# Report to Shareholders

## Q3 2019 Sienna Senior Living Inc.

Sienna SENIOR LIVING

# LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

During the third quarter of 2019, we made great strides in strengthening our balance sheet and optimizing our capital structure. Subsequent to the quarter, Sienna received a "BBB" investment grade credit rating with a "Stable" trend from DBRS, highlighting the strength of our balanced portfolio and sophisticated operating platform, and subsequently raised $150 million as our inaugural unsecured financing at an interest rate of 3.109% for a five-year term.

We continued to focus on our operating platform by realigning and augmenting our sales and operations teams, intensifying our marketing campaigns and making further suite and amenity upgrades to ensure Sienna's competitiveness in a growing sector.

**Operations**

Our Q3 results underscore the benefits of owning a high quality and balanced portfolio of retirement and long-term care residences.

Average occupancy in the <u>long-term care segment</u> remained high at 98.2% in Q3 2019. Sienna's high ranking among its peers in terms of quality and service provided, coupled with generally high demand for long-term care, is reflected in the waiting list at each of Sienna's long-term care residences.

Average same property occupancy in the <u>retirement segment</u> was 86.9% in Q3 2019. Contributing factors to the occupancy softness are the oversupply in the Ottawa market, high attrition rates to long term care in the portfolio acquired in 2018, adjustments to the operating and sales platform, and property upgrades and renovations at a number of properties.

The company's same property net operating income (**"NOI"**) decreased slightly by 0.8% year-over-year from $40.5 million in Q3 2018 to $40.2 million in Q3 2019, largely as a result of lower occupancy in our retirement portfolio, offset by annual rental rate increases in line with market conditions. Q3 2019 Operating Funds from Operations ("**OFFO**") and Adjusted Funds from Operations (**"AFFO"**) per share remained at levels just slightly below the prior year at 36.4 cents and 36.8 cents, respectively.

**Industry Fundamentals**

Fundamentals in the Canadian seniors' living sector remain strong as the industry is scaling up to accommodate tremendous growth over the next two decades. It is expected that there will be some competitive pressure in the short- to mid- term as the sector tries to match the timing of the growing demand for seniors' residences and services with additional supply.

This could lead to increased competition in certain markets for retirement residences from time to time, although market research indicates that most of the new supply is concentrated in markets with strong demand. In addition, we believe that the high barriers to entry, including rising construction costs and stringent licencing requirements, will help limit oversupply.

We also expect continuing competition for talent, in particular for personal support workers and nurses, in one of the tightest labour markets in decades with unemployment rates remaining near historic lows.

**Capital Structure**

Continuing with the trend we set over the past quarters, we further strengthened our balance sheet during Q3 2019, ending the quarter with a debt to gross book value of 46.5%, a 180 basis point decrease from Q3 2018. In addition, we further lowered our weighted average cost of debt by 20 basis points to 3.7% in Q3 2019. We intend to continue to optimize our capital structure by effectively managing our upcoming debt maturities and maintaining a healthy level of liquidity.

Our recent investment grade credit rating from DBRS provided Sienna with additional financial flexibility and supported our recent debt financing, which will be used to pay down part of our debt and create a pool of unencumbered assets.

**Outlook**

As we approach the end of 2019, we are focused on enhancing Sienna's assisted living program, intensifying our marketing and promotional campaigns and making continued capital investments in our properties. We are in the process of making enhancements to recruitment, on-boarding and leadership development as we strive to attract and retain the most dedicated and talented team in the Canadian seniors' living sector.

We expect Q4 2019 same property NOI in the retirement portfolio to be consistent with Q3 2019, resulting in full year 2019 same property NOI to be similar to 2018 in this segment. For 2020, we anticipate occupancy improvements which should translate to low single-digit NOI growth in our retirement portfolio.

Our long-term care portfolio is expected to deliver stable and consistent NOI growth in 2019 and 2020, in line with the growth we achieved in 2018.

We believe fundamentals in seniors' living will remain strong and we are optimistic about future development opportunities, including the development of free-standing retirement residences with joint venture partners, intensification opportunities at our existing retirement residences as well as the development of seniors' living 'campuses'.

With an exceptional team, a strong operating platform and a strategy in place, I am confident about our future and the immense opportunities as one of Canada's leading high-quality seniors' living providers. On behalf of our management team and our Board of Directors, I would like to thank our team members for their dedication to making a difference in the lives of our residents. I also want to thank my fellow shareholders for your continued support.

If you have any questions, please contact me at 905-477-4006 or at investors@siennaliving.ca.

Yours truly,

**Lois Cormack**
President and Chief Executive Officer

# Management's Discussion and Analysis

(in thousands of Canadian Dollars)

**Q3 2019** Report to Shareholders

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Basis of Presentation

The following Management's Discussion and Analysis ("**MD&A**") for Sienna Senior Living Inc. (the "**Company**" or "**Sienna**") provides a summary of the financial results for the three and nine months ended September 30, 2019. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements ("**interim consolidated financial statements**") for the three and nine months ended September 30, 2019. This material is available on the Company's website at www.siennaliving.ca. Additional information about the Company, including its Annual Information Form ("**AIF**") for the year ended December 31, 2018, can be found on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com.

All references to "**we**", "**our**", "**us**", "**Sienna**", or the "**Company**", unless otherwise indicated or the context otherwise requires, refer to Sienna Senior Living Inc. and its direct and indirect subsidiaries. For ease of reference, the "Company" is used in reference to the ownership and operation of seniors' living residences and its third party management business. Subsidiaries of the Company are the direct owners and operators of such residences.

Financial information has been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). In this document, "**Q1**" refers to the three-month period ended March 31; "**Q2**" refers to the three-month period ended June 30; "**Q3**" refers to the three-month period ended September 30; and "**Q4**" refers to the three-month period ended December 31.

Unless otherwise stated, all dollar amounts referred to in this MD&A, including tabular amounts, are expressed in thousands of Canadian dollars.

This MD&A contains forward-looking information based on management's expectations, estimates and projections about the future results, performance, achievements, prospects or opportunities for Sienna and the seniors' living industry as of the date of this MD&A. Please refer to the "Forward-looking Statements" section and the "Risk Factors" section of this MD&A for more information.

## Additional Information

Additional information relating to the Company can be found on the Company's website at www.siennaliving.ca, by accessing the Company's public filings on SEDAR, or by contacting Nitin Jain, the Company's Chief Financial Officer and Chief Investment Officer, at 905-489-0787 or nitin.jain@siennaliving.ca.

## Review and Approval by the Board of Directors

This MD&A is dated as of November 13, 2019, the date this report was approved by the Board of Directors of the Company, and is based on information available to management of the Company as of that date.

## Company Profile

The Company and its predecessors have been operating since 1972. The Company is one of Canada's leading seniors' living providers serving the continuum of independent living ("**IL**"), independent supportive living ("**ISL**"), assisted living ("**AL**"), memory care ("**MC**") and long-term care (“**LTC**” or “**Long-term Care**”) through the ownership and operation of seniors' living residences in the Provinces of British Columbia and Ontario. The Company owns and operates a total of 70 seniors' living residences: 27 retirement residences ("**RRs**" or "**Retirement Residences**"); 35 LTC residences; and eight seniors' living residences providing both private-pay IL/AL and funded LTC (including the Company's joint ownership in two residences in British Columbia). The Company also provides management services to 14 seniors' living residences in British Columbia and Ontario.

The table below represents the number of suites or beds owned and operated by the Company, by business segment.

| | | Retirement (Suites) | Long-term Care (Beds) | | Total[1] |
|---|---|---|---|---|---|
| **Business Segment** | **Residences** | **Private** | **Private** | **Funded** | **Beds / Suites** |
| Retirement | 27 | 3,280 | — | — | 3,280 |
| Long-term Care[2] | 43 | — | 180 | 6,688 | 6,868 |
| **Total** | **70** | **3,280** | **180** | **6,688** | **10,148** |

Notes:

1. 82.7% and 17.3% of total beds/suites are located in Ontario and British Columbia, respectively.
2. 3.7% of total LTC beds and suites are partially owned. Nicola Lodge and Glenmore Lodge are referred to collectively as the "**Option Properties**", of which the Company owns 40% of Nicola Lodge and 77% of Glenmore Lodge as at September 30, 2019.

The Company was incorporated under the Business Corporations Act (Ontario) on February 10, 2010 and was subsequently continued under the Business Corporations Act (British Columbia) on March 18, 2010. The Company closed the initial public offering of its common shares on March 23, 2010 and is traded on the Toronto Stock Exchange ("**TSX**") under the symbol "SIA".

The Company's business is carried on through its wholly owned subsidiaries in the form of limited partnerships formed under the laws of Ontario, except for the Option Properties (as defined in footnote 2 above), which are owned through joint ventures between the Company and each of WVJ II General Partnership and WVJ Properties (Nicola) Ltd. (each an affiliate of Pacific Seniors Management Investments Ltd.).

As at November 13, 2019, the Company had 66,712,668 common shares outstanding.

## Non-IFRS Performance Measures

In this MD&A, the Company uses certain supplemental measures of key performance that are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. These performance measures are net operating income ("**NOI**"), funds from operations ("**FFO**"), operating funds from operations ("**OFFO**"), adjusted funds from operations ("**AFFO**"), earnings before interest, taxes, depreciation and amortization ("**EBITDA**") and maintenance capital expenditures ("**maintenance capex**", and collectively with NOI, FFO, OFFO, AFFO and EBITDA, the "**Non-IFRS Measures**").

"**NOI**" is defined as property revenue net of property operating expenses.

"**FFO**" is defined as NOI less certain adjustments including finance charges and current income taxes. FFO is a recognized earnings measure that is widely used by public real estate entities, particularly by those entities that own and/or operate income-producing properties. The Company presents FFO in accordance with the Real Property Association of Canada White Paper on Funds From Operations for IFRS. The use of FFO, combined with the required IFRS presentations, has been included for the purpose of improving the understanding of the Company's operating results. The IFRS measure most directly comparable to FFO is "net income". Please refer to the "Business Performance" section of this MD&A for a reconciliation of net income to FFO.

"**OFFO**" is FFO adjusted for non-recurring items, and presents finance charges on a cash interest basis. Management of the Company is of the view that OFFO is a relevant measure of the operating performance of the Company.

"**AFFO**" is defined as OFFO plus the principal portion of construction funding received and amounts received for revenue guarantees, less actual maintenance capex. Management of the Company believes AFFO is a cash flow measure, which is relevant in understanding the Company's ability to earn cash and pay dividends to shareholders. The IFRS measure most directly comparable to AFFO is "cash flow from operating activities." Please refer to the "Business Performance" section of this MD&A for a reconciliation of cash flow from operating activities to AFFO.

"**Adjusted EBITDA**" is defined as EBITDA, adjusted for construction funding proceeds and non-recurring items.

"**Maintenance Capital Expenditures**" are defined as capital investments made to maintain or improve the Company's residences to meet residents' needs and enhance residents' experience. These expenditures include building improvements, mechanical and electrical spend, suite renovations, common area upgrades, communications and information systems, furniture, fixtures and equipment. Please refer to the "Maintenance Capital Expenditures" section of this MD&A for additional financial information.

NOI, FFO, OFFO, AFFO and Adjusted EBITDA should not be construed as alternatives to net income or cash flow from operating activities determined in accordance with IFRS as indicators of the Company's performance. The Company's method of calculating these measures may differ from other issuers' methods and accordingly, these measures may not be comparable to measures presented by other publicly traded entities.

## Key Performance Indicators

Management of the Company uses the following key performance indicators (the "**Key Performance Indicators**") to assess the overall performance of the Company's operations:

- **Occupancy**: Occupancy is a key driver of the Company's revenues.
- **NOI**: This value represents the underlying performance of the operating business segments. Please refer to the "Non-IFRS Performance Measures" section of this MD&A.
- **OFFO and OFFO per Share**: Management of the Company uses OFFO as an operating performance measure. Please refer to the "Non-IFRS Performance Measures" section of this MD&A.
- **AFFO and AFFO per Share**: Management of the Company uses AFFO as a cash flow measure to assess the Company's ability to earn cash and pay dividends. Please refer to the "Non-IFRS Performance Measures" section of this MD&A.
- **Payout Ratio**: Management of the Company monitors the ratio of dividends per share to basic AFFO per share to ensure the Company adheres to its dividend policy, in line with the Company's objectives.
- **Debt Service Coverage Ratio**: This ratio is useful for management of the Company to ensure it is in compliance with its financial covenants.
- **Debt to Gross Book Value**: In conjunction with the debt service coverage ratio, management of the Company monitors this ratio to ensure compliance with certain financial covenants.
- **Weighted Average Cost of Debt**: This is a point in time calculation which is useful in comparing interest rates, either period over period, or to market rates.
- **Debt to Adjusted EBITDA Ratio**: This ratio measures the number of years required for current cash flows to repay all indebtedness.
- **Interest Coverage Ratio**: Interest coverage ratio is a common measure used to assess an entity's ability to service its debt obligations.
- **Weighted Average Term to Maturity**: This indicator is used by management of the Company to monitor its debt maturities.
- **Same Property**: Measures with "same property" are similar to "same-store" measures used in the retail business and are intended to measure the period over period performance of the same asset base. The same property portfolio excludes acquired properties owned for less than one year and assets undergoing new development, redevelopment or demolition. Properties undergoing new development or redevelopment are considered "same property" once they are operating at stabilized occupancy levels.
- **Acquisitions and Development**: The acquisitions portfolio includes acquired properties that are owned for less than one year. The development portfolio includes properties undergoing new development or redevelopment until they are operating at stabilized occupancy levels.

The above Key Performance Indicators used by management of the Company to assess the overall financial performance of the Company's operations should not be construed as alternatives to net income or cash flow from operating activities determined in accordance with IFRS as indicators of the Company's performance. The Company's use of these measures and its method of calculation may differ from other issuers' use and methods and accordingly, may not be comparable to the key performance indicators of other publicly traded entities.

The following table represents the Key Performance Indicators for the periods ended September 30:

| Thousands of Canadian dollars, except occupancy, share and ratio data | Three Months Ended 2019 | 2018 | Change | Nine Months Ended 2019 | 2018 | Change |
|---|---|---|---|---|---|---|
| **OCCUPANCY** | | | | | | |
| Retirement same property - Average occupancy | **86.9%** | 91.4% | (4.5%) | **88.6%** | 91.6% | (3.0%) |
| Retirement acquisitions and development - Average occupancy[1] | **12.9%** | N/A | N/A | **85.5%** | N/A | N/A |
| Retirement - Average total occupancy | **85.8%** | 91.4% | (5.6%) | **88.2%** | 91.6% | (3.4%) |
| Retirement - As at total occupancy | **85.1%** | 91.8% | (6.7%) | **85.1%** | 91.8% | (6.7%) |
| LTC - Average total occupancy | **98.2%** | 98.7% | (0.5%) | **98.3%** | 98.3% | —% |
| LTC - Average private occupancy | **98.0%** | 98.6% | (0.6%) | **98.1%** | 98.2% | (0.1%) |
| **FINANCIAL** | | | | | | |
| Revenue | **167,947** | 165,048 | 2,899 | **497,573** | 472,529 | 25,044 |
| Operating expenses | **127,785** | 124,529 | 3,256 | **378,570** | 360,216 | 18,354 |
| Same property NOI | **40,214** | 40,519 | (305) | **112,968** | 112,313 | 655 |
| Acquisitions and development NOI | **(52)** | — | (52) | **6,035** | — | 6,035 |
| Total NOI | **40,162** | 40,519 | (357) | **119,003** | 112,313 | 6,690 |
| EBITDA | **34,565** | 35,079 | (514) | **100,684** | 97,494 | 3,190 |
| Net income | **3,763** | 5,000 | (1,237) | **6,435** | 9,581 | (3,146) |
| OFFO[2] | **24,208** | 23,975 | 233 | **69,132** | 66,927 | 2,205 |
| AFFO[2][3][4] | **24,492** | 24,416 | 76 | **72,303** | 71,327 | 976 |
| Total assets[4] | **1,708,163** | 1,746,612 | (38,449) | **1,708,163** | 1,746,612 | (38,449) |
| **PER SHARE INFORMATION** | | | | | | |
| Net income per share, basic | **0.057** | 0.076 | (0.019) | **0.097** | 0.152 | (0.055) |
| Net income per share, diluted | **0.057** | 0.076 | (0.019) | **0.097** | 0.152 | (0.055) |
| OFFO per share, basic[2] | **0.364** | 0.365 | (0.001) | **1.042** | 1.061 | (0.019) |
| OFFO per share, diluted[2] | **0.364** | 0.365 | (0.001) | **1.042** | 1.048 | (0.006) |
| AFFO per share, basic[2][3] | **0.368** | 0.372 | (0.004) | **1.089** | 1.130 | (0.041) |
| AFFO per share, diluted[2][3] | **0.368** | 0.372 | (0.004) | **1.089** | 1.116 | (0.027) |
| Dividends per share | **0.233** | 0.228 | 0.005 | **0.692** | 0.678 | 0.014 |
| Payout ratio (basic AFFO)[2][3] | **63.3%** | 61.3% | 2.0% | **63.5%** | 60.0% | 3.5 % |
| **FINANCIAL RATIOS** | | | | | | |
| Debt service coverage ratio | **1.9** | 2.0 | (0.1) | **1.9** | 2.0 | (0.1) |
| Debt to gross book value as at period end | **46.5%** | 48.3% | (1.8%) | **46.5%** | 48.3% | (1.8)% |
| Weighted average cost of debt as at period end | **3.7%** | 3.9% | (0.2%) | **3.7%** | 3.9% | (0.2%) |
| Debt to Adjusted EBITDA as at period end | **6.6** | 6.9 | (0.3) | **6.6** | 6.9 | (0.3) |
| Interest coverage ratio | **4.0** | 4.0 | — | **3.9** | 4.0 | (0.1) |
| Weighted average term to maturity as at period end | **4.1** | 5.0 | (0.9) | **4.1** | 5.0 | (0.9) |
| **CHANGE IN SAME PROPERTY NOI** | | | | | | |
| Retirement | | | (3.7%) | | | 0.9% |
| LTC[5] | | | 1.5% | | | 2.3% |
| Total | | | (0.8%) | | | 1.7% |

Notes:

1. Retirement acquisitions represent the financial and operating results from January 1, 2019 to March 27, 2019 of the portfolio of ten Ontario seniors' living residences acquired on March 28, 2018, which consists of 1,245 private-pay ISL and AL suites (the "**Acquired Properties**"). Retirement redevelopment represents the 57-suite expansion at Island Park Retirement Residence, which opened in July 2019, and has an average occupancy of 12.9% for the three months ended September 30, 2019 due to the lease-up period.
2. OFFO and AFFO for the three and nine months ended September 30, 2019 include mark-to-market expense (recovery) adjustments on share-based compensation of ($211) and $1,451, respectively (2018 - $212 and ($458), respectively).
3. AFFO is impacted by the timing of maintenance capex spend.
4. Property and equipment and intangible assets included in total assets are measured at cost less accumulated depreciation and amortization.
5. Year-over-year change in same property NOI for LTC excludes the prior year tax refund of $1,254 recorded in Q1 2018.

