IMPACT
Healthcare REIT

Dedicated to UK healthcare real estate

Annual report 2017

Dedicated to UK healthcare real estate

Who we are
Our policy is to invest in a diversified portfolio of UK healthcare real estate assets, in particular residential care homes and to lease them on long leases to high-quality care home operators. Impact Healthcare REIT plc is a real estate investment trust, traded on the Specialist Fund Segment of the Main Market of the London Stock Exchange.

Our objective
We aim to provide shareholders with attractive long term and sustainable returns, primarily in the form of quarterly dividends. These dividends are underpinned by our secure and stable income, which comes from two tenants within a group that is financially sound and committed to providing high standards of care. We benefit from long leases with inflation-linked annual rent reviews. Through active asset management we also aim to deliver growth in net asset values over the medium term.

The opportunity
The UK's population is growing and ageing, increasing the long term demand for care, while the supply of suitable assets for providing that care has fallen over the past 20 years. As a well-capitalised landlord with an experienced Investment Adviser, we are well positioned to create sustainable value in this market.

We look to enhance the portfolio through carefully selected investments, which add attractive assets to the portfolio and diversify our tenant base. This offers the potential for income and capital growth for shareholders, while providing stability for residents and enhancing their homes wherever possible.

Our achievements so far
Since our initial public offering (IPO) on 7 March 2017, we have:

- Achieved our initial operational and financial objectives, raising £160 million through the IPO and acquiring an attractive portfolio of care home assets that provide financially secure rental income, which underpins our dividends
- Developed a pipeline of asset management and acquisition opportunities, to create further value for shareholders
- Secured the initial financing we need through a second equity raise of £32.6 million to commence the next phase of our growth plans.

Throughout this report there are a series of icons that indicate when and where there is further information available either within the report or online.

See page 00

For further information on the Company go to: www.impactreit.uk

Financial highlights

This was a successful first period, with performance in line with our expectations

4.50p
DIVIDEND PER SHARE
Dividends per share of 4.50p paid or declared for the period to 31 December 2017, delivering against the target set at the time of the IPO.

97.56%
DIVIDEND COVER
Paid and declared dividends 97.56% covered by adjusted earnings per share for the full period.

100.65p
NET ASSET VALUE
Net asset value of 100.65p per share as at 31 December 2017.

£156.17 million
PORTFOLIO VALUE
Portfolio independently valued at £156.17 million as at 31 December 2017, representing an uplift on the aggregate purchase price and costs of 1.5%.

£11.86 million
CONTRACTED ANNUAL RENT
Contracted annual rent of £11.34 million calculated from Admission, increased to £11.60 million following the acquisition of Saffron Court in June 2017 and £11.86 million following the commitment to fund capital improvements at two homes.

£9.46 million
PROFIT BEFORE TAXATION
Profit before tax in the period between inception and 31 December 2017 of £9.46 million

Nil
DEBT
The Group had no debt as at 31 December 2017.

£192.77 million
EQUITY RAISED
Raised £160.17 million of equity through a fully subscribed initial public offering and vendor issue and a further £32.60 million through a second equity raise in November 2017. The majority of the proceeds were invested by the period end and the balance is being committed to income-producing capital improvements and acquisitions.

7.19%
EPRA NAV TOTAL RETURN
EPRA NAV total return for the period from the IPO to 31 December 2017 was 7.19% annualised, compared to 10.79% for the FTSE EPRA/NAREIT UK REITs Index.

£196.78 million
MARKET CAPITALISATION
Market capitalisation of £196.78 million as at 31 December 2017, a premium of 1.72% to the NAV at the same date.

Below and front cover: Freeland House, Oxfordshire, one of the 56 care homes that formed the Seed Portfolio acquired in May 2017.

Impact Healthcare at a glance

Following the IPO in March 2017, we have been successfully implementing our investment policy, acquiring a robust portfolio leased to a strong tenant group, who provide a high standard of care and secure rental income.

Operational highlights

as at 31 December 2017

57

ASSETS IN THE PORTFOLIO

By the period end, we had acquired 57 care homes with 2,527 beds, at an aggregate net purchase price of £152.20 million.

7.59%

CONTRACTED YIELD

The Group has a contracted rent roll of £11.86 million and a portfolio market value of £156.17 million delivering an investor contracted yield of 7.59% (compared to an EPRA Net Initial Yield of 7.02%).

19.2 years

WAULT

We benefit from long leases, with a weighted average unexpired lease term (WAULT) of 19.2 years at 31 December 2017.

464 beds

ASSET MANAGEMENT PIPELINE

We have planning permission to add 249 beds to the portfolio and are in discussions with planners for a further 215 beds. During the period, the board approved projects for the first 92 beds, at a cost of £7.94 million.

Post balance sheet highlights

25 beds

PROJECT NEARING COMPLETION

Our first asset management project at Turnpike is due to complete in April 2018, adding 25 of the initial 92 beds approved.

234 beds

ASSET ACQUISITIONS

Conditional contracts were exchanged on 11 January 2018 to acquire 234 beds across three assets in the North East of England. The first of these three assets completed on 16 March 2018.

£0.46 million

RENT REVIEW

The Seed Portfolio is subject to annual RPI uplifts with a floor of 2% and cap of 4%. The uplift was due in March 2018 and increased the rent roll from £11.9 million to £12.3 million.

Our Investment Adviser

Impact Health Partners LLP is our Investment Adviser. It sources investments for us, reviews opportunities and makes recommendations to the board and the Investment Manager, carries out the transactions the board approves and monitors the progress of our assets. It also recommends the asset management strategy for board approval and then implements it.

See p12 for the Investment Adviser's report

Our Alternative Investment Fund Manager (AIFM)

Carne Global AIFM Solutions (C.I.) Limited is our AIFM. It is responsible for the portfolio and risk management services for the Group.

An attractive market

Five drivers influence the demand for, and provision of, care for the elderly, making it an attractive market for well-capitalised asset owners working with well-managed tenant operators.

> People are living longer
> The number of beds available has fallen
> The market is highly fragmented
> There is severe pressure on the NHS
> Government funding has increased

See page 6 for our market drivers

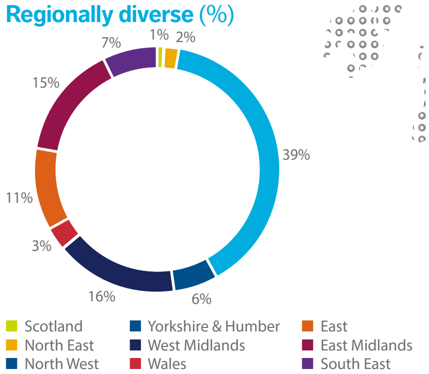
Our value-creating business model

We have a five-stage business model, which aims to create value for all our stakeholders

> Build relationships with high-quality operators
> Identify assets for the operators to run
> Perform due diligence, purchase and lease assets
> Work with tenants to create value
> Optimise the portfolio for long term income security

See page 8 for our business model

Regionally diverse (%)



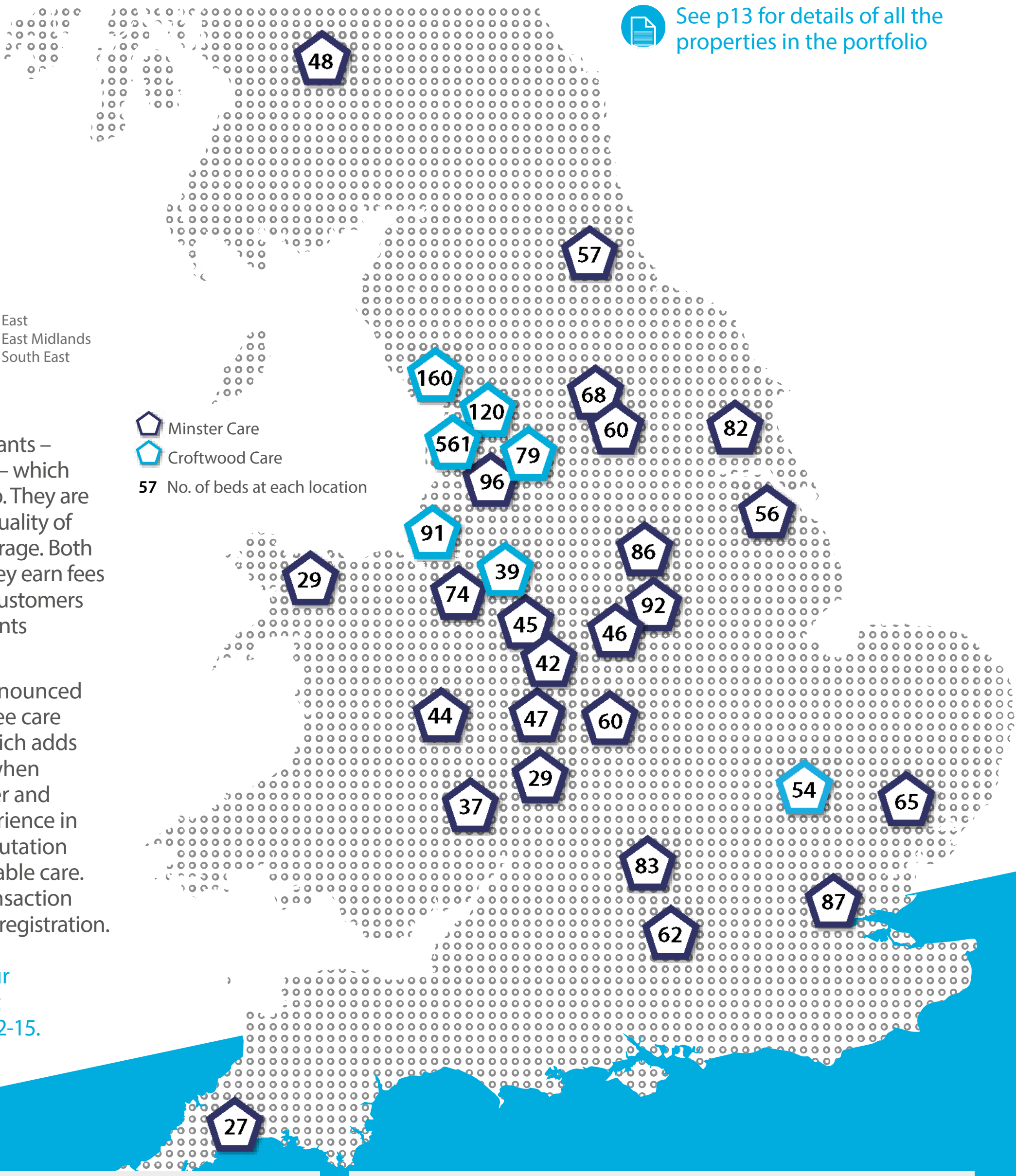
Our tenants

At the period end we had two tenants – Minster Care and Croftwood Care – which are both part of the Minster Group. They are established providers, offering a quality of care that exceeds the national average. Both are free of third-party debt and they earn fees from more than 80 public sector customers and in excess of 700 private residents between them.

Since the period end, we have announced the conditional acquisition of three care homes in North East England, which adds Prestige Care Group as a tenant when completed. Prestige is a developer and operator with over 20 years' experience in the care home industry and a reputation for providing high-quality, affordable care. For two of the properties, the transaction remains conditional upon CQC re-registration.

For more information on our tenants, see the Investment Adviser's report on pages 12-15.

See p13 for details of all the properties in the portfolio



Our focused strategy

Our strategy is to identify new healthcare properties and tenants who will diversify our portfolio and deliver strong economies of scale, with efficient operations alongside a good quality of care. We look for investments that, under our ownership, will provide value for money to our tenants' customers and residents, while delivering attractive and stable returns to our investors for the long term.

See pages18-19 for our investment objectives and policy

Our portfolio – key characteristics

- Well-diversified geographically
- Long leases, with 19.2 years WAULT at 31 December 2017 and the option for two 10-year extensions
- Annualised rent of £11.9 million, with annual rental uplifts based on the Retail Prices Index, with a floor of 2% and a cap of 4% per annum
- Majority of the assets owned freehold, with six on 999-year leases
- High-quality, financially sound tenant group

Chairman's statement

This was a successful first period for the Group. The acquisitions which followed our fully subscribed IPO have given us an excellent initial tenant group and a strong and secure revenue stream, allowing us to meet our dividend target. We have also begun the process of adding value through asset management and identified a pipeline of further acquisition opportunities.

Operational performance

The Company's IPO on 7 March 2017 raised gross proceeds of £160.2 million, from a high-quality shareholder base. We invested the majority of the net proceeds on 4 May 2017, when we acquired the Seed Portfolio for a net purchase price of £148.75 million. This gave us 56 assets with 2,479 beds. On 29 June, we acquired Saffron Court (48 beds) for a net purchase price £3.4 million. The portfolio is fully leased and delivering a 7.59% Contracted Yield to our investors.

The portfolio was independently valued at £156.2 million as at 31 December 2017. This represented a 1.5% uplift against the aggregate purchase price and capital improvements of £153.8 million.

Asset management is an important way for us to grow value, as it offers an accretive yield on the capital we invest. The board was therefore pleased to approve the first phase of our asset management programme, which will add 92 beds at three assets. The initial project, adding 25 beds to our Turnpike care home, is due to complete in April 2018. More details of our other projects and plans can be found in the Investment Adviser's report.

In addition, we have a pipeline of attractive acquisition opportunities, drawing on the Investment Adviser's extensive contacts and industry knowledge. These opportunities would further diversify the portfolio by geography and tenant, while satisfying our investment criteria. A successful placing on 8 November 2017 raised £32.6 million of equity, ensuring we have the financial capacity to pursue acquisition opportunities (see post balance sheet events below) and fund our initial asset management projects. The placing was significantly oversubscribed and added high-quality institutions to our share register.

Financial performance

At 31 December 2017, the Net Asset Value (NAV) and EPRA NAV were £193.5 million and 100.65p per share. Our annualised rent roll at the period end was £11.9 million.

Earnings per share (EPS) for the period was 5.82p (basic and diluted). Adjusted EPS, which is supported by cash receipts including our right to receive rent from our assets as if we had acquired them on the day of our IPO, was 4.39p. During the period, we focused on bedding down the portfolio and advancing our asset management and acquisition plans. Looking forward, our priorities will include being as efficient as possible, as an important part of generating enhanced returns for shareholders.

More information about our financial performance can be found in the Investment Adviser's report.

Dividends

For the 12 months following admission, we are targeting a dividend of 6.0p per share, equating to a yield of 6% on the 100p IPO issue price, on an ungeared basis. For the period from admission to 31 December 2017, our target dividend was therefore 4.5p per share. We met this target, declaring and paying three quarterly dividends of 1.5p each in respect of the period. Looking ahead, our intention over the longer term is to operate a progressive dividend policy, supported by the inflation-linked rental uplifts in our leases.

Adjusted EPS is the most relevant measure when considering dividend cover, as it more closely reflects our long term cash income than EPS calculated under IFRS. The total dividend for the period was 98% covered by adjusted EPS. The November placing reduced our dividend cover, as it increased our shares in issue without a corresponding increase in earnings from investing the proceeds before the period end. Stripping out the impact of the placing, our total dividend would have been fully covered by adjusted EPS for the period. Our investment strategy is focused on returning our adjusted EPS to covering fully these dividend payments.

Financing

The Group had no debt at the period end. While gearing can enhance returns, we want to be prudently and sustainably financed, recognising our obligation to provide stability and

"The fundamentals of our market are strong, with growing demand for beds and limited supply. Care is an essential service and the government needs to relieve the pressure on adult social care and hospitals."

security for the residents of our homes. Our investment policy therefore limits borrowing to 35% of the Group's gross asset value at the time of drawdown.

The Group continues its discussions with finance providers to arrange a debt facility to finance acquisitions and capital enhancements.

Post balance sheet events

Since the end of the period, we are continuing to advance our value-creation strategy.

We exchanged a conditional contract for the acquisition of a portfolio of three assets with 234 beds, adding Prestige Care Group as a new tenant. The total cost of the acquisition, is £17 million, including costs, with a net initial yield and rent cover in line with the terms on which we acquired the Seed Portfolio.

More information on these post balance sheet events can be found in the Investment Advisers' report.

Corporate governance

We recognise the importance of good governance and have a strong and independent board. At IPO, the board comprised me as chairman and three other independent non-executive directors. Since then we have further strengthened the board, appointing Paul Craig as a non-executive director on 30 June. Paul manages funds which, together, are owned by the largest shareholder in the Company, Old Mutual Global Investors. His significant investment experience, particularly within closed-end funds, is already proving invaluable. The board works well together, with a collegiate atmosphere and a broad range of complementary experience, including real estate, healthcare, financial markets and corporate finance. See the corporate governance section from pages 33 for more information.

Working with our tenants

As described in the business model on pages 8-9, we work closely with our tenant group and carefully monitor their performance. The initial tenant group are strong and long-standing operators and we are pleased with their progress during the period.

The Investment Adviser

The board recognises the Investment Adviser's achievements in this period. It did substantial work pre-IPO to structure the acquisition of the Seed Portfolio, which has enabled us to be cash flow positive since launch, supporting our dividend target. We are confident that the Investment Adviser's diligent work to implement our growth strategy positions us well for the next phase of the Group's development.

The appointment of David Yaldron as the Investment Adviser's Finance Director in June further strengthened its senior team.

Summary and outlook

Impact Healthcare is a well-managed investment company, combining a good yield with attractive upside potential. We know that many of our shareholders prioritise a safe dividend and we believe that the quality of our initial tenant group, our secure and well-covered rental stream and our prudent approach to gearing limits downside risk. We have a pipeline of opportunities to add value, through asset management and acquisitions, and have made good progress since the period end.

The fundamentals of our market are strong, with growing demand for beds and limited supply. Care is an essential service and the government needs to continue to relieve the pressure on adult social care and hospitals. Residential care homes will be an important part of the solution and we therefore see good prospects for the Group. The Company remains well placed to continue delivering attractive and sustainable returns to our shareholders for 2018 and beyond.

Rupert Barclay Chairman
21 March 2018

Market drivers

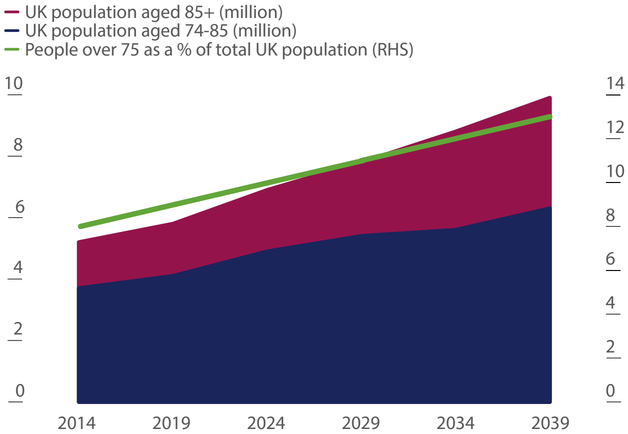
A growing and under-supplied market for an essential service.

We have identified five key drivers which make the UK market for elderly care attractive to well-managed care home operators. This in turn creates opportunities for well-capitalised asset owners, such as us, to grow in partnership with these operators and build portfolios of assets offering secure and rising income, with the potential for further value creation through careful asset management.

1 People are living longer

The UK population is ageing rapidly. The number of people more than 85 years old in the UK is forecast to increase from 1.5 million in 2014 to 3.6 million by 2039. A substantial minority of this age group will need some form of residential care, which can only be provided in a care home or in hospital.

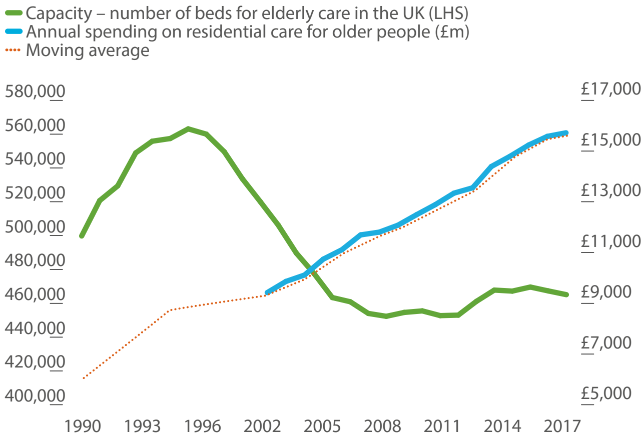
Population over 85 forecast to double in next 20 years



Source: ONS

2 Care home capacity has shrunk while real spending per bed has risen

Capacity has declined over 20 years while market value has grown

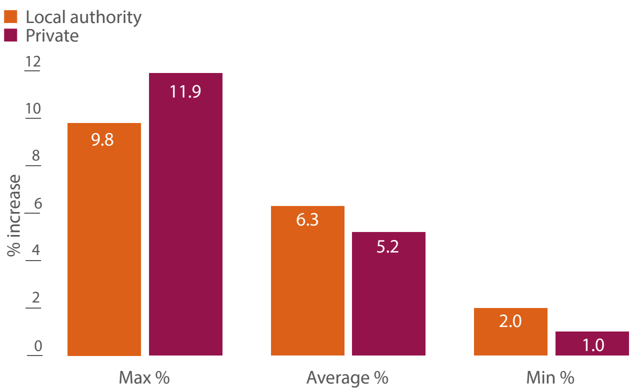


Source: "Care of Older People", 27th and 28th Editions, LaingBuisson

The number of beds available has fallen 17% from its peak in 1996. Recent research by the Consumer Association shows that in England alone, there could be a shortfall of 42,000 beds by 2022. Of the 150 local authorities (LAs) the Consumer Association surveyed, only 20 are adding beds at a sufficient rate to keep up with likely demand over this period.

At the same time, annual spending on residential care for older people has risen from £9.3 billion in 1995 to £15.9 billion in 2017. This represents a sizeable increase in real spending per bed, with fees continuing to rise ahead of inflation in 2017, as shown in the chart below.

National average elderly care fee increases 2017 versus 2016

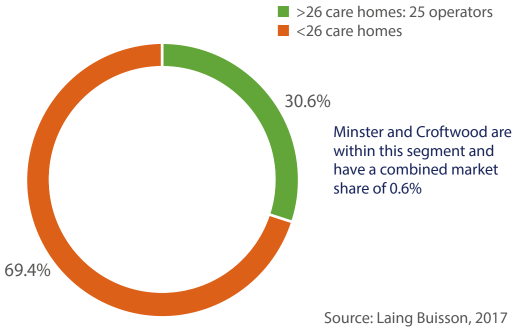


Source: Christie & Co (2017)

3 The market is highly fragmented

The UK has numerous small operators of care homes. In total, there are around 5,500 different providers, operating 11,300 care homes between them (source: Competition & Markets Authority (CMA)). Operators with fewer than 26 homes have 69% of the market. This fragmentation offers scope for stronger asset owners and stronger operators to grow through consolidation, and for asset owners to broaden the range of tenants in their portfolios. At the period end, the Group owned 0.6% of the private care beds in the market.

Market highly fragmented (%)

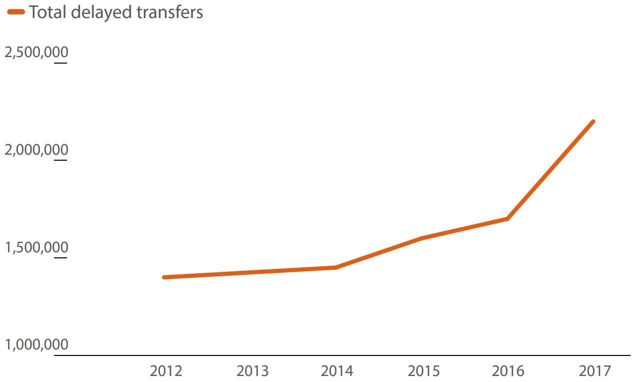


Source: Laing Buisson, 2017

4 Helping relieve the severe pressure on the NHS

In the 12 months to June 2017, the NHS in England lost cumulatively 2,274,300 bed days through delayed transfers, an increase of 66% on 2010. The majority of these beds are occupied by elderly people who cannot safely be sent home but could be more effectively and efficiently looked after in a care home environment. This is highly wasteful for the NHS at a time when its budget is under unprecedented pressure, as the average hospital bed costs four times more than the average care home bed. In order to manage these pressures better, in January 2018 the Secretary of State for Health, Jeremy Hunt, was also put in charge of adult social care.

