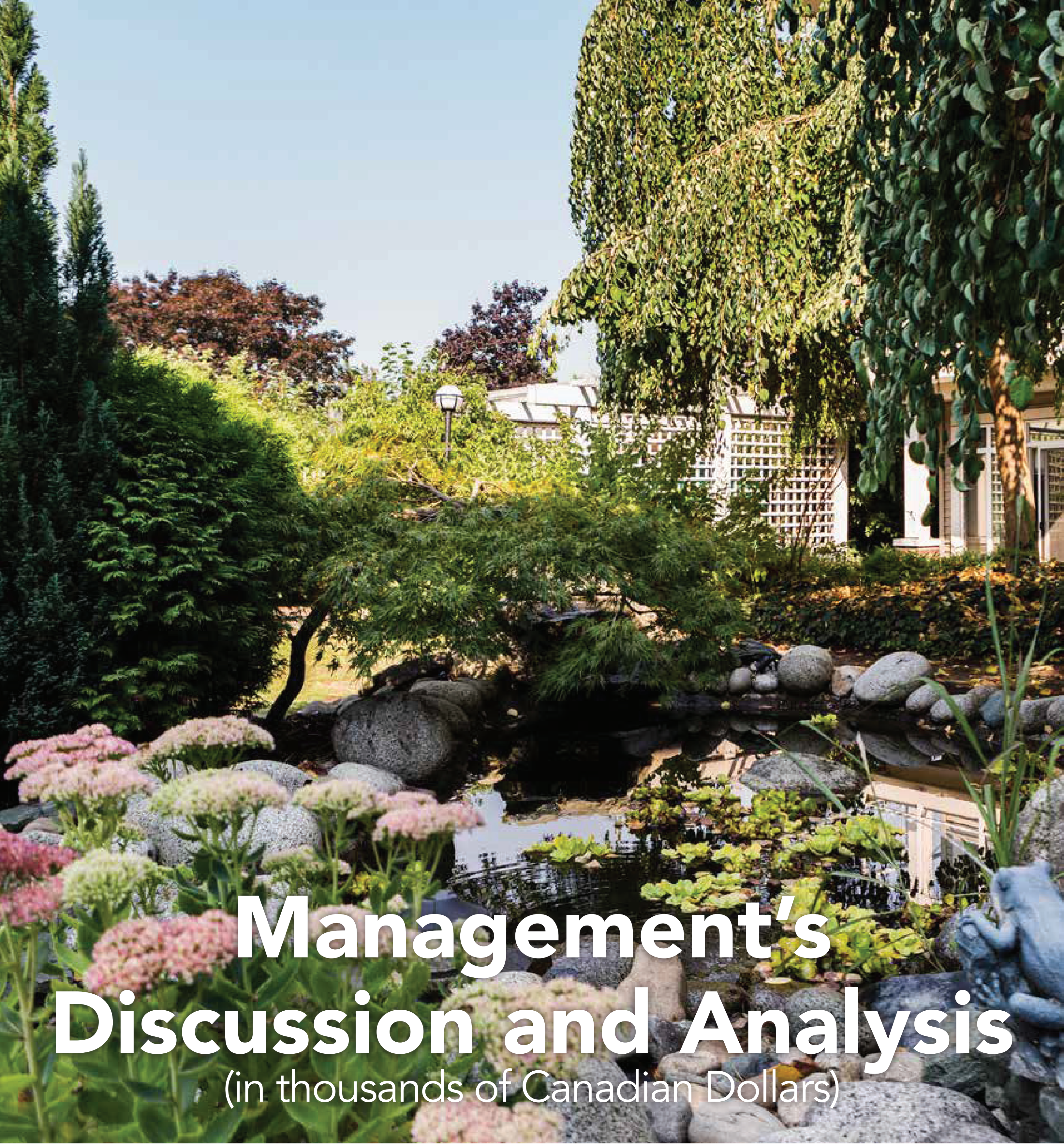
Report to Shareholders

Q2 2017

Sienna Senior Living Inc.

Sienna SENIOR LIVING



Management's Discussion and Analysis

(in thousands of Canadian Dollars)

Q2 2017

Sienna Senior Living Inc.

Sienna
SENIOR LIVING

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basis of Presentation

The following Management's Discussion and Analysis ("**MD&A**") for Sienna Senior Living Inc. (formerly Leisureworld Senior Care Corporation) (the "**Company**" or "**Sienna**") provides a summary of the financial results for the three and six months ended June 30, 2017. 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 six months ended June 30, 2017. 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, 2016 can be found on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com. In accessing the Company's information, readers are reminded of the Company's predecessor name, Leisureworld Senior Care Corporation, and that the information of Leisureworld Senior Care Corporation is the information of the Company.

All references to "**we**", "**our**", "**us**" 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 the third party management business of the Company. The direct ownership of such residences, and operation of such business, are conducted by subsidiaries of the Company.

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 document, including tabular amounts, are expressed in thousands of Canadian dollars.

This document 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 August 9, 2017, the date on which this report was approved by the Board of Directors of the Company, and is based on information available to management 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, assisted living ("**AL**"), memory care ("**MC**") and long-term care/ residential care ("**LTC**", "**Long-term Care**", "**RC**") 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 58 seniors' living residences: 15 retirement residences ("**RR**" or "**Retirement Residences**"); 35 LTC residences; and eight seniors' living residences providing both private-pay IL and AL and funded LTC/ RC which include the Company's partial ownership in two newly built residences in British Columbia ("**Baltic Properties**").

Under its management services division, including the Company's 50% interest in its management platform in British Columbia ("**PSM**"), the Company provides management services to seniors' living residences in the Provinces of British Columbia and Ontario.

The Company was incorporated under the *Business Corporations Act* (Ontario) as "Leisureworld Senior Care Corporation" 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. In connection with a Company-wide rebranding initiative that took effect on May 1, 2015, the Company changed its name from Leisureworld Senior Care Corporation to Sienna Senior Living Inc., pursuant to the filing of a Notice of Alteration with the British Columbia Registry Services on April 23, 2015. In connection with the name change to Sienna Senior Living Inc., the Company commenced trading under the symbol "**SIA**".

The Company's business is carried on through a number of wholly owned limited partnerships formed under the laws of the Province of Ontario, except for two properties (referred to as Option Properties and defined elsewhere in this MD&A), which are owned through a partnership between Sienna and WVJ II General Partnership (an affiliate of Pacific Seniors Management Investments Ltd.).

As of August 9, 2017, the Company had outstanding 46,331,666 common shares and $44,584 in aggregate principal amount of convertible unsecured subordinated debentures, which, in the aggregate, are convertible into 2,661,731 common shares (the "**Convertible Debentures**"). The Convertible Debentures have a maturity date of June 30, 2018.