## Third Quarter 2019 Summary

Sienna's Q3 2019 results underscore the benefits of owning a high quality and balanced portfolio of retirement and LTC residences. As the seniors' living sector continues to scale up to accommodate the growth over the course of the next two decades, we believe that operating a balanced portfolio is a competitive advantage.

**Occupancy** - Average occupancy in the LTC portfolio remained high at 98.2% in Q3 2019, compared to Q3 2018. Average same property occupancy in the Retirement portfolio decreased 4.5% to 86.9% in Q3 2019, in line with where we ended Q2 2019, and lower compared to 91.4% in Q3 2018. Contributing factors to the occupancy softness in the Retirement portfolio are the oversupply in the Ottawa market, high attrition rates to LTC in the portfolio acquired in 2018, adjustments to Sienna's operating and sales platform, and property upgrades and renovations at a number of properties.

**Revenue** increased by 1.8% in Q3 2019, or $2,899, to $167,947, compared to Q3 2018. The increase was mainly a result of same property results driven by additional and inflationary increases in flow-through funding in the LTC segment, as well as annual rental rate increases in Retirement.

**Operating Expenses** increased by 2.6% in Q3 2019, or $3,256, to $127,785, compared to Q3 2018. The increase was mainly a result of additional expenses associated with flow-through funding and annual inflationary increases in the LTC segment.

**NOI** decreased by 0.9% in Q3 2019, or $357, to $40,162, compared to Q3 2018, related to softness in Retirement occupancy.

**Net income** was $3,763 for Q3 2019, representing a decrease of $1,237 over the comparable prior year period. The decrease was primarily related to fair value adjustments on interest rate swap contracts in Q3 2019, partially offset by lower transaction costs.

**OFFO** increased by 1.0% in Q3 2019, or $233, to $24,208 over the comparable prior year period. The increase was primarily related to lower interest expense on long-term debt and lower current income taxes, partially offset by a decrease in same property NOI in the Retirement portfolio.

**AFFO** increased by 0.3% in Q3 2019, or $76, to $24,492 over the comparable prior year period. The increase was primarily related to the increase in OFFO noted above.

**Debt** - The Company further lowered its debt to gross book value to 46.5%, a 180 bps reduction year-over-year from 48.3%, decreased its debt to Adjusted EBITDA ratio to 6.6 years from 6.9 years in Q3 2018 and lowered its weighted average cost of debt to 3.7% in Q3 2019 from 3.9% in Q3 2018.

## Outlook

As we approach the end of 2019, we are focused on initiatives that are expected to result in retirement occupancy gains over the next quarters. We are also in the process of making enhancements to recruitment, on-boarding and leadership development as we strive to attract and retain the most dedicated and talented team in the Canadian seniors' living sector.

We believe fundamentals in seniors' living will remain strong and we are optimistic about future development opportunities with respect to both the LTC and the Retirement segment of our business.

### Retirement

We will continue to focus on making improvements across our operating platform by enhancing Sienna's assisted living program, intensifying our marketing and promotional campaigns, and making further suite and amenity upgrades to ensure Sienna's competitiveness in a growing sector. We have committed $5 million in capital expenditures for the retirement residences acquired in 2018 and are making the planned enhancements in amenity spaces and suites, consistent with the Sienna brand.

We expect Q4 2019 same property NOI in the Retirement portfolio to be consistent with Q3 2019, resulting in full year 2019 same property NOI to be similar to 2018 in this segment. For 2020, we anticipate occupancy improvements, which should translate to low single-digit NOI growth in our Retirement portfolio.

### LTC

The Company continues to deliver strong results in its LTC segment, as reflected by the year-over-year same property NOI increase of 2.3%, predominantly resulting from inflationary funding increases. Sienna's LTC operating platform is consistently ranked better than provincial and national averages in terms of quality of service provided, as reported quarterly by the Canadian Institute for Health Information.

We expect the LTC portfolio to deliver stable and consistent NOI growth in 2019 and 2020, in line with the growth we achieved in 2018.

### Capital Structure Optimization

We intend to continue to optimize our capital structure by effectively managing our upcoming debt maturities and maintaining a healthy level of liquidity. Our recent "BBB" investment grade credit rating with a "Stable" trend from DBRS provided Sienna with additional financial flexibility and supported our subsequent unsecured debt financing of $150 million in November, which will be used to pay down part of our debt and create a pool of unencumbered assets. Our goal is to refinance approximately 10% of our total debt each year.

### Development

Sienna intends to develop a number of seniors' living campuses (comprised of AL and LTC). During Phase 1 of this development program, the Company plans to redevelop 1,000 older Class B and Class C LTC beds, and add 280 new LTC beds and 500 retirement suites to create seniors' living campuses. Sienna is actively engaged with government authorities in obtaining approvals for certain projects, and has received first level of approval from the Ministry of Health and Long-term Care ("**MOHLTC**") on three projects in its pipeline. The Company anticipates that the development projects will be greenfield projects and plans to build campuses subject to regulatory approvals and financial feasibility. The feasibility of such projects is dependent on hurdle rates of return exceeding the Company's cost of capital.

The Company also expects to pursue development opportunities of free-standing retirement residences with joint venture partners and intensification opportunities at existing retirement residences where surplus land and strong demand make it feasible to do so. In July 2019, we completed our expansion at Island Park Retirement Residence in Campbellford, Ontario, and currently, we are finalizing plans for an expansion at our Kingsmere Retirement Residence in Alliston, Ontario.

### Market Supply and Demand - Retirement

With the population of seniors expected to grow significantly over the next two decades, one of the sector's key challenges is to match the growing demand for seniors' residences with new supply. We have included a table below that summarizes the supply in certain of Sienna's markets.

The study includes retirement residences currently under construction in the catchment areas of Sienna's Retirement Residences and outlines how the supply relates to the growing demand in each of these markets, assuming that the capture rate will remain at the 2018 level for each catchment area.

| **Region** | **Sienna Portfolio** (as at September 30, 2019)[1] | **New Supply** (under construction)[2] | **Required new suites by 2023** (to keep 2018 capture rate)[2][3] | | |
|---|---|---|---|---|---|
| | Number of suites | Number of suites | 2018 capture rate | Number of suites | Undersupply of suites |
| Eastern Ontario | 535 | 682 | 11.4% | 699 | 17 |
| Ottawa | 399 | 582 | 13.5% | 702 | 120 |
| Central Ontario | 1,102 | 1,326 | 8.5% | 2,193 | 867 |
| Toronto GTA | 571 | 1,646 | 5.2% | 4,579 | 2,933 |
| Lower Mainland, BC | 620 | 778 | 4.6% | 1,874 | 1,096 |
| | **3,227** | **5,014** | **6.0%** | **10,047** | **5,033** |

[1] Excludes Midland Gardens Senior Apartments due to its unique service platform compared to retirement residences

[2] Source: CBRE

[3] The 2018 capture rate is the existing supply of retirement suites divided by the population of seniors aged 75 and above. The undersupply of retirement suites is the difference between the number of new suites required in 2023 to maintain the 2018 capture rate and the new supply of retirement suites under construction.

The table above highlights that by 2023, demand will outpace supply. Rising construction costs and licensing requirements in the seniors' living sector are anticipated to limit oversupply.

While some volatility is expected in the next two to three years as the market is adjusting to increased supply, we expect that oversupply will be limited to a small number of markets.

## Significant Event

### Issued $150 Million of 3.109% Series A Senior Unsecured Debentures

On November 4, 2019, the Company issued $150,000 aggregate principal amount of series A senior unsecured debentures (the "**Series A Debentures**"). The Series A Debentures bear interest at a rate of 3.109% per annum and will mature on November 4, 2024. Sienna intends to use the net proceeds from the Series A Debentures to repay part of the Company's existing long-term debt and create a pool of unencumbered assets, and for general corporate purposes.

## Our Vision, Mission and Values

### Our Vision

To awaken our communities to the positive possibilities of life's next chapters.

### Our Mission

To help you live fully, every day.

### Our Values

#### Respect

We value each other. From our clients and residents to our co-workers, we take the time to appreciate each person's story, understand their perspective, and recognize their contribution.

#### Passion

This job isn't for everybody. We love working with older people. We feel it's a privilege to have them in our lives, and there's nothing more important to us than their safety and well-being.

#### Teamwork

To honour someone's voice and advocate for their choice, it's up to every one of us to communicate, collaborate, and support one another. We're in this together - co-workers, volunteers, physicians and health care providers, suppliers, communities, families, clients and residents.

#### Responsibility

Holding ourselves to the highest standards of safety and quality is only the beginning. If we see a problem or an opportunity, we own it. If we say we'll do something, we do it. "Not my job" is not in our vocabulary.

#### Growth

We are always pushing ourselves - to learn, to develop, to find a better way and we strive to help our clients, residents and staff grow, encouraging them to stretch and do more than they might have thought possible.

The Sienna team is dedicated to helping seniors live fully, every day with an aim to constantly improve the resident experience, and develop a high-performing team and workplace culture built on shared values and a commitment to innovation and quality, while focusing on priorities that translate into long-term accretive growth for the Company's shareholders.

## Company Strategy and Objectives

Sienna's strategic objectives and progress are summarized as follows:

### Strong Operating Platform:

- Realigning and augmenting the operating and sales platform in all Retirement Residences;
- Implementing an enhanced sales program platform in Retirement;
- Implementing a people strategy aimed at recruiting, retaining and developing a high performing and engaged team;
- Providing a great resident experience by helping residents to live fully every day;
- Adopting innovative technology and practices to support operational efficiency;
- Advancing Sienna's brand in every community served.

**Progress:**

- Enhancing Sienna's AL services offered to residents at our Retirement Residences to reduce attrition to LTC
- Intensifying marketing and communication campaigns in every local community, including amplified community outreach and media coverage
- Enhancing sales programs, including fall promotions and incentives
- Leveraging open houses, special promotions and community engagement in each of the communities as part of local sales and marketing campaigns
- Investing in our team through enhancements to recruitment, on-boarding and leadership development
- Ongoing investments in technology and process improvements related to point-of-care services
- Gearing up for active flu vaccination and prevention campaigns to minimize the severity and duration of the flu season

### Maintaining Strong Balance Sheet and Liquidity:

- Financing of acquisitions/development for the continued growth of the Company;
- Creating a 10-year debt maturity ladder to reduce refinancing risk and enhance the ability to refinance at favourable rates;
- Optimizing leverage (measured as debt to gross book value);
- Maintaining liquidity (measured as available funds from existing credit facilities plus available cash on hand) to deliver on Sienna's growth objectives;
- Maintaining a favourable A (low) credit rating on the 3.474% Series B Senior Secured Debentures, with an aggregate principal amount of $322,000 and a maturity date of February 3, 2021 ("**Series B Debentures**");
- Maintaining a stable investment grade "BBB" credit rating for Sienna;
- Maintaining a pool of unencumbered assets;
- Issuing unsecured debt as a new source of capital to provide the Company with additional financial flexibility to achieve Sienna's growth objectives.

**Progress:**

- Subsequent to Q3 2019, Sienna received a "BBB" investment grade credit rating with a "Stable" trend from DBRS, highlighting the strength of its balance sheet, balanced portfolio and sophisticated operating platform
- On November 4, 2019, the Company issued $150 million of Series A Debentures with a 5-year term, bearing interest at a rate of 3.109% per annum
- Confirmed A (low) rating by DBRS with a stable outlook for the Series B Debentures in March 2019
- Decreased year-over-year debt to gross book value by 180 basis points ("**bps**") to 46.5% as at September 30, 2019
- Decreased year-over-year debt to Adjusted EBITDA to 6.6 years as at September 30, 2019, compared to 6.9 years in the comparable prior year period
- Decreased weighted average cost of debt to 3.7% as at September 30, 2019, compared to 3.9% in the comparable prior year period

## Growing the Company:

Sienna's growth plan is based on three key components:

***Organic Growth:***

- Growing Sienna's portfolio organically through rate increases, achieving stabilized occupancy and expanding services to meet resident needs;
- Maintaining existing assets with preventative maintenance and ongoing capital improvements;
- Continuing to invest in Sienna's team culture and operating platform to deliver a great resident experience and maintain disciplined cost management.

***Development:***

- Developing seniors' living campuses in key Ontario markets that provide a wide range of care options and services, including IL, AL, MC and LTC;
- Developing free-standing retirement residences in certain markets with adequate demand;
- Expanding seniors' living capacity in existing Retirement Residences with excess land;
- Responding to requests for proposals, where feasible.

***Acquisitions**:*

- Strategic and disciplined acquisitions of high-quality seniors' living residences in key markets in Canada;
- Expanding Sienna's Retirement portfolio.

**Progress:**

- In recognition of the Company's continued growth, Sienna was included in the Financial Post 500 ("**FP500**"), which ranks Canada's largest corporations, for the fourth straight year. Sienna climbed 30 spots on the 2018 list to rank at the 414th place, marking its largest gain since it was first included in 2015
- In October, Lois Cormack was included in the Financial Post's CEO 100 Scorecard 2019, which ranks the leaders of Canadian companies based on their 2-year return to investors. Our CEO's ranking at the 45th place is the second highest within the healthcare sector and first amongst the three female CEOs included in the list
- Year-over-year organic growth in the Retirement and LTC segments, representing a 1.7% increase in total same property NOI for the nine months ended September 30, 2019
- Enhancements to suites and amenity spaces in retirement residences acquired in 2018, consistent with the Sienna brand, as part of a $5 million capital expenditure program
- Successful opening of a 57-suite expansion at Island Park Retirement Residence in Campbellford, Ontario in July 2019
- Received preliminary approval from the MOHLTC for three development/redevelopment projects

## Environmental, Social and Corporate Governance

Sienna's approach to corporate social responsibility is based upon the premise that each of the communities in which we operate is unique. The Company has committed to initiatives aimed at creating positive experiences for its stakeholders and making its operations more sustainable. Sienna's commitment to corporate social responsibility includes the following social, governance and environmental initiatives and results:

### Corporate Social Responsibility

We give back to each community we serve in a number of profound ways, which plays an important role in our ongoing activities involving team members, residents, families and members of the local communities where Sienna operates.

Sienna is currently one of Canada's Most Admired Corporate Cultures by Waterstone Human Capital. This award highlights the Company's commitment to cultivating and sustaining a culture that promotes social responsibility and is supportive of employees.

As an active leader in each of the Canadian Association of Long Term Care, Ontario Long Term Care Association, Ontario Retirement Communities Association, British Columbia Care Providers Association and British Columbia Seniors Living Association, we advocate for and influence sound public policy regarding seniors' care and services.

In July 2018, Sienna's British Columbia Long-Term Care residences received a four-year Accreditation with Exemplary Standing - the highest distinction awarded by Accreditation Canada. This recognizes Sienna's LTC residences in British Columbia for going beyond the requirements of the national accreditation program and demonstrates excellence in quality improvement.

Sienna for Seniors, our charitable giving program was launched in 2017 to support marginalized seniors facing economic and social challenges in the local communities. The funds raised through the charitable giving program support community-based agencies in providing much-needed specialized support to help seniors in need continue to live in their communities.

To date, Sienna for Seniors has donated over $427,000 to support senior-focused programs such as regional Alzheimer Societies, day programming and other services in the communities that support seniors and their families.

Sienna supports and participates in research to advance best practices in seniors' living. In cooperation with our partners, we focus on making advancements in innovative and collaborative care and service delivery that helps improve the quality of life for residents and their families.

### Governance

As one of Canada's leading providers of Seniors' residences, we maintain the highest ethical standards through a strong governance framework and an experienced Board of Directors.

We are a leader in gender diversity with over 40% of the Company's Board of Directors comprised of female leaders, and in 2018, Sienna was among the top 5 companies listed on the TSX in terms of gender diversity.

### Environmental

The Company is continuously implementing strategies to make its operations more sustainable and focuses on updating its infrastructure through key initiatives, including increasing water conservation by installing Flow Management Devices, a water-saving technology; and decreasing energy consumption by replacing lighting systems with Light Emitting Diode (LED) fixtures, and utilizing the most energy-efficient alternatives possible, including participation in ENERGY STAR programs. The Company is also focusing on reducing its usage of single-use plastics, maximizing its recycling efforts and reducing its internal printing and use of paper.

## Industry Overview

Please refer to the Company's MD&A and AIF for the year ended December 31, 2018 for a discussion of the Industry Overview.

## Business of the Company

Please refer to the Company's AIF for the year ended December 31, 2018 for a discussion of the Business Overview.

