

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

# **INVESQUE INC.**

Year ended December 31, 2022 and 2021



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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Invesque Inc.

### ***Opinion***

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

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### ***Basis for Opinion***

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

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

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



### ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

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

We draw attention to Note 1(a) and 1(h)(v) of the financial statements. While there are uncertainties in assessing future liquidity requirements under normal operating conditions, the stressed conditions caused by COVID-19, interest rates and cost inflation have introduced increased uncertainties. The COVID-19 pandemic resulted in a significant economic downturn in the United States, Canada and globally, and also led to disruptions and volatility in capital markets. Certain trends and impacts have continued throughout 2022 and will likely continue throughout 2023. The pandemic has had an impact on results and operations of the Entity, including decreased occupancy, delays in collections from tenants, and increased operating expenses.

The Entity believes that it has sufficient available liquidity to meet its minimum obligations as they come due and to comply with financial covenants in its credit facilities, as amended, for a period of at least 12 months from December 31, 2022. Further, the Entity has assessed that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern. In making this significant judgment, the Entity has prepared a cash flow forecast with the most significant assumptions in the preparation of such forecast being the ability of its tenants to meet projected rental obligations to the Entity and the continued availability of financing.

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

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



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

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

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

We evaluated the continued availability of financing by:

- assessing the Entity's plans involving the maturity of its credit facility in 2023 by analyzing forecasted cash flows generated from operations, sales of assets, and alternative financing sources based on our understanding of the underlying properties and the industry;
- considering the ratio of forecasted mortgage and credit facility financing to forecasted fair value of the underlying properties for a selection of mortgages and credit facilities based on our understanding of the underlying properties and the industry; and
- analyzing the Entity's forecasted compliance with significant financial covenants contained in loan agreements using information contained in the cash flow forecast and the terms of the loan agreements.

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

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

***Evaluation of the fair value of investment properties valued using the direct capitalization income approach***

***Description of the matter***

We draw attention to Notes 1(g)(i), 2(b), and 6 of the financial statements. Investment properties consist of investment properties in use and investment properties under development. The Entity uses the fair value model to account for investment properties, using either a direct capitalization income approach, a discounted cash flow approach, or other methods, as deemed appropriate. The estimated fair value of investment properties valued using the direct capitalization income approach is \$344,681 thousand. Significant assumptions used when determining the estimated fair value of investment properties under the direct capitalization income approach include capitalization rates and stabilized future cash flows for each property.



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

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

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

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

- For a selection of investment properties valued using the direct capitalization income approach, we compared stabilized future cash flows to the actual historical cash flows for each investment property. We took into account the changes in conditions and events affecting the investment properties valued using the direct capitalization income approach to assess the adjustments, or lack of adjustments, made by the Entity in arriving at those stabilized future cash flows.
- For a selection of investment properties valued using the direct capitalization income approach, we involved valuations professionals with specialized skills and knowledge, who assisted in evaluating capitalization rates. These rates were evaluated by comparing them to published reports of real estate industry commentators taking into consideration the features of the specific investment property.

***Other Information***

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2022 Annual Report".

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

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



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

We have nothing to report in this regard.

The information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2022 Annual Report" is expected to be made available to us after the date of this auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

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

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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



We also:

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

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

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



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

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Michael Kavanagh.

Toronto, Canada

March 15, 2023



# INVESQUE INC.

Consolidated Statements of Financial Position

(Expressed in thousands of U.S. dollars)

As at

	December 31, 2022	December 31, 2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 27,579	\$ 19,369
Tenant and other receivables (note 3)	6,311	5,593
Property tax receivables	11,834	12,892
Derivative instruments (note 11)	5,645	—
Loans receivable (note 4)	—	1,635
Assets held for sale (notes 6, 7 and 16)	20,224	21,307
Other (note 5)	10,171	15,753
	<u>81,764</u>	<u>76,549</u>
Non-current assets:		
Loans receivable (note 4)	19,654	20,060
Derivative instruments (note 11)	10,412	3,388
Investment in joint ventures (note 8)	49,077	50,440
Investment properties (note 6)	538,591	716,344
Property, plant and equipment, net (note 7)	396,266	432,001
Other non-current assets (note 5)	1,576	2,229
	<u>1,015,576</u>	<u>1,224,462</u>
<b>Total assets</b>	<b>\$ 1,097,340</b>	<b>\$ 1,301,011</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 13,085	\$ 17,356
Accrued real estate taxes	17,891	13,671
Credit facilities (note 9)	337,474	795
Mortgages payable (note 10)	58,949	34,876
Convertible debentures (note 12)	47,869	19,678
Derivative instruments (note 11)	—	895
Other current liabilities (note 14)	6,972	3,787
Liabilities related to assets held for sale (note 16)	894	—
	<u>483,134</u>	<u>91,058</u>
Non-current liabilities:		
Credit facilities (note 9)	176,527	596,471
Mortgages payable (note 10)	127,999	178,947
Convertible debentures (note 12)	16,639	62,979
Commonwealth preferred unit liability (note 13)	57,906	66,239
Derivative instruments (note 11)	—	10,439
Other non-current liabilities (note 14)	3,277	6,279
Non-controlling interest liability	211	293
	<u>382,559</u>	<u>921,647</u>
<b>Total liabilities</b>	<b>865,693</b>	<b>1,012,705</b>
Shareholders' equity:		
Common share capital (note 17)	508,961	512,004
Equity settled deferred shares	862	1,781
Preferred share capital (note 17)	85,389	85,389
Contributed surplus	400	400
Equity component of convertible instruments	5,243	6,370
Exchangeable units	2,049	2,049
Cumulative deficit	(370,077)	(321,267)
Accumulated other comprehensive income (loss)	(1,180)	1,580
<b>Total shareholders' equity</b>	<b>231,647</b>	<b>288,306</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,097,340</b>	<b>\$ 1,301,011</b>

See accompanying notes to these consolidated financial statements.

# INVESQUE INC.

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

	Year ended December 31, 2022	Year ended December 31, 2021
Revenue:		
Rental (note 19)	\$ 58,646	\$ 69,647
Resident rental and related revenue (note 19)	132,534	120,152
Lease revenue from joint ventures (note 8)	3,519	3,529
Other revenue	3,336	2,819
	<u>198,035</u>	<u>196,147</u>
Other income (note 1)	695	3,730
Interest income from loans receivable	1,539	1,468
Expenses (income) and fair value adjustments:		
Direct property operating expenses (note 20)	102,642	96,587
Depreciation and amortization expense (note 7)	16,516	22,152
Finance costs from operations (note 21)	43,948	47,922
Real estate property tax expense	12,093	14,539
General and administrative expenses (note 22)	20,285	20,013
Transaction costs	39	—
Allowance for expected credit losses (note 21)	16,461	1,196
Change in non-controlling interest liability	446	(379)
Change in fair value of investment properties - IFRIC 21	(26)	(1,226)
Change in fair value of investment properties (note 6)	53,004	12,667
Impairment of property, plant and equipment (note 7)	4,513	1,100
Change in fair value of financial instruments (note 21)	(23,129)	(20,137)
Change in fair value of contingent consideration (note 26)	—	(258)
Loss (gain) on sale of property, plant and equipment (note 7)	3,009	(1,214)
	<u>249,801</u>	<u>192,962</u>
Share of income (loss) from joint ventures (note 8)	6,395	(14,906)
Loss before income taxes	(43,137)	(6,523)
Income tax recovery:		
Current	—	—
Deferred (note 25)	1,127	—
Net loss from continuing operations	\$ (42,010)	\$ (6,523)
Net income (loss) from discontinued operations (note 16)	(6,800)	(5,712)
Net loss	(48,810)	(12,235)
Other comprehensive income (loss):		
Items to be reclassified to net income (loss) in subsequent periods		
Foreign exchange loss reclassified to net loss	409	—
Unrealized gain (loss) on translation of foreign operations	(3,167)	303
	<u>(2,758)</u>	<u>303</u>
Total comprehensive loss	\$ (51,568)	\$ (11,932)

# INVESQUE INC.

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

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Loss from continuing operations per share (note 18):			
Basic	\$	(0.74)	\$ (0.12)
Diluted	\$	(0.74)	\$ (0.12)
Loss per share (note 18):			
Basic	\$	(0.86)	\$ (0.22)
Diluted	\$	(0.86)	\$ (0.22)

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See accompanying notes to these consolidated financial statements.

# INVESQUE INC.

## Consolidated Statements of Changes in Shareholders' Equity

(Expressed in thousands of U.S. dollars)

Years ended December 31, 2022 and 2021

	Common share capital	Equity settled deferred shares	Preferred share capital	Contributed surplus	Equity component of convertible instruments	Exchangeable units	Cumulative deficit	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2022	\$ 512,004	\$ 1,781	\$ 85,389	\$ 400	\$ 6,370	\$ 2,049	\$ (321,267)	\$ 1,580	\$ 288,306
Net loss	—	—	—	—	—	—	(48,810)	—	(48,810)
Other comprehensive loss	—	—	—	—	—	—	—	(2,760)	(2,760)
Common shares purchased under NCIB (note 17)	(783)	—	—	—	—	—	—	—	(783)
Common shares issued on settlement of deferred share incentive plan (note 17)	383	—	—	—	—	—	—	—	383
Amortization of equity settled deferred shares	—	351	—	—	—	—	—	—	351
Deferred tax impact on equity component of convertible debentures	—	—	—	—	(1,127)	—	—	—	(1,127)
Obligation for purchase of units under automatic share purchase plan	(4,038)	—	—	—	—	—	—	—	(4,038)
Common shares issued for equity settled deferred shares (notes 17 and 23)	1,270	(1,270)	—	—	—	—	—	—	—
Common shares issued through conversion of convertible debentures (notes 12 and 17)	125	—	—	—	—	—	—	—	125
Balance, December 31, 2022	\$ 508,961	\$ 862	\$ 85,389	\$ 400	\$ 5,243	\$ 2,049	\$ (370,077)	\$ (1,180)	\$ 231,647
	Common share capital	Equity settled deferred shares	Preferred share capital	Contributed surplus	Equity component of convertible instruments	Exchangeable units	Cumulative deficit	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2021	\$ 509,203	\$ 2,328	\$ 85,389	\$ 400	\$ 3,764	\$ 2,049	\$ (309,032)	\$ 1,277	\$ 295,378
Net loss	—	—	—	—	—	—	(12,235)	—	(12,235)
Other comprehensive income	—	—	—	—	—	—	—	303	303
Common shares issued on settlement of deferred share incentive plan (note 17)	637	—	—	—	—	—	—	—	637
Deferred tax impact on equity component of convertible debentures	1,648	—	—	—	2,606	—	—	—	4,254
Amortization of equity settled deferred shares	—	(31)	—	—	—	—	—	—	(31)
Common shares issued for equity settled deferred shares (notes 17 and 23)	516	(516)	—	—	—	—	—	—	—
Balance, December 31, 2021	\$ 512,004	\$ 1,781	\$ 85,389	\$ 400	\$ 6,370	\$ 2,049	\$ (321,267)	\$ 1,580	\$ 288,306

See accompanying notes to these consolidated financial statements.

# INVESQUE INC.

## Consolidated Statements of Cash Flows (Expressed in thousands of U.S. dollars)

	Year ended December 31, 2022		Year ended December 31, 2021	
<b>Cash flows from operating activities:</b>				
Net loss	\$	(48,810)	\$	(12,235)
Items not involving cash:				
Fair value adjustment of investment properties (note 6)		61,334		22,152
Fair value adjustment of financial instruments (note 11)		(24,706)		(21,860)
Impairment of property, plant and equipment (note 7)		4,513		1,100
Depreciation and amortization expense (note 7)		16,516		22,152
Allowance for credit losses on loans and interest receivable (note 21)		16,461		1,196
Straight-line rent (notes 16 and 19)		(3,818)		(6,189)
Amortization of tenant inducements (notes 16 and 19)		331		447
Finance costs from operations (notes 16 and 21)		46,670		50,221
Interest income on loans receivable		(1,540)		—
Change in non-controlling interest liability		446		(379)
Change in fair value of contingent consideration (note 21)		—		(258)
Loss (gain) on sale of property, plant and equipment (note 7)		3,009		(1,214)
Share of (income) loss from joint ventures (note 8)		(6,395)		14,906
Deferred income tax recovery (note 25)		(1,127)		—
Interest paid		(40,293)		(45,882)
Interest income received		549		643
Debt extinguishment costs paid		(337)		(1,016)
Change in non-cash operating working capital:				
Tenant and other receivables		(8,593)		(7,034)
Accounts payable and accrued liabilities		(2,463)		(42)
Unearned revenue		114		(622)
Other assets		(4,645)		1,378
Other liabilities		275		(114)
Accrued real estate taxes		4,421		1,624
<b>Net cash provided by operating activities</b>	<b>\$</b>	<b>11,912</b>	<b>\$</b>	<b>18,974</b>
<b>Cash flows (used in) from financing activities:</b>				
Proceeds from credit facilities (note 15)	\$	107,245	\$	58,953
Payments on credit facilities (note 15)		(190,754)		(124,311)
Debt issuance costs paid		(1,172)		(648)
Proceeds from mortgages (note 15)		17,214		17,135
Payments of mortgages (note 15)		(41,809)		(103,761)
Repayment of lease liabilities (note 22)		(351)		(294)
Redemption of convertible debentures		(20,000)		—
Repayment of preferred shares		(9,818)		—
Proceeds from settlement of interest rate swap		698		—
Payment for repurchase of common shares		(783)		—
Payment for repurchase of convertible debentures		(1,657)		—
<b>Cash used in financing activities</b>	<b>\$</b>	<b>(141,187)</b>	<b>\$</b>	<b>(152,926)</b>
<b>Cash flows from investing activities:</b>				
Additions to investment properties (note 6)	\$	(14,511)	\$	144
Proceeds from dispositions of investment properties (note 6)		22,081		112,960
Additions to property, plant and equipment		(6,516)		(7,575)
Proceeds from dispositions of property, plant and equipment		13,225		—
Proceeds from dispositions of assets held for sale		105,189		3,247
Acquisition of interest in joint venture		(475)		—
Proceeds from sale of joint venture (note 8)		7,734		—
Distributions from joint ventures (note 8)		13,727		16,083
Contributions to joint ventures (note 8)		(286)		(4,283)
Distributions to non-controlling interest partners		(607)		(2,835)
Contributions from non-controlling interest partners		79		235
Issuance of loans receivable		(2,300)		—
Repayment of loans receivable		1,098		1,212
Earnout payment pursuant to Commonwealth purchase agreement		(953)		—
<b>Cash provided by investing activities</b>	<b>\$</b>	<b>137,485</b>	<b>\$</b>	<b>119,188</b>
Increase (decrease) in cash and cash equivalents		8,210		(14,764)
Cash and cash equivalents, beginning of year		19,369		34,133
<b>Cash and cash equivalents, end of year</b>	<b>\$</b>	<b>27,579</b>	<b>\$</b>	<b>19,369</b>

