the Company recognized income of \$1,243 in loss from joint ventures related to the Company's share of government grants recognized at the joint venture properties for COVID-19 pandemic relief (year ended December 31, 2020 - \$1,294).

Liquidity risk is the risk that an entity is unable to fund its assets or meet its obligations as they come due. Liquidity risk is managed in part through cash forecasting. While there are uncertainties in assessing future liquidity requirements under normal operating conditions, the stressed conditions caused by COVID-19 have introduced increased uncertainties. The Company monitors forecasts of liquidity requirements to ensure it has the ability to meet operational needs by maintaining sufficient availability of the combination of cash and credit facility capacity, and to ensure the Company will meet its financial covenants related to debt agreements. Such forecasting involves a significant degree of judgment which takes into consideration current and projected macroeconomic conditions, the Company's cash collection efforts, debt financing and refinancing plans, and covenant compliance required under the terms of debt agreements. There is a risk that such liquidity forecasts may not be achieved and that currently available debt financing may no longer be available to the Company at terms and conditions that are favorable, or at all.

As a result of the risks and conditions associated with COVID-19, the Company has amended certain terms of various financing arrangements having conducted an assessment of its liquidity. The Company believes that it has sufficient available liquidity to meet its minimum obligations as they come due and to comply with financial covenants in its credit facilities, as amended, for a period of at least 12 months from December 31, 2021. Further, the Company has assessed that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. In making this significant judgment, the Company has prepared a cash flow forecast with the most significant assumptions in the preparation of such forecast being the ability of its most significant tenant, Symcare, to meet its rental obligations to the Company and the continued availability of financing.

In response to a severe downside scenario, management has the ability to take the following mitigating actions to reduce costs, optimize the Company's cash flow and preserve liquidity:

- (i) utilizing available cash to pay down debts,
- (ii) sell certain properties and use the proceeds to buy down debt,
- (iii) exercise the Company's right to convert its convertible debentures into common shares,
- (iv) reducing non-essential capital expenditures.

### **Recent Activities**

On November 2, 2020, the Company executed a non-binding, memorandum of understanding ("MOU") with Symcare and the tenant operator of one building in Chesterton, Indiana (collectively "Symphony"). Symphony operated 16 facilities for the Company under triple-net lease structures. Under the terms of the MOU, the Company agreed to sell to Symphony, and/or transition to a new operator, eight of the Company's existing assets operated by Symphony (collectively, the "Symcare Transaction").

On April 30, 2021, the Company successfully completed the first phase of the Symcare Transaction with the sale of a property located in Chesterton, IN to the operator Symphony for a sale price of \$20,000 before closing costs. The consideration was paid in the form of a \$14,448 repayment of the mortgage secured by the property and \$5,529 of cash.

On April 30, 2021, the Company transferred operations of four properties previously operated by Symphony to Cascade Capital Group ("Cascade"). The Company entered into a new master lease for the four properties.

On June 1, 2021, the Company completed the final phase of the Symcare Transaction with the sale of three properties located in Chicago, IL to the operator Symphony for a sale price of \$55,500 before closing costs. The Company received consideration in the form of \$55,283 and it was used to pay down credit facility debt. The Company entered into a loan agreement for a principal amount of \$17,000 in satisfaction of all remaining balances owed by Symphony including the \$7,295 loan entered into on October 20, 2017 and accrued interest, the \$15,000 loan entered into on December 26, 2018 and accrued interest, and \$10,969 of outstanding rent receivable. Invesque and Symphony entered into an amended and restated 15-year, triple-net master lease, with enhanced lease coverage, for the remaining properties to be operated by Symphony. The Symcare Transaction substantially reduced Symphony's share of the Company's rental revenue going forward.

On June 14, 2021, the Company entered into a joint venture for the development of a seniors housing property in Parker, Colorado. The Company contributed land valued at \$2,600 and \$3,002 of cash to the joint venture in exchange for a 73.7% ownership interest. The project has property under development of \$10,676 as of December 31, 2021. The remaining portion of the project will be funded through draws on construction loans at the joint venture.

On July 1, 2021, the Company sold its interest in four investment properties to the operator Inspirit Senior Living for total consideration of \$35,500, \$23,626 of which paid off outstanding mortgages, and the remaining was received in cash.

On October 6, 2021, the Company sold five properties in Pennsylvania for a total consideration of \$2,665 before closing costs, received in the form of cash.

On October 24, 2021, the Company entered an agreement with Hearth Senior Living ("Hearth") whereby the Company has acquired 100% of operations of 2 properties in New York. The properties were previously triple-net leased to Premier Senior Living ("Premier"). As of the date of the acquisition, the properties' operations met the criteria of owner occupied property, and their corresponding assets were reclassified as property, plant and equipment. In November 2021, the Company entered into an agreement to sell these two properties and they are classified as held for sale at December 31, 2021.

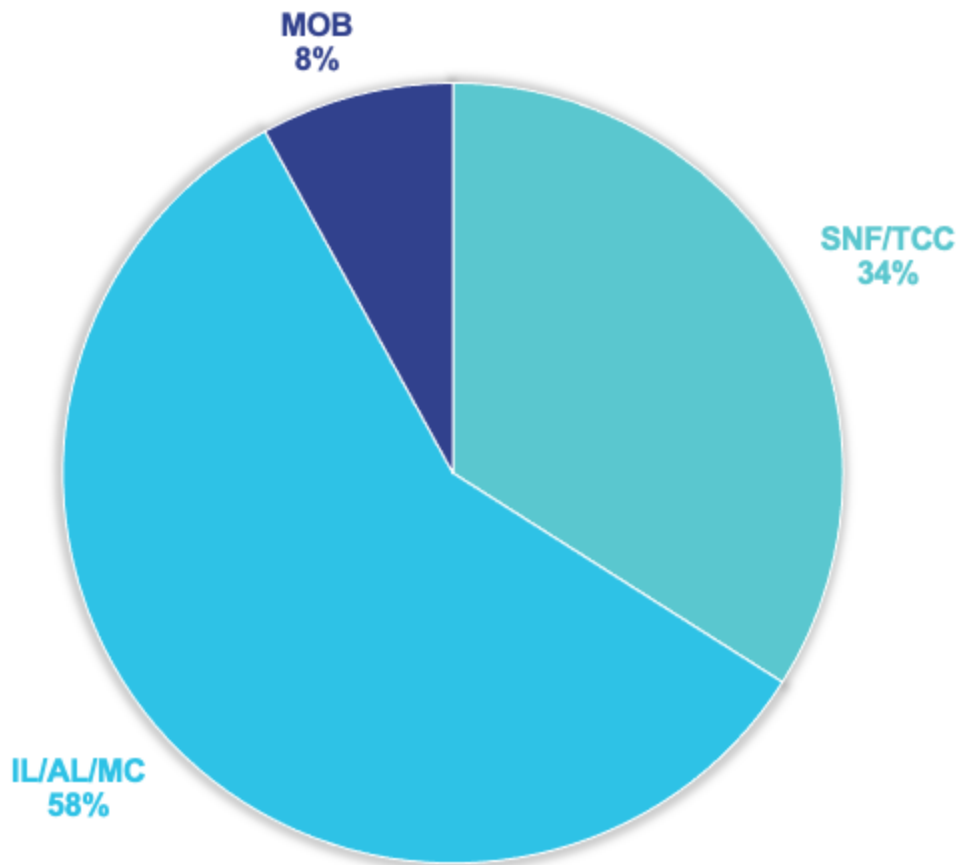
On October 27, 2021, the Company sold a property in Richmond, VA for total consideration of \$3,500 before closing costs, received in the form of cash. The asset is classified as held for sale on the condensed consolidated interim statement of financial position at December 31, 2021.

On February 1, 2022, the Company acquired a memory care facility located in Grand Rapids, MI for a contractual purchase price of \$12,470 plus transaction costs. The purchase was made with cash on hand and the property was added to the borrowing base of the Credit Facility upon acquisition.

On March 1, 2022, the Company closed on the sale of a non-core seniors housing community in Harrisburg, Pennsylvania to Windsor. The community was sold for \$5,500, and proceeds were used to further reduce existing indebtedness. The community was previously managed by Greenfield Senior Living and operational management was transitioned to Commonwealth in 2019, and was considered non-core to the Commonwealth operational platform.

Properties operated by Bridgemoor have been significantly impacted by the COVID-19 pandemic which has resulted in decreases in occupancy and increases in operating expenses. For the year ended December 31, 2021, the Company has recognized bad debt expense of \$5,513 included in income from joint ventures in the consolidated statements of loss and comprehensive loss related to estimated uncollectible rent for properties operated by Bridgemoor and held in a joint venture (year ended December 31, 2020 - \$1,672). For the year ended December 31, 2021, the Company has recognized bad debt expense of \$1,140 included in direct property operating expense in the consolidated statements of loss and comprehensive loss related to estimated uncollectible rent for the consolidated property located in Webster, TX operated by Bridgemoor (year ended December 31, 2020 - \$487). The property located in Webster, TX was contributed to the Jaguarundi joint venture on October 29, 2021. Due to the headwinds faced by Bridgemoor and the segment of the industry they operate within, management does not expect to receive any material cash rent in calendar 2021. The Company continues to assess all options with this portfolio in an effort to improve performance.

As of March 11, 2022, the Company's portfolio composition by asset type based on forward looking net operating income projections is as follows:



**Selected Financial Information***(dollar amounts in thousands of U.S. Dollars, except per share amounts)*

	Year ended December 31,		
	2021	2020	2019
Consolidated investment properties	53	69	69
Consolidated owner occupied properties	35	36	33
Properties held for sale	3	1	—
Weighted average lease term to maturity (excludes renewal options) <sup>(1)</sup>	11.3 years	12.2 years	13.2 years
Average facility age	10.8 years	9.9 years	10.2 years
Total assets	\$ 1,301,011	\$ 1,498,424	\$ 1,630,738
Total indebtedness	\$ 893,746	\$ 1,052,471	\$ 1,013,475
Weighted average interest rate <sup>(2)</sup>	4.1 %	4.2 %	4.6 %
Joint venture properties	12	16	22
Joint venture total assets <sup>(3)</sup>	\$ 188,681	\$ 230,616	\$ 296,575
Joint venture indebtedness <sup>(3)</sup>	\$ 116,948	\$ 152,609	\$ 178,060
Joint venture weighted average interest rate <sup>(4)</sup>	4.3 %	4.2 %	4.4 %
	Year ended December 31,		
	2021	2020	2019
Revenue	\$ 210,450	\$ 217,387	\$ 148,407
Direct property operating expenses	\$ (102,768)	\$ (95,505)	\$ 33,533
Finance costs	\$ (50,221)	\$ (49,801)	\$ 41,633
General and administrative expenses	\$ (20,142)	\$ (20,539)	\$ 18,092
Change in fair value of investment properties	\$ (22,152)	\$ (100,388)	\$ 6,046
Income (loss) from joint ventures	\$ (14,906)	\$ (34,729)	\$ (6,799)
Net loss	\$ (12,235)	\$ (184,004)	\$ (5,359)
Net loss per share	\$ (0.22)	\$ (3.30)	\$ (0.10)
Diluted net loss per share	\$ (0.22)	\$ (3.30)	\$ (0.10)
Funds from operations (FFO) <sup>(5)</sup>	\$ 26,746	\$ 48,640	\$ 46,122
FFO per share <sup>(5)</sup>	\$ 0.47	\$ 0.87	\$ 0.85
Diluted FFO per share <sup>(5)</sup>	\$ 0.45	\$ 0.73	\$ 0.73
Adjusted funds from operations (AFFO) <sup>(5)</sup>	\$ 25,047	\$ 42,693	\$ 41,223
AFFO per share <sup>(5)</sup>	\$ 0.44	\$ 0.77	\$ 0.76
Diluted AFFO per share <sup>(5)</sup>	\$ 0.41	\$ 0.64	\$ 0.65
Common share dividends declared	\$ —	\$ 10,120	\$ 39,764
Dividends declared per share	\$ —	\$ 0.18417	\$ 0.73668
Payout ratio <sup>(6)</sup>	— %	24 %	96 %
Effective payout ratio <sup>(6)</sup>	— %	17 %	78 %

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

(2) The Company's weighted average interest rates at December 31, 2021, 2020 and 2019 included \$553,546, \$584,973 and \$570,229, respectively, of the Company's debt that is fixed with interest rate swaps.

(3) This total represents the Company's share based on percentage of ownership.

(4) The Company's joint venture weighted average interest rate at December 31, 2021, 2020 and 2019 included \$89,231, \$114,589 and \$83,769, respectively, of the joint ventures debt that is fixed with interest rate swaps.

(5) 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.

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

**Results of Operations - Three and Twelve Months Ended December 31, 2021***(unless otherwise stated, amounts are in thousands of U.S. dollars)***Revenue**

	Three months ended December 31,		Year ended December 31,	
	2021	2020	2021	2020
Contractual rental revenue	\$ 12,424	\$ 17,234	\$ 58,734	\$ 68,436
Straight-line rent adjustments	1,219	1,304	6,189	6,394
Amortization of tenant inducements	(100)	(98)	(447)	(385)
Property tax recoveries	3,457	2,377	14,748	12,705
CAM recoveries	1,047	761	3,428	2,962
<b>Total rental revenue</b>	<b>18,047</b>	<b>21,578</b>	<b>82,652</b>	<b>90,112</b>
Resident rental and related revenue	31,532	30,968	120,152	120,407
Lease revenue from joint ventures	878	817	3,529	3,118
Other revenue	1,146	1,017	4,117	3,750
<b>Total revenue</b>	<b>\$ 51,603</b>	<b>\$ 54,380</b>	<b>\$ 210,450</b>	<b>\$ 217,387</b>

Contractual rentals received and straight-line rent adjustments relate to lease agreements under which the Company leases its investment properties to its tenants. Property tax recoveries represent the revenue recognized for the real estate taxes for which the tenants are primarily responsible to pay. CAM recoveries represent the recovery of common area maintenance expenses in investment properties that are not triple-net leased, primarily within the Company's medical office building portfolio. The decrease in contractual rental revenue for the three and twelve months ended December 31, 2021 as compared to the prior year periods is due to the sale of eight properties during the current year and the restructuring of current tenant leases, partially offset by annual rent escalators.

Resident rental and related revenue relates to operating revenue at the wholly owned properties that are managed by Commonwealth, Heritage, and Phoenix, in which the Company owns the operations as well as the real estate. This revenue consists of rental revenue and service revenue paid by residents in the Company's owner occupied properties.

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

Other revenue includes management fee income earned from communities managed by Commonwealth but that are not owned by the Company. Commonwealth currently manages four properties that are not owned by the Company. Other revenue also includes parking revenue earned in the Company's medical office building portfolio.

**Other income**

Other income for the three and twelve months months ended December 31, 2021 relates to government grant funding received related to COVID-19 relief of \$1,600 and \$3,730, respectively (three and twelve months ended December 31, 2020 - \$821 and \$3,415, respectively).

### Direct Property Operating Expenses

Direct property operating expenses consist of the following:

	Three months ended December 31, 2021			Three months ended December 31, 2020		
	Owner occupied properties	Medical office buildings	Total	Owner occupied properties	Medical office buildings	Total
Number of properties	35	15	50	36	15	51
Repairs and maintenance	\$ 764	\$ 405	\$ 1,169	\$ 634	\$ 421	\$ 1,055
Utilities	1,028	364	1,392	965	431	1,396
Property management fees	—	133	133	—	112	112
Compensation and benefits	16,504	—	16,504	15,533	—	15,533
Other services and supplies	1,713	332	2,045	1,584	265	1,849
Real estate taxes	689	—	689	538	—	538
Other	5,470	308	5,778	4,499	318	4,817
	\$ 26,168	\$ 1,542	\$ 27,710	\$ 23,753	\$ 1,547	\$ 25,300

	Year ended December 31, 2021			Year ended December 31, 2020		
	Owner occupied properties	Medical office buildings	Total	Owner occupied properties	Medical office buildings	Total
Number of properties	35	15	50	36	15	51
Repairs and maintenance	\$ 2,794	\$ 1,641	\$ 4,435	\$ 2,436	\$ 1,649	\$ 4,085
Utilities	3,972	1,499	5,471	3,709	1,381	5,090
Property management fees	—	584	584	—	536	536
Compensation and benefits	60,762	—	60,762	59,279	—	59,279
Other services and supplies	6,546	1,130	7,676	6,680	994	7,674
Real estate taxes	2,517	—	2,517	2,272	—	2,272
Other	19,994	1,329	21,323	15,668	901	16,569
	\$ 96,585	\$ 6,183	\$ 102,768	\$ 90,044	\$ 5,461	\$ 95,505

The direct property operating expenses relate to expenses at the 15 multi-tenant medical office buildings and the Company's 35 owner occupied properties. As of December 31, 2021, the owner occupied properties include 29 properties operated by Commonwealth, five properties operated by Phoenix, and one property operated by Heritage. The increase in the three months ended December 31, 2021 compared to prior year period is primarily due to an increase in COVID-19 pandemic related costs at the properties and increases in the cost of labor. The increase in the three and twelve months ended December 31, 2021 compared to prior year period is primarily due to the consolidation of the assets operated by Phoenix on May 6, 2020. For the year ended December 31, 2021, the Company incurred \$1,071 and \$3,220, respectively (three and twelve months ended December 31, 2020 - \$464 and \$1,507, respectively), of additional direct property operating costs incurred due to the COVID-19 pandemic as a result of increased supplies and personal protective equipment. For the three and twelve months ended December 31, 2021, the Company's owner occupied direct property operating expense, excluding COVID-19 expenses, as a percentage of total resident rental and related revenue was 79.6% and 77.7%, respectively (three and twelve months ended December 31, 2020 - 76.7% and 74.8% respectively).

### Depreciation and Amortization Expense

For the three and twelve months ended December 31, 2021, depreciation and amortization expense was \$4,017 and \$22,152, respectively (three and twelve months ended December 31, 2020 - \$11,963 and \$48,569), which relates to the straight-line depreciation over the useful life of the Company's property, plant and equipment relating to the owner occupied properties. The Company amortizes the value of in place leases over the estimated lease up term in the corresponding building.

**Finance Costs from Operations**

Finance costs from operations consist of the following:

	Three months ended December 31,		Year ended December 31,	
	2021	2020	2021	2020
Interest expense on credit facilities	\$ 3,581	\$ 4,528	\$ 16,106	\$ 20,496
Interest expense on mortgages payable	1,955	2,736	9,474	11,121
Interest expense on convertible debentures	1,312	1,312	5,249	5,248
Distributions on exchangeable units	—	—	—	62
Dividends on Commonwealth preferred units	1,108	1,140	4,388	4,376
Amortization and accretion expense	1,712	940	5,290	3,997
Interest rate swap payments	2,516	2,666	10,277	7,747
Debt extinguishment costs	71	—	1,016	—
Write-off of deferred financing costs from refinancing	—	—	—	67
Amortization of mark-to-market debt adjustments	(732)	(29)	(111)	(330)
Interest income from loans receivable	(386)	(340)	(1,468)	(2,983)
	\$ 11,137	\$ 12,953	\$ 50,221	\$ 49,801

Finance costs are primarily related to interest and amortization on the Company's credit facilities and mortgages payable. Interest expense on credit facilities decreased in the three and twelve months ended December 31, 2021 as compared to the prior year periods due to the decrease in LIBOR rate, which is offset by the increase in interest rate swap payments. Interest expense on mortgages payable decreased in the three and twelve months ended December 31, 2021 as compared to the prior year periods due to the repayment of mortgages due to the sale of properties and repayment of mortgages that were put on the Credit Facility (defined below). Debt extinguishment costs incurred in the three and twelve months ended December 31, 2021 are due to a prepayment penalty in conjunction with mortgage refinances. The Commonwealth preferred units issued to fund the Commonwealth transactions earn an initial dividend rate of 6.50% per annum.

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

For the three and twelve months ended December 31, 2021, real estate tax expense was \$759 and \$16,715, respectively (three and twelve months ended December 31, 2020 - \$(626) and \$13,488, respectively), which represents property tax expensed for the period for properties owned on the tax assessment date (generally January 1), in accordance with the provisions of *IFRIC 21, Levies*. Real estate taxes are recovered from the Company's tenants under the provisions of their triple-net leases. The decrease in real estate tax expense as compared to the prior year period is primarily due to the decrease in estimated taxes at certain properties. Real estate tax expense on the Company's owner occupied properties is included in direct property operating expenses in the consolidated statements of loss and comprehensive loss.

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

	Three months ended December 31,		Year ended December 31,	
	2021	2020	2021	2020
Property tax recoveries	\$ 3,457	\$ 2,377	\$ 14,748	\$ 12,705
Real estate tax expense	(759)	626	(16,715)	(13,488)
Change in fair value of investment properties - IFRIC 21	(2,889)	(3,221)	1,226	57
	\$ (191)	\$ (218)	\$ (741)	\$ (726)



## General and Administrative Expenses

General and administrative expenses consist of the following:

	Three months ended December 31, 2021			Three months ended December 31, 2020		
	Corporate	CSL	Total	Corporate	CSL	Total
Compensation and benefits	\$ 1,687	\$ 1,599	\$ 3,286	\$ 1,498	\$ 1,513	\$ 3,011
Asset management and administrative fees	—	—	—	4	—	4
Professional fees	1,094	—	1,094	873	—	873
Deferred share compensation	173	—	173	547	—	547
Bad debt expense	153	—	153	112	—	112
Other	524	148	672	182	227	409
	\$ 3,631	\$ 1,747	\$ 5,378	\$ 3,216	\$ 1,740	\$ 4,956

	Year ended December 31, 2021			Year ended December 31, 2020		
	Corporate	CSL	Total	Corporate	CSL	Total
Compensation and benefits	\$ 5,310	\$ 6,102	\$ 11,412	\$ 5,549	\$ 5,883	\$ 11,432
Asset management and administrative fees	7	—	7	235	—	235
Professional fees	3,854	—	3,854	3,474	—	3,474
Deferred share compensation	794	—	794	1,066	—	1,066
Bad debt expense	1,139	—	1,139	1,838	—	1,838
Other	1,910	1,026	2,936	1,678	816	2,494
	\$ 13,014	\$ 7,128	\$ 20,142	\$ 13,840	\$ 6,699	\$ 20,539

Compensation and benefits expense includes the cost of salaries, bonuses, and benefits during the period. The decrease in compensation and benefits for the twelve months ended December 31, 2021 as compared to the prior year period is primarily due to a decrease in total headcount at Corporate.

Asset management fees relate to the contractual fee due under a asset management agreements with respect to the medical office building portfolio.

Professional fees is comprised of costs incurred for external legal counsel, accounting fees and other professional services. The increase in professional fees for the twelve months ended December 31, 2021 as compared to prior year periods is due to an increase in external legal costs.

The decrease in deferred share compensation expense for the three months ended December 31, 2021 is primarily due to the revaluing of equity settled deferred shares due to a decline in number of shares estimated to be issued with the plan.

Bad debt expense is due to a reserve recorded against aged rents receivable. The Company has recorded a reserve based on an estimated probability of collection. Bad debt expense for the three and twelve months December 31, 2021 was due to the estimated uncollectible rent for the consolidated property located in Webster, TX operated by Bridgemoor.

Other general and administrative expense primarily includes cost of insurance, fees earned by directors of the Company, travel and entertainment expense, franchise and licensure taxes, investor relations, marketing, foreign exchange loss (gain), and administrative expenses at Commonwealth management company ("CSL").

### ***Allowance for Credit Losses on Loans and Interest Receivable***

Allowance (recovery) for credit losses on loans and interest receivable for the three and twelve months ended December 31, 2021 was \$530 and \$1,196, respectively (three and twelve months ended December 31, 2020 - \$3,395 and \$23,546). The losses and recoveries are related to a change in estimated credit losses with respect to loans receivable and related interest receivables. The Company applies a three-stage approach to measure allowance for credit losses. Loss allowance is measured at an amount equal to 12 months of expected losses for performing loans (Stage 1) and at an amount equal to lifetime expected credit losses on performing loans that have seen a significant increase in credit risk since origination (Stage 2) and at an amount equal to lifetime expected credit losses for loans considered to be credit impaired (Stage 3). Certain borrowers have experienced negative impacts to operations due in part to the COVID-19 pandemic, and the Company has accordingly ascribed a higher risk rating to these outstanding loans.

### ***Change in Non-controlling Interest Liability***

The change in non-controlling interest liability was a decrease of \$108 and \$379, respectively, for the three and twelve months ended December 31, 2021 (three and twelve months ended December 31, 2020 - \$107 increase and \$316 increase, respectively). These costs are the result of the portion of net income attributed to the non-controlling interest partners of the consolidated properties, and the decrease during the three and twelve months ended December 31, 2021 from the prior year period is primarily due to non-cash fair value adjustments.

### ***Change in Fair Value of Investment Properties***

The change in fair value of investment properties for the three and twelve months ended December 31, 2021 was a decrease of \$6,051 and \$22,152, respectively (three and twelve months ended December 31, 2020 - \$28,301 decrease and \$100,388 decrease, respectively). The change in fair value of investment properties was primarily driven by an adjustment to record investment properties at fair value based on the Company's estimate of fair value using level 3 inputs as of December 31, 2021. The adjustment for the current year periods is primarily driven by changes in discounted cash flow forecasts of certain properties.

### ***Change in Impairment of Property, Plant and Equipment***

The change in impairment of property, plant and equipment is due to an impairment charge taken on two properties in the Company's portfolio of owner occupied properties. The impairment recorded in the fourth quarter of 2021 represents an adjustment to the property, plant and equipment values to reflect management's estimate of the assets' recoverable amount.

