

**INVESQUE INC.  
(the "Company")**

**Form 51-102F4**

***Business Acquisition Report***

**Item 1. Identity of Company**

**1.1 Name and Address of Company**

Invesque Inc. (the "Company")  
333 Bay Street, Suite 3400  
Toronto, Ontario  
M5H 2S7

**1.2 Executive Officer**

The following is the name and business telephone number of a senior officer of the Company who is knowledgeable about the acquisition described in this report:

Scott Higgs  
Chief Financial Officer  
317-643-6778

**Item 2. Details of Acquisition**

**2.1 Nature of Business Acquired**

On August 1, 2019, the Company closed on the previously announced acquisition of Commonwealth Senior Living, LLC ("Commonwealth"). The acquisition includes 17 private pay seniors housing properties in addition to the Commonwealth management company (the "Initial Portfolio"), all of which are operated under common control and management. The Commonwealth management company operates all 17 properties in the Commonwealth portfolio and operates 6 properties outside of the Initial Portfolio. The August 1, 2019 acquisition represents the first tranche of the acquisition of Commonwealth properties, and the Company remains committed to purchasing three additional properties subject to the approval of certain lenders of secured debt underlying the remaining three properties.

**2.2 Acquisition Date**

August 1, 2019

**2.3 Consideration (presented in thousands of U.S. dollars)**

The aggregate contracted purchase price for the acquisition was \$285,357, subject to working capital adjustments and transaction costs. The acquisition was funded through \$174,224 in new debt secured by 16 of the properties, the assumption of \$9,537 in debt secured by one of the properties, the issuance of \$53,587 of preferred interests in the Company's acquiring subsidiary entity and cash on hand.

**2.4 Effect on Financial Position**

The effect of the Acquisition on the assets and operations of the Company are set forth in the *pro forma* financial statements attached hereto. The Company has no plans or proposals for material changes in its business affairs or the affairs of Commonwealth, which may have a significant impact on the financial performance and financial position of the Company.

**2.5 Prior Valuations**

Not Applicable.

**2.6 Parties to Transaction**

Not applicable. The Acquisition was not with an informed person, associate or affiliate of the Company.

**2.7 Date of Report**

October 15, 2019

**Item 3. Financial Statements and Other Information**

See attached Schedule "A". The following financial statements are attached and included as part of this report:

- Pro forma condensed consolidated financial statements of Invesque Inc. as at and for the six months ended June 30, 2019 and the year ended December 31, 2018.
- Combined financial statements for Commonwealth as at and for the years ended December 31, 2018 and 2017. The auditor was not engaged to consent to the inclusion of their audit report in this business acquisition report.
- Combined interim financial statements for Commonwealth as at and for the six months ended June 30, 2019 and 2018.

**SCHEDULE A**

Pro Forma Condensed Consolidated Financial Statements  
(In U.S. dollars)

## **INVESQUE INC.**

As at and for the six months ended June 30, 2019 and for the year ended  
December 31, 2018  
(Unaudited)

# INVESQUE INC.

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

As at June 30, 2019  
(Unaudited)

|  | Invesque Inc. | Commonwealth | Notes | Pro Forma<br>Adjustments | Total        |
|--|---------------|--------------|-------|--------------------------|--------------|
| <b>Assets</b>                          |               |              |       |                          |              |
| Current assets:                        |               |              |       |                          |              |
| Cash and cash equivalents              | \$ 20,551     | \$ 3,860     | 3(a)  | \$ (3,666)               | 19,246       |
| Tenant and other receivables           | 17,339        | 1,542        | 3(b)  | (1,499)                  | 18,553       |
| Accounts receivable from related party | —             | 7,896        | 3(a)  | (7,896)                  | —            |
| Loans receivable                       | 2,544         | —            |       | —                        | 2,544        |
| Other current assets                   | 9,834         | 1,875        | 3(a)  | (1,016)                  | 10,693       |
|  | 50,268        | 15,173       |       | (14,405)                 | 51,036       |
| Non-current assets:                    |               |              |       |                          |              |
| Loans receivable                       | 39,761        | —            |       | —                        | 39,761       |
| Derivative instruments                 | 11            | —            |       | —                        | 11           |
| Investment in joint ventures           | 106,080       | —            |       | —                        | 106,080      |
| Investment properties                  | 1,021,217     | —            |       | —                        | 1,021,217    |
| Property, plant and equipment          | —             | 104,380      | 3(a)  | 181,870                  | 286,250      |
| Right of use asset                     | —             | 960          |       | —                        | 960          |
| Other non-current assets               | 3,009         | 10           | 3(a)  | (10)                     | 3,009        |
|  | 1,170,078     | 105,350      |       | 181,860                  | 1,457,288    |
| Total assets                           | \$ 1,220,346  | 120,523      |       | 167,455                  | \$ 1,508,324 |

## Liabilities and Shareholders' Equity

|  |           |          |      |           |           |
|--|-----------|----------|------|-----------|-----------|
| Current liabilities:                     |           |          |      |           |           |
| Accounts payable and accrued liabilities | \$ 10,640 | \$ 3,820 | 3(a) | \$ 315    | \$ 14,775 |
| Accrued real estate taxes                | 11,459    | —        |      | —         | 11,459    |
| Dividends payable                        | 3,322     | —        |      | —         | 3,322     |
| Unearned revenue                         | —         | 821      | 3(a) | (821)     | —         |
| Credit facilities                        | —         | 4,024    | 3(a) | (4,024)   | —         |
| Mortgages payable                        | 23,873    | 2,666    | 3(a) | (2,666)   | 23,873    |
| Other current liabilities                | 2,048     | —        | 3(a) | 34        | 2,082     |
|  | 51,342    | 11,331   |      | (7,162)   | 55,511    |
| Non-current liabilities:                 |           |          |      |           |           |
| Credit facilities                        | 405,249   | —        | 3(a) | 174,224   | 626,487   |
|  |           |          | 3(a) | 47,014    | 626,487   |
| Mortgages payable                        | 167,980   | 174,978  | 3(a) | (165,455) | 177,503   |
| Convertible debentures                   | 90,378    | —        |      | —         | 90,378    |
| Commonwealth preferred unit liability    | —         | —        | 3(a) | 53,587    | 53,587    |
| Derivative instruments                   | 7,870     | —        |      | —         | 7,870     |
| Deferred tax liability                   | 3,773     | —        |      | —         | 3,773     |
| Payable to related party                 | —         | 1,550    | 3(a) | (1,550)   | —         |
| Lease liability                          | —         | 960      |      | —         | 960       |
| Other non-current liabilities            | 15,509    | 577      | 3(a) | (577)     | 15,509    |
| Non-controlling interest liability       | 3,062     | —        |      | —         | 3,062     |
|  | 693,821   | 178,065  |      | 107,243   | 979,129   |
| Total liabilities                        | 745,163   | 189,396  |      | 100,081   | 1,034,640 |
| Shareholders' equity:                    |           |          |      |           |           |
| Common share capital                     | 501,343   | —        |      | —         | 501,343   |
| Equity settled deferred shares           | 142       | —        |      | —         | 142       |
| Preferred share capital                  | 71,106    | —        |      | —         | 71,106    |
| Contributed surplus                      | 400       | —        |      | —         | 400       |

# INVESQUE INC.

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

As at June 30, 2019  
(Unaudited)

|  |              |          |              |                      |
|--|--------------|----------|--------------|----------------------|
| Equity component of convertible debentures | 1,671        | —        | —            | 1,671                |
| Cumulative deficit                         | (99,202)     | (68,873) | 3(a)<br>3(b) | 68,873<br>(1,499)    |
| Accumulated other comprehensive income     | (277)        | —        | —            | (277)                |
| Total shareholders' equity                 | 475,183      | (68,873) |              | 473,684              |
| Total liabilities and shareholders' equity | \$ 1,220,346 | 120,523  |              | 167,455 \$ 1,508,324 |

# INVESQUE INC.

Pro Forma Condensed Consolidated Statements of Income and Comprehensive Income  
(Expressed in thousands of U.S. dollars)