## Quarterly Financial Information

| Thousands of Canadian dollars, except occupancy and per share data | 2019 Q3 | 2019 Q2 | 2019 Q1 | 2018 Q4 | 2018 Q3 | 2018 Q2 | 2018 Q1 | 2017 Q4 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 167,947 | 165,957 | 163,669 | 169,455 | 165,048 | 162,124 | 145,357 | 146,330 |
| Operating Expenses | 127,785 | 126,028 | 124,757 | 130,556 | 124,529 | 122,734 | 112,953 | 115,831 |
| Income before net finance charges, transaction costs and provision for (recovery of) income taxes | 15,495 | 14,809 | 12,624 | 13,970 | 15,737 | 15,292 | 14,757 | 15,508 |
| Net income | 3,763 | 2,230 | 442 | 302 | 5,000 | 3,548 | 1,033 | 4,196 |
| Per share basic | 0.057 | 0.034 | 0.007 | 0.006 | 0.076 | 0.055 | 0.018 | 0.078 |
| Per share diluted | 0.057 | 0.034 | 0.007 | 0.006 | 0.076 | 0.055 | 0.018 | 0.078 |
| OFFO | 24,208 | 23,602 | 21,322 | 23,550 | 23,973 | 24,343 | 18,609 | 17,968 |
| Per share basic | 0.364 | 0.356 | 0.322 | 0.357 | 0.365 | 0.380 | 0.316 | 0.356 |
| Per share diluted | 0.364 | 0.356 | 0.322 | 0.357 | 0.365 | 0.374 | 0.309 | 0.346 |
| AFFO(1) | 24,492 | 24,428 | 23,383 | 21,738 | 24,414 | 26,137 | 20,774 | 17,082 |
| Per share basic(1) | 0.368 | 0.368 | 0.353 | 0.329 | 0.372 | 0.405 | 0.353 | 0.334 |
| Per share diluted(1) | 0.368 | 0.368 | 0.353 | 0.329 | 0.372 | 0.400 | 0.344 | 0.323 |
| Dividends declared | 15,483 | 15,241 | 15,196 | 15,145 | 14,995 | 14,620 | 13,523 | 11,437 |
| Per share | 0.233 | 0.230 | 0.230 | 0.230 | 0.228 | 0.225 | 0.225 | 0.225 |
| Occupancy | | | | | | | | |
| Retirement - Average total occupancy | 85.8% | 88.4% | 90.4% | 91.8% | 91.4% | 91.6% | 92.6% | 93.2% |
| Retirement - As at total occupancy | 85.1% | 87.3% | 89.4% | 91.6% | 91.8% | 91.3% | 92.6% | 92.3% |
| LTC - Average total occupancy | 98.2% | 98.3% | 98.2% | 98.5% | 98.7% | 98.3% | 97.9% | 98.5% |
| LTC - Average private occupancy(2) | 98.0% | 98.1% | 98.3% | 98.6% | 98.6% | 98.0% | 97.9% | 98.5% |
| Total assets(3) | 1,708,163 | 1,715,479 | 1,738,577 | 1,753,200 | 1,746,612 | 1,800,952 | 1,759,189 | 1,394,858 |
| Total debt(4) | 965,113 | 962,742 | 987,640 | 984,917 | 985,694 | 1,025,857 | 1,022,128 | 818,951 |
| Debt to gross book value as at period end | 46.5% | 46.6% | 47.8% | 47.7% | 48.3% | 49.4% | 50.3% | 49.6% |

Notes:
1. Effective Q3 2018, deferred share unit compensation expense is not added back to calculate AFFO. The prior quarters have been restated to reflect this change.
2. Q4 2017 has been restated to include both private-pay IL and AL.
3. Property and equipment and intangible assets included in total assets are measured at cost less accumulated depreciation and amortization.
4. The total debt is net of amounts paid into the principal reserve fund on the Series B Debentures. Total debt as at and prior to Q1 2018 included the Company's 4.65% extendible convertible unsecured debentures ("**Convertible Debentures**"), which were fully redeemed as at May 23, 2018 (the "**Redemption Date**").

The Company's quarterly financial results are impacted by various factors including, but not limited to, the timing of acquisitions, occupancy levels, timing of maintenance capital expenditures, seasonality of utility expenses, timing of resident co-payment increases, timing of funding rate increases or additional funding, and capital market and financing activities.

Financial results for the past eight quarters have been positively impacted primarily by the completion of $583,093 in acquisitions of 14 high-quality seniors' living residences, as well as a strong operating platform and management team. Specifically, two Retirement Residences were acquired in each of Q2 2017 and Q4 2017 for a combined total of $194,800, a portfolio of ten seniors' living residences was acquired in Q1 2018 for $382,000, and an additional interest in an Option Property was acquired in Q2 2018 for $6,293. Please refer to the Company's 2017 and 2018 annual MD&As for further discussion of these acquisitions.

In 2018, the Company increased its monthly dividend per share by 2%, starting with the September payment payable to shareholders of record on August 31, 2018. In 2019, the Company again increased its monthly dividend per share by 2%, commencing with the September payment payable to shareholders of record on August 30, 2019.

The Company's balance sheet continues to strengthen as its total asset base has increased from $1,394,858 to $1,708,163 and its debt to gross book value has decreased from 49.6% to 46.5% as at Q4 2017 and Q3 2019, respectively.

A discussion of the operating results for the three and nine months ended September 30, 2019 compared to the same period in the prior year is provided in the section "Operating Results."

## Operating Results

### Retirement

The Company's Retirement portfolio consists of 27 RRs, five of which are located in British Columbia and 22 of which are located in Ontario. The Company's Retirement portfolio operates in well located markets and generated 22.7% of overall revenues and 42.0% of total NOI in Q3 2019.

### Long-term Care

The Company's LTC portfolio contributed 77.3% of the Company's revenues and generated 58.0% of its NOI in Q3 2019. Effective July 1, 2019, the regulated per diem premiums have increased by 2.3% to $26.64 per bed per day for new admissions to private accommodation in Class A homes, with existing residents in such preferred accommodations being grandfathered at substantially historical rates. The regulated per diem rates for Class B and C homes have increased by 2.3% to $19.17 and $8.52 per bed per day, respectively, for private and semi-private accommodation.

The following table represents the operating results for the periods ended September 30:

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of Canadian dollars | **2019** | 2018 | Change | **2019** | 2018 | Change |
| **Revenue** | **167,947** | 165,048 | 2,899 | **497,573** | 472,529 | 25,044 |
| **Expenses** | | | | | | |
| Operating | **127,785** | 124,529 | 3,256 | **378,570** | 360,216 | 18,354 |
| Depreciation and amortization | **19,070** | 19,342 | (272) | **57,756** | 51,708 | 6,048 |
| Administrative | **5,597** | 5,440 | 157 | **18,319** | 14,819 | 3,500 |
| | **152,452** | 149,311 | 3,141 | **454,645** | 426,743 | 27,902 |
| **Income before net finance charges, transaction costs and provision for (recovery of) income taxes** | **15,495** | 15,737 | (242) | **42,928** | 45,786 | (2,858) |
| Net finance charges | **9,501** | 7,970 | 1,531 | **32,058** | 23,532 | 8,526 |
| Transaction costs | **352** | 957 | (605) | **2,107** | 9,302 | (7,195) |
| **Total other expenses** | **9,853** | 8,927 | 926 | **34,165** | 32,834 | 1,331 |
| **Income before provision for (recovery of) income taxes** | **5,642** | 6,810 | (1,168) | **8,763** | 12,952 | (4,189) |
| **Provision for (recovery of) income taxes** | | | | | | |
| Current | **1,677** | 2,233 | (556) | **5,322** | 6,473 | (1,151) |
| Deferred | **202** | (423) | 625 | **(2,994)** | (3,102) | 108 |
| | **1,879** | 1,810 | 69 | **2,328** | 3,371 | (1,043) |
| **Net income** | **3,763** | 5,000 | (1,237) | **6,435** | 9,581 | (3,146) |
| **Total assets** | **1,708,163** | 1,746,612 | (38,449) | **1,708,163** | 1,746,612 | (38,449) |
| **Total debt (net of principal reserve fund)** | **965,113** | 985,694 | (20,581) | **965,113** | 985,694 | (20,581) |

## Net Operating Income Consolidated

The following table represents the Company's interim consolidated net operating income for the periods ended September 30:

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of Canadian dollars | **2019** | 2018 | Change | **2019** | 2018 | Change |
| **Revenue** | | | | | | |
| Same property[1] | **167,845** | 165,048 | 2,797 | **483,544** | 472,529 | 11,015 |
| Acquisitions and development[1][2] | **102** | — | 102 | **14,029** | — | 14,029 |
| **Total Revenue** | **167,947** | 165,048 | 2,899 | **497,573** | 472,529 | 25,044 |
| **Operating Expenses** | | | | | | |
| Same property[1] | **127,631** | 124,529 | 3,102 | **370,576** | 360,216 | 10,360 |
| Acquisitions and development[1][2] | **154** | — | 154 | **7,994** | — | 7,994 |
| **Total Operating Expenses** | **127,785** | 124,529 | 3,256 | **378,570** | 360,216 | 18,354 |
| **NOI** | | | | | | |
| Same property[1] | **40,214** | 40,519 | (305) | **112,968** | 111,059 | 1,909 |
| Same property - prior year tax refund | **—** | — | — | **—** | 1,254 | (1,254) |
| Acquisitions and development[1][2] | **(52)** | — | (52) | **6,035** | — | 6,035 |
| **Total NOI** | **40,162** | 40,519 | (357) | **119,003** | 112,313 | 6,690 |

Notes:
1. Effective March 28, 2019, the financial results of the Acquired Properties were re-classified from "acquisitions and development" to "same property" in the table above. Accordingly, "acquisitions and development" include the financial results of the Acquired Properties' from January 1, 2019 to March 27, 2019.
2. Effective Q3 2019, the financial results of the 57-suite expansion at Island Park Retirement Residence are included in "acquisitions and development".

### Third Quarter 2019 Operating Results

The Company's total same property revenues for Q3 2019 increased by $2,797 to $167,845, compared to Q3 2018. LTC's same property revenues for Q3 2019 increased by $3,612 to $129,857, compared to Q3 2018, mainly due to additional and inflationary increases in flow-through funding. Retirement's same property revenues for Q3 2019 decreased by $815 to $37,988, compared to Q3 2018, due to occupancy softness, partially offset by annual rental rate increases in line with market conditions. Revenues from acquisitions and development were $102 (2018 - $nil) for Q3 2019 and represent revenues from the Island Park Retirement Residence expansion, which was completed during the quarter.

The Company's total same property operating expenses for Q3 2019 increased by $3,102 to $127,631, compared to Q3 2018. LTC's same property operating expenses for Q3 2019 increased by $3,266 to $106,548, compared to Q3 2018, mainly due to additional expenses associated with flow-through funding and annual inflationary increases. Retirement same property operating expenses for Q3 2019 decreased by $164 to $21,083, compared to Q3 2018, due to lower occupancy. Acquisitions and development operating expenses were $154 (2018 - $nil) for Q3 2019.

The Company's total same property NOI for Q3 2019 decreased by $305 to $40,214, compared to Q3 2018. Retirement's same property NOI for Q3 2019 decreased by $651 to $16,905, compared to Q3 2018. LTC's same property NOI for Q3 2019 increased by $346 to $23,309 compared to Q3 2018. Acquisitions and development NOI was $(52) (2018 - $nil) for Q3 2019.

Due to the seasonality of certain operating expenses such as utilities and maintenance, occupancy levels and annual adjustments to government funding, trends which may appear in operating margins may be merely coincidental, and readers should not rely on net operating margin calculations herein.

### Nine Months Ended September 30, 2019 Operating Results

The Company's total same property revenues for the nine months ended September 30, 2019 increased by $11,015 to $483,544, over the comparable prior year period. LTC's same property revenues increased by $10,952 to $382,512, over the comparable prior year period, mainly due to additional and inflationary increases in flow-through funding. Retirement's same property revenues increased by $63 to $101,032, over the comparable prior year period. Acquisitions and development revenues were $14,029 (2018 - $nil) for the nine months ended September 30, 2019, of which the Acquired Properties contributed $13,927 (2018 - $nil) from January 1, 2019 to March 27, 2019.

The Company's total same property operating expenses for the nine months ended September 30, 2019 increased by $10,360 to $370,576, over the comparable prior year period. LTC's same property operating expenses, excluding the prior year tax refund, increased by $9,460 to $315,684, over the comparable prior year period, mainly due to additional expenses associated with flow-through funding and annual inflationary increases. Retirement's same property operating expenses decreased by $354 to $54,892, over the comparable prior year period, due to lower occupancy. Acquisitions and development operating expenses were $7,994 (2018 - $nil) for the nine months ended September 30, 2019, of which the Acquired Properties contributed $7,840 (2018 - $nil) from January 1, 2019 to March 27, 2019.

The Company's total same property NOI for the nine months ended September 30, 2019 increased by $1,909 to $112,968, excluding the prior year tax refund, over the comparable prior year period. LTC's same property NOI, excluding the prior year tax refund, increased by $1,492 to $66,828, over the comparable prior year period. Retirement's same property NOI increased by $417 to $46,140, over the comparable prior year period. Acquisitions and development NOI was $6,035 (2018 - $nil) for the nine months ended September 30, 2019, of which the Acquired Properties contributed $6,087 (2018 - $nil) from January 1, 2019 to March 27, 2019.

Due to the seasonality of certain operating expenses such as utilities and maintenance, occupancy levels and annual adjustments to government funding, trends which may appear in operating margins may be merely coincidental, and readers should not rely on net operating margin calculations herein.

## Net Operating Income by Segment

The Company's consolidated net operating income consists of its Retirement and LTC business segments.

### Retirement

The following table represents the results of the Retirement segment for the periods ended September 30:

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of Canadian dollars | **2019** | 2018 | Change | **2019** | 2018 | Change |
| **Retirement Revenue** | | | | | | |
| Same property[1] | **37,988** | 38,803 | (815) | **101,032** | 100,969 | 63 |
| Acquisitions and development[1][2] | **102** | — | 102 | **14,029** | — | 14,029 |
| **Total Retirement Revenue** | **38,090** | 38,803 | (713) | **115,061** | 100,969 | 14,092 |
| **Retirement Expenses** | | | | | | |
| Same property[1] | **21,083** | 21,247 | (164) | **54,892** | 55,246 | (354) |
| Acquisitions and development[1][2] | **154** | — | 154 | **7,994** | — | 7,994 |
| **Total Retirement Expenses** | **21,237** | 21,247 | (10) | **62,886** | 55,246 | 7,640 |
| **Retirement NOI** | | | | | | |
| Same property[1] | **16,905** | 17,556 | (651) | **46,140** | 45,723 | 417 |
| Acquisitions and development[1][2] | **(52)** | — | (52) | **6,035** | — | 6,035 |
| **Total Retirement NOI** | **16,853** | 17,556 | (703) | **52,175** | 45,723 | 6,452 |

Notes:

1. Effective March 28, 2019, the financial results of the Acquired Properties were re-classified from "acquisitions and development" to "same property" in the table above. Accordingly, "acquisitions and development" include the financial results of the Acquired Properties' from January 1, 2019 to March 27, 2019.
2. Effective Q3 2019, the financial results of the 57-suite expansion at Island Park Retirement Residence are included in "acquisitions and development".

#### Third Quarter 2019 Retirement Results

Retirement's same property revenues for Q3 2019 decreased by $815 to $37,988, compared to Q3 2018, primarily attributable to lower occupancy, partially offset by rental rate increases in line with market conditions.

Retirement's same property operating expenses for Q3 2019 decreased by $164 to $21,083, compared to Q3 2018, mainly due to lower labour and other operating expenses.

Retirement's same property NOI for Q3 2019 decreased by $651 to $16,905, compared to Q3 2018.

#### Nine Months Ended September 30, 2019 Retirement Results

Retirement's same property revenues for the nine months ended September 30, 2019 increased by $63 to $101,032, over the comparable prior year period, primarily attributable to rental rate increases, partially offset by lower occupancy. The Acquired Properties were re-classified from acquisitions and development to same property starting March 28, 2019.

Retirement's same property operating expenses for the nine months ended September 30, 2019 decreased by $354 to $54,892, over the comparable prior year period, mainly due to lower labour expenses in correlation with occupancy, partially offset by inflationary increases in wages, and increases in property taxes and utilities.

Retirement's same property NOI for the nine months ended September 30, 2019 increased by $417 to $46,140, over the comparable prior year period.

## Long-term Care

The following table represents the results of the LTC segment for the periods ended September 30:

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of Canadian dollars | **2019** | 2018 | Change | **2019** | 2018 | Change |
| **Long-term Care Revenue** | | | | | | |
| Same property | **129,857** | 126,245 | 3,612 | **382,512** | 371,560 | 10,952 |
| **Total Long-term Care Revenue** | **129,857** | 126,245 | 3,612 | **382,512** | 371,560 | 10,952 |
| | | | | | | |
| **Long-term Care Expenses** | | | | | | |
| Same property | **106,548** | 103,282 | 3,266 | **315,684** | 306,224 | 9,460 |
| Same property - prior year tax refund | — | — | — | — | (1,254) | 1,254 |
| **Total Long-term Care Expenses** | **106,548** | 103,282 | 3,266 | **315,684** | 304,970 | 10,714 |
| | | | | | | |
| **Long-term Care NOI** | | | | | | |
| Same property | **23,309** | 22,963 | 346 | **66,828** | 65,336 | 1,492 |
| Same property - prior year tax refund | — | — | — | — | 1,254 | (1,254) |
| **Total Long-term Care NOI** | **23,309** | 22,963 | 346 | **66,828** | 66,590 | 238 |

### Third Quarter 2019 Long-term Care Results

LTC's same property revenues for Q3 2019 increased by $3,612 to $129,857, compared to Q3 2018, primarily attributable to additional and inflationary increases in flow-through funding.

LTC's same property operating expenses for Q3 2019 increased by $3,266 to $106,548, compared to Q3 2018, due to additional expenses associated with flow-through funding and annual inflationary increases.

LTC's same property NOI for Q3 2019 increased by $346 to $23,309 compared to Q3 2018.

### Nine Months Ended September 30, 2019 Long-term Care Results

LTC's same property revenues for the nine months ended September 30, 2019 increased by $10,952 to $382,512, over the comparable prior year period, primarily attributable to additional and inflationary increases in flow-through funding.