### ***Change in Fair Value of Financial Instruments***

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

	Three months ended December 31,		Year ended December 31,	
	2021	2020	2021	2020
Change in fair value of interest rate swaps	\$ (6,334)	\$ (3,098)	\$ (16,560)	\$ 20,907
Change in fair value of prepayment embedded derivatives	344	426	1,426	(1,823)
Fair value gain on convertible debentures	(7,200)	—	(7,200)	—
Change in fair value of loans receivable	—	—	474	—
<b>Total loss (income) from change in fair value of financial instruments</b>	<b>\$ (13,190)</b>	<b>\$ (2,672)</b>	<b>\$ (21,860)</b>	<b>\$ 19,084</b>

The change in fair value of financial instruments for the three and twelve months ended December 31, 2021 and 2020 was due primarily to the change in fair value of interest rate swaps due to changes in variable interest rates that underlie the corresponding interest rate swaps. Interest rate swaps are used to manage interest costs on debt. The Company does not apply hedge accounting to its interest rate swaps, and as a result they are marked to fair value each reporting period through finance costs in the consolidated statements of loss and other comprehensive loss. The change in fair value of financial instruments is also due to the change in fair value of prepayment embedded derivatives on certain mortgages payable due to changes in market interest rates and the change in fair value of loans receivable due to estimated collectibility.

### Change in Fair Value of Contingent Consideration

Change in fair value of contingent consideration for the three and twelve months ended December 31, 2021 was \$1,263 recovery and \$(258) expense, respectively (three and twelve months ended December 31, 2020 - \$2,254 expense and \$5,510 expense). Pursuant to the Commonwealth purchase agreement, the Company may be required to fund one or more earnout payments relating to six communities that had not yet reached stabilization at the time of acquisition by the Company. These earnout payments are only payable in the event specific occupancy and EBITDAR thresholds have been satisfied, and must be met prior to the third anniversary of closing at which time the earn-out payment obligation will cease to exist. The earnout payments, when funded, will consist of a combination of cash and additional preferred interests. As at December 31, 2021, the Company recorded a liability of \$1,996 in the financial statements associated with the future commitment relating to the remaining five communities based on the weighted average probably of earnout payments owed using estimated future results at the properties.

### Loss from Joint Ventures

	Three months ended December 31,		Year ended December 31,	
	2021	2020	2021	2020
Revenue	\$ 8,473	\$ 8,867	\$ 34,086	\$ 40,457
Other income	1,114	335	1,243	1,294
Property operating expense	(5,758)	(5,719)	(22,417)	(25,536)
Depreciation expense	(136)	(139)	(543)	(546)
Finance costs	(1,900)	(1,686)	(6,818)	(6,591)
Real estate tax expense	(161)	(216)	(902)	(974)
General and administrative expenses	(1,364)	(562)	(3,980)	(1,974)
Allowance for credit losses on loans and interest receivable	—	(199)	(577)	(11,957)
Change in fair value of financial instruments	1,192	546	3,112	(3,603)
Change in fair value of investment properties	(16,266)	(3,570)	(18,110)	(25,299)
Income (loss) from joint ventures	\$ (14,806)	\$ (2,343)	\$ (14,906)	\$ (34,729)

Income (loss) from joint ventures represents the Company's share of net loss from unconsolidated entities. On May 6, 2020, the Company obtained control of 5 of the joint venture properties and consolidated their results. On May 6, 2020, the Company sold a joint venture community located in Eatonton, GA. On May 11, 2020, the Company sold a joint venture community located in Tampa, FL. On October 29, 2021, the Company contributed an investment property located in Webster, Texas to the Jaguarundi Ventures, LP joint venture in exchange for an increase in its joint venture ownership interest to approximately 66%. The increase in income from joint ventures during the three and twelve months ended December 31, 2021 is primarily due to an increase in the fair value of investment property offset by decreased performance at the SHOP properties associated with low occupancy and bad debt expense recorded on the Bridgemoor assets for estimated uncollectible rent.

### 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. The deferred tax asset value is limited based on the probability of realizing the future benefits. 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 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, 2021 of \$87 loss and \$303 gain, respectively (three and twelve months ended December 31, 2020 - \$2,845 gain and \$1,072 loss, 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***

	Year ended December 31,	
	2021	2020
Cash provided by operating activities	\$ 18,680	\$ 25,090
Cash used in financing activities	(152,632)	(5,778)
Cash provided by investing activities	119,188	2,983
Increase (decrease) in cash and cash equivalents	\$ (14,764)	\$ 22,295

#### *Cash Provided by Operating Activities*

Cash provided by operating activities decreased during the twelve month period ended December 31, 2021 as compared to the prior year period. The changes were primarily due to a decrease in triple net rent collected due to decrease in number of properties owned, decreased operating cash flow at the owner occupied properties, and a debt extinguishment costs paid of \$1,016.

#### *Cash Used in Financing Activities*

Cash used in financing activities for the twelve month period ended December 31, 2021 was \$152,632 as compared to cash used in financing activities of \$5,778 in the prior year period. The current period cash used in financing activities was primarily driven by net payments on the credit facilities and mortgages payable of \$228,072 and debt issuance costs of \$648.

Cash used in financing activities in the twelve month period ended December 31, 2020 was primarily driven by cash dividends paid of \$9,976 offset by net proceeds from credit facilities and mortgages payable of \$5,945.

#### *Cash Provided by Investing Activities*

Cash provided by investing activities for the twelve months ended December 31, 2021 was \$119,188. This was primarily due to dispositions of investment properties of \$112,960 offset by additions of property, plant and equipment of \$7,575, distributions from joint ventures of \$16,083, contributions to joint ventures of \$4,283 and distributions made to non-controlling interest partners of \$2,709.

Cash provided by investing activities for the twelve months ended December 31, 2020 was primarily due to the proceeds from the sale of property, plant and equipment of \$15,563, proceeds from sale of interest in joint venture of \$1,447, cash balance acquired in business combination of \$2,081, and \$3,803 of distributions made from joint ventures offset by \$11,269 used for additions of property, plant and equipment and \$8,390 used for capital expenditures of investment property. The Company received \$4,105 as repayment of loans receivable.

## Financial Position

Total assets of \$1,301,011 are comprised primarily of \$716,344 of investment properties, which represents the estimated fair market value of the Company's portfolio of properties, including capital expenditures, and \$432,001 of property, plant and equipment, net of \$85,359 of accumulated depreciation as at December 31, 2021. Cash on hand at December 31, 2021 was \$19,369, net loans receivable were \$21,695, investments in joint ventures were \$50,440, total derivative assets were \$3,388, and other assets were \$17,982. Total gross loans receivable of \$28,024 is offset by an allowance for losses on loans receivable of \$6,329. Gross loans receivable includes \$7,404 of gross loans made to the tenant operator Symcare. Other assets primarily consisted of \$4,605 of escrows held by lenders, \$2,124 of prepaid expense, \$1,470 of right-of-use asset, \$760 of bond assets and \$1,096 of other costs. In addition, current assets include tenant and other receivables of \$5,593, real estate tax receivables of \$12,892, and assets held for sale of \$21,307. The loans receivable balance related mainly to the issuance of loans for the development and operation of seniors housing and care properties in the United States and Canada.

Total liabilities of \$1,014,754 includes current liabilities of \$91,058 (see "Liquidity and Capital Resources" for additional information) and non-current liabilities of \$923,696. The current liabilities included \$13,671 of real estate taxes payable. Accounts payable and accrued liabilities represented \$17,356 of the balance in current liabilities. In addition, current liabilities included \$34,876 representing the current portion of mortgages payable, net of loan fees. Non-current liabilities included \$178,947 representing the non-current portion of mortgages payable, net of loan fees; \$596,471 representing the non-current balance outstanding on the credit facilities, net of loan fees; \$62,979 of the convertible debentures, net of fees; \$66,239 of Commonwealth preferred unit liability; \$10,439 of derivative liability; and \$293 of non-controlling interest liability. Other non-current liabilities of \$8,328 primarily consisted of security deposits received from tenants, lease liability, loan commitment liability, earn-out payable, 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, 2020 through December 31, 2021:

	Three months ended December 31, 2021	Three months ended September 30, 2021	Three months ended June 30, 2021	Three months ended March 31, 2021	Three months ended December 31, 2020	Three months ended September 30, 2020	Three months ended June 30, 2020	Three months ended March 31, 2020
Revenue	\$ 51,603	\$ 52,949	\$ 52,227	\$ 53,671	\$ 54,380	\$ 55,429	\$ 53,687	\$ 53,891
Other income	1,600	—	2,023	107	821	2,529	65	—
Direct property operating expenses	27,710	26,124	23,871	25,063	25,300	24,391	23,191	22,623
Depreciation and amortization expense	4,017	4,722	5,718	7,695	11,963	12,581	11,537	12,488
Finance costs	11,137	12,120	13,119	13,845	12,953	12,160	12,504	12,184
Real estate tax expense	759	2,728	(189)	13,417	(626)	407	383	13,324
General and administrative expenses	5,378	3,115	4,515	7,134	4,956	4,858	6,244	4,481
Transaction costs for business combination	—	—	—	—	—	(237)	—	407
Allowance for credit losses on loans and interest receivable	530	(19)	(480)	1,165	3,395	13,056	5,560	1,535
Changes in non-controlling interest liability	(108)	(225)	4	(50)	107	41	119	49
Change in fair value of investment properties - IFRIC 21	2,889	2,418	3,271	(9,804)	3,221	3,206	3,215	(9,699)
Change in fair value of investment properties	6,051	11,045	7,167	(2,111)	28,301	39,699	13,739	18,649
Change in fair value of financial instruments	(13,190)	(2,196)	(2,857)	(3,617)	(2,672)	(2,131)	346	23,541
Change in fair value of contingent consideration	(1,263)	(192)	1,197	—	2,254	3,256	—	—
Loss on sale of property, plant and equipment	(1,160)	(40)	(14)	—	21	—	23	118
Income (loss) from joint ventures	(14,806)	1,569	(2,428)	759	(2,343)	(7,420)	(6,900)	(18,066)
Deferred income tax expense (recovery)	—	—	—	—	—	—	—	(6,944)
Net income (loss)	(5,453)	(5,082)	(3,500)	1,800	(36,315)	(60,749)	(30,009)	(56,931)
Income (loss) per share: Basic <sup>(1)</sup>	\$ (0.10)	\$ (0.09)	\$ (0.06)	\$ 0.03	\$ (0.65)	\$ (1.09)	\$ (0.54)	\$ (1.04)
Income (loss) per share: Diluted	\$ (0.10)	\$ (0.09)	\$ (0.06)	\$ 0.03	\$ (0.65)	\$ (1.09)	\$ (0.54)	\$ (1.04)
Funds from operations <sup>(1)</sup>	5,996	5,643	10,075	5,032	10,429	13,728	10,453	14,007
Funds from operations per share: Basic <sup>(1)</sup>	\$ 0.11	\$ 0.10	\$ 0.18	\$ 0.09	\$ 0.19	\$ 0.25	\$ 0.19	\$ 0.25
Funds from operations per share: Diluted <sup>(1)</sup>	\$ 0.10	\$ 0.10	\$ 0.15	\$ 0.09	\$ 0.16	\$ 0.20	\$ 0.16	\$ 0.21
Adjusted funds from operations <sup>(1)</sup>	5,317	4,766	9,286	5,677	9,522	12,499	9,380	11,317
Adjusted funds from operations per share: Basic <sup>(1)</sup>	\$ 0.09	\$ 0.08	\$ 0.16	\$ 0.10	\$ 0.17	\$ 0.22	\$ 0.17	\$ 0.21
Adjusted funds from operations per share: Diluted <sup>(1)</sup>	\$ 0.09	\$ 0.07	\$ 0.14	\$ 0.10	\$ 0.15	\$ 0.18	\$ 0.14	\$ 0.17

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

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

## Liquidity and Capital Resources

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

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

The Company expects to meet its working capital requirements with respect to accounts payable and accrued liabilities through cash on hand and operating cash flows. As at December 31, 2021, current liabilities totaled \$91,058, exceeding current assets of \$76,549, resulting in a working capital deficit of \$14,509. 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 on hand of \$19,369, (ii) cash flow generated from operations, (iii) credit facilities, under which \$47,447 was available as at December 31, 2021, (iv) property specific mortgages and refinancings, (v) strategic sale of assets, (vi) issuance of preferred shares, (vii) issuance of convertible debentures, (viii) issuance of common shares, subject to market conditions, and (ix) alternative financing sources.

In addition, liquidity risk is managed in part through cash forecasting. The Company monitors forecasts of liquidity requirements to ensure it has the ability to meet operational needs by maintaining sufficient availability of the combination of cash and credit facility capacity, and by ensuring the Company will meet its financial covenants related to debt agreements. Such forecasting involves a significant degree of judgment which takes into consideration current and projected macroeconomic conditions, the Company's cash collection efforts, debt financing and refinancing plans, and covenant compliance required under the terms of debt agreements. There is a risk that such liquidity forecasts may not be achieved and that currently available debt financing may no longer be available to the Company at terms and conditions that are favorable, or at all.

The Company announced on April 10, 2020 that it has suspended the dividend for all common shares beginning from April 1, 2020 until further notice. To further enhance its liquidity position, the Company is analyzing a variety of options to reduce or defer non-essential capital expenditures and to reduce corporate-level costs, some of which have already been implemented.

On November 4, 2020, the Company entered into an agreement to modify the credit facility with a \$400,000 capacity, comprised of a \$200,000 term loan and a \$200,000 revolving line of credit (the "Credit Facility"). Per the amendment, the Credit Facility permanently converted to a facility secured by pledges of equity in properties making up a borrowing base. The minimum fixed charge coverage ratio covenant will permanently decrease from 1.75 to 1.60. Per the agreement, the Company is granted a surge period effective with the quarterly reporting period ended September 30, 2020 through June 30, 2021. During the surge period, the consolidated leverage ratio covenant increased from 60% to 65%, the advance rate increased from 60% to 65% of the borrowing base, the applicable margin for LIBOR loans increased 15 basis points, and the implied interest rate used to calculate the debt service coverage amount decreased from 6.0% to 5.75%. Per the agreement, the surge period ended June 30, 2021. On December 31, 2021, the Company entered into an agreement to modify the Credit Facility, in which the maturity date for the revolving line of credit was permanently extended from December 20, 2022 to December 20, 2023. The minimum fixed charge coverage ratio covenant was permanently decreased from 1.60x to 1.50x. Per the agreement, the Company also agreed to an ongoing \$25,000 liquidity requirement as well as a limitation on gross dividends that can be declared during 2022 and 2023. These changes are effective with the reporting period ended December 31, 2021.

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

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

### *Preferred Equity*

The Company entered into subscription agreements in prior periods with respect to the issuance of class A convertible preferred shares to affiliates of Magnetar for aggregate gross proceeds of \$86,050, funded in multiple series. The purpose of the transaction was to raise proceeds to be used for the repayment of debt, general working capital purposes and to fund future acquisitions. The Company issued 9,098,598 preferred shares.

As at December 31, 2021, the Preferred Shares are convertible into 11,346,122 common shares of the Company. The weighted average accretion rate of the four series of preferred shares is 6.32%.

## **Debt Strategy and Indebtedness**

### *Debt Strategy*

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

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



## Indebtedness

	Principal Amount	Weighted Average Interest Rate	Years to Maturity <sup>(2)</sup>
<b>Fixed Rate Indebtedness</b>			
Credit Facility Term	\$ 200,000	4.3 % <sup>(1)</sup>	2.0
Credit Facility Revolver	25,000	4.8 % <sup>(1)</sup>	2.0
Credit Facility Revolver	50,000	4.3 % <sup>(1)</sup>	2.0
MOB Facility	67,404	4.3 % <sup>(1)</sup>	1.3
Commonwealth Facility	176,000	3.8 % <sup>(1)</sup>	2.6
Mortgages payable	155,297	4.0 % <sup>(1)</sup>	7.7
2016 Convertible Debentures	20,000	5.0 %	0.1
2016 Convertible Debentures	24,975	5.0 %	3.1
2018 Convertible Debentures	50,000	6.0 %	1.7
	<u>768,676</u>	<u>4.4 %</u>	<u>3.2</u>
<b>Variable Rate Indebtedness</b>			
Credit Facility Revolver	\$ 55,688	2.3 %	2.0
MOB Facility	21,286	2.3 %	1.3
Commonwealth Facility	4,453	2.3 %	2.6
Mortgages payable	55,113	3.5 %	2.4
	<u>136,540</u>	<u>2.8 %</u>	<u>2.0</u>
Total indebtedness	\$ 905,216	4.1 %	3.0
Less loan fees and issue costs, net of amortization and accretion	(4,775)		
Equity component of convertible debentures, excluding issue costs and taxes	(4,990)		
Mark-to-market adjustment, net	(1,705)		
Carrying amount	<u>\$ 893,746</u>		

(1) Weighted average interest rates include debt that is fixed with interest rate swaps.

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

*Joint Venture Indebtedness*

	Principal Amount	Weighted Average Interest Rate	Years to Maturity
Fixed rate mortgages payable	\$ 150,900	4.3 % <sup>(1)</sup>	3.2
Variable rate mortgages payable	500	3.8 %	1.2
Total Indebtedness	\$ 151,400	4.3 %	3.2
Less loan fees, net of amortization	(1,053)		
Carrying amount	\$ 150,347		
Company's share of carrying amount	\$ 116,948		

(1) Weighted average interest rates include debt that is fixed with interest rate swaps.

*2016 Convertible Debentures*

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

On November 15, 2021, a meeting of holders of the 2016 Convertible Debentures was held whereby the holders of 2016 Convertible Debentures ("2016 Debentureholders") approved amendments to the 2016 Convertible Debentures, including the following:

1. Increase the interest rate from 5.00% to 7.00%, effective January 31, 2022.
2. Decrease the conversion price from \$11.00 to \$5.00 per share.
3. Extend the maturity date from January 31, 2022 to January 31, 2025.
4. Approves the redemption of \$20,000 of the principal amount of the 2016 Convertible Debentures as of the close of business on January 31, 2022.

On January 31, 2022 (the "Redemption Date"), the Company redeemed \$20,000 of the principal amount of the 2016 Convertible Debentures outstanding plus accrued and unpaid interest (at 5.00%) thereon. In accordance with the Debenture Amendments, the interest rate on the remaining 2016 Convertible Debentures was increased to 7.00% effective January 31, 2022.

*2018 Convertible Debentures*

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

*Debt to Total Assets*

Debt to total assets is calculated by dividing the total consolidated indebtedness, net of loan costs, by the total consolidated assets of the Company. The Company's debt to total assets, after adding back accumulated depreciation is 64.9%. It is important to note that this metric includes changes in fair value of the Company's investment properties. The Company also tracks and monitors a similar metric for its Credit Facility, where consolidated assets is calculated using the total undepreciated purchase price of the Company's real estate, as defined in the agreement. At December 31, 2021, the Company's consolidated debt is 57.2% of total assets under the terms of the Credit Facility agreement. This is the pertinent metric for the Company's Credit Facility.

Fixed rate debt represented approximately 84.9% 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 twelve month period ended December 31, 2021, the fixed charge coverage ratio of the Company was 1.62. We anticipate that this ratio will increase due to future transactions including the buy down of debt, debt refinancings and improved operating performance.

### *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, 2021, including expected interest payments, is as follows:

	Total	2022	2023	2024	2025	2026	Thereafter
Credit facilities principal	\$599,831	\$ 795	\$421,854	\$177,182	\$ —	\$ —	\$ —
Mortgages payable principal	210,410	34,877	52,338	40,327	24,922	1,367	56,579
Convertible debentures principal	94,975	20,000	50,000	—	24,975	—	—
Commonwealth preferred unit liability principal <sup>(1)</sup>	67,381	—	—	67,381	—	—	—
<b>Total principal</b>	<b>\$972,597</b>	<b>\$ 55,672</b>	<b>\$524,192</b>	<b>\$284,890</b>	<b>\$ 49,897</b>	<b>\$ 1,367</b>	<b>\$ 56,579</b>
Percentage of total	100.0 %	5.8 %	53.9 %	29.3 %	5.1 %	0.1 %	5.8 %
Credit facilities interest	\$ 47,838	\$ 23,306	\$ 20,621	\$ 3,911	\$ —	\$ —	\$ —
Mortgages payable interest	37,202	7,146	5,486	3,914	2,463	2,163	16,030
Convertible debentures interest	12,365	4,995	4,748	1,748	874	—	—
Commonwealth preferred unit liability interest	12,753	4,404	4,574	3,775	—	—	—
Accounts payable and accrued liabilities	17,356	17,356	—	—	—	—	—
Accrued real estate taxes	13,671	13,671	—	—	—	—	—
Other current liabilities	3,787	3,787	—	—	—	—	—
Other non-current liabilities	8,328	3,188	619	436	126	—	3,959
<b>Total other commitments</b>	<b>\$153,300</b>	<b>\$ 77,853</b>	<b>\$ 36,048</b>	<b>\$ 13,784</b>	<b>\$ 3,463</b>	<b>\$ 2,163</b>	<b>\$ 19,989</b>
<b>Total commitments</b>	<b>\$1,125,897</b>	<b>\$133,525</b>	<b>\$560,240</b>	<b>\$298,674</b>	<b>\$ 53,360</b>	<b>\$ 3,530</b>	<b>\$ 76,568</b>

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

The credit facilities have an outstanding balance of \$597,266 as of December 31, 2021.

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

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

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

## 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, 2021.

## Transactions Between Related Parties

The Company entered into subscription agreements in 2017, 2018 and 2019 in respect of the issuance of class A convertible preferred shares to certain funds managed by Magnetar Financial LLC (collectively, "Magnetar"), a significant shareholder of the Company, funded in multiple series. The purpose of the transaction was to raise proceeds to be used for the repayment of debt, general working capital purposes and to fund future acquisitions. The Company issued 9,098,598 preferred shares for aggregate gross proceeds of \$86,050.

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

On July 26, 2019, the Company entered into a credit agreement with Magnetar for a principal amount of \$30,000, annual interest rate of 8.5%, and an initial maturity of one year with a one year extension option. On December 5, 2019, the Company repaid \$15,000 on the facility. On June 5, 2020, the Company gave notice of intent to exercise the one year extension option and per the credit agreement the interest rate will increase to 9.0%. On June 16, 2020, the Company repaid \$5,000 on the facility. On June 22, 2021, the company repaid the remaining \$10,000 on the facility.

### **Critical Accounting Estimates**

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

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

#### *Change in fair value of investment properties:*

The significant assumptions used when determining the fair value of investment properties in use are capitalization rates and stabilized future cash flows. The capitalization rate applied is reflective of the characteristics, location and market of each investment property. The stabilized future cash flows of each investment property are based upon rental income from current leases and assumptions about market rent from future leases reflecting current conditions, less future cash outflows relating to such current and future leases.

Management determines fair value internally utilizing internal financial information, external market data and capitalization rates provided by independent industry experts. As part of Management's internal valuation program, the Company also considers external valuations performed by independent national real estate valuation firms for a cross-section of properties that represent different geographical locations across the Company's portfolio and updates, as deemed necessary, the valuation models to reflect current market data.

#### *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 4 of the consolidated financial statements of the Company for the period ended December 31, 2020 for further information on estimates and assumptions made in determination of the impairment recorded on loans receivable.

### **Significant Accounting Policies and Changes in Accounting Policies**

A summary of significant accounting policies and changes in accounting policies is set forth in notes 1 and 2, respectively, of the consolidated financial statements for the year ended December 31, 2021.

### **Risks and Uncertainties**

See "Risk Factors" in the Company's 2021 AIF for a discussion of risks that could materially affect the Company, which risk factors are incorporated herein by reference.

## Controls and Procedures

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

### *Disclosure Controls and Procedures*

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

As of December 31, 2021, an evaluation was carried out, under the supervision of and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as defined under National Instrument 52-109. In making this assessment, the Chief Executive Officer and the Chief Financial Officer used the criteria set forth by the 2013 Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in Internal Control – Integrated Framework. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures were effective as of December 31, 2021.

### *Internal Controls Over Financial Reporting*

The Company is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance about the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision of the design of our internal controls over financial reporting as at December 31, 2021, 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, 2021 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting. We have not experienced any material impact to our internal control over financial reporting to date as a result of most of the employees of the Company working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 pandemic on our internal controls to minimize the impact to their design and operating effectiveness.

## Outstanding Shares

As of March 11, 2022, 56,384,775 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, 2025 and the last business day immediately preceding the date specified by the Company for redemption, at a conversion price of \$5.00 per common share. Subsequent to the \$20,000 paydown of the 2016 Convertible Debentures on January 31, 2022, if all outstanding 2016 Convertible Debenture were converted into common shares of the Company, it would result in the issuance of 5,000,000 additional common shares. Upon redemption or maturity, the Company may satisfy its obligations with respect to the convertible debentures in cash or the issuance of common shares based on 95% of the Current Market Price on the Redemption Date or Maturity Date, respectively.

Each 2018 Convertible Debenture is convertible into freely tradable common shares of the Company at the option of the holder on or after September 30, 2022, and prior to September 30, 2023 at a conversion price of \$10.70 per common share. If all outstanding 2018 Convertible Debenture were converted into common shares of the Company, it would result in the issuance of 4,672,897 additional common shares. Upon redemption or maturity, the Company may satisfy its obligations with respect to the convertible debentures in cash or the issuance of common shares based on 95% of the Current Market Price on the Redemption Date or Maturity Date, respectively.

As of March 11, 2022, there were 2,802,009 Series 1 Preferred Shares outstanding, 3,172,086 Series 2 Preferred Shares outstanding, 1,586,042 Series 3 Preferred Shares and 1,538,461 Class A Series 4 Preferred Shares. The Series 1 Preferred Shares, Series 2 Preferred Shares, Series 3 Preferred Shares, and Series 4 Preferred Shares are convertible into freely tradable common shares of the Company. As of March 11, 2022, assuming the voluntary conversion of all of the Series 1 Preferred Shares, Series 2 Preferred Shares, Series 3 Preferred Shares, and Series 4 Preferred Shares then outstanding, a total of 11,346,122 common shares would be issued.

As of March 11, 2022, assuming the voluntary conversion of all of the Exchangeable Units, a total of 327,869 common shares would be issued.

As of March 11, 2022, assuming the voluntary conversion of all of the Commonwealth preferred units, a total of 6,910,872 common shares would be issued.