See accompanying notes to these consolidated financial statements.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

Invesque Inc. (the "Company") was incorporated on May 31, 2007 under the Business Corporations Act (Ontario). The Company's registered office is 2500 - 700 W Georgia Street, Vancouver, British Columbia V7Y 1B3.

The Company currently owns a portfolio of North American income generating properties across the health care spectrum. The Company's investment property 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 or joint venture arrangements with operating partners. The Company's portfolio also includes investments in owner occupied seniors housing properties in which Invesque owns the real estate and provides management services exclusively through its subsidiary management company, Commonwealth Senior Living LLC ("Commonwealth").

At December 31, 2022, the Company owns interests in a portfolio of 80 health care and senior living properties of the type noted above comprised of 37 consolidated investment properties, 33 consolidated owner-occupied properties, partial interests in 7 properties held through joint arrangements and 3 investment properties presented as part of assets held for sale.

## 1. Basis of preparation:

### (a) Liquidity Assessment

The COVID-19 pandemic resulted in a significant economic downturn in the United States, Canada and globally, and also led to disruptions and volatility in capital markets. Certain trends and impacts have continued throughout 2022 and will likely continue throughout 2023. 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 ultimate impact of the pandemic on the Company's results of operations, financial position and cash flows are still uncertain and continually evolving. This includes, among other factors, the duration and severity of negative economic conditions arising therefrom, including interest rates and inflation. The negative impact of the pandemic has been partially offset to date by certain government stimulus programs which have helped to offset increased expenses and compensate for lost revenues, but the Company is not able to provide assurance that such programs may continue to be available in the future. For the year months ended December 31, 2022, the Company recognized \$695 of other income related to government grants funded through programs designed to assist seniors housing operators who have experienced both lost revenue and increased expenses during the COVID-19 pandemic (year ended December 31, 2021 - \$3,730). For the year ended December 31, 2022, the Company recognized \$290 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 (year ended December 31, 2021 - \$1,243).

The Company expects to meet its working capital requirements with respect to accounts payable and accrued liabilities through cash on hand and operating cash flows. As at December 31, 2022, current liabilities totaled \$483,134, and current assets totaled \$81,764, resulting in a working capital deficit of \$401,370. 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 \$27,579, (ii) cash flows generated from operations, (iii) credit facilities, under which \$13,481 was available as at December 31, 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.

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, interest rates and cost inflation have introduced increased uncertainty. 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 various 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 various debt agreements. There is a risk that such liquidity forecasts may not be achieved and that currently available debt financing that matures in 2023 may no longer be available to the Company at terms and conditions that are forecasted, or at all.

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The Company believes that it has sufficient available liquidity to meet its minimum obligations as they come due and to comply with financial covenants in its credit facilities, as amended, for a period of at least 12 months from December 31, 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 tenants to meet projected rental obligations to the Company and the continued availability of financing.

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

- (i) utilizing available cash to pay down debts,
- (ii) continue with sales activity to dispose of certain properties and use the proceeds to pay down and reduce debts,
- (iii) exercise the Company's right to convert its convertible debentures into common shares,
- (iv) reducing non-essential capital expenditures.

(b) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). All of the Company's subsidiaries adhere to the same accounting policies.

Certain comparative information as at December 31, 2021 has been reclassified to conform with the financial statement presentation adopted in the current year. The \$2,049 exchangeable units obligation has been reclassified from other liabilities to equity to reflect the equity instrument obligation to unit holders as defined in the related agreement. In addition, \$4,038 of common share capital has been reclassified to other liabilities to reflect the obligation created by the automatic stock purchase plan, as disclosed herein.

These consolidated financial statements were approved by the Board of Directors of the Company and authorized for issuance on March 15, 2023.

(c) Discontinued operations:

The results of operations of the Company's medical office building segment are classified as discontinued operations in these financial statements (note 16). A discontinued operation is a component of the Company's business that either has been disposed of, or is classified as held for sale, and either 1) represents a separate major line of business or geographic area of operations, 2) is part of a coordinated single plan to dispose of a separate major line of business or geographic area of operations or 3) is a subsidiary acquired exclusively with a view to resale. Based on the Company's assessment, the segment has been classified as a discontinued operation. Accordingly, the comparative consolidated statement of net loss and comprehensive loss is presented as if the operations had been discontinued from the start of the comparative period.

(d) Basis of measurement:

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

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(e) Principles of consolidation:

(i) Transactions eliminated on consolidation:

The consolidated financial statements comprise the financial statements of the Company and its significant subsidiaries as of December 31, 2022, including Invesque International Holdings Inc., Invesque US Holdings Inc., Invesque Holdings, LP, Foxhound Holdings, LLC, and project specific limited partnerships. All intercompany transactions and balances are eliminated on consolidation.

(ii) Joint arrangements:

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

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

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

(f) Functional and presentation currency:

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

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

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

(g) Use of estimation and measurement uncertainty:

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Measurement uncertainty arising from estimates and assumptions that have a significant risk of resulting in a material adjustment in the year ended December 31, 2022 and 2021 are as follows:



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(i) Investment properties:

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

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

i. Loans receivable:

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

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

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

ii. Impairment of property, plant and equipment:

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

iii. Other:

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

(h) Critical judgments:

Significant judgments made in applying the Company's accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

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(i) Accounting for leases as lessor:

The Company uses judgment regarding the implications associated with the present value of lease payments, the fair value of assets and the determination of the lease term in assessing the classification of its leases as operating leases, in particular with long-term leases in single operator properties. The Company has determined that all of its leases are operating leases.

(ii) Accounting for acquisitions:

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

(iii) Componentization of property, plant and equipment:

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

(iv) Loans receivable:

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

(v) Liquidity:

Assessing whether events or conditions represent the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern, including the judgements and estimation involved with budgeted future cash flows and impact on compliance with applicable loan and mortgage covenants.

## 2. Significant accounting policies:

(a) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand and highly liquid marketable investments with an original maturity of 90 days or less at their date of purchase and are stated at cost, which approximates fair value. As at December 31, 2022 and 2021, there were no cash equivalents.

(b) Investment properties:

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

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

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Properties under development include those properties, or components thereof, that will undergo activities that will take a substantial period to prepare the properties for their intended use as income properties. Borrowing and other costs related to development properties are capitalized to the costs of the projects. The costs eligible for capitalization to properties under development are measured at fair value, with reference to acquisition cost and costs invested to date. Upon practical completion of a development, the property is transferred to investment properties at the fair value on the date of practical completion. The Company considers practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally, this occurs upon completion of construction and receipt of all necessary occupancy and other material permits.

Properties under development are also adjusted to fair value at each consolidated statement of financial position date with fair value adjustments recognized in income.

Investment property is classified as held for sale when the property is available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of investment properties, its sale is highly probable and expected to be completed with one year. Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Prior to its disposal, the carrying value of the investment property is adjusted to reflect its fair value. This adjustment is recorded as a fair value gain (loss). Any remaining gain or loss arising on de-recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(c) Property, plant, and equipment:

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

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

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

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Components:

Building - Structure	25-39 years
Building - Roof	15-25 years
Building - Electrical/HVAC systems	15-25 years
Building - Windows and doors	10-15 years
Building - Exterior landscaping	10-15 years
Furniture, fixtures, and equipment	2-5 years

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

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

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

(e) Assets held for sale:

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

(f) Fair value measurement:

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

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

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

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

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

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

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

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

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

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

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

(g) Financial instruments:

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

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

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

<b>Financial assets and liabilities</b>	<b>Measurement</b>
Cash and cash equivalents	Amortized cost
Tenant and other receivables	Amortized cost
Property tax receivables	Amortized cost
Derivative instruments	FVTPL
Loans receivable	Amortized cost/FVTPL
Accounts payable and accrued liabilities	Amortized cost
Accrued real estate taxes	Amortized cost
Credit facilities	Amortized cost
Mortgages payable	Amortized cost
Convertible debentures	Amortized cost
Commonwealth preferred unit liability	Amortized cost

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

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

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

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

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

(i) Convertible debentures:

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

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

(ii) Commonwealth preferred unit liability

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

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

(iii) Impairment of financial assets:

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

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

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

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considering when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

The determination of ECLs of a collateralized impaired loan reflects the expected realization of the underlying security, net of expected costs and any amounts legally required to be paid to the borrower.

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

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

(iv) Derivative instruments:

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

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

(h) Non-controlling interest liability

The Company records third-party interests in the net assets of consolidated entities which do not qualify to be classified as equity as non-controlling interest liabilities. Such interests are initially recognized at fair

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value and are subsequently measured at amortized cost, with any changes recorded as change in non-controlling interest liability in profit or loss.

(i) Revenue recognition:

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

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

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

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

(ii) Resident leases

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

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

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

(iii) Lease revenue from joint ventures:

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

(j) Government grants

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



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## (k) Leases

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

### (i) As a lessee:

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

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

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

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

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

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

The Company presents the right-of-use assets in "other assets" and lease liabilities are recorded separately presented on the statement of financial position as "other liabilities".

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

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

### (iii) As a lessor:

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

# INVESQUE INC.

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and rewards incidental to ownership of the underlying assets and as a result they are classified as operating leases.

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

(l) Employee benefits:

(iv) Short-term benefits:

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

(v) Share-based payment plans:

The Company maintains a Deferred Share Incentive Plan (note 23) for its employees and directors. Cash-settled shares are fair-valued and changes in the amount payable are recognized through profit or loss with a corresponding change in liabilities. The awards are fair-valued on the basis of the share price at each reporting period and at the settlement date and the change in fair value on the amortized share-based compensation expense is recognized as compensation expense.

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

(m) Levies:

In accordance with IFRS Interpretations Committee ("IFRIC") 21, Levies ("IFRIC 21"), for its properties located in the United States, the Company recognizes the full amount of annual property tax liabilities at the point in time when the realty tax obligation is imposed and recognizes property tax recoveries at the time the tax obligation is satisfied.

(n) Income taxes:

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

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

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

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

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

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

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

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

(o) IFRS amendments adopted in 2022:

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

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

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

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

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

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

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

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

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

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

- (iii) Amendments to IAS 1, Disclosure Initiative

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

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

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### 3. Tenant and other receivables:

Tenant and other receivables and corresponding allowance balances are as follows:

		December 31, 2022	December 31, 2021
Tenant and other receivables, gross	\$	10,527	\$ 9,950
Allowance for uncollectible receivables		(4,216)	(4,357)
Tenant and other receivables, net	\$	6,311	\$ 5,593

The movement in the allowance in respect of tenant and other receivables during the year ended December 31, 2022 was as follows.

Balance, December 31, 2021	\$	4,357
Change in allowance		387
Transferred to assets held for sale		(528)
Balance December 31, 2022	\$	4,216

The Company determines estimated allowances on a tenant-by-tenant basis and considers tenant payment history, past default experiences, actual and expected insolvency filings, tenant abandonment and certain tenant disputes. The change in allowance for the year ended December 31, 2022 is primarily due to the addition of new tenants, partially offset by tenant recoveries.

