INVESQUE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

August 9, 2022

Basis of presentation

Financial data in this Management's Discussion and Analysis of Results of Operations and Financial Condition (this "MD&A") is for the three and six months ended June 30, 2022. 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 three and six months ended June 30, 2022. 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 and the unaudited condensed consolidated financial statements for Q2 2022.

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.

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

Forward-looking disclaimer

This MD&A contains certain forward-looking information and/or statements ("forward-looking statements"), that reflect and are provided for the purpose of presenting information about management's current expectations and plans relating to the future, including, without limitation, statements regarding 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, dispositions, development activities, future maintenance and leasing expenditures, financing, the availability of financing sources and income taxes. Forward-looking information is typically identified by terms such as "anticipate," "believe," "continue," "estimate," "expect," "expectations," "intend," "may," "plan," "project," "should," "will," and other similar expressions that do not relate solely to historical matters and suggest future outcomes or events. Readers should not place undue reliance on forward-looking statements and are cautioned that forward-looking statements may not be appropriate for other purposes. Forward-looking statements in this MD&A are based on current beliefs, expectations, and certain assumptions of the Company's management and are subject to significant known and unknown risks, uncertainties, and other factors that are beyond the Company's ability to predict or control and may cause actual results or events to differ materially from those expressed or implied by such statements and, accordingly, should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not such results will be achieved. The Company's actual results may differ as a result of various factors, including without limitation, the negative impact of COVID-19 pandemic on the Company's business and the business of operators/tenants, including without limitation, uncertainty regarding the duration and severity thereof and negative economic conditions arising therefrom, uncertainty regarding implementation and impact of existing and future stimulus and other COVID-19 relief legislation, laws, orders, and guidance throughout the United States and Canada may be available to operators/tenants to offset the costs and conditions related thereto, and the extent to which support may terminate upon termination of any federally declared public health emergency, the negative effect of travel bans and restrictions, stay-at-home orders, social distancing guidelines, limitations on other business activities, staffing shortages, increased costs, and the impact on occupancy rates in our communities in connection therewith, rent deferral rates, the ability of operators/tenants to comply with infection control and vaccine protocols, the long-term impact of vaccines on facility infection rates; the status of the economy; the status of capital markets, including, without limitation, availability and cost of capital; issues facing the health care industry, including, without limitation, compliance with, and changes to, regulations and payment policies, responding to government investigations and settlements and operators'/tenants' ability to cost effectively obtaining and maintaining adequate liability and other insurance; the risk that the Company's operators/tenants and borrowers may become subject to bankruptcy or insolvency proceedings; changes in financing terms; competition throughout the health care and senior housing industries; the operating results or financial condition of operators/tenants, including, without limitation, their ability to pay rent and repay loans, the Company's ability to transition, buy, or sell properties with profitable results as and when anticipated, and occupancy levels; the effect of other factors affecting the Company's business and facilities outside of the Company's or operators'/tenants control, including without limitation, natural disasters, other health crises or pandemics, governmental action, particularly in the healthcare industry, protests, strikes, and shortages in supply chains; and those factors set forth under the heading "Risks and Uncertainties" in this MD&A and 2021 AIF, as well as the risks described in the Company's current annual information form and other documents, available on SEDAR at www.sedar.com, which risks may be dependent on market factors and not entirely within the Company's control. Although management believes that it has a reasonable basis for the expectations reflected in these forward-looking statements, actual results may differ from those suggested by the forward-looking statements for various reasons.

These forward-looking statements reflect current expectations of the Company and are made are made as of August 9, 2022 and speak only as of the date of this MD&A. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as may be required by applicable law.

Financial Measures not Defined Under IFRS

In this document we use a number of performance measures that are not defined by IFRS which follow the disclosure requirements established by National Instrument 52-112 Non-GAAP and Other Financial Measures Disclosures, to measure, compare and explain the operating results and financial performance of the Company (collectively, the “non-IFRS Financial Measures”).

Certain non-IFRS Financial Measures 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 expense 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.

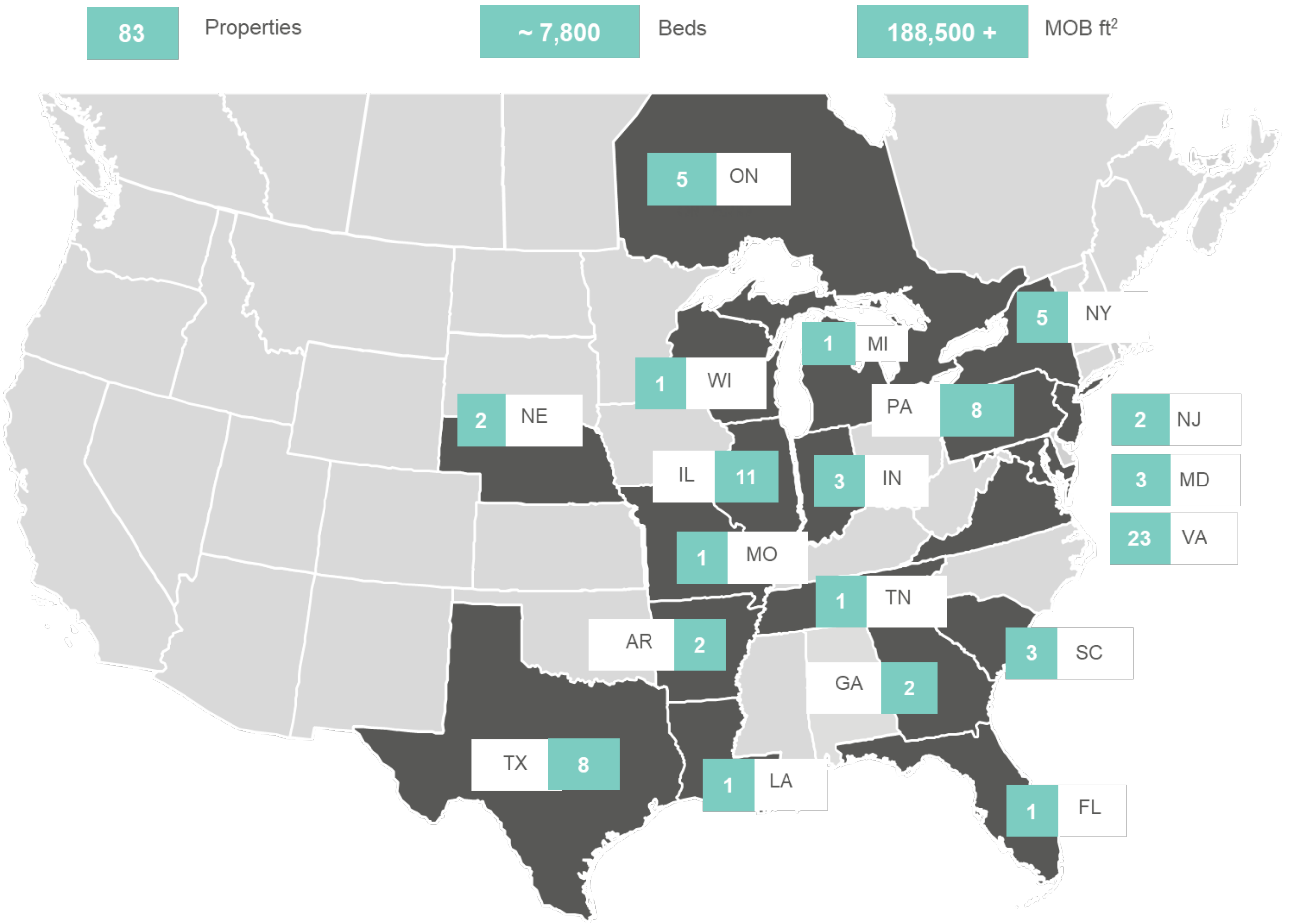
  On July 26, 2022, the Company sold a medical office building in Orlando, Florida and on July 28, 2022, the Company sold ten medical office buildings in Canada. Subsequent to these transactions, the Company owns three medical office buildings in the United States and one in Canada. A strategic decision has been made to exit the medical office building segment, and the sale of the remaining four buildings is expected to be completed in the next twelve months. Accordingly, this segment has been classified as discontinued operations in the condensed consolidated interim financial statements dated June 30, 2022.