Six Months ended June 30, 2019  
(Unaudited)

|   | Invesque Inc. | Commonwealth | Notes        | Pro Forma Adjustments | Total       |
|---|---------------|--------------|--------------|-----------------------|-------------|
| Revenue:  |               |              |              |                       |             |
| Rental  | \$ 55,547     | \$ —         |              | \$ —                  | \$ 55,547   |
| Resident rental and related revenue                                 | —             | 32,952       |              | —                     | 32,952      |
| Management fee income   | —             | 1,265        | 3(c)         | (464)                 | 801         |
| Lease revenue from joint ventures                                   | 1,497         | —            |              | —                     | 1,497       |
| Other income  | 1,004         | 65           |              | —                     | 1,069       |
|   | 58,048        | 34,282       |              | (464)                 | 91,866      |
| Expenses (income):  |               |              |              |                       |             |
| Finance costs from operations                                       | 18,907        | 5,079        | 3(d)<br>3(g) | (1,208)<br>1,742      | 24,520      |
| Real estate tax expense   | 14,978        | —            |              | —                     | 14,978      |
| General and administrative expenses                                 | 7,605         | 774          |              | —                     | 8,379       |
| Employee compensation and benefits                                  | —             | 16,986       | 3(c)         | (772)                 | 16,214      |
| Direct property operating expenses                                  | 2,545         | 9,332        |              | —                     | 11,877      |
| Depreciation expense  | —             | 3,184        | 3(e)         | 12,714                | 15,898      |
| Transaction costs for business combination                          | 1,696         | —            |              | —                     | 1,696       |
| Diligence costs for transactions not pursued                        | 633           | —            |              | —                     | 633         |
| Allowance for credit losses on loans and interest receivable        | 1,164         | —            |              | —                     | 1,164       |
| Change in non-controlling interest liability                        | 155           | —            |              | —                     | 155         |
| Change in fair value of investment properties - IFRIC 21            | (6,807)       | —            |              | —                     | (6,807)     |
| Change in fair value of investment properties                       | 9,721         | —            |              | —                     | 9,721       |
| Change in fair value of financial instruments                       | 9,335         | —            |              | —                     | 9,335       |
|   | 59,932        | 35,355       |              | 12,476                | 107,763     |
| Loss from joint ventures  | (11,051)      | —            |              | —                     | (11,051)    |
| Net loss before income taxes  | (12,935)      | (1,073)      |              | (12,940)              | (26,948)    |
| Income tax recovery:  |               |              |              |                       |             |
| Deferred  | (3,238)       | —            |              | —                     | (3,238)     |
| Net loss  | \$ (9,697)    | \$ (1,073)   |              | \$ (12,940)           | \$ (23,710) |
| Other comprehensive loss:   |               |              |              |                       |             |
| Items to be reclassified to net income (loss) in subsequent periods |               |              |              |                       |             |
| Unrealized gain on translation of foreign operations                | 2,812         | —            |              | —                     | 2,812       |
| Total comprehensive loss  | \$ (6,885)    | \$ (1,073)   |              | \$ (12,940)           | \$ (20,898) |
| Net loss per share:   |               |              |              |                       |             |
| Basic and diluted   | \$ (0.18)     |              |              | \$                    | (0.44)      |

# INVESQUE INC.

Pro Forma Condensed Consolidated Statements of Income and Comprehensive Income  
(Expressed in thousands of U.S. dollars)

Year ended December 31, 2018  
(Unaudited)

|   | Invesque Inc. | Commonwealth | Notes        | Pro Forma Adjustments | Total       |
|---|---------------|--------------|--------------|-----------------------|-------------|
| <b>Revenue:</b>   |               |              |              |                       |             |
| Rental  | \$ 109,388    | \$ —         |              | \$ —                  | \$ 109,388  |
| Resident rental and related revenue                                 | —             | 62,876       |              | —                     | 62,876      |
| Management fee income   | —             | 2,859        | 3(c)         | (1,398)               | 1,461       |
| Lease revenue from joint ventures                                   | 2,991         | —            |              | —                     | 2,991       |
| Other income  | 1,548         | 144          |              | —                     | 1,692       |
|   | 113,927       | 65,879       |              | (1,398)               | 178,408     |
| <b>Expenses (income):</b>   |               |              |              |                       |             |
| Finance costs from operations                                       | 38,264        | 9,865        | 3(d)<br>3(g) | (2,114)<br>3,483      | 49,498      |
| Real estate tax expense   | 11,796        | —            |              | —                     | 11,796      |
| General and administrative expenses                                 | 13,412        | 2,630        |              | —                     | 16,042      |
| Employee compensation and benefits                                  | —             | 32,836       | 3(c)         | (1,242)               | 31,594      |
| Direct property operating expenses                                  | 3,126         | 17,870       |              | —                     | 20,996      |
| Depreciation expense  | —             | 6,456        | 3(e)         | 25,341                | 31,797      |
| Transaction costs for business combination                          | 6,444         | —            | 3(b)         | 1,499                 | 7,943       |
| Diligence costs for transactions not pursued                        | 2,041         | —            |              | —                     | 2,041       |
| Allowance for credit losses on loans and interest receivable        | 11,336        | —            |              | —                     | 11,336      |
| Change in non-controlling interest liability                        | 17,927        | —            |              | —                     | 17,927      |
| Change in fair value of investment properties - IFRIC 21            | 2,801         | —            |              | —                     | 2,801       |
| Change in fair value of investment properties                       | 14,385        | —            |              | —                     | 14,385      |
| Change in fair value of financial instruments                       | 2,325         | —            |              | —                     | 2,325       |
| Change in fair value of contingent consideration                    | 10,676        | —            |              | —                     | 10,676      |
|   | 134,533       | 69,657       |              | 26,967                | 231,157     |
| Income from joint ventures  | 5,450         | —            |              | —                     | 5,450       |
| Net loss before income taxes  | (15,156)      | (3,778)      |              | (28,365)              | (47,299)    |
| <b>Income tax recovery:</b>   |               |              |              |                       |             |
| Deferred  | (2,881)       | —            |              | —                     | (2,881)     |
| Net loss  | \$ (12,275)   | \$ (3,778)   |              | \$ (28,365)           | \$ (44,418) |
| <b>Other comprehensive loss:</b>                                    |               |              |              |                       |             |
| Items to be reclassified to net income (loss) in subsequent periods |               |              |              |                       |             |
| Unrealized loss on translation of foreign operations                | (4,276)       | —            |              | —                     | (4,276)     |
| Total comprehensive loss  | \$ (16,551)   | \$ (3,778)   |              | \$ (28,365)           | \$ (48,694) |
| <b>Net loss per share:</b>  |               |              |              |                       |             |
| Basic and diluted   | \$ (0.24)     |              |              | \$                    | (0.88)      |

## **1. Basis of preparation:**

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

These pro forma financial statements have been prepared by the Company for inclusion in a business acquisition report (the "BAR") to be filed with the various securities commissions of the provinces and territories of Canada.

These pro forma financial statements reflect the impact of the acquisition of a combination of entities who collectively own 17 private pay seniors housing properties and one management company entity that is an operator of seniors housing and care properties (collectively, "Commonwealth").

These pro forma financial statements do not include all the information and disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements and have been prepared from:

- i. the audited statement of income and comprehensive income of Invesque Inc. for the year ended December 31, 2018;
- ii. the unaudited statement of income and comprehensive income of Invesque Inc. for the six months ended June 30, 2019;
- iii. the unaudited statement of financial position of Invesque Inc. as at June 30, 2019;
- iv. the audited combined statement of operations of Commonwealth for the year ended December 31, 2018, prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP");
- v. the unaudited combined statement of operations of Commonwealth for the six months ended June 30, 2019, prepared in accordance with GAAP;
- vi. the unaudited combined balance sheet of Commonwealth as at June 30, 2019, prepared in accordance with GAAP.

The pro forma statement of financial position gives effect to the transactions in note 3 as if they had occurred on June 30, 2019. The pro forma statement of income and comprehensive income gives the effect to the transactions in note 3 as if they had occurred on January 1, 2018.

The pro forma financial statements are not necessarily indicative of the financial position and results of operations of the Company that would have actually occurred had the transactions been consummated at the dates indicated, nor are they necessarily indicative of future operating results or the financial position of the Company.

The pro forma financial statements and accompanying notes are presented in thousands of U.S. dollars, which is the functional and presentational currency of the Company.

## **2. Significant accounting policies:**

The accounting policies used in these pro forma financial statements are consistent with those in the audited annual consolidated financial statements of the Company for the year ended December 31, 2018. Where accounting policies of Commonwealth did not align with those of the Company, the Company's policy was adopted and the impact was included in the pro forma adjustments.

### 3. Pro forma assumptions and financial statement adjustments:

#### (a) Acquisition of Commonwealth:

The pro forma financial statements reflect the acquisition of Commonwealth based on a contractual purchase price of \$285,357 for property, plant and equipment and \$893 for construction in progress related to development projects ongoing at certain properties in the portfolio. The Company also assumed \$1,902 of net working capital liabilities and \$9,523 in debt secured by one of the acquired properties. The acquisition was accounted for as a business combination and was funded through \$174,224 in new debt secured by 16 of the acquired properties, the issuance of \$53,587 of preferred interests in the Company's acquiring subsidiary entity, and proceeds of \$47,014 on an existing credit facility. The Company incurred \$3,195 of transaction costs of which \$1,696 was expensed prior to the closing of the acquisition and \$1,499 has been expensed subsequent to the closing of the acquisition.