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### 4. Loans receivable:

Loans receivable issued and outstanding as at December 31, 2022 and December 31, 2021 are detailed in the table below:

Debtor	Loan Type	December 31, 2022	December 31, 2021	Issued Date	Maturity Date	Current Interest Rate	Payment -in-kind Interest Rate
Mainstreet Investment Company, LLC	Interest-only loan	\$ —	\$ 3,932	December 22, 2016	December 22, 2018	8.5 %	1.5 %
	Revolving credit facility						
Autumnwood Lifestyles Inc.		1,107	1,187	November 1, 2016	December 31, 2024	8.0% <sup>(2)</sup>	— %
Ellipsis Real Estate Partners	Loan receivable	—	951	May 4, 2018	May 4, 2028	— %	7.5 %
Ellipsis Real Estate Partners	Loan receivable	1,040	1,331	September 14, 2018	September 14, 2028	— %	7.5 %
Hillcrest Millard, LLC	Loan receivable	459	529	January 1, 2019	January 1, 2028	— %	5.0 %
Hillcrest Firethorn, LLC	Loan receivable	456	496	January 1, 2019	November 1, 2027	— %	5.0 %
HML-RE LLC	Loan receivable	1,439	—	August 30, 2022	August 29, 2025	8.0 %	— %
HFT-RE LLC	Loan receivable	1,364	—	August 30, 2022	August 29, 2025	8.0 %	— %
Winyan Investment Ltd (Brantford)	Loan receivable	3,151	—	November 28, 2022	November 28, 2025	4.0 %	— %
Bridgemoor Transitional Care Operations, LLC <sup>(1)</sup>	Loan receivable	—	1,872	June 5, 2019	June 5, 2035	— %	— %
RHS Propco Mooresville, LLC	Loan receivable	5,000	5,000	June 28, 2019	July 1, 2024	8.5 %	— %
Memory Care America, LLC	Loan receivable	—	57	July 31, 2019	January 1, 2024	8.5 %	— %
Ellipsis Real Estate Partners, LLC	Mezzanine loan	—	475	October 25, 2019	October 1, 2022	2.5 %	7.5 %
Blue Bell Senior Holdings, LLC	Loan receivable	490	490	February 21, 2020	March 1, 2024 <sup>(3)</sup>	5.9 %	— %
PSL Care GP, LLC	Loan receivable	450	450	May 6, 2020	<sup>(4)</sup>	3.5 %	— %
Symcare ML, LLC	Loan receivable	7,940	7,404	June 1, 2021	December 31, 2035	— %	1.0 %
Premier Senior Living, LLC	Loan receivable	—	862	October 24, 2021	October 1, 2023	8.0 %	— %
	Accrued current and non-current interest	228	745				
	Allowance for expected credit losses on loans receivable	(8,111)	(6,329)				
	Carrying value of loans recorded at amortized cost	\$ 15,013	\$ 19,452				
Carrollton Autumn Leaves LP	Loan receivable - FVTPL	2,277	—	December 6, 2022	January 1, 2049	4.4 %	— %
Javelina Ventures, LLC	Loan receivable - FVTPL	2,364	2,243	December 31, 2018	<sup>(5)</sup>	— %	5.0 %
	Carrying value of loans receivable	\$ 19,654	\$ 21,695				
	Less current portion	—	1,635				
	Non-current portion	\$ 19,654	\$ 20,060				

(1) This loan was issued to MOC Fort Worth, LLC; MOC Round Rock, LLC; MOC San Antonio II, LLC; MOC Webster, LLC; and Bridgemoor Transitional Care Operations, LLC. This loan was fully written off as of December 31, 2022.

(2) This loan will bear interest rates of 8.6% and 8.9% as of January 1, 2023 and January 1, 2024, respectively. As of December 31, 2022 there is no additional drawing capacity on this loan.

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

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

(5) The repayment of this loan is pursuant to the Javelina Ventures Operating Agreement in which net available cash from operations and proceeds from property recapitalization will be used to repay the principal and accrued interest on this loan with no fixed maturity date.

\$7,940 of the Symcare loans outstanding and \$15 of the accrued current and non-current interest as at December 31, 2022 included in the table above are due from current third party tenant operators (\$10,358 and \$15, respectively as at December 31, 2021). Of these amounts, \$7,955 has been reserved as uncollectible since issuance of these loans (\$2,065 - December 31, 2021).

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Loans receivable and associated allowance for losses on loans receivable accounted for at amortized cost as at December 31, 2022 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Loans receivable, net of loan fees	\$ 15,169	\$ —	\$ 7,955	\$ 23,124
Allowance for losses on loans receivable	(156)	—	(7,955)	(8,111)
Loans receivable, net of allowances	\$ 15,013	\$ —	\$ —	\$ 15,013

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

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

The changes in the gross loans receivable balance during the year ended December 31, 2022 are shown in the following table:

	Stage 1	Stage 2	Stage 3	Total
Total loans receivable as at December 31, 2021	\$ 18,725	\$ 1,195	\$ 5,861	\$ 25,781
Loans receivable				
Transfer to/(from)				
Stage 1	(6,726)	—	—	(6,726)
Stage 2	—	(1,091)	—	(1,091)
Stage 3	—	—	7,817	7,817
	\$ 11,999	\$ 104	\$ 13,678	\$ 25,781
Issuances	7,074	30	44	7,148
Repayments	(3,542)	(30)	(57)	(3,629)
Currency translation	—	(104)	—	(104)
Fair value changes	(337)	—	94	(243)
Write off of loans receivable	(25)	—	(5,804)	(5,829)
Total loans receivable as at December 31, 2022	\$ 15,169	\$ —	\$ 7,955	\$ 23,124

On November 28, 2022, the Company sold a medical office building in Brantford, Ontario for \$7,800 CAD. As consideration for the transaction, the Company provided seller-financing to the buyer in the amount of \$5,085 CAD and received the remaining proceeds in cash. The issuance of this loan is included in issuance activity as presented in the table above. The seller-financing is first-mortgage secured, features a 4.00% interest rate and matures on November 28, 2025. The Company also received a guaranty from the buyer as an inducement to issue the loan.

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The changes in the allowance for credit losses during the year ended December 31, 2022 are shown in the following table:

	Stage 1	Stage 2	Stage 3	Total
Total allowance for credit losses as at December 31, 2021	\$ 276	\$ 237	\$ 5,816	\$ 6,329
Allowance for credit losses				
Remeasurement	322	—	7,276	7,598
Transfer to/(from)				
Stage 1	(434)	—	—	(434)
Stage 2	—	(233)	—	(233)
Stage 3	—	—	667	667
	\$ 164	\$ 4	\$ 13,759	\$ 13,927
Issuances	—	—	—	—
Repayments	—	—	—	—
Currency translation	(8)	(4)	—	(12)
Write off of loans receivable and allowances	—	—	(5,804)	(5,804)
Total allowance for credit losses as at December 31, 2022	\$ 156	\$ —	\$ 7,955	\$ 8,111

For the year ended December 31, 2022, a loss of \$8,273 (year ended December 31, 2021 - \$1,196 loss) was recorded as part of the remeasurement in the allowance for credit losses on loans and interest receivable in the consolidated statements of loss and comprehensive loss. The increase in allowance for credit losses is primarily due to the allowance against the Symcare loan, which has a carrying value of \$nil as of December 31, 2022 driven by increased risk associated with the collection of the loan, including the counterparty performance and financial strength.

On November 21, 2022, the Company received notice that it was the winning bidder and was bound into a Loan Sale Agreement with the U.S. Department of Housing and Urban Development (“HUD”) for the purchase of a note encumbering a memory care facility located in Carrollton, TX (“Carrollton Autumn Leaves LP”). On December 5, 2022, The Company acquired the note for \$2,300 and the borrower was placed immediately into default. The note carried an unpaid principal amount of \$4,100 and the Company has reported the loan at fair market value. As of December 31, 2022, the Company intends to utilize its position on the note to take possession property.



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## 5. Other assets:

Other assets are as follows:

	December 31, 2022		December 31, 2021	
Prepaid expenses	\$	2,259	\$	2,124
Security deposits and costs related to pending transactions		36		125
Escrow deposits held by lenders		6,255		4,605
Right-of-use assets		941		1,470
Bond assets		635		760
Receivable from Jaguarundi Ventures, LP (note 8)		—		7,802
Other		1,621		1,096
	\$	11,747	\$	17,982
Current	\$	10,171	\$	15,753
Non-current		1,576		2,229
	\$	11,747	\$	17,982

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

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## 6. Investment properties:

(a) *Investment properties:*

	Number of Properties	Amount
Balance, December 31, 2020	69	\$ 882,019
Contribution of investment property to joint venture (note 8)	(1)	(17,100)
Transfer to property, plant and equipment (note 7)	(2)	(19,846)
Capital expenditures	—	968
Sale of income properties	(13)	(114,318)
Increase attributable to straight-line rents	—	6,189
Fair value adjustment	—	(22,152)
Amortization of tenant inducements	—	(447)
Translation of foreign operations	—	1,031
Balance, December 31, 2021	53	\$ 716,344
Acquisitions of income properties	1	12,564
Capital expenditures	—	3,751
Increase attributable to straight-line rents	—	3,816
Fair value adjustment	—	(61,334)
Amortization of tenant inducements	—	(331)
Transferred to held for sale	(3)	(18,184)
Sale of income properties	(14)	(111,805)
Translation of foreign operations	—	(6,230)
Balance, December 31, 2022	37	\$ 538,591
Investment properties in use		\$ 533,012
Property under development		5,779
Balance, December 31, 2022		\$ 538,791

At December 31, 2022, the Company used an internal valuation process to value its investment properties. Third party appraisers are engaged to prepare valuations on a portion of the portfolio annually such that one third of the portfolio is valued externally each year, and every property in the portfolio is valued externally at least once every five years. Management considers the external valuations for a cross-section of investment properties that represent different geographical locations across the Company's portfolio and updates, as deemed necessary, the Company's internal valuation models to reflect current market data.

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

Capital expenditures include costs related to expansion projects at two buildings in Canada that are jointly owned, and therefore proportionately consolidated.

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The Company continues to review market capitalization, discount and terminal capitalization rates as well as its future cash flow projections and the valuation of its properties in light of the COVID-19 pandemic and interest rate and general economic environments. The carrying value for the Company's investment properties reflects its best estimate for the highest and best use as at December 31, 2022. It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes it will have on the Company's business and operations, both in the short term and in the non-current. In a non-current scenario, certain aspects of the Company's business and operations that could potentially be impacted include rental income, occupancy, turnover, future demand, interest rates and market rents, which all ultimately impact the underlying valuation of investment properties.

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

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

The capitalization rates used in determining fair value of investment properties valued using the direct capitalization income approach as at December 31, 2022 and December 31, 2021 are set out in the following table:

	December 31, 2022	December 31, 2021
Capitalization rate - range	6.05% - 9.00%	7.00% - 10.25%
Capitalization rate - weighted average	7.48%	8.09%

The estimated fair value of investment properties is most sensitive to changes in capitalization rates and stabilized future cash flows for those assets valued using the direct capitalization income approach. Changes in the capitalization rates and stabilized future cash flows would result in the following changes in the fair value of the Company's investment properties:

	December 31, 2022	December 31, 2021
Investment property valued using direct capitalization income approach	\$ 353,836	\$ 524,148
Capitalization rate:		
25-basis point increase	\$ (11,233)	\$ (15,880)
25-basis point decrease	\$ 12,037	\$ 16,917

As at December 31, 2022, a 1% increase in stabilized future cash flows would result in a portfolio fair value increase of \$3,421. A 1% decrease in stabilized future cash flows would result in a portfolio fair value decrease of \$3,421. A 1% increase in stabilized future cash flows coupled with a 0.25% decrease in capitalization rates would result in a portfolio fair value increase of \$15,578. A 1% decrease in stabilized future cash flows coupled with a 0.25% increase in capitalization rates would result in a portfolio fair value decrease of \$14,542.

Investment property valued using discounted cash flow projection	\$ 184,755	\$ 59,449
Investment property valued using other methods	\$ —	\$ 132,747

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*(b) Asset acquisitions - year ended December 31, 2022*

	Grand Rapids, MI
Number of consolidated properties acquired:	1
Net assets acquired:	
Investment properties	\$ 12,564
	\$ 12,564
Consideration paid/funded:	
Cash	10,765
Repayment of mezzanine and loans receivable principal and accrued interest	1,799
	\$ 12,564

On February 1, 2022, The Company purchased 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.

*(c) Asset dispositions - year ended December 31, 2022*

	Nebraska
Properties sold:	2
Net assets disposed:	
Investment properties	\$ 24,931
	\$ 24,931
Consideration received:	
Cash	22,081
Issuance of loan receivable (note 4)	2,850
	\$ 24,931

On August, 30, 2022, the Company sold two properties in Nebraska for \$25,000. Cash in excess of closing costs was used to partially pay down the Company's corporate credit facility.

For dispositions of investment properties classified as discontinued operations, see note 16.

*(d) Assets held for sale*

The following table summarizes the investment properties held for sale on December 31, 2022 and December 31, 2021:

	December 31, 2022	December 31, 2021
Assets:		
Investment properties <sup>(1)</sup>	\$ 18,184	\$ —
	\$ 18,184	\$ —

(1) As of December 31, 2022, total assets held for sale reflect the medical office buildings reportable segment.