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 is operated by the third party manager Jones Lang LaSalle ("JLL"). JLL is an industry leader in property management services and has significantly enhanced the Company's capabilities in the medical office building portfolio.

As of August 9, 2022, the Company owns or has a majority interest in a portfolio of 78 properties in the United States, comprised of 57 assisted living and memory care facilities, 12 skilled nursing facilities, 6 transitional care properties and 3 medical office buildings. In Canada, the Company owns an interest in 5 properties comprised of 1 medical office building and 4 seniors housing and care facilities.

The Company's geographic footprint as of August 9, 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 throughout 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 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 three and six months ended June 30, 2022, the Company recognized $41 and $191 respectively, 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 (three and six months ended June 30, 2021 - $2,023 and $2,130 respectively). For the three and six months ended June 30, 2022, the Company recognized $322 of income from joint ventures related to the Company's share of government grants recognized at the joint venture properties for COVID-19 pandemic relief (three and six months ended June 30, 2021 - $NIL and $129).

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 June 30, 2022. 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 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 transaction was funded by the repayment of $1,799 of outstanding mezzanine and loans receivable principal and accrued interest and cash on hand. 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. The community was sold for $5,500, and proceeds were used to 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.

In June 2021, the Company ceased operations in and listed for sale a property located in Port Royal, SC. The Company transitioned all residents from this property into new locations in order to prepare the building for sale and classified the property as held for sale. On March 31, 2022, the Company sold the property for total consideration of $3,500 before closing costs, received in the form of cash.

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 were classified as held for sale on the condensed consolidated interim statement of financial position at June 30, 2022. The assets were ultimately sold and closed on April 1, 2022 for net cash consideration of $19,571.

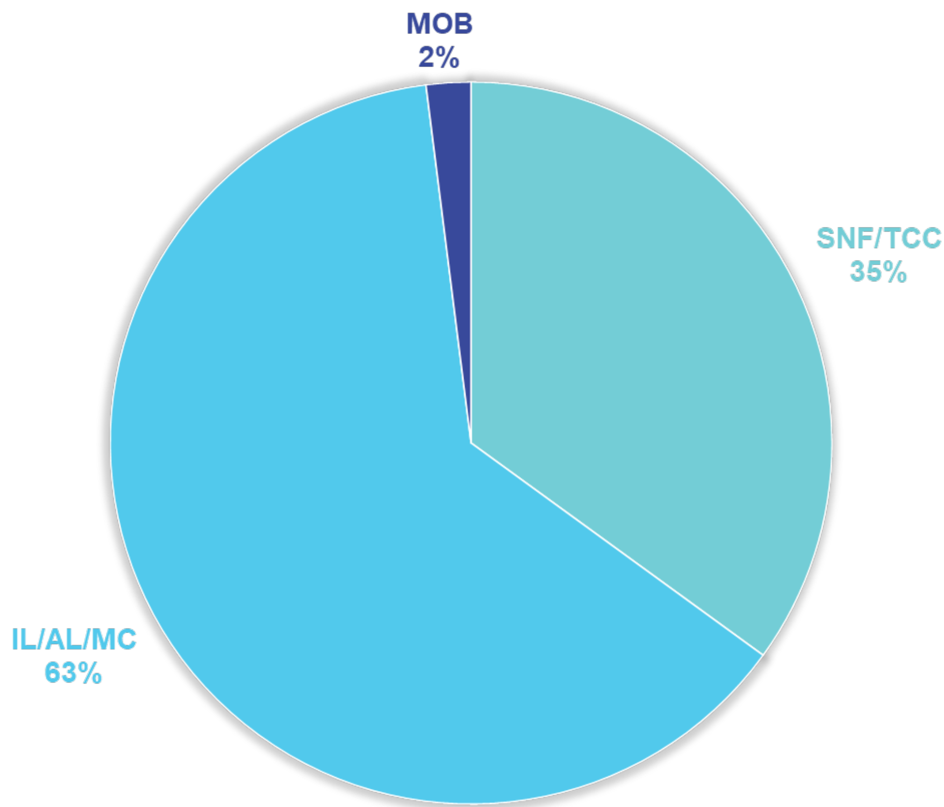
On April 1, 2022 Jaguarundi Ventures, LP sold the remaining four properties held in the joint venture for a total sale price of $51,534. Proceeds from the sale were used in part to repay $37,300 in existing mortgage debt on three of the properties sold. An additional $7,734 of proceeds was used to repay the Company's Credit Facility, to which the property located in Webster, TX was pledged.

On June 15, 2022, the Company sold its interests in two Calamar properties in Wheatfield, New York for net cash consideration of $10,000.

On July 26, 2022, the Company sold a medical office building in Orlando, Florida to a tenant for consideration of $9,850, $9,177 of which was used to pay off debt. On July 28, 2022, the Company sold ten medical office buildings in Canada for $94,300 CAD. Subsequent to these transactions, the Company owns three medical office buildings in the United States and one in Canada. A strategic decision has been made to exit the medical office building segment, and the sale of the remaining four buildings is expected to be completed in the next twelve months.

Further, and as indicated in our earnings call in March 2022, given the changes in the market dynamics as well as the Company's portfolio composition following the transactions outlined above, the Company retracts its performance guidance that was issued in June 2021.

As of August 9, 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)

	As as June 30, 2022	As at December 31, 2021	As at June 30, 2021
Consolidated investment properties	54	53	61
Consolidated owner occupied properties	34	35	35
Properties held for sale	15	3	6
Weighted average lease term to maturity (excludes renewal options)(1)	11.3 years	11.3 years	12.3 years
Average facility age	11.5 years	10.8 years	10.4 years
Total assets	$ 1,257,534	$ 1,301,011	$ 1,399,877
Total indebtedness	$ 790,570	$ 893,746	$ 977,129
Weighted average interest rate (2)	4.3 %	4.1 %	4.1 %
Joint venture properties	7	12	16
Joint venture total assets (3)	$ 142,702	$ 188,681	$ 237,019
Joint venture indebtedness (3)	$ 79,282	$ 116,948	$ 151,310
Joint venture weighted average interest rate (4)	4.1 %	4.3 %	4.2 %