LTC's same property operating expenses for the nine months ended September 30, 2019, excluding the prior year tax refund, increased by $9,460 to $315,684, over the comparable prior year period, due to additional expenses associated with flow-through funding and annual inflationary increases.

LTC's same property NOI for the nine months ended September 30, 2019, excluding the prior year tax refund, increased by $1,492 to $66,828 over the comparable prior year period.

## Depreciation and Amortization

### Third Quarter 2019

Depreciation and amortization for Q3 2019 decreased by $272 to $19,070, compared to Q3 2018, due to the full amortization on certain customer relationships, partially offset by higher amortization on computer hardware and software.

### Nine Months Ended September 30, 2019

Depreciation and amortization for the nine months ended September 30, 2019 increased by $6,048 to $57,756, over the comparable prior year period, due to the acquisition of the Acquired Properties in Q1 2018, partially offset by the full amortization on certain customer relationships.

## Administrative Expenses

### Third Quarter 2019

Administrative expenses for Q3 2019 increased by $157 to $5,597, compared to Q3 2018, due to increases in employee costs, partially offset by a decrease of $423 in mark-to-market adjustments on share-based compensation.

### Nine Months Ended September 30, 2019

Administrative expenses for the nine months ended September 30, 2019 increased by $3,500 to $18,319, over the comparable prior year period, due to an increase of $1,909 in mark-to-market adjustments on share-based compensation and increases in employee costs commensurate with the Company's growth.

## Net Finance Charges

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Finance costs** | | | | |
| Interest expense on long-term debt | **9,127** | 9,355 | **27,524** | 25,496 |
| Interest expense on Convertible Debentures | **—** | — | **—** | 844 |
| Fees on revolving credit facilities | **106** | 116 | **303** | 240 |
| Amortization of financing charges and fair value adjustments on acquired debt | **627** | 897 | **1,567** | 1,564 |
| Amortization of loss on bond forward contract | **242** | 233 | **711** | 684 |
| Fair value loss (gain) on interest rate swap contracts | **84** | (1,889) | **5,400** | (2,474) |
| | **10,186** | 8,712 | **35,505** | 26,354 |
| **Finance income** | | | | |
| Interest income on construction funding receivable | **500** | 633 | **1,607** | 1,945 |
| Other interest income[1] | **185** | 109 | **1,840** | 877 |
| | **685** | 742 | **3,447** | 2,822 |
| **Net finance charges** | **9,501** | 7,970 | **32,058** | 23,532 |

Notes:

1. Includes $nil and $1,346 interest income on a GST rebate for a prior year for the three and nine months ended September 30, 2019, respectively (2018 - $nil and $nil, respectively).

### Third Quarter 2019

Net finance charges for Q3 2019 increased by $1,531 to $9,501, compared to Q3 2018, primarily attributable to fair value adjustments on interest rate swap contracts in Q3 2019.

### Nine Months Ended September 30, 2019

Net finance charges for the nine months ended September 30, 2019 increased by $8,526 to $32,058, over the comparable prior year period, primarily attributable to fair value adjustments on interest rate swap contracts and incremental interest expense due to the acquisition of the Acquired Properties in Q1 2018. This increase was partially offset by interest income received on a GST rebate for a prior year, a decrease in interest expense on a bridge loan used to finance the acquisition of the Acquired Properties which was fully repaid in Q3 2018, and lower interest expense on Convertible Debentures which were fully redeemed in May 2018.

## Transaction Costs

### Third Quarter 2019

Transaction costs for Q3 2019 decreased by $605 to $352 compared to Q3 2018, primarily attributable to the acquisition and integration costs for the Acquired Properties in 2018.

### Nine Months Ended September 30, 2019

Transaction costs for the nine months ended September 30, 2019 decreased by $7,195 to $2,107, over the comparable prior year period, primarily attributable to the acquisition and integration costs for the Acquired Properties in 2018.

## Income Taxes

### Third Quarter 2019

Income tax expense for Q3 2019 increased by $69 to $1,879, compared to Q3 2018. The current income tax expense for Q3 2019 decreased by $556 to $1,677 compared to Q3 2018, primarily attributable to an increase in tax depreciation associated with new legislation enacted in Q2 2019 to accelerate depreciation. The current income tax expense has been calculated at the weighted average combined corporate tax rate of 26.57% (2018 - 26.57%). The deferred income tax expense for Q3 2019 increased by $625 to $202 compared to Q3 2018, primarily attributable to the tax amortization of share issuance costs, partially offset by fair value adjustments on interest rate swap contracts which are currently not deductible.

### Nine Months Ended September 30, 2019

Income tax expense for the nine months ended September 30, 2019 decreased by $1,043 to $2,328, over the comparable prior year period. The current income tax expense for the nine months ended September 30, 2019 decreased by $1,151 to $5,322 over the comparable prior year period, primarily attributable to an increase in tax depreciation associated with new legislation enacted in Q2 2019 to accelerate depreciation. This was partially offset by an increase in NOI, and an increase in mark-to-market adjustments on share-based compensation and fair value adjustments on interest rate swap contracts, which are both currently not deductible. The current income tax expense has been calculated at the weighted average combined corporate tax rate of 26.57% (2018 - 26.57%). The deferred income tax recovery for the nine months ended September 30, 2019 decreased by $108 to $2,994 over the comparable prior year period, primarily attributable to the tax amortization of share issuance costs in the period, partially offset by the items currently not deductible as described above.

## Business Performance

## Adjusted Funds from Operations

The IFRS measure most directly comparable to FFO and OFFO is "net income." The following table represents the reconciliation of "net income" to FFO and OFFO for the periods ended September 30. The reconciliation from FFO to AFFO is provided as supplementary information.

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of Canadian dollars, except share and per share data | **2019** | 2018 | Change | **2019** | 2018 | Change |
| **Net income** | **3,763** | 5,000 | (1,237) | **6,435** | 9,581 | (3,146) |
| Deferred income tax recovery | **202** | (423) | 625 | **(2,994)** | (3,102) | 108 |
| Depreciation and amortization | **18,180** | 18,873 | (693) | **55,179** | 50,402 | 4,777 |
| Transaction costs | **352** | 957 | (605) | **2,107** | 9,302 | (7,195) |
| Fair value loss (gain) on interest rate swap contracts | **84** | (1,889) | 1,973 | **5,400** | (2,474) | 7,874 |
| IFRS 16 adjustment | — | 61 | (61) | — | 161 | (161) |
| **Funds from operations (FFO)** | **22,581** | 22,579 | 2 | **66,127** | 63,870 | 2,257 |
| Depreciation and amortization - corporate | **890** | 469 | 421 | **2,577** | 1,306 | 1,271 |
| Amortization of financing charges and fair value adjustments on acquired debt | **627** | 897 | (270) | **1,567** | 1,564 | 3 |
| Amortization of loss on bond forward contract | **242** | 233 | 9 | **711** | 684 | 27 |
| Net settlement payment on interest rate swap contracts | **(73)** | (233) | 160 | **(327)** | (591) | 264 |
| Tax shield due to the settlement of the bond-lock hedge | **(59)** | (59) | — | **(177)** | (177) | — |
| Interest income on a GST rebate for a prior year | — | — | — | **(1,346)** | — | (1,346) |
| IFRS 16 adjustment | — | 89 | (89) | — | 271 | (271) |
| **Operating funds from operations (OFFO)** | **24,208** | 23,975 | 233 | **69,132** | 66,927 | 2,205 |
| Income support | — | 130 | (130) | — | 709 | (709) |
| Construction funding | **2,597** | 2,684 | (87) | **8,113** | 7,962 | 151 |
| Maintenance capex | **(2,313)** | (2,373) | 60 | **(4,942)** | (4,271) | (671) |
| **Adjusted funds from operations (AFFO)** | **24,492** | 24,416 | 76 | **72,303** | 71,327 | 976 |
| | | | | | | |
| Adjusted funds from operations (AFFO) | **24,492** | 24,416 | 76 | **72,303** | 71,327 | 976 |
| Dividends declared | **(15,483)** | (14,995) | (488) | **(45,920)** | (43,138) | (2,782) |
| **AFFO retained** | **9,009** | 9,421 | (412) | **26,383** | 28,189 | (1,806) |
| | | | | | | |
| **Basic FFO per share** | **0.339** | 0.343 | (0.004) | **0.996** | 1.012 | (0.016) |
| **Basic OFFO per share** | **0.364** | 0.365 | (0.001) | **1.042** | 1.061 | (0.019) |
| **Basic AFFO per share** | **0.368** | 0.372 | (0.004) | **1.089** | 1.130 | (0.041) |
| **Weighted average common shares outstanding - Basic** | **66,566,747** | 65,752,737 | | **66,375,736** | 63,062,629 | |
| | | | | | | |
| **Diluted FFO per share** | **0.339** | 0.343 | (0.004) | **0.996** | 1.003 | (0.007) |
| **Diluted OFFO per share** | **0.364** | 0.365 | (0.001) | **1.042** | 1.048 | (0.006) |
| **Diluted AFFO per share** | **0.368** | 0.372 | (0.004) | **1.089** | 1.116 | (0.027) |
| **Weighted average common shares outstanding - Diluted** | **66,566,747** | 65,752,737 | | **66,375,736** | 64,433,345 | |

**Reconciliation of diluted FFO, OFFO and AFFO**

| Thousands of Canadian dollars | Three Months Ended 2019 | 2018 | Change | Nine Months Ended 2019 | 2018 | Change |
|---|---|---|---|---|---|---|
| **FFO, Basic** | **22,581** | 22,579 | 2 | **66,127** | 63,870 | 2,257 |
| Net financing charges on convertible debt | — | — | — | — | 1,043 | (1,043) |
| Current income tax expense adjustment | — | — | — | — | (276) | 276 |
| **FFO, Diluted** | **22,581** | 22,579 | 2 | **66,127** | 64,637 | 1,490 |
| **OFFO, Basic** | **24,208** | 23,975 | 233 | **69,132** | 66,927 | 2,205 |
| Interest expense on Convertible Debentures | — | — | — | — | 844 | (844) |
| Current income tax expense adjustment | — | — | — | — | (223) | 223 |
| **OFFO, Diluted** | **24,208** | 23,975 | 233 | **69,132** | 67,548 | 1,584 |
| **AFFO, Basic** | **24,492** | 24,416 | 76 | **72,303** | 71,327 | 976 |
| Interest expense on Convertible Debentures | — | — | — | — | 844 | (844) |
| Current income tax expense adjustment | — | — | — | — | (223) | 223 |
| **AFFO, Diluted** | **24,492** | 24,416 | 76 | **72,303** | 71,948 | 355 |

## Third Quarter 2019 Performance

For Q3 2019, basic FFO increased by $2 to $22,581, compared to Q3 2018. The increase was primarily due to lower interest expense on long-term debt and lower current income taxes, partially offset by a decrease in same property NOI in the Retirement portfolio.

For Q3 2019, basic OFFO increased by $233 to $24,208, compared to Q3 2018. The increase was primarily attributable to the increase in basic FFO noted above.

For Q3 2019, basic AFFO increased by $76 to $24,492, compared to Q3 2018. The increase in AFFO was principally related to the increase in basic OFFO noted above.

## Nine Months Ended September 30, 2019 Performance

FFO for the nine months ended September 30, 2019 increased by $2,257 to $66,127 over the comparative prior year period. The increase was primarily attributable to the Acquired Properties transaction that closed in late Q1 2018, same property NOI growth, lower current income taxes and a prior year tax refund, partially offset by incremental interest expense due to the Acquired Properties.

OFFO for the nine months ended September 30, 2019 increased by $2,205 to $69,132 over the comparative prior year period. The increase was primarily attributable to the increase in FFO noted above.

AFFO for the nine months ended September 30, 2019 increased by $976 to $72,303 over the comparative prior year period. The increase was principally related to the increase in OFFO noted above, partially offset by an increase in maintenance capital expenditures mainly due to timing and the acquisition of the Acquired Properties.

## Construction Funding

The Company receives construction funding subsidies from the Ontario government on a per bed per diem basis to support the costs of developing or redeveloping an eligible LTC home. There are several eligibility requirements, including receiving MOHLTC approval on the development or redevelopment and completing the construction in accordance with a development agreement signed with the MOHLTC. This funding is non-interest bearing, and is received subject to the condition that the residences continue to operate as long-term care residences for the period for which they are entitled to the construction funding. As at September 30, 2019, the condition for funding has been met.

The construction funding amount to reconcile from OFFO to AFFO represents the change in the construction funding receivable balance, which consists of the cash to be received, offset by the interest income on the construction funding receivable recognized in "net income." For the years ending December 31, 2019 through 2023, and thereafter, the Company estimates that the construction funding amount will be as follows:

| Thousands of Canadian dollars | Construction funding interest income[1] | Construction funding principal[2] | Total construction funding to be received |
|---|---|---|---|
| 2019 | 2,059 | 10,808 | 12,867 |
| 2020 | 1,695 | 10,905 | 12,600 |
| 2021 | 1,252 | 9,797 | 11,049 |
| 2022 | 858 | 9,120 | 9,978 |
| 2023 | 534 | 6,254 | 6,788 |
| Thereafter | 1,107 | 10,232 | 11,339 |
| | **7,505** | **57,116** | **64,621** |

Notes:

1. The interest income relates to interest accretion resulting from the construction funding receivable that was initially measured at fair value and subsequently measured at amortized cost using the effective interest method.
2. The construction funding principal received is an adjustment to reconcile from OFFO to AFFO.

For the three and nine months ended September 30, 2019, $500 and $1,607 (2018 - $633 and $1,945) of interest income on construction funding receivable was recognized, respectively, and an adjustment of $2,597 and $8,113 (2018 - $2,684 and $7,962) was made to AFFO for construction funding principal received.

## Maintenance Capital Expenditures

The Company monitors all of its properties for ongoing maintenance. As part of the capital investments' monitoring process, items are assessed and prioritized based on the urgency and necessity of the expenditure to improve or upgrade the condition of buildings, or to meet residents' needs and enhance residents' experience. The following table summarizes the Company's maintenance capital expenditures for the periods ended September 30:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| Thousands of Canadian dollars | **2019** | 2018 | **2019** | 2018 |
| Building improvements | **618** | 352 | **932** | 559 |
| Mechanical and electrical | **356** | 582 | **1,336** | 885 |
| Suite renovations and common area upgrades | **763** | 990 | **1,570** | 1,877 |
| Communications and information systems | **144** | 23 | **255** | 79 |
| Furniture, fixtures and equipment | **432** | 426 | **849** | 871 |
| **Total maintenance capital expenditures** | **2,313** | 2,373 | **4,942** | 4,271 |

### Building Improvements

Building improvement expenditures include the costs for structures, roofing, exterior grounds, fire safety and sprinklers.

### Mechanical and Electrical

Mechanical and electrical expenditures include the costs for heating, air conditioning and ventilation systems, generators, boilers and pumps. These investments are made to extend the life of or improve the Company's capital assets and can also result in energy savings and lower maintenance costs over time.

### Suite Renovations and Common Area Upgrades

Suite renovations and common area upgrades are expenditures to maintain or improve the marketability of the Company's properties, to enhance the residents' experience and can contribute to higher rental rates on suite turnover. Flooring and carpeting replacements and upgrades are often done in conjunction with suite renovations.

### Communication and Information Systems

Communication and information systems' expenditures include the costs for purchasing and installing computer equipment, software applications, telecommunication systems and wireless solutions.

### Furniture, Fixtures and Equipment

Furniture, fixtures and equipment expenditures include the costs for replacing, upgrading, or improving residences' furnishings and equipment, including those in residents' rooms, as well as kitchen facilities, laundry facilities and dining furnishings.

## Reconciliation of Cash Flow from Operations to Adjusted Funds from Operations

The IFRS measure most directly comparable to AFFO is "cash flow from operating activities." The following table represents the reconciliation of cash provided by operating activities to AFFO for the periods ended September 30:

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of Canadian dollars | **2019** | 2018 | Change | **2019** | 2018 | Change |
| **Cash provided by operating activities** | **20,957** | 14,554 | 6,403 | **61,225** | 50,479 | 10,746 |
| Construction funding principal | **2,597** | 2,684 | (87) | **8,113** | 7,962 | 151 |
| Transaction costs | **352** | 957 | (605) | **2,107** | 9,302 | (7,195) |
| Tax shield due to settlement of the bond-lock hedge | **(59)** | (59) | — | **(177)** | (177) | — |
| Maintenance capex | **(2,313)** | (2,373) | 60 | **(4,942)** | (4,271) | (671) |
| Net change in working capital, interest and taxes | **3,012** | 8,584 | (5,572) | **7,622** | 7,825 | (203) |
| Restricted share units and long-term incentive plan expense | **(54)** | (81) | 27 | **(299)** | (225) | (74) |
| Interest income on a GST rebate for a prior year | — | — | — | **(1,346)** | — | (1,346) |
| IFRS 16 adjustment | — | 150 | (150) | — | 432 | (432) |
| **Adjusted funds from operations (AFFO)** | **24,492** | 24,416 | 76 | **72,303** | 71,327 | 976 |
| Adjusted funds from operations (AFFO) | **24,492** | 24,416 | 76 | **72,303** | 71,327 | 976 |
| Dividends declared | **(15,483)** | (14,995) | (488) | **(45,920)** | (43,138) | (2,782) |
| **AFFO retained** | **9,009** | 9,421 | (412) | **26,383** | 28,189 | (1,806) |
| Dividend reinvestment | **3,373** | 3,329 | 44 | **10,285** | 7,660 | 2,625 |
| **AFFO retained after dividend reinvestment** | **12,382** | 12,750 | (368) | **36,668** | 35,849 | 819 |

The Board of Directors of the Company determines the appropriate dividend levels based on its assessment of cash provided by operations normalized for unusual items, expected working capital requirements and actual and projected capital expenditures.