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

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

Property, plant and equipment consists of the following as at December 31, 2022:

	Land	Buildings	Furniture, fixtures and equipment	Properties under development	Total
<b>Cost</b>					
Balance, December 31, 2020	\$ 28,827	\$ 465,288	\$ 12,843	\$ 7,406	\$ 514,364
Additions	—	3,562	3,528	717	7,807
De-recognition	—	(135)	—	—	(135)
Transfers	—	7,723	—	(7,723)	—
Assets contributed to joint venture	(2,600)	—	—	—	(2,600)
Transfer from investment property	200	18,890	560	—	19,650
Assets transferred to held for sale	(306)	(20,834)	(586)	—	(21,726)
Balance, December 31, 2021	\$ 26,121	\$ 474,494	\$ 16,345	\$ 400	\$ 517,360
Additions	—	3,392	3,001	622	7,015
De-recognition	(100)	(547)	(2,727)	—	(3,374)
Transfers	—	682	—	(682)	—
Transfer to joint venture	(600)	(16,096)	(759)	—	(17,455)
Sale of Harrisburg	(384)	(5,195)	(714)	(2)	(6,295)
Balance, December 31, 2022	\$ 25,037	\$ 456,730	\$ 15,146	\$ 338	\$ 497,251
<b>Accumulated depreciation</b>					
Balance, December 31, 2020	\$ —	\$ 59,744	\$ 2,795	\$ —	\$ 62,539
Depreciation and amortization	—	20,629	1,523	—	22,152
De-recognition	—	(13)	—	—	(13)
Impairment	—	1,100	—	—	1,100
Assets transferred to held for sale	—	(395)	(24)	—	(419)
Balance, December 31, 2021	\$ —	\$ 81,065	\$ 4,294	\$ —	\$ 85,359
Depreciation and amortization	—	13,859	2,657	—	16,516
De-recognition	—	(537)	(2,705)	—	(3,242)
Impairment	—	4,513	—	—	4,513
Transfer Lansdale to joint venture	—	(1,272)	(249)	—	(1,521)
Sale of Harrisburg	—	(442)	(198)	—	(640)
Balance, December 31, 2022	\$ —	\$ 97,186	\$ 3,799	\$ —	\$ 100,985
Property, plant and equipment, net balance, December 31, 2021	\$ 26,121	\$ 393,429	\$ 12,051	\$ 400	\$ 432,001
Property, plant and equipment, net balance, December 31, 2022	\$ 25,037	\$ 359,544	\$ 11,347	\$ 338	\$ 396,266

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

*(b) Dispositions and transfers - year ended December 31, 2022*

	Port Royal, SC <sup>(1)</sup>	Harrisburg, PA	New York <sup>(1)</sup>	Lansdale	Total
Properties	(1)	(1)	(2)	(1)	(5)
Gross sale price <sup>(2)</sup>	\$ 3,525	\$ 5,500	\$ 19,650	\$ 15,934	\$ 44,609
Closing costs	(196)	155	(40)	—	(81)
Working capital balances	51	55	142	(59)	189
Equity contributed to joint venture	—	—	—	(3,704)	(3,704)
Loss on extinguishment of debt	—	(347)	—	—	(347)
Mortgage/credit facility redemption	(3,315)	(5,026)	—	(8,273)	(16,614)
Cash proceeds received, net	(1,679)	(12)	(18,823)	(529)	(21,043)
(Gain) loss on sale of property, plant and equipment	\$ (1,614)	\$ 325	\$ 929	\$ 3,369	\$ 3,009

(1) Properties were held for sale as at December 31, 2021.

(2) Amount for Lansdale reflects value of property, plant and equipment at time of transfer to a joint venture arrangement.

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 \$3,525 before closing costs. Cash in excess of closing costs was used to repay mortgage debt.

On March 1, 2022, the Company sold a property in Harrisburg, PA for total consideration of \$5,500 before closing costs. Cash in excess of closing costs was primarily used to repay \$5,026 of mortgage debt and a \$347 prepayment penalty.

On April 1, 2022, the Company sold two properties in New York for a total consideration of \$19,650 before closing costs. Cash in excess of closing costs were used to partially pay down the Company's corporate credit facility.

On July 8, 2022, the Company entered into a joint venture agreement with an affiliate of the operator Heritage Senior Living ("Heritage") for a property in Lansdale, PA. As part of the joint venture agreement, the Company sold 10% of its equity interest in the property and operations for a cash payment of \$529. In this joint arrangement, the Company owns a 90% interest in the real estate and operations through separate legal entities and the property has management agreements in place with Heritage to provide for the day to day operations. An affiliate entity of Heritage owns the remaining 10% of the real estate and operations. As part of the joint ownership agreements, and the required unanimous approval by both partners for material decisions in the joint arrangement, the Company determined that joint control of the interests in the joint arrangement exists.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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Years ended December 31, 2022 and 2021

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

	Parker, CO	Richmond, VA	Total
Properties	—	(1)	(1)
Gross sale price <sup>(1)</sup>	\$ 2,600	\$ 3,500	\$ 6,100
Closing costs	—	(261)	(261)
Working capital balances	—	(1,019)	(1,019)
Land contributed to joint venture	(2,600)	—	(2,600)
Cash proceeds received, net	—	(3,434)	(3,434)
(Gain) loss on sale of property, plant and equipment	\$ —	\$ (1,214)	\$ (1,214)

(1) Amount for Parker reflects value of land at time of transfer to a joint venture arrangement.

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

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

*(d) Assets held for sale*

The following table summarizes the significant property, plant and equipment held for sale on December 31, 2022 and December 31, 2021:

	December 31, 2022	December 31, 2021
Assets:		
Property, plant and equipment, net	\$ —	\$ 21,307
	\$ —	\$ 21,307

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

## 8. Joint arrangements:

As at December 31, 2022, the following are the Company's joint arrangements:

Joint arrangement	Number of properties	Location	Company ownership	Investment
Invesque-Autumnwood Landlord	4	Canada	29 %	Joint operation <sup>(1)(2)</sup>
Invesque-Autumnwood Operator	—	Canada	29 %	Joint venture <sup>(2)(3)</sup>
Heritage JV	3	United States	80 %	Joint venture <sup>(4)</sup>
Heritage Newtown	1	United States	80 %	Joint venture <sup>(4)</sup>
Heritage Harleysville	1	United States	90 %	Joint venture <sup>(4)</sup>
Heritage Glassboro	1	United States	90 %	Joint venture <sup>(4)</sup>
Heritage Lansdale	1	United States	90 %	Joint venture <sup>(4)</sup>
Jaguarundi	—	United States	66 %	Joint venture <sup>(5)</sup>
Terra Bluffs	1	United States	80 %	Joint venture <sup>(4)</sup>

(1) The Company directly holds its interest in the assets and liabilities of the real estate joint operation and therefore is proportionately consolidated.

(2) The Company has contractual preferred interest in the buildings based on the equity contributed to the buildings.

(3) These joint venture arrangements have been structured through separate legal entities and the operators lease the properties from the joint operation landlord, being Invesque-Autumnwood Landlord.

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

(5) The joint venture has sold all if its interests in investment properties. Remaining assets include cash, escrows and receivables resulting from the sale of Bridgemoor properties.

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

The Company and Autumnwood each own a 50% direct beneficial interest in the investment properties of the Invesque-Autumnwood Landlord entity and are jointly obligated for the related mortgages for a portfolio of four properties, which are classified as joint controlled operations and are accounted for under the proportionate consolidation method. The Company's 50% interest in the operations of these properties is held through separate legal entities (collectively referred to as "Invesque-Autumnwood Operators"), which under IFRS 11, Joint arrangements, are classified as joint ventures and are accounted for using the equity method. Invesque-Autumnwood Operators have leased the real estate from the landlords under their respective lease agreements. These leases are for three-year periods, with six automatic renewals every third anniversary for a total of 21 years. The Company's proportionate share of the landlords' lease receipts totaling, \$3,519 for the year ended December 31, 2022 (year ended December 31, 2021 - \$3,529), is reported as lease revenue from joint ventures in the statements of loss and comprehensive loss. Invesque-Autumnwood Operators lease expense in connection with these properties is included in the share of loss from joint ventures in the consolidated statements of loss and comprehensive loss.

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



# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

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 partially repay the Company's corporate credit facility, to which the property disposed of was previously pledged.

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

On July 8, 2022, the Company entered into a joint venture agreement with the operator Heritage for a property in Lansdale, PA. Heritage operates the property pursuant to a management agreement. The Company sold 10% of its interest in the property and operations to Heritage for \$529, satisfied through the receipt of a cash payment.

The following table summarizes the transfer of investment properties to interests in joint ventures for the year ended December 31, 2022. There were no transfers of investment properties to interests in joint ventures for the year ended December 31, 2021.

	Lansdale
Properties	1
Investment property	\$ 12,604
	\$ 12,604
Consideration paid (received):	
Equity contributed to joint venture	4,233
Working capital balances	98
Mortgage issuance	8,273
	\$ 12,604

# INVESQUE INC.

Notes to Consolidated Financial Statements

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Years ended December 31, 2022 and 2021

The following table summarizes the dispositions of properties and interests in joint ventures for the year ended December 31, 2022 at 100% value.

	Bridgemoor	Calamar	Total
Properties	(4)	(2)	(6)
Land	\$ —	\$ (840)	\$ (840)
Property, plant and equipment	—	(22,921)	(22,921)
Investment property	(50,732)	—	(50,732)
	\$ (50,732)	\$ (23,761)	\$ (74,493)
Consideration paid (received):			
Gain on sale of property	—	4,294	4,294
Working capital balances	(4,858)	(2,048)	(6,906)
Loss on extinguishment of debt	(218)	—	(218)
Mortgage redemption	(37,300)	(16,007)	(53,307)
Credit facility redemption	(7,734)	—	(7,734)
Cash proceeds received, net	(622)	(10,000)	(10,622)
	\$ (50,732)	\$ (23,761)	\$ (74,493)

Prior to the above sales, the Company had ownership interests of 66% in Bridgemoor-operated properties and 75% in Calamar-operated properties.

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

	Year ended December 31,	
	2022	2021
Cash contributions to joint ventures	\$ 286	\$ 4,283
Distributions received from joint ventures	\$ 13,727	\$ 16,083

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

	December 31, 2022		December 31, 2021	
	Net assets	Company share of net assets	Net assets	Company share of net assets
Cash and cash equivalents	\$ 3,726	\$ 3,116	\$ 14,833	\$ 10,893
Tenant and other receivables	2,629	1,854	3,015	1,749
Other	4,921	3,981	693	927
<b>Current assets</b>	<b>11,276</b>	<b>8,951</b>	<b>18,541</b>	<b>13,569</b>
Investment properties	185,177	146,578	211,320	156,135
Property, plant and equipment, net	1,436	718	25,706	18,549
Loans receivable	—	—	3,882	55
Derivative instruments	3,057	2,522	—	—
Other non-current assets	9	8	495	373
<b>Total assets</b>	<b>\$ 200,955</b>	<b>\$ 158,777</b>	<b>\$ 259,944</b>	<b>\$ 188,681</b>
Accounts payable and accrued liabilities	\$ 10,438	\$ 8,558	\$ 11,575	\$ 8,881
Unearned revenue	754	635	655	532
Mortgages payable - current	9,876	7,928	32,804	22,532
<b>Current liabilities</b>	<b>21,068</b>	<b>17,121</b>	<b>45,034</b>	<b>31,945</b>
Mortgages payable - non-current	92,693	77,659	117,542	94,416
Construction loan	16,912	13,570	4,805	3,458
Derivative instruments	—	—	2,426	1,996
Related party payable to Invesque	—	—	7,802	5,136
Other non-current liabilities	1,892	1,350	1,821	1,290
<b>Total liabilities</b>	<b>\$ 132,565</b>	<b>\$ 109,700</b>	<b>\$ 179,430</b>	<b>\$ 138,241</b>
<b>Net assets</b>	<b>\$ 68,390</b>	<b>\$ 49,077</b>	<b>\$ 80,514</b>	<b>\$ 50,440</b>

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

	Year ended December 31, 2022		Year ended December 31, 2021	
	Net income (loss) at 100%	Company share of net income (loss)	Net income (loss) at 100%	Company share of net income (loss)
Revenue	\$ 53,598	\$ 32,444	\$ 57,765	\$ 34,086
Other income	322	290	1,511	1,243
Property operating expense	(45,083)	(26,427)	(40,032)	(22,417)
Depreciation expense	(332)	(249)	(725)	(543)
Finance costs	(5,625)	(4,509)	(9,472)	(6,818)
Real estate tax expense	(300)	(197)	(1,480)	(902)
General and administrative expenses	(2,923)	(1,924)	(6,453)	(3,980)
Allowance for credit losses on loans and interest receivable	—	—	(954)	(577)
Change in fair value of financial instruments	3,836	3,407	3,965	3,112
Change in fair value of investment properties	(3,173)	(734)	(21,363)	(18,110)
Gain on sale of interest in joint venture	4,294	4,294	—	—
Net income (loss), prior to distributions to owners	\$ 4,614	\$ 6,395	\$ (17,238)	\$ (14,906)

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

The following table summarizes information about the 100% balance of mortgages payable at the joint ventures:

	December 31, 2022		December 31, 2021	
Mortgages at fixed rates:				
Mortgages (principal) <sup>(1)</sup>	\$	94,955	\$	150,900
Interest rates (inclusive of swap impact)		3.99% to 5.23%		3.99% to 5.23%
Weighted average interest rate		4.13 %		4.30 %
Mortgages at variable rates:				
Mortgages (principal)	\$	8,763	\$	500
Interest rates		LIBOR plus 2.75% with a 3.75%-floor; transition to SOFR plus 3.50% with a 4.50% floor		LIBOR plus 2.75% with a 3.75% floor
Weighted average interest rate		7.76 %		3.75 %
Blended weighted average rate		4.43 %		4.30 %

(1) Includes \$87,264 of variable rate mortgages that are fixed with interest rate swaps (December 31, 2021 - \$89,231). The interest rate swap of 3.99% on a \$78,082 mortgage matures on May 31, 2024 while the underlying mortgage matures May 31, 2026.