## Financial Measures

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

### *Funds From Operations*

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

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

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



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

	Three months ended December 31,		Year ended December 31,	
	2021	2020	2021	2020
Net income for the period	\$ (5,453)	\$ (36,315)	\$ (12,235)	\$ (184,004)
Add/(deduct):				
Change in fair value of investment properties	8,940	31,522	20,926	100,331
Property taxes accounted for under IFRIC 21	(2,889)	(3,221)	1,226	57
Depreciation and amortization expense	3,995	11,940	22,063	48,500
Amortization of tenant inducements	100	98	447	385
Change in fair value of financial instruments	(13,190)	(2,672)	(21,860)	19,084
Change in fair value of contingent consideration	(1,263)	2,254	(258)	5,510
Loss on sale of property, plant and equipment	(1,160)	21	(1,214)	162
Impairment of property, plant and equipment	1,100	—	1,100	—
Deferred income tax recovery	—	—	—	(6,944)
Transaction costs for business combination	—	—	—	170
Allowance for credit losses on loans and interest receivable	530	3,395	1,196	23,546
Change in non-controlling interest liability in respect of the above	(152)	(132)	(497)	(322)
Adjustments for equity accounted entities	15,438	3,539	15,852	42,165
Funds from operations	\$ 5,996	\$ 10,429	\$ 26,746	\$ 48,640
Interest, amortization and accretion expense on convertible units <sup>(1)</sup>	2,756	2,793	11,016	11,050
Total diluted funds from operations	\$ 8,752	\$ 13,222	\$ 37,762	\$ 59,690
Weighted average number of shares, including fully vested deferred shares: Basic	56,412,206	56,034,723	56,312,407	55,699,307
Weighted average shares issued if all convertible units were converted <sup>(2)</sup>	29,677,526	26,490,440	27,545,697	26,118,595
Weighted average number of shares: Diluted	86,089,732	82,525,163	83,858,104	81,817,902
Funds from operations per share	\$ 0.11	\$ 0.19	\$ 0.47	\$ 0.87
Diluted funds from operations per share	\$ 0.10	\$ 0.16	\$ 0.45	\$ 0.73

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

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

*Adjusted Funds From Operations*

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

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

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

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

	Three months ended December 31,		Year ended December 31,	
	2021	2020	2021	2020
Cash flows provided by (used in) operating activities	\$ 7,362	\$ 7,529	\$ 18,680	\$ 25,090
Change in non-cash working capital	(1,840)	616	5,104	11,402
Less: interest expense <sup>(1)</sup>	(10,171)	(12,065)	(44,221)	(46,304)
Less: change in non-controlling interest liability	108	(107)	379	(316)
Plus: loss from joint ventures	(14,806)	(2,343)	(14,906)	(34,729)
Plus: interest paid	9,875	13,564	45,882	49,712
Less: interest received	(120)	(565)	(643)	(1,056)
Plus: debt extinguishment costs	71	—	1,016	—
Plus: transaction costs for business combination	—	—	—	170
Plus: non-cash portion of non-controlling interest expense	(156)	(103)	(505)	(332)
Plus: adjustments for equity accounted entities	15,652	3,281	16,791	41,185
Plus: deferred share incentive plan compensation	173	547	794	1,066
Plus: income support and development lease payments received	—	—	—	63
Plus: write-off of deferred financing costs from refinancing	—	—	—	67
Less: capital maintenance reserve	(831)	(832)	(3,324)	(3,325)
Adjusted funds from operations	\$ 5,317	\$ 9,522	\$ 25,047	\$ 42,693
Interest expense on convertible units <sup>(3)</sup>	2,420	2,452	9,637	9,686
Total diluted adjusted funds from operations	\$ 7,737	\$ 11,974	\$ 34,684	\$ 52,379
Weighted average number of shares, including fully vested deferred shares: Basic	56,412,206	56,034,723	56,312,407	55,699,307
Weighted average shares issued if all convertible unites were converted <sup>(4)</sup>	29,677,526	26,490,440	27,545,697	26,118,595
Weighted average number of shares: Diluted	86,089,732	82,525,163	83,858,104	81,817,902
Adjusted funds from operations per share	\$ 0.09	\$ 0.17	\$ 0.44	\$ 0.77
Diluted adjusted funds from operations per share	\$ 0.09	\$ 0.15	\$ 0.41	\$ 0.64
Dividends declared	—	—	—	10,120
Payout ratio <sup>(2)</sup>	— %	— %	— %	24 %
Effective payout ratio <sup>(2)</sup>	— %	— %	— %	17 %

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

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

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

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

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

## Cash Dividends

	Three months ended December 31,		Year ended December 31,	
	2021	2020	2021	2020
Cash flows provided by operating activities	\$ 7,362	\$ 7,529	\$ 18,680	\$ 25,090
Net loss	(4,353)	(36,315)	(12,235)	(184,004)
Total dividends declared	—	—	—	10,120
Excess of cash provided by operating activities over total dividends	7,362	7,529	18,680	14,970
Shortfall of net loss over total dividends	(4,353)	(36,315)	(12,235)	(194,124)

The Company announced on April 10, 2020 that it has suspended the dividend for all common shares beginning from April 1, 2020 until further notice. The suspension was announced in response to the COVID-19 pandemic in an effort to further enhance its liquidity position as it evaluates the impact of the pandemic.

## Operational Measures

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

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

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

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

Properties meeting the above criteria are generally considered stabilized.

A property may be considered unstabilized if:

1. It is a new development that is not yet complete,
2. It is not yet stabilized and is within 12 months of the above criteria,
3. It is newly acquired within the last 12 months,
4. It is undergoing a major renovation or has within the last 12 months,
5. An operator transition has occurred or a binding agreement to transfer operations has been signed within the last 12 months,
6. It is held for sale and/or slated for closure,
7. A significant tenant or the licensed operator or management company has filed for bankruptcy, which is either ongoing or has been resolved within the last 12 months,
8. It has experienced significant incident of casualty materially disrupting the operations / financial performance, or
9. It has experienced a change in reporting structure, such as an alteration from triple-net lease to SHOP reporting structure

The Company believes relevant metrics for evaluating the performance of the underlying operations in stable, triple-net leased assets include operator lease coverage and occupancy.

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

*NOI by Operating Segment*

The tables below are presented at the Company's proportionate share and displays trailing three and twelve months net operating income ("NOI") to the Company from its senior housing operating properties ("SHOP"), triple-net lease and medical office building portfolios for the three and twelve months ended December 31, 2021 and 2020.

	Three months ended December 31, 2021		Three months ended December 31, 2020	
	NOI	% of Total	NOI	% of Total
SHOP	\$ 7,656	36.5 %	\$ 8,113	30.6 %
NNN	11,633	55.5 %	17,000	64.1 %
MOB	1,677	8.0 %	1,406	5.3 %
	\$ 20,966	100.0 %	\$ 26,519	100.0 %

	Year ended December 31, 2021		Year ended December 31, 2020	
	NOI	% of Total	NOI	% of Total
SHOP	\$ 26,319	29.5 %	\$ 35,075	32.5 %
NNN	57,085	63.9 %	66,810	61.9 %
MOB	5,960	6.6 %	6,052	5.6 %
	\$ 89,364	100.0 %	\$ 107,937	100.0 %

*Triple-Net Lease Portfolio*

The Company's triple-net lease portfolio for the period ending December 31, 2021, consisted of 38 seniors housing and care properties which are leased to operators on a long-term, triple-net basis. Under a triple-net lease structure, the tenant operators assume the operational risks and expenses associated with operating the facility. The Company's triple-net leased portfolio as of December 31, 2021 had an average lease term to maturity, excluding renewal options, of approximately 11.3 years.

Approximately 93% of the Company's forward 12 month rent from unaffiliated tenants in the triple-net lease portfolio is currently subject to a master-lease or is subject to a lease where the Company has the right to consolidate multiple leases into a single master-lease.

The table below displays the Company's contractual rent for the twelve months ended December 30, 2021 and 2020.

	Contractual Rent, twelve months ended December 31, 2021 <sup>(1)</sup>	% of Total NNN Contractual Rent	Contractual Rent, twelve months ended December 31, 2020 <sup>(1)</sup>	% of Total NNN Contractual Rent
Symphony Post Acute	\$ 19,635	38.9 %	\$ 30,731	51.1 %
The Providence Group	5,416	10.7 %	4,513	7.5 %
Constant Care	5,237	10.4 %	4,626	7.7 %
Hillcrest Healthcare	3,780	7.5 %	3,729	6.2 %
Hearth Management	3,497	6.9 %	3,412	5.7 %
Other	12,908	25.6 %	13,075	21.8 %
Total	\$ 50,473	100.0 %	\$ 60,086	100.0 %

(1) Represents contractual rent for the respective time period.

The table below displays the Company's contractual forward twelve months rent for the period commencing January 1, 2022.

	Contractual Rent, forward twelve months for the period beginning January 1, 2022	% of Total Contractual Rent
Symphony Post Acute	\$ 14,337	33.0 %
The Providence Group	5,510	12.7 %
Constant Care	5,342	12.3 %
Cascade Capital Group	4,580	10.5 %
Hillcrest Healthcare	3,833	8.8 %
Other	9,824	22.7 %
<b>Total</b>	<b>\$ 43,426</b>	<b>100.0 %</b>

### Seniors Housing Operating Properties ("SHOP")

The Company's SHOP portfolio for the period ended December 31, 2021 consisted of 49 properties in which the Company wholly owns both the operations and the real estate of each community or owns an interest in both the operations and real estate through joint arrangements and where management services are provided to each community by a third-party management company.

Given the ownership structure of the Company's SHOP portfolio, the Company receives financial results from SHOP operators more timely and is able to highlight more recent trends. The following tables summarizes stabilized SHOP metrics for the three and twelve months ended December 31, 2021 and 2020:

	Three months ended December 31,		Year ended December 31,	
	2021	2020	2021	2020
NOI margin	25.9 %	28.0 %	25.1 %	28.9 %
Occupancy	77.5 %	78.0 %	75.9 %	80.9 %
Revenue per resident (in whole U.S. dollars)	\$ 4,497	\$ 4,342	\$ 4,445	\$ 4,259

The table above include all stabilized SHOP assets that were owned at the respective reporting periods. Also included in the above metrics are the operating results of stabilized assets that were previously owned as triple-net leased assets but have since been transitioned to SHOP.

### Medical Office Building Portfolio

The Company's medical office building portfolio consists of 15 multi-tenant medical office buildings in which the Company has full ownership of the property. The Company's stabilized medical office building portfolio consists of 11 properties through December 31, 2021 in the United States and Canada. The Company's stabilized medical office building portfolio has an average lease term to maturity, excluding renewal options, of 2.59 years.

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. The following table displays the occupancy of and NOI from the Company's medical office building portfolio for the three and twelve months ended December 31, 2021 and 2020.

	Three months ended December 31,		Year ended December 31,	
	2021	2020	2021	2020
Occupancy	81.4 %	81.2 %	81.2 %	84.6 %
Contractual rent	\$ 1,994	\$ 2,089	\$ 8,261	\$ 8,350
NOI	\$ 1,677	\$ 1,406	\$ 5,960	\$ 6,052

The following table discloses the leases expiring by year for the Company's medical office building portfolio.

Expiration Year	Expiring Leases	Expiring Lease GLA	% of Total GLA
2022	69	120,319	20.7%
2023	42	108,482	18.7%
2024	23	45,707	7.9%
2025	22	32,925	5.7%
2026	19	48,522	8.4%
Thereafter	21	49,370	8.5%
MTM	18	26,483	4.6%
Vacant	—	148,228	25.5%
<b>Total</b>	<b>214</b>	<b>580,036</b>	<b>100%</b>

### Reconciliation of Net Operating Income to Net Income

The tables below are presented to reconcile the Company's proportionate share of net operating income NOI to Net Income, which represents the nearest measure defined by IFRS.

Three months ended December 31, 2021					
	NNN	SHOP	Medical office buildings	Corporate/ other	Total
Net income (loss)	\$ (6,453)	\$ 534	\$ (5,563)	\$ 6,029	\$ (5,453)
Change in fair value of investment properties	(834)	—	6,884	—	6,050
Depreciation and amortization expense	—	3,994	—	23	4,017
Amortization expense and debt extinguishment costs	40	(409)	83	1,252	966
Amortization of tenant inducements	66	—	34	—	100
Change in fair value of financial instruments	545	(2,426)	(634)	(10,145)	(12,660)
Change in fair value of contingent consideration	—	—	—	(1,263)	(1,263)
Gain on sale of property, plant and equipment	—	(1,160)	—	—	(1,160)
Impairment of property, plant and equipment	—	1,100	—	—	1,100
Changes in non-controlling interest liability	—	(156)	—	—	(156)
Straight-line rent	(1,230)	—	12	—	(1,218)
DSU compensation	—	—	—	173	173
Finance cost from operations	4,232	4,253	861	1,126	10,472
Finance costs from operations from equity accounted entities	540	1,001	—	—	1,541
Non-cash adjustment for equity accounted entities	14,727	925	—	—	15,652
<b>Net operating income (loss)</b>	<b>\$ 11,633</b>	<b>\$ 7,656</b>	<b>\$ 1,677</b>	<b>\$ (2,805)</b>	<b>\$ 18,161</b>

## Three months ended December 31, 2020

	NNN	SHOP	Medical office buildings	Corporate/ other	Total
Net income (loss)	\$ 203	\$ (9,934)	\$ (18,435)	\$ (8,147)	\$ (36,313)
Change in fair value of investment properties	9,191	—	19,110	—	28,301
Depreciation and amortization expense	—	11,940	—	23	11,963
Amortization expense and debt extinguishment costs	66	246	82	503	897
Amortization of tenant inducements	75	—	23	—	98
Change in fair value of financial instruments	(185)	(542)	(214)	1,663	722
Change in fair value of contingent consideration	—	—	—	2,254	2,254
Gain on sale of property, plant and equipment	—	21	—	—	21
Impairment of property, plant and equipment	—	—	—	—	—
Changes in non-controlling interest liability	9	(116)	—	—	(107)
Straight-line rent	(1,304)	—	—	—	(1,304)
DSU compensation	—	—	—	547	547
Finance cost from operations	6,091	4,297	840	1,155	12,383
Finance costs from operations from equity accounted entities	673	1,049	—	—	1,722
Non-cash adjustment for equity accounted entities	2,181	1,152	—	(57)	3,276
<b>Net operating income (loss)</b>	<b>\$ 17,000</b>	<b>\$ 8,113</b>	<b>\$ 1,406</b>	<b>\$ (2,059)</b>	<b>\$ 24,460</b>

## Year ended December 31, 2021

	NNN	SHOP	Medical office buildings	Corporate/ other	Total
Net income (loss)	\$ 13,118	\$ (16,985)	\$ (5,711)	\$ (2,657)	\$ (12,235)
Change in fair value of investment properties	12,667	—	9,485	—	22,152
Depreciation and amortization expense	—	22,060	—	92	22,152
Amortization expense and debt extinguishment costs	1,584	1,334	334	(4,450)	(1,198)
Amortization of tenant inducements	291	—	156	—	447
Change in fair value of financial instruments	431	(4,774)	(1,723)	(7,398)	(13,464)
Change in fair value of contingent consideration	—	—	—	(258)	(258)
Gain on sale of property, plant and equipment	—	(1,200)	—	(14)	(1,214)
Impairment of property, plant and equipment	—	1,100	—	—	1,100
Changes in non-controlling interest liability	—	(512)	—	—	(512)
Straight-line rent	(6,174)	—	(15)	—	(6,189)
DSU compensation	—	—	—	794	794
Finance cost from operations	20,366	16,759	3,434	4,935	45,494
Finance costs from operations from equity accounted entities	2,626	3,922	—	—	6,548
Non-cash adjustment for equity accounted entities	12,176	4,615	—	—	16,791
<b>Net operating income (loss)</b>	<b>\$ 57,085</b>	<b>\$ 26,319</b>	<b>\$ 5,960</b>	<b>\$ (8,956)</b>	<b>\$ 80,408</b>



## Year ended December 31, 2020

	NNN	SHOP	Medical office buildings	Corporate/ other	Total
Net income (loss)	\$ (49,999)	\$ (57,897)	\$ (20,513)	\$ (55,595)	\$ (184,004)
Change in fair value of investment properties	78,646	—	21,741	—	100,387
Depreciation and amortization expense	—	48,476	—	93	48,569
Amortization expense and debt extinguishment costs	339	770	285	2,169	3,563
Amortization of tenant inducements	301	—	84	—	385
Change in fair value of financial instruments	1,209	6,712	2,127	32,583	42,631
Change in fair value of contingent consideration	—	—	—	5,510	5,510
Gain on sale of property, plant and equipment	—	(24)	—	356	332
Impairment of property, plant and equipment	—	—	—	—	—
Changes in non-controlling interest liability	(14)	(318)	—	—	(332)
Straight-line rent	(6,396)	—	3	—	(6,393)
Deferred tax recovery	—	—	(1,099)	(5,845)	(6,944)
Income support payments received	—	—	63	—	63
DSU compensation	—	—	—	1,067	1,067
Finance cost from operations	23,575	16,664	3,361	5,390	48,990
Finance costs from operations from equity accounted entities	2,737	3,310	—	—	6,047
Non-cash adjustment for equity accounted entities	16,412	17,382	—	7,391	41,185
Net operating income (loss)	\$ 66,810	\$ 35,075	\$ 6,052	\$ (6,881)	\$ 101,056

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

**INVESQUE INC.**

Years ended December 31, 2021 and 2020



KPMG LLP  
Bay Adelaide Centre  
333 Bay Street, Suite 4600  
Toronto, ON M5H 2S5  
Canada  
Tel 416-777-8500  
Fax 416-777-8818

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Invesque Inc.,

### **Opinion**

We have audited the consolidated financial statements of Invesque Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2021 and December 31, 2020 in accordance with International Financial Reporting Standards (IFRS).

### **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

### ***Evaluation of liquidity assessment***

#### ***Description of the matter***

We draw attention to Note 1(a) and 1(g) of the financial statements. While there are uncertainties in assessing future liquidity requirements under normal operating conditions, the stressed conditions caused by COVID-19 have introduced increased uncertainties. The pandemic has had an impact on results and operations of the Entity, including decreased occupancy, delays in collections from tenants, and increased operating expenses. The Entity expects that the pandemic could continue to have a negative effect on its results of operations, financial position, and cash flows, particularly if negative economic and public health conditions in the United States and Canada persist for a continued and significant period of time.

The Entity believes that it has sufficient available liquidity to meet its minimum obligations as they come due and to comply with financial covenants in its credit facilities, as amended, for a period of at least 12 months from December 31, 2021. Further, the Entity has assessed that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern. In making this significant judgment, the Entity has prepared a cash flow forecast with the most significant assumptions in the preparation of such forecast being the ability of its most significant tenant to meet its projected rental obligations to the Entity and the continued availability of financing.

#### ***Why the matter is a key audit matter***

We identified the evaluation of liquidity assessment as a key audit matter. This evaluation required significant auditor judgment in assessing the Entity's cash flow forecast due to the degree of uncertainty in the most significant assumptions resulting from the impact of COVID-19.



### ***How the matter was addressed in the audit***

The primary procedures we performed to address this key audit matter included the following:

We compared the projected rental obligations of the Entity's most significant tenant included in the cashflow forecast to recent payment history and assessed the sensitivity of possible changes in the assumption on the cash flow forecast.

We evaluated the continued availability of financing by:

- considering the ratio of forecasted mortgage financing to forecasted fair value of the underlying properties for a selection of mortgages based on our understanding of the underlying properties and the industry and
- analyzing the Entity's forecasted compliance with significant financial covenants contained in loan agreements using information contained in the cash flow forecast and the terms of the loan agreements.

We evaluated the impact of changes in the projected rental obligations of the Entity's major tenant and continued availability of financing on management's conclusion that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

We also assessed the disclosures related to the Entity's significant judgment about whether there are material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

### ***Evaluation of the fair value of investment properties in use***

#### ***Description of the matter***

We draw attention to Notes 1(f)(i), 2(b), and 5 of the financial statements. Investment properties consist of investment properties in use and investment properties under development. The Entity uses the fair value model to account for investment properties in use. The fair value of investment properties in use is \$698,307 thousand. Significant assumptions used when determining the fair value of investment properties in use include capitalization rates and stabilized future cash flows for each property.

#### ***Why the matter is a key audit matter***

We identified the evaluation of the fair value of investment properties in use as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of investment properties in use and the high degree of estimation uncertainty in determining the fair value of investment properties in use. Additionally, significant auditor judgment and involvement of those with specialized skills and knowledge were required in evaluating the results of our audit procedures due to the sensitivity of the fair value of investment properties in use to minor changes in significant assumptions.

***How the matter was addressed in the audit***

The primary procedures we performed to address this key audit matter included the following:

For a selection of investment properties in use, we compared stabilized future cash flows to the actual historical cash flows for each investment property. We took into account the changes in conditions and events affecting the investment properties in use to assess the adjustments, or lack of adjustments, made by the Entity in arriving at those stabilized future cash flows.

For a selection of investment properties in use, we involved valuations professionals with specialized skills and knowledge, who assisted in evaluating capitalization rates. These rates were evaluated by comparing them to published reports of real estate industry commentators taking into consideration the features of the specific investment property.

***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2021 Annual Report."

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as of the date of the auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2021 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.



### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.





- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Thomas Rothfischer.

Toronto, Canada

March 11, 2022

# INVESQUE INC.

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

	December 31, 2021	December 31, 2020
<b>Assets</b>		
Current assets:		
Cash	\$ 19,369	\$ 34,133
Tenant and other receivables	5,593	14,934
Property tax receivables	12,892	12,754
Loans receivable (note 3)	1,635	1,799
Assets held for sale (note 6)	21,307	2,144
Other (note 4)	15,753	9,069
	<u>76,549</u>	<u>74,833</u>
Non-current assets:		
Loans receivable (note 3)	20,060	16,904
Derivative instruments (note 10)	3,388	4,814
Investment in joint ventures (note 7)	50,440	65,258
Investment properties (note 5)	716,344	882,019
Property, plant and equipment, net (note 6)	432,001	451,825
Other non-current assets (note 4)	2,229	2,771
	<u>1,224,462</u>	<u>1,423,591</u>
Total assets	\$ 1,301,011	\$ 1,498,424
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 17,356	\$ 17,715
Accrued real estate taxes	13,671	14,518
Credit facilities (note 8)	795	10,000
Mortgages payable (note 9)	34,876	30,622
Convertible debentures (note 11)	19,678	—
Derivative instruments (note 10)	895	491
Other current liabilities (note 13)	3,787	4,975
	<u>91,058</u>	<u>78,321</u>
Non-current liabilities:		
Credit facilities (note 8)	596,471	650,596
Mortgages payable (note 9)	178,947	268,842
Convertible debentures (note 11)	62,979	92,411
Commonwealth preferred unit liability (note 12)	66,239	65,797
Derivative instruments (note 10)	10,439	28,478
Other non-current liabilities (note 13)	8,328	16,241
Non-controlling interest liability	293	4,409
	<u>923,696</u>	<u>1,126,774</u>
Total liabilities	1,014,754	1,205,095
Shareholders' equity:		
Common share capital (note 15)	512,004	509,203
Equity settled deferred shares	1,781	2,328
Preferred share capital (note 15)	85,389	85,389
Contributed surplus	400	400
Equity component of convertible instruments	6,370	3,764
Cumulative deficit	(321,267)	(309,032)
Accumulated other comprehensive income	1,580	1,277
Total shareholders' equity	<u>286,257</u>	<u>293,329</u>
Commitments and contingencies (note 24)		
Subsequent events (notes 11, 12, 30)		
Total liabilities and shareholders' equity	\$ 1,301,011	\$ 1,498,424

See accompanying notes to consolidated financial statements.

# INVESQUE INC.

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

	Year ended December 31,		Year ended December 31,	
	2021		2020	
Revenue:				
Rental (note 17)	\$	82,652	\$	90,112
Resident rental and related revenue (note 17)		120,152		120,407
Lease revenue from joint ventures (note 7)		3,529		3,118
Other revenue		4,117		3,750
		210,450		217,387
Other income (note 1)		3,730		3,415
Expenses (income):				
Direct property operating expenses (note 18)		102,768		95,505
Depreciation and amortization expense (note 6)		22,152		48,569
Finance costs from operations (note 19)		50,221		49,801
Real estate tax expense		16,715		13,488
General and administrative expenses (note 20)		20,142		20,539
Transaction costs for business combination		—		170
Allowance for credit losses on loans and interest receivable (note 19)		1,196		23,546
Change in non-controlling interest liability (note 19)		(379)		316
Change in fair value of investment properties - IFRIC 21		(1,226)		(57)
Change in fair value of investment properties (note 5)		22,152		100,388
Impairment of property, plant and equipment (note 6)		1,100		—
Change in fair value of financial instruments (note 19)		(21,860)		19,084
Change in fair value of contingent consideration (note 19)		(258)		5,510
Loss (gain) on sale of property, plant and equipment		(1,214)		162
		211,509		377,021
Loss from joint ventures (note 7)		(14,906)		(34,729)
Loss before income taxes		(12,235)		(190,948)
Income tax recovery:				
Deferred (note 23)		—		6,944
Net loss	\$	(12,235)	\$	(184,004)
Other comprehensive income :				
Items to be reclassified to net income in subsequent periods				
Unrealized gain on translation of foreign operations		303		1,072
Total comprehensive loss	\$	(11,932)	\$	(182,932)
Loss per share (note 16):				
Basic and diluted	\$	(0.22)	\$	(3.30)

See accompanying notes to consolidated financial statements.