The below table sets forth the identifiable assets and liabilities assumed in the acquisition of Commonwealth at their provisional fair values had the acquisition occurred on June 30, 2019.

|  | Book value of<br>Commonwealth | Adjustments | Fair value of assets and<br>liabilities acquired |
|--|-------------------------------|-------------|--|
| Property, plant and equipment            | \$ 104,380                    | \$ 181,870  | \$ 286,250                                       |
| Cash and cash equivalents                | 3,860                         | (3,666)     | 194  |
| Tenant and other receivables             | 1,542                         | (328)       | 1,214  |
| Accounts receivable from related party   | 7,896                         | (7,896)     | —  |
| Other current assets                     | 1,875                         | (1,016)     | 859  |
| Right of use asset                       | 960                           | —           | 960  |
| Other non-current assets                 | 10                            | (10)        | —  |
| Accounts payable and accrued liabilities | (3,820)                       | (315)       | (4,135)  |
| Unearned revenue                         | (821)                         | 821         | —  |
| Credit facilities                        | (4,024)                       | 4,024       | —  |
| Mortgages payable                        | (177,644)                     | 168,121     | (9,523)  |
| Payable to related party                 | (1,550)                       | 1,550       | —  |
| Other current liabilities                | —                             | (34)        | (34)   |
| Lease liability                          | (960)                         | —           | (960)  |
| Other non-current liabilities            | (577)                         | 577         | —  |
|  | \$ (68,873)                   | \$ 343,698  | \$ 274,825                                       |
| Purchase price settled by:               |                               |             |  |
| Issuance of preferred units              |                               | \$          | 53,587   |
| Proceeds from credit facilities          |                               |             | 221,238  |
|  |                               | \$          | 274,825  |

#### (b) Transaction costs for business combination:

The pro forma statement of financial position as at June 30, 2019 and the pro forma statement of income and comprehensive income for the year ended December 31, 2018 were adjusted by \$1,499 to reflect transaction costs related to the business combination incurred by the Company associated with the completion of the transaction.

(c) Management fee income and employee compensation and benefits:

For purposes of the pro forma statement of income and comprehensive income for the year ended December 31, 2018 and the six months ended June 30, 2019, management fee income and employee compensation and benefits have been adjusted to reflect the impact of a division of the Commonwealth management company that was not acquired by the Company. The construction management fees earned and offsetting employee costs have been eliminated.

(d) Finance costs from operations:

For purposes of the pro forma statement of income and comprehensive income for the year ended December 31, 2018 and the six months ended June 30, 2019, the acquisition of Commonwealth was assumed to occur on January 1, 2018. Accordingly, the Company has eliminated the amortization of any deferred loan fees, and has made an adjustment to reflect what the estimated loan fee amortization would be for the Company with respect to the credit facility and assumed mortgage payable that were used to fund a portion of the acquisition. In addition, the Company has included a pro forma adjustment to reflect the difference in interest expense that would have been recognized under the new credit facility as compared to the debt that was in place on the 16 properties where debt was not assumed by the Company.

(e) Depreciation expense:

The pro forma statement of income and comprehensive income for the year ended December 31, 2018 and the six months ended June 30, 2019 has been adjusted in respect of depreciation expense associated with the Commonwealth portfolio. The adjustment reflects the impact of preliminary purchase price allocations to the assets acquired, and the anticipated depreciation expense on a pro forma basis for the respective periods presented.

(f) Credit facility

To fund a portion of the acquisition, the Company entered into a new \$176,000 credit facility secured by 16 of the properties acquired. The credit facility has a maturity date of August 1, 2024, with 2 available extension options. It bears interest at a rate of LIBOR plus 215 basis points, but concurrent with the closing of the acquisition the Company entered into an interest rate swap agreement to fix LIBOR at 169 basis points through August 1, 2024, effectively fixing the interest rate at 3.84% for its initial 5 year term. The agreement also provides for an accordion feature that would extend the capacity of the loan by an additional \$50,000 subject to certain terms and conditions provided for in the agreement. The Company paid \$1,776 in loan fees in conjunction with the closing of this credit facility.

(g) Commonwealth preferred unit liability

The \$53,587 in Commonwealth preferred units will initially be exchangeable by holders into common shares of the Company at a fixed exchange price of \$9.75 per common share. Such exchangeable instruments are presented as a liability. The preferred interests have an initial dividend rate of 6.50% per annum and a liquidation value equal to their unreturned initial capital contribution and any accrued and unpaid dividends. 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. Dividends on preferred units are recorded as finance costs on the pro forma statement of income and comprehensive income.

Combined Financial Statements

# **Commonwealth**

Years ended December 31, 2018 and 2017



KPMG LLP  
Suite 1500  
111 Monument Circle  
Indianapolis, IN 46204

## Independent Auditors' Report

### The Members

MCAP Advisers LLC and Commonwealth Assisted Living LLC:

We have audited the accompanying combined financial statements of certain assisted living properties and management company owned by affiliates of MCAP Advisers LLC and Commonwealth Assisted Living LLC (*collectively Commonwealth*), which comprise the combined balance sheet as of December 31, 2018, and the related combined statements of operations, changes in deficit, and cash flows for the year then ended, and the related notes to the combined financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

### *Opinion*

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Commonwealth as of December 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles

**KPMG LLP**

Indianapolis, Indiana  
October 15, 2019

# Commonwealth

Combined Balance Sheets

(Expressed in thousands of U.S. dollars)

|  | As of             |                   |
|--|-------------------|-------------------|
|  | December 31, 2018 | December 31, 2017 |
|  |                   | (Unaudited)       |
| <b>Assets</b>                            |                   |                   |
| Current assets:                          |                   |                   |
| Cash and cash equivalents                | \$ 4,186          | \$ 5,407          |
| Accounts receivable, net                 | 1,750             | 1,852             |
| Accounts receivable from related party   | 2,093             | 1,700             |
| Other current assets                     | 1,777             | 1,690             |
|  | <u>9,806</u>      | <u>10,649</u>     |
| Non-current assets:                      |                   |                   |
| Real estate investment, net              | 105,617           | 106,925           |
| Other non-current assets                 | 189               | 14                |
|  | <u>105,806</u>    | <u>106,939</u>    |
| Total assets                             | \$ 115,612        | \$ 117,588        |
| <b>Liabilities and Deficit</b>           |                   |                   |
| Current liabilities:                     |                   |                   |
| Accounts payable and accrued liabilities | \$ 4,139          | \$ 3,856          |
| Unearned revenue                         | 802               | 926               |
| Credit facilities                        | 2,869             | 981               |
| Current mortgages payable                | 37,360            | 15,494            |
|  | <u>45,170</u>     | <u>21,257</u>     |
| Non-current liabilities:                 |                   |                   |
| Mortgages payable, net                   | 142,528           | 163,207           |
| Other non-current liabilities            | 266               | 286               |
|  | <u>142,794</u>    | <u>163,493</u>    |
| Total liabilities                        | 187,964           | 184,750           |
| Deficit:                                 |                   |                   |
| Total deficit                            | (72,352)          | (67,162)          |
| Total liabilities and deficit            | \$ 115,612        | \$ 117,588        |

See accompanying notes to combined financial statements.

# Commonwealth

Combined Statements of Operations  
(Expressed in thousands of U.S. dollars)

|                                    | Year ended        |                   |
|------------------------------------|-------------------|-------------------|
|                                    | December 31, 2018 | December 31, 2017 |
|                                    | (Unaudited)       |                   |
| Revenue:                           |                   |                   |
| Rental and related revenue         | \$ 62,876         | \$ 59,786         |
| Management fee income              | 2,859             | 2,572             |
| Other income                       | 144               | 213               |
|                                    | <u>65,879</u>     | <u>62,571</u>     |
| Expenses:                          |                   |                   |
| Employee compensation and benefits | 32,836            | 31,094            |
| Property operating expense         | 17,870            | 17,358            |
| Interest expense                   | 9,865             | 7,984             |
| Depreciation expense               | 6,456             | 6,577             |
| Other expenses                     | 2,630             | 2,045             |
|                                    | <u>69,657</u>     | <u>65,058</u>     |
| Net loss                           | \$ (3,778)        | \$ (2,487)        |

See accompanying notes to combined financial statements.

# Commonwealth

Combined Statements of Changes in Deficit  
(Expressed in thousands of U.S. dollars)

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|  |    | Total deficit |
|--|----|---------------|
| Deficit, January 1, 2017 (Unaudited)   | \$ | (56,602)      |
| Net loss                               |    | (2,487)       |
| Contributions                          |    | 5,322         |
| Distributions                          |    | (13,395)      |
| Deficit, December 31, 2017 (Unaudited) | \$ | (67,162)      |

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|                            |    | Total deficit |
|----------------------------|----|---------------|
| Deficit, January 1, 2018   | \$ | (67,162)      |
| Net loss                   |    | (3,778)       |
| Contributions              |    | 4,794         |
| Distributions              |    | (6,206)       |
| Deficit, December 31, 2018 | \$ | (72,352)      |

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See accompanying notes to combined financial statements.