# INVESQUE INC.

## Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

The following tables summarize the information about the Company's investment in Jaguarundi Ventures, LP, which has been accounted for under the equity method and included in tables above. Jaguarundi Ventures, LP is shown separately below due to the significance of the Company's interest in the joint venture. The joint venture was formed on June 5, 2019. The remaining 4 investment properties were sold on April 1, 2022. During the year ended December 31, 2022 and 2021, the Company did not make cash contributions to Jaguarundi Ventures, LP. During the year ended December 31, 2022, the Company received \$2,966 of distributions from Jaguarundi Ventures, LP (year ended December 31, 2021 - \$14,543).

	December 31, 2022		December 31, 2021	
	Net assets at 100%	Company share of net assets	Net assets at 100%	Company share of net assets
Cash	\$ 150	\$ 99	\$ 8,054	\$ 5,365
Tenant and other receivables	1,400	922	1,175	773
Other	3,247	2,138	—	—
Current assets	4,797	3,159	9,229	6,138
Investment properties	—	—	52,000	34,232
Loans receivable	—	—	24	16
Total assets	\$ 4,797	\$ 3,159	\$ 61,253	\$ 40,386
Accounts payable and accrued liabilities	\$ —	\$ —	\$ 1,317	\$ 867
Mortgages payable - held for sale	—	—	23,086	15,198
Current liabilities	—	—	24,403	16,065
Mortgages payable - non-current	—	—	14,497	9,543
Related party payable to Invesque	—	—	7,802	5,136
Other non-current liabilities	1,250	823	1,250	823
Total liabilities	\$ 1,250	\$ 823	\$ 47,952	\$ 31,567
Net assets	\$ 3,547	\$ 2,336	\$ 13,301	\$ 8,819

# INVESQUE INC.

Notes to Consolidated Financial Statements

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Years ended December 31, 2022 and 2021

	Year ended December 31, 2022		Year ended December 31, 2021	
	Net income (loss) at 100%	Company share of net income (loss)	Net income (loss) at 100%	Company share of net income (loss)
Revenue	\$ 2,396	\$ 1,558	\$ 13,921	\$ 8,431
Finance costs	(802)	(528)	(4,578)	(2,823)
Real estate tax expense	(300)	(197)	(1,480)	(902)
General and administrative expenses	(2,924)	(1,924)	(6,461)	(3,984)
Allowance for credit losses on loans and interest receivable	—	—	(954)	(577)
Change in fair value of financial instruments	(2,404)	(1,583)	744	462
Change in fair value of investment properties	(1,216)	(782)	(16,911)	(11,315)
Net income (loss), prior to distributions to owners	\$ (5,250)	\$ (3,456)	\$ (15,719)	\$ (10,708)

# INVESQUE INC.

Notes to Consolidated Financial Statements

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Years ended December 31, 2022 and 2021

## 9. Credit facilities:

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

		Borrowing rate at December 31, 2022		Borrowing rate at December 31, 2021
Credit Facility Term <sup>(1)(4)</sup>	\$ 200,000	4.26 %	\$ 200,000	4.26 %
Credit Facility Revolver <sup>(2)(4)</sup>	135,836	5.42 %	130,688	3.54 %
MOB Facility USD denominated portion	—	—	21,286	2.30 %
MOB Facility CAD denominated portion <sup>(1)</sup>	—	—	67,404	4.32 %
Commonwealth Facility <sup>(3)(4)</sup>	179,677	3.91 %	180,453	3.80 %
Finance costs, net	(1,512)	—	(2,565)	—
Carrying value	\$ 514,001	4.44 %	\$ 597,266	3.90 %
Less current portion	337,474		795	
Long-term portion	\$ 176,527		\$ 596,471	

(1) The interest rate on this facility is fixed with an interest rate swap (note 11).

(2) The interest rate on \$25,000 of this facility is fixed with interest rate swaps (note 11).

(3) The interest rate on \$175,224 of this facility is fixed with interest rate swaps (note 11).

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

Future principal repayments of the credit facilities are as follows:

	Aggregate principal payments
2023	\$ 338,307
2024	177,206
2025	—
2026	—
2027	—
Thereafter	—
Total	\$ 515,513

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

## 10. Mortgages payable:

Mortgages payable consist of the following as at:

	December 31, 2022		December 31, 2021	
Mortgages payable	\$	183,440	\$	210,410
Mark-to-market adjustment, net		4,753		4,847
Finance costs, net		(1,245)		(1,434)
Carrying value	\$	186,948	\$	213,823
Less current portion		58,949		34,876
Non-current portion	\$	127,999	\$	178,947

Mortgages payable are collateralized by investment properties and property, plant and equipment with a carrying value of \$281,903 at December 31, 2022. Maturity dates on mortgages payable range from 2023 to 2054, and the weighted average years to maturity is 6.20 years at December 31, 2022.

Future principal payments on the mortgages payable as at December 31, 2022 are as follows:

	Regular principal payments		Principal due on maturity		Total principal payments		% of total principal payments	
2023	\$	3,152	\$	55,866	\$	59,018		32 %
2024		2,559		43,825		46,384		25 %
2025		1,510		18,865		20,375		11 %
2026		1,358		—		1,358		1 %
2027		961		17,161		18,122		10 %
Thereafter		25,902		12,281		38,183		21 %
	\$	35,442	\$	147,998	\$	183,440		100 %



# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

	December 31, 2022		December 31, 2021	
Mortgages at fixed rates:				
Mortgages (principal) <sup>(1)</sup>	\$	104,003	\$	155,297
Interest rates (inclusive of swap impact)		2.55% to 6.15%		2.16% to 6.15%
Weighted average interest rate		3.98 %		4.04 %
Mortgages at variable rates:				
Mortgages (principal)	\$	79,437	\$	55,113
Interest rates		LIBOR plus 2.45% with a 2% LIBOR Ceiling to AMERIBOR plus 2.925%		LIBOR plus 2.45% to LIBOR plus 2.75% with a 1% LIBOR Floor
Weighted average interest rate		6.97 %		3.52 %
Blended weighted average rate		5.28 %		3.91 %

(1) Includes \$3,585 variable rate mortgage with a fixed interest rate swap of 5.86% with a January 18, 2028 maturity and \$17,135 variable rate mortgage with a fixed interest rate swap of 2.96% with a March 31, 2024 maturity (December, 2021 - \$3,997 variable rate mortgage with a fixed interest rate swap of 2.16% with a January 18, 2023 maturity, \$17,135 variable rate mortgage with a fixed interest rate swap of 2.96% with a March 31, 2024 maturity and \$14,010 variable rate mortgage with a fixed interest rate swap of 3.66% with a February 13, 2023 maturity).

Upon the upcoming transition from LIBOR in 2023, \$17,135 of the Company's variable rate mortgages fixed through an interest rate swap will see the underlying variable rate migrate to an elective alternative benchmark of either Term SOFR and a related benchmark adjustment, Daily Simple SOFR and a related benchmark adjustment or an alternative benchmark based on future legislative or then-market benchmark replacement determinations. The remaining \$3,585 of variable rate mortgage fixed through an interest rate swap will not be impacted by the LIBOR transition. \$50,736 of the Company's variable rate mortgages are subject to LIBOR and will see the underlying variable rate migrate to an elective benchmark of either Term SOFR and a related benchmark adjustment, Daily Simple SOFR and a related benchmark adjustment or an alternative benchmark based on future legislative or then-market benchmark replacement determinations.

# INVESQUE INC.

Notes to Consolidated Financial Statements

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Years ended December 31, 2022 and 2021

## 11. Derivative financial instruments:

(a) *Derivative swaps:*

Derivative swaps as at December 31, 2022 are detailed in the table below:

Swap	Maturity date	Fixed rate	Notional amount	Asset (liability) balance		Income (loss) for the year ended	
				December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Credit Facility Term <sup>(2)</sup>	December 19, 2023	LIBOR fixed at 2.11%	\$ 200,000	\$ 5,645	\$ (5,475)	\$ 11,120	\$ 6,470
Credit Facility Revolver <sup>(2)</sup>	January 2, 2024	LIBOR fixed at 2.57%	25,000	602	(927)	1,529	933
Credit Facility Revolver	December 1, 2022	LIBOR fixed at 2.11%	50,000	—	(870)	870	1,126
Red Oak Swap <sup>(1)</sup>	July 31, 2024	Interest rate fixed at 2.17%	3,585	7	14	(7)	27
Winchester Swap	November 1, 2021	Interest rate fixed at 4.54%	—	—	—	—	34
MOB Facility Swap	May 1, 2023	Banker's Acceptance fixed at 2.12%	—	—	(876)	1,580	1,723
Grand Brook Swap	October 2, 2021	Interest rate fixed at 5.98%	—	—	—	—	264
Commonwealth Swap <sup>(2)</sup>	August 1, 2024	LIBOR fixed at 1.69%	175,224	7,936	(3,302)	11,238	6,073
Constant Care Swap	October 1, 2022	Interest rate fixed at 4.21%	—	—	—	—	203
Oak Ridge Swap	April 1, 2022	LIBOR fixed at 0.66%	—	—	(25)	25	75
Charlottesville Swap <sup>(2)</sup>	March 31, 2024	LIBOR fixed at 0.56%	17,135	934	127	807	127
Net carrying value				\$ 15,124	\$ (11,334)	\$ 27,162	\$ 17,055
Less current portion				5,645	(895)		
Non-current portion				\$ 9,479	\$ (10,439)		
Derivative instruments Asset				\$ 15,124	\$ 141		
Derivative instruments (Liability)				—	(11,475)		
				\$ 15,124	\$ (11,334)		

(1) The swap has a notional amount of CAD\$4,859

(2) Upon the transition from LIBOR in 2023, this interest rate swap agreement will migrate to an elective alternative benchmark of either Term SOFR and a related benchmark adjustment, Daily Simple SOFR and a related benchmark adjustment or an alternative benchmark based on future legislative or then-market benchmark replacement determinations. The rate utilized in the interest rate swap will match the corresponding benchmark rate in the debt instrument to which the swap relates.

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## *(b) Prepayment embedded derivatives:*

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

The fair value of the prepayment embedded derivatives has been determined using a LIBOR based interest rate swap options ("swaptions") as a proxy. Upon the transition from LIBOR in 2023, this interest rate swap agreement will migrate to an elective alternative benchmark of either Term SOFR and a related benchmark adjustment, Daily Simple SOFR and a related benchmark adjustment or an alternative benchmark based on future legislative or then-market benchmark replacement determinations. The rate utilized in the interest rate swap will match the corresponding benchmark rate in the debt instrument to which the swap relates. The swaptions were structured to mirror the financial conventions of the respective loans, including payment periods, accrual basis, principal amortization, prepayment dates and prepayment premiums. The swaptions were structured as fixed receiver with a strike rate set on market as of the date of the loan agreement with exercise premiums to match the underlying loans plus a cost of refinancing upon exercise. The resulting swaption price would represent a proxy for the value of the prepayment rights embedded in the underlying loans. The fair values determined are based on significant other observable inputs (Level 2). As at December 31, 2022, the prepayment embedded derivative assets have a fair value of \$933 (December 31, 2021 - \$3,388). For the year ended December 31, 2022, a fair value loss of \$2,455 and (year ended December 31, 2021 - \$1,426), was recorded in the consolidated statements of loss and comprehensive loss.

## **12. Convertible debentures:**

### *(a) 2016 Convertible Debentures*

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

The 2016 Convertible Debentures were convertible into common shares of the Company at the option of the holder at a conversion price of \$11.00 per common share at any time prior to the earlier of January 31, 2022 and the last business day immediately preceding the date specified by the Company for redemption. On or after January 31, 2020 and prior to January 31, 2021, the 2016 Convertible Debentures were redeemable by the Company in whole or in part at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the volume weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after January 31, 2021, and prior to the maturity date, the 2016 Convertible Debentures were redeemable by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued interest.

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

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

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

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

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

As at December 31, 2022, the 2016 Convertible Debentures are comprised of the following:

	December 31, 2022	December 31, 2021
Issued	\$ 24,850	\$ 44,975
Issue costs, net of amortization and accretion of equity component	745	(409)
Mark to market adjustment, net	(4,702)	(6,552)
Equity component, excluding issue costs and taxes	(4,254)	(4,254)
<b>2016 Convertible Debentures</b>	<b>\$ 16,639</b>	<b>\$ 33,760</b>
Current	\$ —	\$ 19,678
Non-current	16,639	14,082
<b>2016 Convertible Debentures</b>	<b>\$ 16,639</b>	<b>\$ 33,760</b>

Interest costs of \$1,781 related to the 2016 Convertible Debentures are recorded in financing costs using the effective interest rate method.