# INVESQUE INC.

Consolidated Statements of Changes in Shareholders' Equity  
(Expressed in thousands of U.S. dollars)  
Years ended December 31, 2021 and 2020

	Common share capital	Equity settled deferred shares	Preferred share capital	Contributed surplus	Equity component of convertible instruments	Cumulative deficit	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2021	\$ 509,203	\$ 2,328	\$ 85,389	\$ 400	\$ 3,764	\$ (309,032)	\$ 1,277	\$ 293,329
Net loss	—	—	—	—	—	(12,235)	—	(12,235)
Other comprehensive income	—	—	—	—	—	—	303	303
Common shares issued on settlement of deferred share incentive plan (note 15)	637	—	—	—	—	—	—	637
Amortization of equity settled deferred shares (note 21)	—	(31)	—	—	—	—	—	(31)
Equity component of convertible debentures (note 11)	1,648	—	—	—	2,606	—	—	4,254
Common shares issued for equity settled deferred shares (note 15 and 21)	516	(516)	—	—	—	—	—	—
Balance, December 31, 2021	\$ 512,004	\$ 1,781	\$ 85,389	\$ 400	\$ 6,370	\$ (321,267)	\$ 1,580	\$ 286,257
	Common share capital	Equity settled deferred shares	Preferred share capital	Contributed surplus	Equity component of convertible instruments	Cumulative deficit	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2020	\$ 504,561	\$ 733	\$ 85,389	\$ 400	\$ 3,764	\$ (114,908)	\$ 205	\$ 480,144
Net loss	—	—	—	—	—	(184,004)	—	(184,004)
Other comprehensive income	—	—	—	—	—	—	1,072	1,072
Common shares issued, on settlement of deferred share incentive plan	1,078	—	—	—	—	—	—	1,078
Common shares issued under the Company's dividend reinvestment plan	3,498	—	—	—	—	—	—	3,498
Dividends declared on common shares	—	—	—	—	—	(10,120)	—	(10,120)
Common Shares purchased under NCIB	(148)	—	—	—	—	—	—	(148)
Amortization of equity settled deferred shares	—	1,809	—	—	—	—	—	1,809
Common shares issued for equity settled deferred shares (note 15 and 21)	214	(214)	—	—	—	—	—	—
Balance, December 31, 2020	\$ 509,203	\$ 2,328	\$ 85,389	\$ 400	\$ 3,764	\$ (309,032)	\$ 1,277	\$ 293,329

See accompanying notes to condensed consolidated financial statements.

# INVESQUE INC.

Consolidated Statements of Cash Flows  
(Expressed in thousands of U.S. dollars)  
Years ended December 31 2021 and 2020

	Year ended December 31, 2021		Year ended December 31, 2020	
<b>Cash flows from operating activities:</b>				
Net loss	\$	(12,235)	\$	(184,004)
Items not involving cash:				
Fair value adjustment of investment properties (note 5)		22,152		100,388
Fair value adjustment of financial instruments (note 19)		(21,860)		19,084
Impairment of property, plant and equipment (note 6)		1,100		—
Depreciation and amortization expense (note 6)		22,152		48,569
Allowance for credit losses on loans and interest receivable (note 19)		1,196		23,546
Straight-line rent (note 17)		(6,189)		(6,394)
Amortization of tenant inducements (note 17)		447		385
Finance costs from operations (note 19)		50,221		49,801
Change in non-controlling interest liability (note 19)		(379)		316
Change in fair value of contingent consideration (note 19)		(258)		5,510
Loss (gain) on sale of property, plant and equipment (note 6)		(1,214)		162
Loss from joint ventures (note 7)		14,906		34,729
Deferred income tax (note 23)		—		(6,944)
Interest paid		(45,882)		(49,712)
Interest income received		643		1,056
Debt extinguishment costs paid		(1,016)		—
Change in non-cash operating working capital:				
Tenant and other receivables		(7,034)		(12,344)
Accounts payable and accrued liabilities		(42)		(835)
Unearned revenue		(622)		1,257
Other assets		1,378		(2,150)
Other liabilities		(408)		1,308
Accrued real estate taxes		1,624		1,362
<b>Net cash provided by operating activities</b>	<b>\$</b>	<b>18,680</b>	<b>\$</b>	<b>25,090</b>
<b>Cash flows from financing activities:</b>				
Proceeds from credit facilities (note 14)	\$	58,953	\$	33,000
Payments on credit facilities (note 14)		(124,311)		(21,250)
Debt issuance costs paid		(648)		(1,599)
Proceeds from mortgages payable (note 14)		17,135		16,682
Payments of mortgages payable (note 14)		(103,761)		(22,487)
Dividends paid to common shareholders		—		(9,976)
Payment for repurchase of common shares		—		(148)
<b>Cash used in financing activities</b>	<b>\$</b>	<b>(152,632)</b>	<b>\$</b>	<b>(5,778)</b>
<b>Cash flows from investing activities:</b>				
Additions to investment properties	\$	144	\$	(8,390)
Dispositions of investment properties (note 5)		112,960		—
Additions to property, plant and equipment		(7,575)		(11,269)
Dispositions of property, plant and equipment		—		15,563
Dispositions of assets held for sale		3,247		—
Acquisition of interest in joint venture		—		(476)
Disposition of interest in joint venture		—		1,447
Cash balance acquired in business combination		—		2,081
Distributions from joint ventures		16,083		3,803
Contributions to joint ventures		(4,283)		(1,855)
Distributions to non-controlling interest partners		(2,709)		(534)
Contributions from non-controlling interest partners		235		—
Proceeds from income support agreement		—		63
Payments to previous owner of Care		(126)		—
Repayment of loans receivable		1,212		4,105
Earnout payment pursuant to Commonwealth purchase agreement		—		(1,555)
<b>Cash provided by investing activities</b>	<b>\$</b>	<b>119,188</b>	<b>\$</b>	<b>2,983</b>
Increase (decrease) in cash and cash equivalents		(14,764)		22,295
Cash and cash equivalents, beginning of period		34,133		11,838
<b>Cash and cash equivalents, end of period</b>	<b>\$</b>	<b>19,369</b>	<b>\$</b>	<b>34,133</b>

See accompanying notes to condensed consolidated financial statements.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

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

The Company currently owns a portfolio of North American income generating properties across the health care spectrum. The Company's portfolio includes investments in independent living, assisted living, memory care, skilled nursing, transitional care and medical office properties, which are operated primarily under long-term leases and joint venture arrangements with operating partners. The Company's portfolio also includes investments in owner occupied seniors housing properties in which Invesque owns the real estate and provides management services through its subsidiary management company, Commonwealth Senior Living.

At December 31, 2021, the Company owns interests in a portfolio of 103 health care and senior living properties comprised of 53 consolidated investment properties, 35 consolidated owner occupied properties, interests in 12 properties held through joint arrangements, and 3 properties held for sale.

## 1. Basis of preparation:

### (a) Liquidity Assessment

A novel strain of coronavirus causing the disease known as COVID-19 has spread throughout the world, including across the United States and Canada, causing the World Health Organization to declare the COVID-19 outbreak a pandemic in March 2020. In an attempt to contain the spread and impact of the pandemic, authorities throughout the United States and Canada have implemented measures such as travel bans and restrictions, stay-at-home orders, social distancing guidelines and limitations on other business activity. The pandemic has resulted in a significant economic downturn in the United States, Canada and globally, and has also led to disruptions and volatility in capital markets throughout 2021. These trends are likely to continue into 2022.

The pandemic has had an impact on results and operations of the Company, including decreased occupancy, delays in collections from tenants, and increased operating expenses. The Company announced on April 10, 2020 that it suspended the dividend for all common shares beginning from April 1, 2020 until further notice.

The Company expects that the pandemic could continue to have a negative effect on its results of operations, financial position and cash flows, particularly if negative economic and public health conditions in the United States and Canada persist for a continued and significant period of time. The ultimate impact of the pandemic on the Company's financial results will depend on future developments, which are uncertain. This includes, among other factors, the duration and severity of the pandemic as well as negative economic conditions arising therefrom, the impact of the pandemic on occupancy rates in the Company's communities, the volume of COVID-19 patients cared for across the portfolio, and the impact of government actions on the seniors housing industry and broader economy, including through existing and future stimulus efforts. The impact of COVID-19 has been partially offset to date by certain government stimulus programs which have helped to offset COVID-19 related expenses and compensate for lost revenues, but the Company is not able to provide assurance that such programs may continue to be available in the future. For the year ended December 31, 2021, the Company recognized \$3,730, of other income related to government grants funded through programs designed to assist seniors housing operators who have experienced both lost revenue and increased expenses during the COVID-19 pandemic (year ended December 31, 2020 - \$3,415). For the year ended December 31, 2021, the Company recognized \$1,243 in income from joint ventures related to the Company's share of government grants recognized at the joint venture properties for COVID-19 pandemic relief (year ended December 31, 2020 - \$1,294).

Liquidity risk is the risk that an entity is unable to fund its assets or meet its obligations as they come due. Liquidity risk is managed in part through cash forecasting (note 1(f) and 27). While there are uncertainties in assessing future liquidity requirements under normal operating conditions, the stressed conditions caused by COVID-19 have introduced increased uncertainties. The Company monitors forecasts of liquidity requirements to ensure it has the

# INVESQUE INC.

## Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

ability to meet operational needs by maintaining sufficient availability of the combination of cash and credit facility capacity, and to ensure the Company will meet its financial covenants related to debt agreements. Such forecasting involves a significant degree of judgment which takes into consideration current and projected macroeconomic conditions, the Company's cash collection efforts, debt financing and refinancing plans, and covenant compliance required under the terms of debt agreements. There is a risk that such liquidity forecasts may not be achieved and that currently available debt financing may no longer be available to the Company at terms and conditions that are favorable, or at all.

As a result of the events and conditions associated with COVID-19, the Company has amended certain terms of various financing arrangements having conducted an assessment of its liquidity. The Company believes that it has sufficient available liquidity to meet its minimum obligations as they come due and to comply with financial covenants in its credit facilities, as amended, for a period of at least 12 months from December 31, 2021. Further, the Company has assessed that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. In making this significant judgment, the Company has prepared a cash flow forecast with the most significant assumptions in the preparation of such forecast being the ability of its most significant tenant, Symcare, to meet its projected rental obligations to the Company and the continued availability of financing.

In response to a severe downside scenario, management has the ability to take the following mitigating actions to reduce costs, optimize the Company's cash flow and preserve liquidity:

- (i) utilizing available cash to pay down debts,
- (ii) sell certain properties and use the proceeds to buy down debt,
- (iii) exercise the Company's right to convert its convertible debentures into common shares,
- (iv) reducing non-essential capital expenditures.

(b) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved by the Board of Directors of the Company and authorized for issuance on March 11, 2022.

(c) Basis of measurement:

These consolidated financial statements have been prepared on a historical cost basis, except for investment properties, derivative financial instruments, deferred shares and loan commitment liability, which are measured at fair value through profit and loss ("FVTPL").

(d) Principles of consolidation:

(i) Transactions eliminated on consolidation:

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2021, including Invesque International Holdings Inc., Invesque US Holdings Inc., Invesque Holdings, LP, Foxhound Holdings, LLC and project specific limited partnerships. All intercompany transactions and balances are eliminated on consolidation.

(ii) Joint arrangements:

A joint venture is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

A joint operation is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement.

These consolidated financial statements include the Company's proportionate share of each of the assets, liabilities, revenue and expenses of joint operations on a line-by-line basis. Joint ventures are included in the Company's consolidated financial statements as investments using the equity method, whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the net assets. The Company's share of joint venture profit or loss is included in the consolidated statements of income (loss) and comprehensive income (loss).

(e) Functional and presentation currency:

The consolidated financial statements are presented in U.S. dollars, which is the functional and presentational currency of the Company.

Assets and liabilities of operations having a functional currency other than the U.S. dollar are translated at the rate of exchange at the consolidated statement of financial position dates. Revenue and expenses are translated at average rates for the year, unless exchange rates fluctuated significantly during the year, in which case the exchange rates at the dates of the transaction are used. Gains or losses on translating a foreign operation are included in other comprehensive income ("OCI") as a component of equity.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. Foreign currency denominated monetary assets and liabilities are translated using the prevailing rate of exchange at the consolidated statement of financial position dates. Gains and losses on translation of monetary items are recognized as general and administrative expenses in the consolidated statements of income (loss) and comprehensive income (loss).

(f) Use of estimation and uncertainty:

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these 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. Assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending December 31, 2021 are as follows:

(i) Investment properties:

The significant assumptions used when determining the fair value of investment properties in use are capitalization rates and stabilized future cash flows. The capitalization rate applied is reflective of the characteristics, location and market of each investment property. The stabilized future cash flows of each investment property are based upon rental income from current leases and assumptions about market rent from future leases reflecting current conditions, less future cash outflows relating to such current and future leases.

Management determines fair value internally utilizing internal financial information, external market data and capitalization rates provided by independent industry experts. As part of Management's internal valuation program, the Company also considers external valuations performed by independent national real estate valuation firms for a cross-section of properties that represent different geographical locations across the Company's portfolio and updates, as deemed necessary, the valuation models to reflect current market data.



# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

(ii) Accounting for convertible debentures:

On issuance, management estimates the allocation of the debt and equity components of convertible debentures. The liability allocation is based upon the fair value of a similar liability that does not have an equity conversion option and the residual is allocated to the equity component.

(iii) Accounting for Commonwealth preferred unit liability:

Management estimates the allocation of the debt and equity components of Commonwealth preferred unit liability. The liability allocation is based upon the fair value of a similar liability that does not have an equity conversion option and the residual is allocated to the equity component.

(iv) Loans receivable:

In determining the amount of expected credit losses, the entity's significant assumptions include the assessment of probability of default and loss given default. The determination takes into account different factors and varies by nature of investment.

The Company considers reasonable and supportable information that is relevant and available without undue cost or effort. Management considers past events, current market conditions and reasonable forward-looking supportable information about future economic conditions. In assessing information about possible future economic conditions, management utilized multiple economic scenarios including a base case, which represents the most probable outcome and is consistent with management's view of the financial asset. In considering the lifetime of a loan, the contractual period of the loan, including prepayment, extension and other options is generally used.

The estimation of expected credit losses also includes assumptions about local real estate market conditions, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events.

(v) Impairment of property, plant and equipment:

The Company makes a determination at each reporting date if any events have occurred that would indicate property, plant and equipment may be impaired. If impairment indicators exist, management estimates the assets' recoverable amount in order to determine whether an impairment loss should be recognized.

(vi) Other:

Estimates are also made in the determination of the fair value of financial instruments and include assumptions and estimates regarding future interest rates, the relative creditworthiness of the Company to its counterparties, the credit risk of the Company's counterparties, the estimated future cash flows and discount rates.

(g) Critical judgments:

Judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

(i) Accounting for leases as lessor:

The Company uses judgment regarding the present value of lease payments, the fair value of assets and the determination of the lease term in assessing the classification of its leases as operating leases, in particular

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

with long-term leases in single operator properties. The Company has determined that all of its leases are operating leases.

(ii) Accounting for acquisitions:

Management must assess whether an acquisition should be accounted for as an asset purchase or business combination. This assessment impacts the accounting treatment of transaction costs, the allocation of the costs associated with the acquisition and whether or not goodwill should be recognized.

(iii) Componentization of property, plant and equipment:

The Company uses judgment regarding the value allocated to various components of property, plant and equipment upon acquisition.

(iv) Loans receivable:

The Company uses significant judgment in the evaluation of changes in credit risk to determine the staging of the loans receivable. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which would require an increase or decrease in the allowance for ECLs.

(v) Liquidity:

Assessing whether events or conditions represent the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern, including the estimation of future cash flows.

## 2. Significant accounting policies:

(a) Cash and cash equivalents:

Cash and cash equivalents consists of cash on hand and highly liquid marketable investments with an original maturity of 90 days or less at their date of purchase and are stated at cost, which approximates fair value. As at December 31, 2021 and 2020, there were no cash equivalents.

(b) Investment properties:

Investment properties consist of investment properties in use and investment properties under development. Investment properties are held to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business. On acquisition, investment properties are initially recorded at cost, including transaction costs. Subsequent to initial recognition, the Company uses the fair value model to account for investment properties under International Accounting Standard ("IAS") 40, Investment Property. Under the fair value model, investment properties are recorded at fair value, which is determined based on available market evidence, at the statement of financial position date. Related fair value gains and losses are recorded in income and comprehensive income for the period in the period in which they arise.

Subsequent capital expenditures are added to the carrying value of the investment properties only when it is probable that future economic benefits will flow to the property and the cost can be measured reliably.

Properties under development include those properties, or components thereof, that will undergo activities that will take a substantial period of time to prepare the properties for their intended use as income properties. Borrowing costs related to development properties are capitalized to the costs of the projects. Properties under development are also adjusted to fair value at each consolidated statement of financial position date with fair value adjustments recognized in income.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

Investment property is classified as held for sale when the property is available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of investment properties, its sale is highly probable and expected to be completed with one year. Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal.

(c) Property, plant, and equipment:

Property, plant, and equipment includes land; buildings; and furniture, fixtures and equipment ("FFE"), which are measured at cost less accumulated depreciation and accumulated impairment losses.

Significant parts of the buildings are accounted for as separate components of the property, based on management's judgment of what components constitute a significant cost in relation to the total cost of an asset and whether these components have similar or dissimilar patterns of consumption and useful lives for purposes of calculating depreciation and amortization. Significant components include structure, roof, electrical/HVAC systems, windows and doors, and exterior landscaping. The cost of replacing a major component of a building is recognized in the carrying amount of the building if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of ongoing repairs and maintenance of the properties are recognized in profit or loss as incurred.

Depreciation is recorded in profit or loss on a straight-line basis over the useful lives of the assets. Estimated useful lives were determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset and current and forecasted demand. The rates and methods used are reviewed annually at year end to ensure they continue to be appropriate, and are also reviewed in conjunction with impairment testing. The following are the estimated maximum useful lives of existing property, plant, and equipment:

Components:	
Building - Structure	39 years
Building - Roof	25 years
Building - Electrical/HVAC systems	25 years
Building - Windows and doors	15 years
Building - Exterior landscaping	15 years
Furniture, fixtures, and equipment	5 years

Gains/losses on disposition of property, plant, and equipment are recognized in profit or loss in accordance with the requirements for determining when a performance obligation is satisfied under IFRS 15, Revenue from Contracts with Customers ("IFRS 15").

The value associated with in-place resident contracts, which represents the avoided cost of originating the acquired resident contracts plus the value of the avoided loss of net resident revenue over the estimated lease-up period of the acquired property, is amortized over the expected term of the resident occupancy. Resident contracts are recorded as a component of buildings.

(d) Impairment of property, plant, and equipment:

The carrying amount of the Company's property, plant, and equipment is assessed at each reporting date to determine if any events have occurred that would indicate the assets may be impaired. If any such indication exists, then the asset's recoverable amount is estimated and an impairment loss is recognized immediately in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the higher of (a) fair value less costs to sell, and (b) value in use. The determination of recoverable amounts can be

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

significantly impacted by estimates related to current market valuations, current and future economic conditions in the geographical markets of the assets, and management's strategic plans within each of its markets.

(e) Assets held for sale:

Assets, or disposal groups comprising assets and liabilities, are categorized as held-for-sale where the asset or disposal group is available for sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to dispose of the assets of the disposal group; the asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification; and it is unlikely there will be changes to the plan. Immediately before classification as held-for-sale, the assets, or components of the disposal group are remeasured in accordance with the Company's accounting policies, and are subsequently measured at the lower of their carrying amount and fair value less costs of disposal. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss until the completion of sale.

(f) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (i) in the principal market for the asset or liability; or
- (ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interests.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is not observable.

For assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

(g) Financial instruments:

Financial instruments are generally measured at fair value on initial recognition. The classification and measurement of financial assets consists of the following categories: (i) measured at amortized cost, (ii) FVTPL, or (iii) fair value through other comprehensive income ("FVTOCI"). Financial assets classified at amortized cost are measured using the effective interest method. Financial assets classified as FVTPL are measured at fair value with gains and losses recognized in the consolidated statements of income (loss) and comprehensive income (loss). Financial assets classified as FVTOCI are measured at fair value with gains or losses recognized through other comprehensive income (loss), except for gains and losses pertaining to impairment or foreign exchange recognized through profit or loss.

The classification and measurement of financial liabilities consists of the following categories: (i) measured at amortized cost and (ii) FVTPL. Financial liabilities classified at amortized cost are measured using the effective interest method. Financial liabilities classified as FVTPL are measured at fair value with changes in fair value attributable to changes in the credit risk of the liability presented in other comprehensive income, and the remaining amount of change in fair value presented in the consolidated statements of income (loss) and comprehensive income (loss).

The following summarizes the Company's classification of financial instruments:

Financial assets and liabilities	Measurement
Cash	Amortized cost
Restricted cash	Amortized cost
Tenant and other receivables	Amortized cost
Security deposits and costs related to future acquisitions	Amortized cost
Income support receivable	Amortized cost
Escrow deposits held by lender	Amortized cost
Bond assets	Amortized cost
Loans receivable	Amortized cost/FVTPL
Derivative instruments	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Accrued real estate taxes	Amortized cost
Dividends payable	Amortized cost
Security deposits received from tenants	Amortized cost
Escrows collected from tenants	Amortized cost
Loan commitment liability	FVTPL
Exchangeable Units liability	Amortized cost
Contingent consideration liabilities	FVTPL
Mortgages payable	Amortized cost
Credit facilities	Amortized cost
Convertible debentures	Amortized cost
Commonwealth preferred unit liability	Amortized cost

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Company derecognizes a financial liability when, and only when, the Company's obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized through profit or loss.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

The Company adopted the practical expedient to determine expected credit losses ("ECL") on tenant and other receivables using a provision matrix based on historical credit loss experiences adjusted for current and forecasted future economic conditions to estimate lifetime ECL. Impairment losses are recorded in the consolidated statements of income (loss) and comprehensive income (loss) with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts.

Transaction costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method. These costs include discounts or premiums relating to assumed debt, fees and commissions paid to agents, brokers, advisers, lenders and insurers, transfer taxes and duties.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial asset or liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(i) Convertible debentures:

The convertible debentures are compound financial instruments as they contain both a liability and an equity component.

At the date of issuance, the liability component of convertible debentures is recognized at its estimated fair value of a similar liability that does not have an equity conversion option and the residual is allocated to the equity component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of the convertible debenture is measured at amortized cost using the effective interest rate method. The equity component is not remeasured subsequent to initial recognition and will be transferred to share capital when the conversion option is exercised, or, if unexercised, at maturity. Interest, losses and gains relating to the financial liability are recognized in income and comprehensive income.

(ii) Commonwealth preferred unit liability

The Commonwealth preferred unit liability is a compound financial instrument as it contains both a liability and an equity component.

At the date of issuance, the liability component of Commonwealth preferred unit liability is recognized at its estimated fair value of a similar liability that does not have an equity conversion option and the residual is allocated to the equity component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of the Commonwealth preferred unit liability is measured at amortized cost using the effective interest rate method. The equity component is not remeasured subsequent to initial recognition and will be transferred to share capital when the conversion option is exercised, or, if unexercised, at maturity. Interest, losses and gains relating to the financial liability are recognized in income and comprehensive income.

(iii) Impairment of financial assets:

The Company recognizes loss allowances for ECL on financial assets measured at amortized cost, unfunded loan commitments and financial guarantee contracts. The Company applies a three-stage approach to measure allowance for credit losses. The loss allowance for performing loans which have not experienced a significant increase in credit risk since initial recognition (Stage 1) is equal to twelve months of expected

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

credit losses. The loss allowance for loans which have experienced a significant increase in credit risk since initial recognition (Stage 2) or are credit impaired (Stage 3) equals lifetime expected credit losses.

The determination of a significant increase in credit risk takes into account different factors and varies by nature of investment. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due or certain criteria are met which are specific to the individual borrower based on judgment. The Company considers a financial asset to be credit impaired when the borrower is more than 90 days past due and when there is objective evidence that there has been a deterioration of credit quality to the extent the Company no longer has reasonable assurance as to the timely collection of the full amount of principal and interest or when the Company has commenced enforcement remedies available to it under its contractual agreements.

### Measurement of ECL's

Loss allowances for ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive) and incorporate significant assumptions including the probability of default as well as the estimated loss given default. ECLs are discounted at the effective interest rate of the financial asset.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considering when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

The determination of ECLs 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.

When determining the allowance for ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. Management considers past events, current market conditions and reasonable forward-looking supportable information about future economic conditions. In assessing information about possible future economic conditions, management utilized multiple economic scenarios including a base case, which represents the most probable outcome and is consistent with management's view of the financial asset. In considering the lifetime of a loan, the contractual period of the loan, including prepayment, extension and other options is generally used.

The estimation of ECLs also includes assumptions about local real estate market conditions, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary.

#### (iv) Derivative instruments:

The Company uses derivative financial instruments to manage interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related.

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

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

(h) Non-controlling interest liability

The Company records third-party interests in the net assets of consolidated entities which do not qualify to be classified as equity as non-controlling interest liabilities. Such interests are initially recognized at fair value and are subsequently measured at amortized cost, with any changes recorded as change in non-controlling interest liability in the consolidated statements of income (loss) and comprehensive income (loss).

(i) Revenue recognition:

The Company accounts for its leases as operating leases given that it has retained substantially all of the risk and benefits of ownership

(i) Lease revenue from third party operators and commercial tenants:

The Company earns revenue from tenants from various sources consisting of rent earned under lease agreements, property tax and operating cost recoveries and other incidental income. Revenue from lease components is recognized on a straight-line basis over the lease term and includes the recovery of property taxes and insurance. Revenue recognition commences when a tenant has the right to use the premises and is recognized pursuant to the terms of the lease agreement. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are deferred.

Revenue related to the services component of the Company's leases is accounted for in accordance with IFRS 15. These services consist primarily of utilities, cleaning and property maintenance costs for which the revenue is recognized over time, typically as the costs are incurred, which is when the services are provided.

(ii) Resident Leases

The Company charges for the rental of accommodation and care services provided to residents. Base rent amounts are allocated to lease components based on relative stand-alone selling prices. The stand-alone selling prices of the rental component is determined using an adjusted market assessment approach and the stand-alone selling price of the care services components are determined using both adjusted market assessment and expected cost plus a margin approaches.

Revenue from rental components is recognized on a straight-line basis over the lease term. Revenue recognition commences when a resident has the right to use the property and revenue is recognized pursuant to the terms of the lease agreement. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are deferred.

Revenue related to the care service components of the Company's leases is accounted for in accordance with IFRS 15. These services consist primarily of the provision of meals, nursing services, housekeeping and laundry services, programs, amenities and the recovery of utilities and property maintenance costs and are recognized over time, typically on a monthly basis, which is when the services are provided. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are recorded as contract liabilities.