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Revenue (5)	$ 49,732	$ 48,592	$ 98,326	$ 98,923
Direct property operating expenses (5)	$ (24,862)	$ (22,460)	$ (50,714)	$ (45,865)
Finance costs (5)	$ (10,795)	$ (12,477)	$ (21,910)	$ (25,706)
General and administrative expenses (5)	$ (5,335)	$ (4,499)	$ (11,326)	$ (11,600)
Change in fair value of investment properties (5)	$ (18,644)	$ (4,991)	$ (27,118)	$ (4,127)
Income (loss) from joint ventures (5)	$ 4,373	$ (2,428)	$ 3,925	$ (1,669)
Net loss	$ (7,681)	$ (3,500)	$ (4,344)	$ (1,700)
Total comprehensive loss	$ (9,223)	$ (2,753)	$ (5,260)	$ (201)
Net loss per share	$ (0.14)	$ (0.06)	$ (0.08)	$ (0.03)
Diluted net loss per share	$ (0.14)	$ (0.06)	$ (0.08)	$ (0.03)
Funds from operations (FFO) (6)	$ 6,457	$ 10,075	$ 10,364	$ 15,107
FFO per share (6)	$ 0.11	$ 0.18	$ 0.18	$ 0.27
Diluted FFO per share (6)	$ 0.09	$ 0.15	$ 0.15	$ 0.25
Adjusted funds from operations (AFFO) (6)	$ 7,059	$ 9,286	$ 10,253	$ 14,963
AFFO per share (6)	$ 0.12	$ 0.16	$ 0.18	$ 0.27
Diluted AFFO per share (6)	$ 0.10	$ 0.14	$ 0.15	$ 0.24

(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 June 30, 2022; December 31, 2021 and June 30, 2021 included $552,065; $553,546 and $555,127 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 June 30, 2022 and December 31, 2021 included $88,276 and $89,231, respectively, of the joint ventures debt that is fixed with interest rate swaps.

(5) Represents amounts presented from continuing operations, and excludes activity from the medical office building segment, which has been discontinued.

(6) 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.

Results of Operations - Three and Six Months Ended June 30, 2022 and 2021
(unless otherwise stated, amounts are in thousands of U.S. dollars)

Revenue from continuing operations

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Contractual rental revenue	$ 11,026	$ 13,540	$ 21,906	$ 29,010
Straight-line rent adjustments	1,029	1,783	2,104	3,019
Amortization of tenant inducements	(61)	(75)	(121)	(150)
Amortization of leasing commission	(10)	—	(10)	—
Property tax recoveries	2,871	2,520	5,764	5,587
Total rental revenue	14,855	17,768	29,643	37,466
Resident rental and related revenue	33,147	29,252	65,323	58,341
Lease revenue from joint ventures	897	900	1,800	1,773
Other revenue	833	672	1,560	1,343
Total revenue	$ 49,732	$ 48,592	$ 98,326	$ 98,923

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. The decrease in contractual rental revenue for the three and six months ended June 30, 2022 as compared to the prior periods is due to the sale of properties during the last twelve months 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. The increase in resident rental and related revenue over the prior year is due to increased occupancy rates in addition to rental rate increases effective in the current quarter.

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 income from continuing operations

Other income for the three and six months months ended June 30, 2022 relates to government grant funding received related to COVID-19 relief of $41 and $191, respectively (three and six months ended June 30, 2021 - $2,023 and $2,130, respectively).

Direct property operating expenses from continuing operations

Direct property operating expenses consist of the following:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Repairs and maintenance	$ 673	$ 707	$ 1,478	$ 1,346
Utilities	920	896	2,095	1,963
Property management fees	—	—	—	—
Compensation and benefits	15,805	14,394	32,126	28,935
Other services and supplies	1,832	1,626	3,474	3,146
Real estate taxes	589	618	1,256	1,251
Other	5,043	4,219	10,285	9,224
	$ 24,862	$ 22,460	$ 50,714	$ 45,865

The direct property operating expenses relate to expenses at Company's owner occupied properties. As of June 30, 2022, the owner occupied properties include 28 properties operated by Commonwealth, five properties operated by Phoenix, and one property operated by Heritage. The increase in the three and six months ended June 30, 2022 compared to prior year period is primarily due to an inflationary increase in the cost of services and supplies at the properties and increases in the cost of labor.

Depreciation and amortization expense from continuing operations

For the three and six months ended June 30, 2022, depreciation and amortization expense was $3,783 and $7,524, respectively (three and six months ended June 30, 2021 - $5,718 and $13,413, respectively), 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. The decline in depreciation and amortization expense for the three and six month periods ended June 30, 2022 is primarily due to a reduction in amortization of in place leases, which are fully amortized in the current year.

Finance costs from continuing operations

Finance costs from operations consist of the following:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Interest expense on credit facilities	$ 4,156	$ 3,756	$ 7,247	$ 7,607
Interest expense on mortgages payable	1,524	2,613	3,301	5,532
Interest expense on convertible debentures	1,184	1,312	2,412	2,624
Dividends on Commonwealth preferred units	959	1,096	1,887	2,176
Amortization and accretion expense	990	1,303	2,012	2,424
Interest rate swap payments	1,362	2,377	3,445	4,689
Debt extinguishment costs	254	36	594	732
Amortization of mark-to-market debt adjustments	366	(16)	1,012	(78)
	$ 10,795	$ 12,477	$ 21,910	$ 25,706

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 months ended June 30, 2022 as compared to the prior year period due to the decrease the Company's average borrowing rate. Interest expense on mortgages payable decreased in the three months ended June 30, 2022 as compared to the prior year period 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 months ended June 30, 2022 and 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. Expense associated with dividends on Commonwealth preferred units decreased due to a $10,000 redemption of the Commonwealth preferred units on January 4, 2022.

Interest income from loans receivable from continuing operations

For the three and six months ended June 30, 2022, interest income from loans receivable was $367 and $719, respectively (three and six months ended June 30, 2021 - $314 and $621, respectively). Interest income is related to loans issued to operating partners and other entities for purposes of the development of seniors housing and care properties, operating capital expenditures or other costs.

Real estate tax expense & change in fair value of investment properties - IFRIC 21 from continuing operations

For the three and six months ended June 30, 2022, real estate tax expense was $8 and $11,417, respectively (three and six months ended June 30, 2021 - $(577) and $11,789, 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 sale of properties. Real estate tax expense on the Company's owner occupied properties is included in direct property operating expenses in the condensed consolidated interim statements of income and comprehensive income.

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 condensed consolidated interim statements of income and comprehensive income for the periods presented.

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Property tax recoveries	$ 2,871	$ 2,520	$ 5,764	$ 5,587
Real estate tax expense	(8)	577	(11,417)	(11,789)
Change in fair value of investment properties - IFRIC 21	(2,864)	(3,098)	5,651	6,204
	$ (1)	$ (1)	$ (2)	$ 2

General and administrative expenses from continuing operations

General and administrative expenses consist of the following:

	Three months ended June 30, 2022			Three months ended June 30, 2021		
	Corporate	CSL	Total	Corporate	CSL	Total
Compensation and benefits	$ 1,507	$ 1,630	$ 3,137	$ 1,540	$ 1,485	$ 3,025
Professional fees	467	233	700	1,150	—	1,150
Deferred share compensation	173	—	173	517	—	517
Bad debt expense	—	—	—	(1,094)	—	(1,094)
Other	1,035	290	1,325	511	390	901
	$ 3,182	$ 2,153	$ 5,335	$ 2,624	$ 1,875	$ 4,499

	Six months ended June 30, 2022			Six months ended June 30, 2021		
	Corporate	CSL	Total	Corporate	CSL	Total
Compensation and benefits	$ 3,968	$ 3,230	$ 7,198	$ 3,018	$ 2,973	$ 5,991
Professional fees	1,395	233	1,628	2,059	—	2,059
Deferred share compensation	313	—	313	1,538	—	1,538
Bad debt expense	—	—	—	529	—	529
Other	1,726	461	2,187	883	600	1,483
	$ 7,402	$ 3,924	$ 11,326	$ 8,027	$ 3,573	$ 11,600

Compensation and benefits expense includes the cost of salaries, bonuses, and benefits during the period. The increase in compensation and benefits for the three months ended June 30, 2022 as compared to the prior year period is primarily due to an increase in bonus expense at Corporate and wage increases at CSL.