In January 2022, \$125 of 2016 Convertible Debentures were converted into 25,000 common shares.

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.

### *(b) 2018 Convertible Debentures*

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

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

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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.

The 2018 Convertible Debentures are comprised of the following as at:

	December 31, 2022	December 31, 2021
Issued	\$ 50,000	\$ 50,000
NCIB purchases	(1,657)	—
Issue costs, net of amortization and accretion of equity component	262	(367)
Equity component, excluding issue costs and taxes	(736)	(736)
<b>2018 Convertible Debentures</b>	<b>\$ 47,869</b>	<b>\$ 48,897</b>

Interest costs of \$2,989 related to the 2018 Convertible Debentures are recorded in financing costs using the effective interest rate method.

### 13. Commonwealth preferred unit liability:

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

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

On October 1, 2020, the Company issued \$1,701 in preferred interests to the seller to fund the earnout payment pursuant to the Commonwealth purchase agreement (note 26).

On January 4, 2022, the Company redeemed \$9,818 of the outstanding Commonwealth preferred interests.

On April 19, 2022, the Company issued \$1,043 in preferred interests to the seller fund the earnout payment pursuant to the Commonwealth purchase agreement (note 26).

The Commonwealth preferred unit liability is comprised of the following as at:

	December 31, 2022	December 31, 2021
Issued	\$ 68,424	\$ 67,381
Redemptions	(9,818)	—
Equity component, net of accretion	(700)	(1,142)
<b>Commonwealth preferred unit liability</b>	<b>\$ 57,906</b>	<b>\$ 66,239</b>

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## 14. Other liabilities:

Other liabilities are as follows:

	December 31, 2022		December 31, 2021	
Deferred shares liability (note 23)	\$	363	\$	903
Security deposits received from tenants		1,080		1,796
Escrows collected from tenant		829		1,519
Unearned revenue		2,025		2,051
Lease liability		1,612		1,470
Obligation for purchase of units under automatic share purchase plan (note 17)		4,038		—
Earnout payable (note 26)		—		1,996
Other		302		331
	\$	10,249	\$	10,066
Current	\$	6,972	\$	3,787
Non-current		3,277		6,279
	\$	10,249	\$	10,066

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

	Credit facilities	Mortgages payable	Convertible debentures	Commonwealth preferred unit liability	Total
Balance, December 31, 2020	\$ 660,596	\$ 299,464	\$ 92,411	\$ 65,797	\$ 1,118,268
Proceeds from financing	58,953	17,135	—	—	76,088
Repayments	(124,311)	(98,738)	—	—	(223,049)
Scheduled principal payments	—	(5,023)	—	—	(5,023)
Financing costs paid	—	(206)	(442)	—	(648)
Amortizing of financing costs, mark to market adjustments, and accretion of equity components	1,531	1,052	(5,058)	442	(2,033)
Equity component of convertible debentures	—	—	(4,254)	—	(4,254)
Changes in foreign currency rates	497	139	—	—	636
Balance, December 31, 2021	\$ 597,266	\$ 213,823	\$ 82,657	\$ 66,239	\$ 959,985
Proceeds from financing	107,245	17,214	—	—	124,459
Repayments and refinancings	(190,754)	(38,274)	(21,657)	(9,818)	(260,503)
Preferred units issued to satisfy earnout	—	—	—	1,043	1,043
Scheduled principal payments	—	(3,535)	—	—	(3,535)
Financing costs paid	(778)	(674)	(57)	—	(1,509)
Amortizing of financing costs, mark to market adjustments, and accretion of equity components	1,860	745	3,687	442	6,734
Conversion of convertible debentures into common shares	—	—	(125)	—	(125)
Changes in foreign currency rates	(838)	(2,351)	3	—	(3,186)
Balance, December 31, 2022	\$ 514,001	\$ 186,948	\$ 64,508	\$ 57,906	\$ 823,363

## 16. Discontinued operations:

A strategic decision has been made to exit the medical office building segment, and the sale of the remaining three buildings is expected to be completed in the next year. On July 26, 2022, the Company sold a medical office building in Orlando, Florida, and on July 28, 2022, it sold ten medical office buildings in Canada. On November 28, 2022, the Company sold a medical office building in Brantford, Ontario. As of December 31, 2022, the Company owns three remaining medical office buildings in the United States.

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The assets and liabilities of the discontinued operations as at December 31, 2022 are as follows:

	December 31, 2022	
Investment properties	\$	18,184
Other assets		2,040
Total assets held for sale	\$	20,224
Other liabilities	\$	894
Total liabilities related to assets held for sale	\$	894

The following is a summary of the results of discontinued operations:

	Year ended December 31,	
	2022	2021
Rental revenue	\$ 8,747	\$ 13,005
Other revenue	759	1,298
Direct property operating expense	(4,868)	(6,182)
Finance costs from operations	(2,722)	(3,767)
Real estate tax expense	(1,446)	(2,174)
General and administrative expense	(158)	(129)
Change in fair value of investment properties - IFRIC 21	50	—
Change in fair value of investment properties	(8,330)	(9,485)
Change in fair value of financial instruments	1,577	1,722
Foreign exchange loss reclassified from other comprehensive income	(409)	—
Net loss from discontinued operations	\$ (6,800)	\$ (5,712)

Cash flows from discontinued operations, as included in the applicable activities reported in the consolidated statement of cash flows:

	Year ended December 31,	
	2022	2021
Net cash provided by operating activities	\$ 1,295	\$ 3,818
Net cash used in financing activities	(87,635)	—
Net cash (used in) provided by investing activities	84,023	(1,414)



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Asset dispositions for the year ended December 31, 2022:

	Orlando, FL	Canada	Canada
Properties sold:	1	10	1
Investment properties	\$ 9,258	\$ 72,062	\$ 5,551
Working capital balances	(81)	1,116	(8)
	\$ 9,177	\$ 73,178	\$ 5,543
Consideration received (paid):			
Repayment of MOB facility	9,177	66,526	—
Cash proceeds	—	8,417	1,754
Issuance of loan receivable (note 4)	—	—	3,790
Foreign currency adjustment	—	(1,765)	(1)
	\$ 9,177	\$ 73,178	\$ 5,543

On July 26, 2022, the Company sold a medical office building in Orlando, Florida to a tenant for cash consideration of \$9,850 before closing costs, \$9,177 of which was used to partially pay off the US dollar-denominated portion of the MOB Facility.

On July 28, 2022, the Company sold ten medical office buildings in Canada for \$73,629 before closing costs. Proceeds were used to fully pay off the Canadian dollar-denominated portion of the MOB Facility and the remainder was received in cash.

On November 28, 2022, the Company sold a medical office building in Brantford, Ontario for cash consideration of \$5,780 before closing costs. \$3,790 was financed by the Company and the remaining proceeds were held in cash.

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## 17. Share capital:

### (a) Common shares:

The following number and value of common shares were issued and outstanding as at December 31, 2022:

	Common shares	Carrying value
Balance, December 31, 2020	55,877,496	\$ 509,203
Issued on settlement of Deferred Share Incentive Plan	282,200	637
Issued on settlement of equity settled Deferred Shares	76,596	516
Transfer of 2016 Convertible Debenture Equity Component	—	1,648
Balance, December 31, 2021	56,236,292	\$ 512,004
Issued on settlement of Deferred Share Incentive Plan	251,097	383
Issued on settlement of equity settled Deferred Shares	186,359	1,270
Shares acquired under NCIB	(587,400)	(783)
Obligation for purchase of units under automatic share purchase plan	—	(4,038)
Issued through conversion of convertible debentures	25,000	125
Balance, December 31, 2022	56,111,348	\$ 508,961

- (i) On December 15, 2021 the Toronto Stock Exchange ("TSX") approved the Company's notice of intention to make a normal course issuer bid ("NCIB") for a portion of its common shares. Pursuant to the notice, the Company is authorized to acquire up to a maximum of 2,811,814 of its common shares, or approximately 5% of the Company's 56,236,292 outstanding common shares as of December 15, 2021, for cancellation over the following 12 months. Purchases under the NCIB will be made through the facilities of the TSX or through a Canadian alternative trading system and in accordance with applicable regulatory requirements at a price per share equal to the market at the time of acquisition. The number of shares that can be purchased pursuant to the NCIB is subject to a daily maximum of 6,584 shares, subject to the Company's ability to make one block purchase of shares per calendar week that exceeds such limits. Any shares purchased under the NCIB will be canceled upon purchase.
- (ii) Effective December 20, 2022, the Company renewed the NCIB. Pursuant to the notices filed with the TSX, The Company is authorized to acquire up to a maximum of 2,806,947 of its Shares, or approximately 5% of The Company's 56,138,948 outstanding Shares as of December 9, 2022, and up to a maximum of \$4,867,200 aggregate principal amount of Debentures, or approximately 10% of the public float of \$48,672,000 aggregate principal amount of Debentures outstanding as of December 9, 2022, in each case for cancellation over a twelve-month period. The number of Shares that can be purchased pursuant to the NCIB is subject to a current daily maximum of 3,944 Shares (which is equal to 25% of 15,779 Shares, being the average daily trading volume during the six months ended November 30, 2022), and the aggregate principal amount of Debentures that can be purchased pursuant to the NCIB is subject to a current daily maximum of \$8,187 aggregate principal amount of Debentures (which is equal to 25% of \$32,750 aggregate principal amount of Debentures, being the average daily trading volume during the six months ended November 30, 2022), in each case subject to the Company's ability to make one block purchase of the Shares or 2023 Convertible Debentures, as applicable, per calendar week that exceeds such limits. An automatic share purchase plan exists in conjunction with the NCIB, and as of December 31, 2022, the Company recorded a liability of \$4,038 for the maximum redemption amount of common shares and convertible debentures where the Company's broker has the ability to unilaterally purchase these securities on behalf of the Company under the related arrangement.

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*(b) Preferred shares:*

The following number and value of preferred shares were issued and outstanding as at December 31, 2022:

	Preferred shares	Carrying value
Balance, December 31, 2021 and December 31, 2022	9,098,598	\$ 85,389

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

The Preferred Shares issued during series 1, 2, and 3 are non-voting and are initially convertible into common shares of the Company on a one-for-one basis at the option of the holder based on an initial liquidation preference and a conversion price of \$9.75. The Preferred Shares were issued at a price per share equal to the initial liquidation preference of \$9.75, subject to a 3% discount. Following issuance, the liquidation preference of the Preferred Shares will accrete at a rate of 5.65% per annum, compounded quarterly, increasing the number of common shares into which each Preferred Share is convertible at the fixed rate, and is subject to further adjustments in certain circumstances. In certain circumstances, the Company may redeem the Preferred Shares for an amount equal to their liquidation preference and may also require the conversion of the Preferred Shares. If the Preferred Shares are redeemed or mandatorily converted in the first year following issuance, the liquidation preference of such shares will include a 4% premium to the initial liquidation preference. This premium will be reduced by 1% per year in respect of redemptions or mandatory conversions in the second, third or fourth years following issuance.

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

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

As at December 31, 2022, the preferred shares are convertible into 12,154,453 (December 31, 2021 - 11,346,122) common shares of the Company.

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## 18. Earnings (loss) per share:

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

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

*Net loss:*

	Year ended December 31, 2022	Year ended December 31, 2021
Net loss from continuing operations for basic and diluted net loss per share	\$ (42,010)	\$ (6,523)
Net loss for basic and diluted net loss per share	\$ (48,810)	\$ (12,235)

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

	Year ended December 31, 2022	Year ended December 31, 2021
Weighted average number of shares, including fully vested deferred shares: Basic and diluted	56,634,772	56,312,407

*Net loss per share:*

	Year ended December 31, 2022	Year ended December 31, 2021
Net loss per share from continuing operations:		
Basic	\$ (0.74)	\$ (0.12)
Diluted	\$ (0.74)	\$ (0.12)
Net loss per share:		
Basic	\$ (0.86)	\$ (0.22)
Diluted	\$ (0.86)	\$ (0.22)

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## 19. Revenue:

### (a) Rental Revenue:

Rental revenue consists of the following:

	Year ended December 31, 2022	Year ended December 31, 2021
Contractual rental revenue	\$ 43,024	\$ 50,473
Straight-line rent adjustments	3,818	6,175
Amortization of tenant inducements	(242)	(292)
Amortization of leasing commission	(19)	—
Property tax recoveries	12,065	13,291
	\$ 58,646	\$ 69,647

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

The tenant Symcare previously operated a portfolio of 15 properties and paid rent to the Company pursuant to a master lease. During the year ended December 31, 2021, three properties included in the master lease were sold and four were transitioned to a new operator. On June 1, 2021, a subsidiary of the Company entered into a new master lease with the remaining eight properties. For the year ended December 31, 2022, contractual rental revenue from this tenant comprised approximately 33% (year ended December 31, 2021 - 33%), of the Company's consolidated contractual rental revenue for the year.