(iii) Lease revenue from joint ventures:

The Company earns revenue under lease arrangements with operating entities which are jointly owned with Autumnwood Lifestyles Inc. ("Autumnwood") (note 8). The leases are accounted for as operating leases and lease revenue is recognized on a straight-line basis over the term of the underlying leases.



# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## (j) Government grants

Government grants that become receivable as compensation for lost revenue and increased expenses are recognized when there is reasonable assurance that the entity will comply with the conditions attached to them and the grants will be received. The grants are recorded as other income in the consolidated statements of income (loss) and comprehensive income (loss).

## (k) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

### (i) As a lessee:

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term and is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized costs using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents the right-of-use assets in property, plant and equipment and lease liabilities are recorded separately on the balance sheet as "lease obligations".

### (ii) Short-term leases and leases of low value assets:

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

(iii) As a lessor:

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. The Company has determined that when it acts as a lessor, its leases do not transfer substantially all of the risks and rewards incidental to ownership of the underlying assets and as a result they are classified as operating leases.

If an arrangement contains lease and non-lease components, the Company applies IFRS 15 to allocate the consideration in the contract.

The Company recognizes lease payments received under operating leases as income on straight-line basis over the lease term.

(l) Employee benefits:

(i) Short-term benefits:

Short-term employee benefit obligations, including vacation and bonus payments, are measured on an undiscounted basis and are expensed as the related service is provided. Liabilities are recognized for the amounts expected to be paid within 12 months as the Company has an obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. Short-term employee benefits are recorded in accounts payable and other liabilities.

(ii) Share-based payment plans:

The Company maintains a Deferred Share Incentive Plan (note 22) for its employees and directors. Cash-settled shares are fair-valued and changes in the amount payable are recognized through profit or loss with a corresponding change in liabilities. The awards are fair-valued on the basis of the share price at each reporting period and at the settlement date and the change in fair value on the amortized share-based compensation expense is recognized as compensation expense.

Equity-settled shares are amortized as share-based compensation expense with a corresponding change in equity. The awards are valued based on the grant date fair value.

(m) Levies:

In accordance with IFRS Interpretations Committee ("IFRIC") 21, Levies ("IFRIC 21"), for its properties located in the United States, the Company recognizes the full amount of annual property tax liabilities at the point in time when the realty tax obligation is imposed. For properties located in Canada, property tax liabilities are recognized on a monthly basis.

(n) Income taxes:

Income tax expense comprises current and deferred tax. Tax is recognized in profit or loss except to the extent it relates to a business combination, or items recognized directly in equity or other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustments to tax payable or receivable in respect of previous years. It is measured using rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

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 not recognized for:

- (i) Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- (ii) Temporary differences related to investments in subsidiaries and associates to the extent that the Company is able to control the timing of reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

Judgement is required to assess the interpretation of tax legislation when recognizing and measuring current and deferred tax assets and liabilities. The impact of different interpretations and applications could potentially be material. The Company recognizes a tax benefit from an uncertain tax position when it is probable that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. If it is not probable that the uncertain tax treatment will be accepted, the tax uncertainty is measured based on the most likely amount of expected value, depending on whichever method better predicts the resolution of the uncertainty.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Management's estimate of future taxable profits and the recognition of deferred tax assets are reviewed at each reporting date and deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(o) IFRS amendments adopted in 2021:

- (i) In August 2020, the IASB issued Interest Rate Benchmark Reform ("IBOR") Reform and the Effects on Financial Reporting – Phase II (amendments to IFRS 9, IFRS 7, IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39"), IFRS 4 – Insurance Contracts ("IFRS 4") and IFRS 16 – Leases ("IFRS 16")). The objective of the second phase of the IASB's project was to assist entities in providing useful information about the effects of the transition to alternative benchmark rates and support preparers in applying the requirements of the IFRS Standards when changes are made to contractual cash flows or hedging relationships as a result of the transition to an alternative benchmark interest rate. The amendments affect the basis for determining the contractual cash flows as a result of benchmark interest rate reform, hedge accounting and disclosures.

The amendments were adopted by the Company when they became effective on January 1, 2021. The adoption standard did not have a material impact on the Company's consolidated financial statements.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

(p) IFRS standards and amendments issued but not yet effective:

(i) Amendments to IAS 1, Presentation of financial statements

On January 23, 2020, the IASB issued amendments to IAS 1, Presentation of financial statements (“IAS 1”) to clarify the classification of liabilities as current or non-current. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

For the purposes of non-current classification, the amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period.

The Company intends to adopt the amendments in its consolidated financial statements beginning on January 1, 2023, when the standard becomes effective.

(ii) Amendments to IAS 8, Accounting policies, changes in accounting estimates and errors (“IAS 8”) regarding the definition of Accounting Estimates

On February 12, 2021, the IASB issued amendments to IAS 8 to assist entities to distinguish between accounting policies and accounting estimates. The amendments apply to annual periods beginning on or after January 1, 2023. Earlier adoption is permitted. The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The Company intends to adopt the amendments in its consolidated financial statements beginning on January 1, 2023, when the standard becomes effective.

(iii) Amendments to IAS 1, Disclosure Initiative

On February 12, 2021, the IASB issued Disclosure Initiative – Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements). The amendments help entities provide useful accounting policy disclosures. The key amendments include requiring entities to disclose their material accounting policies rather than their significant accounting policies, clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company’s financial statements.

The Company intends to adopt the amendments in its consolidated financial statements beginning on January 1, 2023, when the standard becomes effective.

# INVESQUE INC.

## Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

### 3. Loans receivable:

Loans receivable issued as at December 31, 2021 and December 31, 2020 are detailed in the table below:

Debtor	Loan Type	December 31, 2021	December 31, 2020	Issued Date	Maturity Date <sup>(1)</sup>	Current Interest Rate	PIK Interest Rate
Mainstreet Investment Company, LLC	Interest-only loan	\$ 3,932	\$ 3,932	December 22, 2016	December 22, 2018	8.5 %	1.5 %
	Revolving credit facility						
Autumnwood Lifestyles Inc.		1,187	1,178	November 1, 2016	October 31, 2018 <sup>(3)</sup>	8.0 %	— %
Symcare ML, LLC	Loan receivable	—	7,295	October 20, 2017	December 31, 2033	5.0 %	— %
Premier Senior Living, LLC <sup>(6)</sup>	Loan receivable	—	725	August 16, 2013 <sup>(2)</sup>	August 16, 2025	9.4 %	— %
Ellipsis Real Estate Partners	Loan receivable	951	951	May 4, 2018	May 4, 2028	— %	10.0 %
Ellipsis Real Estate Partners	Loan receivable	1,331	1,338	September 14, 2018	September 14, 2028	— %	10.0 %
Symcare ML, LLC	Loan receivable	—	15,000	December 26, 2018	December 31, 2033	5.0 %	5.0 %
Hillcrest Millard, LLC	Loan receivable	529	503	January 1, 2019	January 1, 2028	— %	5.0 %
Hillcrest Firethorn, LLC	Loan receivable	496	472	January 1, 2019	November 1, 2027	— %	5.0 %
Bridgemoor Transitional Care Operations, LLC <sup>(5)</sup>	Loan receivable	1,872	1,872	June 5, 2019	June 5, 2035	— %	— %
MOC Webster, LLC	Loan receivable	—	576	June 5, 2019	June 5, 2035	— %	— %
RHS Propco Mooresville, LLC	Loan receivable	5,000	5,000	June 28, 2019	July 1, 2024	8.5 %	— %
Memory Care America LLC	Loan receivable	57	1,198	July 31, 2019	January 1, 2024	8.5 %	— %
Ellipsis Real Estate Partners LLC <sup>(9)</sup>	Mezzanine loan	475	474	October 25, 2019	October 1, 2022	2.5 %	7.5 %
Blue Bell Senior Holdings, LLC <sup>(7)</sup>	Loan receivable	490	490	February 21, 2020	March 1, 2024	5.9 %	— %
PSL Care GP LLC	Loan receivable	450	450	May 6, 2020	<sup>(8)</sup>	3.5 %	— %
Symcare ML, LLC	Loan receivable	7,404	—	June 1, 2021	December 31, 2035	— %	1.0 %
Premier Senior Living, LLC <sup>(10)</sup>	Loan receivable	862	—	October 24, 2021	October 1, 2023	8.0 %	— %
	Accrued current and long term interest	745	3,122				
	Allowance for losses on loans receivable	(6,329)	(28,241)				
Carrying value of loans recorded at amortized cost		\$ 19,452	\$ 16,335				
	Loan receivable - Javelina Ventures, LLC FVTPL	2,243	2,368	December 31, 2018	<sup>(4)</sup>	— %	5.0 %
Carrying value of loans receivable		21,695	18,703				
Less current portion		1,635	1,799				
Long term portion		\$ 20,060	\$ 16,904				

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

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

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

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

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

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

(7) Maturity date is the earlier of March 1, 2024, the date that the existing debt secured by the property is refinanced, or upon termination of the management agreement.

(8) No stated maturity date for loan receivable. Principal of loan is repaid when distributions are made from the joint venture operated by Phoenix Senior Living.

(9) This loan was funded for the development of a memory care facility in Wyoming, MI.

(10) This loan was issued to Park Terrace Operating, LLC and Seneca Lake Terrace Operating, LLC.

\$10,358 of the loans outstanding and \$15 of the accrued current and long-term interest as at December 31, 2021 in the table above are made to current tenant operators. Of these amounts, \$2,065 has been reserved as uncollectible. \$27,641 of the loans outstanding and \$2,438 of the accrued current and long term interest as at December 31, 2020 in the table above are made to then current tenant operators. Of these amounts, \$23,964 has been reserved as uncollectible.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

On July 31, 2019, the Company entered into a new loan with MCA Memory Care America, LLC ("MCA") in the amount of \$2,934. The loan balance represented outstanding rents owed, the remaining balance of a previously issued loan receivable and outstanding interest thereon. Through December 31, 2021, the Company has received repayment on this loan receivable of \$3,363 (2020 - \$1,868) consistent with the terms outlined in the loan agreement.

On July 17, 2020, the Company received \$750 as repayment of a portion of the principal of the mezzanine loan to Ellipsis Real Estate Partners LLC. On the same date, the loan was amended and the annual interest rate was reduced to 10%.

Loans receivable and associated allowance for losses on loans receivable accounted for at amortized cost as at December 31, 2021 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Loans receivable, net of loan fees	\$ 18,725	\$ 1,195	\$ 5,861	\$ 25,781
Allowance for losses on loans receivable	(276)	(237)	(5,816)	(6,329)
Loans receivable, net of allowances	\$ 18,449	\$ 958	\$ 45	\$ 19,452

Loans receivable and associated allowance for losses on loans receivable accounted for at amortized cost as at December 31, 2020 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Loans receivable, net of loan fees	\$ 11,079	\$ 1,186	\$ 32,311	\$ 44,576
Allowance for losses on loans receivable	(127)	(236)	(27,878)	(28,241)
Loans receivable, net of allowances	\$ 10,952	\$ 950	\$ 4,433	\$ 16,335

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

The changes in the gross loans receivable balance during the period ended December 31, 2021 are shown in the following table:

	Stage 1	Stage 2	Stage 3	Total
Total loans receivable as at December 31, 2019	\$ 38,476	\$ —	\$ 6,725	\$ 45,201
Loans receivable				
Transfer to/(from)				
Stage 1	(25,052)	25,052	—	—
Stage 2	—	(23,897)	23,897	—
Stage 3	—	—	—	—
	\$ 13,424	\$ 1,155	\$ 30,622	\$ 45,201
Issuances	1,431	—	3,280	4,711
Repayments	(3,776)	—	(329)	(4,105)
Currency Translation	—	31	—	31
Write off of loans receivable	—	—	(1,262)	(1,262)
Total loans receivable as at December 31, 2020	\$ 11,079	\$ 1,186	\$ 32,311	\$ 44,576
Loans receivable				
Transfer to/(from)				
Stage 1	(733)	733	—	—
Stage 2	—	—	—	—
Stage 3	—	—	—	—
	\$ 10,346	\$ 1,919	\$ 32,311	\$ 44,576
Issuances	542	48	265	855
Repayments	(36)	—	(1,151)	(1,187)
Currency translation	—	9	—	9
Fair value changes	195	—	—	195
Contribution to joint venture	—	—	(842)	(842)
Non-cash settlement	7,678	(781)	(24,722)	(17,825)
Total loans receivable as at December 31, 2021	\$ 18,725	\$ 1,195	\$ 5,861	\$ 25,781

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

The changes in the allowance for credit losses during the period ended December 31, 2021 are shown in the following table:

	Stage 1	Stage 2	Stage 3	Total
Total allowance for credit losses as at December 31, 2019	\$ 421	\$ —	\$ 5,494	\$ 5,915
Allowance for credit losses				
Remeasurement	—	226	23,452	23,678
Transfer to/(from)				
Stage 1	(269)	269	—	—
Stage 2	—	(259)	259	—
Stage 3	—	—	—	—
Total allowance for credit losses	\$ 152	\$ 236	\$ 29,205	\$ 29,593
Issuances	13	—	—	13
Repayments	(38)	—	(65)	(103)
Write off of loan receivable and allowance	—	—	(1,262)	(1,262)
Total allowance for credit losses as at December 31, 2020	\$ 127	\$ 236	\$ 27,878	\$ 28,241
Allowance for credit losses				
Remeasurement	—	133	263	396
Transfer to/(from)				
Stage 1	(7)	7	—	—
Stage 2	—	—	—	—
Stage 3	—	—	—	—
	\$ 120	\$ 376	\$ 28,141	\$ 28,637
Issuances	9	—	265	274
Repayments	—	—	(193)	(193)
Currency translation	—	1	—	1
Contribution to joint venture	—	—	(842)	(842)
Non-cash settlement	147	(140)	(21,555)	(21,548)
Total allowance for credit losses as at December 31, 2021	\$ 276	\$ 237	\$ 5,816	\$ 6,329

For the year ended December 31, 2021, a loss of \$1,196 (year ended December 31, 2020 - \$23,546 loss) was recorded as change in allowance for credit losses on loans and interest receivable in the consolidated statements of loss and comprehensive loss. For the year ended December 31, 2021 a loss of \$474 (year ended December 31, 2020 - NIL) was recorded as a change in fair value of financial instruments in the consolidated statements of loss and comprehensive loss for the change in fair value of the loan to Javelina Ventures, LLC.

On June 1, 2021, a subsidiary of the Company entered into a loan agreement with the tenant operator of the Symphony Portfolio ("Symcare") for a principal amount of \$17,000 in satisfaction of all remaining balances owed by Symcare including the \$7,295 loan entered into on October 20, 2017 and accrued interest thereon, the \$15,000 loan entered into on December 26, 2018 and accrued interest thereon, and \$10,969 of outstanding rent receivable offset by the release of the \$7,000 security deposit on the previous master lease with Symcare. The new loan matures on December 31, 2035 and earns interest at an annual rate of 1.0% which accrues to the balance of the loan until maturity ("PIK Interest"). Upon issuance, the loan was measured at its fair value using a market discount rate, and is recorded at amortized cost of \$7,404 at December 31, 2021.



# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## 4. Other assets:

Other assets are as follows:

	December 31, 2021		December 31, 2020	
Prepaid expense	\$	2,124	\$	2,330
Security deposits and costs related to future acquisitions		125		682
Escrow deposits held by lenders		4,605		5,251
Right-of-use assets		1,470		1,889
Bond assets		760		881
Receivable from Jaguarundi Ventures, LP (note 7)		7,802		—
Other		1,096		807
	\$	17,982	\$	11,840
Current	\$	15,753	\$	9,069
Non-current		2,229		2,771
	\$	17,982	\$	11,840

Escrow deposits held by lenders includes amounts held for use in payment of real estate taxes, property insurance and replacement reserves.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## 5. Investment properties:

(a) *Investment properties:*

	Number of Properties	Amount
Balance, December 31, 2019	69	\$ 969,634
Acquisitions of income properties	1	8,202
Transfer to property, plant and equipment (note 6)	(1)	(9,869)
Capital expenditures	—	668
Capital expenditures related to investment property under development	—	4,323
Increase in straight-line rents	—	6,394
Fair value adjustment	—	(100,388)
Amortization of tenant inducements	—	(385)
Translation of foreign operations	—	3,440
Balance, December 31, 2020	69	\$ 882,019
Contribution of investment property to joint venture (note 7)	(1)	(17,100)
Transfer to property, plant and equipment (note 6)	(2)	(19,846)
Capital expenditures	—	968
Sale of income properties	(13)	(114,318)
Increase in straight-line rents	—	6,189
Fair value adjustment	—	(22,152)
Amortization of tenant inducements	—	(447)
Translation of foreign operations	—	1,031
Balance, December 31, 2021	53	\$ 716,344
Investment properties in use		\$ 698,307
Property under development		18,037
Balance, December 31, 2021		\$ 716,344

At December 31, 2021, the Company used an internal valuation process to value its investment properties. Third party appraisers are engaged to prepare valuations on a portion of the portfolio annually such that one third of the portfolio is valued externally each year, and every property in the portfolio is valued externally at least once every five years. Management considers the external valuations for a cross-section of properties that represent different geographical locations across the Company's portfolio and updates, as deemed necessary, the valuation models to reflect current market data.

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

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

Capital expenditures include costs related to expansion projects at two buildings in Canada that are jointly owned. The Company has committed to fund its share of the projects as the expansions are completed.

On May 6, 2020, the Company contributed a previously triple-net leased property to a subsidiary partially owned by Phoenix Senior Living (note 6).

The Company continues to review market capitalization, discount and terminal capitalization rates as well as its future cash flow projections and the valuation of its properties in light of the COVID-19 pandemic. The carrying value for the Company's investment properties reflects its best estimate for the highest and best use as at December 31, 2021. It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes it will have on the Company's business and operations, both in the short term and in the long term. In a long term scenario, certain aspects of the Company's business and operations that could potentially be impacted include rental income, occupancy, turnover, future demand, and market rents, which all ultimately impact the underlying valuation of investment properties.

The following table summarizes the significant unobservable inputs in determining fair value:

Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Capitalization rates	There is an inverse relationship between the capitalization rates and the fair value; in other words, the higher the capitalization rate, the lower the estimated fair value.
Stabilized future cash flows	There is a direct relationship between the stabilized future cash flows and the fair value; in other words, the higher the stabilized future cash flows, the higher the estimated fair value.

The capitalization rates used in determining fair value of investment properties measured as at December 31, 2021 and December 31, 2020 are set out in the following table:

	December 31, 2021	December 31, 2020
Capitalization rate - range	7.00% - 10.25%	5.85% - 9.00%
Capitalization rate - weighted average	8.09%	8.06%

The fair value of investment properties is most sensitive to changes in capitalization rates and stabilized future cash flows. Changes in the capitalization rates and stabilized future cash flows would result in the following changes in the fair value of the Company's investment properties:

	December 31, 2021	December 31, 2020
Investment property valued using direct capitalization income approach	\$ 524,148	\$ 617,931
Investment property valued using discounted cash flow projection	\$ 59,449	\$ 139,727
Investment property valued using other methods	\$ 132,747	\$ 124,361
Capitalization rate:		
25-basis point increase	\$ (15,880)	\$ (18,727)
25-basis point decrease	\$ 16,917	\$ 19,945

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

As at December 31, 2021, a 1% increase in stabilized future cash flows would result in a portfolio fair value increase of \$5,241. A 1% decrease in stabilized future cash flows would result in a portfolio fair value decrease of \$5,241. A 1% increase in stabilized future cash flows coupled with a 0.25% decrease in capitalization rates would result in a portfolio fair value increase of \$22,328. A 1% decrease in stabilized future cash flows coupled with a 0.25% increase in capitalization rates would result in a portfolio fair value decrease of \$20,963.

As at December 31, 2020, a 1% increase in stabilized future cash flows would result in a portfolio fair value increase of \$6,179. A 1% decrease in stabilized future cash flows would result in a portfolio fair value decrease of \$6,179. A 1% increase in stabilized future cash flows coupled with a 0.25% decrease in capitalization rates would result in a portfolio fair value increase of \$26,324. A 1% decrease in stabilized future cash flows coupled with a 0.25% increase in capitalization rates would result in a portfolio fair value decrease of \$24,719.

(b) Asset dispositions - year ended December 31, 2021

	Chesterton, IN	Symcare	Inspirit	Saber	Total
Number of consolidated properties disposed:	(1)	(3)	(4)	(5)	(13)
Net assets disposed:					
Investment properties	\$ (19,982)	\$ (55,283)	\$ (36,388)	\$ (2,665)	(114,318)
Working capital balances	5	—	90	—	95
Non-controlling interest liability	—	—	1,263	—	1,263
	\$ (19,977)	\$ (55,283)	\$ (35,035)	\$ (2,665)	(112,960)
Consideration received:					
Cash	(19,977)	(55,283)	(35,035)	(2,665)	(112,960)
	\$ (19,977)	\$ (55,283)	\$ (35,035)	\$ (2,665)	(112,960)

On April 30, 2021, the Company sold a property located in Chesterton, IN to the operator Symphony for a sale price of \$20,000 before closing costs. The consideration was paid in cash which was used to repay the \$14,448 mortgage secured by the property.

On June 1, 2021, the Company sold three properties located in Chicago, IL to the operator Symphony for a sale price of \$55,500 before closing costs. The consideration was paid in the form of \$55,283 cash. The cash was used to pay down the Credit Facility.

On July 1, 2021, the Company sold its interest in four investment properties to the operator Inspirit for a sale price of \$35,500. The Company used the proceeds to repay the \$23,626 mortgage secured by the properties.

On October 6, 2021, the Company sold five properties in Pennsylvania for a total consideration of \$2,600 before closing costs, received in the form of cash.

On October 24, 2021, the Company entered an agreement whereby it has transitioned operations of 2 properties in New York. In conjunction with the lease transition, the Company transferred the related investment property to property, plant and equipment. The properties were previously triple-net leased to Premier Senior Living ("Premier"), and as of the lease transition date are managed by Hearth Senior Living ("Hearth") under a management agreement.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

*(c) Asset acquisitions - year ended December 31, 2020*

	Rogers, AR
Number of consolidated properties acquired:	1
Net assets acquired:	
Investment properties	\$ 8,202
Working capital balances	50
	<u>\$ 8,252</u>
Consideration paid/funded:	
Cash	3,399
Proceeds from mortgage payable, net of fees	4,853
	<u>\$ 8,252</u>

On November 17, 2020, The Company acquired a memory care facility leased to an operator located in Rogers, AR for a contractual purchase price of \$8,150 plus transaction costs. The Company entered into a new mortgage secured by the property to fund \$4,920 of the purchase price and funded the remainder of the purchase with cash on hand.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## 6. Property, plant and equipment, net:

(a) *Property, plant and equipment, net:*

Property, plant and equipment consists of the following as at December 31, 2021:

	Land	Buildings	Furniture, fixtures and equipment	Properties under development	Total
<b>Cost</b>					
Balance, December 31, 2019	\$ 28,002	\$ 435,958	\$ 9,563	\$ 937	\$ 474,460
Additions	—	2,584	2,216	6,469	11,269
Disposals	—	—	(63)	—	(63)
Transfers to joint venture	(316)	(11,336)	(226)	—	(11,878)
Transfer from investment property	488	9,182	199	—	9,869
Acquisition of Royal JV	1,232	23,184	607	—	25,023
Acquisition of Fayetteville	524	9,843	505	—	10,872
Acquisition of Albany operations	—	—	259	—	259
Sale of Tampa	(143)	(2,707)	(29)	—	(2,879)
Asset transferred to held for sale	(960)	(1,420)	(188)	—	(2,568)
Balance, December 31, 2020	\$ 28,827	\$ 465,288	\$ 12,843	\$ 7,406	\$ 514,364
Additions	—	3,562	3,528	717	7,807
Disposals	—	(135)	—	—	(135)
Transfers	—	7,723	—	(7,723)	—
Assets contributed to joint venture	(2,600)	—	—	—	(2,600)
Transfer from investment property (note 5)	200	18,890	560	—	19,650
Assets transferred to held for sale	(306)	(20,834)	(586)	—	(21,726)
Balance, December 31, 2021	\$ 26,121	\$ 474,494	\$ 16,345	\$ 400	\$ 517,360
<b>Accumulated depreciation</b>					
Balance, December 31, 2019	—	13,930	588	—	14,518
Depreciation and amortization	—	46,322	2,247	—	48,569
Disposals	—	—	(3)	—	(3)
Transfers to joint venture	—	(111)	(10)	—	(121)
Asset transferred to held for sale	—	(397)	(27)	—	(424)
Balance, December 31, 2020	\$ —	\$ 59,744	\$ 2,795	\$ —	\$ 62,539
Depreciation and amortization	—	20,629	1,523	—	22,152
Disposals	—	(13)	—	—	(13)
Impairment	—	1,100	—	—	1,100
Assets transferred to held for sale	—	(395)	(24)	—	(419)
Balance, December 31, 2021	\$ —	\$ 81,065	\$ 4,294	\$ —	\$ 85,359
Property, plant and equipment, net balance, December 31, 2020	\$ 28,827	\$ 405,544	\$ 10,048	\$ 7,406	\$ 451,825
Property, plant and equipment, net balance, December 31, 2021	\$ 26,121	\$ 393,429	\$ 12,051	\$ 400	\$ 432,001

(b) *Dispositions and transfers - year ended December 31, 2021*

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

	Richmond, VA	Parker, CO	Total
Properties	(1)	—	(1)
Land	\$ —	\$ 2,600	\$ 2,600
Property, plant and equipment	(2,152)	—	(2,152)
	\$ (2,152)	\$ 2,600	\$ 448
Consideration paid (received):			
Gain on sale of property	1,282	—	1,282
Cash proceeds received, net	(3,434)	—	(3,434)
Contributed to joint venture	—	2,600	2,600
	\$ (2,152)	\$ 2,600	\$ 448

On June 14, 2021, the Company entered into a joint venture for the development of a seniors housing property in Parker, Colorado ("Terra Bluffs"). The Company contributed land valued at \$2,600 and \$3,002 of cash to the joint venture in exchange for a 73.6% ownership interest.