Bed blocking: hospital days lost through delayed transfers in NHS England



Source: NHS England

5 Government funding has increased

According to the recent study by the Competitions and Markets Authority:

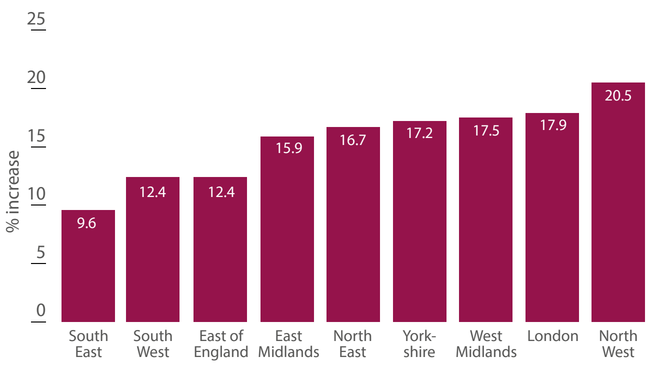
- **41% of care home residents fund themselves;**
- **49% receive LA funding (with around one quarter of these paying top-ups); and**
- **10% are funded by the NHS, as they have primary health problems.**

This means that the public sector is responsible for funding at least some of the cost of care for the majority of care home residents. The combination of rising demand, insufficient supply and the need to reduce pressure on the NHS has led the government to announce a series of initiatives over the past two years, to increase LA funding for elderly care. These initiatives reflect the fact that care is an essential service, which LAs are legally obliged to provide.

The initiatives are set out below. Together, they represent a substantial increase in public sector spending, in a market worth around £16 billion a year:

- **A social care precept.** When first announced, this allowed LAs to increase council tax by up to 2% each year between 2016/17 and 2019/20. However, in December 2016 the government enabled LAs to bring the social care precept forwards, by raising council tax by up to 3% in 2017/18 and 2018/19. The Treasury estimates this could produce an additional £2 billion a year by 2019/20.
- **An improved Better Care Fund.** This will provide an additional £4.4 billion of funding between 2017/18 and 2019/20.
- **A new Adult Social Care Support Grant.** To provide £240 million to LAs in 2017/18.

Increase in local authority budgets for elderly care: 2017/18 over 2015/16 actual spend



Source: Christie & Co FOI (2017) and Operator Survey (2016 and 2017)

Our business model

The inputs to our business model

We use the following resources to create value for our stakeholders:

Physical assets

Residential care homes are central to our value-creation model

Relationships

We draw on our Investment Adviser's strong relationships with operators, asset owners and other key stakeholders

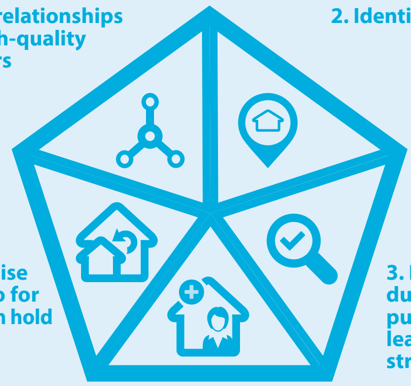
Specialist knowledge

Our Investment Adviser's deep understanding of the residential care home sector helps us to identify strong operators and attractive assets

Financial assets

We finance our business using shareholders' equity and intend to incorporate a prudent level of debt

How we create value



1. Build relationships with high-quality operators

We start by strengthening and developing our relationships with operators we want to work with for the long term. As our tenants will run our care homes for at least 20 years, we want to be certain they have a track record of providing good care, while running a sustainable and profitable business. Their capabilities will underpin a secure, well-covered rental stream for us. We also look to broaden our range of tenants over time, so we have a diversified portfolio.

We draw on our Investment Adviser's existing strong relationships with operators and develop relationships with new operators, by clearly communicating what we are looking for in a tenant. The Investment Adviser's deep knowledge of how to run care homes is a critical advantage in assessing potential operators.

2. Identify assets

Once we have identified the right operators, we look to acquire assets our existing or proposed operators would run well. We jointly review their existing portfolios or identify assets owned by third parties, where the operator could create value with us. The Investment Advisers' relationships with vendors mean we can buy some assets off-market, at attractive purchase prices. We can also move quickly, using the Investment Advisers' knowledge to carefully and swiftly assess the quality of a potential opportunity through our selection process and procedures.

We typically look for portfolios of homes which have a record of operating well and where we can add value through asset management. In portfolios we will seek a combination of assets which offer solid performance, assets with potential for value creation and possibly some non-core assets which we will sell. While our preference is to acquire portfolios, we may buy single assets either to add to an existing tenant portfolio or with a strategy to acquire more assets with the new tenant.

We look to have a portfolio that is diversified by location across the UK, focusing on areas where there is a good balance of supply and demand for care and assets are available at attractive valuations.

3. Perform due diligence, purchase and lease assets

Before we purchase assets, we perform thorough due diligence. This combines an in-depth assessment of the operator and its quality of care, as well as ensuring that the assets are sound, that they align with our investment objectives and that there is sufficient demand for care in the area.

We will fund asset purchases through equity and a prudent level of debt, recognising that appropriate gearing can help to drive returns. Our policy is to sign leases of at least 20 years with tenants, with upwards-only inflation-linked rental growth (see investment objectives on pages 18-19 for more details).

4. Work with tenants to create value

The security of our rental streams depends on our tenants continuing to provide high-quality care, so they remain in demand and sustain their profits. The Investment Adviser therefore reviews CQC ratings and the outcomes of inspections, as well as visiting assets. Our tenants also report to the Investment Adviser on a quarterly basis, to ensure they are complying with their covenants. Our Investment Adviser's sector knowledge helps it to engage with tenants and support their operations. The leases specify the minimum amounts tenants must spend on repairs and maintenance, so we can be confident our buildings are being kept in good condition.

We work with tenants to identify asset management opportunities that create value for them and for us. Examples could include adding beds, improving facilities or enhancing communal space. These projects increase revenue for the tenant, further strengthen their rental cover and grow rental income and capital values for us.

5. Optimise portfolio for long term hold

We continue to review the portfolio on an ongoing basis, to ensure it remains effective and efficient for us and our operators. If we believe it is value enhancing for shareholders, we may agree with the operator to sell an asset, so we can reinvest the proceeds in opportunities to create more value.

How we generate profit and cash

Our leases provide highly predictable and growing revenue streams. We look to control rigorously costs and exploit economies of scale as the portfolio grows, as many of our costs are fixed and some variable costs step down as our asset value rises. As a REIT, we are not subject to corporation tax on our qualifying property rental business, maximising our ability to distribute profits to shareholders as dividends.

Tenants

Tenants can grow their business alongside us, in a mutually beneficial relationship

Tenants' customers

The residents in our care homes benefit from security and stability, with an operator providing the right level of care

Shareholders

Shareholders benefit from secure and growing rental streams supporting quarterly dividends, with the potential for capital growth

Investment Adviser's Q&A

Andrew Cowley, Managing Partner of our Investment Adviser, answers some common questions about our market, our business and our strategy for growth.

Q 1. What pleased you most about the Group's first period in operation?

A I think we delivered everything we promised and perhaps a little bit more. The Group is up and running, with a strong portfolio, excellent tenants and positive cash flow from day one, which has enabled us to meet our dividend targets. That gives us a really solid platform to expand from, so we can create value for shareholders, tenants and residents alike for the long term.

Q 2. What do you think is the biggest attraction of the care home market?

A The market has many attractive characteristics but at its most basic, it is not often that you see an opportunity where the supply and demand fundamentals are so strong. Demand for residential care is only going to grow and there are not enough beds to provide that care, so we think that undersupply is set to increase. That dynamic will create real opportunities to generate value for well-capitalised landlords, working in partnership with high-quality operators to deliver good quality care.

Q 3. There is significant demand for healthcare real estate. Are you able to source acquisitions for the Group at attractive yields?

A Yes we are, as we have shown with the acquisition we have announced since the period end. There has been yield compression but it has primarily been at the very top end of the market, in the super prime segment. We are looking to source assets for the Group in the upper-middle market, where we continue to see a good pipeline of opportunities at appropriate prices, with new tenants and robust operations, and where we can add value through asset management.

Q 4. How quickly do you think the portfolio can grow?

A We have said we are looking to add around 100 beds each year through our asset management programme. As far as acquisitions are concerned, we are in a growth phase but it is much more about the quality of opportunity than the quantity. This is a long-term business and we need to ensure we carefully choose the right operators and the right assets.

Q 5. What do you think differentiates the Group from other healthcare real estate owners?

A The tenant-centric approach is important. Our view is that if you find a good operator, who provides a high standard of care and earns a sustainable profit, then by definition their assets are more than fit for purpose. We can always work with them to improve the quality of the buildings, but what we cannot do is turn a bad provider of care into a good one. The other reason for starting with the tenant is that it is a long-term partnership. Where we are establishing new leases, these are at least 20 years, so you have to have the right partner and we do a lot of due diligence on them before we proceed.

Q 6. What do you see as the key findings in the CMA market study?

A There were two main findings. The first was that generally speaking, residents in care homes receive good care and the sector as a whole performs a vital public service. The UK's demographics mean that service is only going to become more important. Second, despite the significant increases in government expenditure announced in the past two years or so, local authorities are still not paying enough to meet the full cost of care for the nearly 60% of residents they fully or partly support. The CMA conclude that this means either more public funding for residential care or new funding models for care. Either way, these will benefit the economics of the sector.

Q 7. Are your tenants able to find enough staff?

A The sector has had to face many operational challenges over the years, from the introduction of National Minimum Standards to changing regulation, inspection and rating regimes, to the financial crisis. Maintaining appropriate staffing levels is another of those challenges and probably the most important factor in providing good quality care.

What we find is that well-positioned businesses with good operators are able to adapt to changing market conditions, which is another reason for remaining highly selective about the operators the Group chooses to work with. It is also true that staffing shortages are likely to be more significant in areas with super prime assets, where staff cannot afford to live. The Group is operating in a different part of the market.

Q 8. Do the problems at Four Seasons have any implications for the care home sector?

A Four Seasons is a complex story. At a financial and operational level, the business hit a low point in 2015. Since then there have been clear signs the management team is delivering a turnaround at the operating level. However, its balance sheet is not sustainable and needs restructuring and this is now happening. We draw two conclusions from this. First, do not forget the dangers of excessive leverage, which is why we have adopted a conservative approach to debt. Second, some interesting opportunities for us might emerge from the restructuring of Four Seasons.

Q 9. How are you progressing with negotiating debt facilities?

A We said at the half year that we were looking to put in place the funding structures to implement our growth plans for the Group. Part of that was the additional equity raise, which was successfully completed in November, and part was introducing a debt facility. We are continuing to actively discuss debt facilities with finance providers and want to ensure the timing of these facilities is aligned as close as possible with the acquisitions these facilities will fund.

Investment Adviser's report

This was a busy and successful first period for the Group.

Initial public offering, vendor issue and placing

The Company raised total gross proceeds of £160.2 million through its IPO and vendor issue. Its shares were admitted to the Specialist Fund Segment of the London Stock Exchange's Main Market on 7 March 2017, following the issue of 146,172,358 ordinary shares at 100p each. On 5 May 2017, the Company issued a further 14 million ordinary shares at 100p each, as a vendor issue in connection with its acquisition of the Seed Portfolio.

On 8 November, the Company raised additional gross proceeds of £32.6 million to fund the next phase of its growth, through a placing of 32,034,471 shares at a price of 101.75p each. The shares placed represented 19.99% of the Company's issued share capital prior to the placing. Following the placing, the Company has 192,206,831 shares in issue.

Investment activity

The Group invested the majority of the net proceeds from the IPO and vendor placing during the period, acquiring 57 properties with 2,527 beds.

The acquisition of the Seed Portfolio completed on 4 May 2017, for a total consideration of £148.75 million and at a net initial yield of 7.6%. The 56 care homes are leased to the initial tenants for 20 years with no tenant break rights, and with an option to extend for two further 10-year periods. All outstanding debt facilities were repaid in full and the Group acquired the Seed Portfolio debt free.

On 29 June 2017, the Group acquired Saffron Court for £3.4 million, at a net initial yield of 7.7%. Saffron Court has 48 beds. The terms of the lease are the same as for the Seed Portfolio.

Details of the individual assets are set out in the portfolio in the table opposite.

Valuation

The Group's properties were independently valued by Cushman & Wakefield as at 31 December 2017, in accordance with the RICS Valuation Professional Standards (the Red Book). The portfolio's valuation was £156.2 million, an increase of £2.32 million or 1.5% over the aggregate purchase price of, and capital investment in the assets.

Financial results

The Group received rent from the Seed Portfolio as if it had acquired the portfolio on admission on 7 March 2017. As a result, the rent received in the period was £9.5 million. Under IFRS, the upfront initial lease rental payment from admission and the minimum annual rental increase of 2.0% are recognised over the lease term on a straight-line basis. In the current financial period, these two adjustments have substantially offset each other.

The EPRA cost ratio, which is calculated as administrative and operating costs as a percentage of gross rental income, was 24.7% for the period. Cost control is a key focus and the EPRA cost ratio is expected to decline as the Group grows its portfolio and benefits from economies of scale.

Profit before tax was £9.5 million. As a REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business. All its profits, except net interest income, qualified for this exemption, so there was only a nominal tax charge for the period. This resulted in IFRS EPS of 5.82p and EPRA EPS of 4.35p. The Group's primary measure of earnings is adjusted EPS, which is supported by cash receipts and which the board considers is the appropriate measure for calculating dividend cover. Adjusted EPS for the period was 4.39p.

Over the coming years, the Group will often have cash reserved on account for capital expenditure, which will not earn a significant return until it is utilised. This capex will be funded under a licence to vary the lease with the tenant. Additional income from the licence to vary will be recognised on a straightline basis from the date the licence is signed, offsetting the impact of this element of the cash drag on the Group's earnings. The Group is therefore considering reporting an additional EPS

The portfolio

At 31 December 2017, the Group owned the assets listed in the table below:

Name of home	County[1]	Address	Acquisition date[2]	Net purchase price £m	Beds	% of portfolio income
Minster Care						
Abbeywell	Staffordshire	Dragon Square, Chesterton		4.95	45	3.18
Amberley	Cornwall	The Crescent, Truro		0.68	27	0.49
Ashgrove	Lincolnshire	North Sea Lane, Cleethorpes		2.15	56	1.47
Attlee	West Yorkshire	Attlee Street, Normanton		3.11	68	2.07
Broadgate	Nottinghamshire	Broadgate, Beeston		3.45	40	2.22
Craigend	Glasgow, Scotland	Croftcroighn Road, Ruchazie		1.33	48	0.37
Diamond	Leicestershire	Bewcastle Grove, Leicester		2.69	44	1.72
Duncote Hall	Northamptonshire	Towcester		3.37	38	2.16
Duncote The Lakes	Northamptonshire	Towcester		5.46	45	3.20
Emmanuel	Humberside	Southfield, Hessle		1.40	37	0.86
Eryl Fryn	Conwy, Wales	Bodafon Road, Craigside		1.54	29	0.98
Falcon	Nottinghamshire	Middle Street, Beeston		4.37	46	2.71
Freeland House	Oxfordshire	Wroslyn Road, Freeland		11.18	62	5.91
Grays Court	Essex	Church Street, Grays		5.77	87	3.45
Hamshaw Court	Humberside	Wellsted Street, Hull		1.48	45	0.98
Ideal	Shropshire	Knowsley Drive, Bicton Heath		1.97	44	1.35
Karam Court	West Midlands	Mallin Street, Smethwick		3.71	47	2.22
Littleport Grange	Cambridgeshire	Grange Lane, Littleport		5.77	54	3.45
Meadows & Haywain	Suffolk	Brybank Road, Hanchett Village		4.95	65	2.96
Mowbray	Worcestershire	Victoria Road, Malvern		3.32	37	2.22
Mulberry Manor	South Yorkshire	Wortley Avenue, Swinton		1.80	60	1.23
Rydal	Durham	Rydal Road, Darlington		2.69	57	1.72
Saffron	Leicestershire	High Street, Barwell	June 2017	3.40	48	2.26
Shrubbery	Worcestershire	Shrubbery Avenue, Worcester		0.72	29	0.49
Sovereign	West Midlands	Chelmarsh, Daimler Green		3.30	60	1.97
Stansty House	Clwyd, Wales	Stansty Road, Wrexham		3.35	74	2.00
Three Elms	Lancashire	Station Road, Penketh		3.02	56	2.01
Waterside	Worcestershire	Leigh Sinton, Malvern		4.07	47	2.34
Woodlands	Greater Manchester	Ash Lane, Aspull		1.98	40	1.27
Wordsley	West Midlands	Mill Street, Brierley Hill, Wordsley		2.30	41	1.47
Croftwood Care						
Ancliffe	Greater Manchester	Warrington Road, Wigan		1.83	40	1.42
Astbury Lodge	Cheshire	Randle Meadow, Great Sutton		1.59	41	1.23
Croftwood	Cheshire	Whitchurch Way, Runcorn		1.58	44	1.09
Crossways	Cheshire	Station Road, Lostock Gralam, Northwich		1.02	39	0.84
Elm House	Cheshire	Pillory Street, Nantwich		2.61	39	1.97
Florence Grogan	Cheshire	Shelley Road, Blacon, Chester		1.52	40	1.18
Garswood	Greater Manchester	Wentworth Road, Wigan		1.65	40	1.28
Gleavewood	Cheshire	Farm Road, Weaverham, Northwich		1.01	30	0.78
Golborne House	Cheshire	Derby Road, Golborne		1.67	40	1.30
Greenacres	Greater Manchester	Green Lane, Standish		1.59	40	1.23
Hourigan	Greater Manchester	Myrtle Avenue, Leigh		1.89	40	1.47
Ingersley Court	Cheshire	Lowther Court, Bollington		1.88	33	1.42
Lakelands	Greater Manchester	Grizedale Drive, Higher Ince		1.89	40	1.47
Leycester House	Cheshire	Edenfield Road, Mobberley, Knutsford		2.53	40	1.97
Loxley Hall	Cheshire	Lower Robin Hood Lane, Helsby		2.56	36	1.71
Lyndhurst	Greater Manchester	College Street, Leigh		1.44	40	1.12
New Milton House	Staffordshire	Station Road, Alsager		1.79	39	1.40
Parklands	Cheshire	Poynton Civic Centre, Park Lane, Poynton		1.64	40	1.35
The Cedars	Cheshire	Brookfield Drive, Holmes Chapel		0.88	27	0.64
The Elms	Cheshire	Elm Drive, Crewe		2.08	41	1.62
The Hawthorns	Cheshire	Hawthorne Street, Wilmslow		1.95	39	1.47
The Laurels	Cheshire	Walnut Drive, Winsford		1.22	40	0.92
Thorley	Greater Manchester	Hazelmere Gardens, Hindley		1.96	40	1.53
Turnpike Court	Cheshire	Middlewich Road, Elworth, Sandbach		2.69	28	1.97
Wealstone	Cheshire	Wealstone Lane, Upton		3.09	42	2.41
Westhaven	Merseyside	Queen's Road, Wirral		5.36	52	2.96
Whetstone Hey	Cheshire	Old Chester Road, Great Sutton		1.95	41	1.47
Total net purchase price				**152.15**	**2,527**	
Total market value (per independent valuation)				**156.17**		

Note 1: County of England unless stated
Note 2: May 2017 unless stated

Investment Adviser's report

measure in future periods, which adjusts for this impact and shows the Group's underlying performance.

All the EPS figures listed above are on both a basic and diluted basis. More information on the calculation of EPS can be found in note 9 of the financial statements on page 79.

Dividends and distributable reserves

To ensure the Company benefits from the full exemption from tax on rental income afforded by the UK REIT regime, it must distribute at least 90% of the qualifying profits each year from the Group's qualifying rental business.

The Company has declared and paid three quarterly dividends of 1.5p each in respect of the period. All three dividends were Property Income Distributions. The details of these dividends were as follows:

Quarter to	Declared	Paid	Cash cost £m
30 June 2017	31 July 2017	31 August 2017	2.40
30 September 2017	1 November 2017	30 November 2017	2.88
31 December 2017	1 February 2018	22 February 2018	2.88
Total			**8.16**

Earnings cover per share is discussed in the Chairman's statement on page 4.

At 31 December 2017, the Company had distributable reserves of £51.0 million, giving it significant capacity to pay dividends in line with its dividend policy. The distributable reserves were increased during the period by the capital restructuring described below.

Net cash

At the period end, the Group had net cash of £38.4 million, reflecting the remaining proceeds from the IPO and the proceeds of the placing in November. Of this cash, £7.9 million is committed for asset management projects approved by the board and a further £17.0 million was committed after the period end, to fund the acquisitions described under post balance sheet events below.

Capital restructuring

On 12 April 2017, a successful application to the High Court was made for the reduction of £0.30 per share of the share premium account plus £3,000,000, which allowed the transfer of £46,851,708 to the capital reduction reserve (see note 17 of the financial statements on page 85). This is a distributable reserve.

The initial tenants

The acquisitions during the period have given the Group two initial tenants – Minster Care and Croftwood Care (both part of the Minster Group). They are established providers, offering quality of care that exceeds the national average.

Minster Care portfolio	
Valuation at 31 December 2017:	£101.9 million
Rent payable (FY18)*:	£7.1 million
Total homes:	30
Total beds:	1,471

* FY18 is the operator's financial year to 31 March 2018

Croftwood Care portfolio	
Valuation at 31 December 2017:	£54.3 million
Rent payable (FY18)*:	£4.5 million
Total homes:	27
Total beds:	1,056

* FY18 is the operator's financial year to 31 March 2018

Asset management

During the period, the board approved the first phase of the Group's asset management programme. This will see 92 beds added across three homes, which had 144 existing beds between them. The total cost is expected to be £7.9 million. The first project is due to complete in April 2018, adding 25 beds at the Turnpike home. Work has begun to add 21 beds at Littleport, with completion expected in mid-2018. The largest of the three projects, the 46 new beds at Freeland House, is expected to begin later this year and complete in 2019. The extra beds are expected to increase rent on these three assets by £0.75 million or approximately 54%.

The Group is also advancing plans to add a further 372 beds over the next three years. In aggregate, this programme would therefore add 464 beds, increasing the number of beds at the Group's existing assets by 18% and growing both rent and net asset values. The programme is expected to take around three years to complete.

Post balance sheet events and acquisition pipeline

On 11 January 2018, the Group announced that it had exchanged contracts to acquire a portfolio of three purpose-built care homes in the North East, on a sale and leaseback basis. The acquisition is conditional on regulatory approval, among other things. The first asset with 54 beds has now been acquired and the remaining two will follow. The total consideration is £17 million, including costs. The care homes have 234 high-quality care beds and an asset management opportunity to add a further 40 beds.

The operator is Prestige Care Group, which purpose-built the homes between 2005 and 2015. Prestige will continue to operate the homes and is entering into a 20 year lease in respect of each property, with an option to extend by a further 10 years. The rents receivable are subject to annual, upward only rent reviews in line with the Retail Prices Index, with a floor of 2% per annum and a cap of 4% per annum. The net initial yield and rent cover are in line with the terms on which the Group acquired the Seed Portfolio.

Responsible business

The most significant impact the Group can have is protecting the rights of the people who live in its care homes. As described in the business model section on pages 8-9, the Group therefore works closely with its tenants to ensure they provide the quality of care that their residents deserve and that the homes are well maintained and pleasant places to live. The Group's asset management programme also substantially enhances the homes involved. Stability is also crucial for residents, so the Group ensures it is sustainably financed and only works with financially sound tenants, who will be able to provide long-term care.

We are pleased that this concern for the well being of the residents in our homes is reflected in our initial tenants' regulatory performance. 85% of the homes in the Seed Portfolio are rated "Good" or "Outstanding" by the Care Quality Commission versus a national average of 74% for all medium (10-49 beds) and large (≥50 beds) residential and nursing homes.

Pipeline

The Investment Adviser is actively pursuing a pipeline of further investment opportunities, which it believes comply with the Company's investment policy, will be accretive to earnings and will enhance diversification. After completion of the Prestige transaction, the Company will own 2,761 beds which is equal to approximately 0.6% of the privately-owned care beds in the UK market. The Investment Adviser has reviewed opportunities which comprise circa 5% of the beds in the market and is at an advanced stage of negotiation on a number of portfolios which, if approved by the board and subject to the availability of debt financing, could add in excess of 800 beds and five new tenants to the existing portfolio.

Outlook

The fundamentals of continuing growth in demand and limited supply of good quality, well operated residential care home beds persist. The Group remains well positioned to selectively invest in a growing pipeline of identified opportunities that meet the Company's strict investment criteria and we continue to look forward to delivering secure and attractive returns to shareholders in 2018 and for the long term.

Impact Health Partners LLP Investment Adviser
21 March 2018

Westhaven

Westhaven opened in 2016, having been completely rebuilt to provide high-specification facilities. The home it replaced was much-loved by residents but with only 26 beds, it often had to turn people away. Since the rebuild, Westhaven's increased capacity means it can now accommodate 52 residents.

Residents enjoy the new building and its atmosphere but the real heart of Westhaven's success is the staff, who focus on providing great care.