# Commonwealth

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

|  | Year ended        |                   |
|--|-------------------|-------------------|
|  | December 31, 2018 | December 31, 2017 |
|  |                   | (unaudited)       |
| Cash flows from operating activities:                              |                   |                   |
| Net loss   | \$ (3,778)        | \$ (2,487)        |
| Items not involving cash:  |                   |                   |
| Depreciation expense   | 6,456             | 6,577             |
| Amortization of deferred financing costs                           | 716               | 794               |
| Loss on disposal of real estate investment                         | 399               | 430               |
| Change in operating assets and liabilities:                        |                   |                   |
| Accounts receivable  | (291)             | (416)             |
| Accounts payable and accrued liabilities                           | 284               | (375)             |
| Unearned revenue   | (123)             | 155               |
| Other assets   | (148)             | 58                |
| Other liabilities  | (19)              | 31                |
| Net cash provided by operating activities                          | \$ 3,496          | \$ 4,767          |
| Cash flows from investing activities:                              |                   |                   |
| Capital expenditures   | \$ (5,548)        | \$ (6,549)        |
| Cash used in investing activities                                  | \$ (5,548)        | \$ (6,549)        |
| Cash flows from financing activities:                              |                   |                   |
| Debt issuance costs paid   | \$ (38)           | \$ (26)           |
| Proceeds from credit facilities                                    | 2,388             | 4,204             |
| Payments of credit facilities                                      | (500)             | (5,436)           |
| Proceeds from mortgages payable                                    | 16,001            | 39,613            |
| Payments of mortgages payable                                      | (15,494)          | (28,405)          |
| Contributions from owners  | 4,794             | 5,322             |
| Distributions to owners  | (6,206)           | (13,395)          |
| Cash provided by financing activities                              | \$ 945            | \$ 1,877          |
| (Decrease) increase in cash, cash equivalents, and restricted cash | (1,107)           | 95                |
| Cash, cash equivalents, and restricted cash beginning of year      | 6,207             | 6,112             |
| Cash, cash equivalents, and restricted cash end of year            | \$ 5,100          | \$ 6,207          |
| Supplemental disclosure relating to non-cash activities:           |                   |                   |
| Interest paid  | \$ 9,180          | \$ 7,142          |

See accompanying notes to combined financial statements.

# Commonwealth

Notes to Combined Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted)

## 1. Organization:

The entities as presented in these combined financial statements are not owned by a common legal entity. These combined financial statements represent the combination of entities who collectively own 17 seniors housing and care properties and one management company entity that is an operator of seniors housing and care properties (23 entities collectively, "Commonwealth"). The legal entities included in these combined financial statements to form Commonwealth are outlined in the table below.

| Legal Entity                                    | Property           |
|---|--------------------|
| Integrated Living Communities of Portsmouth LLC | Churchland House   |
| Integrated Living Communities of Gloucester LLC | Gloucester         |
| MCAP Georgian Manor, LLC                        | Georgian Manor     |
| MCAP Capitol, LLC                               | Leigh Hall         |
| Mayfair-Hampton, L.L.C.                         | Hampton            |
| Kilmarnock MCAP LLC                             | Kilmarnock         |
| MCAP Hillsville LLC                             | Hillsville         |
| MCAP Radford, LLC                               | Radford            |
| Radford Apartments LLC                          | Radford            |
| MCAP Abingdon LLC                               | Abingdon           |
| Mayfair Richland Properties LLC                 | Cedar Bluff        |
| MCAP Richlands LLC                              | Cedar Bluff        |
| MCAP Ballentine LLC                             | The Ballentine     |
| MCAP Southerlands LLC                           | Front Royal        |
| MCAP Chesterfield LLC                           | Chesterfield       |
| MCAP South Boston LLC                           | South Boston       |
| MCAP West End LLC                               | The West End       |
| MCAP Willow Grove LP                            | Willow Grove       |
| MCAP Willow Grove Operator LLC                  | Willow Grove       |
| Commonwealth Assisted Living LLC                | Management Company |
| MCAP Christiansburg LLC                         | Christiansburg     |
| Mayfair MCAP Sub LLC                            | Christiansburg     |
| Wheatland Court LLC                             | Christiansburg     |

These combined financial statements of Commonwealth have been prepared for the inclusion in a Business Acquisition Report to be filed by Invesque, Inc. ("Invesque"). These combined financial statements present the financial position, results of operations and cash flows of Commonwealth for the periods presented as if Commonwealth had been accounted for on a stand-alone basis.

These combined financial statements are not necessarily indicative of the results that would have been attained had the Commonwealth portfolio been operated as a separate legal entity for the periods presented and, therefore, are not necessarily indicative of future operating results.

On August 1, 2019, the Commonwealth portfolio was acquired by Invesque. The acquisition includes 17 private pay seniors housing properties in addition to the management company and associated contracts. The management company operates all 17 properties in the portfolio and operates 9 properties outside of the portfolio owned by Invesque. The August 1, 2019 sale represents the first tranche of the sale of Commonwealth properties, and Invesque remains committed to purchasing three additional properties as previously announced, subject to the approval of certain lenders of secured debt underlying the remaining three properties.

# Commonwealth

Notes to Combined Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted)

Effective August 1, 2019, Invesque US Holdings, Inc, a subsidiary of Invesque Inc. ("Invesque"), acquired control of the entities included in the Commonwealth financial statements. Subsequent to that date, the financial position and results of operations of Commonwealth are reported in the consolidated financial statements of Invesque.

## 2. Summary of significant accounting policies:

### *Basis of Presentation and Principles of Consolidation*

The accompanying combined financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) and include the accounts of Commonwealth. The combined financial statements of Commonwealth are combined due to common ownership.

### *Use of Estimates*

The preparation of the combined financial statements in conformity with U.S. generally accepted accounting principles requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Business Acquisition Accounting*

In January 2017, the FASB issued ASU 2017-01, Business Combinations. This ASU provides guidance to entities to assist with evaluating when a set of transferred assets and activities (collectively, the "set") is a business and provides a test to determine when a set is not a business. Under this ASU, when substantially all of the fair value of gross assets acquired (or disposed of) is concentrated in a single identifiable asset, or group of similar assets, the assets acquired would not represent a business. Also, to be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to produce outputs. The commonwealth entities adopted this guidance on January 1, 2018. As a result, the commonwealth entities expect that fewer of its acquisitions will be accounted for as business combinations. The commonwealth entities did not acquire any real estate investments in 2017 or 2018.

### *Fair Value Measurement*

Fair value is defined as 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.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels, from highest to lowest, are defined as follows:

- i. Level 1 – Unadjusted, quoted prices in active markets for identical assets or liabilities that Commonwealth has the ability to access at the measurement date.
- ii. Level 2 – Significant inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. The types of financial assets and liabilities carried at level 2 are valued based on one or more of the following:
  - a. Quoted prices for similar assets or liabilities in active markets;
  - b. Quoted prices for identical or similar assets or liabilities in nonactive markets;
  - c. Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
  - d. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.
- iii. Level 3 – Significant inputs that are unobservable inputs for the asset or liability, including Commonwealth's own data and assumptions that are used in pricing the asset or liability.

# Commonwealth

Notes to Combined Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted)

## ***Real estate investments, net of accumulated depreciation***

Real estate investments are carried at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis using estimated useful lives not to exceed 30 years for buildings, 7 years for building improvements, and 3-7 years for furniture fixtures and equipment. Real estate investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such reviews indicate that the asset is impaired, the asset's carrying amount is written down to its fair value. There were no impairments on Commonwealth's real estate investments for the years ended December 31, 2018 and 2017, respectively.

## ***Cash and Cash Equivalents***

Commonwealth considers all highly liquid investments of sufficient credit quality purchased with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of U.S. denominated cash on hand, cash held in banks and investments in money market funds.

## ***Valuation of Receivables***

Commonwealth reviews its allowance for doubtful accounts monthly and reserves receivable balances of any tenant where collectability is doubtful. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Allowances for doubtful accounts amounted to \$1,515 and \$1,268 at December 31, 2018 and 2017, respectively.

## ***Deferred Costs***

Costs incurred in connection with obtaining financing are amortized to interest expense on the straight-line method over the term of the related loan, which approximates the effective interest method. The costs for issuing debt, other than lines of credit, are presented on a balance sheet as a direct reduction from the debt's carrying value.

## ***Income Taxes***

The Commonwealth entities have elected to be treated as pass-through entities for income tax purposes and, as such, are not subject to income taxes. Rather, all items of taxable income, deductions, and tax credits are passed through to and are reported by their owners on their respective income tax returns. Accordingly, no accounting for income taxes is required in the accompanying Combined Financial Statements. The Commonwealth entities recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. As of December 31, 2018, the Commonwealth entities have no uncertain tax positions. The Commonwealth entities expect no significant increase or decrease in unrecognized tax benefits due to changes in tax positions within one year of December 31, 2018. The Commonwealth entities have no interest or penalties relating to income taxes recognized in the accompanying Combined Statement of Operations for the year ended December 31, 2018. Generally, the Commonwealth entities are subject to examination under the statute of limitations by the U.S. and various state and local tax jurisdictions for the year ended December 31, 2016 and subsequent years.

## ***Commitments and Contingencies***

The Commonwealth entities are not currently involved with any litigation other than routine and administrative proceedings arising in the ordinary course of business. Management believes that these items will not have a material adverse impact on the combined financial statements taken as a whole.

## ***Revenue Recognition***

### ***Adoption of ASC 606***

On January 1, 2018, the Commonwealth entities adopted Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers ("ASC 606"), which outlines a comprehensive model for entities to use in accounting for revenue

# Commonwealth

Notes to Combined Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted)

arising from contracts with customers. ASC 606 states that “an entity recognized revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” The Commonwealth entities account for revenues from management contracts (within management fee income in the Combined Statements of Operations) and certain point-of-sale transactions (within rental and related revenue in our Combined Statements of Operations) in accordance with ASC 606. The pattern and timing of recognition of income is consistent with the prior accounting model. All other revenues, primarily rental income from leasing activities, is accounted for in accordance with other applicable GAAP. The Commonwealth entities adopted ASC 606 using the modified retrospective method. There was no cumulative adjustment recognized to beginning retained earnings as of January 1, 2018 as the result of adopting ASC 606.