On October 27, 2021, the Company sold a property in Richmond, VA which was previously recorded as held for sale for total consideration of \$3,500 before closing costs, received in the form of cash.

(c) *Acquisitions - year ended December 31, 2020*

	Royal	Fayetteville	Albany operations	Total
Properties	5	1	—	6
Property, plant and equipment	\$ 25,023	\$ 10,872	\$ 259	\$ 36,154
Cash balance acquired	1,388	625	68	2,081
Working capital balances	(147)	(101)	(327)	(575)
Mortgages assumed	(22,822)	(6,848)	—	(29,670)
	\$ 3,442	\$ 4,548	\$ —	\$ 7,990
Consideration paid:				
Fair value of previously held interest	3,442	4,072	—	7,514
Cash paid	—	476	—	476
	\$ 3,442	\$ 4,548	\$ —	\$ 7,990

On May 6, 2020 the Company acquired 100% of Royal Senior Living's ("Royal") interest in five joint venture properties in which the Company already had a majority ownership interest ("Royal JV"). Simultaneous with this transaction, management of four of these properties was transitioned to Phoenix Senior Living ("Phoenix") and combined with two assets in the Company's portfolio already managed by Phoenix. On May 6, 2020 the Company acquired the minority partner's interest in one of these properties, Fayetteville, for \$476.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

The Company owns a controlling 90% interest in the entity that owns and operates the six assets, and as a result they have been consolidated following this transaction. The Company received total consideration of \$1,126 from Phoenix for their buy-in to the entity, of which \$650 was received in cash and \$476 in a note to an affiliate of Phoenix for the remaining portion of their 10% ownership in the entity. \$26 of the note has been repaid as of December 31, 2020.

*(d) Dispositions and transfers - year ended December 31, 2020*

	Arlington Sale	Glassboro to Joint Venture	Tampa Sale	Total
Properties	(1)	(1)	(1)	(3)
Property, plant and equipment	\$ (12,201)	\$ (11,757)	\$ (2,879)	(26,837)
Working capital balances	67	(57)	(121)	(111)
	\$ (12,134)	\$ (11,814)	\$ (3,000)	(26,948)
Consideration paid (received):				
Equity contributed to joint venture	—	(3,016)	—	(3,016)
Gain (loss) on sale of property	(221)	103	—	(118)
Note issued to joint venture partner	—	(490)	—	(490)
Repayment/contribution of mortgages payable	(8,000)	(8,411)	—	(16,411)
Cash proceeds received, net	(3,913)	—	(3,000)	(6,913)
	\$ (12,134)	\$ (11,814)	\$ (3,000)	(26,948)

On February 28, 2020, the Company sold a seniors housing property located in Arlington, TX for a sale price of \$12,450 before closing costs. This property was previously recorded as held for sale. The consideration was paid in the form of an \$8,000 repayment of the mortgage secured by the property and \$3,900 of cash.

On February 21, 2020, the Company entered into a joint venture agreement with the operator Heritage Senior Living ("Heritage") for a property in Glassboro, NJ. Heritage operates the property pursuant to a management agreement. The Company sold 10% of its interest in the property and operations for \$490, satisfied through a promissory note earning 5.91% annual interest. The promissory note matures at the earlier of March 1, 2024, the date that the existing debt secured by the property is refinanced, or upon termination of the management agreement.

The remaining asset in the former five property Royal JV, a seniors housing community in Tampa, FL, was non-strategic for the Company, and was sold to a third party on May 11, 2020 for \$3,290 less transaction costs.

*(e) Assets held for sale*

The following table summarizes the significant assets held for sale on December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Assets:		
Property, plant and equipment, net	21,307 \$	2,144
	\$ 21,307 \$	2,144



# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

In June 2020 the Company ceased operations in and listed for sale a property located in Richmond, VA. The Company successfully transitioned all residents from this property into new locations in order to prepare the building for sale. On October 27, 2021, the Company sold the property for total consideration of \$3,500 before closing costs, received in the form of cash.

In June 2021 the Company ceased operations in and listed for sale a property located in Port Royal, SC. The Company has successfully transitioned all residents from this property into new locations in order to prepare the building for sale. The assets are classified as held for sale on the consolidated statement of financial position at December 31, 2021.

On November 15, 2021, the Company entered into a purchase and sale agreement to sell two properties in New York. These properties were previously transferred to property, plant and equipment on October 24, 2021. The assets are classified as held for sale on the consolidated statement of financial position at December 31, 2021.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## 7. Joint arrangements:

As at December 31, 2021, the following are the Company's joint arrangements:

Joint arrangement	Number of properties	Location	Company ownership	Consolidation type
Invesque-Autumnwood Landlord	4	Canada	50 %	Joint operation <sup>(1)</sup>
Invesque-Autumnwood Operator	—	Canada	50 %	Joint venture <sup>(2)</sup>
Calamar	2	United States	75 %	Joint venture <sup>(3)</sup>
Heritage JV	3	United States	80 %	Joint venture <sup>(3)</sup>
Heritage Newtown	1	United States	80 %	Joint venture <sup>(3)</sup>
Heritage Harleysville	1	United States	90 %	Joint venture <sup>(3)</sup>
Heritage Glassboro	1	United States	90 %	Joint venture <sup>(3)</sup>
Jaguarundi	4	United States	66 %	Joint venture <sup>(4)</sup>
Terra Bluffs	1	United States	72 %	Joint venture <sup>(3)</sup>

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

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

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

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

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

The Company and Autumnwood each owns a 50% direct beneficial interest in the real estate assets of the Invesque-Autumnwood Landlord entity and are jointly obligated for the related mortgages for a portfolio of four properties which are accounted for as joint operations and are accounted for under the proportionate consolidation method. The Company's 50% interest in the operations of these properties is held through separate legal entities (collectively referred to as "Invesque-Autumnwood Operators"), which under IFRS 11, Joint arrangements, are accounted for as joint ventures using the equity method. Invesque-Autumnwood Operators have leased the real estate from the landlords under their respective lease agreements. These leases are for three-year periods, with six automatic renewals every third anniversary for a total of 21 years. The Company's share of the landlords' lease receipts, \$3,529 for the year ended December 31, 2021 (year ended December 31, 2020 - \$3,118), is reported as lease revenue from joint ventures. Invesque-Autumnwood Operators lease expense is included in the share of loss from joint ventures in the consolidated statements of loss and comprehensive loss.

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

On June 5, 2019, the Company contributed eight investment properties to Jaguarundi Ventures, LP, a joint venture formed with Magnetar Financial LLC (collectively, "Magnetar"), a related party. The Company received \$23,000 from its joint venture partner in the arrangement in exchange for a 39.49% interest in the joint venture. The properties contributed had an investment property value of \$161,047 and total mortgage indebtedness of \$102,692. On October 29, 2021, the Company contributed an additional investment property located in Webster, Texas to the joint venture in exchange for an increase in its joint venture ownership interest to 65.83%. On November 16, 2021 Jaguarundi Ventures, LP sold a five property portfolio for a total sale price of \$93,000. Proceeds from the sale were used in part to repay \$67,489 in existing mortgage debt on the properties that were sold. The Company provides a guarantee on the outstanding mortgage balances of the Jaguarundi Ventures, LP in exchange for a fee equal to 15 basis points on the amount guaranteed. The Company earns an

# INVESQUE INC.

## Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

asset management fee of 25 basis points based on gross asset value. For the year ended December 31, 2021, the Company has earned guaranty fees of \$59 (year ended December 31, 2020 - \$60) and management fees of \$403 (year ended December 31, 2020 - \$403) from Jaguarundi Ventures, LP included in other revenue in the consolidated statements of loss and comprehensive loss.

On May 6, 2020 the Company acquired 100% of Royal Senior Living's ("Royal") interest in five joint venture properties in which the Company already had a majority ownership interest ("Royal JV") (Note 7).

In addition to the five-asset Royal joint venture referenced above, the Company also had a single-asset joint venture with Royal which owned a seniors housing community in Eatonton, GA ("Royal Eatonton"). Royal purchased the Company's 65% ownership interest in the community on May 6, 2020. Cash proceeds to the Company for this sale were \$1,447. Following this transaction, the Company and Royal no longer have any shared interests in joint arrangements.

On June 14, 2021, the Company entered into a joint venture for the development of a seniors housing property in Parker, Colorado ("Terra Bluffs"). The Company contributed land valued at \$2,600 and \$3,002 of cash to the joint venture in exchange for a 73.6% ownership interest. The project has property under development of \$10,676 at 100% ownership as of December 31, 2021. The remaining portion of the project will be funded through draws on construction loans at the joint venture.

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

	Year ended December 31, 2021		Year ended December 31, 2020	
Cash contributions to joint ventures	\$	4,283	\$	1,855
Distributions received from joint ventures	\$	16,083	\$	3,803

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

	December 31, 2021		December 31, 2020	
	Net assets	Company share of net assets	Net assets	Company share of net assets
Cash	\$ 14,833	\$ 10,893	\$ 5,480	\$ 4,152
Tenant and other receivables	3,015	1,749	3,204	1,765
Other	693	927	923	839
<b>Current assets</b>	<b>18,541</b>	<b>13,569</b>	<b>9,607</b>	<b>6,756</b>
Investment properties	211,320	156,135	292,526	204,399
Property, plant and equipment, net	25,706	18,549	26,317	19,044
Loans receivable	3,882	55	3,885	55
Other non-current assets	495	373	481	362
<b>Total assets</b>	<b>\$ 259,944</b>	<b>\$ 188,681</b>	<b>\$ 332,816</b>	<b>\$ 230,616</b>
Accounts payable and accrued liabilities	\$ 11,575	\$ 8,881	\$ 6,753	\$ 4,787
Unearned revenue	655	532	712	585
Mortgages payable - current	32,804	22,532	25,332	17,311
<b>Current liabilities</b>	<b>45,034</b>	<b>31,945</b>	<b>32,797</b>	<b>22,683</b>
Mortgages payable - non-current	117,542	94,416	187,120	135,298
Construction loan	4,805	3,458	—	—
Loan commitment liability	—	—	416	252
Derivative instruments	2,426	1,996	7,249	5,615
Payable to Invesque	7,802	5,136	—	—
Other non-current liabilities	1,821	1,290	2,286	1,510
<b>Total liabilities</b>	<b>\$ 179,430</b>	<b>\$ 138,241</b>	<b>\$ 229,868</b>	<b>\$ 165,358</b>
<b>Net assets</b>	<b>\$ 80,514</b>	<b>\$ 50,440</b>	<b>\$ 102,948</b>	<b>\$ 65,258</b>

On October 29, 2021, the Company contributed an additional investment property located in Webster, Texas to the joint venture in exchange for an increase in its joint venture ownership interest to 65.83%. The Webster, Texas property is pledged against the Company's Credit Facility and the Jaguarundi Ventures, LP has recorded the \$7,802 obligation to the Company for the Webster, Texas property's share of the Company's Credit Facility debt.

As at December 31, 2021, a joint arrangement with respect to one property currently undergoing renovations did not meet certain debt service coverage ratio requirements under the terms of a mortgage agreement secured by the property. As the joint arrangement did not have an unconditional right to defer settlement of the mortgage for at least twelve months as at December 31, 2021, the \$9,186 outstanding loan balance has been classified as a current liability of the joint arrangement as at December 31, 2021.

As at December 31, 2021, a joint arrangement with respect to one property held in Jaguarundi Ventures, LP did not meet certain debt covenant requirements under the terms of a mortgage agreement secured by the property. As the joint arrangement did not have an unconditional right to defer settlement of the mortgage for at least twelve months as at December 31, 2021, the \$13,569 outstanding loan balance has been classified as a current liability of the joint arrangement as at December 31, 2021.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

	Year ended December 31, 2021		Year ended December 31, 2020	
	Net loss	Company share of net loss	Net loss	Company share of net loss
Revenue	\$ 57,765	\$ 34,086	\$ 65,249	\$ 40,457
Other income	1,511	1,243	1,582	1,294
Property operating expense	(40,032)	(22,417)	(43,259)	(25,536)
Depreciation expense	(725)	(543)	(724)	(546)
Finance costs	(9,472)	(6,818)	(9,294)	(6,591)
Real estate tax expense	(1,480)	(902)	(1,609)	(974)
General and administrative expenses	(6,453)	(3,980)	(3,272)	(1,974)
Allowance for credit losses on loans and interest receivable	(954)	(577)	(14,800)	(11,957)
Change in fair value of financial instruments	3,965	3,112	(4,622)	(3,603)
Change in fair value of investment properties	(21,363)	(18,110)	(33,830)	(25,299)
Net income (loss), prior to distributions to owners	\$ (17,238)	\$ (14,906)	\$ (44,579)	\$ (34,729)

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

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

	December 31, 2021		December 31, 2020	
Mortgages at fixed rates:				
Mortgages (principal) <sup>(1)</sup>	\$	150,900	\$	170,814
Interest rates		3.99% to 5.23%		3.99% to 4.98%
Weighted average interest rate		4.30 %		4.30 %
Mortgages at variable rates:				
Mortgages (principal)	\$	500	\$	42,635
Interest rates		LIBOR plus 2.75% with a 3.75% floor		LIBOR plus 2.40% to LIBOR plus 3.00%
Weighted average interest rate		3.75 %		3.88 %
Blended weighted average rate		4.30 %		4.22 %

(1) Includes \$89,231 of variable rate mortgages that are fixed with interest rate swaps (December 31, 2020 - \$114,589).

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

The following tables summarize the information about the Company's investment in Jaguarundi Ventures, LP, which have been accounted for under the equity method and included in tables above. Jaguarundi Ventures, LP is shown separately below due to significance of the interest in the joint venture. The joint venture was formed on June 5, 2019. During the year ended December 31, 2021, the Company has not made cash contributions to Jaguarundi Ventures, LP (year ended December 31, 2020 - \$1,428). During the year ended December 31, 2021, the Company received cash distributions of \$14,543 from Jaguarundi Ventures, LP (year ended December 31, 2020 - NIL).

	December 31, 2021		December 31, 2020	
	Net assets	Company share of net assets	Net assets	Company share of net assets
Cash	\$ 8,054	\$ 5,365	\$ 1,658	\$ 1,003
Tenant and other receivables	1,175	773	1,602	969
Other	—	—	110	68
Current assets	9,229	6,138	3,370	2,040
Investment properties	52,000	34,232	143,785	86,999
Loans receivable	24	16	—	—
Total assets	\$ 61,253	\$ 40,386	\$ 147,155	\$ 89,039
Accounts payable and accrued liabilities	\$ 1,317	\$ 867	\$ 1,918	\$ 1,160
Mortgages payable - current	23,086	15,198	15,227	9,214
Current liabilities	24,403	16,065	17,145	10,374
Mortgages payable - non-current	14,497	9,543	84,149	50,916
Loan commitment liability	—	—	416	252
Payable to Invesque	7,802	5,136	—	—
Derivative instruments	—	—	1,602	969
Other non-current liabilities	1,250	823	1,700	1,029
Total liabilities	\$ 47,952	\$ 31,567	\$ 105,012	\$ 63,540
Net assets	\$ 13,301	\$ 8,819	\$ 42,143	\$ 25,499

The Company provides a guarantee on the outstanding mortgage balances of the Jaguarundi Ventures, LP in exchange for a fee equal to 15 basis points on the amount guaranteed. As of December 31, 2021, the outstanding mortgages balance of Jaguarundi Ventures, LP is \$37,586 (December 31, 2020 - \$99,376). As of December 31, 2021, the value of the properties that collateralize the mortgages is \$52,000 (December 31, 2020 - \$143,785) and is sufficient to support the mortgage values.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

	Year ended December 31, 2021		Year ended December 31, 2020	
	Net income (loss)	Company share of net income (loss)	Net income (loss)	Company share of net income (loss)
Revenue	\$ 13,921	\$ 8,431	\$ 14,423	\$ 8,638
Finance costs	(4,578)	(2,823)	(3,859)	(2,182)
Real estate tax expense	(1,480)	(902)	(1,609)	(974)
General and administrative expenses	(6,461)	(3,984)	(3,318)	(2,008)
Allowance for credit losses on loans and interest receivable	(954)	(577)	(14,800)	(11,956)
Change in fair value of financial instruments	744	462	(942)	(570)
Change in fair value of investment properties	(16,911)	(11,315)	(19,294)	(11,585)
Net income (loss), prior to distributions to owners	\$ (15,719)	\$ (10,708)	\$ (29,399)	\$ (20,637)

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## 8. Credit facilities:

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

	December 31, 2021	Borrowing rate at December 31, 2021	December 31, 2020	Borrowing rate at December 31, 2020
Credit Facility Term <sup>(1) (5)</sup>	\$ 200,000	4.26 %	\$ 200,000	4.66 %
Credit Facility Revolver <sup>(2) (5)</sup>	130,688	3.54 %	190,500	3.58 %
MOB Facility USD denominated portion	21,286	2.30 %	21,286	2.34 %
MOB Facility CAD denominated portion <sup>(1) (3)</sup>	67,404	4.32 %	66,904	4.32 %
Magnetar Facility	—	— %	10,000	9.00 %
Commonwealth Facility <sup>(4) (5)</sup>	180,453	3.80 %	176,000	3.84 %
Finance costs, net	(2,565)	—	(4,094)	—
Carrying value	\$ 597,266	3.90 %	\$ 660,596	4.09 %
Less current portion	795		10,000	
Long-term portion	\$ 596,471		\$ 650,596	

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

(2) \$75,000 of this facility is fixed with interest rate swaps.

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

(4) \$176,000 of this facility is fixed with interest rate swaps.

(5) Upon the upcoming transition from LIBOR in 2023, this credit facility will migrate to an elective alternative benchmark of either Term SOFR and a related benchmark adjustment, Daily Simple SOFR and a related benchmark adjustment or an alternative benchmark based on future legislative or then-market benchmark replacement determinations.

On December 20, 2018, the Company entered into an agreement for an unsecured credit facility (the "Credit Facility") with a \$400,000 capacity. The Credit 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. On December 31, 2021, the maturity date of the revolving line of credit was extended to December 20, 2023. The Credit Facility bears interest at a rate of LIBOR plus an applicable margin based on the Company's consolidated leverage ratio, with an option to use a rate based on Base Rate, as defined in the agreement, plus an applicable margin.

The borrowing capacity of the Credit Facility is based on the undepreciated book value of an unencumbered pool of assets. Per the agreement, the Company's leverage could not 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 (the "surge period"). Per the agreement, the fixed charge ratio shall not be less than 1.75 to 1.0. On November 7, 2019, the Company amended the terms of the Credit Facility to extend the surge provision period following a material acquisition for both the maximum consolidated total leverage ratio covenant and unencumbered pool leverage covenant. The maximum consolidated total leverage ratio covenant can increase to 65% for four quarters starting with the third quarter of 2019. The unencumbered pool leverage ratio may increase to 65% for two quarters starting with the third quarter of 2019, reducing to 62.5% for two quarters after that, and reducing back to 60% thereafter. The Company's acquisition of Commonwealth is considered a material acquisition under the terms of the Credit Facility.

On November 4, 2020, the Company entered into an agreement to modify the Credit Facility, in which the facility will be permanently converted to a facility secured by pledges of equity in the special purposes entities which own the properties making up a borrowing base. The minimum fixed charge coverage ratio covenant will permanently decrease from 1.75 to 1.60. Per the agreement, the Company was granted a surge period effective with the quarterly reporting period ended September 30, 2020 through June 30, 2021. During the surge period, the consolidated leverage ratio covenant was increased from 60% to 65%, the advance rate increased from 60% to 65% of the borrowing base, the applicable margin for LIBOR loans increased 15 basis points, and the implied interest rate used to calculate the debt service coverage amount



# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

decreased from 6.0% to 5.75%. Per the agreement, the surge period ended June 30, 2021. On December 31, 2021, the Company entered into an agreement to modify the Credit Facility, in which the maturity date for the revolving line of credit was permanently extended from December 20, 2022 to December 20, 2023. The minimum fixed charge coverage ratio covenant was permanently decreased from 1.60x to 1.50x. Per the agreement, the Company also agreed to an ongoing \$25,000 liquidity requirement as well as a limitation on gross dividends that can be declared during 2022 and 2023. These changes are effective with the reporting period ended December 31, 2021.

On May 1, 2018, a wholly owned subsidiary of the Company entered into a secured credit facility ("MOB Facility") for the purpose of funding the acquisition of 14 medical office buildings. The facility has maximum commitment amounts of CAD\$90,060, with a borrowing rate of the BA Rate plus 220 basis points, and a US Dollar commitment of \$22,515, with a borrowing rate of LIBOR plus 220 basis points. The facility provides for interest-only payments through its maturity date of May 1, 2023. Per the terms of the agreement, CAD\$4,858 and USD\$1,228 are reserved for the construction of tenant improvements and the payment of leasing commissions for leases entered into after the closing of the transaction. On May 1, 2018, in conjunction with the acquisition, the Company drew CAD\$85,202 and USD\$16,647. The facility also included an allocation of USD\$4,460 for the acquisition of an additional medical office property in Williamsville, New York. On June 28, 2018, the Company amended the terms of the agreement to increase the borrowing capacity for the Williamsville, New York property to USD\$6,572. The company drew a total of USD\$6,572 in conjunction with the closing of the Williamsville asset on July 9, 2018. On December 31, 2018, the Company repaid USD\$1,933 on the facility. On September 21, 2020, the Company entered into an amendment to the MOB Facility that reset certain loan covenant levels. Pursuant to the terms of the amendment, during a test period beginning June 30, 2020, the Company's debt yield covenant level was reduced to 5.75% (which increases to 8.00% at December 31, 2021).

On July 26, 2019, the Company entered into a credit agreement with Magnetar for a principal amount of \$30,000, annual interest rate of 8.5%, and an initial maturity of one year with a one year extension option ("Magnetar Facility"). On December 5, 2019, the Company repaid \$15,000 on the facility. On June 5, 2020, the Company gave notice of intent to exercise the one year extension option and per the Magnetar Facility credit agreement the interest rate increased to 9.0%. On June 16, 2020, the Company repaid \$5,000 on the Magnetar Facility. On June 22, 2021, the Company used cash on hand to repay the \$10,000 remaining Magnetar Facility.

On August 1, 2019, a wholly owned subsidiary of the Company entered into a secured credit facility ("Commonwealth Facility") for the purpose of funding the acquisition of Commonwealth Tranche I. The \$176,000 new debt secured by 16 properties has a maturity date of August 1, 2024, with 2 available extension options. It bears interest at a rate of LIBOR plus 215 basis points. The agreement also provides for an accordion feature that would extend the capacity of the loan by an additional \$50,000 subject to certain terms and conditions provided for in the agreement. Pursuant to the terms of the Commonwealth Facility, the Company is required to maintain a debt yield of 8.0% (which increases to 8.75% at September 30, 2021) as well as a Debt Service Coverage Ratio of 1.25. On August 11, 2021, the Company entered into an amendment of the Commonwealth Facility whereby the required debt yield was modified to be 8.0% for the trailing six month period ended December 31, 2021; 8.0% for the trailing nine month period ending March 31, 2022; 8.25% for the trailing twelve month period ending June 30, 2022; 8.5% for the trailing twelve month period ending September 30, 2022; 8.75% for the trailing twelve month period ending December 31, 2022; and 9.0% for each trailing twelve month test period thereafter.

On January 17, 2020, the Company entered into an amendment to the Commonwealth Facility that established a \$10,000 capital improvements holdback ("Holdback"). The Holdback provides funding to the Company for reimbursement of capital improvements made to the properties encumbered by the Commonwealth Facility. The amendment allows the Company to be reimbursed for 65% of capital improvement costs incurred. On January 26, 2021, the Company drew \$4,453 from the Holdback for reimbursement of expenses incurred for adding additional units to the Abingdon, South Boston and Front Royal properties.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

Future principal repayments of the credit facilities are as follows:

	Aggregate principal payments
2022	\$ 795
2023	421,854
2024	177,182
2025	—
2026	—
Thereafter	—
<b>Total</b>	<b>\$ 599,831</b>

## 9. Mortgages payable:

Mortgages payable consist of the following as at December 31, 2021:

	December 31, 2021	December 31, 2020
Mortgages payable	\$ 210,410	\$ 296,881
Mark-to-market adjustment, net	4,847	4,958
Finance costs, net	(1,434)	(2,375)
Carrying value	\$ 213,823	\$ 299,464
Less current portion	34,876	30,622
Long-term portion	\$ 178,947	\$ 268,842

Mortgages payable are collateralized by investment properties and property, plant and equipment with a value of \$324,565 at December 31, 2021. Maturity dates on mortgages payable range from 2022 to 2054, and the weighted average years to maturity is 6.30 years at December 31, 2021.

Mortgages payable are collateralized by investment properties and property, plant and equipment with a value of \$461,200 at December 31, 2020. Maturity dates on mortgages payable range from 2021 to 2054, and the weighted average years to maturity is 7.93 years at December 31, 2020.

Future principal payments on the mortgages payable as at December 31, 2021 are as follows:

	Regular principal payments	Principal due on maturity	Total principal payments	% of total principal payments
2022	\$ 3,951	\$ 30,926	\$ 34,877	16 %
2023	3,584	48,754	52,338	25 %
2024	2,816	37,511	40,327	19 %
2025	1,484	23,438	24,922	12 %
2026	1,367	—	1,367	1 %
Thereafter	26,887	29,692	56,579	27 %
	<b>\$ 40,089</b>	<b>\$ 170,321</b>	<b>\$ 210,410</b>	<b>100 %</b>

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

	December 31, 2021		December 31, 2020	
Mortgages at fixed rates:				
Mortgages (principal) <sup>(1)</sup>	\$	155,297	\$	240,429
Interest rates		2.16% to 6.15%		2.55% to 6.15%
Weighted average interest rate		4.04 %		4.33 %
Mortgages at variable rates:				
Mortgages (principal)	\$	55,113	\$	56,452
Interest rates		LIBOR plus 2.45% to LIBOR plus 2.75% with a 1% LIBOR Floor		LIBOR plus 2.45% to LIBOR plus 2.75% with a 1% LIBOR Floor
Weighted average interest rate		3.52 %		3.53 %
Blended weighted average rate		3.91 %		4.18 %

(1) Includes \$35,142 of variable rate mortgages that are fixed with interest rate swaps (December 31, 2020 - \$67,069).