"The home had a nice feel about it from the moment I walked in but the real key to good care is having the right staff, with the right training," says manager Maureen McDonough. "There is a wonderful relationship here between staff and residents, and we're all part of one family. Our end-of-life care staff deliver an especially high-quality service."

Many staff members who used to work at Westhaven before the rebuild have returned, including Maureen herself. "I went to work for another Minster home while Westhaven was being rebuilt," she says. "I knew I wanted to continue working for this company. I love my job and I love being with this age group."

Key facts	
Beds	52
Location	Wirral, Merseyside
Tenant	Croftwood Care
Net purchase price	£5.36 million
% of portfolio income	2.96%

Maureen McDonough, Manager

Investment objectives and policy

Our objectives

We aim to provide shareholders with attractive long term and sustainable returns, primarily in the form of quarterly dividends. These dividends are underpinned by our secure and stable income, which comes from two tenants within a group that is financially sound and committed to providing high standards of care. We benefit from long leases with inflation-linked annual rent reviews. Through active asset management we also aim to deliver growth in net asset values over the medium term.

Our policy

Our investment policy is to acquire, lease, renovate, extend and redevelop high-quality healthcare real estate assets in the UK, and to lease those assets, under full repairing and insuring leases, primarily to operators providing residential healthcare services. We complied with this policy during the period and met our investment objectives, as set out below.

✓ Achieved ⊖ Partially met ⊗ Not met

Investment policies	Status	Performance
Our target dividend for the first 12 months from admission equates to a yield of 6% per annum on the issue price, on an ungeared basis.	Achieved	We declared and paid dividends totalling 4.5p per share for the three quarters to 31 December 2017, without using leverage, in line with our target.
We aim for our dividends to be covered by ordinary earnings.†	Partially met	Paid and declared dividend, we were 98% covered by adjusted earnings per share. The dividend on the original IPO share placement was fully covered by adjusted earnings per share, after excluding the impact of the November share placing, whose proceeds had not been invested by the period end.
We have a conservative gearing policy. Borrowings as a percentage of our gross assets may not exceed 35% LTV at the time of drawdown.	Achieved	The Group was ungeared at 31 December 2017. We continue to engage with finance providers for debt facilities within these gearing limits and we are seeking to align this funding with future acquisitions.
After acquiring the Seed Portfolio and some of the optional assets, we targeted annual rent receivable from our initial tenants of between £11.0 million and £11.6 million.	Achieved	Our rent roll at the period end was £11.9 million, comprising £11.6 million base rent plus a further £0.3 million in relation to rent commitments from funded capital improvements.
Minimise cash drag. †	Partially met	We invested 95% of our net IPO proceeds within two months of admission, with cash rent calculated from the admission date. 98% invested by June and committed the remainder to fund income-increasing asset management initiatives. We raised a further £32.6 million in November 2017 and committed to an acquisition of 234 beds for £17.0 million in January 2018. Other acquisitions are being actively pursued.

† These were not defined as investment policies at the time of IPO but have since been agreed by the board as appropriate policies for the Group.

The investment policy set out in the prospectus allows us to invest in a range of healthcare real estate assets, in addition to residential care homes. We have not yet sought to invest in any of these alternative assets.

Our investment policy also allows us to generate up to 15% of our gross income from non-rental revenue or from profit-related payments from tenants. We did not generate any income from these sources during the period.

Investment policies	Status	Performance
We manage risk by owning a diversified portfolio, with no single asset exceeding 15% of the Group's total gross asset value.	✔	The largest single asset is Freeland House, which was valued at £11.7 million at the period end, equating to 7.5% of our gross asset value.
We also manage risk by limiting our exposure to our tenants' customers. No single customer paying for care provided in our assets can account for more than 15% of our tenants' aggregate revenues.	✔	The largest single customer paying for care represents only 8.2% of the aggregate revenues of the tenant which leases the assets.
We grant leases that are linked to the Retail Prices Index (RPI), have an unexpired term of at least 20 years and are not subject to break clauses. We seek to amend any leases we acquire to obtain similar terms.	✔	The initial portfolio is leased on 20-year terms, with no break clauses and upward-only rent increases at RPI, with a floor of 2% and a cap of 4%. The portfolio being acquired from Prestige Care Group after the period end (see the Investment Advisers' Report) will be let on substantially similar terms.
We will not speculatively develop assets, which means we will not develop a property which has not been leased or pre-leased.	✔	We did not undertake any speculative development in the period.
We may invest in forward funding agreements or forward commitments to pre-let developments, where we will own the completed asset.	✔	The 92 additional beds approved during the period, for development at existing assets, will enhance our rental income under a forward funding agreement through which we fund the tenant's capital expenditure in return for an accretive increase in rent, both in terms of contractual rent and portfolio valuation.

Duncote, The Lakes

The Lakes is a brand new dementia care unit, offering facilities to care for residents while maintaining their independence. The design incorporates a large amount of glazing, to encourage residents to engage with the surrounding landscape, and all the bedrooms have ensuite showers and a view of the gardens.

The Lakes shares an eight-acre site with another of our homes, Duncote Hall, which serves residents with nursing care needs. This allows Minster to refer residents between the two homes, depending on which provides the right care for them, which will benefit residents and help to maintain occupancy.

"The home has been open for less than a year," says manager Janice Knock. "Our first focus was to get the quality right and we already have a Good rating from the CQC, which is not easy for a new service. We have a strong reputation with the local GPs, social workers, district nurses and mental health team, so we don't even need to market the home at the moment. We're being flooded with applications and it won't be long before we are full."

Key facts	
Beds	45
Location	Towcester, Northamptonshire
Tenant	Minster Care
Net purchase price	£5.46 million
% of portfolio income	3.20%

Janice Knock, Manager

Principal risks and uncertainties

The tables that follow show the principal risks and uncertainties facing the Group and explain how we mitigate them.

Political

1 Changes to government policy

Probability: low	Impact: high	Mitigation
	Care for the elderly is at the heart of our business. We expect the government to continue to focus on the sector, to ensure it operates effectively. This creates both opportunity and risk, depending on the nature of the changes proposed and our preparedness to engage in the drafting and implementation of legislation.	We actively engage with our tenants to understand their position on the risks and opportunities of potential legislative changes and how our joint strategies may need to adapt to deliver any requirements or maximise the opportunity arising from these. As a business and alongside our Investment Adviser, we are looking to engage more with organisations that support and represent the property and investment sectors focused on the healthcare industry.

Market conditions

2 Adverse change in investment opportunities

Probability: low	Impact: moderate	Mitigation
	Our investment objective allows us to invest in further assets. Market conditions may restrict the availability of investments and reduce our ability to identify and acquire suitable assets that would generate acceptable returns. Any delay in making investments for secured funding, will reduce our returns.	We have a robust due diligence process to assess new investments, to ensure they align with our investment objectives and that we understand and appropriately manage any associated risks. The quantity of deal flow that the Investment Adviser is reviewing allows us to be selective in the assets that we are acquiring.

3 Weakening asset investment performance and investor perception of the healthcare sector

Probability: moderate	Impact: low	Mitigation
	The independent valuation of our portfolio is based, in part, on comparable market evidence. An adverse change in investment demand across the market will affect valuation yields, with a corresponding impact on our investment value and NAV.	A reduction in investment values would not affect our revenues or ability to pay dividends. Our long-term hold strategy focuses on enhancing our income and its security, to manage the value of our portfolio for our investors. In addition, we will continue to pursue active asset management across our portfolio, to enhance the value of our assets. With any future financing, we will consider the impact of a fall in values on any LTV covenants.

4 Weakening care market

Probability: low	Impact: moderate	Mitigation
	Several factors may affect the market for elderly residential care, including: • adverse conditions in the healthcare sector. • local authority funding partners amending their payment terms, impacting our tenants' revenues. • increased regulatory responsibility and associated costs for our tenants. These could all materially impact our tenants' covenant strength and their ability to pay rent, resulting in a higher risk of default.	We work closely with our tenants to understand the underlying performance of the individual assets, so we identify any concerns early and can explore mitigating actions such as additional investment, staffing levels and the public/private resident mix.

Underperformance of assets

5 Default of one or more tenants

Probability: low	Impact: high	Mitigation
	Our IPO was based on the acquisition of a Seed Portfolio of assets, with two tenants under a single framework agreement (the 'tenant group'). As a result, we have a high exposure to a single tenant group default, which would affect the value of our assets and our ability to pay dividends to our shareholders.	We actively engage with the Seed Portfolio tenant group, with regular reviews and reporting on performance, repairs and maintenance spend and strategic planning. We have a proactive relationship to identify issues early and put mechanisms in place to resolve them. Our tenant group have a clear objective to enhance the assets and further improve their rent cover. In addition, we are actively pursuing new investments with new tenants to dilute our single tenant group exposure, with appropriate due diligence to ensure the operating capability of these new tenants is strong and maintainable.

6 Under investment by tenants in the repair and maintenance of our assets

Probability: low	Impact: moderate to high	Mitigation
	The attractiveness of our portfolio is based on the quality of the operators, measured by their regulatory and financial performance, and our properties' ability to provide effective space from which our tenants can operate. This does not require our assets to be new but it does require them to be well maintained and fit for purpose.	We work very closely with our tenants to identify opportunities to improve and enhance the portfolio and where appropriate agree to fund these improvements, in return for an increase in rent. The benefit of operating a portfolio reduces our exposure to changes in individual properties. In addition, all of our leases with tenants have full repair and maintenance obligations, with the additional clarity of a minimum spend per annum per bed, which tenants are required to report against and we actively monitor.

7 Cost overruns on development activity

Probability: moderate	Impact: low to moderate	Mitigation
	We actively work with our tenants to identify opportunities to enhance and improve our assets, in return for an increase in rent. This includes material refurbishment to existing buildings or new developments on our land. Development contracts have inherent risks in relation to cost and quality management that can result in cost overruns and delays.	Our tenants are directly responsible for any improvements under a licence to vary of the lease, and are required to manage developments in a safe and efficient manner. We factor in a material contingency balance into our investment strategy and ensure that the investment remains attractive and affordable to our tenant at this higher level of funding. In the event there are material delays and increases in costs above these assumed levels, these are our tenants' responsibility to fund.

Principal risks and uncertainties

Financing

8 Ability to secure financing

Probability: low	Impact: moderate	Mitigation
	We expect to borrow to fund our investment activities, which may expose us to interest rate risk (if left unhedged) and additional losses if the value of our investments fall. We may be required to grant security in respect of any borrowings. This security may be over particular properties or over the portfolio as a whole, and will rank ahead of shareholders' entitlements. This means that if the Group were wound up, shareholders might not recover their initial investment. If debt is not available on acceptable terms, we may be unable to progress investment opportunities as they arise or continue to grow in line with our strategy.	While securing debt financing is part of our growth strategy, it is not required for operational financing or to deliver a fully covered dividend to existing shareholders, on the current investment portfolio. As such, the board does not need to pursue debt financing if it cannot be secured on accretive terms to shareholders. We intend to cap future borrowings at 35% LTV, to ensure debt levels are manageable across the business, and we have established a clear hedging policy to mitigate any risk from interest rate fluctuations.

Corporate risk

9 Reliance on the Investment Adviser

Probability: low	Impact: high	Mitigation
	As an externally managed Company, we rely on the Investment Adviser's services and reputation to execute our strategy and support our day-to-day relationships. As a result, our performance will depend to some extent on the Investment Adviser's ability and the retention of its key staff.	We have an Investment Advisory Agreement with the Investment Adviser, which sets out the basis on which the Investment Adviser provides services to us, the restrictions it must operate within and certain additional rights we have, such as a right of pre-emption for investment opportunities. The Agreement may be terminated by 12 months' notice, which cannot be served before the fourth anniversary of Admission, except in certain circumstances such as a material breach, when it can be terminated immediately. The Management Engagement Committee's role and responsibilities include reviewing the Investment Adviser's performance. The board as a whole remains actively engaged with the Investment Adviser, to ensure a positive and collaborative working relationship.
	There is a risk of potential conflicts with the Investment Adviser and its tenant for the Seed Portfolio.	The board has put in a number of controls to mitigate this risk.

Taxation risk

10 Change to the Company's REIT status

Probability: low	Impact: high	Mitigation
	We are a UK REIT and have a tax-efficient corporate structure. Any change to our tax status or in UK tax legislation could affect our ability to achieve our investment objectives and provide favourable returns to shareholders. If the Company fails to remain a REIT, our primary profits and gains will be subject to UK corporation tax.	The board is ultimately responsible for ensuring we adhere to the UK REIT Regime. The board has engaged a third-party tax adviser to help monitor our REIT status and ensure our investment and shareholding structure do not put this status at risk.
	Should there be a change of control within three years of the Seed Portfolio acquisition, there could be a £7.5 million SDLT liability.	The REIT structure discourages ownership of more than 10% in a single entity and the Company is monitoring its shareholder register.

Going concern and viability statements

Going Concern Statement

This Strategic report describes the Company's and Group's financial position. Our principal risks are set out on pages 22-24 and note 15 to the financial statements on page 84 also provides details of the Group's exposure to liquidity and credit risk. The Group currently has no debt in place and a Group LTV cap of 35%.

The Group also benefits from a secure income stream from leases with long average unexpired terms. The Group's cash balance as at 31 December 2017 was £38.4 million, of which £7.9 million was committed to capital improvement projects and subsequent to the year end, £17.0 million was committed to acquisitions.

As a result, the directors believe that the Group is well placed to manage its business risks.

The directors believe that there are currently no material uncertainties in relation to the Company's and Group's ability to continue for a period of at least 12 months from the date of approval of the Company and Group financial statements. The board is, therefore, of the opinion that the going concern basis adopted in the preparation of the Annual report is appropriate.

Assessment of viability

The period over which the directors consider it feasible and appropriate to report on the Group's viability is the three year period to 31 March 2021. This period has been selected because of the various strategic and growth options open to the business at this early stage. It is expected that the period will extend to a five year model in the future, but it is felt that the business will be under constant review while the initial growth strategy is implemented and any longer projections will be less accurate and no more informative in assessing the viability of the business.

The assumptions underpinning these cash flow forecasts were reviewed against the Group's underlying income to explore the resilience of the Group to the potential impact of the Group's significant risks, or a combination of those risks.

The principal risks table on pages 22-24 summarises those matters that could prevent the Group from delivering on its strategy and is derived from our robust assessment of the principal risks to our business model, future performance, liquidity and solvency, as described in Accountability on pages 46-48. A number of these principal risks, because of their nature or potential impact, could also threaten the Group's ability to continue in business in its current form if they were to occur.

The directors paid particular attention to: a weakening investment and financing market, rising operational costs, and a tenant default as a result of poor operational performance. Based on this assessment, and on the assumption that there are no significant changes to regulatory policies or levels of funding by local authorities, the directors have developed their reasonable expectations that none of these risks would compromise the Group's viability, either on their own or in combination. The remaining principal risks, whilst having an impact on the Group's business model, are not considered by the directors to have a reasonable likelihood of impacting the Group's viability over the next three years to 31 March 2021.

The analysis performed was designed to take full account of the availability of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks. The material financial mitigation while undertaking these measures is to restrict or refrain from paying dividends.

Viability Statement

Having considered the forecast cash flows and the impact of the main financial risks, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period ending 31 March 2021.

Diamond House

When Minster first purchased Diamond House, it was a loss making home with low occupancy, struggling with compliance due to a poorly maintained building and poorly trained, unmotivated staff. The decision was made to close the home and undertake a comprehensive refurbishment programme, which added an extension but reduced the number of operational beds from 57 to 44 but with much improved bed spaces. A new manager and staff team were then recruited.

Such has been the scale of the turnaround, that Diamond House now has an Outstanding rating from the CQC and Won Care Home of the Year for Leicestershire, at the Carer of the Year Awards 2017.

Discussing the approach to care at Diamond House, manager Julie Wilkinson says, “The most important thing to residents is that they feel safe. We listen to them and take on board what they want, their interests and their history. Seeing residents happy is the most rewarding thing.”

Diamond House is now consistently full and since receiving the Outstanding rating, trading performance has continued to improve. Demand for places is such that we and the tenant are considering an extension to the home, which will further enhance rent cover and its capital value.

Key facts	
Beds	44
Location	Leicester, Leicestershire
Tenant	Minster Care
Net purchase price	£2.69 million
% of portfolio income	1.72%

Julie Wilkinson, Manager (above left)

Key performance indicators

The Group uses the following measures to assess its strategic progress.

KPI and definition	Relevance to strategy	Performance	Result
1 EPRA Net Asset Total Return (NATR)			
The change in the EPRA net asset value over the period plus dividends paid.	Our NATR demonstrates our ability to add value for our shareholders, by growing our portfolio value and distributed earnings.	7.19% as at 31 December 2017	Positive growth in NATR.
2 Dividend			
Dividends paid to shareholders and declared in relation to the period. Our objective is to pay a 6p dividend for the first 12 months from IPO.	The dividend reflects our ability to generate a secure and growing income stream from our portfolio.	4.5p/share for the period to 31 December 2017	**Met** We are on target to deliver our commitment for the first 12 months. We have a clear objective to achieve a fully covered dividend in 2018.
3 EPRA NAV per share			
The value of our assets (based on an independent valuation of the property portfolio) less the book value of our liabilities, attributable to shareholders and calculated in accordance with EPRA guidelines.	By working with our tenants, we expect to grow our NAV, and hence our NATR, through a combination of improved performance and value-add capital investment.	100.65p/share at 31 December 2017	**Met** Positive growth in NAV.
4 Loan to value (LTV)			
The proportion of our gross asset value that is funded by borrowings.	We have a conservative gearing policy, with borrowings as a percentage of Group assets limited to 35% at the time of drawdown	0.0% at 31 December 2017	**Met** Gearing opportunities are being explored and are being timed to align with investment opportunities and to remain within the investment parameters.
5 Adjusted earnings per share			
Reflects the sustainable earnings per share achievable by the Company, including rent paid and rent receivable from capital improvements, and adjusts for all other earnings not supported by cash flows.	We intend to deliver a sustainable and growing dividend which is fully covered by the underlying sustainable earnings of the business.	4.39p/share for the period to 31 December 2017	**Partially met** The additional equity raised in November was not fully invested in the period, resulting in an element of cash drag. Excluding the additional equity raise, earnings per share were 4.54p, delivering against our commitment on the initial equity and Seed Portfolio returns. We have a clear objective to achieve a fully covered dividend in 2018.

KPI and definition	Relevance to strategy	Performance	Result
6 Total expense ratio (TER)			
The ratio of total administration costs expressed as a percentage of average net asset value throughout the period.	The TER is a key measure of our operational efficiency and keeping costs low supports our ability to pay a growing dividend.	1.43% for the period to 31 December 2017	**Met** Our TER is expected to reduce as the Company grows, but is in line with the 1.4% estimate set out in the IPO prospectus.
7 Diversified portfolio			
Largest single asset as a percentage of the most recent valuation for the property portfolio.	We manage risk by ensuring no single asset exceeds 15% of the Group's total property valuation.	7.49% at 31 December 2017	**Met** Freeland House is the largest single asset, at £11.7m.
8 Diversified customer base			
Revenue from our tenants' largest single customer as a percentage of the total tenant revenue.	We manage risk by ensuring that no single customer who is paying for care accounts for more than 15% of the aggregated revenue of the Group's tenants.	8.20% for the period to 31 December 2017	**Met** Wigan Borough Council is the largest single customer in the underlying portfolio.
9 Weighted average unexpired lease term			
The average unexpired lease term of the property portfolio, weighted by annual passing rents.	The WAULT is a key measure of the secure nature of our portfolio. Long lease terms underpin the quality of our income stream and hence our dividends.	19.2 years for the period to 31 December 2017	We set a minimum lease term of 20 years on any new leases established as part of a sale and leaseback acquisition.

EPRA performance measures

The table below shows additional performance measures, calculated in accordance with the Best Practices Recommendations of the European Public Real Estate Association (EPRA). We provide these measures to aid comparison with other European real estate businesses.

For a full reconciliation of all EPRA performance measures, please see Notes to the EPRA performance measures, page 96.

KPI and definition	Purpose	Performance
1. EPRA Earnings per share Earnings from operational activities.	A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	£7.08m/4.35p per share for the period to 31 December 2017
2. EPRA NAV per share Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business.	Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long term investment strategy.	£193.45m/100.65p as at 31 December 2017 (No adjustment to IFRS NAV)
3 EPRA Triple Net Asset Value (NNNAV) EPRA NAV adjusted to include the fair values of: (i) financial instruments; (ii) debt and; (iii) deferred taxes.	Makes adjustments to EPRA NAV to provide stakeholders with the most relevant information on the current fair value of all the assets and liabilities within a real estate company.	£193.45m/100.65p as at 31 December 2017 (No adjustment to IFRS NAV)
4.1 EPRA Net Initial Yield (NIY) Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.	This measure should make it easier for investors to judge for themselves how the valuation of one portfolio compares with another portfolio.	7.02% as at 31 December 2017
4.2 EPRA 'Topped-Up' NIY This measure adjusts the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives, such as discounted rent periods and step rents).	This measure should make it easier for investors to judge for themselves how the valuation of one portfolio compares with another portfolio.	7.02% at 31 December 2017
5. EPRA vacancy rate Estimated market rental value (ERV) of vacant space divided by the ERV of the whole portfolio.	A "pure" (%) measure of investment property space that is vacant, based on ERV.	0.00% as at 31 December 2017
6. EPRA cost ratio Administrative and operating costs (including and excluding costs of direct vacancy) divided by gross rental income.	A key measure, to enable meaningful measurement of the changes in a company's operating costs.	24.68% for the period to 31 December 2017

Board approval of the Strategic report

The Strategic report was approved on behalf of the board by:

Rupert Barclay Chairman
21 March 2018

Littleport Grange, Littleport, Cambridgeshire

Governance

Corporate Governance statement
Introduced by the Chairman, this report explains our application of the AIC Code principles and our compliance with the UK Corporate Governance Code Provisions.

Leadership
This describes our governance framework, including the role of the board, its Committees and support organisation, as well as board activities during the period.

Biographies
This introduces our Directors and the senior executives of our Investment Adviser. It sets out their skills, experience and areas of expertise.

Effectiveness
This describes our activities with respect to board appointments and evaluation.

Remuneration and Nomination Committee report
This initial report from the Remuneration and Nomination Committee sets out its future role in overseeing its delegated responsibilities for ensuring the effectiveness of the board in managing the affairs of the Group through succession planning, appointments, an appropriate approach to diversity and suitable remuneration.

Accountability
This describes areas of collective board responsibility for activities to do with risk management and internal control and financial reporting.

Audit Committee report
This report sets out the detailed composition, role and activities of the committee in overseeing its delegated responsibilities for ensuring technical elements of the board's accountability. This includes the supervision of the external auditor, key financial judgements, and the consideration of the content of the statutory reports and financial statements.

Management Engagement Committee report
This initial report from the committee sets out its role in overseeing the performance and relationships with our external support organisations.

Relations with Shareholders
This describes our activities during the period in communication with our shareholders and ensuring the Directors develop an understanding of the views of major shareholders.

Directors' Remuneration report
This report sets out the policy we apply to remuneration for our Directors and how we have applied this in the period under review.

Directors' report
This report sets out mandatory disclosures not presented elsewhere, including information on our significant shareholders and the required statements of responsibilities.

Corporate governance statement – Chairman's introduction

I believe that the Company's approach to governance should be respectful but pragmatic and that it is important for us to use good governance to drive the Company's performance, rather than simply seeking to comply with the extensive and complex rules and regulations that your Company is bound by.

I am pleased that we have been able to assemble a high quality board with a diverse and complementary set of relevant capabilities, covering property, finance, strategy, banking, governance and shareholder relations. The field in which we operate is highly technical and this range of skills and experience has been important to us as a new company. Pages 42-43 have more information about the directors.

We have strong investment support from our Investment Adviser and strong regulatory support from our AIFM and Administrator and I want to pass on the thanks of the board for their efforts on the Company's behalf.

It has been a busy and active period for the board, in which we have:

- Agreed our second portfolio acquisition, subject to Care Quality Commission approval. Part of the benefit of this acquisition is an increase in tenant diversity.
- Raised additional funds through the second equity raise.
- Commenced the asset management programme through the approval of three significant extensions of capacity.
- Strengthened the board's capabilities with the appointment of Paul Craig.
- Established our governance structure and processes.

We want the portfolio to be dynamically managed. We encourage the Investment Adviser to look for opportunities to invest in the portfolio and to buy and sell assets. We are pleased that our Investment Adviser has strengthened its team to meet the demands of growth.

Further details on this work is set out in this Corporate Governance Statement and in the Strategic report.

It is a fundamental element of our approach to governance that the directors have an obligation to hand over the Company to their successors in good shape and that we demonstrate good custodianship of the assets in our control.