The table below presents the properties owned and operated by the Company:

NAME OF COMMUNITY	LOCATION	FUNDED	PRIVATE	TOTAL BEDS/ SUITES
Retirement				
Astoria Retirement Residence	Port Coquitlam, BC	—	135	135
Cedarvale Lodge Retirement & Care Community	Keswick, ON	—	130	130
Island Park Retirement Residence	Campbellford, ON	—	85	85
Kawartha Lakes Retirement Residence (1)	Bobcaygeon, ON	—	94	94
Lincoln Park Retirement Residence	Grimsby, ON	—	70	70
Mayfair Terrace Retirement Residence	Port Coquitlam, BC	—	86	86
Midland Gardens Seniors Apartments	Scarborough, ON	—	53	53
Pacifica Retirement Residence	Surrey, BC	—	130	130
Peninsula Retirement Residence	Surrey, BC	—	127	127
Red Oak Retirement Residence	Kanata, ON	—	158	158
Rideau Retirement Residence	Burnaby, BC	—	138	138
Rosewood Retirement Residence	Kingston, ON	—	68	68
Royale Place Retirement Residence	Kingston, ON	—	136	136
Traditions of Durham Retirement Residence	Oshawa, ON	—	140	140
Trillium Retirement and Care Community	Kingston, ON	—	41	41
Total Retirement		**—**	**1,591**	**1,591**
Baltic Properties (private-pay and funded RC)				
Brookside Lodge	Surrey, BC	102	14	116
Lake Country Lodge	Lake Country, BC	45	45	90
Lakeview Lodge	West Kelowna, BC	100	14	114
Mariposa Gardens	Osoyoos, BC	114	31	145
Nicola Lodge (2)	Port Coquitlam, BC	238	18	256
Glenmore Lodge (2)	Kelowna, BC	100	18	118
Ridgeview Lodge	Kamloops, BC	106	23	129
The Cascades	Chilliwack, BC	140	27	167
Total Baltic Properties		**945**	**190**	**1,135**
Long-term Care				
Altamont Care Community	West Hill, ON	159	—	159
Barnswallow Place Care Community	Elmira, ON	96	—	96
Bloomington Cove Care Community	Stouffville, ON	112	—	112
Bradford Valley Care Community	Bradford, ON	246	—	246
Camilla Care Community	Mississauga, ON	237	—	237
Case Manor Care Community	Bobcaygeon, ON	96	—	96
Cedarvale Lodge Retirement & Care Community	Keswick, ON	60	—	60
Cheltenham Care Community	Toronto, ON	170	—	170
Creedan Valley Care Community	Creemore, ON	95	—	95
Deerwood Creek Care Community	Etobicoke, ON	160	—	160
Fieldstone Commons Care Community	Scarborough, ON	224	—	224
Fountain View Care Community	Toronto, ON	158	—	158
Fox Ridge Care Community	Brantford, ON	122	—	122
Granite Ridge Care Community	Stittsville, ON	224	—	224
Harmony Hills Care Community	Toronto, ON	160	—	160
Hawthorn Woods Care Community	Brampton, ON	160	—	160
Langstaff Square Care Community	Richmond Hill, ON	160	—	160
Madonna Care Community	Orleans, ON	160	—	160
Maple Grove Care Community	Brampton, ON	160	—	160

NAME OF COMMUNITY	LOCATION	FUNDED	PRIVATE	TOTAL BEDS/
Midland Gardens Care Community	Scarborough, ON	299	—	299
Muskoka Shores Care Community	Gravenhurst, ON	206	—	206
Norfinch Care Community	North York, ON	160	—	160
Orillia (3)	Orillia, ON	160	—	160
Owen Hill Care Community	Barrie, ON	57	—	57
Rockcliffe Care Community	Scarborough, ON	204	—	204
Secord Trails Care Community	Ingersoll, ON	80	—	80
Silverthorn Care Community	Mississauga, ON	160	—	160
St. George Care Community	Toronto, ON	238	—	238
Streetsville Care Community	Mississauga, ON	118	—	118
Trillium Retirement and Care Community	Kingston, ON	190	—	190
Tullamore Care Community	Brampton, ON	159	—	159
Waters Edge Care Community	North Bay, ON	148	—	148
Weston Terrace Care Community	Toronto, ON	224	—	224
Woodbridge Vista Care Community	Woodbridge, ON	224	—	224
Woodhall Park Care Community	Brampton, ON	147	—	147
Total Long-term Care		**5,733**	**—**	**5,733**
Total Retirement, Baltic Properties and Long-term Care		**6,678**	**1,781**	**8,459**

Notes:

(1) Refer to the "Significant Events" section of this MD&A on the acquisition of Kawartha Lakes Retirement Residence in July 2017.

(2) Nicola Lodge and Glenmore Lodge are referred to collectively as the "**Option Properties**", of which the Company currently owns 40% of Nicola Lodge (acquired in Q3 2016) and 61% of Glenmore Lodge (acquired in Q1 2017). The Company has the option to acquire up to a 100% interest in each of these properties.

(3) Spencer House Inc., a non-profit organization, holds the licence from the Ministry of Health and Long-term Care ("**MOHLTC**") to operate the LTC beds at Orillia, and is the counterparty to the services agreement with the applicable Local Health Integration Network. The Company is the appointed manager of Orillia, and is the owner of the land, buildings, furniture, fixtures and equipment used to operate and manage Orillia (which land, buildings, furniture, fixtures and equipment are leased to Spencer House Inc.).

Company Strategy & Objectives

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 - coworkers, volunteers, physicians and healthcare 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.

We are dedicated to helping seniors live fully, every day. Our aim is to consistently improve the resident experience and to 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 our shareholders.