Upon the upcoming transition from LIBOR in 2023, \$17,135 of the Company's variable rate mortgages fixed through an interest rate swap will see the underlying variable rate migrate to an elective alternative benchmark of either Term SOFR and a related benchmark adjustment, Daily Simple SOFR and a related benchmark adjustment or an alternative benchmark based on future legislative or then-market benchmark replacement determinations. The remaining \$18,007 of variable rate mortgage fixed through an interest rate swap will not be impacted by the LIBOR transition.

Upon the upcoming transition from LIBOR in 2023, \$10,197 of the Company's variable rate mortgages will see the underlying variable rate migrate to an elective alternative benchmark of either Term SOFR and a related benchmark adjustment, Daily Simple SOFR and a related benchmark adjustment or an alternative benchmark based on future legislative or then-market benchmark replacement determinations. The remaining \$44,916 of variable rate mortgage fixed through an interest rate swap will not be impacted by the LIBOR transition.

# INVESQUE INC.

Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted, except share and per share amounts)  
Years ended December 31, 2021 and 2020

## 10. Derivative financial instruments:

### (a) Derivative swaps:

Derivative swaps as at December 31, 2021 are detailed in the table below:

Swap	Maturity date	Fixed rate	Notional amount	Asset (liability) balance		Income (loss) for the twelve months ended	
				December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Credit Facility Term <sup>(3)</sup>	December 19, 2023	LIBOR fixed at 2.11%	\$ 200,000	\$ (5,475)	\$ (11,945)	\$ 6,470	\$ (7,479)
Credit Facility Revolver <sup>(3)</sup>	January 2, 2024	LIBOR fixed at 2.57%	25,000	(927)	(1,860)	933	(841)
Credit Facility Revolver	December 1, 2022	LIBOR fixed at 2.11%	50,000	(870)	(1,996)	1,126	(1,135)
Red Oak Swap <sup>(1)</sup>	January 18, 2023	Interest rate fixed at 2.17%	3,990	14	(13)	27	16
Winchester Swap	November 1, 2021	Interest rate fixed at 4.54%	—	—	(76)	34	(74)
MOB Facility Swap <sup>(2)</sup>	May 1, 2023	Banker's Acceptance fixed at 2.12%	67,404	(876)	(2,561)	1,723	(2,127)
Grand Brook Swap	October 2, 2021	Interest rate fixed at 5.98%	—	—	(402)	264	73
Commonwealth Swap <sup>(3)</sup>	August 1, 2024	LIBOR fixed at 1.69%	176,000	(3,302)	(9,375)	6,073	(8,535)
Constant Care Swap	October 1, 2022	Interest rate fixed at 4.21%	—	—	(641)	203	(705)
Oak Ridge Swap	April 1, 2022	LIBOR fixed at 0.66%	14,011	(25)	(100)	75	(100)
Charlottesville Swap <sup>(3)</sup>	March 31, 2024	LIBOR fixed at 0.56%	17,135	127	—	127	—
			Carrying value \$	(11,334)	\$ (28,969)	\$ 17,055	\$ (20,907)
			Less current liability portion	(895)	(491)		
			Long term liability portion \$	(10,439)	\$ (28,478)		

(1) The swap has a notional amount of CAD\$5,044.

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

(3) Upon the upcoming transition from LIBOR in 2023, this interest rate swap agreement will migrate to an elective alternative benchmark of either Term SOFR and a related benchmark adjustment, Daily Simple SOFR and a related benchmark adjustment or an alternative benchmark based on future legislative or then-market benchmark replacement determinations.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## *(b) Prepayment embedded derivatives:*

Certain mortgages payable contain prepayment options that represent embedded derivatives that require bifurcation from the host contract. The prepayment options are measured at fair value, with changes in the fair value being recognized as change in fair value of financial instruments in the consolidated statements of loss and comprehensive loss.

The fair value of the prepayment embedded derivatives has been determined using a LIBOR based interest rate swap options ("swaptions") as a proxy. The swaptions were structured to mirror the financial conventions of the respective loans, including payment periods, accrual basis, principal amortization, prepayment dates and prepayment premiums. The swaptions were structured as fixed receiver with a strike rate set on market as of the date of the loan agreement with exercise premiums to match the underlying loans plus a cost of refinancing upon exercise. The resulting swaption price would represent a proxy for the value of the prepayment rights embedded in the underlying loans. The fair values determined are based on significant other observable inputs (Level 2). As at December 31, 2021, the prepayment embedded derivative assets have a fair value of \$3,388 (2020 - \$4,814). For the year ended December 31, 2021, a fair value loss of \$1,426 (year ended December 31, 2020 - \$1,823 gain), was recorded in the consolidated statements of loss and comprehensive loss.

## **11. Convertible debentures:**

### *(a) 2016 Convertible Debentures*

On December 16, 2016, the Company issued \$45,000 aggregate principal amount 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.

The 2016 Convertible Debentures were convertible into common shares of the Company at the option of the holder at a conversion price of \$11.00 per common share 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. On or after January 31, 2020 and prior to January 31, 2021, the 2016 Convertible Debentures were redeemable by the Company in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the volume weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after January 31, 2021, and prior to the maturity date, the 2016 Convertible Debentures were redeemable by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued interest.

On November 15, 2021, a meeting of holders of the 2016 Convertible Debentures was held whereby the holders of 2016 Convertible Debentures ("2016 Debentureholders") approved proposed amendments to the 2016 Convertible Debentures. The approved amendments include the following changes to the 2016 Convertible Debentures:

1. Increase the interest rate from 5.00% to 7.00%, effective January 31, 2022.
2. Decrease the conversion price from \$11.00 to \$5.00 per share.
3. Extension of the maturity date from January 31, 2022 to January 31, 2025.
4. Approval of the redemption of \$20,000 of the principal amount of the 2016 Convertible Debentures as of the close of business on January 31, 2022.

As a result of the substantive modification of the terms of the 2016 Convertible Debentures, on the date of modification the amortized cost of the previously recorded liability was derecognized for an amount equal to its fair value, resulting in a gain of \$7,200. The previously recorded equity component of the 2016 Convertible Debentures was transferred to share capital, and the fair value of the liability and equity components of the modified convertible debentures were recorded.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

On January 31, 2022 (the "Redemption Date"), the Company redeemed \$20,000 of the principal amount of the 2016 Convertible Debentures outstanding plus accrued and unpaid interest (at 5.00%) thereon. In accordance with the Debenture Amendments, the interest rate on the remaining 2016 Convertible Debentures was increased to 7.00% effective January 31, 2022.

Upon redemption or maturity, the Company may satisfy its obligations with respect to the convertible debentures in cash or the issuance of common shares based on 95% of the Current Market Price on the Redemption Date or Maturity Date, respectively.

As at December 31, 2021, the 2016 Convertible Debentures are comprised of the following:

	December 31, 2021		December 31, 2020	
Issued	\$	44,975	\$	44,975
Issue costs, net of amortization and accretion of equity component		(409)		802
Mark to market adjustment, net		(6,552)		—
Equity component, excluding issue costs and taxes		(4,254)		(1,648)
<b>2016 Convertible Debentures</b>	<b>\$</b>	<b>33,760</b>	<b>\$</b>	<b>44,129</b>
Current	\$	19,678	\$	—
Non-current		14,082	\$	44,129
<b>2016 Convertible Debentures</b>	<b>\$</b>	<b>33,760</b>	<b>\$</b>	<b>44,129</b>

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

## (b) 2018 Convertible Debentures

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.

The 2018 Convertible Debentures are convertible into common shares of the Company at the option of the holder at a conversion price of \$10.70 per common share. The debentures will not be redeemable prior to September 30, 2021. On or after September 30, 2021, and prior to September 30, 2022, the 2018 Convertible Debentures may be redeemed in whole or in part from time to time at the Company's option, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after September 30, 2022, and prior to the maturity date, the 2018 Convertible Debentures may be redeemed by the Company, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest.

Upon redemption or maturity, the Company may satisfy its obligations with respect to the convertible debentures in cash or the issuance of common shares based on 95% of the Current Market Price on the Redemption Date or Maturity Date, respectively.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

As at December 31, 2021, the 2018 Convertible Debentures are comprised of the following:

	December 31, 2021	December 31, 2020
Issued	\$ 50,000	\$ 50,000
Issue costs, net of amortization and accretion of equity component	(367)	(982)
Equity component, excluding issue costs and taxes	(736)	(736)
<b>2018 Convertible Debentures</b>	<b>\$ 48,897</b>	<b>\$ 48,282</b>

Interest costs related to the 2018 Convertible Debentures are recorded in financing costs using the effective interest rate method.

## 12. Commonwealth preferred unit liability:

On August 1, 2019, the Company issued \$53,587 in preferred interests of the acquiring subsidiary to fund the purchase of Commonwealth Tranche I. The preferred interests are exchangeable by holders into common shares of the Company at a fixed exchange price of \$9.75 per common share. The preferred interests have an initial dividend rate of 6.50% per annum, with annual escalators beginning August 1, 2023, and a liquidation value equal to their unreturned initial capital contribution and any accrued and unpaid dividends. These dividends are included in finance costs from operations in the consolidated statements of income and comprehensive income. Under certain circumstances, the Company will have the right to redeem the preferred interests at its discretion for an amount specified in the operating agreement.

On December 23, 2019, the Company issued \$12,093 in preferred interests of the acquiring subsidiary to fund the purchase of the Commonwealth Tranche II.

On October 1, 2020, the Company issued \$1,701 in preferred interests to fund the earnout payment pursuant to the Commonwealth purchase agreement (note 24).

As at December 31, 2021 the Commonwealth preferred unit liability is comprised of the following:

	December 31, 2021	December 31, 2020
Issued	\$ 67,381	\$ 67,381
Equity component, net of accretion	(1,142)	(1,584)
<b>Commonwealth preferred unit liability</b>	<b>\$ 66,239</b>	<b>\$ 65,797</b>

On January 4, 2022 the Company redeemed \$10,000 of the outstanding Commonwealth preferred interest.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## 13. Other liabilities:

Other liabilities are as follows:

	December 31, 2021		December 31, 2020	
Deferred shares liability (note 21)	\$	903	\$	875
Security deposits received from tenants		1,796		8,576
Escrows collected from tenant		1,519		1,816
Unearned revenue		2,051		2,674
Liability to previous owner of Care		—		126
Lease liability		1,470		1,890
Loan commitment liability (note 24)		—		115
Exchangeable units liability		2,049		2,049
Earnout payable (note 24)		1,996		2,254
Other		331		841
	\$	12,115	\$	21,216
Current	\$	3,787	\$	4,975
Non-current		8,328		16,241
	\$	12,115	\$	21,216

On June 1, 2021, in conjunction with the sale of three properties to the tenant operator Symphony and a new loan agreement with the operator, the Company entered into an agreement to extinguish the \$7,000 security deposit liability in settlement of past rents due from Symphony.



# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## 14. Reconciliation of changes in liabilities arising from financing activities:

	Credit facilities	Mortgages payable	Convertible debentures	Commonwealth preferred unit liability	Total
Balance, December 31, 2019	\$ 646,959	\$ 275,467	\$ 91,049	\$ 63,654	\$ 1,077,129
Proceeds from financing	33,000	16,682	—	—	49,682
Repayments	(21,250)	(17,375)	—	—	(38,625)
Scheduled principal payments	—	(5,112)	—	—	(5,112)
Mortgage contributed to joint venture (note 7)	—	(8,411)	—	—	(8,411)
Mortgages assumed from joint venture (note 7)	—	29,670	—	—	29,670
Mortgages assumed through acquisition of investment property (note 6)	—	4,853	—	—	4,853
Commonwealth preferred units issued (note 7)	—	—	—	1,701	1,701
Mark to market adjustments made to mortgages assumed through acquisition of property, plant and equipment	—	2,991	—	—	2,991
Financing costs paid	(996)	(603)	—	—	(1,599)
Amortizing of financing costs, mark to market adjustments, and accretion of equity components	1,577	337	1,362	442	3,718
Changes in foreign currency rates	1,306	965	—	—	2,271
Balance, December 31, 2020	\$ 660,596	\$ 299,464	\$ 92,411	\$ 65,797	\$ 1,118,268
Proceeds from financing	58,953	17,135	—	—	76,088
Repayments	(124,311)	(98,738)	—	—	(223,049)
Scheduled principal payments	—	(5,023)	—	—	(5,023)
Financing costs paid	—	(206)	(442)	—	(648)
Amortizing of financing costs, mark to market adjustments, and accretion of equity components	1,531	1,052	(5,058)	442	(2,033)
Equity component of convertible debentures	—	—	(4,254)	—	(4,254)
Changes in foreign currency rates	497	139	—	—	636
Balance, December 31, 2021	\$ 597,266	\$ 213,823	\$ 82,657	\$ 66,239	\$ 959,985

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## 15. Share capital:

### (a) Common shares:

The following number and value of common shares were issued and outstanding as at December 31, 2021:

	Common shares	Carrying value
Balance, December 31, 2019	54,633,482	\$ 504,561
Issued on settlement of Deferred Share Incentive Plan	335,709	1,078
Issued on settlement of equity settled Deferred Shares	31,203	214
Issued pursuant to the Company's dividend reinvestment plan	931,602	3,498
Shares acquired under NCIB	(54,500)	(148)
Balance, December 31, 2020	55,877,496	\$ 509,203
Issued on settlement of Deferred Share Incentive Plan	282,200	637
Issued on settlement of equity settled Deferred Shares	76,596	516
Balance, December 31, 2021	56,236,292	\$ 510,356

- (i) On November 15, 2019 the Toronto Stock Exchange ("TSX") approved the Company's notice of intention to renew its 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 2,723,835 of its common shares, or approximately 5% of the Company's 54,476,694 outstanding common shares as of November 1, 2019, for cancellation over the following 12 months. Purchases under the NCIB will be made through the facilities of the TSX 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 10,927 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, 2020, the Company acquired 54,500 common shares.
- (ii) On December 15, 2021 the Toronto Stock Exchange ("TSX") 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 2,811,814 of its common shares, or approximately 5% of the Company's 56,236,292 outstanding common shares as of December 15, 2021, for cancellation over the following 12 months. Purchases under the NCIB will be made through the facilities of the TSX 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 6,584 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, 2021, the Company did not acquire any common shares.
- (iii) On April 10, 2020, the Company announced the suspension of its dividend for all common shareholders from April 1, 2020 until further notice. For the year ended December 31, 2020, the Company declared dividends payable on common shares of \$10,120. Of the \$10,120 dividends declared in the year ended December 31, 2020, \$2,868 was satisfied in the form of shares issued through the dividend reinvestment plan.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

*(b) Preferred shares:*

The following number and value of preferred shares were issued and outstanding as at December 31, 2021:

	Preferred shares	Carrying value
Balance, December 31, 2020 and December 31, 2021	9,098,598	\$ 85,389

The Company entered into subscription agreements in 2017 and 2018 in respect of the issuance of class A convertible preferred shares ("Preferred Shares") to certain funds managed by Magnetar, a significant shareholder of the Company, funded in 3 series. The purpose of the transaction was to raise proceeds to be used for the repayment of debt, general working capital purposes and to fund future acquisitions. The Company issued 7,560,137 preferred shares for aggregate gross proceeds of \$71,500.

The Preferred Shares issued during series 1, 2, and 3 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 Preferred Shares were issued at a price per share equal to the initial liquidation preference of \$9.75, subject to a 3% discount. Following issuance, the liquidation preference of the Preferred Shares will accrete 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. In certain circumstances, the Company may redeem the Preferred Shares for an amount equal to their liquidation preference and may also require the conversion of the Preferred Shares. If the Preferred Shares are redeemed or mandatorily converted in the first year following issuance, the liquidation preference of such shares will include a 4% premium to the initial liquidation preference. This premium will be reduced by 1% per year in respect of redemptions or mandatory conversions in the second, third or fourth years following issuance.

On July 23, 2019, the Company entered into subscription agreements in respect of the issuance of Class A convertible preferred shares to Magnetar for aggregate gross proceeds of \$14,550. On August 27, 2019 the fourth series funded resulted in the issuance of 1,538,461 Class A Series 4 Preferred Shares.

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

As at December 31, 2021, the preferred shares are convertible into 11,346,122 (December 31, 2020 - 10,654,257) common shares of the Company .

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## 16. Earnings (loss) per share:

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

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

*Net loss:*

	Year ended December 31, 2021	Year ended December 31, 2020
Net loss for basic and diluted net loss per share	\$ (12,235)	\$ (184,004)

*Denominator for basic and diluted net loss per share:*

	Year ended December 31, 2021	Year ended December 31, 2020
Weighted average number of shares, including fully vested deferred shares: Basic and diluted	56,312,407	55,699,307

*Net loss per share:*

	Year ended December 31, 2021	Year ended December 31, 2020
Basic and diluted	\$ (0.22)	\$ (3.30)

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## 17. Revenue:

### (a) Rental Revenue:

Rental revenue consists of the following:

	Year ended December 31, 2021	Year ended December 31, 2020
Contractual rental revenue	\$ 58,734	\$ 68,436
Straight-line rent adjustments	6,189	6,394
Amortization of tenant inducements	(447)	(385)
Property tax recoveries	14,748	12,705
Revenue from services - CAM recoveries <sup>(1)</sup>	3,428	2,962
	<u>\$ 82,652</u>	<u>\$ 90,112</u>

(1) Represents property services element in accordance with IFRS 15

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

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

The tenant Symcare previously operated a portfolio of 15 properties and paid rent pursuant to a master lease. During the year ended December 31, 2021, three properties included in the master lease were sold and four were transitioned to a new operator. On June 1, 2021, a subsidiary of the Company entered into a new master lease with the remaining eight properties. For the year ended December 31, 2021, rental revenue from this tenant comprised approximately 34% (year ended December 31, 2020 - 43%), of the Company's consolidated rental revenue for the period.

Future minimum rentals to be received as of December 31, 2021 and December 31, 2020 are as follows:

	As of December 31, 2021	As of December 31, 2020
Less than 1 year	\$ 50,267	\$ 69,031
Between 1 and 5 years	196,945	272,230
More than 5 years	350,597	514,544
	<u>\$ 597,809</u>	<u>\$ 855,805</u>

Future minimum rentals as of December 31, 2021 in the above table attributable to Symcare represent approximately 38% (December 31, 2020 - 50%) of the total.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

(b) Resident rental and related revenue:

	Year ended December 31, 2021		Year ended December 31, 2020	
Resident revenue	\$	63,513	\$	56,250
Service revenue <sup>(1)</sup>		56,639		64,157
	\$	120,152	\$	120,407

(1) Represents property services element in accordance with IFRS 15

## 18. Direct property operating expenses:

Direct property operating expenses consist of the following:

	Year ended December 31, 2021			Year ended December 31, 2020		
	Owner occupied properties	Medical office buildings	Total	Owner occupied properties	Medical office buildings	Total
Repairs and maintenance	\$ 2,794	\$ 1,641	\$ 4,435	\$ 2,436	\$ 1,649	\$ 4,085
Utilities	3,972	1,499	5,471	3,709	1,381	5,090
Property management fees	—	584	584	—	536	536
Compensation and benefits	60,762	—	60,762	59,279	—	59,279
Other services and supplies	6,546	1,130	7,676	6,680	994	7,674
Real estate taxes	2,517	—	2,517	2,272	—	2,272
Other	19,994	1,329	21,323	15,668	901	16,569
	\$ 96,585	\$ 6,183	\$ 102,768	\$ 90,044	\$ 5,461	\$ 95,505

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## 19. Finance costs:

Finance costs consist of the following:

	Year ended December 31, 2021	Year ended December 31, 2020
Interest expense on credit facilities	\$ 16,106	\$ 20,496
Interest expense on mortgages payable	9,474	11,121
Interest expense on convertible debentures	5,249	5,248
Distributions on exchangeable units	—	62
Dividends on Commonwealth preferred units	4,388	4,376
Amortization and accretion expense	5,290	3,997
Interest rate swap payments (receipts)	10,277	7,747
Debt extinguishment costs	1,016	—
Write-off of deferred financing costs from refinancing	—	67
Amortization of mark-to-market debt adjustments	(111)	(330)
Interest income from loans receivable (note 3)	(1,468)	(2,983)
<b>Finance costs from operations</b>	<b>\$ 50,221</b>	<b>\$ 49,801</b>
Allowance for credit losses on loans and interest receivable (note 3)	1,196	23,546
Change in fair value of financial instruments (note 3, 10 and 11)	(21,860)	19,084
Change in fair value of contingent consideration (note 24)	(258)	5,510
Change in non-controlling interest liability in respect of the above	(261)	316
<b>Total finance costs</b>	<b>\$ 29,038</b>	<b>\$ 98,257</b>

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## 20. General and administrative:

General and administrative costs consist of the following:

	Year ended December 31, 2021	Year ended December 31, 2020
Compensation and benefits	\$ 11,412	\$ 11,432
Asset management and administrative fees	7	235
Professional fees	3,854	3,474
Deferred share compensation expense	794	1,066
Bad debt expense	1,139	1,838
Other	2,936	2,494
	<b>\$ 20,142</b>	<b>\$ 20,539</b>

For the year ended December 31, 2021, \$7,128 (year ended December 31, 2020 - \$6,699) of general and administrative costs were incurred at the Commonwealth management company. For the year ended December 31, 2020, the Company incurred severance expense of \$394.

## 21. Deferred share incentive plan:

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

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

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

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

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

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

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



# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

At December 31, 2021, the number of deferred shares granted and outstanding and vested are as follows:

	Granted/ Outstanding	Fully Vested
As at December 31, 2019	897,726	108,186
Discretionary Deferred Shares	257,955	335,595
Equity Settled Deferred Shares	375,733	34,998
Individual Contributed Deferred Shares (vested immediately)	78,648	78,648
Company Contributed Deferred Shares	78,648	24,718
Shares issued upon vesting of deferred shares	(366,912)	(366,912)
Shares settled for cash pursuant to the plan terms	(4,255)	(4,255)
As at December 31, 2020	1,317,543	210,978
Discretionary Deferred Shares	129,120	177,922
Equity Settled Deferred Shares	—	76,596
Individual Contributed Deferred Shares (vested immediately)	76,928	76,928
Company Contributed Deferred Shares	29,304	87,531
Shares forfeited	(112,000)	—
Shares issued upon vesting of deferred shares	(358,796)	(358,796)
Shares settled for cash pursuant to the plan terms	(59,019)	(59,019)
As at December 31, 2021	1,023,080	212,140

For the year ended December 31, 2021, the Company recognized and \$794 of expense related to deferred shares in the consolidated statements of loss and comprehensive loss (year ended December 31, 2020 - \$1,066 expense). A deferred share liability of \$903 (2020 - \$875) is included in other non-current liabilities in the consolidated statements of financial position as at December 31, 2021.

On January 24, 2020, the Company granted 344,310 deferred shares that are considered to be equity settled, as the participants of this grant have waived their rights to receive settlement in cash pursuant to the plan. During the year ended December 31, 2021, the Company recognized expense recovery of \$31 (year ended December 31, 2020 - \$1,809 expense) of equity settled deferred shares.

During the year ended December 31, 2021, the Company did not grant dividends on deferred shares (year ended December 31, 2020 - 64,266 shares).

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## 22. Related party transactions:

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

On June 5, 2019, the Company formed a joint venture, Jaguarundi Ventures, LP, with Magnetar. The Company contributed 8 properties to a newly formed joint venture and received \$23,000 from Magnetar in exchange for a 39.49% interest in the joint venture. On October 29, 2021, the Company contributed an additional investment property located in Webster, Texas to the joint venture resulting in a decrease in Magnetar's joint venture ownership interest to 34.17%.

On July 26, 2019, the Company entered into a credit agreement with Magnetar for a principal amount of \$30,000, annual interest rate of 8.5%, and an initial maturity of one year with a one year extension option. On December 5, 2019, the Company repaid \$15,000 on the facility. On June 5, 2020, the Company gave notice of intent to exercise the one year extension option and per the credit agreement the interest rate will increase to 9.0%. On June 16, 2020, the Company repaid \$5,000 on the facility. On June 22, 2021, the company repaid the remaining \$10,000 on the facility. For the year ended December 31, 2021, the Company expensed \$430 of interest related to this credit facility in the consolidated statements of loss and comprehensive loss (year ended December 31, 2020 - \$1,067).

## 23. Income taxes:

The income tax recovery in the consolidated statements of loss and comprehensive loss differs from that expected by applying the combined federal, provincial and state income tax rates of 26.5% (2020 - 26.5%). The differences for the year ended December 31, 2021 and 2020 are as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Net loss before income taxes	\$ (12,235)	\$ (190,948)
Income tax expense (recovery) at Canadian tax rate	(3,242)	(50,601)
Non-deductible expenses	1,970	5,211
Difference in tax rate in foreign jurisdiction	(118)	(2,038)
Unrecognized tax losses	1,390	40,484
Income tax recovery	\$ —	\$ (6,944)

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

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

	December 31, 2021		December 31, 2020	
Deferred tax assets:				
Tax losses	\$	32,106	\$	26,759
Financing costs		—		281
Investment properties and property, plant and equipment		2,313		—
Derivative instruments		970		5,126
Other		12,010		10,762
	\$	47,399	\$	42,928
Deferred tax liabilities:				
Investment properties and property, plant and equipment		—		517
Convertible debentures		1,823		216
Other		1,699		1,699
Deferred tax liabilities	\$	3,522	\$	2,432
Deferred tax assets not recognized	\$	(43,877)	\$	(40,496)
Net deferred tax liability	\$	—	\$	—

The gross movement in deferred tax is as follows:

	Year ended December 31,			
	2021		2020	
Deferred tax asset (liability), beginning balance	\$	—	\$	(6,944)
Deferred tax recovery		—		6,944
Deferred tax asset (liability), ending balance	\$	—	\$	—

At December 31, 2021, U.S. subsidiaries had accumulated net operating losses available for carryforward for U.S. income tax purposes of \$77,620 (2020 - \$73,629). The pre-2021 accumulated net operating losses of \$73,629 will expire in 2039. The state net operating losses will expire in 2030. The Company and its Canadian subsidiary have losses in Canada for income tax purposes amounting to \$29,447 that expire between 2036 and 2041. The Company has non-capital losses amounting to \$107,067 at December 31, 2021 (2020 - \$98,014) for which no deferred tax asset has been recognized as it is not probable that future taxable profits will be available against which the Company can use the benefits therefrom.