Professional fees is comprised of costs incurred for external legal counsel, accounting fees and other professional services.

The decrease in deferred share compensation expense for the three months ended June 30, 2022 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 as well as a decrease in DSU's granted to employees.

Bad debt expense in the prior year is due to a reserve recorded against aged rents receivable. The Company recognizes a reserve based on an estimated probability of collection. Bad debt expense for the six months ended June 30, 2021 was due to the estimated uncollectible rent for the consolidated property located in Webster, TX operated by Bridgemoor. This property was contributed to the Jaguarundi Ventures, LP joint venture on October 29, 2021 and the joint venture sold this property and 3 others operated by Bridgemoor on April 1, 2022.

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 from continuing operations

Allowance (recovery) for credit losses on loans and interest receivable for the three and six months ended June 30, 2022 was $494 and $470, respectively (three and six months ended June 30, 2021 - $(480) and $685, respectively). The losses in the current year periods are related to a change in estimated credit losses with respect to loans receivable and related interest receivables.The recovery in the three months ended June 30, 2021 is due to repayment of loans previously reserved for. The losses in the six months ended June 30, 2022 are related to a change in estimated credit losses with respect to loans receivable and related interest receivables, offset by the loan repayment previously discussed. 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 an expense of $140 and $376, respectively, for the three and six months ended June 30, 2022 (three and six months ended June 30, 2021 - $4 recovery and $46 expense, respectively). These costs are the result of the portion of net income or loss attributed to the non-controlling interest partners of the consolidated properties, and the change during the three and six months ended June 30, 2022 from the prior year period is primarily due to operating results at the properties.

Change in fair value of investment properties from continuing operations

The change in fair value of investment properties for the three and six months ended June 30, 2022 was a decrease of $18,644 and a decrease of $27,118, respectively (three and six months ended June 30, 2021 - $4,991 decrease and $4,127 decrease). 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 June 30, 2022. These adjustments for the period ended June 30, 2022 were primarily driven by write-downs to skilled nursing assets to reflect current market conditions.

Change in fair value of financial instruments from continuing operations

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Change in fair value of interest rate swaps	$ (5,253)	$ (2,018)	$ (18,998)	$ (7,201)
Change in fair value of prepayment embedded derivatives	1,406	1,945	2,311	1,066
Change in fair value of loans receivable	—	474	—	474
Total loss (income) from change in fair value of financial instruments	$ (3,847)	$ 401	$ (16,687)	$ (5,661)

The change in fair value of financial instruments for the three months ended June 30, 2022 and 2021 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.

Income (loss) from joint ventures

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Revenue	$ 7,225	$ 8,422	$ 15,872	$ 17,035
Other income	289	—	289	129
Property operating expense	(6,097)	(5,502)	(12,254)	(11,049)
Depreciation expense	(113)	(136)	(249)	(272)
Finance costs	(1,250)	(1,662)	(2,630)	(3,305)
Real estate tax expense	—	(247)	(197)	(494)
General and administrative expenses	(26)	(711)	(1,595)	(1,392)
Allowance for credit losses on loans and interest receivable	—	(154)	—	(577)
Change in fair value of financial instruments	853	402	2,294	1,496
Change in fair value of investment properties	(802)	(2,840)	(1,899)	(3,240)
Gain on sale of interest in a joint venture	4,294	—	4,294	—
Income (loss) from joint ventures	$ 4,373	$ (2,428)	$ 3,925	$ (1,669)

Income (loss) from joint ventures represents the Company's share of net income or loss from unconsolidated entities. The increase in income from joint ventures during the three months ended June 30, 2022 is primarily due to a gain on sale the Company's interest in a joint venture and an increase in the change in fair value of financial instruments.

Income tax expense/recovery from continuing operations

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 loss on translation of foreign operations for the three and six months ended June 30, 2022 of $1,542 and $916, respectively (three and six months ended June 30, 2021 - $747 and $1,499 gain, 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

	Six months ended June 30,	
	2022	2021
Cash provided by operating activities	$ 8,119	$ 7,932
Cash used in financing activities	(27,331)	(81,068)
Cash provided by investing activities	27,989	68,179
Increase (decrease) in cash and cash equivalents	$ 8,777	$ (4,957)

Cash Provided by Operating Activities

Cash provided by operating activities increased during the six month period ended June 30, 2022 as compared to the prior year period. The changes were primarily due to an increase in operating cash provided by the Company's owner occupied portfolio of properties and lower average interest rates on outstanding debt.

Cash (Used in) Provided by Financing Activities

Cash used in financing activities for the six month period ended June 30, 2022 was $27,331 as compared to cash used in financing activities of $81,068 in the prior year period. The current period cash used in financing activities was primarily driven by net repayments on mortgages payable, convertible debentures and Commonwealth preferred units, partially offset by draws on the Credit Facility.

Cash used in by financing activities in the six month period ended June 30, 2021 was primarily driven by net proceeds from the credit facilities and mortgage activity of $80,243, offset by debt issuance costs of $206.

Cash Used in Investing Activities

Cash provided by investing activities for the six months ended June 30, 2022 was $27,989. This was primarily due to the acquisition of investment property of $12,373 offset by disposals of property, plant and equipment and assets held for sale of $27,162, distributions from joint ventures of $10,361, contributions to joint ventures of $286 and distributions made to non-controlling interest partners of $356.

Cash provided by investing activities for the six months ended June 30, 2021 was primarily due to additions of property, plant and equipment of $3,823 and distributions made to non-controlling interest partners of $2,391.