Future minimum rentals, excluding renewals and exercise of options, to be received as of December 31, 2022 and December 31, 2021 are as follows:

	As of December 31, 2022	As of December 31, 2021
Less than 1 year	\$ 42,161	\$ 50,267
Between 1 and 5 years	176,663	196,945
More than 5 years	327,577	350,597
	\$ 546,401	\$ 597,809

Future minimum rentals as of December 31, 2022 in the above table attributable to Symcare represent approximately 39% (December 31, 2021 - 38%) of the total.

### (b) Resident rental and related revenue:

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	Year ended December 31, 2022	Year ended December 31, 2021
Resident revenue	\$ 67,713	\$ 63,513
Service revenue <sup>(1)</sup>	64,821	56,639
	\$ 132,534	\$ 120,152

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

## 20. Direct property operating expenses:

Direct property operating expenses consist of the following:

	Year ended December 31, 2022	Year ended December 31, 2021
Repairs and maintenance	\$ 2,891	\$ 2,796
Utilities	4,131	3,972
Compensation and benefits	66,555	60,762
Other services and supplies	7,358	6,546
Administrative and marketing	9,602	8,568
Real estate taxes	2,402	2,517
Insurance	3,039	3,375
Other	6,664	8,051
	\$ 102,642	\$ 96,587

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## 21. Finance costs:

Finance costs consist of the following:

	Year ended December 31, 2022	Year ended December 31, 2021
Interest expense on credit facilities	\$ 21,039	\$ 13,825
Interest expense on mortgages payable	7,156	9,474
Interest expense on convertible debentures	4,769	5,249
Dividends on Commonwealth preferred units	3,827	4,388
Amortization and accretion expense	4,039	4,957
Net interest rate swap payments	1,025	9,124
Debt extinguishment costs	337	1,016
Amortization of mark-to-market debt adjustments	1,756	(111)
Finance costs from operations	\$ 43,948	\$ 47,922
Allowance for credit losses on loans and interest receivable (note 4)	8,273	1,196
Allowance for credit losses on property taxes receivable	8,188	—
Change in fair value of financial instruments (notes 11 and 16)	(23,129)	(20,137)
Change in non-controlling interest liability related to finance costs from operations	(184)	(261)
Change in fair value of contingent consideration	—	(258)
Total finance costs	\$ 37,096	\$ 28,462

# INVESQUE INC.

Notes to Consolidated Financial Statements

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## 22. General and administrative:

General and administrative costs consist of the following:

	Year ended December 31, 2022	Year ended December 31, 2021
Compensation and benefits	\$ 12,698	\$ 11,412
Professional fees	3,101	3,773
Deferred share compensation expense	192	794
Bad debt expense (recovery)	—	1,139
Rent <sup>(1)</sup>	351	294
Other	3,943	2,601
	<u>\$ 20,285</u>	<u>\$ 20,013</u>

(1) Lease payments recognized as expense for the years ended December 31, 2022 and December 31, 2021.

For the year ended December 31, 2022, \$7,840 (year ended December 31, 2021 - \$7,128) of general and administrative costs were incurred at the Commonwealth Senior Living's management company, which represents the owner-occupied reportable segment.

## 23. Deferred share incentive plan:

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

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

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

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

Individual Contributed Deferred Shares vest immediately upon grant. Company Contributed Deferred Shares, which are granted only to directors, generally vest in three equal installments on the first three anniversary dates of the grant. Discretionary Deferred Shares may also be granted to participants and, where vesting is not specified in connection with the grant, such Discretionary Deferred Shares will vest in three equal installments on the first three anniversaries of the date of grant.

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



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At December 31, 2022, the number of deferred shares granted and outstanding and vested are as follows:

	Granted/ Outstanding	Fully Vested
As at December 31, 2020	1,317,543	210,978
Discretionary Deferred Shares	129,120	177,922
Equity Settled Deferred Shares	—	76,596
Individual Contributed Deferred Shares (vested immediately)	76,928	76,928
Company Contributed Deferred Shares	29,304	87,531
Shares forfeited	(112,000)	—
Shares issued upon vesting of deferred shares	(358,796)	(358,796)
Shares settled from cash pursuant to the plan terms	(59,019)	(59,019)
As at December 31, 2021	1,023,080	212,140
Discretionary Deferred Shares	—	206,472
Equity Settled Deferred Shares	—	186,359
Individual Contributed Deferred Shares (vested immediately)	126,436	126,436
Company Contributed Deferred Shares	—	18,459
Shares issued upon vesting of deferred shares	(437,455)	(437,455)
Shares forfeited	(127,277)	—
As at December 31, 2022	584,784	312,411

For the year ended December 31, 2022, the Company recognized \$192, respectively of expense related to deferred shares in the consolidated statements of loss and comprehensive loss (year ended December 31, 2021 - \$794 loss, respectively). A deferred share liability of \$363 is included in other non-current liabilities in the condensed consolidated interim statements of financial position as at December 31, 2022 (December 31, 2021 - \$903).

The deferred share incentive plan compensation expense is measured on grant at the service commencement date, based on the fair market value of the Company's shares, and amortized over the applicable vesting period. For the year ended December 31, 2022, the Company granted 126,436 deferred shares with a grant-date fair value of \$213 (December 31, 2021 - 235,351 units with a grant-date fair value of \$577).

During 2021, the Board of Directors of the Company created a special, long-term incentive program for fiscal years 2021 and 2022, based upon the Company achieving defined levels of both share price and internally calculated net asset value per share. To be eligible to receive any such compensation, the Company's share price must be at least \$3.00 per share and the Company's internally calculated net asset value per share must be at least \$4.00. No accrual has been made under this program, based on the Company's calculation of probability of achieving the thresholds for eligibility.

## 24. Related party transactions:

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

Magnetar is a significant shareholder of the Company. 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, resulting in the Company retaining a 60.51% interest. On October 29, 2021, the Company contributed an additional investment property located in Webster, Texas to the joint venture resulting in an increase of the Company's interest in the joint venture to 65.83%.

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On July 26, 2019, the Company entered into a credit agreement with Magnetar for receipt of a principal amount of \$30,000, annual interest rate of 8.5% with 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 increased 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.

### 25. Income taxes:

The income tax recovery in the consolidated statements of loss and comprehensive loss differs from that expected by applying the combined federal, provincial and state income tax rates of 26.5% (2021 - 26.5%). The differences for the year ended December 31, 2022 and 2021 are as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Net loss from continuing operations before income taxes	\$ (43,137)	\$ (6,523)
Income tax recovery at Canadian tax rate	(11,431)	(3,242)
Non-deductible expenses	56	1,970
Difference in tax rate in foreign jurisdiction	(277)	(118)
Unrecognized tax losses	10,525	1,390
Income tax recovery	\$ (1,127)	\$ —

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

	December 31, 2022	December 31, 2021
Deferred tax assets:		
Tax losses	\$ 44,685	\$ 32,106
Financing costs	—	—
Investment properties and property, plant and equipment	1,939	2,313
Derivative instruments	—	970
Loans receivable	8,991	6,699
Other	10,984	5,311
	\$ 66,599	\$ 47,399
Deferred tax liabilities:		
Convertible debentures	\$ 2,739	\$ 1,823
Derivative instruments	5,603	—
Other	1,699	1,699
Deferred tax liabilities	\$ 10,041	\$ 3,522
Deferred tax assets not recognized, net	\$ 56,558	\$ 43,877
Net deferred tax liability	\$ —	\$ —

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At December 31, 2022, U.S. subsidiaries had accumulated net operating losses available for carryforward for U.S. income tax purposes of \$119,438 (2021 - \$86,576). The pre-2022 accumulated net operating losses of \$86,576 will expire in 2040. The state net operating losses will expire in 2031. The Company and its Canadian subsidiary have losses in Canada for income tax purposes amounting to \$46,430 that expire between 2036 and 2042.

## 26. Commitments and contingencies:

There are risks which arise from the Company's joint arrangements, including the willingness of the other partners to contribute or withdraw funds and a change in creditworthiness of the partner. As a result, there may be a requirement by the Company to contribute cash into the operating partnerships, for operational shortfalls. Generally, there are not minimum or maximum threshold contribution requirements of the partners contained in these agreements; rather, each partner is required to contribute a pro-rated share of the required amounts, commensurate with its ownership threshold.

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

Pursuant to the Commonwealth purchase agreement, the Company may be required to fund one or more earnout payments relating to six communities that had not yet reached stabilization at the time of acquisition by the Company. These earnout payments are only payable in the event specific occupancy and EBITDAR thresholds have been satisfied, and must be met prior to the third anniversary of closing at which time the earnout payment obligation will cease to exist. The earnout payments, when funded, will consist of a combination of cash and additional preferred interests. During the year ended December 31, 2020, given the performance of one of the six communities, the Company recorded an expense related to the increase in the fair value of contingent consideration in the amount of \$3,256, which was paid through the issuance of \$1,701 of Commonwealth preferred units and \$1,555 of cash on hand. During the year ended December 31, 2022, the Company satisfied the \$1,996 liability recorded as of December 31, 2021 through the issuance of \$1,043 of Commonwealth preferred units and \$953 of cash on hand. As at December 31, 2022, the Company has recorded a liability of \$nil (December 31, 2021 - \$1,996 liability) in the financial statements associated with this commitment relating to the remaining communities based on the weighted average probability of earnout payments owed using estimated future results at the properties. For the year ended December 31, 2022, the Company has not recognized any adjustment related to the change in fair value of contingent consideration (December 31, 2022 - \$258 gain) related to this liability in the consolidated statements of loss and comprehensive loss.

On May 6, 2020, the Company entered into a limited partnership agreement with the operator Phoenix Senior Living ("Phoenix"). Pursuant to this agreement, if the management agreement with Phoenix is terminated without cause, Phoenix has the right to cause the Company to purchase all of its interest in the partnership at the then fair market value. The Company has not recorded a provision in these consolidated financial statements associated with this commitment due to the unlikelihood of termination of the agreement.

Pursuant to the Lansdale sale of equity interest and issuance of debt on July 8, 2022, the Company entered into an agreement to provide a 100% recourse loan guarantee up to \$14,273. The amount of the loan guarantee may be reduced upon the achievement of performance covenants by the purchaser and related operations of the property.

## 27. Capital Management:

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

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

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The Company sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets, as well as with consideration of externally imposed capital requirements. In managing its capital structure, the Company monitors performance throughout the period to ensure working capital requirements are funded from operations, available cash on deposit and available financing. The Company may make changes to its capital structure in order to support the broader corporate strategy or in light of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue equity or new debt, issue new debt with different characteristics to replace existing debt or reduce the amount of existing debt. For both secured and unsecured credit instruments with near term maturities, the Company intends to refinance or repay the obligations. For refinancings, the Company intends to structure similar instruments to those in place currently.

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

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

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## 28. Fair value measurement:

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

	December 31, 2022			December 31, 2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative assets	\$ —	\$ 16,057	\$ —	\$ —	\$ 3,388	\$ —
Investment properties	—	—	538,591	—	—	716,344
Loans receivable	—	—	4,641	—	—	2,243
Derivative liability	—	—	—	—	11,587	—
Deferred share liability	—	363	—	—	903	—
Contingent consideration	—	—	—	—	—	1,996

For the assets and liabilities measured at fair value as at December 31, 2022, there were no transfers between Level 1, Level 2 and Level 3 levels during the year. For changes in fair value measurements of investment properties included in Level 3 of the fair value hierarchy, refer to note 4 for details. The fair values of the derivative instruments represents estimates at a specific point in time using financial models, based on interest rates that reflect current market conditions, the credit quality of counterparties and interest rate curves. Fair value measurements of derivative instruments were estimated using Level 2 inputs. Fair value of deferred share liability represents the value of the units if converted using the market price of the Company's common shares.

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## *Fair value of financial instruments:*

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

	December 31, 2022		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets:</b>				
Loans receivable	\$ 19,654	\$ 19,494	\$ 21,695	\$ 21,728
Derivative instruments	16,057	16,057	3,388	3,388
Bond assets	635	635	760	760
<b>Financial liabilities:</b>				
Mortgages payable	186,948	175,810	213,823	215,257
Credit facilities	514,001	504,726	597,266	599,831
Derivative instruments	—	—	11,334	11,334
Convertible debentures	64,508	59,133	82,657	83,077
Commonwealth preferred unit liability	57,906	57,906	66,239	66,239
Contingent consideration	—	—	1,996	1,996

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

i. Loans receivable

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

ii. Derivative instruments

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

iii. Bond assets

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

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iv. Mortgages payable and credit facility

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

v. Convertible debentures

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

vi. Commonwealth preferred unit liability

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

vii. Exchangeable Unit liability

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

## 29. Financial risk management:

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

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

(i) Market risk

*Foreign currency risk:*

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

*Interest rate risk:*

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

The Company is exposed to interest rate risk on the credit facilities and certain mortgages payable, which bear interest at variable rates. To manage interest rate risk, the Company entered into swap agreements which effectively fixes interest on a portion of its variable rate debt. It may also enter into additional derivative financial instruments from time to time to mitigate interest rate risk. At December 31, 2022, 81.3% (December 31, 2021 - 84.9%) of our

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interest was of fixed rate, including the impact of in-place swaps. As the Company renews maturing debt, it is also subject to higher interest rates upon entering new swaps. To limit exposure to the risk of higher interest rates at renewal, the Company intends to spread the maturities of its fixed-rate, long-term debt over time.