The following table summarizes the dividends declared in relation to cash flows from operating activities for the periods ended September 30:

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of Canadian dollars | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Cash flows from operating activities | **20,957** | 14,554 | 6,403 | **61,225** | 50,479 | 10,746 |
| Dividends declared | **15,483** | 14,995 | 488 | **45,920** | 43,138 | 2,782 |
| **Excess/(Deficit) of cash flows from operating activities over dividends declared** | **5,474** | (441) | 5,915 | **15,305** | 7,341 | 7,964 |

## Financial Position Analysis

### Balance Sheet Analysis

The following table summarizes the significant changes in assets, liabilities and equity for September 30, 2019 compared to December 31, 2018.

| Thousands of Canadian dollars | **2019** | 2018 | Change |
|---|---|---|---|
| Total assets | **1,708,163** | 1,753,200 | (45,037) |
| Total liabilities | **1,168,722** | 1,185,549 | (16,827) |
| Total equity | **539,441** | 567,651 | (28,210) |

Total assets decreased by $45,037 to $1,708,163 primarily due to the amortization of customer relationships, depreciation of property and equipment and construction funding payments received, partially offset by purchase of property and equipment.

Total liabilities decreased by $16,827 to $1,168,722 primarily due to the repayment of long-term debt of $70,413 and a decrease of $11,584 in accounts payable and accrued liabilities. This was partially offset by $52,873 from the re-financing of long-term debt, an increase of $3,103 to the share-based compensation liability primarily driven by mark-to-market adjustments and addition of a lease liability of $2,600.

Total equity decreased by $28,210 to $539,441 primarily due to the payment of dividends, partially offset by contributions from net income and dividend reinvestments.

### Cash Flow Analysis

The following table represents the summary of cash flows for the periods ended September 30, 2019:

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of Canadian dollars | **2019** | 2018 | Change | **2019** | 2018 | Change |
| Cash provided by (used in): | | | | | | |
| Operating activities | **20,957** | 14,554 | 6,403 | **61,225** | 50,479 | 10,746 |
| Investing activities | **(1,836)** | (9,599) | 7,763 | **(1,782)** | (317,551) | 315,769 |
| Financing activities | **(10,254)** | (52,569) | 42,315 | **(59,911)** | 257,389 | (317,300) |
| Increase/(decrease) in cash during the period | **8,867** | (47,614) | 56,481 | **(468)** | (9,683) | 9,215 |
| Cash, end of period | **22,400** | 9,082 | | **22,400** | 9,082 | |

### Third Quarter 2019

Cash flows provided by operating activities for the three months ended September 30, 2019 increased by $6,403 to $20,957 primarily due to an increase in non-cash changes in working capital.

Cash flows used in investing activities for the three months ended September 30, 2019 decreased by $7,763 to $1,836 primarily due to a decrease in the purchase of property and equipment.

Cash flows used in financing activities for the three months ended September 30, 2019 decreased by $42,315 to $10,254 primarily due to a decrease in the repayment of long-term debt, partially offset by a decrease in proceeds from long-term debt.

### Nine Months Ended September 30, 2019

Cash flows provided by operating activities for the nine months ended September 30, 2019 increased by $10,746 to $61,225 primarily due to NOI generated by the Acquired Properties and lower transaction costs, partially offset by an increase in interest paid on long-term debt from the Acquired Properties.

Cash flows used in investing activities for the nine months ended September 30, 2019 decreased by $315,769 to $1,782 primarily due to acquisitions in Q1 and Q2 2018 totalling $300,504, a GST rebate for a prior year received in Q1 2019 of $4,147 and a decrease in the purchase of property and equipment.

Cash flows provided by financing activities for the nine months ended September 30, 2019 decreased by $317,300 to cash flows used of $59,911 primarily due to the Company's offering of common shares in Q1 2018 to finance the acquisition of the Acquired Properties of $175,079 net of share issuance costs, and a decrease in net proceeds from the financing/re-financing of long-term debt.

# Liquidity and Capital Resources

## Liquidity

The Company's primary source of liquidity is cash flow generated from operating activities. The Company expects to meet its operating cash requirements through fiscal 2019 and beyond, including required working capital, capital expenditures, and currently scheduled interest payments on debt, from cash on hand, cash flow from operations and its committed, but unutilized borrowing capacity.

The Company measures its liquidity as the available funds of $105,693 from existing credit facilities of $154,693 plus available cash on hand of $22,400. The Company's liquidity was $128,093 as at September 30, 2019.

As at September 30, 2019, the Company had a working capital deficiency (current liabilities less current assets) of $196,865, primarily attributable to the current portion of long-term debt of $158,113, which includes credit facilities of $49,000, which were fully repaid subsequent to the quarter, and mortgages due within the next 12 months, of which $64,415 was repaid subsequent to the quarter. To support the Company's working capital deficiency, the Company plans to use its operating cash flows, proceeds from refinancing its debt and, if necessary, its undrawn credit facilities, all of which management of the Company believes to be sufficient to address this working capital deficiency.

## Debt

The Company's objectives are to access and maintain the lowest cost of debt with the most flexible terms available. The Company's debt strategy involves primarily unsecured and secured debentures, conventional property-level secured mortgages and bank credit facilities and loans.

The Company's goal is to continue to optimize its debt maturity schedule over a 10-year period in order to manage interest rate and financial risks. The Company's strategy is to build a 10-year debt maturity ladder by refinancing approximately 10% of its debt annually, which is equivalent to $96,511 as at September 30, 2019. The Company plans to capitalize on external growth opportunities and refinance mortgages to build its debt maturity ladder around the Series B Debentures to reduce risk when these debentures mature in 2021. In March 2019, DBRS confirmed the A (low) rating for the Series B Debentures.

The Company's total debt is comprised as follows:

| Thousands of Canadian dollars | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| Series B Debentures | **322,000** | 322,000 |
| Mortgages | **637,027** | 626,617 |
| Credit facilities and loans | **49,000** | 76,500 |
| Lease liability | **2,600** | — |
| | **1,010,627** | 1,025,117 |
| Fair value adjustments on acquired debt | **3,819** | 4,243 |
| Less: Deferred financing costs | **(12,704)** | (13,234) |
| Less: Series B Debentures principal reserve fund | **(36,629)** | (31,209) |
| Total debt | **965,113** | 984,917 |

The Company's total debt as at September 30, 2019 was $965,113 (December 31, 2018 - $984,917), which is net of the Series B Debentures' principal reserve fund of $36,629 (December 31, 2018 - $31,209). The decrease of $19,804 was primarily related to repayments to the Company's credit facilities and mortgages, and monthly contributions to the Series B Debentures' principal reserve fund, partially offset by the re-financing of property-level mortgages.

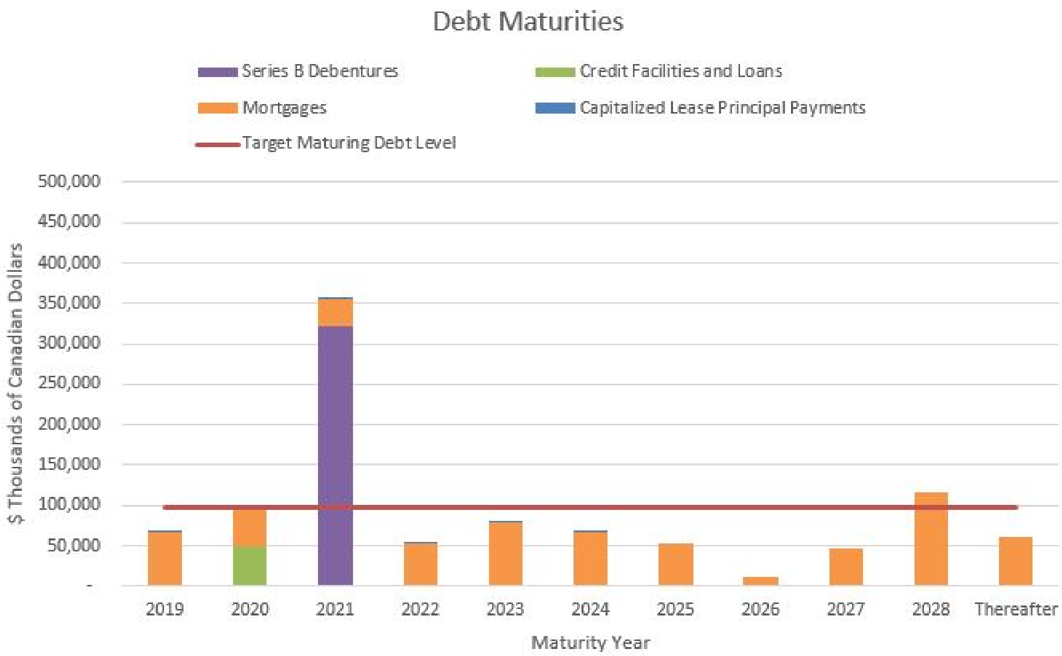
The following table summarizes the scheduled principal maturities of the Company's long-term debt commitments as at September 30, 2019:

| | | | | Mortgages | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Series B Debentures[1] | Credit Facilities and Loans[2] | Capitalized Lease Principal Payments[3] | Regular Principal Repayments | Principal Due at Maturity | Weighted Average Interest Rate on Maturing Mortgages | **Total** | Consolidated Weighted Average Interest Rate on Maturing Debt |
| 2019 | — | — | 153 | 6,082 | 60,601 | **3.94%** | **66,836** | 3.94% |
| 2020 | — | 49,000 | 631 | 20,898 | 27,824 | **3.44%** | **98,353** | 3.52% |
| 2021 | 322,000 | — | 525 | 20,933 | 13,426 | **3.36%** | **356,884** | 3.47% |
| 2022 | — | — | 494 | 19,519 | 33,199 | **4.33%** | **53,212** | 4.33% |
| 2023 | — | — | 435 | 17,632 | 60,824 | **4.14%** | **78,891** | 4.14% |
| 2024 | — | — | 362 | 15,846 | 50,104 | **4.10%** | **66,312** | 4.09% |
| 2025 | — | — | — | 12,311 | 41,065 | **4.81%** | **53,376** | 4.81% |
| 2026 | — | — | — | 12,347 | — | **-** | **12,347** | - |
| 2027 | — | — | — | 11,650 | 35,115 | **3.29%** | **46,765** | 3.29% |
| 2028 | — | — | — | 6,619 | 109,737 | **3.36%** | **116,356** | 3.36% |
| Thereafter | — | — | — | 16,362 | 44,933 | **4.37%** | **61,295** | 4.37% |
| | **322,000** | **49,000** | **2,600** | **160,199** | **476,828** | **3.88%** | **1,010,627** | 3.73% |
| Fair value adjustments on acquired debt | | | | | | | **3,819** | |
| Less: Deferred financing costs | | | | | | | **(12,704)** | |
| | | | | | | | **1,001,742** | |

Notes:

1. The interest rate for the Series B Debentures is 3.474%.
2. The weighted average interest rate for credit facilities maturing in 2020 is 3.57%.
3. The weighted average interest rate for capitalized lease principal payments is 3.87% for each year.

The following graph provides a breakdown of the Company's debt maturities:




## Series B Senior Secured Debentures

The Series B Debentures mature on February 3, 2021, and are collateralized by the assets of Leisureworld Senior Care LP and its subsidiary partnerships and guaranteed by the subsidiary partnerships. The Series B Debentures bear interest at a rate of 3.474%, payable semi-annually in February and August of each year.

As part of the issuance of the Series B Debentures, a principal reserve fund was established by the Company and is controlled by an external third party trustee for the benefit and security of the holders of the Series B Debentures. The Company is required to fund the principal reserve fund in accordance with a defined schedule over the term of the Series B Debentures. The Company can only use the fund to redeem, purchase or repay principal of the Series B Debentures. The Company, in conjunction with the issuance of the Series B Debentures, entered into an interest rate swap contract, to effectively fix the interest rate earned on the principal reserve fund at 2.82%.

The balances related to the Series B Debentures are as follows:

| Thousands of Canadian dollars | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| Series B Debentures | **322,000** | 322,000 |
| Less: Series B principal reserve fund | **(36,629)** | (31,209) |
| Less: Deferred financing costs | **(776)** | (1,190) |
| | **284,595** | 289,601 |

## Mortgages

The Company has both fixed and variable rate mortgages with various financial institutions. The Company is subject to interest rate risk on mortgages at variable rates associated with certain residences, which is partially offset by interest rate swap contracts. Property-level mortgages are secured by each of the underlying properties' assets, guaranteed by the Company and are subject to certain customary financial and non-financial covenants.

The Company has low-cost mortgage financing with Canada Mortgage and Housing Corporation ("**CMHC**"). As at September 30, 2019, 27.8% of the Company's total property-level mortgages were insured by CMHC, which is consistent with the prior year.

The balances related to property-level mortgages are as follows:

| Thousands of Canadian dollars | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| Mortgages | **637,027** | 626,617 |
| Fair value adjustments on acquired debt | **3,819** | 4,243 |
| Less: Deferred financing costs | **(11,837)** | (11,754) |
| | **629,009** | 619,106 |

The following table summarizes some metrics on the Company's property-level mortgages:

| | **September 30, 2019** | | | December 31, 2018 |
|---|---|---|---|---|
| | **Fixed Rate[(1)]** | **Variable Rate** | **Total** | Total |
| Weighted average interest rate | 3.91% | 3.32% | **3.88%** | 4.00% |
| Weighted average term to maturity (years) | 6.0 | 0.3 | **5.7** | 6.6 |

Note:
1. Includes floating rate mortgages that have been fixed through interest rate swaps.

## Credit Facilities and Loans

The Company has a combined total borrowing capacity of $154,693 pursuant to its credit facilities and, as at September 30, 2019, has drawn $49,000 from the facilities.

The Company's subsidiary, The Royale LP, has a credit agreement with a Canadian lender for a revolving credit facility of $105,000 (the "**Royale Credit Facility**"). The Royale Credit Facility has a current borrowing capacity of $96,193 and matures on January 18, 2020. This facility is intended to be used for general corporate purposes, including the short-term financing of future acquisitions. Borrowings under the Royale Credit Facility can take place by way of loans (at Canadian prime rate plus 75 bps per annum), bankers' acceptances ("**BAs**") (at 175 bps per annum over the floating BA rate published by the Bank of Canada) and letters of credit (at 175 bps per annum). The Royale Credit Facility is secured by the assets of three Retirement Residences and guaranteed by Sienna, and is subject to certain customary financial and non-financial covenants, including restrictions on the pledging of assets and the maintenance of various financial covenants. As at September 30, 2019, the Company had drawn $20,000 under the Royale Credit Facility. Subsequent to September 30, 2019, the Company fully repaid the Royale Credit Facility.

The Company has a credit agreement with a Canadian lender for a non-revolving facility of $29,000 which is due on March 27, 2020 and is available by way of BAs (at the BA rate plus 175 bps) or loans (at prime plus 50 bps per annum). This loan is secured by the assets of one of the Company's residences and is subject to certain customary financial and non-financial covenants. As at September 30, 2019, the Company had drawn $29,000 under this facility. Subsequent to September 30, 2019, the Company fully repaid this facility.

The balances related to the Company's credit facilities and loans are as follows:

| Thousands of Canadian dollars | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| Credit facilities and loans drawn | **49,000** | 76,500 |
| Less: Deferred financing costs | **(91)** | (290) |
| | **48,909** | 76,210 |

### Lease Liability

The lease liability as at September 30, 2019 of $2,600 represents the Company's lease on its office equipment and Markham corporate office space.

## Financial Covenants

The Company is in compliance with all financial covenants on its borrowings as at September 30, 2019. However, there can be no assurance that covenant requirements will be met at all times. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be adversely affected.

The Company has adopted interest coverage guidelines which are consistent with the coverage covenants contained in its bank credit facility agreements. Interest coverage ratios are used to assess the Company's ability to service its debt obligations. The interest coverage ratio calculations may differ depending on the lender.

*Interest Coverage Ratio*

The Interest Coverage Ratio is a common measure used to assess an entity's ability to service its debt obligations. In general, higher ratios indicate a lower risk of default. The interest coverage ratio is calculated as follows for the periods ended September 30:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| Thousands of Canadian dollars, except ratio | **2019** | 2018 | **2019** | 2018 |
| Net finance charges | **9,501** | 7,970 | **32,058** | 23,532 |
| Add (deduct): | | | | |
| Amortization of financing charges and fair value adjustments on acquired debt | **(627)** | (897) | **(1,567)** | (1,564) |
| Amortization of loss on bond forward contract | **(242)** | (233) | **(711)** | (684) |
| Interest income on construction funding receivable | **500** | 633 | **1,607** | 1,945 |
| Other interest income | **185** | 109 | **1,840** | 877 |
| (Loss)/gain on interest rate swap contracts | **(11)** | 2,122 | **(5,073)** | 3,065 |
| **Net finance charges, adjusted** | **9,306** | 9,704 | **28,154** | 27,171 |
| **Adjusted EBITDA** | **37,662** | 38,396 | **110,404** | 107,401 |
| **Interest coverage ratio** | **4.0** | 4.0 | **3.9** | 4.0 |

The following table represents the reconciliation of net income to Adjusted EBITDA for the periods ended September 30:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| Thousands of Canadian dollars | **2019** | 2018 | **2019** | 2018 |
| Net income | **3,763** | 5,000 | **6,435** | 9,581 |
| Net finance charges | **9,501** | 7,970 | **32,058** | 23,532 |
| Provision for income taxes | **1,879** | 1,810 | **2,328** | 3,371 |
| Depreciation and amortization | **19,070** | 19,342 | **57,756** | 51,708 |
| Transaction costs | **352** | 957 | **2,107** | 9,302 |
| Proceeds from construction funding | **3,097** | 3,317 | **9,720** | 9,907 |
| **Adjusted EBITDA** | **37,662** | 38,396 | **110,404** | 107,401 |

### *Debt Service Coverage Ratio*

The Debt Service Coverage Ratio is a common measure used to assess an entity's ability to service its debt obligations. Maintaining the debt service coverage ratio forms part of the Company's debt covenant requirements. In general, higher ratios indicate a lower risk of default. The following calculation includes the payments to the Series B Debentures' principal reserve fund as part of the debt service costs. Adjusted EBITDA as referenced below, is presented in accordance with defined terms in certain covenant calculations. The following is the calculation for the periods ended September 30:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| Thousands of Canadian dollars, except ratio | **2019** | 2018 | **2019** | 2018 |
| Net finance charges | **9,501** | 7,970 | **32,058** | 23,532 |
| Add (deduct): | | | | |
| Amortization of financing charges and fair value adjustments on acquired debt | **(627)** | (897) | **(1,567)** | (1,564) |
| Amortization of loss on bond forward contract | **(242)** | (233) | **(711)** | (684) |
| Interest income on construction funding receivable | **500** | 633 | **1,607** | 1,945 |
| Other interest income | **185** | 109 | **1,840** | 877 |
| (Loss)/gain on interest rate swap contracts | **(11)** | 2,122 | **(5,073)** | 3,065 |
| **Net finance charges, adjusted** | **9,306** | 9,704 | **28,154** | 27,171 |
| Principal repayments[(1)] | **6,408** | 5,630 | **19,043** | 15,264 |
| Principal reserve fund | **1,812** | 1,821 | **5,420** | 5,462 |
| **Total debt service** | **17,526** | 17,155 | **52,617** | 47,897 |
| | | | | |
| **Adjusted EBITDA** | **37,662** | 38,396 | **110,404** | 107,401 |
| Deduct: | | | | |
| Maintenance capex | **(2,313)** | (2,373) | **(4,942)** | (4,271) |
| Cash income taxes | **(1,800)** | (1,800) | **(5,400)** | (5,290) |
| **Adjusted EBITDA (for covenant calculations)** | **33,549** | 34,223 | **100,062** | 97,840 |
| **Debt service coverage ratio** | **1.9** | 2.0 | **1.9** | 2.0 |

Note:

1. During the three and nine months ended September 30, 2019, the Company made voluntary payments of $nil and $47,500 (2018 - $66,000 and $238,000) toward its credit facilities and loans, respectively, which have been excluded from the debt service coverage ratio calculation. Debt repayments on maturity have also been excluded from the debt service coverage ratio calculation.