Financial Position

Total assets of $1,257,534 are comprised primarily of $589,249 of investment properties, which represents the estimated fair market value of the Company's portfolio of properties, including capital expenditures, and $422,436 of property, plant and equipment, net of $92,240 of accumulated depreciation as at June 30, 2022. Cash on hand at June 30, 2022 was $28,146, net loans receivable were $19,429, investments in joint ventures were $44,273, total derivative assets were $9,532, and other assets were $11,400. Total gross loans receivable of $26,224 is offset by an allowance for losses on loans receivable of $6,795. Gross loans receivable includes $7,667 of gross loans made to the tenant operator Symcare. Other assets primarily consisted of $4,126 of escrows held by lenders, $2,763 of prepaid expense, $1,841 of right-of-use asset, $699 of bond assets and $1,879 of other costs. In addition, current assets include tenant and other receivables of $4,508, real estate tax receivables of $15,501, and assets held for sale of $112,975. 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 $977,244 includes current liabilities of $186,097 (see "Liquidity and Capital Resources" for additional information) and non-current liabilities of $791,147. The current liabilities included $16,826 of real estate taxes payable. Accounts payable and accrued liabilities represented $14,074 of the balance in current liabilities. In addition, current liabilities included $61,434 representing the current portion of mortgages payable, net of loan fees. Non-current liabilities included $113,830 representing the non-current portion of mortgages payable, net of loan fees; $548,915 representing the non-current balance outstanding on the credit facilities, net of loan fees; $64,375 of the convertible debentures, net of fees; $57,648 of Commonwealth preferred unit liability; $0 of derivative liability; and $392 of non-controlling interest liability. Other non-current liabilities of $5,987 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 July 1, 2020 through June 30, 2022:

	Three months ended June 30, 2022	Three months ended March 31, 2022	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
Revenue [2]	$ 49,732	$ 48,594	$ 47,850	$ 49,372	$ 48,592	$ 50,331	$ 50,962	$ 52,012
Other income [2]	41	150	1,600	—	2,023	106	821	2,529
Direct property operating expenses [2]	24,862	25,853	26,168	24,552	22,460	23,406	23,753	23,109
Depreciation and amortization expense [2]	3,783	3,741	4,017	4,722	5,718	7,695	11,964	12,581
Finance costs [2]	10,795	11,115	10,579	11,637	12,477	13,229	12,371	12,140
Interest income from loans receivable [2]	(367)	(352)	(386)	(461)	(314)	(307)	(340)	(877)
Real estate tax expense [2]	8	11,409	346	2,404	(577)	12,367	(865)	—
General and administrative expenses [2]	5,335	5,991	5,375	3,039	4,499	7,101	4,878	4,817
Transaction costs for business combination [2]	—	—	—	—	—	—	—	(237)
Allowance for credit losses on loans and interest receivable [2]	494	(24)	530	(19)	(480)	1,164	3,395	13,056
Changes in non-controlling interest liability [2]	140	236	(108)	(225)	4	(50)	107	41
Change in fair value of investment properties - IFRIC 21 [2]	2,864	(8,515)	2,725	2,253	3,098	(9,302)	3,048	3,039
Change in fair value of investment properties [2]	18,644	8,474	(834)	9,373	4,991	(863)	9,191	38,036
Change in fair value of financial instruments [2]	(3,848)	(12,839)	(12,556)	(1,922)	(2,423)	(3,237)	(2,458)	(1,954)
Change in fair value of contingent consideration [2]	—	—	(1,263)	(192)	1,197	—	2,254	3,256
Loss on sale of property, plant and equipment [2]	672	(1,333)	(1,160)	(40)	(14)	—	21	—
Income (loss) from joint ventures [2]	4,373	(448)	(14,806)	1,569	(2,428)	759	(2,343)	(7,420)
Deferred income tax expense (recovery) [2]	—	(1,127)	—	—	—	—	—	—
Impairment of property, plant and equipment [2]	—	—	1,100	—	—	—	—	—
Net income (loss) from continuing operations	(9,236)	5,667	111	(4,180)	(2,449)	(7)	(17,879)	(59,886)
Net income (loss) from discontinued operations	1,555	(2,330)	(5,564)	(902)	(1,051)	1,807	(18,436)	(863)
Net income (loss) for the period	(7,681)	3,337	(5,453)	(5,082)	(3,500)	1,800	(36,315)	(60,749)
Income (loss) per share: Basic	$ (0.14)	$ 0.06	$ (0.10)	$ (0.09)	$ (0.06)	$ 0.03	$ (0.65)	$ (1.09)
Income (loss) per share: Diluted	$ (0.14)	$ 0.05	$ (0.10)	$ (0.09)	$ (0.06)	$ 0.03	$ (0.65)	$ (1.09)
Funds from operations [1]	6,457	3,906	5,996	5,643	10,075	5,032	10,429	13,728
Funds from operations per share: Basic [1]	$ 0.11	$ 0.07	$ 0.11	$ 0.10	$ 0.18	$ 0.09	$ 0.19	$ 0.25
Funds from operations per share: Diluted [1]	$ 0.09	$ 0.06	$ 0.10	$ 0.10	$ 0.15	$ 0.07	$ 0.16	$ 0.20
Adjusted funds from operations [1]	7,059	3,194	5,317	4,766	9,286	5,677	9,522	12,499
Adjusted funds from operations per share: Basic [1]	$ 0.12	$ 0.06	$ 0.09	$ 0.08	$ 0.16	$ 0.10	$ 0.17	$ 0.22
Adjusted funds from operations per share: Diluted [1]	$ 0.10	$ 0.05	$ 0.09	$ 0.07	$ 0.14	$ 0.08	$ 0.15	$ 0.18

(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*".
(2) Represents amounts presented from continuing operations, and excludes activity from the medical office building segment, which has been discontinued.

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 June 30, 2022, current liabilities totaled $186,097, and current assets totaled $171,111, resulting in a working capital deficit of $14,986. 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 $28,146, (ii) cash flow generated from operations, (iii) credit facilities, under which $47,447 was available as at June 30, 2022, (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 permanently decreased 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 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 were 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 June 30, 2022, the Preferred Shares are convertible into 11,709,747 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 indebtedness.

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 for financial reporting purposes, 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.

	Principal Amount	Weighted Average Interest Rate	Years to Maturity [2]
Fixed Rate Indebtedness			
Credit Facility Term	$ 200,000	4.3 % [1]	1.5
Credit Facility Revolver	25,000	4.8 % [1]	1.5
Credit Facility Revolver	50,000	4.3 % [1]	1.5
MOB Facility (discontinued operations)	66,185	4.3 % [1]	0.5
Commonwealth Facility	176,000	3.8 % [1]	2.1
Mortgages payable	120,224	3.8 % [1]	9.0
2016 Convertible Debentures	24,850	7.0 %	2.6
2018 Convertible Debentures	50,000	6.0 %	1.3
	712,259	4.3 %	2.8
Variable Rate Indebtedness			
Credit Facility Revolver	$ 97,628	4.0 %	1.5
MOB Facility (discontinued operations)	21,286	4.0 %	0.5
Commonwealth Facility	4,453	2.6 %	2.1
Mortgages payable	51,405	4.6 %	2.1
	174,772	4.2 %	1.5
Total indebtedness	$ 887,031	4.3 %	2.6
Less loan fees and issue costs, net of amortization and accretion	(3,307)		
Equity component of convertible debentures, excluding issue costs and taxes	(4,990)		
Mark-to-market adjustment, net	(693)		
Carrying amount	$ 878,041		

(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, and which are generally exercisable at the Company's discretion.

Joint Venture Indebtedness

		Principal Amount	Weighted Average Interest Rate	Years to Maturity
Fixed rate mortgages payable	$	96,101	4.1 % [1]	3.5
Variable rate mortgages payable		495	4.5 %	0.8
Total Indebtedness	$	96,596	4.1 %	3.5
Less loan fees, net of amortization		(950)		
Carrying amount	$	95,646		
Company's share of carrying amount	$	79,282		

(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. 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 Covenant Compliance

Debt to total assets is calculated by dividing the total consolidated indebtedness, net of loan costs, by the total consolidated assets of the Company. 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 June 30, 2022, the Company is in compliance with the required debt to total asset ratio under the terms of the Credit Facility.