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

Operating Platform:

- Providing a consistent and high-quality resident experience; continuously enhancing our services and program offerings
- Building a culture of high-performing and engaged teams
- Advancing Sienna's brand in every community served

Progress:
- ○ Implemented programs to improve the culinary and leisure experience in RRs
- ○ As of June 2017, continued to outperform the provincial average on quality and compliance indicators
- ○ Investing in technology to support quality of care and services
- ○ Enhancements to social media and digital marketing strategy
- ○ Enhancements to talent management and leadership development
- ○ Initiating Sienna Sense of Arrival and brand standards
- ○ Launched 'Sienna for Seniors', a charitable giving program designed to generate funds for seniors in need

Strong Balance Sheet and Liquidity:

- Creating a 10-year debt ladder to reduce refinancing risk and enhance ability to refinance at favourable rates
- Reducing leverage (measured as Debt to Gross Book Value)
- Increasing liquidity (measured as available funds from existing credit facilities plus available cash on hand) to deliver on Sienna's growth objectives
- Maintaining an A (low) 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**")

Progress:
- ○ Successfully refinanced approximately $36,600 of property-level mortgages year-to-date
- ○ In January 2017, merged two floating-rate credit facilities backed by three RRs to increase the Company's combined credit facility from $79,500 to $105,000 ("**Royale Credit Facility**"), providing liquidity to drive growth through acquisitions, development and redevelopment
- ○ In March 2017, Dominion Bond Rating Service ("**DBRS**") confirmed the A (low) rating for the Series B Debentures
- ○ Decreased year-over-year Debt to Adjusted EBITDA from continuing operations ratio by 0.3x to 7.0x
- ○ Increased year-over-year liquidity by approximately $38,611 and 54.72%

Growing the Company:

Our growth plan is based on three key components:

Organic Growth:
- Leveraging Sienna's platform for organic growth through occupancy rates, disciplined cost management and expanding specialized programs across the continuum of seniors' living
- Maintaining existing assets with preventative maintenance and ongoing capital improvements

Development:
- Leveraging the redevelopment of older LTC homes in key Ontario markets to create seniors' living campuses providing IL, AL, MC and LTC
- Expanding seniors' living capacity in existing Sienna residences with excess land

Acquisitions:
- Identifying opportunities to acquire high-quality seniors' living residences in key markets in Canada; expanding our presence in private-pay, funded care and specialized programs

Progress:

- Planning for development of additional capacity on excess land and redevelopment of 2,200 class C LTC beds, subject to regulatory approvals and financial feasibility
- Proceeding with the retrofit of one older class C LTC seniors' living community, expected to be completed in 2017
- Acquired Rosewood Retirement Residence ("**Rosewood**"), a 68-suite IL and AL residence located in Kingston, Ontario in June 2017
- Acquired Kawartha Lakes Retirement Residence, a 94-suite IL and AL residence located in Bobcaygeon, Ontario in July 2017
- Strong year-over-year results in Retirement, an increase of 10.1% in same property net operating income
- Overall same property net operating income increased by 3.4% year-over-year

Industry Overview

Please refer to the Company's MD&A for the year ended December 31, 2016, as well as the AIF, for a discussion of the Industry Overview.

Business of the Company

Please refer to the Company's AIF, for a discussion of the Business Overview.

2017 Outlook

Please refer to the Company's MD&A for the year ended December 31, 2016 for a discussion of the 2017 Outlook. Please also refer to the "Significant Events" section below for recent developments.

Significant Events

Acquisition of Rosewood Retirement Residence

On June 1, 2017, the Company completed the acquisition of Rosewood Retirement Residence, a 68-suite IL and AL residence located in Kingston, Ontario, which was managed by the Company prior to the acquisition. The purchase price of $9,800, subject to customary closing adjustments, was partially financed through the assumption of the existing mortgage of $4,611 (with a fair value of $4,658), bearing interest at a rate of 3.77% and maturing January 1, 2018, and a vendor-take-back mortgage of $3,000, bearing interest at a rate of 3.00% and maturing June 15, 2021. The remainder of the purchase price was paid using available cash.

Acquisition of Kawartha Lakes Retirement Residence

On July 5, 2017, the Company completed the acquisition of Retirement Suites of Kawartha Lakes (now rebranded as Kawartha Lakes Retirement Residence), a 94-suite IL and AL residence located in Bobcaygeon, Ontario. The purchase price of $21,000, subject to customary closing adjustments, was financed using available cash and drawdowns from the Company's credit facilities.

Non-IFRS Performance Measures

In this document, we use 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**") and earnings before interest, taxes, depreciation and amortization ("**EBITDA**"). The IFRS measurement most directly related to these measures is cash flow from operations. Please refer to the "Business Performance" section of this MD&A for a reconciliation of cash flow from operations to AFFO.

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

"**FFO**" is defined as mainly NOI less certain finance charges, current income taxes and non-controlling interest. 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 (REALpac) White Paper on Funds From Operations for IFRS (Source: White Paper on Funds From Operations for IFRS - February 2017). The use of FFO, combined with the required IFRS presentations, has been included for the purpose of improving the understanding of the operating results.

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

"**AFFO**" is defined as OFFO plus the principal portion of construction funding received, amounts received for income guarantees and non-cash deferred share unit compensation expenses less actual maintenance capital expenditures ("**maintenance capex**"). Management believes AFFO is useful in the assessment of the Company's operating performance for valuation purposes, and is also a relevant measure of the ability of the Company to earn cash and pay dividends to shareholders.

"**Adjusted EBITDA**" is defined as earnings before interest, taxes, depreciation and amortization, construction funding proceeds and non-recurring items.

The above measures 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 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 uses OFFO as an operating and financial performance measure. Please refer to the "Non-IFRS Performance Measures" section of this MD&A.
- **AFFO and AFFO per Share**: These indicators are used by management to help measure the Company's ability to pay dividends. Please refer to the "Non-IFRS Performance Measures" section of this MD&A.
- **Payout Ratio**: Management 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 to ensure it is in compliance with its financial covenants.
- **Debt to Gross Book Value**: In conjunction with the debt service coverage ratio, management monitors this 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 the then current market parameters.
- **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 by debt rating agencies to assess an entity's ability to service its debt obligations.
- **Weighted Average Term to Maturity**: This indicator is used by management to monitor its debt maturities.
- **Same Property Percent Change in NOI**: This measure is similar to "same-store sales" measures used in the retail business and is intended to measure the period over period performance of the same asset base, excluding assets undergoing new development, redevelopment or demolition.

The above key performance indicators used by management 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 three and six months ended June 30, 2017:

	Three Months Ended			Six Months Ended		
Thousands of dollars, except occupancy, share and ratio data	**2017**	2016	Change	**2017**	2016	Change
OCCUPANCY						
LTC - Average total occupancy	**98.8%**	98.8%	—%	**98.4%**	98.7%	(0.3)%
LTC - Average private occupancy	**99.3%**	99.9%	(0.6%)	**99.1%**	99.8%	(0.7)%
Retirement - Average occupancy	**94.2%**	92.3%	1.9%	**94.2%**	92.1%	2.1 %
Retirement - As at occupancy	**94.7%**	93.5%	1.2%	**94.7%**	93.5%	1.2 %
Baltic - Total occupancy	**96.7%**	n/a	n/a	**96.5%**	n/a	n/a
FINANCIAL						
Net income (loss) from continuing operations	**6,726**	(642)	7,368	**11,405**	(743)	12,148
NOI [(1)]	**29,410**	22,567	6,843	**56,871**	44,007	12,864
OFFO [(1)]	**15,754**	11,385	4,369	**29,944**	22,200	7,744
AFFO [(1)]	**17,657**	13,466	4,191	**34,323**	26,655	7,668
PER SHARE INFORMATION						
OFFO per share, basic	**0.341**	0.311	0.030	**0.648**	0.608	0.040
OFFO per share, diluted	**0.330**	0.300	0.030	**0.629**	0.588	0.041
AFFO per share, basic	**0.382**	0.368	0.014	**0.743**	0.729	0.014
AFFO per share, diluted	**0.369**	0.353	0.016	**0.718**	0.701	0.017
Dividends per share	**0.225**	0.225	—	**0.450**	0.450	—
Payout ratio (basic AFFO)	**58.9%**	61.1%	(2.2)%	**60.6%**	61.7%	(1.1)%
FINANCIAL RATIOS						
Debt service coverage ratio	**2.0**	2.0	—	**1.8**	1.9	(0.1)
Debt to gross book value as at period end	**51.5%**	53.5%	(2.0)%	**51.5%**	53.5%	(2.0)%
Debt, excluding Convertible Debentures, to gross book value as at period end	**48.4%**	49.5%	(1.1)%	**48.4%**	49.5%	(1.1)%
Weighted average cost of debt as at period end	**3.8%**	3.8%	—%	**3.8%**	3.8%	— %
Debt to Adjusted EBITDA from continuing operations ratio as at period end	**7.0**	7.3	(0.3)	**7.0**	7.3	(0.3)
Interest coverage ratio	**3.8**	3.5	0.3	**3.7**	3.4	0.3
Weighted average term to maturity as at period end	**5.2**	4.0	1.2	**5.2**	4.0	1.2

	Three Months Ended	Six Months Ended
SAME PROPERTY PERCENT CHANGE IN NOI		
Long-term Care	0.1%	0.8%
Retirement	10.1%	10.1%
Baltic [(2)]	n/a	n/a
Total	2.8%	3.4%

Note:

1. These amounts include the Q2 2017 net operating loss of $nil (2016 - $16) from Preferred Health Care Services ("**PHCS**"), the ancillary home care ("**Home Care**") business of the Company, which was sold and discontinued in April 2016.
2. The Baltic Properties and PSM are referred to collectively as "**Baltic**", and comprise the Baltic segment.

Quarterly Financial Information

Thousands of dollars, except occupancy and per share data	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3
Revenue from continuing operations [1]	137,527	133,966	138,011	130,418	115,226	114,232	118,380	114,341
Income from continuing operations before net finance charges, transaction costs and provision for (recovery of) income taxes [1]	15,464	13,392	13,136	10,861	9,056	6,719	8,920	9,315
Net income (loss) from continuing operations [1]	6,726	4,679	4,044	(364)	(642)	(101)	1,873	2,915
Per share basic and diluted [1]	0.14	0.10	0.10	(0.01)	(0.02)	0.00	0.05	0.09
Net income (loss) from discontinued operations [2]	—	—	—	(7)	(10)	305	541	419
Per share basic and diluted [2]	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.01
OFFO	15,754	14,190	15,106	15,474	11,385	10,815	11,453	11,497
Per share basic	0.34	0.31	0.33	0.36	0.31	0.30	0.31	0.32
Per share diluted	0.33	0.30	0.32	0.35	0.30	0.29	0.30	0.31
AFFO	17,657	16,666	15,241	17,220	13,466	13,189	12,180	13,256
Per share basic	0.38	0.36	0.33	0.40	0.37	0.36	0.33	0.36
Per share diluted	0.37	0.35	0.32	0.39	0.35	0.35	0.32	0.35
Dividends declared	10,429	10,364	10,367	9,652	8,232	8,217	8,205	8,196
Per share	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23
Occupancy								
LTC - Average total occupancy	98.8 %	98.1 %	98.7 %	99.0 %	98.8 %	98.6 %	98.8 %	99.1 %
LTC - Average private occupancy	99.3 %	98.9 %	98.7 %	99.9 %	99.9 %	99.7 %	99.9 %	99.9 %
Retirement - Average occupancy	94.2 %	94.3 %	95.2 %	93.9 %	92.3 %	92.0 %	93.4 %	90.2 %
Retirement - As at occupancy	94.7 %	93.8 %	94.5 %	95.0 %	93.5 %	91.5 %	93.6 %	92.3 %
Baltic - Total occupancy	96.7 %	96.2 %	97.9 %	98.3 %	n/a	n/a	n/a	n/a
Total assets	1,210,433	1,213,132	1,204,218	1,212,546	1,066,969	939,477	951,469	912,933
Total debt [3]	746,583	756,902	734,459	746,570	605,344	623,513	629,068	593,633

Notes:

1. These amounts exclude the results of PHCS (discontinued operations).
2. Net loss for Q2 2016 excludes the gain on sale of PHCS of $7,719, net of taxes of $2,142, and a non-recurring tax recovery of $539 in Q4 2016.
3. Total debt includes the Convertible Debentures and is net of amounts paid into the principal reserve fund on the Series B Debentures.

The Company's quarterly financial results are impacted by various factors including, but not limited to, the timing of acquisitions, seasonality of utility expenses, timing of resident co-payment charges, government funding rate increases and the timing of revenue recognition to match spending within the flow-through envelopes, and capital market and financing activities.

A discussion of the operating results for the three and six months ended June 30, 2017 compared to the same period in the prior year is provided below under the section "Operating Results".

Operating Results

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

	Three Months Ended			Six Months Ended		
Thousands of dollars	**2017**	2016	Change	**2017**	2016	Change
Revenue	**137,527**	115,226	22,301	**271,493**	229,458	42,035
Expenses						
Operating	**108,117**	92,643	15,474	**214,622**	185,851	28,771
Depreciation and amortization	**8,998**	8,969	29	**17,792**	18,890	(1,098)
Administrative	**4,948**	4,558	390	**10,223**	8,942	1,281
	122,063	106,170	15,893	**242,637**	213,683	28,954
Income from continuing operations before net finance charges, transaction costs and provision for (recovery of) income taxes	**15,464**	9,056	6,408	**28,856**	15,775	13,081
Other expenses						
Net finance charges	**5,672**	6,884	(1,212)	**12,238**	12,450	(212)
Transaction costs	**695**	2,018	(1,323)	**1,213**	3,201	(1,988)
Total other expenses	**6,367**	8,902	(2,535)	**13,451**	15,651	(2,200)
Income from continuing operations before provision for (recovery of) income taxes	**9,097**	154	8,943	**15,405**	124	15,281
Provision for (recovery of) income taxes from continuing operations						
Current	**2,179**	693	1,486	**3,705**	1,883	1,822
Deferred	**192**	103	89	**295**	(1,016)	1,311
	2,371	796	1,575	**4,000**	867	3,133
Net income (loss) from continuing operations	**6,726**	(642)	7,368	**11,405**	(743)	12,148
Net income from discontinued operations, net of taxes	**—**	7,701	(7,701)	**—**	8,006	(8,006)
Net income	**6,726**	7,059	(333)	**11,405**	7,263	4,142
Net income attributable to:						
Shareholders of the Company	**6,641**	7,059	(418)	**11,217**	7,263	3,954
Non-controlling interest	**85**	—	85	**188**	—	188
	6,726	7,059	(333)	**11,405**	7,263	4,142
Total assets	**1,210,433**	1,066,969	143,464	**1,210,433**	1,066,969	143,464
Total debt (net of principal reserve fund)	**746,583**	605,344	141,239	**746,583**	605,344	141,239