## *Rental and Related Revenue*

Rental revenue from residents in properties owned and managed by Commonwealth and are recognized monthly as services are provided, as lease periods for residents are short-term in nature. Lease agreements with residents are generally on a month to month basis and are cancelable by the resident with 30 days' notice.

## *Recently Adopted Accounting Pronouncements*

On January 1, 2018, the Commonwealth entities adopted ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which provides clarification regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows and ASU 2016-18, Restricted Cash (“ASU 2016-18”), which requires an entity to show the changes in total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The Commonwealth entities adopted these ASUs by applying a retrospective transition method.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Combined Balance Sheets that sum to the total of the same such amounts shown in the Combined Statements of Cash Flows:

|  | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
|  |                   | (Unaudited)       |
| Cash and cash equivalents  | \$ 4,186          | \$ 5,407          |
| Restricted cash included in other assets   | 914               | 800               |
| Total cash, cash equivalents, and restricted cash shown in the Combined Statements of Cash Flows | \$ 5,100          | \$ 6,207          |

Restricted cash held in other assets on the Combined Balance Sheets includes cash held by lenders in order to maintain certain reserve requirements.

## *Recently Issued Accounting Pronouncements Not Yet Adopted*

In February 2016, the FASB established ASC Topic 842, Leases (“ASC 842”) by issuing ASU 2016-02, Leases (“ASU 2016-02”), which introduces a lessee model that brings most leases on the balance sheet and, among other changes, eliminates the requirement in current GAAP for an entity to use bright-line tests in determining lease classification. ASC 842 has subsequently been amended by other issued ASUs to clarify and improve the standard as well as to provide certain practical expedients.

ASC 842 allows for several practical expedients which permit the following: no reassessment of lease classification or initial direct costs; use of the standard’s effective date as the date of initial application; and no separation of non-lease components from the related lease components but, instead, to account for those components as a single lease component if certain criteria are met. The Commonwealth entities expect to elect these practical expedients and adopt ASC 842 on January 1, 2019 using the effective date as the date of initial application. Therefore, financial information and disclosures under ASC 842 will not be provided for periods prior to January 1, 2019.

# Commonwealth

Notes to Combined Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted)

Upon adoption, the Commonwealth entities will recognize both right of use assets and lease liabilities for leases in which they lease real property. Resident leases within the Commonwealth entities' senior living operations segment contain service elements. The Commonwealth entities expect to elect the practical expedient to account for their resident leases as a single lease component.

As of January 1, 2019 the Commonwealth entities expect to recognize a right-of-use ("ROU") asset and lease liability of approximately \$1,000 which will be presented separately in the Combined Balance Sheets and will include the present value of minimum lease payments. The ROU assets and lease liability are provisional and are still being evaluated by management.

### 3. Other assets:

Other assets are as follows:

|                      | December 31, 2018 | December 31, 2017<br>(Unaudited) |
|----------------------|-------------------|----------------------------------|
| Resident deposits    | \$ 270            | \$ 287                           |
| Prepaid expenses     | 410               | 462                              |
| Escrow deposits      | 78                | 71                               |
| Replacement reserves | 1,019             | 871                              |
| Other                | 189               | 13                               |
|                      | <u>\$ 1,966</u>   | <u>\$ 1,704</u>                  |
| Current              | \$ 1,777          | \$ 1,690                         |
| Non-current          | 189               | 14                               |
|                      | <u>\$ 1,966</u>   | <u>\$ 1,704</u>                  |

# Commonwealth

Notes to Combined Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted)

## 4. Real estate, net of accumulated depreciation:

The following table contains information regarding Commonwealth's investment in real estate as of the following periods:

|                              | As of December 31, 2018 |                            |                                     |            |
|------------------------------|-------------------------|----------------------------|-------------------------------------|------------|
|                              | Land                    | Buildings and Improvements | Furnitures, Fixtures, and Equipment | Total      |
| Real estate - cost           | \$ 8,595                | \$ 121,619                 | \$ 17,438                           | \$ 147,652 |
| Accumulated depreciation     | —                       | (34,383)                   | (7,652)                             | (42,035)   |
| Total real estate investment | \$ 8,595                | \$ 87,236                  | \$ 9,786                            | \$ 105,617 |

|                              | As of December 31, 2017 (Unaudited) |                            |                                     |            |
|------------------------------|-------------------------------------|----------------------------|-------------------------------------|------------|
|                              | Land                                | Buildings and Improvements | Furnitures, Fixtures, and Equipment | Total      |
| Real estate - cost           | \$ 8,523                            | \$ 119,110                 | \$ 16,442                           | \$ 144,075 |
| Accumulated depreciation     | —                                   | (30,146)                   | (7,004)                             | (37,150)   |
| Total real estate investment | \$ 8,523                            | \$ 88,964                  | \$ 9,438                            | \$ 106,925 |

The following table presents the straight line depreciation expense related to Commonwealth's real estate investments for the following periods:

|   | Year Ended December 31, |                  |
|---|-------------------------|------------------|
|   | 2018                    | 2017 (Unaudited) |
| Depreciation expense on real estate investments | \$ 6,456                | \$ 6,577         |

# Commonwealth

Notes to Combined Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted)

## 5. Indebtedness:

The following table summarizes the balance of Commonwealth's debt obligations, net of discounts and deferred financing costs:

| Debt type                                   | Stated maturity date        | Stated interest rate or range of rates | Maximum borrowing capacity as of | Balance outstanding as of |                               |
|---|-----------------------------|--|----------------------------------|---------------------------|-------------------------------|
|   |                             |  | December 31, 2018                | December 31, 2018         | December 31, 2017 (Unaudited) |
| Real estate commercial mortgage borrowings: |                             |  |                                  |                           |                               |
| Fixed rate mortgages                        | May 2021                    | 6.47%                                  | 6,913                            | \$ 6,913                  | \$ 20,280                     |
| Variable rate mortgages                     | April 2019 - December 2023  | LIBOR + 2.75% to LIBOR + 3.49%         | 174,582                          | 174,582                   | 160,708                       |
| Variable rate credit facilities             | August 2019 - December 2019 | LIBOR + 2.50% to LIBOR + 3.25%         | 5,500                            | 2,869                     | 981                           |
| Total debt, face value                      |                             |  |                                  | 184,364                   | 181,969                       |
| Unamortized deferred financing costs        |                             |  |                                  | (1,607)                   | (2,287)                       |
| Total debt, net                             |                             |  |                                  | \$ 182,757                | \$ 179,682                    |

The weighted average interest rate of the above debt obligations approximates 5.00%. Commonwealth repaid the \$8,500 mortgage in full due in April 2019 on February 28, 2019. At the acquisition transaction on August 1, 2019, Invesque assumed debt of \$9,537 and took on a new credit facility of \$176,000 secured by 16 of the purchased properties. As part of the transaction, \$169,767 of the mortgages were paid in full.

During September 2015, Integrated Living Communities of Portsmouth LLC and Integrated Living Communities of Gloucester LLC along with an affiliate (“Borrowers”) entered into a Loan Agreement (“agreement”) with a credit facility of \$40,000. The loan bears interest monthly at a rate of one month LIBOR plus 3% to be adjusted monthly with a maturity date of September 2018 which was later amended to September 2019. Each of the Borrowers jointly and severally agreed to all obligations and liabilities under the agreement. At December 31, 2018, the outstanding principal balance on the loan was \$36,678 of which \$26,515 is recorded as a mortgage payable in the combined balance sheet and the remaining \$10,163 balance of the affiliate is not included as this represented the amount that was agreed to be paid by the affiliate and no additional amounts were expected to be paid by Commonwealth on behalf of the affiliate. The loan was repaid in full during January 2019, and subsequently during March 2019, Integrated Living Communities of Portsmouth LLC and Integrated Living Communities of Gloucester LLC entered into a new loan agreement (“new agreement”). The new agreement has a principal balance of \$20,275 and matures in April 2024.

The table below presents the amount of interest expense the Commonwealth entities incurred on its debt for the following periods:

|                          | Year Ended December 31, |                  |
|--------------------------|-------------------------|------------------|
|                          | 2018                    | 2017 (Unaudited) |
| Interest expense on debt | \$ 9,865                | \$ 7,984         |

# Commonwealth

Notes to Combined Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted)

Future principal payments on the mortgages payable and credit facilities as at December 31, 2018 are as follows:

|            |    | Total principal payments |
|------------|----|--------------------------|
| 2019       | \$ | 40,229                   |
| 2020       |    | 2,737                    |
| 2021       |    | 74,514                   |
| 2022       |    | 27,079                   |
| 2023       |    | 39,805                   |
| Thereafter |    | —                        |
|            | \$ | 184,364                  |

## 6. Direct property operating expenses:

Direct property operating expenses consist of the following:

|                         | Year ended<br>December 31, 2018 | Year ended<br>December 31, 2017<br>(Unaudited) |
|-------------------------|---------------------------------|--|
| Administrative expenses | \$ 2,526                        | \$ 2,318                                       |
| Advertising             | 2,026                           | 2,025  |
| Utilities               | 1,980                           | 1,833  |
| Repairs and maintenance | 1,294                           | 1,204  |
| Taxes and insurance     | 3,943                           | 3,707  |
| Real estate tax expense | 918                             | 871  |
| Services                | 4,518                           | 4,413  |
| Management fees         | 186                             | 126  |
| Other                   | 479                             | 861  |
|                         | \$ 17,870                       | \$ 17,358                                      |

## 7. Related party transactions:

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

Commonwealth Assisted Living LLC manages the operations of 9 properties that are owned by a related party. Commonwealth earned \$2,859 and \$2,572 of management fee income related to these properties for the years ended December 31, 2018 and 2017 (unaudited), respectively.