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 covenant purposes, the consolidated fixed charge coverage ratio is calculated on a trailing twelve month basis. For the twelve month period ended June 30, 2022, the fixed charge coverage ratio of the Company was in compliance with the levels required under the terms of the Credit Facility.

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 June 30, 2022, including expected interest payments, is as follows:

	Total	2022	2023	2024	2025	2026	Thereafter
Credit facilities principal	$553,081	$ 796	$375,104	$177,181	$ —	$ —	$ —
Mortgages payable principal	171,629	15,842	47,219	30,316	20,381	1,364	56,507
Convertible debentures principal	74,850	—	50,000	—	24,850	—	—
Commonwealth preferred unit liability principal (1)	67,381	—	—	67,381	—	—	—
Total principal	$866,941	$ 16,638	$472,323	$274,878	$ 45,231	$ 1,364	$ 56,507
Percentage of total	100.0 %	1.9 %	54.5 %	31.7 %	5.2 %	0.2 %	6.5 %
Credit facilities interest	$ 37,253	$ 11,207	$ 22,092	$ 3,954	$ —	$ —	$ —
Mortgages payable interest	31,870	3,101	4,661	3,508	2,413	2,162	16,025
Convertible debentures interest	9,712	2,367	4,736	1,739	870	—	—
Commonwealth preferred unit liability interest	10,557	2,208	4,574	3,775	—	—	—
Accounts payable and accrued liabilities	14,074	14,074	—	—	—	—	—
Accrued real estate taxes	16,826	16,826	—	—	—	—	—
Principal and interest related to discontinued operations	90,570	90,570	—	—	—	—	—
Other current liabilities	2,939	2,939	—	—	—	—	—
Other non-current liabilities	5,987	709	633	514	247	134	3,750
Total other commitments	$219,788	$144,001	$ 36,696	$ 13,490	$ 3,530	$ 2,296	$ 19,775
Total commitments	$1,086,729	$160,639	$509,019	$288,368	$ 48,761	$ 3,660	$ 76,282

(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 $550,931 as of June 30, 2022.

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 June 30, 2022.

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. As of April 1, 2022, Jaguarundi Ventures, LP has sold all properties owned by 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 condensed consolidated interim 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 3 of the consolidated financial statements of the Company for the year ended December 31, 2021 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.

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 June 30, 2022, 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 period ended June 30, 2022 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 August 9, 2022, 56,397,447 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 4,970,000 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 August 9, 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 August 9, 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 11,709,747 common shares would be issued.

As of August 9, 2022, assuming the voluntary conversion of all of the Exchangeable Units, a total of 327,869 common shares would be issued.

As of August 9, 2022, assuming the voluntary conversion of all of the Commonwealth preferred units, a total of 5,992,205 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 accretion and amortization of non-cash adjustments to the 2016 Convertible Debentures (viii) 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):

	Six months ended June 30, 2022	Six months ended June 30, 2021
Net loss from continuing operations for the period	$ (3,568)	$ (2,453)
Add/(deduct):		
Change in fair value of investment properties	21,467	(2,077)
Property taxes accounted for under IFRIC 21	5,651	6,204
Depreciation and amortization expense	7,477	13,368
Amortization of tenant inducements	121	150
Accretion expense and amortization of non-cash adjustments to the 2016 Convertible Debentures	1,569	—
Change in fair value of financial instruments	(16,687)	(5,660)
Change in fair value of contingent consideration	—	1,197
Loss on sale of property, plant and equipment	(661)	(15)
Deferred income tax recovery	(1,127)	—
Allowance for credit losses on loans and interest receivable	470	685
Change in non-controlling interest liability in respect of the above	98	(240)
Adjustments for equity accounted entities	(5,132)	2,983
FFO from continuing operations	$ 9,678	$ 14,142
FFO from discontinued operations	686	965
Total FFO	$ 10,364	$ 15,107
Interest, amortization and accretion expense on convertible units (1)	1,003	5,869
Total diluted funds from operations	$ 11,367	$ 20,976
Weighted average number of shares, including fully vested deferred shares: Basic	56,713,789	56,235,874
Weighted average shares issued if all convertible units were converted (1)	17,402,457	26,741,214
Weighted average number of shares: Diluted	74,116,246	82,977,088
Funds from operations per share	$ 0.18	$ 0.27
Diluted funds from operations per share	$ 0.15	$ 0.25

(1) For the six months ended June 30, 2022, dilutive convertible units includes 2016 Convertible Debentures, Preferred Shares and Exchangeable Units. For the six months ended June 30, 2021, dilutive convertible units include 2016 Convertible Debentures, 2018 Convertible Debentures, Preferred Shares, Commonwealth preferred interest and Exchangeable Units.

	Three months ended June 30, 2022	Three months ended March 31, 2022	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
Net income (loss) from continuing operations	$ (9,236)	$ 5,667	$ 111	$ (4,180)	$ (2,449)	$ (7)	$ (17,879)	$ (59,886)
Add/(deduct):								
Change in fair value of investment properties	21,508	(41)	1,891	11,626	8,089	(10,165)	12,239	41,075
Property taxes accounted for under IFRIC 21	(2,864)	8,515	(2,725)	(2,253)	(3,097)	9,302	(3,048)	(3,039)
Depreciation and amortization expense	3,758	3,719	3,995	4,700	5,696	7,672	11,940	12,557
Amortization of tenant inducements	61	61	65	75	75	75	75	75
Accretion expense and amortization of non-cash adjustments to the 2016 Convertible Debentures	647	922	—	—	—	—	—	—
Change in fair value of financial instruments	(3,848)	(12,839)	(12,556)	(1,922)	(2,423)	(3,237)	(2,458)	(1,954)
Change in fair value of contingent consideration	—	—	(1,263)	(192)	1,197	—	2,254	3,256
Loss (gain) on sale of property, plant and equipment	672	(1,333)	(1,160)	(40)	(14)	—	21	—
Impairment of property, plant and equipment	—	—	1,100	—	—	—	—	—
Deferred income tax recovery	—	(1,127)	—	—	—	—	—	—
Transaction costs for business combination	—	—	—	—	—	—	—	(237)
Allowance for credit losses on loans and interest receivable	494	(24)	530	(19)	(480)	1,165	3,395	13,056
Change in non-controlling interest liability in respect of the above	(32)	130	(152)	(105)	(124)	(116)	(132)	(107)
Adjustments for equity accounted entities	(5,155)	23	15,438	(2,567)	2,939	44	3,539	8,285
FFO from continuing operations	$ 6,005	$ 3,673	$ 5,274	$ 5,123	$ 9,409	$ 4,733	$ 9,946	$ 13,081
FFO from discontinued operations	452	233	722	520	666	299	483	647
Total FFO	$ 6,457	$ 3,906	$ 5,996	$ 5,643	$ 10,075	$ 5,032	$ 10,429	$ 13,728
Interest, amortization and accretion expense on dilutive convertible units	480	—	2,756	2,769	2,754	—	2,793	2,735
Total diluted FFO from continuing operations	$ 6,937	$ 3,906	$ 8,752	$ 8,412	$ 12,829	$ 5,032	$ 13,222	$ 16,463
Weighted average number of shares, including fully vested deferred shares: Basic	56,721,074	56,706,423	56,412,206	56,363,180	56,308,810	56,162,127	56,034,723	55,987,283
Weighted average shares issued if all convertible units were converted	16,826,300	11,675,994	29,677,526	26,996,602	26,825,090	10,984,000	26,490,440	26,152,783
Weighted average number of shares: Diluted	73,547,374	68,382,417	86,089,732	83,359,782	83,133,900	67,146,127	82,525,163	82,140,066
Funds from operations per share	$ 0.11	$ 0.07	$ 0.11	$ 0.10	$ 0.18	$ 0.09	$ 0.19	$ 0.25
Diluted funds from operations per share	$ 0.09	$ 0.06	$ 0.10	$ 0.10	$ 0.15	$ 0.07	$ 0.16	$ 0.20