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

The Company's interest-bearing financial instruments were as follows:

	Carrying Amount	
	December 31, 2022	December 31, 2021
Fixed-rate financial liabilities <sup>(1)</sup>	\$ 621,418	\$ 758,281
Variable-rate financial liabilities	\$ 144,039	\$ 135,465

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

As at December 31, 2022, an increase/decrease of 100-basis-points in interest rates, assuming all other variables are constant, would result in a \$1,447 (2021 - \$1,365) change in the Company's finance costs over the next year.

(ii) Credit risk:

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

(iii) Liquidity risk:

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

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

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



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address scheduled debt maturities through a combination of refinancings of the underlying portfolios and additional asset sales.

The Company is subject to risk that it will not be compliant with certain covenants that underlie its credit obligations. If the Company is unable to meet certain covenants, the Company may be required to obtain other financing, repay some or all of the corresponding obligation, or sell the corresponding property underlying the credit obligation.

The following are the contractual maturities of the Company's financial liabilities as at December 31, 2022, including expected interest payments where applicable:

	Total	2023	2024	2025	2026	2027	Thereafter
Credit facilities principal	\$515,513	\$338,307	\$177,206	\$ —	\$ —	\$ —	\$ —
Mortgages payable principal	183,440	59,018	46,384	20,375	1,358	18,122	38,183
Convertible debentures principal	73,193	48,343	—	24,850	—	—	—
Commonwealth preferred unit liability principal <sup>(1)</sup>	57,906	—	—	57,906	—	—	—
<b>Total principal</b>	<b>\$830,052</b>	<b>\$445,668</b>	<b>\$223,590</b>	<b>\$103,131</b>	<b>\$ 1,358</b>	<b>\$18,122</b>	<b>\$38,183</b>
<b>Percentage of total</b>	<b>100.0 %</b>	<b>53.7 %</b>	<b>26.9 %</b>	<b>12.4 %</b>	<b>0.2 %</b>	<b>2.2 %</b>	<b>4.6 %</b>
Credit facilities interest	\$26,342	\$22,322	\$ 4,020	\$ —	\$ —	\$ —	\$ —
Mortgages payable interest	32,141	6,061	4,555	2,586	2,331	1,561	15,047
Convertible debentures interest	7,279	4,670	1,739	870	—	—	—
Commonwealth preferred unit liability interest	9,650	3,860	3,860	1,930	—	—	—
Accounts payable and accrued liabilities	13,085	13,085	—	—	—	—	—
Accrued real estate taxes	17,891	17,891	—	—	—	—	—
Other current liabilities	2,960	2,960	—	—	—	—	—
Other non-current liabilities	5,326	999	524	247	134	71	3,351
<b>Total other contractual obligations</b>	<b>\$114,674</b>	<b>\$71,848</b>	<b>\$14,698</b>	<b>\$ 5,633</b>	<b>\$ 2,465</b>	<b>\$ 1,632</b>	<b>\$18,398</b>
<b>Total commitments</b>	<b>\$944,726</b>	<b>\$517,516</b>	<b>\$238,288</b>	<b>\$108,764</b>	<b>\$ 3,823</b>	<b>\$19,754</b>	<b>\$56,581</b>

(1) The liability has no stated maturity date. It is the Company's expectation that the liability will be repaid in 2025.

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## 30. Key management personnel compensation:

The remuneration of key management personnel of the Company for years ended December 31, 2022 and 2021 is set forth in the table below.

	Year ended December 31, 2022		Year ended December 31, 2021	
Officers and directors compensation	\$	2,558	\$	2,633
Share based compensation		367		1,967
	\$	2,925	\$	4,600

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

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## 31. Segments:

The Company's current portfolio includes investments in assisted living, independent living, memory care, transitional care, long-term care, and medical office properties. The Company's senior housing and care investments in assisted living, independent living, memory care, transitional care and long-term care share similar characteristics and are generally leased to operators on a long-term, triple-net lease basis. In some instances the Company has an interest in both the property and operations in joint ventures and joint arrangements with the operating partner at the facility. The Company considers these investments to be one reportable operating segment. The Company also has investments in 4 medical office buildings ("Medical office buildings"). This multi-tenant medical office portfolio has different characteristics that are evaluated by management and is considered to be a separate reportable operating segment. Through the acquisition of Commonwealth, currently a consolidated subsidiary, and the transition of certain other assets, the Company has investments in 33 properties and a management company that operates 28 of those properties ("owner occupied property"). Management considers this a separate reportable operating segment.

The following tables show net loss by reportable segment for the year ended December 31, 2022 and 2021:

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	Year ended December 31, 2022						Total
	Seniors housing and care investment properties	Owner occupied properties	Corporate/ other	Total continuing operations	Medical office buildings (discontinued operations)		
Rental revenue	\$ 58,646	\$ —	\$ —	\$ 58,646	\$ 8,747	\$ 67,393	
Resident rental and related revenue	—	132,534	—	132,534	—	132,534	
Lease revenue from joint ventures	3,519	—	—	3,519	—	3,519	
Other revenue	30	2,764	542	3,336	759	4,095	
Other income	—	695	—	695	—	695	
Interest income from loans receivable	471	—	1,068	1,539	—	1,539	
Direct property operating expenses	—	(102,642)	—	(102,642)	(4,868)	(107,510)	
Depreciation and amortization expense	—	(16,387)	(129)	(16,516)	—	(16,516)	
Finance cost from operations	(18,152)	(17,601)	(8,195)	(43,948)	(2,721)	(46,669)	
Real estate tax expense	(12,093)	—	—	(12,093)	(1,447)	(13,540)	
General and administrative expenses	204	(7,840)	(12,649)	(20,285)	(158)	(20,443)	
Diligence costs for transactions not pursued	—	—	(39)	(39)	—	(39)	
Allowance for credit losses on loans and interest receivable	(8,188)	—	(8,273)	(16,461)	—	(16,461)	
Changes in non-controlling interest liability	—	(446)	—	(446)	—	(446)	
Change in fair value of investment properties - IFRIC 21	26	—	—	26	50	76	
Change in fair value of investment properties	(53,004)	—	—	(53,004)	(8,330)	(61,334)	
Change in fair value of financial instruments	(5)	9,590	13,544	23,129	1,577	24,706	
Gain on sale of property, plant and equipment	—	(3,013)	4	(3,009)	—	(3,009)	
Foreign exchange loss reclassified from other comprehensive income	—	—	—	—	(409)	(409)	
Impairment of property, plant and equipment	—	(4,513)	—	(4,513)	—	(4,513)	
Share of income (loss) from joint ventures	6,395	—	—	6,395	—	6,395	
Income tax recovery	—	—	1,127	1,127	—	1,127	
<b>Net income (loss)</b>	<b>\$ (22,151)</b>	<b>\$ (6,859)</b>	<b>\$ (13,000)</b>	<b>\$ (42,010)</b>	<b>\$ (6,800)</b>	<b>\$ (48,810)</b>	
Expenditures for non-current assets:							
Capital additions	3,470	7,015	—	10,485	283	10,768	

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

	Year ended December 31, 2021						Total
	Seniors housing and care investment properties	Owner occupied properties	Corporate/ other	Total continuing operations	Medical office buildings (discontinued operations)		
Rental revenue	\$ 69,647	\$ —	\$ —	\$ 69,647	\$ 13,005	\$ 82,652	
Resident rental and related revenue	—	120,152	—	120,152	—	120,152	
Lease revenue from joint ventures	3,529	—	—	3,529	—	3,529	
Other revenue	56	2,060	702	2,818	1,299	4,117	
Other income	—	3,730	—	3,730	—	3,730	
Interest income from loans receivable	524	—	944	1,468	—	1,468	
Direct property operating expenses	—	(96,586)	—	(96,586)	(6,182)	(102,768)	
Depreciation and amortization expense	—	(22,060)	(92)	(22,152)	—	(22,152)	
Finance cost from operations	(22,374)	(18,093)	(7,454)	(47,921)	(3,768)	(51,689)	
Real estate tax expense	(14,541)	—	—	(14,541)	(2,174)	(16,715)	
General and administrative expenses	(1,256)	(7,130)	(11,626)	(20,012)	(130)	(20,142)	
Allowance for credit losses on loans and interest receivable	(959)	—	(237)	(1,196)	—	(1,196)	
Changes in non-controlling interest liability	113	266	—	379	—	379	
Change in fair value of investment properties - IFRIC 21	1,226	—	—	1,226	—	1,226	
Change in fair value of investment properties	(12,667)	—	—	(12,667)	(9,485)	(22,152)	
Change in fair value of financial instruments	780	4,521	14,835	20,136	1,724	21,860	
Change in fair value of contingent consideration	—	—	258	258	—	258	
Gain on sale of property, plant and equipment	—	1,200	14	1,214	—	1,214	
Impairment of property, plant and equipment	—	(1,100)	—	(1,100)	—	(1,100)	
Share of income (loss) from joint ventures	(14,906)	—	—	(14,906)	—	(14,906)	
<b>Net income (loss)</b>	<b>\$ 9,172</b>	<b>\$ (13,040)</b>	<b>\$ (2,656)</b>	<b>\$ (6,524)</b>	<b>\$ (5,711)</b>	<b>\$ (12,235)</b>	
Expenditures for non-current assets:							
Capital additions	—	7,807	—	7,807	968	8,775	

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

The following tables show assets and liabilities by reportable segment as at December 31, 2022 and December 31, 2021:

As at December 31, 2022						
	Seniors housing and care investment properties	Owner occupied properties	Corporate/ other	Total continuing operations	Medical office buildings	Total
Investment properties	\$ 538,591	\$ —	\$ —	\$ 538,591	\$ —	\$ 538,591
Property, plant and equipment, net	—	395,559	707	396,266	—	396,266
Investment in joint ventures	49,077	—	—	49,077	—	49,077
Loans receivable	1,553	—	18,101	19,654	—	19,654
Assets held for sale	—	—	—	—	20,224	20,224
Other assets	727	22,754	48,518	71,999	1,529	73,528
<b>Total assets</b>	<b>\$ 589,948</b>	<b>\$ 418,313</b>	<b>\$ 67,326</b>	<b>\$ 1,075,587</b>	<b>\$ 21,753</b>	<b>\$ 1,097,340</b>
Mortgages payable	\$ 62,149	\$ 111,954	\$ —	\$ 174,103	\$ 12,845	\$ 186,948
Credit facilities	320,365	193,636	—	514,001	—	514,001
Convertible debentures	—	—	64,508	64,508	—	64,508
Commonwealth preferred unit liability	—	57,906	—	57,906	—	57,906
Non-controlling interest liability	—	211	—	211	—	211
Other liabilities	19,631	10,933	10,661	41,225	—	41,225
Liabilities related to assets held for sale	—	—	—	—	894	894
<b>Total liabilities</b>	<b>\$ 402,145</b>	<b>\$ 374,640</b>	<b>\$ 75,169</b>	<b>\$ 851,954</b>	<b>\$ 13,739</b>	<b>\$ 865,693</b>
As at December 31, 2021						
	Seniors housing and care investment properties	Owner occupied properties	Medical office buildings	Corporate/ other	Total	
Investment properties	\$ 601,633	\$ —	\$ 114,711	\$ —	\$ 716,344	
Property, plant and equipment, net	—	431,672	—	329	432,001	
Investment in joint ventures	50,440	—	—	—	50,440	
Loans receivable	2,074	—	—	19,621	21,695	
Other assets	13,414	43,801	5,563	17,753	80,531	
<b>Total assets</b>	<b>\$ 667,561</b>	<b>\$ 475,473</b>	<b>\$ 120,274</b>	<b>\$ 37,703</b>	<b>\$ 1,301,011</b>	
Mortgages payable	\$ 72,587	\$ 141,236	\$ —	\$ —	\$ 213,823	
Credit facilities	329,650	179,369	88,247	—	597,266	
Convertible debentures	—	—	—	82,657	82,657	
Commonwealth preferred unit liability	—	66,239	—	—	66,239	
Non-controlling interest liability	—	293	—	—	293	
Other liabilities	15,078	17,472	2,573	19,353	54,476	
<b>Total liabilities</b>	<b>\$ 417,315</b>	<b>\$ 404,609</b>	<b>\$ 90,820</b>	<b>\$ 102,010</b>	<b>\$ 1,014,754</b>	

# INVESQUE INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

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

At December 31, 2022, \$915,401 of the Company's non-current assets, excluding financial instruments, are located in the United States (2021 - \$1,047,596) and \$70,109 are located in Canada (2021 - \$153,418). During the year ended December 31, 2022, the Company generated \$191,180 (year ended December 31, 2021 - \$189,800), of its revenues, excluding other revenue, from properties located in the United States and \$3,519 (year ended December 31, 2021 - \$3,529) of its revenues from properties located in Canada.

## **32. Subsequent events:**

On February 27, 2023, the Company entered into a purchase and sale agreement to sell the Company's full interest in the Symcare portfolio. The transaction is expected to close in the second quarter of 2023, and all proceeds will be used to retire debt on the corporate credit facility.