Accounts receivable from related party of \$2,093 and \$1,700 at December 31, 2018 and 2017 (unaudited), respectively, include short term funds loaned to related party funds in order to fund operational expenses or construction items.

## 8. Subsequent events:

On August 1, 2019, the Commonwealth portfolio was sold to Invesque. The acquisition includes 17 private pay seniors housing properties in addition to the management company and associated contracts. The management company operates all 17

# Commonwealth

Notes to Combined Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted)

properties in the portfolio and operates 9 properties outside of the portfolio owned by Invesque. The August 1, 2019 sale represents the first tranche of the sale of Commonwealth properties, and Invesque remains committed to purchasing three additional properties as previously announced, subject to the approval of certain lenders of secured debt underlying the remaining three properties.

On February 28, 2019, MCAP West End LLC (“West End”) along with an affiliate (“Borrowers”) entered into a Loan Agreement (“agreement”) for a principal amount of \$21,250. The loan has an annual interest rate of LIBOR plus 325 basis points if the debt service coverage ratio is below 1.3 and LIBOR plus 285 basis points if the debt service coverage ratio is 1.3 or higher. The debt matures on February 28, 2024. Each of the Borrowers jointly and severally agreed to all obligations and liabilities under the agreement. West End received loan proceeds of \$9,841 and recorded an additional \$3,959 related to its joint and several liability for the portion of the loan West End expected to pay on behalf of the affiliate. On August 1, 2019, West End repaid \$13,800 of the outstanding loan balance which relieved them of any obligation relating to the loan.

On March 29, 2019, Commonwealth paid off a loan balance of \$19,714 with annual interest of LIBOR plus 300 basis points and a maturity date of September 1, 2019 and received new loan proceeds of \$20,275 with an annual interest rate of LIBOR plus 300 basis points and a maturity date of April 1, 2024.

Combined Financial Statements

# **Commonwealth**

Six months ended June 30, 2019 and 2018  
(Unaudited)

# Commonwealth

Combined Balance Sheets

(Expressed in thousands of U.S. dollars)

|  | As of          |                   |
|--|----------------|-------------------|
|  | June 30, 2019  | December 31, 2018 |
|  | (Unaudited)    |                   |
| <b>Assets</b>                            |                |                   |
| Current assets:                          |                |                   |
| Cash and cash equivalents                | \$ 3,860       | \$ 4,186          |
| Accounts receivable                      | 1,542          | 1,750             |
| Accounts receivable from related party   | 7,896          | 2,093             |
| Other current assets                     | 1,875          | 1,777             |
|  | <u>15,173</u>  | <u>9,806</u>      |
| Non-current assets:                      |                |                   |
| Real estate investment, net              | 104,380        | 105,617           |
| Right of use asset                       | 960            | —                 |
| Other non-current assets                 | 10             | 189               |
|  | <u>105,350</u> | <u>105,806</u>    |
| Total assets                             | \$ 120,523     | \$ 115,612        |
| <b>Liabilities and Deficit</b>           |                |                   |
| Current liabilities:                     |                |                   |
| Accounts payable and accrued liabilities | \$ 3,820       | \$ 4,139          |
| Unearned revenue                         | 821            | 802               |
| Credit facilities                        | 4,024          | 2,869             |
| Current mortgages payable                | 2,666          | 37,360            |
|  | <u>11,331</u>  | <u>45,170</u>     |
| Non-current liabilities:                 |                |                   |
| Mortgages payable, net                   | 174,978        | 142,528           |
| Payable to related party                 | 1,550          | —                 |
| Lease liability                          | 960            | —                 |
| Other non-current liabilities            | 577            | 266               |
|  | <u>178,065</u> | <u>142,794</u>    |
| Total liabilities                        | 189,396        | 187,964           |
| Deficit:                                 |                |                   |
| Total deficit                            | (68,873)       | (72,352)          |
| Total liabilities and deficit            | \$ 120,523     | \$ 115,612        |

See accompanying notes to combined financial statements.

# Commonwealth

Combined Statements of Operations  
(Expressed in thousands of U.S. dollars)

|                                    | Six months ended |               |
|------------------------------------|------------------|---------------|
|                                    | June 30, 2019    | June 30, 2018 |
|                                    | (Unaudited)      | (Unaudited)   |
| Revenue:                           |                  |               |
| Rental and related revenue         | \$ 32,952        | \$ 30,118     |
| Management fee income              | 1,265            | 1,402         |
| Other income                       | 65               | 44            |
|                                    | <u>34,282</u>    | <u>31,564</u> |
| Expenses:                          |                  |               |
| Employee compensation and benefits | 16,986           | 15,855        |
| Property operating expense         | 9,332            | 8,720         |
| Interest expense                   | 5,079            | 4,717         |
| Depreciation expense               | 3,184            | 3,232         |
| Other expenses                     | 774              | 620           |
|                                    | <u>35,355</u>    | <u>33,144</u> |
| Net loss                           | \$ (1,073)       | \$ (1,580)    |

See accompanying notes to combined financial statements.

# Commonwealth

Combined Statements of Changes in Deficit  
(Expressed in thousands of U.S. dollars)

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|   | Total deficit      |
|---|--------------------|
| Deficit, January 1, 2018 (Unaudited)      | \$ (67,162)        |
| Net loss                                  | (1,580)            |
| Contributions                             | 3,666              |
| Distributions                             | (3,050)            |
| <b>Deficit, June 30, 2018 (Unaudited)</b> | <b>\$ (68,126)</b> |

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|   | Total deficit      |
|---|--------------------|
| Deficit, January 1, 2019 (Unaudited)      | \$ (72,352)        |
| Net loss                                  | (1,073)            |
| Contributions                             | 6,208              |
| Distributions                             | (1,656)            |
| <b>Deficit, June 30, 2019 (Unaudited)</b> | <b>\$ (68,873)</b> |

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See accompanying notes to combined financial statements.

# Commonwealth

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

|   | Six months ended |               |
|---|------------------|---------------|
|   | June 30, 2019    | June 30, 2018 |
|   | (Unaudited)      | (Unaudited)   |
| Cash flows from operating activities:                           |                  |               |
| Net loss  | \$ (1,073)       | \$ (1,580)    |
| Items not involving cash:                                       |                  |               |
| Depreciation expense  | 3,184            | 3,232         |
| Amortization of deferred financing costs                        | 330              | 408           |
| Loss (gain) on disposal of real estate investment               | 176              | (11)          |
| Change in operating assets and liabilities:                     |                  |               |
| Accounts receivable   | (1,636)          | 156           |
| Accounts payable and accrued liabilities                        | (319)            | (719)         |
| Unearned revenue  | 18               | 377           |
| Other assets  | 179              | (912)         |
| Other liabilities   | 313              | (44)          |
| Net cash provided by operating activities                       | \$ 1,172         | \$ 907        |
| Cash flows from investing activities:                           |                  |               |
| Capital expenditures  | \$ (2,123)       | \$ (2,083)    |
| Cash used in investing activities                               | \$ (2,123)       | \$ (2,083)    |
| Cash flows from financing activities:                           |                  |               |
| Debt issuance costs paid  | \$ (454)         | \$ (13)       |
| Proceeds from credit facilities                                 | 2,130            | 975           |
| Payments of credit facilities                                   | (975)            | (500)         |
| Proceeds from mortgages payable                                 | 30,116           | 776           |
| Payments of mortgages payable                                   | (36,196)         | (1,200)       |
| Proceeds from notes payable                                     | 1,550            | —             |
| Contributions from owners                                       | 6,208            | 3,666         |
| Distributions to owners   | (1,656)          | (3,050)       |
| Cash provided by financing activities                           | \$ 723           | \$ 654        |
| Decrease in cash, cash equivalents, and restricted cash         | (228)            | (522)         |
| Cash, cash equivalents, and restricted cash beginning of period | 5,100            | 6,207         |
| Cash, cash equivalents, and restricted cash end of period       | \$ 4,872         | \$ 5,685      |
| Supplemental disclosure relating to non-cash activities:        |                  |               |
| Interest paid   | \$ 4,803         | \$ 4,304      |
| Lease liability and right-of-use asset - operating lease        | 1,031            | —             |

See accompanying notes to combined financial statements

# Commonwealth

Notes to Combined Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted)

(Unaudited)

## 1. Organization:

The entities as presented in these combined financial statements are not owned by a common legal entity. These combined financial statements represent the combination of entities who collectively own 17 seniors housing and care properties and one management company entity that is an operator of seniors housing and care properties (23 entities collectively, "Commonwealth"). The legal entities included in these combined financial statements to form Commonwealth are outlined in the table below.