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):

	Six months ended June 30, 2022	Six months ended June 30, 2021
Cash flows provided by (used in) operating activities	$ 8,119	$ 7,932
Change in non-cash working capital	2,793	4,847
Less: interest expense [(1)]	(19,461)	(23,719)
Less: change in non-controlling interest liability	(376)	46
Plus: loss from joint ventures	3,925	(1,669)
Plus: interest paid	20,071	24,814
Less: interest received	(270)	(370)
Plus: debt extinguishment costs	594	732
Plus: non-cash portion of non-controlling interest expense	91	(241)
Plus: adjustments for equity accounted entities	(4,087)	2,715
Plus: deferred share incentive plan compensation	313	1,538
Less: capital maintenance reserve	(1,459)	(1,662)
AFFO	$ 10,253	$ 14,963
AFFO from discontinued operations	863	1,111
AFFO from continuing operations	$ 9,390	$ 13,852
Interest expense on dilutive convertible units [(2)]	913	4,800
Total diluted adjusted funds from operations	$ 11,166	$ 19,763
Weighted average number of shares, including fully vested deferred shares: Basic	56,713,789	56,235,874
Weighted average shares issued if all dilutive convertible units were converted [(2)]	17,402,457	26,741,214
Weighted average number of shares: Diluted	74,116,246	82,977,088
Adjusted funds from operations per share	$ 0.18	$ 0.27
Diluted adjusted funds from operations per share	$ 0.15	$ 0.24

(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) For the six months ended June 30, 2022, dilutive convertible units includes 2016 Convertible Debentures, Preferred Shares and Exchangeable Units. For the six months ended June 30, 2021, dilutive convertible units include 2016 Convertible Debentures, 2018 Convertible Debentures, Preferred Shares, Commonwealth preferred interest and Exchangeable Units.

	Three months ended June 30, 2022	Three months ended March 31, 2022	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
Cash flows provided by (used in) operating activities	$ 6,196	$ 1,923	$ 7,362	$ 3,386	$ 7,630	$ 302	$ 7,529	$ 8,290
Change in non-cash working capital	1,288	1,505	(1,840)	2,097	1,768	3,079	616	3,472
Less: interest expense (1)	(9,781)	(9,680)	(10,171)	(10,331)	(11,712)	(12,007)	(12,065)	(11,289)
Less: change in non-controlling interest liability	(140)	(236)	108	225	(4)	50	(107)	(41)
Plus: loss from joint ventures	4,373	(448)	(14,806)	1,569	(2,428)	759	(2,343)	(7,420)
Plus: interest paid	9,580	10,491	9,875	11,193	11,821	12,993	13,564	12,270
Less: interest received	(151)	(119)	(120)	(153)	(201)	(169)	(565)	(218)
Plus: debt extinguishment costs	254	340	71	213	36	696	—	—
Plus: transaction costs for business combination	—	—	—	—	—	—	—	(237)
Plus: non-cash portion of non-controlling interest expense	(35)	126	(156)	(108)	(126)	(256)	(103)	(118)
Plus: adjustments for equity accounted entities	(3,968)	(119)	15,652	(1,576)	2,816	40	3,281	8,070
Plus: deferred share incentive plan compensation	173	140	173	(918)	517	1,021	547	484
Plus: write-off of deferred financing costs from refinancing	—	—	—	—	—		—	67
Less: capital maintenance reserve	(730)	(729)	(831)	(831)	(831)	(831)	(832)	(831)
AFFO	$ 7,059	$ 3,194	$ 5,317	$ 4,766	$ 9,286	$ 5,677	$ 9,522	$ 12,499
AFFO from discontinued operations	554	309	817	598	755	356	565	714
AFFO from continuing operations	6,505	2,885	4,500	4,168	8,531	5,321	8,957	11,785
Interest expense on dilutive convertible units	435	—	2,420	—	2,408	—	2,452	2,394
Total diluted AFFO	$ 7,494	$ 3,194	$ 7,737	$ 4,766	$ 11,694	$ 5,677	$ 11,974	$ 14,893
Weighted average number of shares, including fully vested deferred shares: Basic	56,721,074	56,706,423	56,412,206	56,363,180	56,308,810	56,162,127	56,034,723	55,987,283
Weighted average shares issued if all dilutive convertible units were converted	16,826,300	11,675,994	29,677,526	11,324,196	26,825,090	10,984,000	26,490,440	26,152,783
Weighted average number of shares: Diluted	73,547,374	68,382,417	86,089,732	67,687,376	83,133,900	67,146,127	82,525,163	82,140,066
AFFO per share	$ 0.12	$ 0.06	$ 0.09	$ 0.08	$ 0.16	$ 0.10	$ 0.17	$ 0.22
Diluted AFFO per share	$ 0.10	$ 0.05	$ 0.09	$ 0.07	$ 0.14	$ 0.08	$ 0.15	$ 0.18

(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.

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.

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.

<u>*NOI by Operating Segment*</u>

The tables below are presented at the Company's proportionate share and display trailing three and six 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 six months ended June 30, 2022 and 2021.

	Three months ended June 30, 2022		Three months ended June 30, 2021	
	NOI	% of Total	NOI	% of Total
SHOP	$ 8,259	38.2 %	$ 8,075	30.5 %
NNN	11,902	55.2 %	16,755	63.4 %
MOB	1,432	6.6 %	1,619	6.1 %
	$ 21,593	100.0 %	$ 26,449	100.0 %

	Six months ended June 30, 2022		Six months ended June 30, 2021	
	NOI	% of Total	NOI	% of Total
SHOP	$ 14,350	35.2 %	$ 13,594	27.6 %
NNN	23,828	58.5 %	32,770	66.7 %
MOB	2,579	6.3 %	2,816	5.7 %
	$ 40,757	100.0 %	$ 49,180	100.0 %

Triple-Net Lease Portfolio

The Company's triple-net lease portfolio for the period ended June 30, 2022, consisted of 35 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 June 30, 2022 had an average lease term to maturity, excluding renewal options, of approximately 11.3 years.

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

The table below displays the Company's contractual rental revenue from continuing operations for the twelve months ended June 30, 2022 and 2021.

	Contractual Rental Revenue, twelve months ended June 30, 2022(1)	% of Total NNN Contractual Rental Revenue	Contractual Rental Revenue, twelve months ended June 30, 2021 (1)	% of Total NNN Contractual Rental Revenue
Symphony Post Acute	$ 13,754	31.7 %	$ 28,592	48.3 %
Constant Care	5,649	13.0 %	4,967	8.4 %
The Providence Group	5,467	12.6 %	5,031	8.5 %
Hillcrest Healthcare	3,834	8.8 %	3,754	6.4 %
Other	14,666	33.9 %	16,712	28.4 %
Total	$ 43,370	100.0 %	$ 59,056	100.0 %

(1) Represents contractual rental revenue for the respective time period.