## 24. Commitments and contingencies:

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

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

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

On June 5, 2019, the Company entered into agreements to fund future loans to tenants of the Jaguarundi Ventures, LP joint venture. On October 1, 2019, the Company amended the agreements to increase the future loan commitments to the tenants. On February 18, 2020, the Company amended the agreements to further increase the future loan commitments to the tenants. As at December 31, 2020, the Company was committed to fund an additional \$380 pursuant to these agreements. As at December 31, 2020, the Company has recorded an associated loan commitment liability representing the fair value of these commitments, which were made at interest rates below market value. The Company provides a guarantee on the outstanding mortgage balances of the Jaguarundi Ventures, LP in exchange for a fee equal to 15 basis points on the amount guaranteed (note 7). As of December 31, 2021, the value of the properties that collateralize the mortgages is \$52,000 (December 31, 2020 - \$143,785) and is sufficient to support the mortgage values.

Pursuant to the Commonwealth purchase agreement, the Company may be required to fund one or more earnout payments relating to six communities that had not yet reached stabilization at the time of acquisition by the Company. These earnout payments are only payable in the event specific occupancy and EBITDAR thresholds have been satisfied, and must be met prior to the third anniversary of closing at which time the earnout payment obligation will cease to exist. The earnout payments, when funded, will consist of a combination of cash and additional preferred interests. During the year ended December 31, 2020, given the performance of one of the six communities, the Company recorded an expense related to the increase in the fair value of contingent consideration in the amount of \$3,256, which was paid through the issuance of \$1,701 of Commonwealth preferred units and \$1,555 of cash on hand. As at December 31, 2021, the Company has recorded a liability of \$1,996 (December 31, 2020 - \$2,254 liability) in the financial statements associated with this commitment relating to the remaining five communities based on the weighted average probability of earnout payments owed using estimated future results at the properties. For the year ended December 31, 2021, the Company has incurred \$(258) of expense related to the change in fair value of contingent consideration related to this liability in the consolidated statements of loss and comprehensive loss (year ended December 31, 2020 - \$5,510 expense).

On May 6, 2020, the Company entered into a limited partnership agreement with the operator Phoenix. Pursuant to this agreement, if the management agreement with Phoenix is terminated without cause, Phoenix has the right to cause the Company to purchase all of its interest in the partnership. The Company has not recorded any balance in the consolidated financial statements associated with this commitment.

## 25. Capital management:

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 risk and preserves the ability to meet financial obligations.

The capital of the Company consists of mortgages payable, the credit facilities, convertible debentures, Commonwealth preferred unit liability, preferred shares and common shares.

The Company sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets, as well as with consideration of externally imposed capital requirements. 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 light of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue equity or new debt, issue new debt with different characteristics to replace existing debt, or reduce the amount of existing debt.

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

Under the terms of the Company's credit facilities, the Company is required to meet certain financial and non-financial covenants that are customary for the nature and phase of the Company's current business structure.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## 26. Fair value measurement:

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

	December 31, 2021			December 31, 2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative asset	\$ —	\$ 3,388	\$ —	\$ —	\$ 4,814	\$ —
Investment properties	—	—	716,344	—	—	882,019
Loans receivable	—	—	2,243	—	—	2,368
Loan commitment liability	—	—	—	—	115	—
Derivative liability	—	11,587	—	—	28,969	—
Deferred share liability	—	903	—	—	875	—
Earnout payable	—	—	1,996	—	—	2,254

For the assets and liabilities measured at fair value as at December 31, 2021, there were no transfers between Level 1, Level 2 and Level 3 levels during the period. For changes in fair value measurements of investment properties included in Level 3 of the fair value hierarchy, refer to note 4 for details. The fair values of the derivative instruments represents estimates at a specific point in time using financial models, based on interest rates that reflect current market conditions, the credit quality of counterparties and interest rate curves. Fair value measurements of derivative instruments were estimated using Level 2 inputs. Fair value of deferred share liability represents the value of the units if converted using the market price of the Company's common shares.

### *Fair value of financial instruments:*

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

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

	December 31, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Loans receivable	\$ 21,695	\$ 21,728	\$ 18,703	\$ 18,768
Derivative instruments	3,388	3,388	4,814	4,814
Bond assets	760	760	881	881
Financial liabilities:				
Mortgages payable	213,823	215,257	299,464	301,839
Credit facilities	597,266	599,831	660,596	664,690
Derivative instruments	11,334	11,334	28,969	28,969
Convertible debentures	82,657	83,077	92,411	58,784
Commonwealth preferred unit liability	66,239	66,239	65,797	65,797
Earnout payable	1,996	1,996	2,254	2,254
Loan commitment liability	—	—	115	115
Exchangeable Units liability	2,049	672	2,049	600

Fair value represents management's estimates of the fair market value at a given point in time, which may not reflect fair value in the future. These calculations are subjective and require estimation, and cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

(i) Loans receivable

The fair value of loans receivable is determined by the discounted cash flow method using applicable inputs such as prevailing interest rates, contractual rates and discounts. Fair value measurements of these instruments were estimated using Level 3 inputs. The carrying values of short term loans generally approximate their fair values.

(ii) Derivative instruments

The fair values of the derivative instruments represents estimates at a specific point in time using financial models, based on interest rates that reflect current market conditions, the credit quality of counterparties and interest rate curves. Fair value measurements of derivative instruments were estimated using Level 2 inputs.

(iii) Bond assets

The fair value of bond assets is determined by the discounted cash flow method using applicable inputs such as discount rates and fixed payment schedules. Fair value measurements of these instruments were estimated using Level 3 inputs. The carrying values of bond assets approximate their fair values.

(iv) Mortgages payable and credit facility

The fair values of these instruments are estimates made at a specific point in time, based on relevant market information. These estimates are based on quoted market prices for the same or similar issues or on the current rates offered to the Company for similar financial instruments subject to similar risk and maturities. Fair value measurements of these instruments were estimated using Level 2 inputs. The carrying values of short-term and variable rate debt generally approximate their fair values.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

(v) Convertible debentures

The Company determined the fair value of the convertible debentures using quoted market prices which are considered Level 1 inputs.

(vi) Commonwealth preferred unit liability

The fair value of the Commonwealth preferred unit liability is determined by the discounted cash flow method using applicable inputs such as market interest rates and contractual rates. Fair value measurements of these instruments were estimated using Level 3 inputs.

(vii) Loan commitment liability

The fair value of the loan commitment liability is determined by the discounted cash flow method using applicable inputs such as market interest rates and contractual rates. Fair value measurements of these instruments were estimated using Level 3 inputs.

(viii) Exchangeable Unit liability

The Company determined the fair value of the Exchangeable Unit liability using quoted market prices of the Company's common shares which are considered Level 2 inputs.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## 27. Financial risk management:

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Management has updated its risk management policies and strategies for the current risks due to COVID-19.

### (i) Market risk

#### *Foreign currency risk:*

Foreign exchange risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. A portion of the Company's operations are located in Canada, resulting in the Company being subject to foreign currency fluctuations which may impact its financial position and results. In order to mitigate the risk, the Company's borrowings on Canadian assets are also denominated in Canadian dollars to act as a natural hedge. In addition, Canadian dollar revenue was predominantly naturally hedged by Canadian dollar expenditures such as corporate professional fees, interest expense and administrative expenditures.

#### *Interest rate risk:*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk on loans receivable because all of the loans earn interest at fixed rates.

The Company is exposed to interest rate risk on the credit facilities and certain mortgages payable, which bear interest at variable rates. To manage interest rate risk, the Company entered into swap agreements which effectively fixes interest on a portion of its variable rate debt. It may also enter into additional derivative financial instruments from time to time to mitigate interest rate risk. At December 31, 2021, 84.9% (December 31, 2020 - 81.7%) of our interest was of fixed rate, including the impact of in-place swaps. To limit exposure to the risk of higher interest rates at renewal, the Company spreads the maturities of its fixed-rate, long-term debt over time.

The Company's remaining financial instruments have no exposure to interest rate risk due to their short-term nature.

At December 31, 2021, the Company's interest-bearing financial instruments were as follows:

	Carrying Amount	
	December 31, 2021	December 31, 2020
Fixed-rate financial liabilities <sup>(1)</sup>	\$ 758,281	\$ 861,053
Variable-rate financial liabilities	\$ 135,465	\$ 191,418

(1) Includes \$551,396 of variable rate mortgages that are fixed with interest rate swaps.

As at December 31, 2021, an increase/decrease of 100-basis-points in interest rates, assuming all other variables are constant, would result in a \$1,365 (2020 - \$1,927) change in the Company's finance costs over the next twelve months.



# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

(ii) Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the Company by failing to discharge its obligations. The Company is exposed to credit risk on all financial assets and its exposure is generally limited to the carrying amount on the consolidated statement of financial position. The Company is exposed to credit risk arising from the possibility that a borrower may be unable to fulfill their contractual obligations. In the event that borrowers are not able to meet commitments, the Company could suffer a loss of either interest or principal or both. The Company actively manages its affairs to minimize its credit risk through careful selection and assessment of its credit parties and collateral based on knowledge obtained through means such as due diligence carried out in respect of leasing transactions to new operators. Despite these measures the Company increased its allowance for credit losses on loans and interest receivable due to the effects that the COVID-19 pandemic has had on borrowers' cash flows. The Company also manages credit risk related to its cash balances by selection of reputable banking institutions.

(iii) Liquidity risk:

The Company's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, planned funding of property improvements, leasing costs, and property development and acquisition funding requirements.

Liquidity risk arises from the possibility of not having sufficient debt, cash and equity capital available to the Company to fund its growth program and refinance or meet its payment obligations as they arise.

The Company is subject to the liquidity risk that it will not be able to meet its financial obligations as they come due. Although a portion of the cash flow generated by the investment properties is devoted to servicing outstanding debt and the convertible debentures, there can be no assurance that the Company will continue to generate sufficient cash flow from operations to meet its covenant requirements as well as its interest payments and principal repayment obligations upon an applicable maturity date. If the Company is unable to meet its covenant requirements, principal or interest repayment obligations, it could be required to renegotiate such payments, issue additional equity or debt, or obtain other financing. The failure to make or renegotiate interest or principal payments, issue additional equity or debt, or obtain other financing could have a material effect on the Company's financial condition and results of operations. The Company manages its liquidity risk through cash and debt management. The Company plans to address scheduled interest payments through operating cash flows and significant principal maturities through a combination of debt and equity financing.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

The following are the contractual maturities of the Company's financial liabilities as at December 31, 2021, including expected interest payments where applicable:

	Total	2022	2023	2024	2025	2026	Thereafter
Credit facilities principal	\$599,831	\$ 795	\$421,854	\$177,182	\$ —	\$ —	\$ —
Mortgages payable principal	210,410	34,877	52,338	40,327	24,922	1,367	56,579
Convertible debentures principal	94,975	20,000	50,000	—	24,975	—	—
Commonwealth preferred unit liability principal <sup>(1)</sup>	67,381	—	—	67,381	—	—	—
<b>Total principal</b>	<b>\$972,597</b>	<b>\$55,672</b>	<b>\$524,192</b>	<b>\$284,890</b>	<b>\$49,897</b>	<b>\$ 1,367</b>	<b>\$56,579</b>
Percentage of total	100.0 %	5.8 %	53.9 %	29.3 %	5.1 %	0.1 %	5.8 %
Credit facilities interest	\$47,838	\$23,306	\$20,621	\$ 3,911	\$ —	\$ —	\$ —
Mortgages payable interest	37,202	7,146	5,486	3,914	2,463	2,163	16,030
Convertible debentures interest	12,365	4,995	4,748	1,748	874	—	—
Commonwealth preferred unit liability interest	12,753	4,404	4,574	3,775	—	—	—
Accounts payable and accrued liabilities	17,356	17,356	—	—	—	—	—
Accrued real estate taxes	13,671	13,671	—	—	—	—	—
Other current liabilities	3,787	3,787	—	—	—	—	—
Other non-current liabilities	8,328	3,188	619	436	126	—	3,959
<b>Total other commitments</b>	<b>\$153,300</b>	<b>\$77,853</b>	<b>\$36,048</b>	<b>\$13,784</b>	<b>\$ 3,463</b>	<b>\$ 2,163</b>	<b>\$19,989</b>
<b>Total commitments</b>	<b>\$1,125,897</b>	<b>\$133,525</b>	<b>\$560,240</b>	<b>\$298,674</b>	<b>\$53,360</b>	<b>\$ 3,530</b>	<b>\$76,568</b>

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

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

The following are the contractual maturities of the Company's financial liabilities as at December 31, 2020, including expected interest payments where applicable:

	Total	2021	2022	2023	2024	2025	Thereafter
Credit facilities principal	\$664,690	\$10,000	\$190,500	\$288,190	\$176,000	\$ —	\$ —
Mortgages payable principal	296,881	30,622	33,765	88,913	24,529	30,078	88,974
Convertible debentures principal	94,975	—	44,975	50,000	—	—	—
Commonwealth preferred unit liability principal (1)	67,381	—	—	—	67,381	—	—
<b>Total principal</b>	<b>1,123,927</b>	<b>40,622</b>	<b>269,240</b>	<b>427,103</b>	<b>267,910</b>	<b>30,078</b>	<b>88,974</b>
Percentage of total	100.0 %	3.6 %	24.0 %	38.0 %	23.8 %	2.7 %	7.9 %
Credit facilities interest	76,740	27,126	25,941	16,896	6,777	—	—
Mortgages payable interest	78,386	11,672	10,316	8,110	5,264	4,615	38,409
Convertible debentures interest	12,373	5,249	4,124	3,000	—	—	—
Commonwealth preferred unit liability interest	17,157	4,404	4,404	4,574	3,775	—	—
Accounts payable and accrued liabilities	17,715	17,715	—	—	—	—	—
Accrued real estate taxes	14,518	14,518	—	—	—	—	—
Other current liabilities	4,975	4,975	—	—	—	—	—
Other non-current liabilities	16,241	2,481	2,086	535	386	126	10,627
Loan commitments	380	380	—	—	—	—	—
<b>Total other commitments</b>	<b>238,485</b>	<b>88,520</b>	<b>46,871</b>	<b>33,115</b>	<b>16,202</b>	<b>4,741</b>	<b>49,036</b>
<b>Total commitments</b>	<b>\$1,362,412</b>	<b>\$129,142</b>	<b>\$316,111</b>	<b>\$460,218</b>	<b>\$284,112</b>	<b>\$34,819</b>	<b>\$138,010</b>

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

## 28. Key management personnel compensation:

The remuneration of key management personnel of the Company for years ended December 31, 2021 and 2020 is set forth in the table below.

	Year ended December 31, 2021	Year ended December 31, 2020
Officers and directors compensation	\$ 2,633	\$ 2,111
Share based compensation	615	2,909
	<b>\$ 3,248</b>	<b>\$ 5,020</b>

During 2021, the Company's Board of Directors approved a long term incentive compensation package for the Company's key management personnel aimed at rewarding management for driving shareholder value through a combination of common share price appreciation and net asset value per share growth. This program represents long-term incentive compensation for both 2021 and 2022 and will be re-measured at December 31, 2023 and December 31, 2024. The Company has recognized \$0 in the consolidated statements of loss and comprehensive loss for the 12 months ended December 31, 2021, representing the fair value of the program based upon the current relevant metric levels and the likelihood of achieving the targets.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

## 29. Segments:

The Company's current portfolio includes investments in assisted living, independent living, memory care, transitional care, long-term care, and medical office properties. The Company's senior housing and care investments in assisted living, independent living, memory care, transitional care and long-term care share similar characteristics and are generally leased to operators on a long-term, triple-net lease basis. In some instances the Company has an interest in both the property and operations in joint ventures and joint arrangements with the operating partner at the facility. The Company considers these investments to be one reportable operating segment. The Company has investments in 15 medical office buildings ("Medical office buildings"). This multi-tenant medical office portfolio has different characteristics that are evaluated by management, and is considered to be a separate reportable operating segment. Through the acquisition of Commonwealth and the transition of the Greenfield assets, the Company has investments in 35 properties and a management company that operates 29 of those properties ("owner occupied property"). Management considers this another reportable operating segment.

The following tables show net loss by reportable segment for the years ended December 31, 2021 and 2020:

	Year ended December 31, 2021					Total
	Seniors housing and care investment properties	Owner occupied properties	Medical office buildings	Corporate/other		
Rental revenue	\$ 69,647	\$ —	\$ 13,005	\$ —	\$	82,652
Resident rental and related revenue	—	120,152	—	—		120,152
Lease revenue from joint ventures	3,529	—	—	—		3,529
Other revenue	56	2,060	1,299	702		4,117
Other income	—	3,730	—	—		3,730
Direct property operating expenses	—	(96,586)	(6,182)	—		(102,768)
Depreciation and amortization expense	—	(22,060)	—	(92)		(22,152)
Finance cost from operations	(21,850)	(18,093)	(3,768)	(6,510)		(50,221)
Real estate tax expense	(14,541)	—	(2,174)	—		(16,715)
General and administrative expenses	(1,256)	(7,130)	(130)	(11,626)		(20,142)
Allowance for credit losses on loans and interest receivable	(959)	—	—	(237)		(1,196)
Changes in non-controlling interest liability	113	266	—	—		379
Change in fair value of investment properties - IFRIC 21	1,226	—	—	—		1,226
Change in fair value of investment properties	(12,667)	—	(9,485)	—		(22,152)
Change in fair value of financial instruments	780	4,521	1,724	14,835		21,860
Change in fair value of contingent consideration	—	—	—	258		258
Gain on sale of property, plant and equipment	—	1,200	—	14		1,214
Impairment of property, plant and equipment	—	(1,100)	—	—		(1,100)
Loss from joint ventures	(14,906)	—	—	—		(14,906)
<b>Net income (loss)</b>	<b>\$ 9,172</b>	<b>\$ (13,040)</b>	<b>\$ (5,711)</b>	<b>\$ (2,656)</b>	<b>\$</b>	<b>(12,235)</b>
Expenditures for non-current assets:						
Capital additions	—	7,807	968	—		8,775

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

	Year ended December 31, 2020					Total
	Seniors housing and care investment properties	Owner occupied properties	Medical office buildings	Corporate/other		
Rental revenue	\$ 77,457	\$ —	\$ 12,655	\$ —	\$	90,112
Resident rental and related revenue	—	120,407	—	—		120,407
Lease revenue from joint ventures	3,118	—	—	—		3,118
Other revenue	—	1,769	1,114	867		3,750
Other income	—	3,415	—	—		3,415
Direct property operating expenses	—	(90,044)	(5,461)	—		(95,505)
Depreciation and amortization expense	—	(48,476)	—	(93)		(48,569)
Finance cost from operations	(22,810)	(17,484)	(3,646)	(5,861)		(49,801)
Real estate tax expense	(11,389)	—	(2,099)	—		(13,488)
General and administrative expenses	(1,992)	(6,699)	(307)	(11,541)		(20,539)
Transaction costs for business combination	—	(34)	—	(136)		(170)
Allowance for credit losses on loans and interest receivable	(518)	—	—	(23,028)		(23,546)
Changes in non-controlling interest liability	(168)	(148)	—	—		(316)
Change in fair value of investment properties - IFRIC 21	57	—	—	—		57
Change in fair value of investment properties	(78,648)	—	(21,740)	—		(100,388)
Change in fair value of financial instruments	(690)	(6,712)	(2,127)	(9,555)		(19,084)
Change in fair value of contingent consideration	—	—	—	(5,510)		(5,510)
Loss on sale of property, plant and equipment	—	58	—	(220)		(162)
Loss from joint ventures	(34,729)	—	—	—		(34,729)
Income tax recovery	—	—	—	6,944		6,944
<b>Net loss</b>	<b>\$ (70,312)</b>	<b>\$ (43,948)</b>	<b>\$ (21,611)</b>	<b>\$ (48,133)</b>	<b>\$</b>	<b>(184,004)</b>
Expenditures for non-current assets:						
Acquisition of properties	\$ 8,202	\$ 36,154	\$ —	\$ —	\$	44,356
Capital additions	4,360	11,269	631	—		16,260

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

The following tables show assets and liabilities by reportable segment as at December 31, 2021 and 2020:

	As at December 31, 2021				
	Seniors housing and care investment properties	Owner occupied properties	Medical office buildings	Corporate/ot her	Total
Investment properties	\$ 601,633	\$ —	\$ 114,711	\$ —	\$ 716,344
Property, plant and equipment, net	—	431,672	—	329	432,001
Investment in joint ventures	50,440	—	—	—	50,440
Loans receivable	2,074	—	—	19,621	21,695
Other assets	13,414	43,801	5,563	17,753	80,531
<b>Total assets</b>	<b>\$ 667,561</b>	<b>\$ 475,473</b>	<b>\$ 120,274</b>	<b>\$ 37,703</b>	<b>\$ 1,301,011</b>
Mortgages payable	\$ 72,587	\$ 141,236	\$ —	\$ —	\$ 213,823
Credit facilities	329,650	179,369	88,247	—	597,266
Convertible debentures	—	—	—	82,657	82,657
Commonwealth preferred unit liability	—	66,239	—	—	66,239
Non-controlling interest liability	—	293	—	—	293
Other liabilities	15,078	17,472	2,573	19,353	54,476
<b>Total liabilities</b>	<b>\$ 417,315</b>	<b>\$ 404,609</b>	<b>\$ 90,820</b>	<b>\$ 102,010</b>	<b>\$ 1,014,754</b>
	As at December 31, 2020				
	Seniors housing and care investment properties	Owner occupied properties	Medical office buildings	Corporate/ot her	Total
Investment properties	\$ 759,628	\$ —	\$ 122,391	\$ —	\$ 882,019
Property, plant and equipment, net	—	448,912	—	2,913	451,825
Investment in joint ventures	65,258	—	—	—	65,258
Loans receivable	6,669	—	—	12,034	18,703
Other assets	24,014	27,464	6,712	22,429	80,619
<b>Total assets</b>	<b>\$ 855,569</b>	<b>\$ 476,376</b>	<b>\$ 129,103</b>	<b>\$ 37,376</b>	<b>\$ 1,498,424</b>
Mortgages payable	\$ 158,715	\$ 140,749	\$ —	\$ —	\$ 299,464
Credit facilities	388,715	174,465	87,416	10,000	660,596
Convertible debentures	—	—	—	92,411	92,411
Commonwealth preferred unit liability	—	65,797	—	—	65,797
Non-controlling interest liability	3,373	1,036	—	—	4,409
Other liabilities	25,897	24,302	4,964	27,255	82,418
<b>Total liabilities</b>	<b>\$ 576,700</b>	<b>\$ 406,349</b>	<b>\$ 92,380</b>	<b>\$ 129,666</b>	<b>\$ 1,205,095</b>

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2021 and 2020

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

At December 31, 2021, \$1,047,134 of the Company's non-current assets, excluding financial instruments, are located in the United States (2020 - \$1,246,928) and \$153,880 are located in Canada (2020 - \$154,945). During the year ended December 31, 2021, the Company generated \$194,438 (year ended December 31, 2020 - \$202,508), of its revenues, excluding other revenue, from properties located in the United States and \$11,895 (year ended December 31, 2020 - \$11,129) of its revenues from properties located in Canada.

### 30. Subsequent events:

On February 1, 2022, the Company acquired a memory care facility located in Grand Rapids, MI for a contractual purchase price of \$12,470 plus transaction costs. The purchase was made with cash on hand and the property was added to the borrowing base of the Credit Facility upon acquisition.

On March 1, 2022, the Company closed on the sale of a non-core seniors housing community in Harrisburg, Pennsylvania to Windsor. The community was sold for \$5,500, and proceeds were used to further reduce existing indebtedness. The community was previously managed by Greenfield Senior Living and operational management was transitioned to Commonwealth in 2019, and was considered non-core to the Commonwealth operational platform.





## Corporate Information

### Directors

**Scott White**, Chairman and Chief Executive Officer

**Brad Benbow**, Director<sup>2,3</sup>

**Adlai Chester**, Director and Chief Investment Officer

**Shaun Hawkins**, Director<sup>1,2</sup>

**Michael Faber**, Lead Independent Director<sup>3</sup>

**Randy Maultsby**, Director<sup>1,3</sup>

**Gail Steinel**, Director<sup>1,2</sup>

<sup>1</sup> Audit Committee Member

<sup>2</sup> Governance and Nominating Committee Member

<sup>3</sup> Compensation and Human Resources Committee Member

### Officers and Senior Management

#### Scott White

Chief Executive Officer

#### Adlai Chester

Chief Investment Officer

#### Scott Higgs

Chief Financial Officer

#### Bryan Hickman

Senior Vice President – Investments

#### Dennis Dechow

Senior Vice President – Asset Services

#### Mark Lyons

Senior Vice President – Controller

#### Quinn Haselhorst

Senior Vice President – Finance

#### Kari Onweller

Senior Vice President – Partner and Investor Relations

## Shareholder Information

### Invesque Inc.

8701 E 116th St, Suite 260

Fishers, IN 46038

Telephone: 317-643-4017

www.invesque.com

### Auditors

KPMG LLP

Toronto, Ontario

### Legal Counsel

Goodmans LLP

Toronto, Ontario

### Stock Exchange Listing

Toronto Stock Exchange (IVQ.U and IVQ)

### Transfer Agent and Registrar

Computershare Trust Company of Canada

Toronto, ON

Telephone: 800-564-6253

### Shareholder and Investor Contact

ir@invesque.com

317-643-4017

# Invesque

8701 E 116th St, Suite 260  
Fishers, IN 46038

317.643.4017

[www.invesque.com](http://www.invesque.com)