### *Debt to Adjusted EBITDA Ratio*

The Debt to Adjusted EBITDA ratio is an indicator of the approximate number of years required for current cash flows to repay all indebtedness. The Adjusted EBITDA below is annualized using the Adjusted EBITDA for the nine months ended September 30, 2019.

| | September 30 | |
|---|---|---|
| Thousands of Canadian dollars, except ratio | **2019** | 2018 |
| Total indebtedness | | |
| Series B Debentures | **322,000** | 322,000 |
| Series B Debentures - Principal reserve fund | **(36,629)** | (29,386) |
| Credit facilities and loans | **49,000** | 76,500 |
| Mortgages | **637,027** | 625,740 |
| Lease liability | **2,600** | — |
| | **973,998** | 994,854 |
| Adjusted EBITDA | **147,205** | 143,201 |
| **Debt to Adjusted EBITDA** | **6.6** | 6.9 |

### *Debt to Gross Book Value*

Debt to gross book value indicates the leverage applied against the total gross book value (original costs) of the entity.

| | September 30 | |
|---|---|---|
| Thousands of Canadian dollars, except ratio | **2019** | 2018 |
| Total indebtedness | | |
| Series B Debentures | **322,000** | 322,000 |
| Series B Debentures - Principal reserve fund | **(36,629)** | (29,386) |
| Credit facilities and loans | **49,000** | 76,500 |
| Mortgages | **637,027** | 625,740 |
| Lease liability | **2,600** | — |
| | **973,998** | 994,854 |
| Total assets | **1,708,163** | 1,746,612 |
| Accumulated depreciation on property and equipment | **247,569** | 205,720 |
| Accumulated amortization on intangible assets | **140,810** | 105,437 |
| Gross book value | **2,096,542** | 2,057,769 |
| **Debt to gross book value** | **46.5%** | 48.3% |

## Capital Disclosure

The Company defines its capital as the total of its long-term debt and shareholders' equity less cash and cash equivalents.

The Company's objectives when managing capital are to:

(i) maintain a capital structure that provides options to the Company for accessing capital on commercially reasonable terms, without exceeding its debt capacity, or the limitations in its credit facilities, or taking on undue risks;
(ii) maintain financial flexibility in order to meet financial obligations, including debt service payments and regular dividend payments; and
(iii) deploy capital to provide an appropriate investment return to its shareholders.

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue additional shares, additional long-term debt, or long-term debt to replace existing long-term debt with similar or different characteristics, or adjust the amount of dividends paid to the Company's shareholders. The Company's financing and refinancing decisions are made on a specific transaction basis and depend on factors such as the Company's financial needs and the market and economic conditions at the time of the transaction.

The Board of Directors of the Company determines and approves monthly dividends in advance on a quarterly basis.

There were no changes in the Company's approach to capital management during the period.

## Contractual Obligations and Other Commitments

### Leases

The Company has a 10-year lease with respect to its Markham corporate office, which expires on October 31, 2024. As well, the Company has various leases for office and other equipment that expire over the next five years and thereafter.

## Critical Accounting Estimates and Accounting Policies

The accounting policies and estimates that are critical to the understanding of the Company's business operations and results of operations are identified in Note 3 of the Company's annual audited consolidated financial statements for the year ended December 31, 2018. Changes in accounting policies are identified in Note 3 of the interim consolidated financial statements for the three and nine months ended September 30, 2019. Please refer to those statements for further details.

### Changes in Accounting Policies

On January 1, 2019, the Company adopted IFRS 16, Leases ("**IFRS 16**") with no retrospective adjustment to the Company's consolidated opening retained earnings and prior year's consolidated financial statements. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The comparative period's non-IFRS performance measures for FFO, OFFO and AFFO are restated to reflect IFRS 16 as if it was adopted on January 1, 2017. The IFRS adjustment to increase FFO represents a reduction in operating expenses and administrative expenses, offset by lease interest expense and depreciation of right-of-use assets. The IFRS 16 adjustment to increase OFFO and AFFO represents the add-back of depreciation on right-of-use corporate assets. The comparative period's financial ratios in the "Financial Covenants" section are not restated for IFRS 16 as the impact is not material.

## Significant Judgments and Estimates

The critical accounting estimates used by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual audited consolidated financial statements for the year ended December 31, 2018, which are available on SEDAR or the Company's website. Please refer to those consolidated financial statements for further detail.

## Risk Factors

Please refer to the AIF for a discussion of the Company's risk factors.

## Controls and Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company, inclusive of its subsidiaries, is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS.

In designing such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is necessarily required to use judgment in evaluating controls and procedures.

There were no material changes in the Company's disclosure controls and procedures and internal controls over financial reporting since year-end that have a material effect, or are reasonably likely to have a material effect, on the Company's control environment.

## Forward-Looking Statements

This MD&A contains forward-looking information based on management's current expectations, estimates and projections about the future results, performance, achievements, prospects or opportunities for the Company as of the date of this MD&A. Forward-looking statements involve significant known and unknown risks and uncertainties and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. Such known and unknown risks, uncertainties and other factors may cause the actual results to be materially different from any future results expressed or implied by such forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "projects", "estimates", "forecasts", "intends", "continues", "anticipates", "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "should", "would", "might" or "will" "be taken", "occur", "continue" or "be achieved". The forward-looking statements contained in this MD&A are based on information currently available to management of the Company and that management currently believes are based on reasonable assumptions. However, neither the Company nor management of the Company can ensure actual results will be consistent with these forward-looking statements. These forward-looking statements are as of the date of this MD&A, and the Company and its management assume no obligation to update or revise them to reflect new events or circumstances, except as required by securities laws. Readers are cautioned not to place undue reliance on any forward-looking statements.

# Consolidated Financial Statements

(in thousands of Canadian Dollars)

**Q3 2019** Report to Shareholders

# Condensed Interim Consolidated Financial Statements

Thousands of Canadian dollars

| | Notes | **September 30, 2019** | December 31, 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **22,400** | 22,868 |
| Accounts receivable and other assets | | **12,075** | 11,566 |
| Prepaid expenses and deposits | | **6,600** | 4,031 |
| Government funding receivable | 4 | **3,014** | 4,582 |
| Construction funding receivable | 4, 6 | **10,694** | 10,893 |
| Interest rate swap contracts | 4 | **286** | 409 |
| Income taxes receivable | | **471** | 392 |
| | | **55,540** | 54,741 |
| **Non-current assets** | | | |
| Government funding receivable | 4 | **201** | 626 |
| Interest rate swap contracts | 4 | **79** | 1,631 |
| Restricted cash | 5 | **39,180** | 33,462 |
| Construction funding receivable | 4, 6 | **38,309** | 46,223 |
| Property and equipment | 7 | **1,165,395** | 1,182,483 |
| Intangible assets | 8 | **241,793** | 266,368 |
| Goodwill | | **167,666** | 167,666 |
| **Total assets** | | **1,708,163** | 1,753,200 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | **86,832** | 98,416 |
| Government funding payable | 4 | **6,561** | 5,261 |
| Current portion of long-term debt | 4, 9 | **158,113** | 113,888 |
| Interest rate swap contracts | 4 | **899** | 401 |
| | | **252,405** | 217,966 |
| **Non-current liabilities** | | | |
| Long-term debt | 4, 9 | **843,629** | 902,238 |
| Deferred income taxes | 11 | **51,440** | 54,246 |
| Government funding payable | 4 | **6,602** | 2,456 |
| Share-based compensation liability | 14 | **9,923** | 6,820 |
| Interest rate swap contracts | 4 | **4,723** | 1,823 |
| **Total liabilities** | | **1,168,722** | 1,185,549 |
| **EQUITY** | | | |
| Shareholders' equity | | **539,441** | 567,651 |
| **Total equity** | | **539,441** | 567,651 |
| **Total liabilities and equity** | | **1,708,163** | 1,753,200 |

*See accompanying notes.*

Approved by the Board of Directors of Sienna Senior Living Inc.

*"Dino Chiesa"*
Dino Chiesa
Chair and Director

*"Janet Graham"*
Janet Graham
Director

Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)
Thousands of Canadian dollars

| | **Notes** | **Share capital** | **Equity portion of convertible debentures** | **Contributed surplus** | **Shareholders' deficit** | **Accumulated other comprehensive income (loss)** | **Total shareholders' equity** |
|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2019** | | **859,005** | **—** | **203** | **(290,059)** | **(1,498)** | **567,651** |
| **Issuance of shares** | 12 | **10,701** | **—** | **—** | **—** | **—** | **10,701** |
| **Net income** | | **—** | **—** | **—** | **6,435** | **—** | **6,435** |
| **Other comprehensive income** | | **—** | **—** | **—** | **—** | **522** | **522** |
| **Long-term incentive plan** | 12, 14 | **33** | **—** | **—** | **—** | **—** | **33** |
| **Share purchase loan** | 12 | **19** | **—** | **—** | **—** | **—** | **19** |
| **Dividends** | 12, 13 | **—** | **—** | **—** | **(45,920)** | **—** | **(45,920)** |
| **Balance, September 30, 2019** | | **869,758** | **—** | **203** | **(329,544)** | **(976)** | **539,441** |

| | Notes | Share capital | Equity portion of convertible debentures | Contributed surplus | Shareholders' deficit | Accumulated other comprehensive income (loss) | Total shareholders' equity |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2018 | | 639,361 | 515 | 157 | (241,659) | (2,174) | 396,200 |
| Issuance of shares | 12 | 216,526 | (515) | — | — | — | 216,011 |
| Net income | | — | — | — | 9,581 | — | 9,581 |
| Other comprehensive income | | — | — | — | — | 503 | 503 |
| Long-term incentive plan | 12, 14 | 41 | — | 46 | — | — | 87 |
| Share purchase loan | 12 | 18 | — | — | — | — | 18 |
| Dividends | 12, 13 | — | — | — | (43,138) | — | (43,138) |
| Balance, September 30, 2018 | | 855,946 | — | 203 | (275,216) | (1,671) | 579,262 |

*See accompanying notes.*

## Condensed Interim Consolidated Statements of Operations
## (Unaudited)
Thousands of Canadian dollars, except share and per share data

| | | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|---|
| | **Notes** | **2019** | 2018 | **2019** | 2018 |
| **Revenue** | 17, 19 | **167,947** | 165,048 | **497,573** | 472,529 |
| **Expenses** | | | | | |
| Operating | | **127,785** | 124,529 | **378,570** | 360,216 |
| Depreciation and amortization | | **19,070** | 19,342 | **57,756** | 51,708 |
| Administrative | | **5,597** | 5,440 | **18,319** | 14,819 |
| | 18 | **152,452** | 149,311 | **454,645** | 426,743 |
| **Income before net finance charges, transaction costs and provision for (recovery of) income taxes** | | **15,495** | 15,737 | **42,928** | 45,786 |
| Net finance charges | 10 | **9,501** | 7,970 | **32,058** | 23,532 |
| Transaction costs | | **352** | 957 | **2,107** | 9,302 |
| **Total other expenses** | | **9,853** | 8,927 | **34,165** | 32,834 |
| **Income before provision for (recovery of) income taxes** | | **5,642** | 6,810 | **8,763** | 12,952 |
| **Provision for (recovery of) income taxes** | | | | | |
| Current | | **1,677** | 2,233 | **5,322** | 6,473 |
| Deferred | | **202** | (423) | **(2,994)** | (3,102) |
| | 11 | **1,879** | 1,810 | **2,328** | 3,371 |
| **Net income** | | **3,763** | 5,000 | **6,435** | 9,581 |
| Basic and diluted net income per share | 12 | **$0.06** | $0.08 | **$0.10** | $0.15 |
| Weighted average number of common shares outstanding - basic | 12 | **66,566,747** | 65,752,737 | **66,375,736** | 63,062,629 |
| Weighted average number of common shares outstanding - diluted | 12 | **66,566,747** | 65,752,737 | **66,375,736** | 64,433,345 |

*See accompanying notes.*

Thousands of Canadian dollars

| | Notes | Three months ended September 30, 2019 | Three months ended September 30, 2018 | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|---|---|---|---|---|---|
| **Net income** | | **3,763** | 5,000 | **6,435** | 9,581 |
| **Other comprehensive income** | | | | | |
| **Items that may be subsequently reclassified to the consolidated statements of operations:** | | | | | |
| Amortization of loss on bond forward contracts, net of tax | 11 | 177 | 171 | 522 | 503 |
| **Total comprehensive income** | | **3,940** | 5,171 | **6,957** | 10,084 |

*See accompanying notes.*

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
Thousands of Canadian dollars

| | Notes | Three months ended September 30, 2019 | Three months ended September 30, 2018 | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| **Net income** | | **3,763** | 5,000 | **6,435** | 9,581 |
| Add (deduct) items not affecting cash | | | | | |
| Depreciation of property and equipment | | **10,522** | 10,050 | **31,549** | 28,514 |
| Amortization of intangible assets | | **8,548** | 9,292 | **26,207** | 23,194 |
| Current income taxes | | **1,677** | 2,233 | **5,322** | 6,473 |
| Deferred income tax provision (recoveries) | | **202** | (423) | **(2,994)** | (3,102) |
| Share-based compensation | 14 | **256** | 584 | **2,854** | 733 |
| Net finance charges | 10 | **9,501** | 7,970 | **32,058** | 23,532 |
| | | **34,469** | 34,706 | **101,431** | 88,925 |
| **Non-cash changes in working capital** | | | | | |
| Accounts receivable and other assets | | **(548)** | (1,065) | **(457)** | (1,592) |
| Prepaid expenses and deposits | | **662** | 1,268 | **(2,569)** | (3,465) |
| Accounts payable and accrued liabilities | | **(2,682)** | (8,730) | **(8,153)** | (4,865) |
| Income support | | **—** | 130 | **—** | 709 |
| Government funding, net | | **2,907** | 2,058 | **7,439** | 5,463 |
| | | **339** | (6,339) | **(3,740)** | (3,750) |
| Interest paid on long-term debt and convertible debentures | | **(11,978)** | (11,780) | **(30,739)** | (28,815) |
| Net settlement payment on interest rate swap contracts | | **(73)** | (233) | **(327)** | (591) |
| Income taxes paid | | **(1,800)** | (1,800) | **(5,400)** | (5,290) |
| **Cash provided by operating activities** | | **20,957** | 14,554 | **61,225** | 50,479 |
| **INVESTING ACTIVITIES** | | | | | |
| Purchase of property and equipment, net of adjustments | 7 | **(4,804)** | (12,639) | **(11,412)** | (25,568) |
| Purchase of intangible assets | 8 | **(253)** | (782) | **(1,632)** | (2,213) |
| Amounts received from construction funding | 6 | **3,097** | 3,317 | **9,720** | 9,907 |
| Interest received from cash | 10 | **185** | 109 | **1,840** | 877 |
| Acquisition of Glenmore Lodge | | **—** | — | **—** | (2,796) |
| Acquisition of ten seniors' living residences | | **—** | — | **—** | (297,708) |
| Change in restricted cash | 5 | **(61)** | 396 | **(298)** | (50) |
| **Cash used in investing activities** | | **(1,836)** | (9,599) | **(1,782)** | (317,551) |
| **FINANCING ACTIVITIES** | | | | | |
| Gross proceeds from issuance of common shares | 12 | **—** | — | **—** | 184,017 |
| Share issuance costs | | **—** | 46 | **—** | (8,938) |
| Redemption of convertible debentures | 12 | **—** | — | **—** | (12,956) |
| Repayment of long-term debt | 9 | **(6,408)** | (71,630) | **(70,413)** | (260,976) |
| Proceeds from long-term debt | 9 | **10,000** | 34,082 | **52,873** | 407,160 |
| Deferred financing costs | | **(37)** | (1,691) | **(1,461)** | (11,037) |
| Change in Series B Debenture principal reserve fund | 5 | **(1,812)** | (1,821) | **(5,420)** | (5,462) |
| Dividends paid | 13 | **(11,997)** | (11,555) | **(35,490)** | (34,419) |
| **Cash (used in) provided by financing activities** | | **(10,254)** | (52,569) | **(59,911)** | 257,389 |
| **Increase/(decrease) in cash and cash equivalents during the period** | | **8,867** | (47,614) | **(468)** | (9,683) |
| Cash and cash equivalents, beginning of period | | **13,533** | 56,696 | **22,868** | 18,765 |
| **Cash and cash equivalents, end of period** | | **22,400** | 9,082 | **22,400** | 9,082 |

*See accompanying notes.*

# 1 Organization

Sienna Senior Living Inc. (the "**Company**") and its predecessors have been operating since 1972. The Company is one of Canada's leading seniors' living providers serving the continuum of independent living ("**IL**"), independent supportive living ("**ISL**"), assisted living ("**AL**"), memory care ("**MC**") and long-term care ("**LTC**"or "**Long-term Care**") through the ownership and operation of seniors' living residences in the Provinces of British Columbia and Ontario. As at September 30, 2019, the Company owns and operates a total of 70 seniors' living residences: 27 retirement residences ("**RRs**" or "**Retirement Residences**"); 35 LTC residences; and eight seniors' living residences providing both private-pay IL and AL and funded LTC (including the Company's joint ownership in two residences in British Columbia). The Company also provides management services to 14 seniors' living residences in British Columbia and Ontario.