The table below displays the Company's contractual forward twelve months rental revenue from continuing operations for the period commencing July 1, 2022.

	Contractual Rent, forward twelve months for the period beginning July 1, 2022	% of Total Contractual Rental Revenue
Symphony Post Acute	$ 14,480	32.0 %
Constant Care	6,271	13.8 %
The Providence Group	5,574	12.3 %
Cascade Capital Group	5,130	11.3 %
Hillcrest Healthcare	3,891	8.6 %
Other	9,940	22.0 %
Total	$ 45,286	100.0 %

Seniors Housing Operating Properties ("SHOP")

The Company's SHOP portfolio for the period ended June 30, 2022 consisted of 44 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.

The following tables summarizes stabilized SHOP metrics for the three and months ended June 30, 2022 and 2021:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
NOI margin	23.8 %	28.1 %	22.6 %	25.8 %
Occupancy	80.6 %	73.9 %	79.5 %	73.8 %
Revenue per resident (in whole U.S. dollars)	$ 4,912	$ 4,677	$ 4,829	$ 4,649

The table above includes the stabilized SHOP assets that were owned at the end of the respective reporting periods. NOI margin is calculated by dividing total NOI by total revenue for the respective period. Revenue per resident is calculated by dividing the average number of residents by total revenue for the respective period. These non-IFRS financial measures are commonly used to analyze performance within the seniors housing and care industry.

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 June 30, 2022					
	NNN	SHOP	Medical office buildings (discontinued operations)	Total operations	Corporate/ other	Total
Net income (loss)	$ (11,840)	$ 4,966	$ 1,555	$ (5,319)	$ (2,362)	$ (7,681)
Change in fair value of investment properties	18,644	—	(484)	18,160	—	18,160
Depreciation and amortization expense	—	3,758	—	3,758	25	3,783
Amortization expense and debt extinguishment costs	119	428	109	656	974	1,630
Amortization of tenant inducements	61	—	34	95	—	95
Change in fair value of financial instruments	(9)	(602)	(652)	(1,263)	(2,743)	(4,006)
Gain on sale of property, plant and equipment	—	668	—	668	4	672
Changes in non-controlling interest liability	—	(35)	—	(35)	—	(35)
Straight-line rent	(1,029)	—	(8)	(1,037)	—	(1,037)
DSU compensation	—	—	—	—	173	173
Finance cost from operations	4,299	3,702	878	8,879	1,184	10,063
Finance costs from operations from equity accounted entities	2	997	—	999	—	999
Non-cash adjustment for equity accounted entities	1,655	(5,623)	—	(3,968)	—	(3,968)
Net operating income (loss)	$ 11,902	$ 8,259	$ 1,432	$ 21,593	$ (2,745)	$ 18,848

	Three months ended June 30, 2021					
	NNN	SHOP	Medical office buildings (discontinued operations)	Total operations	Corporate/ other	Total
Net income (loss)	$ 5,151	$ (2,618)	$ (1,052)	$ 1,481	$ (4,981)	$ (3,500)
Change in fair value of investment properties	4,991	—	2,176	7,167	—	7,167
Depreciation and amortization expense	—	5,696	—	5,696	23	5,719
Amortization expense and debt extinguishment costs	589	198	84	871	536	1,407
Amortization of tenant inducements	75	—	(24)	51	—	51
Change in fair value of financial instruments	(64)	(1,372)	(434)	(1,870)	(1,466)	(3,336)
Change in fair value of contingent consideration	—	—	—	—	1,197	1,197
Gain on sale of property, plant and equipment				—	(14)	(14)
Changes in non-controlling interest liability	—	(128)	—	(128)	—	(128)
Straight-line rent	(1,777)	—	(2)	(1,779)	—	(1,779)
DSU compensation	—	—	—	—	517	517
Finance cost from operations	5,448	4,190	871	10,509	1,517	12,026
Finance costs from operations from equity accounted entities	634	1,004	—	1,638	—	1,638
Non-cash adjustment for equity accounted entities	1,708	1,105	—	2,813	4	2,817
Net operating income (loss)	$ 16,755	$ 8,075	$ 1,619	$ 26,449	$ (2,667)	$ 23,782

	Six months ended June 30, 2022					
	NNN	SHOP	Medical office buildings (discontinued operations)	Total operations	Corporate/ other	Total
Net income (loss)	$ (12,162)	$ 9,338	$ (776)	$ (3,600)	$ (744)	$ (4,344)
Change in fair value of investment properties	27,118	—	2,916	30,034	—	30,034
Depreciation and amortization expense	—	7,476	—	7,476	48	7,524
Amortization expense and debt extinguishment costs	138	1,083	192	1,413	2,220	3,633
Amortization of tenant inducements	122	—	63	185	—	185
Change in fair value of financial instruments	(31)	(6,380)	(1,518)	(7,929)	(9,806)	(17,735)
Gain on sale of property, plant and equipment	—	(656)	—	(656)	(5)	(661)
Changes in non-controlling interest liability	—	91	—	91	—	91
Straight-line rent	(2,104)	—	(16)	(2,120)	—	(2,120)
DSU compensation	—	—	—	—	313	313
Finance cost from operations	8,407	7,467	1,718	17,592	2,413	20,005
Deferred tax recovery	—	—	—	—	(1,127)	(1,127)
Finance costs from operations from equity accounted entities	360	1,998	—	2,358	—	2,358
Non-cash adjustment for equity accounted entities	1,980	(6,067)	—	(4,087)	—	(4,087)
Net operating income (loss)	$ 23,828	$ 14,350	$ 2,579	$ 40,757	$ (6,688)	$ 34,069

	Six months ended June 30, 2021					
	NNN	SHOP	Medical office buildings (discontinued operations)	Total operations	Corporate/ other	Total
Net income (loss)	$ 16,715	$ (10,382)	$ 754	$ 7,087	$ (8,787)	$ (1,700)
Change in fair value of investment properties	4,127	—	929	5,056	—	5,056
Depreciation and amortization expense	—	13,368	—	13,368	46	13,414
Amortization expense and debt extinguishment costs	665	1,342	167	2,174	1,071	3,245
Amortization of tenant inducements	150	—	96	246	—	246
Change in fair value of financial instruments	(114)	(1,796)	(814)	(2,724)	(3,064)	(5,788)
Change in fair value of contingent consideration	—	—	—	—	1,197	1,197
Gain on sale of property, plant and equipment	—	—	—	—	(14)	(14)
Changes in non-controlling interest liability	—	(248)	—	(248)	—	(248)
Straight-line rent	(3,013)	—	(28)	(3,041)	—	(3,041)
DSU compensation	—	—	—	—	1,538	1,538
Finance cost from operations	11,279	8,294	1,712	21,285	3,055	24,340
Finance costs from operations from equity accounted entities	1,288	1,972	—	3,260	—	3,260
Non-cash adjustment for equity accounted entities	1,673	1,044	—	2,717	4	2,721
Net operating income (loss)	$ 32,770	$ 13,594	$ 2,816	$ 49,180	$ (4,954)	$ 44,226