Revenue Breakdown

The following table represents the revenue breakdown for the periods ended June 30:

	Three Months Ended			Six Months Ended		
Thousands of dollars	**2017**	2016	Change	**2017**	2016	Change
Long-term Care						
Same property	**104,671**	102,231	2,440	**207,693**	203,637	4,056
Total Long-term Care Revenue	**104,671**	102,231	2,440	**207,693**	203,637	4,056
Retirement						
Same property [1]	**14,158**	13,140	1,018	**27,961**	26,102	1,859
Transactions [1]	**2,508**	—	2,508	**4,702**	—	4,702
Total Retirement Revenue	**16,666**	13,140	3,526	**32,663**	26,102	6,561
Baltic						
Transactions	**16,190**	—	16,190	**31,137**	—	31,137
Total Baltic Revenue	**16,190**	—	16,190	**31,137**	—	31,137
Total Revenue						
Same property from continuing operations	**118,829**	115,371	3,458	**235,654**	229,739	5,915
Home Care discontinued operations	—	1,240	(1,240)	—	5,278	(5,278)
Transactions	**18,698**	—	18,698	**35,839**	—	35,839
MOHLTC reconciliation adjustments	—	(145)	145	—	(277)	277
Intersegment eliminations	—	—	—	—	(4)	4
Total Revenue	**137,527**	116,466	21,061	**271,493**	234,736	36,757

Note:

1. Beginning in Q1 2017, the results of Traditions of Durham, which was acquired on December 31, 2015, have been re-classified from Transaction to Same property. The Transactions amount represents the results of the two RR communities, Mayfair Terrace Retirement Residence and Rideau Retirement Residence, which were acquired on August 2, 2016, and Rosewood which was acquired on June 1, 2017 (the "**RR Properties**").

Operating Expense Breakdown

The following table represents the operating expense breakdown for the periods ended June 30:

	Three Months Ended			Six Months Ended		
Thousands of dollars	**2017**	2016	Change	**2017**	2016	Change
Long-term Care						
Same property	**88,068**	85,643	2,425	**175,610**	171,814	3,796
Total Long-term Care Expenses	**88,068**	85,643	2,425	**175,610**	171,814	3,796
Retirement						
Same property [1]	**7,400**	7,000	400	**14,678**	14,041	637
Transactions [1]	**1,489**	—	1,489	**2,793**	—	2,793
Total Retirement Expenses	**8,889**	7,000	1,889	**17,471**	14,041	3,430
Baltic						
Transactions	**11,160**	—	11,160	**21,541**	—	21,541
Total Baltic Expenses	**11,160**	—	11,160	**21,541**	—	21,541
Total Operating Expenses						
Same property from continuing operations	**95,468**	92,643	2,825	**190,288**	185,855	4,433
Home Care discontinued operations	**—**	1,256	(1,256)	**—**	4,878	(4,878)
Transactions	**12,649**	—	12,649	**24,334**	—	24,334
Intersegment eliminations	**—**	—	—	**—**	(4)	4
Total Operating Expenses	**108,117**	93,899	14,218	**214,622**	190,729	23,893

Note:

1. Beginning in Q1 2017, the results of Traditions of Durham, which was acquired on December 31, 2015, have been re-classified from Transaction to Same property. The Transactions amount represents the results of the two RR communities which were acquired on August 2, 2016, and Rosewood which was acquired on June 1, 2017.

Net Operating Income Breakdown

The following table represents the net operating income breakdown for the periods ended June 30:

	Three Months Ended			Six Months Ended		
Thousands of dollars	**2017**	2016	Change	**2017**	2016	Change
Long-term Care						
Same property	**16,603**	16,588	15	**32,083**	31,823	260
Total Long-term Care NOI	**16,603**	16,588	15	**32,083**	31,823	260
Retirement						
Same property [(1)]	**6,758**	6,140	618	**13,283**	12,061	1,222
Transactions [(1)]	**1,019**	—	1,019	**1,909**	—	1,909
Total Retirement NOI	**7,777**	6,140	1,637	**15,192**	12,061	3,131
Baltic						
Transactions	**5,030**	—	5,030	**9,596**	—	9,596
Total Baltic NOI	**5,030**	—	5,030	**9,596**	—	9,596
Total NOI						
Same property from continuing operations	**23,361**	22,728	633	**45,366**	43,884	1,482
Home Care discontinued operations	**—**	(16)	16	**—**	400	(400)
Transactions	**6,049**	—	6,049	**11,505**	—	11,505
MOHLTC reconciliation adjustments	—	(145)	145	—	(277)	277
Total NOI	**29,410**	22,567	6,843	**56,871**	44,007	12,864

Note:

1. Beginning in Q1 2017, the results of Traditions of Durham, which was acquired on December 31, 2015, have been re-classified from Transaction to Same property. The Transactions amount represents the results of the two RR communities which were acquired on August 2, 2016, and Rosewood which was acquired on June 1, 2017.

For the Quarter

Revenue

Same property revenues from continuing operations for Q2 2017 increased by $3,458 to $118,829, compared to Q2 2016. Long-term Care revenues increased by $2,440 to $104,671, compared to Q2 2016, primarily attributable to increased funding in the flow-through envelopes, along with higher preferred accommodation rates and other accommodation revenues. Retirement's same property revenues for Q2 2017 increased by $1,018 to $14,158, compared to Q2 2016, primarily attributable to increases in occupancy and year-over-year rent increases.

The RR Properties contributed $2,508 to incremental revenues for Q2 2017 (2016 - $nil). Baltic contributed $16,190 of revenues for Q2 2017 (2016 - $nil).