| Legal Entity                                    | Property           |
|---|--------------------|
| Integrated Living Communities of Portsmouth LLC | Churchland House   |
| Integrated Living Communities of Gloucester LLC | Gloucester         |
| MCAP Georgian Manor, LLC                        | Georgian Manor     |
| MCAP Capitol, LLC                               | Leigh Hall         |
| Mayfair-Hampton, L.L.C.                         | Hampton            |
| Kilmarnock MCAP LLC                             | Kilmarnock         |
| MCAP Hillsville LLC                             | Hillsville         |
| MCAP Radford, LLC                               | Radford            |
| Radford Apartments LLC                          | Radford            |
| MCAP Abingdon LLC                               | Abingdon           |
| Mayfair Richland Properties LLC                 | Cedar Bluff        |
| MCAP Richlands LLC                              | Cedar Bluff        |
| MCAP Ballentine LLC                             | The Ballentine     |
| MCAP Southerlands LLC                           | Front Royal        |
| MCAP Chesterfield LLC                           | Chesterfield       |
| MCAP South Boston LLC                           | South Boston       |
| MCAP West End LLC                               | The West End       |
| MCAP Willow Grove LP                            | Willow Grove       |
| MCAP Willow Grove Operator LLC                  | Willow Grove       |
| Commonwealth Assisted Living LLC                | Management Company |
| MCAP Christiansburg LLC                         | Christiansburg     |
| Mayfair MCAP Sub LLC                            | Christiansburg     |
| Wheatland Court LLC                             | Christiansburg     |

These combined financial statements of Commonwealth have been prepared for the inclusion in a Business Acquisition Report to be filed by Invesque, Inc. ("Invesque"). These combined financial statements present the financial position, results of operations and cash flows of Commonwealth for the periods presented as if Commonwealth had been accounted for on a stand-alone basis.

These combined financial statements are not necessarily indicative of the results that would have been attained had the Commonwealth portfolio been operated as a separate legal entity for the periods presented and, therefore, are not necessarily indicative of future operating results.

On August 1, 2019, the Commonwealth portfolio was acquired by Invesque. The acquisition includes 17 private pay seniors housing properties in addition to the management company and associated contracts. The management company operates all 17 properties in the portfolio and operates 9 properties outside of the portfolio owned by Invesque. The August 1, 2019 sale represents the first tranche of the sale of Commonwealth properties, and Invesque remains committed to purchasing three additional properties as previously announced, subject to the approval of certain lenders of secured debt underlying the remaining three properties.

# Commonwealth

Notes to Combined Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted)

(Unaudited)

Effective August 1, 2019, Invesque US Holdings, Inc, a subsidiary of Invesque Inc. ("Invesque"), acquired control of the entities included in the Commonwealth financial statements. Subsequent to that date, the financial position and results of operations of Commonwealth are reported in the consolidated financial statements of Invesque.

## 2. Summary of significant accounting policies:

### *Basis of Presentation and Principles of Consolidation*

The accompanying combined financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) and include the accounts of Commonwealth. The combined financial statements of Commonwealth are combined due to common ownership.

### *Use of Estimates*

The preparation of the combined financial statements in conformity with U.S. generally accepted accounting principles requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Business Acquisition Accounting*

In January 2017, the FASB issued ASU 2017-01, Business Combinations. This ASU provides guidance to entities to assist with evaluating when a set of transferred assets and activities (collectively, the "set") is a business and provides a test to determine when a set is not a business. Under this ASU, when substantially all of the fair value of gross assets acquired (or disposed of) is concentrated in a single identifiable asset, or group of similar assets, the assets acquired would not represent a business. Also, to be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to produce outputs. The commonwealth entities adopted this guidance on January 1, 2018. As a result, the commonwealth entities expect that fewer of its acquisitions will be accounted for as business combinations. The commonwealth entities did not acquire any real estate investments in 2018 or 2019.

### *Fair Value Measurement*

Fair value is defined as 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.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels, from highest to lowest, are defined as follows:

- i. Level 1 – Unadjusted, quoted prices in active markets for identical assets or liabilities that Commonwealth has the ability to access at the measurement date.
- ii. Level 2 – Significant inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. The types of financial assets and liabilities carried at level 2 are valued based on one or more of the following:
  - a. Quoted prices for similar assets or liabilities in active markets;
  - b. Quoted prices for identical or similar assets or liabilities in nonactive markets;
  - c. Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
  - d. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.
- iii. Level 3 – Significant inputs that are unobservable inputs for the asset or liability, including Commonwealth's own data and assumptions that are used in pricing the asset or liability.

# Commonwealth

Notes to Combined Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted)

(Unaudited)

## ***Real estate investments, net of accumulated depreciation***

Real estate investments are carried at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis using estimated useful lives not to exceed 30 years for buildings, 7 years for building improvements, and 3-7 years for furniture fixtures and equipment. Real estate investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such reviews indicate that the asset is impaired, the asset's carrying amount is written down to its fair value. There were no impairments on Commonwealth's real estate investments for the six months ended June 30, 2019 and 2018.

## ***Cash and Cash Equivalents***

Commonwealth considers all highly liquid investments of sufficient credit quality purchased with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of U.S. denominated cash on hand, cash held in banks and investments in money market funds.

## ***Valuation of Receivables***

Commonwealth reviews its receivable balance monthly on a resident by resident basis. Commonwealth suspends revenue recognition when collectability of receivables are no longer probable and records direct write-off of the receivables to rental and related revenue.

## ***Deferred Costs***

Costs incurred in connection with obtaining financing are amortized to interest expense on the straight-line method over the term of the related loan, which approximates the effective interest method. The costs for issuing debt, other than lines of credit, are presented on a balance sheet as a direct reduction from the debt's carrying value.

## ***Income Taxes***

The Commonwealth entities have elected to be treated as pass-through entities for income tax purposes and, as such, are not subject to income taxes. Rather, all items of taxable income, deductions, and tax credits are passed through to and are reported by their owners on their respective income tax returns. Accordingly, no accounting for income taxes is required in the accompanying Combined Financial Statements. The Commonwealth entities recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. As of June 30, 2019, the Commonwealth entities have no uncertain tax positions. The Commonwealth entities expect no significant increase or decrease in unrecognized tax benefits due to changes in tax positions within 2019. The Commonwealth entities have no interest or penalties relating to income taxes recognized in the accompanying Combined Statement of Operations for the six months ended June 30, 2019. Generally, the Commonwealth entities are subject to examination under the statute of limitations by the U.S. and various state and local tax jurisdictions for the year ended December 31, 2016 and subsequent years.

## ***Commitments and Contingencies***

The Commonwealth entities are not currently involved with any litigation other than routine and administrative proceedings arising in the ordinary course of business. Management believes that these items will not have a material adverse impact on the combined financial statements taken as a whole.

# Commonwealth

Notes to Combined Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted)

(Unaudited)

## ***Revenue Recognition***

### *Rental and Related Revenue*

Rental revenue from residents in properties owned and managed by Commonwealth and are recognized monthly as services are provided, as lease periods for residents are short-term in nature. Lease agreements with residents are generally on a month to month basis and are cancelable by the resident with 30 days' notice.

### *Recently Adopted Accounting Pronouncements*

On January 1, 2018, the Commonwealth entities adopted ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which provides clarification regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows and ASU 2016-18, Restricted Cash (“ASU 2016-18”), which requires an entity to show the changes in total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The Commonwealth entities adopted these ASUs by applying a retrospective transition method.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Combined Balance Sheets that sum to the total of the same such amounts shown in the Combined Statements of Cash Flows:

|  | June 30, 2019 | June 30, 2018 |
|--|---------------|---------------|
|  | (Unaudited)   | (Unaudited)   |
| Cash and cash equivalents  | \$ 3,860      | \$ 4,885      |
| Restricted cash included in other assets   | 1,012         | 800           |
| Total cash, cash equivalents, and restricted cash shown in the Combined Statements of Cash Flows | \$ 4,872      | \$ 5,685      |

Restricted cash held in other assets on the Combined Balance Sheets includes cash held by lenders in order to maintain certain reserve requirements.

In February 2016, the FASB established ASC Topic 842, Leases (“ASC 842”) by issuing ASU 2016-02, Leases (“ASU 2016-02”), which introduces a lessee model that brings most leases on the balance sheet and, among other changes, eliminates the requirement in current GAAP for an entity to use bright-line tests in determining lease classification. ASC 842 has subsequently been amended by other issued ASUs to clarify and improve the standard as well as to provide certain practical expedients.

ASC 842 allows for several practical expedients which permit the following: no reassessment of lease classification or initial direct costs; use of the standard’s effective date as the date of initial application; and no separation of non-lease components from the related lease components but, instead, to account for those components as a single lease component if certain criteria are met. The Commonwealth entities elected these practical expedients and adopt ASC 842 on January 1, 2019 using the effective date as the date of initial application. Therefore, financial information and disclosures under ASC 842 will not be provided for periods prior to January 1, 2019.