As part of this, when the Company was set up, we were keen to ensure the quality of the portfolio was maintained and contractual provisions were put in place for tenants to spend a minimum amount on upgrading and maintaining the properties they rent from us.

At our quarterly meetings, the performance of our tenant group is scrutinised and discussed, including rent cover, occupancy and whether they are meeting their maintenance commitments; we also pay close attention to the CQC's assessment of the properties in our portfolio.

I believe that the board has started well and has had a good, first financial period. We are looking forward to getting to grips with the exciting challenges of the next one.

Rupert Barclay Chairman
21 March 2018

Compliance

Impact Healthcare REIT plc is a real estate investment trust. Our ordinary shares were admitted to trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange on 7 March 2017.

The Company is a member of the Association of Investment Companies (AIC). The board has considered the principles and recommendations of the 2016 version of the AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses the principles set out in the UK Corporate Governance Code 2016, as well as setting out additional principles and recommendations on issues that are of specific relevance to Impact Healthcare REIT plc.

The board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders than using the broader approach of the UK Corporate Governance Code.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

- The UK Corporate Governance Code includes various provisions relating to:

  – The role of the chief executive

  – Executive directors' remuneration

  – The need for an internal audit function

  For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the board considers these provisions are not relevant to the position of Impact Healthcare REIT plc, as it is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

- A.4.1 The board should appoint one of the independent non-executive directors to be the senior independent director. At IPO, all board members were independent and supported the business in ensuring it was delivering in line with its commitments as set out in the IPO Prospectus. With the appointment of Paul Craig and the establishment of all other governance aspects, the board took the decision in March 2018 to appoint David Brooks as the senior independent director.

- B.2.1 There should be a nomination committee (AIC 9 If the whole board nominates candidates, it should explain in the annual report why it has done so rather than establish a separate nomination committee) and D.2.1 The board should establish a remuneration committee. At the time of Listing the whole board was independent and therefore the functions of the Nomination Committee and Remuneration Committee were performed by the board as a whole. Upon the appointment of Paul Craig (who is not considered independent) the board resolved to create a Remuneration & Nomination Committee with only independent directors as members. For more information see page 45.

- B.2.4 Neither an external search consultancy nor open advertising was used in the appointment of a non-executive director (Paul Craig). Paul Craig was known to the board through his firm's investment in the business. The time and expense of an external search were felt to be unnecessary as his investment skills, knowledge and experience matched the criteria sought by the board. For more information see page 44.

- B.2.4 (AIC 9 and DTR 7.2.8AR) A description of the board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives and Diversity Policy. The board has not adopted a formal diversity policy. The Remuneration & Nomination Committee will consider introducing a diversity policy at its first meeting. In the meantime, the board's approach is to appoint the best possible candidates, considered on merit and against objective criteria. For more information see page 45.

- B.6.1 (and AIC 7) A statement of how performance evaluation of the board, its committees and its directors has been conducted. As the Company had not completed a full year of activity, a board evaluation was not undertaken during the period.

- E.1.1 The senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders. As set out above, the Company did not have a senior independent director during the reporting year.

A copy of the AIC Code is publicly available at:
https://www.theaic.co.uk/aic-code-of-corporate-governance-0

A copy of the UK Corporate Governance Code 2016 is publicly available at:
https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code

Other key statements

The directors confirm that:

Going Concern

The Going Concern Statement is made on page 25.

Viability

The Viability Statement is made on page 25. Further details of the board's assessment of the viability of the Company are set out in Principal Risks and Uncertainties on pages 22-24 and in Accountability on pages 46-48.

Robust assessment of principal risks

The board has undertaken a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. See Accountability on pages 46-48 for further information on how this conclusion was determined.

Review of Risk Management and Internal Control

A continuing process for identifying, evaluating and managing the risks the Company faces has been established and the board has reviewed the effectiveness of the internal control systems. Further details are set out in the Accountability section on pages 46-48.

Continuing appointment of the Investment Adviser

The continuing appointment of the Investment Adviser on the terms agreed is in the interests of the Company's shareholders as a whole. Further details on the basis for this conclusion are set out in the Management Engagement Committee Report on page 53.

Continuing appointment of the Investment Manager

The continuing appointment of the Investment Manager on the terms agreed is in the interests of the Company's shareholders as a whole. Further details on the basis for this conclusion are set out in the Management Engagement Committee Report on page 53.

Fair, balanced and understandable

The Annual report and accounts taken as a whole are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. See the Audit Committee Report on pages 49-52 for further information on how this conclusion was reached.

Application of AIC Code Principles

Detailed disclosures for the application of certain AIC Code Principles and compliance with the appropriate UK Corporate Governance Code Provisions are set out elsewhere in this Corporate Governance Statement. In order to reduce clutter and boilerplate throughout the report, set out below is an overview of Impact Healthcare's application of the AIC Code Principles, showing where further information is available.

The AIC Code refers to "the Manager". In Impact Healthcare REIT's case, many of the Manager's tasks referred to in the Code are carried out by the Investment Adviser, not the Manager. The Manager's role is to perform the relevant regulatory functions as the Alternative Investment Fund Manager.

The board

1. The Chairman should be independent
The Company's Chairman, Rupert Barclay, was independent on appointment.

2. A majority of the board should be independent of the Manager
The board currently comprises five non-executive directors of which the Chairman, Rupert Barclay, alongside Rosemary Boot, David Brooks and Philip Hall are deemed to be independent of the Investment Adviser and Manager. Paul Craig, is independent of the Investment Adviser and Manager but is not considered to be independent because he is a representative of the Company's largest shareholder. See Biographies, pages 42-43.

3. Directors should be submitted for re-election at regular intervals
Each of the directors is subject to re-election at each AGM.

4. The board should have a policy on tenure
The Company's practice is to assume directors serve for a minimum three year term, subject to annual re-election by the shareholders.

5. There should be full disclosure of information about the board
Full information about the board is set out in the Annual report, on the Company website at http://www.impactreit.uk and through announcements, as appropriate.

6. The board should aim to have a balance of skills, experience, length of service and knowledge of the Company
As set out by the Chairman on page 34, the initial selection of the board aimed to provide a suitable range and depth of skills, experience and knowledge of the sector and related matters in order to get the Company and board off to a strong start.

7. The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors
As the Company had not completed a full year of activity, a board evaluation has yet to be conducted.

8. Directors' remuneration should reflect their duties, responsibilities and the value of their time spent
The Remuneration & Nomination Committee is responsible for reviewing the scale and structure of the directors' remuneration and sets remuneration appropriately. Remuneration details are set out on page 56.

9. The independent directors should take the lead in the appointment of new directors and the process should be disclosed in the Annual report
The Remuneration & Nomination Committee, whose membership is composed solely of independent directors, is responsible for the appointment of new directors to the board.

10. Directors should be offered relevant training and induction
All the directors receive an induction on joining the board and further training as required.

11. The Chairman (and the board) should be brought into the process of a new launch at an early stage
Whenever the Company is planning an equity fundraising, the Chairman and the board will be involved and are integral to the process from an early stage.

Board Meetings and the Relationship with the Manager

12. Boards and Managers should operate in a supportive, co-operative and open environment
The Chairman promotes an open and constructive environment in the boardroom and actively invites the non-executive directors' views. Where appropriate, the Chairman will seek specific opinions utilising the non-executives' professional and general experience and capabilities. The non-executive directors provide objective, rigorous and constructive challenge to the Adviser.

13. The primary focus at regular board meetings should be a review of investment performance and associated matters such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues
The Chairman sets the agendas for the meetings, manages the meeting timetable and facilitates open and constructive dialogue during the meetings. The board has a schedule of matters specifically reserved for its decision which include the approval of budgets, setting investment and performance objectives and policies, the approval of the Company's financial statements and published reports, the approval of equity and debt fundraising and the approval of all investments.

Application of AIC Code Principles

Prior to each of the regular quarterly meetings, the directors are provided with a comprehensive set of digital papers providing information on the Company's financial position and performance, proposed investments, and other matters as required. As the Company progresses, the agenda will evolve.

14. Boards should give sufficient attention to overall strategy
The board, together with the Adviser, regularly considers the overall strategy of the Company in light of its performance and the sector overall.

15. The board should regularly review both the performance of, and contractual arrangements with, the Manager
The performance of the Adviser and of the Manager are to be assessed on a regular basis by the Management Engagement Committee. As the Company has not completed a full year of activity, a formal evaluation has yet to be conducted.

16. The board should agree policies with the Manager covering key operational issues
The board is working with the Adviser towards an agreed set of policies covering key operational areas. The implementation of such policies will be subject to regular, independent review. Further details of the review of internal controls are set out in Accountability on pages 46-48.

17. The board should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it
The board monitors the performance of the Company's share price both on an absolute level and relative to the prevailing Net Asset Value per ordinary share. The directors have at their disposal the authority to buy back or issue ordinary shares (within certain parameters) which would allow them to address anomalies in the performance of the ordinary shares, if necessary. The board works with the Company's Adviser and Broker to maintain regular contact with the investors and monitor investor sentiment.

18. The board should monitor and evaluate other service providers
The performance of the other service providers is assessed on a regular basis by the Management Engagement Committee (except for the independent auditor). As the Company has not completed a full year of activity, a formal evaluation of the other service providers has yet to be conducted, including that of the independent auditor by the Audit Committee.

Shareholder Communications

19. The board should regularly monitor the shareholder profile of the Company and put in place a system for canvassing shareholder views and for communicating the board's views to shareholders
Representatives of the Adviser have met regularly with shareholders since the flotation in March 2017, and have provided the board with feedback on shareholder views and concerns. Please see Relations with shareholders for further information on page 55.

The directors make themselves available at general meetings to address shareholder queries. The Annual General Meeting, in particular, provides the board with an important opportunity to make contact with shareholders, who are invited to meet the board following the formal business of the meeting.

20. The board should normally take responsibility for, and have direct involvement in, the content of communications regarding major corporate issues even if the Manager is asked to act as spokesperson
All communications with shareholders are discussed and shared with the board. Any communications regarding major corporate issues are approved by the board prior to release.

21. The board should ensure that shareholders are provided with sufficient information for them to understand the risk:reward balance to which they are exposed by holding the shares
The board places great importance on communication with shareholders. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders twice a year by way of the Interim Report and Annual report, particularly the Strategic report. The Strategic report is set out on pages 1-31 and this provides information about the performance of the Company, the Investment Policy, strategy and the risks and uncertainties relating to the Company's future prospects.

This is supplemented by frequent notifications via a regulatory information service on developments such as asset acquisitions, and fundraising activities, and the Company's website at http://www.impactreit.uk is regularly updated.

Leadership

The board and its responsibilities

The directors are responsible for managing the business affairs of the Company in accordance with the Articles and the investment policy and have overall responsibility for the Company's activities including its strategy, investment activities and reviewing the performance of the portfolio.

The board has a clearly articulated set of matters which are specifically reserved to it and this is reviewed annually. These include:

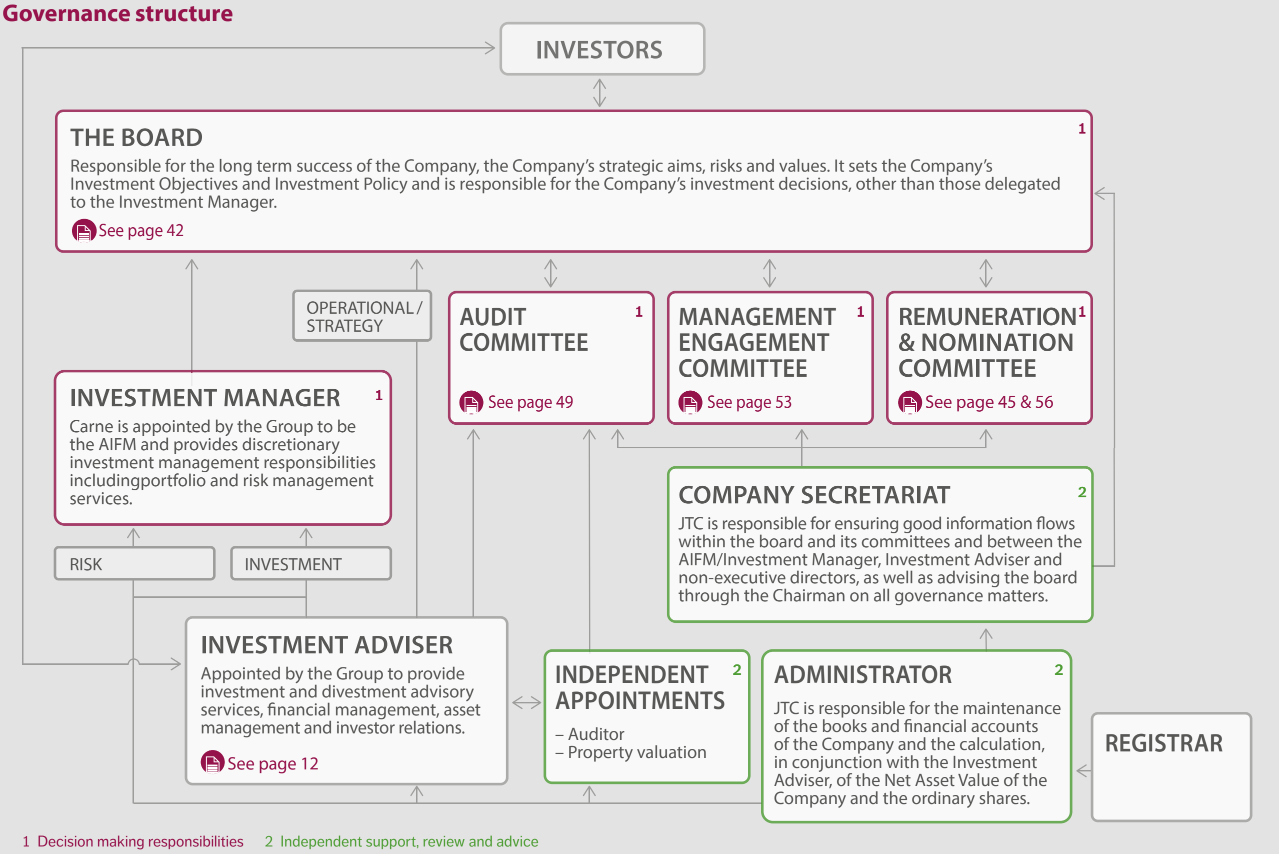
- Any decision likely to have a material impact on the Group from any perspective including, but not limited to, financial, operational, strategic or reputational.
- The strategic direction of the overall business, objectives, budgets and forecasts, levels of authority to approve expenditure, and any material changes to them.
- The commencement, material expansion, diversification or cessation of any of the Group's activities.
- The Group's regulatory, financial and material operational policies.
- Changes relating to the Group's capital, corporate, management or control structures.
- Material capital or operating expenditures, outside pre-determined tolerances or beyond the delegated authorities.
- Any material contract or joint venture and material arrangements with customers or suppliers.

We may delegate certain functions to other parties such as the board committees, the Investment Adviser, the Investment Manager, the Administrator, the Company Secretary and the Registrar; we have not delegated powers to our subsidiary companies. In particular, we have delegated responsibility for day-to-day management of the investments comprised in the Company's portfolio to the Investment Adviser. The directors have responsibility for exercising supervision of the Investment Adviser.

The full set of matters reserved to the board are available on our website at http://www.impactreit.uk/documents

The biographies of the members of the board and their committee memberships are set out on pages 42-43.

Governance structure



Leadership

Board committees

The board has created three standing committees: the Audit Committee, the Management Engagement Committee and the Remuneration & Nomination Committee. Details of these committees are set out in their reports, on pages 49, 53, and 45, respectively.

After the appointment of Paul Craig, the board decided that it could no longer undertake the functions of a Nomination Committee or a Remuneration Committee as Paul was not deemed to be independent. As a consequence, the decision was taken to form a Remuneration & Nomination Committee comprised of the independent directors, under the chairmanship of Rosemary Boot.

All of the independent directors serve on the other committees of the board, so the links and overlaps between the responsibilities of the committees are fully recognised and each committee has full knowledge of the business and deliberations of the other committees.

In addition, the Investment Manager, as AIFM, has created a Risk Committee, comprised of members of its own staff and that of the Investment Adviser for the purposes of monitoring the risk management framework of the Company. More details of this committee's activities are set out in Accountability on page 46.

The Terms of Reference of the committees are available on our website at http://www.impactreit.uk/documents

Alternative Investment Fund Manager Directive ("AIFMD")

The Company is an Alternative Investment Fund ("AIF") for the purposes of the AIFMD and related regimes in EEA member states.

The Company has registered with the UK Financial Conduct Authority and the Central Bank of Ireland, pursuant to Article 42 of AIFMD, to market the Shares in the UK and Ireland under their respective national private placement regimes.

Service and support

The Company has no employees and is externally managed by the Investment Adviser and Investment Manager (as the mandatory Alternative Investment Fund Manager), supported by the Administrator.

The Investment Adviser
The Company has appointed Impact Health Partners LLP to provide investment advice to the Company in respect of the assets of the Group and to provide the day-to-day management of those investments.

The Investment Manager
The Company has appointed Carne Global AIFM Solutions (C.I.) Limited ("Carne") to act as its AIFM. Carne is authorised by the Jersey Financial Services Commission to act as an AIFM on behalf of AIFs in accordance with the Financial Services (Jersey) Law 1998.

The Administrator
JTC (UK) Limited (JTC) has been appointed as Administrator and Company Secretary to the Company.

The Management Engagement Committee formally reviews the performance of the Investment Adviser, the Investment Manager and the Administrator each year and makes recommendations to the board as it considers appropriate. Further details of these reviews, and the relationships with the Investment Adviser, Investment Manager and Administrator are given in the Management Engagement Committee Report on page 53.

As Administrator, JTC on behalf of the directors, is responsible for the maintenance of the books and records, the management and financial accounts, and the management of all cash movements of the Company and the calculation, in conjunction with the Investment Adviser, of the Net Asset Value of the Company.

As Company Secretary, JTC is also responsible for the production of the Company's accounts, regulatory compliance and providing support to the board's corporate governance process and its continuing obligations. In addition, JTC is responsible for liaising with the Company, the Investment Manager, the Investment Adviser and the Registrar in relation to the payment of any dividends, as well as general secretarial functions required by the Companies Act.

The directors have access to the advice and services of the Administrator. Where necessary in carrying out their duties, the directors may seek independent professional advice and services at the expense of the Company.

Meetings and attendance

Member	Board	Audit Committee	Management Engagement Committee	Remuneration & Nomination Committee
Rupert Barclay (Chairman)	3/3	2/2	0/0	0/0
Rosemary Boot	3/3	2/2	0/0	0/0
David Brooks	3/3	2/2	0/0	0/0
Paul Craig	2/2*	n/a	n/a	n/a
Philip Hall	3/3	2/2	0/0	0/0

* Was not a director for the full term

The board meets formally on a quarterly basis and our attendance is shown in the table above. We also have ad hoc meetings which are generally called to approve specific announcements or transactions and frequently involve a quorate sub-committee of the board, which is appointed as necessary. The table above gives the names of all of the directors who served since the IPO and shows each individual director's attendance at the scheduled board and committee meetings for which they were eligible to attend during the year.

JTC attend all our meetings as Secretary to the board. In addition, we invite representatives of the Investment Adviser, the Investment Manager, our external auditor and other advisers to attend as required.

The board agenda

At our quarterly meetings, the board follows a formal agenda. This agenda generally includes, amongst other things:

- The Investment Adviser's report for the period, including strategic performance and acquisitions, a review of the performance of the investments, operator performance and market conditions.
- The AIFM report for the period, including discussion of risk.
- Financial results against budget and cash flow forecasts, including dividends declared and forecast.
- Reports and updates on shareholder and investor communications.
- The Corporate Governance and Secretary's Report, with a review of policies and procedures, a compliance report and an update on legislative/regulatory obligations as appropriate.
- Recommendations and updates from the board committees as appropriate.

Key activities of the board during 2017

- The primary focus at regular board meetings has been on delivering the strategy and monitoring performance against our strategic objectives (see the Strategic report on pages 1-31 for more details). This included:
  - Considering our capital structure.
  - Discussing and approving our second portfolio acquisition, subject to Care Quality Commission approval. Part of the benefit of this acquisition is an increase in tenant diversity.
  - Raising additional funds through a placing in November 2017.
- Driving the asset management programme through the approval of three significant extensions of capacity, whilst ensuring that the hurdle rates of return meet our investment criteria.
- Strengthening the board's capabilities with the appointment of Paul Craig.
- Forming the Remuneration & Nomination Committee, chaired by Rosemary Boot.

Board of directors

Rupert Barclay FCA, Chairman

Independent on appointment, aged 61
Appointed: 16 January 2017, length of service 11 months
Committees: Management Engagement (Chair), Audit, Remuneration & Nomination

Rupert has a range of experience serving as chairman, chairman of the audit committee and as non-executive director of listed and quoted companies including Sanditon Investment Trust plc, (where he currently serves as Chairman), Lowland Investment Company plc (where he was a director and chairman of the audit committee and Dimension Data plc (where he was the senior independent director) and Instinet, Inc.

He has an MA in Classics from Cambridge, an MBA with Distinction from INSEAD and is a fellow of the Institute of Chartered Accountants in England & Wales.

Other current directorships/ memberships

- Sanditon Investment Trust plc, 2014-present. Chairman
- Cairneagle Associates LLP, 2004-present. Managing partner
- Foundations Inn plc, 2017-present
- Royal Collections Trust, 2014-present, Audit Committee

Rosemary Boot

Independent non-executive director, aged 55
Appointed: 16 January 2017, length of service 11 months
Committees: Remuneration & Nomination (Chair), Audit, Management Engagement

Rosemary served as the chief financial officer of Future Cities Catapult, one of a network of technology and innovation centres established by the UK Government. She has also previously served as an executive director and strategy adviser at a large housing association, Circle Housing Group, and as group finance director of the Carbon Trust, an independent company set up in 2001 to work with business and the public sector to accelerate the move to a sustainable, low carbon economy.

Previously, Rosemary worked for 16 years as an investment banker at UBS Warburg, primarily advising large listed UK companies on corporate finance matters.

Other current directorships/ memberships

- Southern Water Services Limited, 2015-present. Independent NED and Chair of Audit & Risk Committee
- The Green Alliance, 2014-present. Trustee and Member of Finance & Management Committee
- The Conservatoire for Dance and Drama 2011-present. Independent Governor and Member of Finance Committee

David Brooks FCA

Independent non-executive director, aged 70
Appointed: 16 January 2017, length of service 11 months
Committees: Audit (Chair), Management Engagement, Remuneration & Nomination

David worked for Grant Thornton (and its predecessor firms) from 1972, when he joined as an auditor, a partner from 1973 to 2010 when he retired as national Head of M&A. He previously served as Head of London Lead Advisory and Joint Head of National Corporate Finance. During his career at Grant Thornton, David advised on over 100 UK mid-market M&A transactions and since 2000 specialised in the healthcare and food sectors.

He serves as a non-executive on a number of private company boards, including Wealmoor Limited and Import Services Limited. He previously served on the board of Balhousie Care Group Ltd.

He qualified as a chartered accountant in 1972 and is a fellow of the Institute of Chartered Accountants in England & Wales.

Other current directorships/ memberships

- Import Services Limited, 2015-present, non-executive director
- Wealmoor Limited, 2013-present, non-executive director
- Lampida Limited, 2010-present, owner and director

Paul Craig

Non-executive director, aged 48
Appointed: 30 June 2017, length of service six months

Paul is a portfolio manager at Old Mutual Global Investors. He has over 20 years of investment experience, including 10 years at Exeter Investment Group, six years at New Star Asset Management as a director of the asset management subsidiary, and six years as a director within the multi-manager investment team at Henderson Global Investors. Over the past 18 years, Paul's focus has been on multi-manager products, with an emphasis on closed-ended funds.

Paul is currently a non-executive director of The Diverse Income Trust plc, Ground Rents Income Fund plc and Hadrian's Wall Secured Investments Limited, and is an associate of the UK Society for Investment Professionals. Old Mutual Global Investors has an interest in the Company through funds managed by Paul.

Other current directorships/ memberships

- The Diverse Income Trust plc, 2011-present, director
- Ground Rents Income Fund plc, 2012-present, director
- Hadrian's Wall Secured Investments Limited, 2016-present, director

Philip Hall

Independent non-executive director, aged 63
Appointed: 16 January 2017, length of service 11 months
Committees: Audit, Management Engagement, Remuneration & Nomination

Philip is a chartered surveyor with over 25 years of experience in the healthcare sector in the UK and internationally. He is currently a director of Deben Healthcare Consultancy and a senior adviser to Jones Lang LaSalle ("JLL"), having stepped down from his role as chairman for healthcare at JLL in December 2017. He has advised on primary healthcare premises, residential care and nursing homes (including those for learning disabilities/mental health clients), hospitals, extra care, domiciliary care and dental practices/dental laboratories. He has also advised more broadly in the social care sector, including on children's homes and day nurseries. In particular, he has advised on the restructuring of Southern Cross and its legacy and was a member of its landlord committee which steered the wind up of Southern Cross and the transfer of its residents and staff to new operators. He has also advised on a number of lease and loan restructuring transactions, capital expenditure programmes and turnaround strategies.