Operating Expenses

Same property operating expenses from continuing operations for Q2 2017 increased by $2,825 to $95,468, compared to Q2 2016. Long-term Care operating expenses increased by $2,425 to $88,068, compared to Q2 2016, due to inflationary increases, partially offset by lower utility expenses. Retirement's same property operating expenses for Q2 2017 increased by $400 to $7,400, compared to Q2 2016, primarily attributable to higher variable expenses resulting from increased occupancy.

The RR Properties resulted in incremental operating expenses of $1,489 for Q2 2017 (2016 - $nil). Baltic recorded $11,160 of operating expenses for Q2 2017 (2016 - $nil).

NOI

Same property NOI from continuing operations for Q2 2017 increased by $633 to $23,361, compared to Q2 2016. Long-term Care's same property NOI remained relatively flat compared to Q2 2016. Retirement's same property NOI for Q2 2017 increased by $618 to $6,758, compared to Q2 2016, primarily attributable to increases in occupancy.

The RR Properties contributed NOI of $1,019 for Q2 2017 (2016 - $nil). Baltic contributed $5,030 of NOI for Q2 2017 (2016 - $nil).

Due to the seasonality of certain operating expenses and occupancy activities, trends which may appear in operating margins may be merely coincidental, and readers should not rely on net operating margin calculations herein.

Depreciation and Amortization

Depreciation and amortization for Q2 2017 remained relatively flat compared to Q2 2016. There was incremental depreciation and amortization from the Baltic Properties and the RR Properties acquired in 2016 and 2017, which was largely offset by lower amortization on intangible assets.

Administrative Expenses

Administrative expenses for Q2 2017 increased by $390 to $4,948, compared to Q2 2016, primarily attributable to an increase in mark-to-market adjustments on share-based compensation and increased costs to support the Company's growth.

Net Finance Charges

Net finance charges from continuing operations for Q2 2017 decreased by $1,212 to $5,672, compared to Q2 2016, primarily attributable to the Q2 2016 dividend equivalents paid on the Subscription Receipts, and an increase in the gain on interest rate swap contracts in Q2 2017, partially offset by incremental mortgage interest expenses from the Baltic Properties and the RR Properties acquired in 2016 and 2017.

Transaction Costs

Transaction costs for Q2 2017 decreased by $1,323 to $695 compared to Q2 2016, primarily attributable to higher transactional activity in the comparable prior year period related to the acquisition of the Baltic Properties and the RR Properties.

Income Taxes

Income tax expense from continuing operations for Q2 2017 increased by $1,575 to $2,371, compared to Q2 2016. The current income tax expense from continuing operations for Q2 2017 increased by $1,486 to $2,179 compared to Q2 2016, primarily attributable to an increase in NOI net of interest expense and tax depreciation associated with the Baltic Properties and the RR Properties acquired in 2016 and 2017. The current income tax expense has been calculated at the weighted average combined corporate tax rate of 26.46% (2016 - 26.46%). The deferred income tax expense for continuing operations of $192 in Q2 2017 represents an increase in deferred income tax expense of $89 over the comparable prior year period.

For the Year to Date

Revenue

Same property revenues from continuing operations for the six months ended June 30, 2017 increased by $5,915 to $235,654 over the comparable prior year period. Long-term Care revenues increased by $4,056 to $207,693 primarily attributable to funding changes in the flow-through envelopes, along with higher preferred accommodation rates and other accommodation revenues. Retirement same property revenues for the six months ended June 30, 2017 increased by $1,859 to $27,961, primarily attributable to increases in occupancy and year-over-year rent increases.

The RR Properties contributed to revenues of $4,702 over the comparable prior year period (2016 - $nil). Baltic contributed $31,137 of revenue for the six months ended June 30, 2017 (2016 - $nil).

Operating Expenses

Same property operating expenses from continuing operations for the six months ended June 30, 2017 increased by $4,433 to $190,288, over the comparable prior year period. Long-term Care operating expenses increased by $3,796 to $175,610, primarily attributable to higher flow-through envelope expenses. Retirement same property operating expenses for the six months ended June 30, 2017 increased by $637 to $14,678, primarily attributable to higher variable expenses resulting from increase in occupancy.

The RR Properties resulted in incremental operating expenses of $2,793 for the six months ended June 30, 2017 (2016 - $nil). Baltic recorded $21,541 of operating expenses for the six months ended June 30, 2017 (2016 - $nil).

NOI

Same property NOI from continuing operations for the six months ended June 30, 2017 increased by $1,482 to $45,366 over the comparable prior year period. Long-term Care's NOI increased by $260 to $32,083 for the six months ended June 30, 2017, primarily attributable to increased preferred accommodation rates and disciplined cost management. Retirement's same property NOI increased by $1,222 to $13,283, primarily due to increases in occupancy and year-over year rent increases.

The RR Properties contributed to incremental NOI of $1,909 for the six months ended June 30, 2017 (2016 - $nil). Baltic contributed $9,596 of NOI for the six months ended June 30, 2017 (2016 - $nil).

Due to the seasonality of certain operating expenses and occupancy activities, trends which may appear in operating margins may be merely coincidental, and readers should not rely on net operating margin calculations herein.

Depreciation and Amortization

Depreciation and amortization for the six months ended June 30, 2017 decreased by $1,098 to $17,792 over the comparable prior year period, primarily due to higher amortization on intangible assets in the prior comparable period, partially offset by higher depreciation on building assets.

Administrative Expenses

Administrative expenses for the six months ended June 30, 2017 increased by $1,281 to $10,223 over the comparable prior year period, primarily attributable to an increase in mark-to-market adjustments on share-based compensation and increased costs to support the Company's growth.

Net Finance Charges

Net finance charges from continuing operations for the six months ended June 30, 2017 decreased by $212 to $12,238 over the comparable prior year period, primarily attributable to the Q2 2016 dividend equivalents paid on the Subscription Receipts, and a decrease in the fair value loss on the interest rate swap contracts in the six months ended June 30, 2017, partially offset by incremental mortgage interest expenses from the Baltic Properties and the RR Properties acquired in 2016 and 2017.

Transaction Costs

Transaction costs for the six months ended June 30, 2017 decreased by $1,988 to $1,213 over the comparable prior year period, primarily attributable to higher transactional activity in the comparable prior year period related to the acquisition of the Baltic Properties and the RR Properties.

Income Taxes

The income tax expense from continuing operations for the six months ended June 30, 2017 increased by $3,133 to $4,000 over the comparable prior year period. The current income tax expense from continuing operations increased by $1,822 over the comparable prior year period to $3,705, primarily attributable to an increase in NOI net of interest expense and tax depreciation associated with the Baltic Properties and the RR Properties acquired in 2016 and 2017. The current income taxes have been calculated at the weighted average combined corporate tax rate of 26.46% (2016 - 26.46%). The deferred income tax recovery from continuing operations of $295 represents an increase in deferred income tax expense of $1,311 over the comparable prior year period, primarily as a result of realizing the benefit of deferred tax items set up in prior years.