The Company was incorporated under the Business Corporations Act (Ontario) on February 10, 2010 and was subsequently continued under the Business Corporations Act (British Columbia) on March 18, 2010. The Company closed the initial public offering of its common shares on March 23, 2010 and is traded on the Toronto Stock Exchange under the symbol "SIA".

The Company's business is carried on through its wholly owned subsidiaries in the form of limited partnerships formed under the laws of Ontario, except for the Option Properties (as defined in Note 20), which are owned through joint ventures between the Company and each of WVJ II General Partnership and WVJ Properties (Nicola) Ltd. (each an affiliate of Pacific Seniors Management Investments Ltd.).

As at September 30, 2019, the Company had outstanding 66,654,529 common shares.

The head office of the Company is located at 302 Town Centre Blvd., Suite 300, Markham, Ontario, L3R 0E8. The registered office of the Company is located at 1900 - 355 Burrard Street, Vancouver, British Columbia, V6C 2G8.

# 2 Basis of preparation

These unaudited condensed interim consolidated financial statements ("**interim consolidated financial statements**") have been prepared in accordance with International Accounting Standard ("**IAS**") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**"). The interim consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The interim consolidated financial statements were approved by the Board of Directors on November 13, 2019.

# 3 Summary of significant accounting policies, judgments and estimation uncertainty

In preparing these interim consolidated financial statements, the accounting policies utilized are consistent with those utilized in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2018, except as described in the "Changes in accounting policies" section below.

## Changes in accounting policies

*IFRS 16, Leases*

In January 2016, the IASB issued the new standard that sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17 Leases for reporting periods beginning on or after January 1, 2019. This new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The Company adopted and applied this standard effective January 1, 2019 using the modified retrospective approach.

As at January 1, 2019, the Company recognized $3,049 as a right-of-use asset and a lease liability for an office lease and office equipment using a simplified approach where the asset and liability are identical. The right-of-use asset is depreciated over the remaining term of the lease and recognized as depreciation expense. The lease liability was initially recognized at the present value of the remaining lease payments discounted at the Company's incremental borrowing rate of 3.87%. After initial recognition, the lease liability is subsequently measured at its amortized cost using the effective interest method. There was no restatement of prior year interim consolidated financial statements as a result of the changes in the Company's accounting policies.

In accordance with the practical expedients of IFRS 16, the Company has elected to not recognize right-of-use assets or lease liabilities for any leases with a term shorter than twelve months and leases with low values.

*IFRIC 23, Uncertainty over Income Tax Treatments*

In June 2017, the IASB issued International Financial Reporting Interpretations Committee ("**IFRIC**") Interpretation 23, Uncertainty over Income Tax Treatments, which is effective for reporting periods beginning on or after January 1, 2019. IFRIC 23 clarifies the recognition and measurement requirements under IAS 12, Income Taxes, when there is uncertainty over income tax treatments. As at January 1, 2019, the Company has applied IFRIC 23, and there was no material impact on the Company's interim consolidated financial statements as there are no known material uncertain tax positions.

## Accounting standards issued but not yet applied

*Amendments to IFRS 3, Business Combinations*

In October 2018, the IASB published amendments to IFRS 3 in relation to whether a transaction meets the definition of a business combination. The amendments clarify the definition of a business, as well as provides additional illustrative examples, including those relevant to the real estate industry. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, and to asset acquisitions that occur on or after the beginning of that period. Early application is permitted.

All amounts are in thousands of Canadian dollars, except share and per share data, or unless otherwise noted

# 4 Financial instruments

*Fair value of financial instruments*

The Company uses a fair value hierarchy to categorize the type of valuation techniques from which fair values are derived. Financial instruments are valued using unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), inputs that are observable for the assets or liabilities either directly or indirectly (Level 2) and inputs for assets or liabilities that are not based on observable market data (Level 3). The interest rate swap contracts are the only financial instruments carried at fair value through profit or loss and are considered to be Level 2 instruments. The carrying value of the Series B Debentures' principal reserve fund, government funding receivables and payables approximates fair value.

The following financial instruments are at amortized cost and the fair value is disclosed as follows as at September 30, 2019 and December 31, 2018:

| | **As at September 30, 2019** | | As at December 31, 2018 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **Financial Assets:** | | | | |
| Construction funding receivable | **49,003** | **51,206** | 57,116 | 58,958 |
| **Financial Liabilities:** | | | | |
| Current and long-term portion of debt | **1,001,742** | **991,259** | 1,016,126 | 1,003,057 |

*Liquidity risk*

Liquidity risk is the risk the Company may encounter difficulties in meeting its obligations associated with financial liabilities and commitments. The Company has credit agreements in place related to its long-term debt. These credit agreements contain a number of standard financial and other covenants. The Company was in compliance with all covenants on its borrowings as at September 30, 2019. A failure by the Company to comply with the obligations in these credit agreements could result in a default that, if not rectified or waived, could permit acceleration of the relevant indebtedness.

As at September 30, 2019, the Company had negative working capital (current liabilities less current assets) of $196,865 (December 31, 2018 - $163,225). To support the Company’s working capital deficiency, the Company has available cash from operations and, if necessary, may draw from its credit facilities. Subsequent to September 30, 2019, the Company has repaid its outstanding credit facilities of $49,000 and $64,415 of its mortgages due within the next 12 months (Note 9).

# 5 Restricted cash

Restricted cash comprises the Series B Debentures' principal reserve fund and capital maintenance reserve funds required for certain property-level mortgages.

| | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| Series B Debentures' principal reserve fund | **36,629** | 31,209 |
| Capital maintenance reserve | **2,551** | 2,253 |
| **Restricted cash** | **39,180** | 33,462 |

All amounts are in thousands of Canadian dollars, except share and per share data, or unless otherwise noted

# 6 Construction funding receivable

As at September 30, 2019, the Company is eligible to receive gross funding from the Ontario government of approximately $49,003 (December 31, 2018 - $57,116) related to the costs of developing or redeveloping eligible LTC residences. The receipt of this funding is subject to the condition that the residences continue to operate as long-term care residences for the period for which the residences are entitled to the construction funding. As at September 30, 2019, the condition for the funding has been met.

As at September 30, 2019, the weighted average remaining term of the construction funding is approximately 7.3 years. The fair value of the construction funding receivable is determined by discounting the expected future cash flows of the receivable using the applicable Ontario government bond rates.

The following table summarizes the construction funding activity:

| | |
|---|---|
| As at January 1, 2018 | 64,614 |
| Additions[1] | 3,177 |
| Add: Interest income earned | 2,553 |
| Less: Construction funding payments received | (13,228) |
| As at December 31, 2018 | 57,116 |
| | |
| Add: Interest income earned | 1,607 |
| Less: Construction funding payments received | (9,720) |
| **As at September 30, 2019** | **49,003** |

[1]During 2018, the Company received an increase in construction funding for its Bloomington Cove Care Community retroactive to the date of construction completion of the residence. This additional construction funding was recorded as a reduction to the property and equipment cost.

# 7 Property and equipment

| | Land | Buildings | Furniture and fixtures | Automobiles | Computer hardware | Circulating equipment | Construction in progress | Right-of-use building and equipment[1] | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| As at January 1, 2019 | 139,063 | 1,176,111 | 63,227 | 1,194 | 9,113 | 1,121 | 8,674 | — | 1,398,503 |
| Adjustments[1][2] | — | (4,147) | — | — | — | — | — | 3,049 | (1,098) |
| Transfers | — | 11,564 | 594 | — | 248 | — | (12,406) | — | — |
| Additions | — | 6,353 | 3,023 | 9 | 995 | 11 | 5,168 | — | 15,559 |
| As at September 30, 2019 | 139,063 | 1,189,881 | 66,844 | 1,203 | 10,356 | 1,132 | 1,436 | 3,049 | 1,412,964 |
| | | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | | |
| As at January 1, 2019 | — | 193,467 | 20,406 | 594 | 1,553 | — | — | — | 216,020 |
| Charges for the period | — | 25,308 | 4,516 | 136 | 1,077 | 11 | — | 501 | 31,549 |
| As at September 30, 2019 | — | 218,775 | 24,922 | 730 | 2,630 | 11 | — | 501 | 247,569 |
| | | | | | | | | | |
| **Net book value as at September 30, 2019** | **139,063** | **971,106** | **41,922** | **473** | **7,726** | **1,121** | **1,436** | **2,548** | **1,165,395** |

[1]Due to the adoption of IFRS 16, Leases, on January 1, 2019 as discussed in Note 3, the right-of-use building and related depreciation of $2,250 and $289, respectively, and the right-of-use equipment and related depreciation of $799 and $212, respectively, were added to Property and Equipment.
[2]The adjustment to buildings is related to a GST rebate for a prior year.

All amounts are in thousands of Canadian dollars, except share and per share data, or unless otherwise noted

# 8 Intangible assets

| | Licences | Resident relationships | Service contracts | Computer software | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| As at January 1, 2019 | 190,945 | 167,572 | 10,968 | 11,486 | 380,971 |
| Additions | — | — | — | 1,632 | 1,632 |
| As at September 30, 2019 | 190,945 | 167,572 | 10,968 | 13,118 | 382,603 |
| | | | | | |
| **Accumulated amortization** | | | | | |
| As at January 1, 2019 | — | 101,225 | 9,800 | 3,578 | 114,603 |
| Charges for the period | — | 24,347 | 246 | 1,614 | 26,207 |
| As at September 30, 2019 | — | 125,572 | 10,046 | 5,192 | 140,810 |
| | | | | | |
| **Net book value as at September 30, 2019** | **190,945** | **42,000** | **922** | **7,926** | **241,793** |

# 9 Long-term debt

| | Interest rate | Maturity date | September 30, 2019 | December 31, 2018 |
|---|---|---|---|---|
| Series B Debentures | 3.474% | February 3, 2021 | **322,000** | 322,000 |
| Credit facilities | Floating | 2020 | **49,000** | 76,500 |
| Mortgages at fixed rates | 2.83% - 5.80% | 2019-2041 | **443,556** | 436,668 |
| Mortgages at variable rates | Floating | 2019-2029 | **193,471** | 189,949 |
| Lease liability | 3.87% | 2021-2024 | **2,600** | — |
| | | | **1,010,627** | 1,025,117 |
| Fair value adjustments on acquired debt | | | **3,819** | 4,243 |
| Less: Deferred financing costs | | | **(12,704)** | (13,234) |
| Total debt | | | **1,001,742** | 1,016,126 |
| Less: Current portion | | | **158,113** | 113,888 |
| | | | **843,629** | 902,238 |

### *Credit facilities and loans*

The following table summarizes the Company's credit facilities activity:

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Credit facilities available | **154,693** | 178,457 |
| Amounts drawn under credit facilities | **49,000** | 76,500 |
| **Remaining available balance under credit facilities** | **105,693** | 101,957 |

All amounts are in thousands of Canadian dollars, except share and per share data, or unless otherwise noted

*Mortgages*

The following table summarizes the scheduled maturities of the Company's property-level mortgages as at September 30, 2019:

| Year | Mortgages: Regular principal payments | Mortgages: Principal due at maturity | **Total** | % of Total |
|---|---|---|---|---|
| 2019 | 6,082 | 60,601 | **66,683** | 10.5% |
| 2020 | 20,898 | 27,824 | **48,722** | 7.6% |
| 2021 | 20,933 | 13,426 | **34,359** | 5.4% |
| 2022 | 19,519 | 33,199 | **52,718** | 8.3% |
| 2023 | 17,632 | 60,824 | **78,456** | 12.3% |
| 2024 | 15,846 | 50,104 | **65,950** | 10.4% |
| 2025 | 12,311 | 41,065 | **53,376** | 8.4% |
| 2026 | 12,347 | — | **12,347** | 1.9% |
| 2027 | 11,650 | 35,115 | **46,765** | 7.3% |
| 2028 | 6,619 | 109,737 | **116,356** | 18.3% |
| Thereafter | 16,362 | 44,933 | **61,295** | 9.6% |
| | 160,199 | 476,828 | **637,027** | 100.0% |

## 10 Net finance charges

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Finance costs** | | | | |
| Interest expense on long-term debt | **9,127** | 9,355 | **27,524** | 25,496 |
| Interest expense on Convertible Debentures | **—** | — | **—** | 844 |
| Fees on revolving credit facilities | **106** | 116 | **303** | 240 |
| Amortization of financing charges and fair value adjustments on acquired debt | **627** | 897 | **1,567** | 1,564 |
| Amortization of loss on bond forward contract | **242** | 233 | **711** | 684 |
| Fair value loss (gain) on interest rate swap contracts | **84** | (1,889) | **5,400** | (2,474) |
| | **10,186** | 8,712 | **35,505** | 26,354 |
| **Finance income** | | | | |
| Interest income on construction funding receivable | **500** | 633 | **1,607** | 1,945 |
| Other interest income[1] | **185** | 109 | **1,840** | 877 |
| | **685** | 742 | **3,447** | 2,822 |
| **Net finance charges** | **9,501** | 7,970 | **32,058** | 23,532 |

[1]Includes $nil and $1,346 interest income on a GST rebate for a prior year recorded in the three and nine months ended September 30, 2019, respectively (2018 - $nil and $nil, respectively).

All amounts are in thousands of Canadian dollars, except share and per share data, or unless otherwise noted

## 11 Income taxes

Total income tax expense for the period can be reconciled to the interim consolidated statements of operations as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Income before provision for income taxes** | **5,642** | 6,810 | **8,763** | 12,952 |
| Canadian combined income tax rate | **26.57%** | 26.57% | **26.57%** | 26.57% |
| Income tax expense | **1,499** | 1,809 | **2,328** | 3,441 |
| Adjustments to income tax provision: | | | | |
| Non-deductible items | **30** | 82 | **133** | 74 |
| Book to filing adjustment | **—** | 1 | **49** | 187 |
| Other items charged to equity | **350** | (82) | **(182)** | (331) |
| **Provision for income taxes** | **1,879** | 1,810 | **2,328** | 3,371 |

The following are the major deferred tax assets (liabilities) recognized by the Company and movements thereon during the nine months ended September 30, 2019:

| | **Depreciable tangible and intangible assets** | **Share issuance** | **Construction funding interest** | **Other** | **Total** |
|---|---|---|---|---|---|
| As at January 1, 2018 | (66,495) | 2,057 | 3,067 | 1,709 | (59,662) |
| Due to acquisitions during the year | — | — | — | 399 | 399 |
| Credit (charge) to net income | 5,738 | (150) | (656) | (533) | 4,399 |
| Book to filing adjustment | (85) | 108 | — | (215) | (192) |
| Charge to other comprehensive income | — | — | — | (243) | (243) |
| Credit to equity | — | 1,164 | — | (111) | 1,053 |
| As at December 31, 2018 | (60,842) | 3,179 | 2,411 | 1,006 | (54,246) |
| Credit (charge) to net income | 1,980 | (779) | (427) | 2,704 | 3,478 |
| Book to filing adjustment | (463) | 14 | — | (34) | (483) |
| Charge to other comprehensive income | — | — | — | (189) | (189) |
| **As at September 30, 2019** | **(59,325)** | **2,414** | **1,984** | **3,487** | **(51,440)** |

The loss on bond forward contracts on the interim consolidated statements of comprehensive income is net of tax for the three and nine months ended September 30, 2019 of $65 and $189, respectively (2018 - $63 and $182, respectively).

All amounts are in thousands of Canadian dollars, except share and per share data, or unless otherwise noted

# 12 Share capital

*Authorized*

Unlimited number of common shares, without nominal or par value
Unlimited number of preferred shares, without nominal or par value

*Issued and outstanding*

Common shares

| | Common shares | Amount |
|---|---|---|
| Balance, January 1, 2018 | 53,054,642 | 639,361 |
| Long-term incentive plan, net of loans receivable | 13,712 | 52 |
| Share-based compensation | — | 24 |
| Dividend reinvestment plan | 663,131 | 10,962 |
| Issued common shares, net of issuance costs | 12,326,664 | 208,606 |
| Balance, December 31, 2018 | 66,058,149 | 859,005 |
| Long-term incentive plan, net of loans receivable (Note 14) | — | 33 |
| Share-based compensation (Note 14) | — | 19 |
| Dividend reinvestment plan | 572,800 | 10,285 |
| Issued common shares (Note 14) | 23,580 | 416 |
| **Balance, September 30, 2019** | **66,654,529** | **869,758** |

On February 9, 2018, the Company completed an offering of 9,066,000 common shares at a price of $17.65 per common share, on a bought deal basis, for gross proceeds of $160,015. On February 22, 2018, the syndicate of underwriters elected, pursuant to the terms of the underwriting agreement in respect of the offering, to exercise its over-allotment option in full, resulting in the issuance of an additional 1,359,900 common shares for additional gross proceeds of $24,002. The aggregate gross proceeds of the offering, including the exercise of the over-allotment option, were $184,017.