Before joining JLL, Philip was a founding shareholder and managing director of Taylors Business Surveyors and Valuers Ltd, a chartered surveying company, which he sold in 2005. In addition, he is the author of *"The Valuation of Care Homes, Valuation: Principles into Practice"*, which was published in 2008. Philip is a member of the Royal Institution of Chartered Surveyors.

Other current directorships/ memberships

- Deben Healthcare Consultancy, 2017-present, director

Investment Adviser

Andrew Cowley MA (Oxon), Managing Partner
Andrew is an experienced fund manager, working in infrastructure and private equity investment since 2000.

He was a senior managing director at Macquarie and deputy chief executive of the listed Macquarie Airports. Before this, he was a Managing Director at Allianz, responsible for investments in alternative assets; a director of Kleinwort Benson and chairman of Dresdner Kleinwort Benson's business in Russia; he began his career at SG Warburg.

Andrew has served on company boards, including various international airports, Moto Holdings, Creative Broadcast Services and as chairman of Halterm Container Terminal in Canada.

Mahesh Patel ACA, Managing Partner
Mahesh is a qualified accountant who has over 30 years' experience in healthcare-related industries and assets, including positions in finance.

Prior to 2006, he built up and then sold three healthcare-related businesses, Highclear and Kingsclear (focused on residential care for the elderly) and a supported living business, Independent Living. In addition he is also a co-founder and director of Precision Dental, which invests in dental laboratories.

Mahesh has helped found and grow the residential healthcare for the elderly groups Minster and Croftwood, along with Pathways Care, which provides specialist support for people with various disabilities.

David Yaldron FCA, Finance Director
David has over 20 years' experience, having held senior financial roles in real estate and investment companies.

From 2012, David was a director at Grosvenor, Britain & Ireland responsible for projects and new investments, eventually becoming the senior director responsible for all investments, developments and strategic land activities outside London.

Prior to Grosvenor, David worked for Europa Capital, managing its corporate investments and divestments across Europe and before this was Head of Investment Monitoring at Coller Capital.

David trained and spent the first 10 years of his career at KPMG, working in the Transaction Services team.

Effectiveness

Process used in relation to initial board appointments

The independent directors and the Chairman were all appointed prior to the flotation of the Company and were selected for their experience and diverse capabilities. They are all offering themselves for election at our first AGM.

At our first board meeting, and prior to the establishment of the Remuneration & Nomination Committee, the board discussed its diversity and experience. The board deemed its experience to be strong in healthcare, investment trusts, corporate finance, strategy and real estate, but felt the Company should benefit as soon as possible from the experience of an established investment manager, to support the board and challenge the Investment Adviser from a different perspective.

As the board felt that this enhancement to the board's capabilities should be achieved quickly, it did not consider it appropriate to incur potential delay, and additional cost, by appointing an external search consultancy. Rupert Barclay interviewed Paul Craig, who manages funds which, together, are owned by the largest shareholder in the Company, Old Mutual Global Investors. Rosemary Boot had satisfactory discussions with the Company's broker, Winterflood, regarding Paul's experience as a director of other companies in which he had invested. As a consequence, the board approved Paul's appointment as a Non-executive director. Paul will also offer himself for election at our first AGM.

Board evaluation

As the Company has not yet completed a full cycle of activity, a board evaluation was not undertaken during the period.

Annual re-election

The directors are all standing for election at the AGM. Our view is that each of the directors standing for election should be appointed, as we believe that they have the skills required for the board to discharge its responsibilities, as outlined in each of their biographies set out on pages 42-43, have demonstrated those skills during our first year of operation, and have the time and commitment to contribute to the success of the Company.

Remuneration & Nomination Committee report

The creation of the committee and approval of its Terms of Reference took place in October 2017. We are following with interest the consultation this year on proposed significant changes to the UK Corporate Governance Code, along with the Government's planned legislation. We will take these into account as appropriate in the committee's work in the future.

Committee membership

After the appointment of Paul Craig, the board decided that it could no longer undertake the functions of a Nomination Committee or a Remuneration Committee as Paul was not deemed to be independent. As a consequence, the decision was taken to form the Remuneration & Nomination Committee, comprised of the independent directors.

The Remuneration & Nomination Committee membership is:
Rosemary Boot (Chairman)
Rupert Barclay, David Brooks and Phil Hall

The Remuneration & Nomination Committee will meet as and when required but will meet formally at least once a year. For the period under review, we have not yet held a meeting of the Remuneration & Nomination Committee because the Company has not completed a full annual cycle.

JTC will attend all our meetings as Secretary to the committee. In addition, we will invite representatives of the Investment Advisers to attend as required.

Diversity

The board recognises the benefits that diversity brings. Our approach is to appoint the best possible candidate, considered on merit and against objective criteria (and in accordance with the Equality Act 2010), rather than to set quotas for a particular aspect that may deflect from achieving this fundamental target every time. At the date of this report, 20% of the board was female. We will consider introducing a diversity policy at our first meeting.

Role

The committee has two roles with various functions, the most important of which are:

Remuneration

- Determining, and agreeing with the board, the framework and broad policy for the remuneration of the board and to review the ongoing appropriateness and relevance of the remuneration policy to meet the needs of the Company. It will take into account all factors which it deems necessary including relevant legal and regulatory requirements, the principles of the AIC Code, the provisions of the UK Corporate Governance Code and their associated recommendations and guidance.
- Agreeing the policy for the authorisation of claims for expenses by the directors.

Nomination

- Reviewing annually the structure, size and composition (including the skills, knowledge and experience) required of the board and making recommendations to the board with regard to any necessary changes.
- Considering the succession planning and replenishment of directors as the board and Company progresses, identifying and nominating candidates to fill board vacancies as and when they arise, and taking into account the challenges and opportunities facing the Company, and what skills and expertise are needed on the board for the future.
- Reviewing annually the time required from the directors and using performance evaluation to assess whether the directors are spending enough time on their duties.
- Considering the recommendations for re-election on retirement, and also the re-appointment of any director at the conclusion of his/her specified term of office.
- Taking into account all factors which it deems necessary to fulfil this role, including relevant legal and regulatory requirements, the principles of the AIC Code, the provisions of the UK Corporate Governance Code and any associated recommendations and guidance.

The full Terms of Reference of the Remuneration & Nomination Committee are available on our website at http://www.impactreit.uk/documents.

Rosemary Boot Committee Chair
21 March 2018

Accountability

Introduction

The responsibilities of the board for audit, reporting, risk management and internal control are covered in this section of the Corporate Governance Statement. This has been presented in two parts. The first part concerns the elements that the board and directors own collectively. The second part is the Audit Committee Report and covers elements that have been delegated, especially on audit and key financial judgements.

Approach to risk management and internal control

The directors acknowledge their responsibility for maintaining the Company's system of internal control and risk management, in order to safeguard the Company's assets. This system is designed to identify, manage and mitigate the financial, operational and compliance risks that are inherent to the Company, and to manage rather than eliminate the risk of failure to achieve business objectives. As such, it and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

As part of each board meeting during the period, the directors reviewed the financial position of the Company and assessed any risks in relation to the Company's business model and the Group's future performance, liquidity and solvency.

To facilitate this process the Investment Adviser produced financial reports, which included the latest management accounts, a review and report on the Company's financial model, substantiation of any dividend payments and a general update on the financial health of the Company.

A review of the principal business risks of the Company is performed annually. The Company's principal risks can be found on pages 22-24 of the Annual report.

The board considered whether the Company should employ an internal audit function during 2017 and concluded that, due to the Company's structure, the nature of its activities and taking into account the controls already in place and, more particularly, the external service already provided by the Administrator and the Manager, an internal audit function was not necessary.

As part of the internal risk review, we identified that whilst the Administrator has its own internal audit performed on an annual basis, from which the Company reviews any findings and takes particular comfort, the Company should also independently assess whether these controls are sufficient and if they operate effectively.

The Risk Committee

A combination of the risk systems of the Manager's, acting in its capacity as AIFM, and the Investment Adviser's risk systems are used to identify, monitor, measure and manage portfolio risk within the Company. A Risk Committee ("Committee") has been established by the Manager for the purposes of monitoring the risk management framework of the Company. The Risk Committee has responsibility for overseeing the performance of the risk management function and monitoring the effectiveness of the controls in place to mitigate risk at a Company and Group level.

The committee is appointed by, and reports to, the board of the Manager and from the Manager to the board of the Company. The membership of the committee is drawn from the Manager and Investment Adviser.

Committee activities

The committee ensures that Market Risk, Liquidity Risk, Counterparty Risk, Credit Risk, Regulatory Risk and Operational Risk are identified, measured, monitored and managed in line with the Company's Risk Management Framework and consistent with the Company's stated strategy and risk policies.

The committee is a key part of the control and governance framework for the Manager, ensuring it establishes, oversees and monitors appropriate management information, risk controls, risk management practices, processes and control framework within the agreed business risk appetite. This provides the effective oversight of risk in respect of the Company, to which it acts as Manager, whilst fulfilling the requirements of the Alternative Investment Fund Managers Directive ("AIFMD").

Operational risks

The Risk Committee identifies and logs key investment and operational risks of the Company in a Risk Register and measures the likelihood and impact of each risk. Operational risks are reviewed on a regular basis and any issues arising are investigated and appropriate remedies are put in place.

Oversight and reporting

The Risk Committee receives regular reports from the Company's service providers, including the Investment Adviser and the Administrator. Examples of such reports include:

- A portfolio risk overview is produced quarterly by the Investment Adviser which includes a number of measurements and analytics of relevance to the strategy employed in the Company.
- A quarterly operational risk report which provides an overview of the current operational risk profile of the Company and the effectiveness of related remedial activities.
- The Administrator provides quarterly NAV reporting for the Company.
- The Administrator provides input into the quarterly risk review matrix/reporting.
- The Administrator as Company Secretary provides a quarterly secretary's report covering compliance and regulatory reporting.

The Risk Committee meets on a quarterly basis to review the reporting received from the service providers to the Company to ensure that risk issues are identified and documented, appropriate controls are in place to mitigate risks, and action is being taken against risks outside agreed risk tolerances. The committee addresses any risk-related issues and escalates to the board of the Manager and to the Company board, if necessary.

The Manager presents a quarterly risk report to the Company board. The report summarises the findings of the Manager as a consequence of its risk monitoring function, including details of any significant incidents.

Stress tests, scenario analysis and robust assessment of principal risks

The Risk Committee conducts periodic stress tests and scenario analysis to assess the vulnerability of the portfolio to extreme or unusual market events or conditions. The limits and restrictions are monitored by both the Investment Adviser and the Manager. The Manager also monitors to see if limit levels are being approached and ensures that the Investment Adviser has appropriate procedures in place to ensure that limits are not breached. Appropriate escalation procedures are in place to ensure that any breach is investigated and, if necessary, reported to the Company's board.

During the period, the Risk Committee, on behalf of the board, also conducted a robust assessment of the principal risks to the Company's business model, future prospects, solvency and liquidity. This process incorporated information from the periodic stress tests and scenario analyses conducted during the year and involved the appraisal of the impacts and likelihoods of the risks before and after mitigations were applied. An evaluation of the residual risk indicates its materiality for the purposes of the necessary disclosures in the annual report. This assessment forms the basis of the statement made by the board with regard to this topic on page 34. Our principal risks and uncertainties are set out on pages 22-24.

Internal Control processes

The Group's internal control systems include a detailed authorisation process, formal documentation of all transactions, a robust system of financial planning (including cash flow forecasting and scenario testing) and a robust appraisal process for all property investments. Changes to internal controls, or controls to respond to changing risks identified, are addressed by the Risk Committee with appropriate escalation to the board as required.

The directors along with the Investment Adviser and Administrator, have established an internal control framework to provide reasonable assurance on the effectiveness of internal controls. This covers capital expenditure approval and authorisation of capital funding, Investment acquisition and disposal approval, annual budget approval, expenditure and supplier contract approval, NAV and Dividend authorisation, equity and debt approval and formal communications with investors.

These have been presented and approved in the form of a controls matrix and incorporates authorisation by the board or delegated responsibility to individual board members or the Investment Adviser.

The board receives and considers quarterly reports from the Investment Adviser, giving full details of the portfolio and all transactions and of all aspects of the financial position of the Group. Additional ad hoc reports are received as required and directors have access at all times to the advice and services of the Company Secretary, who is responsible to the board for ensuring that board procedures are followed and in compliance with applicable rules and regulations.

The board also reviews and discusses the formal annual risk assessment conducted by the Risk Committee, led by the Investment Manager, with quarterly updates and assessments against these risks.

The board confirms that, in accordance with the AIC Code and Guide, it has established a continuing process for identifying, evaluating and managing the risks the Company faces and has reviewed the effectiveness of the internal control systems.

Accountability

Financial reporting

The Group, with the support of its Investment Adviser and Administrator, has internal control and risk management arrangements in relation to the Group's financial reporting processes and the preparation of its consolidated accounts. Internal management reporting and external statutory reporting timetables and delivery requirements are being established and documented. Control of these is maintained by the Administrator and communicated regularly.

The arrangements include procedures implemented by the Administrator to ensure the maintenance of records which accurately and fairly reflect transactions. These are reviewed and commented on by the Investment Adviser to confirm the appropriate treatment.

Where new reporting standards or financial reporting approaches are being adopted, either as a result of changing regulation or as a result of new contractual arrangements, the Administrator, in collaboration with the investment advisor, prepares an assessment of this treatment and discusses this with the Audit committee. Where required, third party advisers are consulted. This enables the preparation of financial statements in accordance with International Financial Reporting Standards (as adopted by the EU) or FRS 102, as appropriate, with reasonable assurance and requiring reported data to be reviewed and reconciled with appropriate monitoring internally and by the Audit Committee.

Ongoing financial performance is monitored through regular reporting to the Investment Adviser by the Administrator. Capital investment and all revenue expenditure is regulated by a budgetary process and authorisation levels, with post-investment and period end reviews as required. A budget is prepared by the Investment Adviser, approved by the board and monitored and reported against quarterly with the board and more regularly with delegated responsibility with individual directors. Expenditure and investment is then tracked by the Administrator against these budgets.

Review of risk management and internal control

The board conducted an annual detailed review of risk management and internal control. This was facilitated by a report with quarterly updates from the Risk Committee, augmented by JTC. JTC also provided a report on its internal controls in accordance with ISAE 3402, with independent assurance from PricewaterhouseCoopers.

Audit Committee report

Since our IPO in March 2017, the Audit Committee has overseen the Company's first cycle of financial reporting and addressed areas of compliance and legislation within the committee's areas of responsibility.

Key activities relating to the 2017 financial period

- Recommended to the board that the Annual report and accounts for 2017, taken as whole, were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
- Reviewed the Interim Report 2017 and recommended the same to the board.
- Monitored the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance and reviewed any significant financial reporting judgements contained in them.
- Ensured the processes and controls expected from our operating structure are embedded and working effectively, with appropriate control and independence on decision making activities.
- Appointed the external auditor after a competitive tender process.
- Reviewed and monitored the independence and objectivity of the auditor and the effectiveness of the audit process.
- Reviewed and considered the basis of the going concern and viability statement made by the directors; see page 25.
- Developed an approach on the engagement of the auditor to supply non-audit services, including the safeguarding of the auditor's objectivity and independence.
- Ensured the appropriate use of Accounting policies in the newly incorporated business with particular attention on IFRS 13 and the valuation of investment properties as well as IAS 17 and recognition of lease income.

The main matters discussed by the audit committee during the year were:

- Appointment of external auditors
- Interim report 2017 including public statement
- Audit planning for 31 December 2017
  - Materiality levels
  - Assessment of audit risks
  - Audit strategy, scope and objectives
  - Interaction with third parties on the valuation and ownership of assets and REIT compliance
  - Fair value accounting
- Accounting policies including acquisition accounting
- Scope and independence of the auditors

Committee membership

David Brooks (Chairman)*
Rupert Barclay, Rosemary Boot and Phil Hall

Rupert, Rosemary and I are considered to have recent and relevant financial experience, as we have audit, accountancy or chief financial officer experience, in addition to our various board directorships. Both Rupert and I are chartered accountants.

The board has also concluded that the audit committee as a whole has competence relevant to the sector in which the Company operates, bringing a broad range of skills and experience to bear.

Relevant experience and competence

David Brooks FCA: healthcare sector experience; senior management positions including non-executive board membership; M&A, corporate finance, accountancy and audit

Rupert Barclay FCA: senior management positions in listed and private companies, including executive and non-executive board membership; M&A and strategy

Rosemary Boot: social care and housing sectors; senior management positions in private companies, executive and non-executive board membership; M&A, investment banking and strategy

Philip Hall: healthcare, social care and real estate sectors; senior executive positions in a property company; surveying and valuation, and capex, turnaround and restructuring programmes

Audit Committee report

Role

The Audit Committee's role is to oversee the Company's financial reporting process, the valuation of the property portfolio, the Group's compliance with accepted accounting standards and other regulatory requirements as well as the activities of the auditors.

Terms of reference

We operate within defined terms of reference, which are available on our website at http://www.impactreit.uk/documents. The terms of reference were agreed and amended during the period to reflect the changes made to the AIC Code and Guide, legislation and best practice.

Meetings

We met twice during 2017 following the Company's corporate calendar, which ensured that the meetings were aligned to the Company's financial reporting timetable. The Company Secretary ensured that the meetings were of sufficient length to allow the committee to consider all the matters of importance and the committee was satisfied that it received full information in a timely manner to allow it to fulfil its obligations. These meetings were attended by the committee members, as well as representatives of the Investment Adviser (Impact Health Partners LLP), the Company Secretary (JTC (UK) Limited) and the auditor (BDO LLP).

I, as the committee Chairman, had regular meetings with the Company Secretary, the Finance Director of the Investment Adviser and the external auditors. Additional Audit Committee meetings are convened by the Company Secretary at my request when necessary.

In addition, as Chair of the Audit Committee, I held a number of preparatory discussions with the Finance Director of the Investment Adviser and the external auditors to ensure they delivered in line with the scope of services and were well placed to hold a constructive discussion with the Audit Committee.

Meeting attendance register

Member	Meetings eligible to attend	Meetings attended
David Brooks (Chairman)	2	2
Rupert Barclay	2	2
Rosemary Boot	2	2
Phil Hall	2	2

External auditor

During the period we considered at length the appointment, compensation, performance and independence of the Company's external auditor, BDO LLP ("BDO").

BDO was appointed as the Company's auditor following a formal tender as part of the IPO in March 2017. This was a competitive process and involved BDO, EY and Grant Thornton.

Richard Levy has been the lead audit partner since BDO's appointment. During the period we met key members of the audit team and BDO formally confirmed its independence as part of the annual reporting process. We liaise regularly with the lead audit partner to discuss any issues arising from the audit as well as its cost-effectiveness and actively challenge and negotiate the fees payable to the auditor.

We met with the auditor before the interim and annual results were prepared, to plan and discuss the scope of the audit or review as appropriate, to ensure its rigour. We then met with the auditor to discuss the details of the external audit and interim review and to consider and evaluate any findings in depth.

In assessing the performance of the auditor, we considered both the qualifications and expertise of the team proposed by BDO as well as the quality of the work produced and whether it was carried out on time and in accordance with the agreed audit plan.

We considered that the Audit team assigned to the Company by BDO had a good understanding of the Company's business. This enabled it to produce a detailed, high quality in-depth audit and permitted the team to scrutinise and challenge the Company's financial procedures and significant judgements.

The Audit Committee has recommended that a resolution to appoint BDO is proposed to shareholders at the next AGM.

Approach to non-audit work

We believe that, in some circumstances, the external auditor's understanding of the Company's business can be beneficial in improving the efficiency and effectiveness of advisory work.

In developing this approach, we have considered the Financial Reporting Council's Ethical Standard. We have reviewed the terms under which BDO is able to provide non-audit services and are satisfied with the measures put in place by BDO to preserve the Audit team's independence and to protect the confidentiality of the Company's business. Most notably, corporate due diligence is provided by separate teams within BDO and all documents and other information relating to the Company is securely stored and protected.

Of the £79,000 non-audit fees paid to BDO, the expenditure that was authorised in the period is outlined in the table below.

Work undertaken	Rationale for using the external auditor	Fee £
Reporting accountant on the Company's initial public offerings	Detailed knowledge and understanding of the business and the requirements of the exercise, having acted as reporting accountant on previous equity fundraisings for the Company. Low risk of self-interest and self-review threat, as the work is not used in the audit of the financial statements.	£60,000
Agreed upon procedures relating to 30 June 2017 interim accounts	Appointed to perform certain agreed upon procedures in relation to the 30 June 2017 interim accounts and report findings to the board.	£10,500
Audit of 30 April 2017 initial accounts of parent company	To perform the audit of the accounts of the parent company at 30 April 2017.	£8,500

The board has accepted our proposals relating to the provision of non-audit services by the auditor. We are therefore satisfied that the Audit is independent, objective and effective.

Total audit fees for the period were £73,000 and non-audit fees were £79,000. Non-audit fees as a percentage of audit fees are 108% as a result of the reporting accountants role. This is expected to reduce comfortably below 70% over a three year period.

Financial reporting and significant judgements

We monitored the integrity of the financial information published in the interim and annual financial statements and considered whether the Adviser had made suitable and appropriate estimates and judgements in respect of areas which could have a material impact on the financial statements. We sought support from the external auditor to assess these significant judgements. We also considered the processes undertaken by the Adviser to ensure that the financial statements were fair, balanced and understandable.

The Adviser and the auditor updated us on changes to accounting policies, legislation and best practice and areas of significant judgement by the Adviser. They paid particular attention to transactions which they deemed important due to size or complexity. The main areas where a significant judgement was required included the assessment over fair values of investment property, business combinations, and operating lease contracts.

Valuation of property portfolio

The property portfolio was valued by Cushman & Wakefield (CW) bi-annually in 2017, this will move to quarterly valuation in 2018.

Following production of the draft valuations by CW, the auditor met with CW to discuss and where necessary challenge the property valuations.

The Audit Committee discussed at length the approach undertaken by the auditors to gain comfort over the valuation of the assets, the methodology applied by them and the level of investigation undertaken to reach the conclusion they were satisfied with the valuation as reported. We also reviewed the assumptions underlying the property valuations and discussed these with the Adviser, and concluded that the valuation was appropriate.

The board received a copy of the valuation once it had been tested by the Adviser and after the auditor met with the Valuer.

The Company had property assets of £156.2 million at 31 December 2017, as detailed on the Group Statement of Financial Position. As explained in note 11 to the financial statements, CW independently valued the properties in accordance with IAS 40: Investment Property. The total portfolio valuation at the year end was £156.2 million.

We discussed with the auditors what could be improved in the approach undertaken in relation to the valuation. It was agreed that the move to quarterly valuations from the beginning of 2018 will improve the overall timeliness of reporting any changes in asset values. It was further agreed that there should be an established process to provide the valuer with the latest tenant trading information up to the date the valuation is finalised. This will provide comfort in future to the board, the audit committee and the auditors that the valuation is accurate and reflective of the period to which it relates. It was confirmed that this was undertaken for the current valuation but the process and approach could have been clearer.

Business combinations

At the time of acquiring a subsidiary that owns investment properties, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. Where the acquisitions are not judged to be the acquisition of a business, they are not treated as business combinations. All acquisitions in the period have been judged not to be acquisitions of a business.

Operating lease contracts

The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all significant risks and rewards of ownership of its properties and so accounts for the leases as operating leases.

Audit Committee report

Fair, balanced and understandable statements

The production and audit of the Company's Annual report and accounts is a comprehensive process, requiring input from a number of contributors. To reach a conclusion on whether the Company's annual report and accounts, taken as a whole, are fair, balanced and understandable, as required under the AIC Code, the board requested that the Audit Committee advise on whether we considered that the Annual report fulfilled these requirements.

In outlining our advice, we considered the detailed reviews undertaken at various stages of the production process by the Investment Adviser, Administrator, auditor and the Audit Committee, which are intended to ensure consistency and overall balance.

We then discussed with the Investment Adviser and Administrator the process of how this was put together and received a series of drafts of the Company's Annual report and accounts. These were scrutinised and discussed thoroughly at two separate Audit Committee meetings.

Additional comfort was also sought from the Investment Adviser and Administrator in relation to the conclusion reached by the board.