Business Performance

The following table represents the reconciliation of net income from continuing operations to FFO, OFFO and AFFO for the periods ended June 30:

	Three Months Ended			Six Months Ended		
Thousands of dollars, except share and per share data	**2017**	2016	Change	**2017**	2016	Change
Net income (loss) from continuing operations	**6,726**	(642)	7,368	**11,405**	(743)	12,148
Deferred income tax expense (recovery)	**192**	103	89	**295**	(1,016)	1,311
Depreciation and amortization	**8,567**	8,662	(95)	**17,023**	18,553	(1,530)
Transaction costs	**695**	2,018	(1,323)	**1,213**	3,201	(1,988)
Fair value (gain) loss on interest rate swap contracts	**(787)**	214	(1,001)	**(721)**	483	(1,204)
Net income from discontinued operations[1]	**—**	(10)	10	**—**	302	(302)
Gain on Glenmore Lodge option (net of taxes)	**—**	—	—	**(62)**	—	(62)
Non-controlling interest	**(85)**	—	(85)	**(188)**	—	(188)
Funds from operations (FFO)	**15,308**	10,345	4,963	**28,965**	20,780	8,185
Depreciation and amortization - corporate	**431**	307	124	**769**	337	432
Amortization of financing charges and fair value adjustments on acquired debt	**97**	141	(44)	**360**	253	107
Amortization of loss on bond forward contract	**220**	211	9	**435**	420	15
Dividend equivalents on the Subscription Receipts	**—**	1,309	(1,309)	**—**	1,309	(1,309)
Interest income on the Subscription Receipts funds	**—**	(112)	112	**—**	(112)	112
Net settlement payment on interest rate swap contracts	**(302)**	(62)	(240)	**(585)**	(130)	(455)
Tax benefit from capital loss carryforwards	**—**	(861)	861	**—**	(861)	861
MOHLTC reconciliation adjustment, net of taxes	**—**	107	(107)	**—**	204	(204)
Operating funds from operations (OFFO)	**15,754**	11,385	4,369	**29,944**	22,200	7,744
Deferred share unit compensation earned	**479**	303	176	**1,002**	581	421
Income support	**—**	76	(76)	**—**	139	(139)
Construction funding principal	**2,530**	2,440	90	**5,039**	4,852	187
Maintenance capex	**(1,106)**	(738)	(368)	**(1,662)**	(1,117)	(545)
Adjusted funds from operations (AFFO)	**17,657**	13,466	4,191	**34,323**	26,655	7,668
Adjusted funds from operations (AFFO)	**17,657**	13,466	4,191	**34,323**	26,655	7,668
Dividends declared	**(10,429)**	(8,232)	(2,197)	**(20,793)**	(16,449)	(4,344)
Operating cash flow retained	**7,228**	5,234	1,994	**13,530**	10,206	3,324
Basic FFO per share	**0.331**	0.283	0.048	**0.627**	0.569	0.058
Basic OFFO per share	**0.341**	0.311	0.030	**0.648**	0.608	0.040
Basic AFFO per share	**0.382**	0.368	0.014	**0.743**	0.729	0.014
Weighted average common shares outstanding - Basic	**46,237,594**	36,575,901		**46,189,745**	36,542,177	
Diluted FFO per share	**0.323**	0.273	0.050	**0.612**	0.552	0.060
Diluted OFFO per share	**0.330**	0.300	0.030	**0.629**	0.588	0.041
Diluted AFFO per share	**0.369**	0.353	0.016	**0.718**	0.701	0.017
Weighted average common shares outstanding - Diluted	**48,925,816**	39,313,119		**48,879,609**	39,283,921	

Note 1: Three months ended June 30, 2017 - $nil current income tax recovery (2016 - $3).
Six months ended June 30, 2017 - $nil current income tax expense (2016 - $101).

Reconciliation of diluted FFO, OFFO and AFFO

	Three Months Ended			Six Months Ended		
Thousands of Dollars	**2017**	2016	Change	**2017**	2016	Change
FFO, Basic	**15,308**	10,345	4,963	**28,965**	20,780	8,185
Net financing charges on convertible debt	**644**	552	92	**1,281**	1,205	76
Current income tax expense adjustment	**(170)**	(146)	(24)	**(339)**	(319)	(20)
FFO, Diluted	**15,782**	10,751	5,031	**29,907**	21,666	8,241
OFFO, Basic	**15,754**	11,385	4,369	**29,944**	22,200	7,744
Interest expense on convertible debentures	**543**	552	(9)	**1,080**	1,105	(25)
Current income tax expense adjustment	**(144)**	(146)	2	**(286)**	(219)	(67)
OFFO, Diluted	**16,153**	11,791	4,362	**30,738**	23,086	7,652
AFFO, Basic	**17,657**	13,466	4,191	**34,323**	26,655	7,668
Interest expense on convertible debentures	**543**	552	(9)	**1,080**	1,105	(25)
Current income tax expense adjustment	**(144)**	(146)	2	**(286)**	(219)	(67)
AFFO, Diluted	**18,056**	13,872	4,184	**35,117**	27,541	7,576

For the Quarter

FFO increased by $4,963 to $15,308, compared to Q2 2016. The increase was primarily attributable to improved NOI contribution from same properties, the Baltic Properties and RR Properties acquired in 2016 and 2017, and the Q2 2016 dividend equivalents paid on the Subscription Receipts, partially offset by incremental mortgage interest expense and an increase in current income taxes on the Baltic Properties and RR Properties.

OFFO increased by $4,369 to $15,754, compared to Q2 2016. The increase was primarily attributable to the increase in FFO noted above, excluding the Q2 2016 dividend equivalents paid on the Subscription Receipts, as well as excluding the Q2 2016 tax benefit from capital loss carryforwards.

AFFO increased by $4,191 to $17,657, compared to Q2 2016. The increase in AFFO was principally related to the increase in OFFO noted above, partially offset by an increase in maintenance capex.

For the Year to Date

FFO for the six months ended June 30, 2017 increased by $8,185 to $28,965 over the comparable prior year period. The increase was primarily attributable to improved same property NOI, the Baltic Properties and RR Properties acquired in 2016 and 2017, and the Q2 2016 dividend equivalents paid on the Subscription Receipts. These increases were partially offset by incremental mortgage interest expense and increased current income taxes on the Baltic Properties and RR Properties, and increased administrative expenses.

OFFO for the six months ended June 30, 2017 increased by $7,744 to $29,944 over the comparable prior year period. The increase was primarily attributable to the increase in FFO noted above, excluding the Q2 2016 dividend equivalents paid on the Subscription Receipts and the Q2 2016 tax benefit from capital loss carryforwards.