*Dividend reinvestment plan*

The Company has established a dividend reinvestment plan for eligible holders of common shares, which allows participants to reinvest cash dividends paid in respect of their common shares in additional common shares at a 3% discount.

*Net income per share*

Basic net income per share is calculated using the weighted average number of common shares outstanding during the year. Diluted net income per share is calculated by assuming all convertible securities have been converted at the time of issuance. Any charges or returns on the convertible securities, on an after-tax basis, are removed from net income.

All amounts are in thousands of Canadian dollars, except share and per share data, or unless otherwise noted

The following table reconciles the numerator and denominator of the basic and diluted income per share calculation:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Reconciliation of net income used as the numerator** | | | | |
| Net income | **3,763** | 5,000 | **6,435** | 9,581 |
| Net income used in calculating basic income per share | **3,763** | 5,000 | **6,435** | 9,581 |
| Net finance charges on Convertible Debentures | — | — | — | 1,043 |
| Current income tax adjustment | — | — | — | (276) |
| Net income used in calculating diluted income per share | **3,763** | 5,000 | **6,435** | 10,348 |
| **Weighted average number of common shares used as the denominator** | | | | |
| Weighted average number of common shares - basic | **66,566,747** | 65,752,737 | **66,375,736** | 63,062,629 |
| Shares issued if all Convertible Debentures were converted | — | — | — | 1,370,716 |
| Weighted average number of common shares - diluted[1] | **66,566,747** | 65,752,737 | **66,375,736** | 64,433,345 |

[1]The weighted average number of diluted common shares calculation accounts for the convertible unsecured subordinated debentures ("**Convertible Debentures**") that converted into common shares. All outstanding Convertible Debentures were redeemed as at May 23, 2018.

## 13 Dividends

The Company paid dividends at $0.0765 per month per common share from January 1, 2019 to September 12, 2019, and $0.078 per month per common share effective September 13, 2019, totaling $11,997 for the three months ended and $35,490 for the nine months ended September 30, 2019 (2018 - $11,555 and $34,419, respectively). Dividends payable of $5,199 are included in accounts payable and accrued liabilities as at September 30, 2019 (December 31, 2018 - $5,054). Subsequent to September 30, 2019, the Board of Directors declared dividends of $0.078 per common share for October 2019 totaling $5,204.

All amounts are in thousands of Canadian dollars, except share and per share data, or unless otherwise noted

## 14 Share-based compensation

The Company has share-based compensation plans, which are described below:

*Long-term incentive plan ("**LTIP**")*

The LTIP has been terminated. The grant on February 15, 2018 was the final grant under the LTIP, and no further grants will be made. The outstanding loan balances pertain to previous years' LTIP grants.

On February 15, 2018, incentive award amounts entitling eligible senior executives ("**Participants**") to purchase 13,712 common shares pursuant to the LTIP were granted in connection with the year ended December 31, 2017. Each Participant was entitled to borrow from the Company an amount not greater than 95% of the purchase price for the common shares in order to purchase the shares. On the grant date, the Company provided loans to the Participants for a portion of the common shares purchased, and the Participants collectively paid $12 towards the purchase of common shares. This payment was recorded as an increase to share capital. Related to the LTIP in the nine months ended September 30, 2019, the Company recorded an increase of $33 to share capital (2018 - $41) and $nil to contributed surplus (2018 - $46). As at September 30, 2019, the outstanding loan balance totalled $925 in the aggregate (December 31, 2018 - $958). Total expense related to the LTIP for the three and nine months ended September 30, 2019 was $nil and $nil, respectively (2018 - $nil and $46, respectively).

The fair value of LTIP awards granted was determined by using the Cox-Ross-Rubinstein binomial tree model. The following table summarizes the market based rates and assumptions as well as projections of certain inputs used in determining the fair values used in this model:

| | |
|---|---|
| Valuation date | February 15, 2018 |
| Fair value at grant date | $17.36 |
| Volatility | 17.96% |
| Monthly discrete dividend | $0.075 |
| Risk-free rate | 2.72% |
| Annual interest rate on Participants' loan | 3.00% |
| Forfeiture rate | 0.00% |

All amounts are in thousands of Canadian dollars, except share and per share data, or unless otherwise noted

*Restricted share unit plan ("**RSUP**")*

During the nine months ended September 30, 2019, 11,045 restricted share units ("**RSUs**") (2018 - 23,508) were granted pursuant to the RSUP. Total expenses related to the RSUP for the three and nine months ended September 30, 2019 were $54 and $299, respectively (2018 - $81 and $179, respectively), including mark-to-market adjustments and net of forfeitures, which were recognized in administrative expenses. During the nine months ended September 30, 2019, 23,579 RSUs vested and 19,353 were settled in common shares, resulting in a decrease of $416 to the share-based compensation liability. The total liability recorded as part of the share-based compensation liability as at September 30, 2019 was $312 (December 31, 2018 - $429).

A summary of the movement of the RSUs granted is as follows:

| | Number of RSUs |
|---|---|
| Outstanding, January 1, 2018 | 37,736 |
| Granted | 23,508 |
| Dividends reinvested | 2,341 |
| Settled in cash | (8,222) |
| Settled in shares | (8,787) |
| Outstanding, December 31, 2018 | 46,576 |
| Granted | 11,045 |
| Dividends reinvested | 1,443 |
| Settled in cash | (4,226) |
| Settled in shares | (19,353) |
| Outstanding, September 30, 2019 | 35,485 |

*Deferred share unit plan ("**DSUP**")*

Total expenses related to the DSUP for the three and nine months ended September 30, 2019 were $99 and $1,483, respectively (2018 - $314 and $269, respectively), including mark-to-market adjustments, which were recognized in administrative expenses. The total liability recorded related to the DSUP as a part of the share-based compensation liability as at September 30, 2019 was $5,703 (December 31, 2018 - $4,220). The value of each deferred share unit is measured at each reporting date and is equivalent to the fair value of a common share at the reporting date.

*Executive deferred share unit plan ("**EDSUP**")*

During the nine months ended September 30, 2019, 52,038 (2018 - 33,481) executive deferred share units ("**EDSUs**") were granted. Total expenses related to the EDSUP for the three and nine months ended September 30, 2019 were $103 and $1,072, respectively (2018 - $189 and $239, respectively), including mark-to-market adjustments, which were recognized in administrative expenses. The total liability recorded related to the EDSUP as a part of the share-based compensation liability as at September 30, 2019 was $3,908 (December 31, 2018 - $2,171).

All amounts are in thousands of Canadian dollars, except share and per share data, or unless otherwise noted

## 15 Key management compensation

The remuneration of key management is set out in aggregate for each of the categories below:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Salaries and short-term employee benefits | **1,172** | 920 | **3,578** | 2,933 |
| Share-based compensation | **256** | 584 | **2,854** | 733 |
| | **1,428** | 1,504 | **6,432** | 3,666 |

## 16 Related party transactions

As at September 30, 2019, the Company had amounts outstanding from certain key management of $1,282 (December 31, 2018 - $1,334) in relation to grants under the LTIP and related share purchase loans (see Note 14), which have been recorded as a reduction to shareholders' equity. The terms of the LTIP provide for the loans to bear interest at the Canadian prime rate prevailing at the Company's bank at the time of grant. The underlying common shares have been pledged as security against the respective loans.

## 17 Economic dependence

The Company holds licences related to each of its LTC residences and receives funding from the applicable health authorities related to those licences, which are included in revenues. During the three and nine months ended September 30, 2019, the Company received approximately $102,454 and $269,531, respectively (2018 - $91,039 and $264,172, respectively) in respect of these licences.

## 18 Expenses by category

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Salaries, benefits and other people costs | **98,538** | 96,187 | **292,050** | 279,494 |
| Depreciation and amortization | **19,070** | 19,342 | **57,756** | 51,708 |
| Food | **7,899** | 7,703 | **22,730** | 21,522 |
| Purchased services and non-medical supplies | **5,978** | 5,448 | **17,723** | 14,513 |
| Property taxes | **3,754** | 3,710 | **11,427** | 10,884 |
| Utilities | **3,757** | 3,933 | **12,236** | 12,061 |
| Other | **13,456** | 12,988 | **40,723** | 36,561 |
| **Total expenses** | **152,452** | 149,311 | **454,645** | 426,743 |

## 19 Segmented information

Segmented information is presented in respect of the Company's business segments. The business segments are based on the Company's management and internal reporting structure. The Company operates solely within Canada, hence no geographical segment disclosures are presented. Inter-segment pricing is determined on an arm's length basis. Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Company is comprised of the following main business segments:

- Retirement - this segment consists of 27 RRs, five of which are located in the British Columbia and 22 of which are located in the Ontario, and the RR management services business;
- LTC - this segment consists of 35 LTC residences located in Ontario, eight seniors' living residences located in British Columbia and the LTC management services business; and
- Corporate, Eliminations and Other - this segment represents the results of head office, intercompany eliminations and other items that are not allocable to the segments.

All amounts are in thousands of Canadian dollars, except share and per share data, or unless otherwise noted

| | Three months ended September 30, 2019 | | | |
|---|---|---|---|---|
| | **Retirement[1]** | **LTC** | **Corporate, Eliminations and Other** | **Total** |
| Gross revenue | **38,090** | **133,864** | **15,993** | **187,947** |
| Less: Internal revenue | **—** | **4,007** | **15,993** | **20,000** |
| Net revenue | **38,090** | **129,857** | **—** | **167,947** |
| Operating expense | **21,237** | **106,548** | **—** | **127,785** |
| Depreciation and amortization | **12,692** | **5,372** | **1,006** | **19,070** |
| Administrative expense | **—** | **—** | **5,597** | **5,597** |
| Income (loss) before net finance charges, transaction costs and provision for income taxes | **4,161** | **17,937** | **(6,603)** | **15,495** |
| Finance costs | **4,192** | **5,964** | **30** | **10,186** |
| Finance income | **—** | **(629)** | **(56)** | **(685)** |
| Transaction costs | **—** | **—** | **352** | **352** |
| Provision for income taxes | **—** | **—** | **1,879** | **1,879** |
| Net income (loss) | **(31)** | **12,602** | **(8,808)** | **3,763** |
| Purchase of property and equipment | **3,376** | **1,169** | **259** | **4,804** |
| Purchase of intangible assets | **8** | **1** | **244** | **253** |

[1] For the three months ended September 30, 2019, the Retirement segment recognized accommodation revenues of $17,140 and service revenues of $20,950.

| | Three months ended September 30, 2018 | | | |
|---|---|---|---|---|
| | Retirement[1] | LTC | Corporate, Eliminations and Other | Total |
| Gross revenue | 38,803 | 130,185 | 16,375 | 185,363 |
| Less: Internal revenue | — | 3,940 | 16,375 | 20,315 |
| Net revenue | 38,803 | 126,245 | — | 165,048 |
| Operating expense | 21,247 | 103,282 | — | 124,529 |
| Depreciation and amortization | 13,077 | 5,611 | 654 | 19,342 |
| Administrative expense | — | — | 5,440 | 5,440 |
| Income (loss) before net finance charges, transaction costs and provision for income taxes | 4,479 | 17,352 | (6,094) | 15,737 |
| Finance costs | 2,697 | 5,414 | 601 | 8,712 |
| Finance income | — | (717) | (25) | (742) |
| Transaction costs | — | — | 957 | 957 |
| Provision for income taxes | — | — | 1,810 | 1,810 |
| Net income (loss) | 1,782 | 12,655 | (9,437) | 5,000 |
| Purchase of property and equipment, net of disposals | 5,263 | 4,963 | 1,419 | 11,645 |
| Purchase of intangible assets | — | — | 782 | 782 |

[1] For the three months ended September 30, 2018, the Retirement segment recognized accommodation revenues of $16,948 and service revenues of $21,855.

All amounts are in thousands of Canadian dollars, except share and per share data, or unless otherwise noted

| | Nine months ended September 30, 2019 | | | |
|---|---|---|---|---|
| | **Retirement[(1)]** | **LTC** | **Corporate, eliminations and other** | **Total** |
| Gross revenue | **115,061** | **394,430** | **47,652** | **557,143** |
| Less: Internal revenue | **—** | **11,918** | **47,652** | **59,570** |
| Net revenue | **115,061** | **382,512** | **—** | **497,573** |
| | | | | |
| Operating expense | **62,886** | **315,684** | **—** | **378,570** |
| Depreciation and amortization | **38,119** | **16,711** | **2,926** | **57,756** |
| Administrative expense | **—** | **—** | **18,319** | **18,319** |
| Income (loss) before net finance charges, transaction costs and recovery of income taxes | **14,056** | **50,117** | **(21,245)** | **42,928** |
| | | | | |
| Finance costs | **17,640** | **17,792** | **73** | **35,505** |
| Finance income | **—** | **(3,274)** | **(173)** | **(3,447)** |
| Transaction costs | **—** | **—** | **2,107** | **2,107** |
| Provision for income taxes | **—** | **—** | **2,328** | **2,328** |
| Net income (loss) | **(3,584)** | **35,599** | **(25,580)** | **6,435** |
| Purchase of property and equipment | **9,889** | **4,825** | **845** | **15,559** |
| Purchase of intangible assets | **29** | **6** | **1,597** | **1,632** |

(1) For the nine months ended September 30, 2019, the Retirement segment recognized accommodation revenues of $51,777 and service revenues of $63,284.

| | Nine months ended September 30, 2018 | | | |
|---|---|---|---|---|
| | Retirement[(1)] | LTC | Corporate, eliminations and other | Total |
| Gross revenue | 100,969 | 383,228 | 45,670 | 529,867 |
| Less: Internal revenue | — | 11,668 | 45,670 | 57,338 |
| Net revenue | 100,969 | 371,560 | — | 472,529 |
| | | | | |
| Operating expense | 55,246 | 304,970 | — | 360,216 |
| Depreciation and amortization | 33,124 | 16,726 | 1,858 | 51,708 |
| Administrative expense | — | — | 14,819 | 14,819 |
| Income (loss) before net finance charges, transaction costs and provision for income taxes | 12,599 | 49,864 | (16,677) | 45,786 |
| | | | | |
| Finance costs | 7,534 | 16,041 | 2,779 | 26,354 |
| Finance income | — | (2,426) | (396) | (2,822) |
| Transaction costs | — | — | 9,302 | 9,302 |
| Provision for income taxes | — | — | 3,371 | 3,371 |
| Net income (loss) | 5,065 | 36,249 | (31,733) | 9,581 |
| Purchase of property and equipment, net of disposals | 282,916 | 14,331 | 2,932 | 300,179 |
| Purchase of intangible assets | 64,070 | 1,766 | 2,213 | 68,049 |

(1) For the nine months ended September 30, 2018, the Retirement segment recognized accommodation revenues of $44,335 and service revenues of $56,634.

All amounts are in thousands of Canadian dollars, except share and per share data, or unless otherwise noted

| | **As at September 30, 2019** | | | |
|---|---|---|---|---|
| | **Retirement** | **LTC** | **Corporate, eliminations and other** | **Total** |
| Total assets | **798,770** | **885,748** | **23,645** | **1,708,163** |

| | As at December 31, 2018 | | | |
|---|---|---|---|---|
| | Retirement | LTC | Corporate, eliminations and other | Total |
| Total assets | 828,815 | 907,970 | 16,415 | 1,753,200 |

All amounts are in thousands of Canadian dollars, except share and per share data, or unless otherwise noted

## 20 Joint arrangements

The following tables outline the net assets and net income for Nicola Lodge and Glenmore Lodge (collectively, the "**Option Properties**"), and the Company's share of 40% of Nicola Lodge and 77% of Glenmore Lodge that has been recognized in the interim consolidated financial statements.

| | **September 30, 2019** | December 31, 2018[(1)] |
|---|---|---|
| Current assets | **3,141** | 2,829 |
| Long-term assets | **102,938** | 104,937 |
| **Total assets** | **106,079** | 107,766 |
| | | |
| Current liabilities | **4,625** | 3,874 |
| Long-term liabilities | **65,187** | 66,547 |
| **Total liabilities** | **69,812** | 70,421 |
| | | |
| Net assets | **36,267** | 37,345 |
| **Share of net assets** | **18,495** | 19,113 |

[(1)] On May 1, 2018 the Company acquired an additional 16% interest in Glenmore Lodge, increasing the Company's interest in Glenmore Lodge from 61% to 77%.

As at September 30, 2019, the Company's share of net assets in Nicola Lodge and Glenmore Lodge was $10,224 and $8,271, respectively (December 31, 2018 - $10,453 and $8,660, respectively).

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Revenue** | **7,694** | 7,320 | **22,332** | 21,500 |
| **Expenses** | | | | |
| Operating | **5,279** | 4,998 | **15,764** | 14,604 |
| Depreciation and amortization | **711** | 715 | **2,155** | 2,344 |
| | **5,990** | 5,713 | **17,919** | 16,948 |
| **Income before net finance charges** | **1,704** | 1,607 | **4,413** | 4,552 |
| **Net finance charges** | **729** | 735 | **2,163** | 2,226 |
| **Net income** | **975** | 872 | **2,250** | 2,326 |
| **Share of net income** | **501** | 460 | **1,140** | 1,179 |

For the three months ended September 30, 2019, the Company's share of net income in Nicola Lodge and Glenmore Lodge was $271 and $230, respectively (2018 - $230 and $230, respectively).

For the nine months ended September 30, 2019, the Company's share of net income in Nicola Lodge and Glenmore Lodge was $642 and $498, respectively (2018 - $618 and $561, respectively).

## 21 Comparative figures

Certain comparative figures have been reclassified from the interim consolidated financial statements previously presented to conform to the presentation adopted in the current period.

## 22 Subsequent event

On November 4, 2019, the Company issued $150,000 aggregate principal amount of series A senior unsecured debentures (the "**Debentures**"). The Debentures will bear interest at a rate of 3.109% per annum and will mature on November 4, 2024.

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