As a result of the work performed, we have concluded and reported to the board that the Annual report and accounts for the period ended 31 December 2017, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The board's conclusions in this respect are set out on page 36.

Effectiveness of the committee

An evaluation of the committee's effectiveness has not been undertaken as the Company has not undertaken a full annual cycle.

David Brooks Chairman of the Audit Committee
21 March 2018

Management Engagement Committee report

Introduction

We have set up a Management Engagement Committee with a membership comprised of all the independent directors of the Company: Rosemary Boot, David Brooks, Philip Hall and me, Rupert Barclay (Chair).

The Management Engagement Committee will meet as and when required but formally at least once a year. For the period under review, we have not reviewed the performance of the key service providers nor yet held a meeting of the Management Engagement Committee because the Company has not completed a full annual cycle.

JTC (UK) Limited will attend our meetings as Secretary to the committee. In addition, we will invite representatives of the Investment Adviser, the Investment Manager and our external auditor to attend as required.

Role

The committee has several functions, the most important of which are:

- To review annually the compliance by the Investment Adviser with the Company's investment policy, as established by the board, when sourcing potential investment opportunities and with the investment advisory agreement entered into between the Company and the Investment Adviser.
- To review annually the compliance by the Investment Adviser with the Company's investment policy, as established by the board, and with the investment management agreement entered into between the Company and the Investment Adviser.
- To review annually the performance of any other key service providers to the Company.

The full Terms of Reference of the Management Engagement Committee are available on our website at: http://www.impactreit.uk/documents

Investment Adviser

The Company has appointed Impact Health Partners LLP as Investment Adviser. Under the terms of the Investment Advisory Agreement, the Investment Adviser provides certain advisory services to the Group including:

- ongoing monitoring of the Portfolio and asset management; and
- sourcing potential opportunities in which the Company may invest.

Accordingly, under the terms of the Investment Advisory Agreement, the Investment Adviser is entitled to an advisory fee together with reimbursement of reasonable expenses incurred by it in the performance of its duties.

The advisory fee is 1% per annum (plus VAT) of the Company's Net Asset Value up to £500 million and 0.70% per annum (plus VAT) thereafter, payable quarterly.

In addition, the Investment Advisory Agreement imposes certain restrictions on the Investment Adviser and the Associates from acquiring, developing, leasing or operating competing businesses, and:

(a) grants the Group a right of pre-emption in respect of any investment opportunities within the Company's investment policy of which the Investment Adviser or its associates become aware;

(b) grants the Company the right to terminate the agreement upon the failure of any tenant, in which any principal of the Investment Adviser (from time to time) has a beneficial interest, to pay rent or any other sums due in excess of £50,000 under the leases or upon the winding up or liquidation of any tenant, in which any principal of the Investment Adviser or any of the Associates (from time to time) has a beneficial interest;

(c) grants the Company the right to terminate the agreement if the Financial Report provided to the Company by Minster Care Group Limited shows that its rent cover is less than 1.1 times in two consecutive financial reports or in any two financial reports in any 12 month period;

(d) grants the Company the right to seek advice from a third party property adviser in circumstances where the Investment Adviser is conflicted; and

(e) prohibits the Investment Adviser from taking any decision, or making any recommendation to the board or the Investment Manager relating to decisions on enforcement of the Group's

Management Engagement Committee report

rights on certain covenant breaches by a tenant, in which any principal of the Investment Adviser or any of the Associates (from time to time) has a beneficial interest.

The Investment Advisory Agreement may be terminated by either party on 12 months' notice, such notice not to be served before the fourth anniversary of IPO, and may be immediately terminated by either party in certain circumstances such as a material breach which is not remedied.

Investment Manager

In accordance with the terms of the Investment Management Agreement and the AIFM Directive, the Company is required to appoint an AFIM. The Company's Investment Manager is Carne Global AIFM Solutions (C.I.) Limited. The Investment Manager is authorised and regulated by the Jersey Financial Services Commission.

The Investment Manager has been appointed as a non-EU AIFM to the Company, to provide portfolio and risk management services. In this role it provides the customary services of discretionary investment management. Under the terms of the Investment Management Agreement, the Investment Manager's performance will, at all times, be subject to the supervision of the board.

Under the terms of the Investment Management Agreement, the Investment Manager is entitled to an annual management fee of £95,000 together with reimbursement of all costs and expenses properly incurred by it in the performance of its duties.

The Investment Management Agreement may be terminated by either party on six months' notice, and may be immediately terminated by either party in certain circumstances such as a material breach which is not remedied.

Administrator and Company Secretary

The Company has appointed JTC (UK) Limited ("JTC") as Administrator and Company Secretary.

Under the terms of the Administration and Company Secretarial Services Agreement, JTC as Administrator is entitled to:

(i) a set-up fee on a time cost basis capped at £10,000 in relation to the IPO and £4,000 per new entity incorporated;

(ii) an annual fee in respect of the valuation and accounting services it will provide of £50,000; and

(iii) a fee equal to 0.05% of NAV to the extent that such NAV exceeds £200 million.

As Company Secretary, JTC is also entitled to receive an annual fee of £50,000.

The Administration and Company Secretarial Services Agreement is in force and can be terminated by either party, either (i) in accordance with the agreement (e.g. in the case of a material breach of agreement or of the insolvency of a party, whereby the agreement may be terminated immediately upon notice), or (ii) provided written notice is given to the other party at least three months prior to termination.

Rupert Barclay Committee Chair
21 March 2018

Relations with shareholders

The primary objectives of our investor relations activities are to:

- Broaden and deepen understanding of the business, the expertise of portfolio management and growth opportunities.
- Increase awareness of the Company's investment case.
- Better define our market and differentiate us from our peers.
- Strengthen the relationships of the Company with the investment community.
- Achieve a strong, supportive shareholder base with on-going investment appetite.
- Ensure the board has a clear and sound understanding of the market's view of Impact Healthcare REIT.

We are committed to fostering and maintaining strong relationships with the Company's shareholders and recognise the importance of good communications. In 2017 the board continued to expand the Company's communications policy with current and future shareholders.

Mahesh Patel, Andrew Cowley and David Yaldron, from our Investment Advisers, are the Company's principal spokesmen with the Company's shareholders, the press, analysts, investors, debt finance providers and other stakeholders. Rupert Barclay, our Chairman, is also available to speak to any shareholders to discuss any matters relating to the Company. Since the year end the board has also appointed David Brooks as senior independent director and he is available to speak to shareholders.

The Investment Adviser provides the board with regular Investor Relations updates, which include major press coverage, analyst reports and shareholder feedback. In addition, Paul Craig sits on the board and brings an institutional investor's viewpoint as he represents the largest shareholder of the Company.

During the year, the Investment Adviser, working together with the Company's corporate broker and communications adviser, met with institutional investors, analysts and the financial press to update them on the Company's progress since its IPO. The Investment Adviser met again with institutional investors during the roadshow for the secondary issue of new shares in November 2017. The Adviser reports at each board meeting on investor relations and provides feedback on meetings with major shareholders and analysts. The board meets periodically, on a formal and informal basis, with the Company's corporate broker and other professional advisers in order to better understand the views of major shareholders on the Company.

AGM

Shareholders are encouraged to attend and vote at the Company's general meetings so they can discuss governance and strategy with the board and the Manager. This enables the board to better understand shareholders' views. The full board usually attends the Annual General Meeting and the directors make themselves available to answer shareholder questions at all the general meetings of the Company.

The Chairman can be contacted by emailing the Company at Impact.CoSec@jtcgroup.com

Public communications

The Company ensures that any price sensitive information is released to all shareholders at the same time and in accordance with regulatory requirements. All public information and Company announcements released through the London Stock Exchange are made available on the Company's website at http://www.impactreit.uk.

Directors' Remuneration report

Annual statement

The creation of the committee responsible for remuneration issues and the approval of its Terms of Reference took place in October 2017. Before this time the whole board undertook this role.

After the appointment of Paul Craig, the board decided that it could no longer undertake the functions of a Remuneration Committee as Paul was not deemed to be independent. As a consequence, the decision was taken to form the Remuneration & Nomination Committee, comprised of the independent directors.

No director is involved in the setting of their individual package. The general principles for remuneration were set at IPO and remain in force.

The remuneration matters facing the Company during its first year of operation were very straightforward as there were no changes in remuneration policy or quantum from the framework set out at IPO.

We expect that the committee will draw upon benchmarking and advice during the next year to provide objective data upon which to base any decisions for change. We feel it would be appropriate to conduct a review after completing a full cycle of activity with an established governance framework in place. Any changes in quantum are most likely to be driven by reflecting the demands placed on individual directors by the Company.

The Directors' Remuneration Report and the Directors' Remuneration Policy will be presented at the AGM for shareholder consideration for approval.

Rosemary Boot Committee Chair
21 March 2018

Directors' Remuneration Policy

The Company's policy is to determine the level of directors' fees with due regard to the experience of the board as a whole, the time commitment required and to be fair and comparable to non-executive directors of similar companies. The Company may also periodically choose to benchmark directors' fees with an independent review, to ensure they remain fair and reasonable. Directors' fees will be adjusted from time to time (and will be subject to shareholder approval in the subsequent AGM).

The directors may elect to apply the cash amount equal to their annual fee to subscribe for or to purchase ordinary shares.

The directors are entitled only to their annual fee and their reasonable expenses. No element of the directors' remuneration is performance related, nor does any director have any entitlement to pensions, share options or any long-term incentive plans from the Company.

The directors hold their office in accordance with the Articles and their appointment letters. No director has a service contract with the Company, nor are any such contracts proposed. The directors' appointments can be terminated in accordance with the Articles and without compensation.

Under the Company's Articles of Association, all directors are entitled to remuneration determined from time to time by the board and approved by the shareholders.

Directors' remuneration

Under the terms of their appointments as non-executive directors of the Company, each director is entitled to an annual fee of £30,000 per annum. The Chairman is paid a further £10,000 per annum in addition to this amount.

Company-wide considerations

There are no executive directors, nor are there any employees of the Company, so there are no statements to make on any consultations, comparisons, or pay and employment conditions within the Company.

Recruitment

The same Policy will be applied for any recruitment purposes.

Statement of consideration of shareholder views

The levels of remuneration were set out in the Prospectus and did not receive any negative comment from the investment community before or after the IPO. As no changes have been considered, the board felt it was not necessary to poll shareholder opinion on remuneration issues prior to the AGM. The AGM will give the opportunity for opinions to be aired and demonstrated formally through the voting process and will provide the basis for future discussions and developments.

Annual report on Remuneration (audited)

Director	Period fees Total 2017 Audited £
Rupert Barclay (Chairman)	£32,923
Rosemary Boot	£24,692
David Brooks	£24,692
Paul Craig	£15,115
Philip Hall	£24,692

1. There are no previous year figures given as this is the first report prepared as a quoted company.
2. The figures given apply to a partial year of operation, from 7 March 2017 for all except Paul Craig, who was appointed 30 June 2017.
3. In addition, each director is entitled to recover all reasonable expenses properly incurred in connection with performing his or her duties as a director. Directors' expenses for the period to 31 December 2017 totalled £100. No other remuneration was paid or payable during the period to any director.

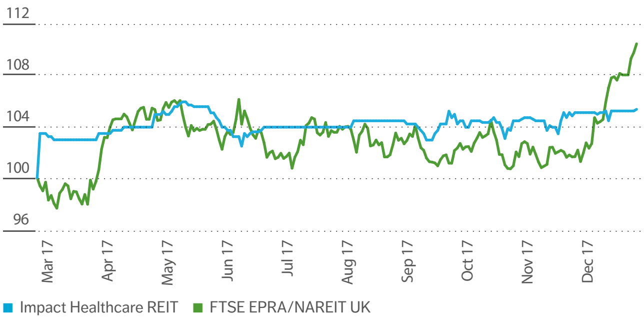
The Company maintains Directors' and Officers' liability insurance cover, at its expense, on the directors' behalf.

Payments to past directors or for loss of office

There are no payments to disclose. Under the terms of the Directors' Remuneration Policy there would be no compensation for loss of office.

Total shareholder return

The graph below shows the total shareholder return of the Company's ordinary shares relative to a return on a hypothetical holding over the same period in the FTSE EPRA/NAREIT UK Index:



Source: Bloomberg

Directors' shareholdings (audited)

There is no requirement for the directors of the Company to own shares in the Company. As at the year end, the directors held the shareholdings listed below.

Director*	Number of shares held	Percentage of issued share capital as at 31 December 2017
Rupert Barclay (Chairman)	100,000	0.1%
Rosemary Boot	30,000	0.0%
David Brooks	30,000	0.0%
Paul Craig**	39,617,784	20.6%
Philip Hall	30,000	0.0%

* Includes directors and persons closely associated (as defined by the EU Market Abuse Regulation) shareholdings.
** These shares are held by funds owned by Old Mutual Global Investors of which Paul Craig is Investment Manager

The shareholdings of the directors other than Paul Craig are not significant and, therefore, do not compromise their independence. Paul Craig has been identified as non-independent as he is an employee of the largest shareholder in the Company, Old Mutual Global Investors.

Statement of implementation of remuneration policy for financial year 2018

There is no change to the Policy, or to the levels of remuneration for the board for 2018.

Committee

The membership, activities and role of the Committee are discussed in the Remuneration and Nomination Committee Report on page 45.

External advisers

The committee has not received any external advice with respect to Remuneration and has not appointed an external remuneration adviser.

Statement of voting at general meeting

The AGM in 2018 is the first year for shareholders to vote on remuneration issues, so there is no voting to disclose in this Report.

Rosemary Boot Committee Chair
21 March 2018

Directors' report

Introduction

The directors are pleased to present the Annual report, including the Company's audited financial statements as at, and for the period ended, 31 December 2017.

The Directors' report, together with the Strategic report comprise the "Management Report", for the purposes of Disclosure Guidance and Transparency Rule 4.1.5R.

Statutory information contained elsewhere in the Annual report

Information required to be part of this Directors' report can be found elsewhere in the Annual report and is incorporated into this report by reference, as indicated below:

Financial results and dividends	page 4
Events subsequent to the year end date	page 88
Future developments	pages 1-31
Corporate Governance Statement	pages 34-55
Directors' names and biographies	pages 42-43
Manager and service providers	page 40
Directors' interests in shares	page 57
Share capital	page 85
Related party transactions	page 86
Financial instruments	page 84

Substantial shareholdings

As at 20 March 2018, the Company is aware of the following substantial shareholdings, which were directly or indirectly interested in 3% or more of the total voting rights in the Company's issued share capital:

Investor	Number of ordinary shares	% holding of issued share capital
Old Mutual	39,617,784	20.6%
Schroders	28,035,683	14.6%
Premier Asset Management	15,053,576	7.8%
Mahesh Patel	10,000,000	5.2%
Baillie Gifford & Co	10,000,000	5.2%
CCLA Investment Management	7,473,671	3.9%
Gravis Capital	7,450,000	3.9%
Brooks Macdonald	6,925,259	3.6%
Nedbank Investment Advisors	6,347,362	3.3%

Source: Winterflood Securities and DTR 5 Disclosure notices
Based on 192,206,831 ordinary shares in issue as at 31 December 2017.
No individual underlying shareholder or fund owns more than 10%.

The Company only has one class of share.

Restrictions on transfer of securities in the Company

There are no restrictions on the transfer of securities in the Company, except as a result of:

- the FCA's Listing Rules, which require certain individuals to have approval to deal in the Company's shares; and
- the Company's Articles of Association, which allow the board to decline to register a transfer of shares or otherwise impose a restriction on shares, to prevent the Company or the Manager breaching any law or regulation.
- A lock-in agreement dated 24 January 2017 entered into between the Company, Winterflood and Mahesh Patel, pursuant to which Mr. Patel has agreed, for a period of 12 months following the date of Admission on 7 March 2017 not to offer, sell, contract to sell, grant options over or otherwise dispose of, directly or indirectly any Ordinary Shares issued to him (or any vehicle owned by him) in connection with the acquisition of the Seed Portfolio (a "Disposal"). Pursuant to the terms of the Lock-In Agreement, Mr. Patel has further agreed that, save in certain limited circumstances he will not, directly or indirectly, effect any Disposal other than in accordance with the reasonable requirements of its broker (which relate to ensuring an orderly market for the Ordinary Shares) at any time during the 24 month period which begins on the first anniversary of Admission and ends on the date which is 36 months after the date of Admission.

The Company is not aware of any agreements between holders of securities that may result in restrictions on transferring securities in the Company.

Securities carrying special rights

No person holds securities in the Company carrying special rights with regard to control of the Company.

Change of control

Full relief for Stamp Duty Land Tax (SDLT) has been granted in relation to the transfer of properties between companies which are members of the Group. Should there be a change in control of the Company within three years of completion, or a single shareholder acquires a substantial stake in the Company a liability in the subsidiary companies could arise. This is equal to approximately 5% of the aggregate value of the properties and is estimated at £7.5 million on the net purchase price of assets acquired in the period.

The Company is not aware of any person who, directly or indirectly owns or controls the Company. The Company is not aware of any arrangements the operations of which may give rise to a change in control of the Company.

Directors' share dealings
The directors have adopted a code of directors' dealings in ordinary shares, which is in accordance with the Market Abuse Regulation. The board will be responsible for taking all proper and reasonable steps to ensure any dealings by directors, or persons closely associated with them, are in compliance with the Market Abuse Regulation.

Greenhouse gas emissions reporting
The board has considered the requirement to disclose the Company's measured carbon emissions sources under the Companies Act 2006 (Strategic report and Directors' report) Regulations 2013.

During the period ended 31 December 2017:

- any emissions from the Group's properties have been the tenants' responsibility rather than the Group's, so the principle of operational control has been applied;
- any emissions that are either produced from the Company's registered office or from offices used to provide administrative support are deemed to fall under the Manager's responsibility; and
- the Group has not leased or owned any vehicles which fall under the requirements of Mandatory Emissions Reporting.

As such, the board believes that the Company has no reportable emissions for the period ended 31 December 2017.

Political donations
No political donations were made during the period.

Employees
The Group has no employees and therefore no employee share scheme or policies for the employment of disabled persons or employee engagement.

Articles of Association
These are available on our website at http://www.impactreit.uk/documents or by application to the Company Secretary. Any amendment to the Company's articles of association may only be made by passing a special resolution of the shareholders of the Company.

Branches outside the UK
The Company does not have any branches outside of the UK.

Powers of the directors
The board manages the Company's business and may exercise all the Company's powers, subject to the Articles of Association, the Companies Act and any directions given by the Company by special resolution.

Powers in relation to the Company issuing its shares
Subject to company law and the Articles of Association, the directors are authorised to issue shares of such number of tranches and on such terms as they determine, provided that such terms are consistent with the provisions of the Articles.

Appointment and replacement of directors
All directors will seek election at the AGM in accordance with the Company's articles of association and the recommendations of the Code.

A director may be appointed by ordinary resolution of the shareholders in a general meeting following nomination by the board or a member (or members) entitled to vote at such a meeting. In addition, the directors may appoint a director to fill a vacancy or as an additional director, provided that the individual retires at the next AGM.

A director may be removed by the Company in certain circumstances set out in the Company's articles of association or by an ordinary resolution of the Company.

Full details of the processes by which directors can be appointed or replaced are set out in the Articles of Association.

Independent auditor
BDO LLP has expressed its willingness to continue as auditor for the financial year ending 31 December 2018.

Additional information
There are no disclosures required in accordance with LR 9.8.4 R.

Annual General Meeting
The Company's AGM will be held at 10am at Travers Smith LLP, 10 Snow Hill, London EC1A 2AL on 26 April 2018. A copy of the Notice is available on our website at: http://www.impactreit.uk.

Signed on behalf of the board by

Rupert Barclay Chairman
21 March 2018

Statements of responsibilities

Directors' statement of responsibilities

The directors are responsible for preparing the Annual report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the Group and Company financial statements for each financial year. The Group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the Company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group for that year.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS's as adopted by the European Union, subject to any material departures disclosed and explained in the Group financial statements;
- for the Company financial statements, state whether they have been prepared in accordance with Financial Reporting Standard 102 ("FRS102"), subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that its financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' report, a Strategic report, a Directors' remuneration report and a Corporate governance statement that comply with that law and those regulations. These can be found on pages 58, 1, 56 and 34, respectively.

The directors are responsible for ensuring that the Annual report and accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Disclosure of information to the Auditor

The directors who were members of the board at the time of approving the Directors' report have confirmed that:

- so far as each director is aware, there is no relevant audit information of which the Company's Auditor is not aware; and
- each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Website publication

The directors are responsible for ensuring the Annual report, including the financial statements, is made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website (at http://www.impactreit.uk) is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Article 4 of the IAS Regulation and, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole;
- the Management Report includes a fair review of the development and performance of the business and the financial position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the board by:

Rupert Barclay Chairman
21 March 2018

Independent Auditor's report

to the members of Impact Healthcare REIT plc

Opinion

We have audited the financial statements of Impact Healthcare REIT plc (the 'parent company') and its subsidiaries (the 'Group') for the period 7 November 2016 to 31 December 2017 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the parent company balance sheet, the consolidated and parent company statements of changes in equity, the consolidated statement of cash flow and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard in the United Kingdom and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice)*.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to principal risks going concern and viability statement

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 22 to 24 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 25 in the annual report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 25 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 25 in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of these matters.

Independent Auditor's report

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The table below shows the key audit matters that we identified. This is not a complete list of all risks identified for our audit.

Key audit matter	How the scope of our audit addressed the key audit matter:
Valuation of investment property (See Note 1, Note 11) The valuation of investment property requires significant judgement and estimates by the Directors and their independent valuer and is therefore considered a significant risk due to the subjective nature of certain assumptions inherent in each valuation. The Group owns care home investment properties that are leased to tenant operators under long term rental agreements. The properties are independently externally valued by Cushman & Wakefield (C&W) using the income capitalisation method. Any input inaccuracies or unreasonable bases used in the valuation judgements (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement of the consolidated statement of comprehensive income or the consolidated statement of financial position. There is also a risk that management may influence the significant judgements and estimates in respect of property valuations in order to achieve property valuation and other performance targets to meet market expectations.	We obtained an understanding of the Group's approach to the valuation of investment properties. We met C&W, who valued all of the Group's investment properties, to understand the assumptions and methodologies used in valuing these properties, the market evidence supporting the valuation assumptions and the valuation movements in the period. We assessed the competency, independence and objectivity of the independent external valuer which included making inquiries regarding interests and relationships that may have created a threat to the valuer's objectivity. We used our knowledge and experience to evaluate and challenge the valuation assumptions, methodologies and the inputs used. This included establishing our own range of expectations for the valuation of investment property based on externally available metrics and wider economic and commercial factors. We assessed the valuation of all investment properties against our own expectations and challenged those valuations which fell outside of our range of expectation. We agreed a sample of key observable valuation inputs supplied to and used by C&W to supporting documentation. We performed a reconciliation of the C&W valuation total to the aggregate fair value of the investment properties in the financial statement.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the audit and in forming our audit opinion. Materiality is assessed on both quantitative and qualitative grounds. With respect to disclosure and presentational matters, amounts in excess of the quantitative thresholds below may not be adjusted if their effect is not considered material on a qualitative basis.

Materiality	Clearly Trivial	Specific materiality	Clearly Trivial
£1.6 million	£81,000	£350,000	£17,500

Materiality

We consider materiality to be the magnitude of an omission or misstatement that, individually or in the aggregate could reasonably be expected to influence the economic decisions of the users of the financial statements.

We determined materiality for the Group financial statements as a whole to be £1.6 million, which was set at 0.8% of Group total assets. We determine the materiality of the parent company financial statements as a whole to be £1.5 million, which was set at 0.8% of the parent company total assets. This provides a basis for determining the nature and extent of our risk procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures.

We determined that the Group total assets would be the most appropriate basis for determining overall materiality as we consider this one of the principal considerations for members of the company in assessing the financial performance of the Group.

We determined the component materiality using the same bases as the Group. Impact Healthcare REIT plc has two subsidiaries at the period end, Impact Property 1 Limited and Impact Property 2 Limited.

We set a specific materiality for particular classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users of the financial statements. In this context, we applied a specific materiality of £0.35 million to those items which may affect EPRA earnings, including revenue, property expenses, administrative expenses, finance cost and finance income and taxation. This specific materiality represents 4.9% of EPRA earnings for the period.

Performance materiality

This is the application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgment was that overall performance materiality for the Group should be 50% of materiality, namely £0.8 million. We used a similar basis for specific materiality.