The Commonwealth entities recognize both right of use assets and lease liabilities for leases in which they lease real property. As of January 1, 2019, the Commonwealth entities recognized a right-of-use (“ROU”) asset and lease liability of \$1,031 which is presented separately in the Combined Balance Sheets and includes the present value of minimum lease payments. Resident leases within the Commonwealth entities’ senior living operations segment contain service elements. The Commonwealth entities elected the practical expedient to account for their resident leases as a single lease component.

# Commonwealth

Notes to Combined Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted)

(Unaudited)

### 3. Other assets:

Other assets are as follows:

|                      | June 30, 2019 |       | December 31, 2018 |       |
|----------------------|---------------|-------|-------------------|-------|
| Resident deposits    | \$            | 321   | \$                | 270   |
| Prepaid expenses     |               | 461   |                   | 410   |
| Escrow deposits      |               | 19    |                   | 78    |
| Replacement reserves |               | 1,074 |                   | 1,019 |
| Other                |               | 10    | \$                | 189   |
|                      | \$            | 1,885 | \$                | 1,966 |
| Current              | \$            | 1,875 | \$                | 1,777 |
| Non-current          |               | 10    |                   | 189   |
|                      | \$            | 1,885 | \$                | 1,966 |

### 4. Real estate, net of accumulated depreciation:

The following table contains information regarding Commonwealth's investment in real estate as of the following periods:

| As of June 30, 2019          |          |                            |                                     |       |          |
|------------------------------|----------|----------------------------|-------------------------------------|-------|----------|
|                              | Land     | Buildings and Improvements | Furnitures, Fixtures, and Equipment | Total |          |
| Real estate - cost           | \$ 8,688 | \$ 121,935                 | \$ 17,808                           | \$    | 148,431  |
| Accumulated depreciation     | —        | (36,522)                   | (7,529)                             | \$    | (44,051) |
| Total real estate investment | \$ 8,688 | \$ 85,413                  | \$ 10,279                           | \$    | 104,380  |

  

| As of December 31, 2018      |          |                            |                                     |       |          |
|------------------------------|----------|----------------------------|-------------------------------------|-------|----------|
|                              | Land     | Buildings and Improvements | Furnitures, Fixtures, and Equipment | Total |          |
| Real estate - cost           | \$ 8,595 | \$ 121,619                 | \$ 17,438                           | \$    | 147,652  |
| Accumulated depreciation     | —        | (34,383)                   | (7,652)                             | \$    | (42,035) |
| Total real estate investment | \$ 8,595 | \$ 87,236                  | \$ 9,786                            | \$    | 105,617  |

The following table presents the straight line depreciation expense related to Commonwealth's real estate investments for the following periods:

|   | Six months ended June 30, |          |
|---|---------------------------|----------|
|   | 2019                      | 2018     |
| Depreciation expense on real estate investments | \$ 3,184                  | \$ 3,232 |

# Commonwealth

Notes to Combined Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted)

(Unaudited)

## 5. Mortgages payable:

The following table summarizes the balance of Commonwealth's debt obligations, net of discounts and deferred financing costs:

| Debt type                                   | Stated maturity date        | Stated interest rate or range of rates | Maximum borrowing capacity as of | Outstanding balance as of |                   |
|---|-----------------------------|--|----------------------------------|---------------------------|-------------------|
|   |                             |  | June 30, 2019                    | June 30, 2019             | December 31, 2018 |
| Real estate commercial mortgage borrowings: |                             |  |                                  |                           |                   |
| Fixed rate mortgages                        | May 2021                    | 6.47%                                  | 6,849                            | \$ 6,849                  | \$ 6,913          |
| Variable rate mortgages                     | March 2021 - April 2024     | LIBOR + 2.75% to LIBOR + 3.25%         | 172,526                          | 172,526                   | 174,582           |
| Variable rate credit facilities             | August 2019 - December 2019 | LIBOR + 2.50% to LIBOR + 3.25%         | 5,500                            | 4,024                     | 2,869             |
| Total debt, face value                      |                             |  |                                  | 183,399                   | 184,364           |
| Unamortized deferred financing costs        |                             |  |                                  | (1,731)                   | (1,607)           |
| Total debt, net                             |                             |  |                                  | \$ 181,668                | \$ 182,757        |

The weighted average interest rate of the above debt obligations approximates 5.03%. Commonwealth repaid the \$8,500 mortgage due in April 2019 on February 28, 2019. At the acquisition transaction on August 1, 2019, Invesque assumed debt of \$9,537 and took on a new credit facility of \$176,000 secured by 16 of the purchased properties. As part of the transaction, \$169,767 of the mortgages were paid in full.

During September 2015, Integrated Living Communities of Portsmouth LLC and Integrated Living Communities of Gloucester LLC along with an affiliate (“Borrowers”) entered into a Loan Agreement (“agreement”) with a credit facility of \$40,000. The loan bears interest monthly at a rate of one month LIBOR plus 3% to be adjusted monthly with a maturity date of September 2018 which was later amended to September 2019. Each of the Borrowers jointly and severally agreed to all obligations and liabilities under the agreement. At December 31, 2018, the outstanding principal balance on the loan was \$36,678 of which \$26,515 is recorded as a mortgage payable in the combined balance sheet and the remaining \$10,163 balance of the affiliate is not included as this represented the amount that was agreed to be paid by the affiliate and no additional amounts were expected to be paid by Commonwealth on behalf of the affiliate. The loan was repaid in full during January 2019, and subsequently during March 2019, Integrated Living Communities of Portsmouth LLC and Integrated Living Communities of Gloucester LLC entered into a new loan agreement (“new agreement”). The new agreement has a principal balance of \$20,275 and matures in April 2024.

On February 28, 2019, MCAP West End LLC (“West End”) along with an affiliate (“Borrowers”) entered into a Loan Agreement (“agreement”) for a principal amount of \$21,250. The loan has an annual interest rate of LIBOR plus 325 basis points if the debt service coverage ratio is below 1.3 and LIBOR plus 285 basis points if the debt service coverage ratio is 1.3 or higher. The debt matures on February 28, 2024. Each of the Borrowers jointly and severally agreed to all obligations and liabilities under the agreement. West End received loan proceeds of \$9,841 and recorded an additional \$3,959 related to its joint and several liability for the portion of the loan West End expected to pay on behalf of the affiliate. The \$3,959 joint and several liability is recorded in the non-current portion of Mortgages payable, net with the offsetting \$3,959 recorded as a receivable at June 30, 2019 in Accounts receivable from related party in the Combined Balance Sheet. On August 1, 2019, West End repaid \$13,800 of the outstanding loan balance which relieved them of any obligation relating to the loan.

# Commonwealth

Notes to Combined Financial Statements

(Expressed in thousands of U.S. dollars unless otherwise noted)

(Unaudited)

The table below presents the amount of interest expense the Commonwealth entities incurred on its debt for the following periods:

|                          | Six Months Ended June 30, |          |
|--------------------------|---------------------------|----------|
|                          | 2019                      | 2018     |
| Interest expense on debt | \$ 5,079                  | \$ 4,717 |

Future principal payments on the mortgages payable as at June 30, 2019 are as follows:

|            | Total principal payments |
|------------|--------------------------|
| 2019       | \$ 5,188                 |
| 2020       | 3,003                    |
| 2021       | 75,150                   |
| 2022       | 27,797                   |
| 2023       | 40,566                   |
| Thereafter | 31,695                   |
|            | \$ 183,399               |

## 6. Direct property operating expenses:

Direct property operating expenses consist of the following:

|                         | Six months ended |               |
|-------------------------|------------------|---------------|
|                         | June 30, 2019    | June 30, 2018 |
| Administrative expenses | \$ 1,367         | \$ 1,239      |
| Advertising             | 951              | 1,043         |
| Utilities               | 1,014            | 1,029         |
| Repairs and maintenance | 607              | 608           |
| Taxes and insurance     | 2,092            | 1,944         |
| Real estate tax expense | 484              | 448           |
| Services                | 2,259            | 2,140         |
| Management fees         | 111              | 86            |
| Other                   | 447              | 183           |
|                         | \$ 9,332         | \$ 8,720      |

# Commonwealth

Combined Statements of Changes in Deficit  
(Expressed in thousands of U.S. dollars)

## 7. Related party transactions:

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

Commonwealth Assisted Living LLC manages the operations of 9 properties that are owned by a related party. Commonwealth earned \$1,265 and \$1,402 of management fee income related to these properties for the years ended June 30, 2019 and 2018, respectively.

As at June 30, 2019 and December 31, 2018, the accounts receivable from related party of \$7,896 and \$2,093, respectively, include short term funds loaned to related party funds in order to fund operational expenses or construction items.

As at June 30, 2019 and December 31, 2018, the payable to related party of \$1,550 and \$0, respectively, includes a short term loan from a related party to fund operational expenses

## 8. Subsequent events:

On August 1, 2019, the Commonwealth portfolio was acquired by Invesque. The acquisition includes 17 private pay seniors housing properties in addition to the management company and associated contracts. The management company operates all 17 properties in the portfolio and operates 9 properties outside of the portfolio owned by Invesque. The August 1, 2019 sale represents the first tranche of the sale of Commonwealth properties, and Invesque remains committed to purchasing three additional properties as previously announced, subject to the approval of certain lenders of secured debt underlying the remaining three properties.