Reporting threshold

This is the amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report all individual audit differences in excess of £81,000 (5.1% of Group materiality) to the Audit Committee and any other differences that, in our view, warranted reporting on qualitative grounds. We have also agreed to report differences impacting EPRA earnings in excess of £17,500.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

An overview of the scope of our audit

We designed our audit by determining materiality and assessing the risks of material misstatements in the financial statements. In particular, we looked at where the Directors make subjective judgements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The Group and its subsidiaries operates solely in the United Kingdom and operates through one segment, investment property. The audit team performed all the work necessary to issue the Group and parent company audit opinions. This includes undertaking all of the audit work on the key risks of material misstatement for all the component entities.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's report

In this context, as a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we have a responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 36** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 49 to 52** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 35** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibility statement set out on page 60, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We consider that the audit procedures we have undertaken in accordance with ISAs (UK) have provided us with reasonable assurance that irregularities, including fraud, would have been detected to the extent that they could have resulted in material misstatements in the financial statements. Our audit was not designed to identify misstatement or other irregularities that would not be considered to be material to the financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the directors in September 2017 to audit the financial statements for the period ended 31 December 2017 and subsequent financial periods.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Richard Levy (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
21 March 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Littleport Grange, Littleport, Cambridgeshire

Contents

Consolidated statement of comprehensive income

For the period from 7 November 2016 to 31 December 2017

	Notes	Period ended 31 December 2017 £'000
Gross Rental Income	5	9,392
Insurance/service charge income	5	57
Insurance/service charge expense	5	(57)
Net rental income	5	**9,392**
Administrative and other expenses	6	(2,318)
Operating profit before changes in fair value of investment properties		7,074
Changes in fair value of investment properties	11	2,378
Operating profit		**9,452**
Finance income		6
Profit before tax		**9,458**
Tax charge on profit for the period	8	(1)
Profit and comprehensive income (attributable to shareholders)		**9,457**
Earnings per share – basic and diluted (pence)	9	**5.82p**

No operations were discontinued in the period.

Consolidated statement of financial position

As at 31 December 2017

	Notes	31 December 2017 £'000
Non-current assets		
Investment property	11	156,226
Trade and other receivables	12	1,651
Total non-current assets		**157,877**
Current assets		
Trade and other receivables	12	119
Cash and cash equivalents	13	38,387
Total current assets		**38,506**
Total assets		**196,383**
Current liabilities		
Trade and other payables	14	(1,221)
Total current liabilities		(1,221)
Non-current liabilities		
Trade and other payables	14	(1,712)
Total liabilities		**(2,933)**
Total net assets		**193,450**
Equity		
Share capital	17	1,922
Share premium reserve	17	140,505
Capital reduction reserve	17	41,566
Retained earnings		9,457
Total equity		**193,450**
Net asset value per ordinary share (pence)	19	**100.65p**

The consolidated financial statements were approved and authorised for issue by the board of directors on 21 March 2018 and are signed on its behalf by:

Rupert Barclay Chairman
21 March 2018

Consolidated statement of cash flows

For the period from 7 November 2016 to 31 December 2017

	Notes	Period ended 31 December 2017 £'000
Cash flows from operating activities		
Profit for the period (attributable to equity shareholders)		9,457
Finance income		(6)
Less: changes in fair value of investment properties	11	(2,378)
Increase in trade and other receivables		(1,770)
Increase in trade and other payables		2,933
Net cash flow from operating activities		**8,236**
Investing activities		
Purchase of investment properties	11	(152,154)
Acquisition costs capitalised	11	(1,184)
Capital improvements	11	(510)
Interest received		6
Net cash flow from investing activities		**(153,842)**
Financing activities		
Proceeds from issue of ordinary share capital	17	192,767
Issue costs of ordinary share capital	17	(3,488)
Dividends paid	10	(5,286)
Net cash flow from financing activities		**183,993**
Net increase in cash and cash equivalents for the period		38,387
Cash and cash equivalents at the start of the period		–
Cash and cash equivalents at the end of the period		**38,387**

Consolidated statement of changes in equity

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
7 November 2016		**–**	**–**	**–**	**–**	**–**
Total comprehensive income		**–**	**–**	**–**	**9,457**	**9,457**
Transactions with owners						
Issue of management shares	17	50	–	–	–	50
Cancellation of management shares	17	(50)	–	–	–	(50)
Issue of ordinary shares	17	1,922	190,845	–	–	192,767
Share issue costs	17	–	(3,488)	–	–	(3,488)
Transfer to capital reduction reserve	17	–	(46,852)	46,852	–	–
Dividends paid	10	–	–	(5,286)	–	(5,286)
31 December 2017		**1,922**	**140,505**	**41,566**	**9,457**	**193,450**

Notes to the consolidated financial statements

For the period from 7 November 2016 (incorporation date) to 31 December 2017

1. Basis of preparation

General information

The consolidated financial statements for the period from incorporation on 7 November 2016 to 31 December 2017, are prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the International Accounting Standards Board ("IASB") as adopted by the European Union and in accordance with the Companies Act 2006, except for the requirement to include prior period comparatives as this is the Company's first financial period since incorporation.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties which have been measured at fair value.

The Group has chosen to adopt EPRA best practice guidelines for calculating key metrics such as net asset value and earnings per share.

The Company is a public listed company incorporated and domiciled in England and Wales. The Company's Ordinary Shares are listed on the main market of the London Stock Exchange, in the Specialist Fund Segment. The registered address of the Company is disclosed in the Corporate Information.

Convention

The consolidated financial statements are presented in Sterling, which is also the Group's functional currency, and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

Going concern

The Strategic Report describes the Company's financial position. The principal risks are set out on pages 22-24 and Note 15 to the financial statements on page 84 also provides details of the Group's financial instruments, and its exposure to liquidity and credit risk.

The directors believe that there are currently no material uncertainties in relation to the Company's ability to continue for a period of at least 12 months from the date of the Company's financial statements. The board is, therefore, of the opinion that the going concern basis adopted in the preparation of the Annual Report is appropriate.

2. Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosures. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the assets or liabilities in future periods.

Judgements

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are disclosed below.

Fair valuation of investment property

The value of investment property is determined by independent real estate valuation experts, to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Each property has been valued on an individual basis. The valuation experts use recognised valuation techniques in accordance with those recommended by the International Valuation Standard Committee and are compliant with IFRS 13.

The valuations have been prepared in accordance with the RICS Valuation – Global Standards 2017 incorporating the IVSC International Valuation Standards ("the Red Book"). Factors reflected include current market conditions, annual rentals, lease lengths, and location. The significant methods and assumptions used by the valuers in estimating the fair value of investment property are set out in note 11.

Gains or losses arising from changes in the fair values are included in the consolidated statement of comprehensive income in the period in which they arise. In order to avoid double accounting, the assessed fair value may be increased or reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or lease income straight-lining assets or liabilities to the statement of comprehensive income.

Operating lease contracts – the Group as lessor

The Group has acquired investment properties that are subject to commercial property leases with tenants. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the duration of the lease terms and minimum lease payments, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

The leases are for 20 years with a tenant only option to extend for two periods of 10 years. It has been assumed at this stage that the tenants do not exercise the option to extend.

Business combinations

The Group acquires subsidiaries that own property. At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. Where such acquisitions are not judged to be the acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based upon their relative fair values at the acquisition date. Accordingly, no goodwill or deferred tax arises.

All acquisitions in the period have been judged not to be acquisitions of a business.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of consolidation

The Company holds 100% of the issued share capital in Impact Property 1 Limited ("Propco 1") and Impact Property 2 Limited ("Propco 2"). The Company and its subsidiaries, Propco 1 and Propco 2 (together "the Group") is a property investment group.

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 31 December 2017. Subsidiaries are those entities, including special purpose entities, controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Segmental information

The board is of the opinion that the Group is engaged in a single segment business, being the investment in the United Kingdom in healthcare assets.

Rental income

Rental income arising on investment properties is included in gross rental income in the consolidated statement of comprehensive income and is accounted for on a straight line basis over the lease term. The resulting asset or liability is reflecting as a receivable or payable in the consolidated statement of financial position.

The valuation of investment properties is increased or reduced by the total of the unamortised lease incentive and straight line receivable or payable balances, where relevant. Any remaining balances in respect of properties disposed of are included in the calculation of the profit or loss arising at disposal.

Notes to the consolidated financial statements

For the period from 7 November 2016 (incorporation date) to 31 December 2017

3. Summary of significant accounting policies (continued)

The initial lease rental payments and guaranteed rental uplifts are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, except for where, at the inception of the lease, the Directors have no certainty that the tenant will exercise that option.

Increased rental payments arising from the variation of the lease on capital improvement licenses are spread evenly over the remaining lease term from the date of signing the license agreement.

Income and expenses

Income and expenses are accounted for on an accruals basis. The Group's income and expenses are charged through the consolidated statement of comprehensive income.

Taxation

The Group is a REIT on its property investments is therefore exempt from tax, subject to the Group maintaining its REIT status.

Taxation arising as a result of non-REIT taxable income comprises current and deferred tax. Taxation is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised as direct movements in equity, in which case it is also recognised as a direct movement in equity.

Current tax is the expected tax payable on any non-REIT taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date.

Investment properties

Investment properties consist of land and buildings (principally care homes) which are held to earn rental income and for capital growth potential.

Investment properties are initially recognised at cost, being the fair value of consideration given, including transaction costs associated with the investment property. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period incurred and included within the book cost of the property.

After initial recognition, investment properties are measured at fair value, with gains and losses recognised in the consolidated statement of comprehensive income in the period in which they arise.

Gains and losses on disposals of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset. These are recognised in the consolidated statement of comprehensive income in the period in which they arise.

Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are initially recognised at fair value and subsequently measured at amortised cost. A provision for impairment is made when there is objective evidence that the Group will not be able to recover balances in full.

Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents
Cash and cash equivalents include cash at bank.

Dividends
Dividends are recognised when they become legally payable.

Share capital
The share capital relates to amounts subscribed for share capital at its par value.

Share premium
The surplus of net proceeds received from the issuance of new shares over their par value is credited to this account and the related issue costs are deducted from this account. The reserve is non-distributable.

Capital reduction reserve
On 12 April 2017, an application to the High Court was successfully made for the reduction of £0.30 per share of the share premium account plus £3,000,000 which allowed the transfer of £46,851,708 to the capital reduction reserve (refer to note 17). This is a distributable reserve.

Trade payables
Trade payables are initially recognised at their fair value and are subsequently measured at cost.

4. Standards issued but not yet effective
The following standards have been issued but are not effective for this accounting period and have not been adopted early:

IFRS 9 'Financial Instruments'
In July 2014, the IASB published the final version of IFRS 9 'Financial Instruments' which replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement'.

The IFRS 9 requirements represent a change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

For financial liabilities, IFRS 9 largely carries forward without substantive amendment the guidance on classification and measurement from IAS 39. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss.

The standard introduces new requirements for hedge accounting that align hedge accounting more closely with risk management and establishes a more principles-based approach to hedge accounting. The standard also adds new requirements to address the impairment of financial assets and means that a loss event will no longer need to occur before an impairment allowance is recognised.

The Group's financial assets comprise of trade and other receivables, cash and cash equivalents and trade and other payables.

Under IFRS 9 financial instruments trade and other receivables and trade and other payables would be classified and measured at amortised cost. This is in line with the current accounting policies already adopted for these financial instruments. Accordingly, no adjustments are expected with regards to the measure and classification of these financial instruments.

Notes to the consolidated financial statements

For the period from 7 November 2016 (incorporation date) to 31 December 2017

4. Standards issued but not yet effective (continued)

Under IFRS 9 expected credit losses would be recognised from the point at which financial instruments are originated or purchased. There would no longer be a threshold (such as a trigger loss event of default) before expected credit losses would start to be recognised. With limited exceptions, a 12-month expected credit losses must be recognised initially for all assets subject to impairment. For example, an entity recognises a loss allowance at the initial recognition of a purchased debt instrument rather than when an event of default by the issuer occurs. The amount of expected credit losses that are recognised would depend on the change in the credit quality since initial recognition to reflect the link between expected credit losses and the pricing of the financial instrument. With limited exceptions, IFRS 9 requires that at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

The Group's assessment in applying the new impairment approach will result in immaterial changes given the Group's requirement for tenants to pay rental payments in advance. No restatement is anticipated in the current period once the standard is adopted and becomes effective.

The standard will be effective for annual periods beginning on or after 1 January 2018. The Group will adopt IFRS 9 for the year ending 31 December 2018.

IFRS 16 'Leases'

In January 2016, the IASB published the final version of IFRS 16 'Leases'. IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise lease assets and lease liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from the previous leases standard, IAS 17.

The Group is still assessing the full impact of the new guidance under IFRS 16 on variable lease payments (including rental uplifts), lease modifications (including renewal options and breaks) and lease incentives. It is not anticipated that this standard will result in restatement in the current period once the standard is adopted and becomes effective.

The standard will be effective for annual periods beginning on or after 1 January 2019. The Group will adopt IFRS 16 for the year ending 31 December 2019.

The Group does not consider the adoption of any new standards or amendments, other than those noted above to be applicable to the Group.

5. Property income

	Period ended 31 December 2017 £'000
Rental income – freehold and leasehold property	**9,453**
Rent received in advance of recognition[1]	(1,712)
Rent recognised in advance of receipt[2]	1,651
Gross rental income	**9,392**
Insurance/service charge income	57
Insurance/service charge expense	(57)
Net rental income	**9,392**

1 Rent received in relation to the period from admission to acquisition, deemed to be a premium over the term of the leases of the seed acquisition portfolio
2 Rent recognised in the period to reflect the minimum 2% uplift in rents over the term of the lease on a straight line basis

Rent recognised in advance of receipt arises through the Group's accounting policy in respect of leases, which requires the recognition of rental income on a straight line basis over the lease term certain, including the passing rent as at 31 December 2017 which increases by RPI each lease anniversary with a floor of 2% and a cap of 4%. During the period, the rent received in advance of recognition less rent recognised in advance of receipt resulted in a net decrease in revenue and an offsetting entry is recognised in the consolidated statement of comprehensive income as a gain on investment property revaluation.

The following tenants are both part of the Minster Group and represent more than 10% of the property income:

	2017
Minster Care Management Ltd	60%
Croftwood Care UK Ltd	40%

6. Administrative and other expenses

	Period ended 31 December 2017 £'000
Investment Adviser fees (note 18)	1,609
Directors' remuneration (see below)	132
Auditor's fees[1]	
• Statutory audit of the Company and Group (including subsidiaries)	88
• Agreed upon procedures of the Company's 30 June 2017 interim report	13
• Audit of the 30 April 2017 Initial Financial Information of the Company	10
Administration fees	113
Investment Manager fees	80
Regulatory fees	14
Legal and professional	100
Other administrative costs	159
	2,318

1 The Auditor also received £72,000 for non-audit services performed relating to the Company's IPO. This amount has been included within share issues costs and deducted from the share premium account

The amounts shown above include irrecoverable VAT as appropriate.

Notes to the consolidated financial statements

For the period from 7 November 2016 (incorporation date) to 31 December 2017

7. Directors' remuneration

The Group had no employees in the current period. The Directors, who are the key management personnel of the Company, are appointed under letters of appointment for services. Directors' remuneration, all of which represents their fees for services provided during the period, are as follows:

	Period ended 31 December 2017 £'000
Rupert Barclay (Chairman)	32
Rosemary Boot	25
David Brooks	25
Philip Hall	25
Paul Craig	15
Employer's National Insurance	10
	132

Directors' remuneration for the period from incorporation to 31 December 2017 reflects fees for their services provided from the IPO on 7 March 2017, or later if appointed after this date.

Directors' remuneration payable at 31 December 2017 amounted to £7,000.

8. Taxation

As a REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions as per REIT regulations. Any non-qualifying profits and gains however will continue to be subject to corporation tax.

Tax charge in the consolidated statement of comprehensive income:

	Period ended 31 December 2017 £'000
UK corporation tax	1

Reconciliation of the corporation tax charge:

	Period ended 31 December 2017 £'000
Profit before tax	**9,458**
Theoretical tax at UK corporation tax rate (19%)	1,797
Effects of:	
Investment property revaluation not taxable	(452)
Qualifying property rental business not taxable	(1,344)
Total tax charge	1

The Company and its subsidiaries operate as a UK Group REIT. Subject to continuing compliance with certain rules, the UK REIT rules exempt the profits of the Group's UK property rental business from UK corporation tax. Capital gains on the Group's UK properties are also generally exempt from UK corporation tax, provided they are not held for trading.

9. Earnings per share

Earnings per share (EPS) amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the Company by the time weighted average number of Ordinary Shares outstanding during the period. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The number of ordinary shares is based on the time weighted average number of ordinary shares in issue from the date of the Initial Public Offering (IPO) on March 7 2017 to 31 December 2017. This excludes the period from 7 November 2016 to 7 March 2017 when the Company was dormant. Refer to note 17 for the movement in shares issued. The weighted average number of shares for the period has been calculated as 162,552,476.

	Period ended 31 December 2017 Total
Net attributable to ordinary shareholders	
Total comprehensive income (£'000)	9,457
Average number of ordinary shares	162,552,476
Basic and diluted earnings per share (pence)[1]	**5.82p**

1 There is no difference between basic and diluted earnings per share

The European Public Real Estate Association ("EPRA") publishes guidelines for calculating adjusted earnings designed to represent core operational activities.

The EPRA earnings are arrived at by adjusting for the revaluation movements on investment properties.

EPRA earnings have been adjusted to exclude the effect of straight lining of rental income in order for the board to consider the level of cash covered dividend. The upfront initial lease rental payment received for the period between incorporation and the portfolio acquisition results in an uplift in the current period.

The reconciliations are provided in the table below:

	Period ended 31 December 2017 £'000
Net attributable to ordinary shareholders	
Total comprehensive income	**9,457**
Adjusted for:	
Change in fair value of investment property during the period	(2,317)
Rental income arising from recognising guaranteed rent uplifts and initial lease rental payment	(61)
EPRA earnings	**7,079**
Adjusted for:	
Rental income arising from recognising guaranteed rent uplifts and initial lease rental payment	61
Adjusted earnings	**7,140**
Average number of Ordinary shares	162,552,476
Earnings per share (pence)[1]	**5.82p**
EPRA basic and diluted earnings per share (pence)[1]	**4.35p**
Adjusted basic and diluted earnings per share (pence)[1]	**4.39p**

1 There is no difference between basic and diluted earnings per share

Notes to the consolidated financial statements

For the period from 7 November 2016 (incorporation date) to 31 December 2017

10. Dividends

	Dividend rate (pence per share)	Period ended 31 December 2017 £'000
First interim dividend (ex-dividend on 10 August 2017)	1.5p	**2,403**
Second interim dividend (ex-dividend – 16 November 2017)	1.5p	**2,883**
Total dividends paid		5,286

Total dividends paid for the period	3.0p	
Total dividends unpaid but declared	1.5p	
Total dividends declared for the period	4.5p	

On 31 July 2017, the Company declared a fully covered dividend of 1.50 pence per ordinary share (£2.4 million in total) for the period to 30 June 2017. This dividend was a Property Income Distribution ("PID") and paid on 31 August 2017.

On 1 November 2017, the Company declared a dividend of 1.50 pence per ordinary share (£2.9 million in total) for the period from 1 July 2017 to 30 September 2017. This dividend was a Property Income Distribution ("PID") and paid on 30 November 2017.

On 1 February 2018, the Company declared a dividend of 1.50 pence per ordinary share for the period from 30 September 2017 to 31 December 2017 with an ex-dividend date on 8 February 2018. This dividend is a Property Income Distribution ("PID") and was paid on 22 February 2018 to shareholders on the register on 9 February 2018.

11. Investment property

In accordance with IAS 40: Investment Property, the properties have been independently fair valued by Cushman & Wakefield, an accredited independent valuer with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The valuations have been prepared in accordance with the RICS Valuation – Global Standards 2017 incorporating the IVSC International Valuation Standards ("the Red Book"). The valuers have sufficient current local and national knowledge of the particular property markets involved, and have the skills and understanding to undertake the valuations competently.

The valuation models prepared in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13.

The valuations are the ultimate responsibility of the Directors. Accordingly, the critical assumptions used in establishing the independent valuation are reviewed by the board.

All corporate acquisitions during the period have been treated as asset purchases rather than business combinations because they are considered to be acquisitions of properties rather than businesses.

	31 December 2017 Total[1] £'000
Opening value	–
Property additions	152,154
Acquisition costs capitalised	1,184
Capital improvements	510
Revaluation movement	2,317
Closing value per independent valuation report	**156,165**
Rental income arising from recognising guaranteed rent uplifts and initial lease rental payment	61
Closing fair value per consolidation statement of financial position	**156,226**

1 Investment properties were held freehold and long leasehold during the period.

During the period, the Group successfully acquired 57 properties with 2,527 beds. The acquisition of the seed portfolio of 56 care homes completed on 4 May 2017, for total consideration of £148.75 million. On 29 June the Group acquired Saffron Court for £3.4 million. The majority of the properties acquired are freehold except for 6 properties which are long leasehold under 999 year leases at a peppercorn rent.

Change in fair value of investment properties

The following elements are included in the change in fair value of investment properties reported in the consolidated financial statements:

	31 December 2017 £'000
Revaluation movement	2,317
Rental income arising from recognising guaranteed rent uplifts and initial lease rental payment	61
Change in fair value of investment properties	**2,378**

Notes to the consolidated financial statements

For the period from 7 November 2016 (incorporation date) to 31 December 2017

11. Investment property (continued)

Rental income arising from recognising guaranteed rent uplifts and initial lease rental payment includes the adjustments to rental receipts for the period to reflect the total minimum income recognised over the expected lease terms on a straight line basis. During the period, the Group benefited from an upfront premium to reflect a rent calculation from the date of admission. For accounting purposes, this premium is being reflected over the term of the lease. In addition, the Group benefits from a minimum annual rental uplift of 2% on all leases. For accounting purposes these uplifts are also incorporated to recognise income on a straight line basis. The elements are reporting in the table below.

	Note	Period ended 31 December 2017 £'000
Rent received in advance of recognition[1]	5	(1,712)
Rent recognised in advance of receipt[2]	5	1,651
Rental income arising from recognising guaranteed rent uplifts and initial lease rental payment		**(61)**

1 Rent received in relation to the period from admission to acquisition, deemed to be a premium over the term of the leases of the seed acquisition portfolio
2 Rent recognised in the period to reflect the minimum 2% uplift in rents over the term of the lease on a straight line basis

Descriptions and definitions relating to valuation techniques and key unobservable inputs made in determining fair values are as follows:

Valuation techniques used to derive fair values

The valuations have been prepared on the basis of market value which is defined in the RICS Valuation Standards as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion." Market value as defined by RICS Valuation Standards is the equivalent of fair value under IFRS.

Unobservable inputs

These include: estimated rental value ("ERV") based on market conditions prevailing at the valuation date; estimated average increase in rent based on both market estimations and contractual situations; equivalent yield (defined as the weighted average of the net initial yield and reversionary yield); and the physical condition of the property determined by inspections on a rotational basis. A decrease in the ERV would decrease fair value. A decrease in the equivalent yield would increase the fair value. An increase in the remaining lease term would increase the fair value.

Sensitivity of measurement of significant unobservable inputs

Initial yields range from 5.5% to 9% across the portfolio.

A 0.25% movement of the valuation yield would have approximately a £5.2 million impact on the investment property valuation. A 1% movement in the rental income would have approximately a £1.6 million impact on the investment property valuation.

Fair value hierarchy

The Group is required to classify fair value measurements of its investment properties using a fair value hierarchy, in accordance with IFRS 13 'Fair Value Measurement'. This hierarchy reflects the subjectivity of the inputs used, and has the following levels:

– Level 1 – unadjusted quoted prices in active markets;

– Level 2 – observable inputs other than quoted prices included within level 1;

– Level 3 – unobservable inputs.

The following table provides the fair value measurement hierarchy for investment property:

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value:				
Investment properties	**156,226**	–	–	**156,226**

There have been no transfers between any of the levels during the period.

12. Trade and other receivables

	31 December 2017 £'000
Non-current	
Rent recognised in advance of receipt	1,651
Current	
Prepayments	119
	1,770

13. Cash and cash equivalents

	31 December 2017 £'000
Cash and cash equivalents	38,387

None of the Group's cash balances are held in restricted accounts.

14. Trade and other payables

	31 December 2017 £'000
Non-current	
Rent received in advance of recognition	1,712
Current	
Trade and other payables	354
Withholding tax payable – (PID Dividends)	329
Insurance service charge income received in advance	28
Capital improvements payable	510
	1,221
	2,933

Notes to the consolidated financial statements

For the period from 7 November 2016 (incorporation date) to 31 December 2017

15. Financial instruments and financial risk management

The Group's principal financial assets and liabilities are those that arise directly from its operations: trade and other receivables, trade and other payables and cash held at bank.

Set out below is a comparison by class of the carrying amounts of the Group's financial instruments held:

	Total £'000
Financial Assets:	
Cash and cash equivalents	38,387
Financial liabilities:	
Trade and other payables	1,193

The Group is exposed to market risk (including interest rate risk), credit risk and liquidity risk. The board of directors oversees the management of these risks. The board of directors reviews and agrees policies for managing each of these risks that are summarised below.

Market risk (including interest rate risk)

Market risk is the risk that the fair values or future cashflows of a financial instrument will fluctuate because of changes in market prices. The financial instruments held by the Group that are affected by interest rate risk are principally the Group's cash balances.

The Group monitors its interest rate exposure on a regular basis. A sensitivity analysis performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates would result in an increase of £192,000 or a decrease of £192,000.

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risks from its leasing activities. Credit risk is also minimised by requiring tenants to pay rentals in advance under their lease obligations. The credit quality of the tenant is also assessed based at the time of entering into a lease agreement thereby minimising credit risk. Outstanding trade receivables are regularly monitored.

At the reporting date, the Group's financial assets exposed to credit risk amounted to £nil.

Credit risk also arises with the cash balances held with banks and financial institutions. The board of directors believes that the credit risk on current account cash balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due, as the majority of the Group's assets are property investments and are therefore not readily realisable. The Group's objective is to ensure it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by continuous monitoring of forecast and actual cash flows by management ensuring it has appropriate levels of cash and available drawings to meet liabilities as they fall due.

The Group's financial liabilities based on the contractual undiscounted payments amounting to £1,193,000 are expected to be settled within 3 months.

16. Capital management

The objective of the Group is to acquire, own, lease, renovate, extend and redevelop high quality, healthcare real estate assets in the UK and lease those assets, under full repairing and insuring leases, primarily to healthcare operators providing residential healthcare services. This provides ordinary shareholders with an attractive level of income together with the potential for income and capital growth from investing in a diversified portfolio of freehold and long leasehold care homes.

The board has responsibility for ensuring the Group's ability to continue as a going concern and continues to qualify for UK REIT status. This involves the ability to borrow monies in the short and long term; and pay dividends out of reserves, all of which are considered and approved by the board on a regular basis.

The Company is targeting an aggregate dividend of 6.0p per share for the first 12 months from Admission which equates to a yield of 6 per cent per annum on the IPO Issue Price, payable in quarterly instalments.

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or buyback shares for cancellation or for holding in treasury. Capital consists of ordinary share capital, other capital reserves and retained earnings.

17. Share capital, share premium and capital reduction reserve

	Shares in issue Number	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Total £'000
As at 7 November 2016	–	–	–	–	–
Issue of management shares	50,002	50	–	–	50
Cancellation of management shares	(50,000)	(50)	–	–	(50)
Shares issued 7 March 2017	146,172,358	1,462	144,710	–	146,172
Shares issued 5 May 2017	14,000,000	140	13,860	–	14,000
Shares issued 13 November 2017	32,034,471	320	32,275		32,595
	192,206,831	1,922	190,845	–	192,767
Share issue costs	–	–	(3,488)	–	(3,488)
Transfer to capital reduction reserve	–	–	(46,852)	46,852	–
Dividend declared (note 10)	–	–	–	(5,286)	(5,286)
As at 31 December 2017	**192,206,831**	**1,922**	**140,505**	**41,566**	**183,993**

On incorporation the Company issued 2 ordinary shares of £0.01 each and 50,000 management shares of £1 each which were fully paid up. These were issued to Impact Health Partners LLP. The 50,000 management shares were redeemed following the IPO.

On 7 March 2017 Impact Healthcare REIT PLC raised £143.2 million net of share issue costs through its IPO and the ordinary shares issued were admitted to trading on the Specialist Fund Segment of the main market of the London Stock Exchange. The company's ticker symbol is (IHR). The initial public offer by the company involved the issue of 146,172,360 ordinary shares to the relevant subscriber at a price of 100p per ordinary share.

The consideration received in excess of the par value of shares issued (net of total expenses of issue) of £141,793,095, was credited to the share premium account.

On 12 April 2017, an application to the High Court by Special Resolution was successfully made for the capital of the Company to be reduced by the reduction of the share premium account by an amount equal to 30p multiplied by the number of ordinary shares in issue immediately following Admission plus £3,000,000. This was effected by a transfer to the capital reduction reserve.

Notes to the consolidated financial statements

For the period from 7 November 2016 (incorporation date) to 31 December 2017

17. Share capital, share premium and capital reduction reserve (continued)

On 5 May 2017, the Company issued a further 14,000,000 Ordinary Shares at a price of 100p per ordinary share raising gross proceeds of £14 million. This increased the total number of ordinary shares in the Company in issue to 160,172,360. The consideration received in excess of the par value of shares issued of £13,860,000, was credited to the share premium account.

On 13 November 2017, the Company issued a further 32,034,471 Ordinary Shares at a price of 101.75p per ordinary share raising gross proceeds of £32.6 million. This increased the total number of ordinary shares in the Company in issue to 192,206,831. The consideration received in excess of the par value of shares issued of £32,275,000, was credited to the share premium account.

18. Transactions with related parties

Investment Adviser

The fees calculated and paid for the period to the Investment Adviser were as follows:

For the period from 7 November 2016 to	Period ended 31 December 2017 £'000
Impact Health Partners LLP	**1,609**

For the period ended 31 December 2017 the principals and finance director of Impact Health Partners LLP, the Investment Adviser, are considered key management personnel. Mr Patel and Mr Cowley are the principals and Mr Yaldron is the finance director of Impact Health Partners LLP and they own 5.20%,0.31% and 0.02% respectively (either directly or through a wholly-owned company) of the total issued ordinary share capital of Impact Healthcare REIT plc. Mr Patel also (directly and indirectly) holds a majority 72.5% stake in Minster Care Group Limited (MCGL), the company which was established to be the holding company of each of the initial tenants to which the Company leased the seed portfolio upon completion of the acquisition of the seed portfolio. Mr Cowley also holds a 20% interest in MCGL. 100% of the Group's rental income is received from MCGL or its subsidiaries. There were no trade receivables or payables outstanding at the period end.

During the period the key management of Impact Health Partners LLP received the following dividends from Impact Healthcare REIT plc: Mahesh Patel £300,000; Andrew Cowley £18,000 and David Yaldron £525.

In addition, prior to the acquisition of the seed portfolio, Mr Patel was a beneficial owner of the seed portfolio so he became entitled to a share of the total consideration payable by the Company on the acquisition of the seed portfolio.

Directors' interests

Paul Craig is a director of the Company. He is also the portfolio manager at Old Mutual Global Investors, which has an interest in 39,617,784 ordinary shares of the Company through funds under management. The remaining directors do not hold significant interest in the ordinary share capital of the Company.

During the period the Directors received the following dividends from Impact Healthcare REIT plc: Rupert Barclay £3,000; David Brooks £900; Rosemary Boot £900 and Philip Hall £900. In addition, funds managed by Paul Craig received dividends from the Company of £1,111,767.

Directors' remuneration for the period is disclosed in note 7 as well as in the Directors' Remuneration Report..

19. Net Asset Value (NAV) per share

Basic NAV per share is calculated by dividing net assets in the statement of financial position attributable to ordinary equity holders of the Company by the number of ordinary shares outstanding at the end of the period. As there are no dilutive instruments outstanding, basic and diluted NAV per share are identical.

EPRA has issued guidelines aimed at providing a measure of net asset value on the basis of long term fair values. There are no adjustments between basic and EPRA NAV.

	31 December 2017 £'000
Net assets per consolidated statement of financial position	193,450
Adjustments	–
EPRA NAV	193,450
Issued share capital (number)	192,206,831
Basic and EPRA NAV per share	**100.65p**

20. Operating leases

The future minimum lease payments under non-cancellable operating leases receivable by the Group are as follows:

	Within 12 months £'000	2-5 years £'000	>5 years £'000	Total £'000
31 December 2017	11,827	50,654	218,274	280,755

The Group's investment properties are leased to tenants under the terms of a property lease that includes upward only rent reviews which are performed annually. These are linked to annual RPI uplifts, with a floor of 2% and cap of 4%.

21. Capital commitments

The Group has entered into a License for Alteration and Deed of Variation contract for 2 of its properties namely, Turnpike Court and Littleport Grange Nursing Home, on 17 November and 18 December 2017 respectively with an expected date of completion on the improvements of the properties being April and August 2018 respectively. The Group has committed to cover up to a maximum of £1.1 million and £2.6 million respectively in relation to the cost of improvements on these properties.

22. Contingent liabilities

Full relief for Stamp Duty Land Tax (SDLT) has been granted in relation to the transfer of properties between companies which are members of the group. Should there be a change in control of the Company within 3 years of completion, or a single shareholder acquires a substantial stake in the Company a liability in the subsidiary companies could arise. This is equal to approximately 5% of the aggregate value of the properties and is estimated at £7.5million on the net purchase price of assets acquired in the period.

The Company is not aware of any person who, directly or indirectly owns or controls the Company. The Company is not aware of any arrangements the operations of which may give rise to a change in control of the Company.

Notes to the consolidated financial statements

For the period from 7 November 2016 (incorporation date) to 31 December 2017

23. Subsequent events

Acquisition

On 11 January 2018, the board of directors announced that the Group had exchanged contracts to acquire as part of a sale and leaseback transaction a portfolio of three purpose-built care homes in the North-East of England for a total consideration of £17 million (including costs). The completion was conditional on, among other things, regulatory approvals, on the individual properties. The first of the three assets completed on 16 March 2018.

The Portfolio is being acquired from the Prestige Care Group ("Prestige"), a developer and operator of care homes with over 20 years' experience in the care industry. The portfolio comprises a total of 234 high-quality care beds and an additional 40 beds which present an asset management opportunity. Prestige will continue to operate the homes as the Group's tenant following completion. The net initial yield and level of rent cover are expected to be in line with the terms on which the Group acquired its initial seed portfolio.

Rent review

The investment properties comprising 57 care homes previously acquired from Minster and Croftwood on 5 May 2017, were subject to their annual rent review on 7 March 2018 which is linked to the annual RPI over the 12 month period with a floor of 2% and a cap of 4%.

As a result of this review the annual passing rent increased on the 7th March 2018 from £11.6 million to £12.1 million and the annual contracted rent increased from £11.9 million to £12.3 million.

No other significant events have occurred between the Statement of Financial Position date and the date when the financial statements have been authorised by the directors, which would require adjustments to, or disclosure in the financial statements.

Company balance sheet as at 31 December 2017

Company Registration Number: 10464966

	Notes	As at 31 December 2017 £'000
Non-current assets		
Investment in subsidiaries	6	153,338
Total non-current assets		**153,338**
Current assets		
Trade and other receivables	7	91
Cash and cash equivalents	8	38,387
Total current assets		**38,478**
Total assets		**191,816**
Current liabilities		
Trade and other payables	9	(683)
Loan from Group companies		(9,453)
Total liabilities		**(10,136)**
Total net assets		**181,680**
Equity		
Share capital	10	1,922
Share premium reserve	10	140,505
Capital reduction reserve	10	41,566
Retained earnings		(2,313)
Total equity		**181,680**
Net Asset Value per ordinary share (pence)	12	**94.52p**

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The loss attributable to the Parent Company for the period ended 31 December 2017 amounted to £2.3 million.

The financial statements were approved and authorised for issue by the board of directors on 21 March 2018 and are signed on its behalf by:

Rupert Barclay Chairman
21 March 2018

Company statement of changes in equity

	Notes	Undistributable reserves Share capital £'000	Share premium £'000	Distributable reserves Capital reduction reserve £'000	Retained earnings £'000	Total £'000
7 November 2016		**–**	**–**	**–**	**–**	**–**
Total comprehensive loss		**–**	**–**	**–**	**(2,313)**	**(2,313)**
Transactions with owners						
Issue of management shares		50	–	–	–	50
Cancellation of management shares		(50)	–	–	–	(50)
Issue of ordinary shares	10	1,922	190,845	–	–	192,767
Share issue costs	10	–	(3,488)	–	–	(3,488)
Transfer to capital reduction reserve	10	–	(46,852)	46,852	–	–
Dividends paid	5	–	–	(5,286)	–	(5,286)
31 December 2017		**1,922**	**140,505**	**41,566**	**(2,313)**	**181,680**

Notes to the Company financial statements

For the period from 7 November 2016 (incorporation date) to 31 December 2017

1. Basis of preparation

General information

The financial statements for the period from incorporation on 7 November 2016 to 31 December 2017, are prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102") and in accordance with the Companies Act 2006, except for the requirement to include prior period comparatives as this is the Company's first financial period since incorporation.

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 102.

Therefore these financial statements do not include:

- A statement of cash flows;
- Presentation of a reconciliation of shares outstanding in the period;
- Financial instrument disclosures where equivalent disclosures have been presented in Note 15 to the Consolidated Financial Statements and
- The disclosure of the remuneration of key management personnel.

Convention

The financial statements are presented in Sterling, which is also the Company's functional currency, and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

Going concern

In assessing the going concern basis of accounting, the Directors have had regard to the guidance issued by the Financial Reporting Council. After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for next 12 months from the date of approval of these financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

2. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosures. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the assets or liabilities in future periods. There were no significant accounting judgements, estimates or assumptions in preparing these financial statements.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

Income and expenses

Income and expenses are accounted for on an accruals basis. The Company's income and expenses are charged through the statement of comprehensive income.

Notes to the Company financial statements

For the period from 7 November 2016 (incorporation date) to 31 December 2017

3. Summary of significant accounting policies (continued)

Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are initially recognised at fair value and subsequently measured at amortised cost. A provision for impairment is made when there is objective evidence that the Group will not be able to recover balances in full.

Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents

Cash and cash equivalents include cash at bank.

Dividends

Dividends are recognised when they become legally payable.

Share premium

The surplus of net proceeds received from the issuance of new shares over their par value is credited to this account and the related issue costs are deducted from this account. The reserve is non-distributable.

Capital reduction reserve

On 12 April 2017, an application to the High Court was successfully made for the reduction of £0.30 per share of the share premium account plus £3,000,000 which allowed the transfer of £46,851,708 to the capital reduction reserve (refer to note 10). This is a distributable reserve.

Trade payables

Trade payables are initially recognised at their fair value and are subsequently measured at cost.

Investments in subsidiaries

The investments in subsidiary companies are included in the Company's balance sheet at cost less provision for impairment.

4. Taxation

The Company is exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions as per REIT regulations. Any non-qualifying profits and gains however will continue to be subject to corporation tax.

Tax charge in the consolidated statement of comprehensive income:

	Period ended 31 December 2017 £'000
UK corporation tax	1

5. Dividends

Details of dividends paid by the Company are included in Note 10 to the Consolidated Financial Statements.

6. Investment in subsidiaries

	Total £'000
As at 7 November 2016	–
Cost of investments acquired through share purchases	153,338
As at 31 December 2017	153,338

The Company has the following subsidiaries as at 31 December 2017:

	Principal activity	Country of incorporation	Ownership %
Impact Property 1 Limited ("Propco 1")	Real Estate Investment	England and Wales	100
Impact Property 2 Limited ("Propco 2")	Real Estate Investment	England and Wales	100

The registered address for both the above subsidiaries is: 7th Floor 9 Berkeley Street, London, London, England, W1J 8DW.

7. Trade and other receivables

	31 December 2017 £'000
Prepayments	91

As at 31 December 2017, there were no trade receivables past due or impaired.

8. Cash and cash equivalents

	31 December 2017 £'000
Cash and cash equivalents	38,387

9. Trade and other payables

	31 December 2017 £'000
Trade and other payables	354
Withholding tax payable – (PID Dividends)	329
	683

Notes to the Company financial statements

For the period from 7 November 2016 (incorporation date) to 31 December 2017

10. Share capital, share premium and capital reduction reserve

Details on movements in share capital, share premium and capital reduction reserve of the Company are the same as that of the Group and is included in Note 17 to the Consolidated Financial Statements.

11. Transactions with related parties

The Company has taken advantage of the exemption not to disclose transactions with other members of the Group as the Company's own financial statements are presented together with its consolidated financial statements.

See note 18 of the consolidated financial statements for disclosure of related party transactions of the Group.

12. Net asset value (NAV) per share

Basic NAV per share is calculated by dividing net assets in the statement of financial position attributable to ordinary equity holders of the parent by the number of Ordinary Shares outstanding at the end of the period. As there are no dilutive instruments outstanding, basic and diluted NAV per share are identical.

EPRA has issued guidelines aimed at providing a measure of net asset value on the basis of long term fair values. There are no adjustments between basic and EPRA NAV.

	31 December 2017 £'000
Net assets per statement of financial position	181,680
Adjustments	–
EPRA NAV	181,680
Issued share capital (number)	192,206,831
Basic and EPRA NAV per share	**94.52p**

13. Capital commitments

See Note 21 to the consolidated financial statements where the capital commitments of the Company and Group have been disclosed.

14. Subsequent events

Significant events after the reporting period are the same as those of the Group. See Note 23 to the consolidated financial statements.

No other significant events have occurred between the statement of financial position date and the date when the financial statements have been authorised by the directors, which would require adjustments to, or disclosure in the financial statements.

Contents

Notes to the EPRA performance measures (unaudited)

For the period from 7 November 2016 (incorporation date) to 31 December 2017

1. EPRA earnings per share

See note 9 of the group's financial statements (page 79)

2. EPRA NAV and NNNAV per share

See note 12 in parent company financial statements (page 79)

3. EPRA Net Initial Yield (NIY) and Topped up NIY[1]

	31 December 2017 £'000
Investment property market value per independent valuation	156,165
Less: forward funded development property	(510)
Completed property portfolio	155,655
Allowance for estimated purchasers' costs[1]	9,583
Gross value of completed property portfolio (B)	165,237
Annualised contracted rental income	11,861
Less: contracted rental income on forward funded development property	(261)
Annualised net rents and Topped up annualised net rents (A)	11,600
EPRA Net Initial Yield (A/B)	**7.02%**

1 Assumes a purchaser of the Company's portfolio would pay SDLT and transaction costs equal to 6.2% of the portfolio's value.

3. EPRA vacancy rate

There is no vacancy in the portfolio, all properties are leased to tenants

4. EPRA cost ratio

	31 December 2017 £'000
Administation expenses	2,318
Total costs including, and excluding, vacant property costs	2,318
Total gross rental income	9,392
Total EPRA cost ratio (including, and excluding, vacant property costs)	**24.68%**

AIFM Statement (unaudited)

Quantitative Remuneration Disclosure for the AIFM

The total fee paid to the AIFM by the Company for the period ended 31 December 2017 is disclosed in note 6.

The AIFM is not subject to the provisions of Article 13 of the AIFM Directive, which require the AIFM to adopt remuneration policies and practices in line with the principles detailed in Annex II of the Directive. However, in accordance with Article 22 of the AIFM Directive and Article 107 of the AIFM Regulations, the AIFM must make certain disclosures in respect of the remuneration paid to its staff.

The AIFM has identified 8 staff as falling within the scope of the disclosure requirements (the "Identified Staff"). These Identified Staff are senior management, named as Designated Persons of the AIFM's managerial functions, members of the board of directors, and a risk officer as control function. With the exception of one individual, who acted as a non-executive Director, all Identified Staff of the AIFM are part of the Carne Group and as such receive no separate remuneration for their role within the AIFM. Instead they are remunerated as employees of other Carne group companies with a combination of fixed and variable discretionary remuneration where the latter is assessed on the basis of their overall individual contribution to the group, with reference to both financial and non-financial criteria, and not directly linked to the performance of the staff of specific business units or targets reached. The annualised remuneration amount paid to all of the Identified Staff of the AIFM in respect of their work with the AIFM for the 12 month period to 31 March 2017 was GBP 81,944. There was no variable component to this remuneration and none of the AIFM's Identified Staff are in a position to materially impact the risk profile of the Company. The AIFM manages other AIFS and has no staff other than the Identified Staff.

Liquidity

Liquidity risk is monitored by the AIFM on an ongoing basis. The Risk Committee for the AIFM monitors the liquidity risk of the Company in line with the Company's Risk Management Framework and consistent with the Company's stated strategy and risk policies.

At the date of this annual report there are no assets held by the Company which are subject to special arrangements arising from their illiquid nature. There has been no change to the liquidity management system and procedures during the period since incorporation. Please refer to note [15] in the financial statements for an analysis of the Company's liabilities and their maturity dates at 31 December 2017.

The current risk profile of the Company and the risk management systems employed by the AIFM to manage those risks

A combination of the risk systems of the AIFM and the Investment Adviser's risk systems are used to identify, monitor, measure and manage risk within the Company. A Risk Committee has been established by the AIFM for the purposes of monitoring the risk management framework of the Company. The Risk Committee has responsibility for overseeing the performance of the risk management function and monitoring the effectiveness of the controls in place to mitigate risk at Company level. The committee is appointed by, and reports to, the board of directors of the AIFM, and from the AIFM to the board of the Company. The membership of the Risk Committee is drawn from the AIFM and Investment Adviser.

The Risk Committee has ultimate responsibility for risk management and controls of the Company and for reviewing their effectiveness on a regular basis, including taking appropriate remedial action to correct any deficiencies. The Risk Committee manages the risks of the Company through the Risk Management Framework. The Risk Committee monitors all risk limits to ensure compliance or that corrective action is taken in the event of breaches. The Risk Committee monitors to see if limit levels are being approached and endeavours to take appropriate steps to avoid limit breaches. The Risk Committee is responsible for the implementation of the Risk Management Framework. Operational risk is monitored through periodic due diligence of service providers, and through ongoing monitoring of reporting from service providers.

The Risk Committee has oversight of the risk management framework of the Company and specifically the effectiveness of the risk management function with respect to governance and risk compliance. The Committee ensures that market risk, liquidity risk, credit risk, regulatory risk, counterparty risk and operational risk are identified, measured, monitored and managed in line with the AIFM's Risk Management Framework and consistent with the Prospectus of the Company. The Committee addresses any risk related issues and escalates to the AIFM board if necessary.

Please refer to pages 22-24] for the board's assessment of the principal risks and uncertainties facing the Company The AIFM has assessed the current risk profile of the Company to be low.

AIFM Statement (unaudited)

Leverage

The leverage limitation provisions of the AIFM Directive do not apply to the Company because the AIFM is a "non-EU AIFM". Consequently, the AIFM is not required to set a maximum level of leverage (as calculated pursuant to the AIFM Directive) for the Company. Notwithstanding this, the Group has set a limit such that borrowings as a percentage of gross assets may not exceed 35% at the time of drawdown.

There has been no change to the maximum level of leverage which the AIFM may employ on behalf of the Company. The actual level of gearing employed by the Group at 31 December 2017 was 0.0%.

Material changes to information

Article 23 of the AIFM Directive requires certain information to be made available to investors before they invest and requires material changes to this information to be disclosed in the annual report. There have been no material changes (other than those already reflected in the Annual Report) to the information requiring disclosure.

Glossary

Adjusted EPS: Adjusted Earnings per Share

Administrator: JTC (UK) Limited

AIC: Association of Investment Companies

AIFM: Alternative Investment Fund Manager

BDO: BDO LLP

Capex: Capital Expenditure

CMA: Competitions and Markets Authority

Contracted Yield: Contracted rent roll divided by the independent market value of the portfolio

CQC: Care Quality Commission

EPRA: European Public Real Estate Association

EPRA NAV: Total Return – is the growth in EPRA NAV per share plus dividends paid since IPO

EPS: Earnings per Share

Investment Adviser/Adviser: Impact Health Partners LLP

Investment Manager/Manager/AIFM: Carne Global AIFM Solutions (C.I.) Limited

IPO: Initial Public Offering

LTV: Loan to Value

NAV: Net Asset Value

NIY: Net Initial Yield

REIT: Real Estate Investment Trust

RPI: Retail Price Index

Seed Portfolio: Initial portfolio of 56 Assets (including 2 option assets) acquired in May 2017

Corporate information

Directors during the period

Rupert Barclay non-executive Chairman
(appointed: 16 January 2017)

Rosemary Boot non-executive director
(appointed: 16 January 2017)

David Brooks non-executive director
(appointed: 16 January 2017)

Philip Hall non-executive director
(appointed: 16 January 2017)

Paul Craig non-executive director
(appointed: 30 June 2017)

John Alflatt director
(appointed: 7 November 2016; resigned 16 January 2017)

Andrew Cowley director
(appointed: 7 November 2016; resigned 16 January 2017)

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Investment Manager and AIFM

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Independent Auditor

BDO LLP
55 Baker Street
London
W1U 7EU

Administrator & Secretary

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London
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Financial Adviser and Broker

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London EC4R 2GA

Company Registration Number

10464966

Financial calendar

Announcement of Full Year Results	21 March 2018
Annual General Meeting	26 April 2018
Half Year End	30 June 2018
Announcement of Half Year Results	8 August 2018
Full Year End	31 December 2018

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