AFFO for the six months ended June 30, 2017 increased by $7,668 to $34,323 over the comparable prior year period. The increase was primarily attributable to the increase in OFFO as noted above, partially offset by an increase in maintenance capex.

Reconciliation of Cash from Operations to Adjusted Funds from Operations

The following table represents the reconciliation of cash provided by operating activities to AFFO for the periods ended June 30:

	Three Months Ended			Six Months Ended		
Thousands of dollars	**2017**	2016	Change	**2017**	2016	Change
Cash provided by operating activities	**19,525**	12,332	7,193	**24,200**	22,032	2,168
Gain on Glenmore Lodge option (net of taxes)	**—**	—	—	**(62)**	—	(62)
Non-controlling interest	**(85)**	—	(85)	**(188)**	—	(188)
Construction funding principal	**2,530**	2,440	90	**5,039**	4,852	187
Transaction costs	**695**	2,018	(1,323)	**1,213**	3,201	(1,988)
MOHLTC reconciliation adjustment, net of taxes	**—**	107	(107)	**—**	204	(204)
Maintenance capex	**(1,106)**	(738)	(368)	**(1,662)**	(1,117)	(545)
Net change in working capital, interest and taxes	**(3,834)**	(2,616)	(1,218)	**5,978**	(2,352)	8,330
Restricted share units and long-term incentive plan	**(68)**	(77)	9	**(195)**	(165)	(30)
Adjusted funds from operations (AFFO)	**17,657**	13,466	4,191	**34,323**	26,655	7,668
Adjusted funds from operations (AFFO)	**17,657**	13,466	4,191	**34,323**	26,655	7,668
Dividends declared	**(10,429)**	(8,232)	(2,197)	**(20,793)**	(16,449)	(4,344)
Operating cash flow retained	**7,228**	5,234	1,994	**13,530**	10,206	3,324
Dividend reinvestment	**1,425**	695	730	**2,578**	1,352	1,226
Cash retained after dividend reinvestment	**8,653**	5,929	2,724	**16,108**	11,558	4,550

Operating cash flow retained is equal to AFFO less dividends declared. Operating cash flow retained for the three and six months ended June 30, 2017 was $7,228 (2016 - $5,234) and $13,530 (2016 - $10,206), respectively.

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.

Liquidity and Capital Resources

Financial Position Analysis

The following table represents the summary of cash flows for the periods ended June 30:

	Three Months Ended			Six Months Ended		
Thousands of dollars	**2017**	2016	Change	**2017**	2016	Change
Cash flow from operations before non-cash working capital items	**24,314**	24,088	226	**46,632**	40,216	6,416
Non-cash changes in working capital	**2,177**	2,051	126	**(1,472)**	6,677	(8,149)
Interest and taxes paid, swap settlement, and discontinued operations	**(6,966)**	(6,075)	(891)	**(20,960)**	(16,690)	(4,270)
Cash flow used in operating activities of discontinued operations	**—**	(7,732)	7,732	**—**	(8,171)	8,171
Cash provided by (used in):						
Operating activities	**19,525**	12,332	7,193	**24,200**	22,032	2,168
Investing activities	**(2,188)**	11,994	(14,182)	**(6,261)**	14,137	(20,398)
Financing activities	**(26,563)**	(26,211)	(352)	**(27,469)**	(39,455)	11,986
Decrease in cash during the period	**(9,226)**	(1,885)	(7,341)	**(9,530)**	(3,286)	(6,244)
Cash, end of period	**17,670**	23,059	(5,389)	**17,670**	23,059	(5,389)

For the Quarter

Operating Activities

Operating activities for Q2 2017 provided $19,525 of cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes of $24,314.
- Decrease in accounts payable and accrued liabilities of $5,000.
- Partially offset by interest paid on long-term debt of $4,659, decrease in prepaid expenses and other assets of $2,709, and income taxes paid of $2,005.

For Q2 2016, operating activities provided $12,332 of cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes of $24,088.
- Decrease in accounts receivable and other assets of $2,041.
- Increase in accounts payable and accrued liabilities of $1,007.
- Change in net government funding balances provided $459.
- Partially offset by interest paid on long-term debt of $5,013, increase in prepaid expenses and deposits of $1,532, discontinued operations' use of cash of $7,732 and income taxes paid of $1,000.

Investing Activities

Investing activities for Q2 2017 used $2,188 in cash, which was primarily attributable to the following:

- Purchase of property and equipment of $2,823 and intangibles of $267.
- Acquisition of Rosewood for $2,038.
- Partially offset by the construction funding received in the amount of $3,170.

For Q2 2016, investing activities provided $11,994 of cash, which was primarily attributable to the following:

- Proceeds from the sale of PHCS of $16,409.
- Construction funding received in the amount of $3,270.
- Partially offset by the purchase of equipment of $772 and intangibles of $539, and deposit on the BC Acquisition of $6,373.

Financing Activities

Financing activities in Q2 2017 used $26,563 in cash, which was primarily attributable to the following:

- Repayment of long-term debt of $18,418 relating to mortgage principal payments and voluntary repayments on the Company's revolving credit facilities.
- Dividends paid in the quarter of $8,973.
- Contributions to the Series B Debentures principal reserve fund of $1,653.
- Partially offset by proceeds from long-term debt of $2,600.

For Q2 2016, financing activities used $26,211 in cash, which was primarily attributable to the following:

- Repayment of long-term debt of $16,097 relating to mortgage principal payments and voluntary repayments on the Company's revolving credit facilities.
- Dividends paid in the quarter of $7,531.
- Subscription Receipts issuance costs of $3,769.
- Contributions to the Series B Debentures principal reserve fund of $1,581.

For the Year to Date

Operating Activities

For the six months ended June 30, 2017, operating activities provided $24,200 of cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes of $46,632.
- Decrease in net government funding balances of $2,952.
- Decrease in accounts receivable and other assets of $2,274.
- Partially offset by interest paid on long-term debt of $14,070, increase in accounts payable and accrued liabilities of $3,504, increase in prepaid expenses and deposits of $3,194, and income taxes paid of $6,305.

For the six months ended June 30, 2016, operating activities provided $22,032 of cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes of $40,216.
- Decrease in accounts receivable and other assets of $2,281.
- Increase in accounts payable and accrued liabilities of $1,388.

- Change in net government funding balances provided $4,289.
- Partially offset by interest paid on long-term debt of $13,160, increases in prepaid expenses and deposits of $1,420, use of cash in discontinued operations of $8,171 and income taxes paid of $3,400.

Investing Activities

For the six months ended June 30, 2017, investing activities used $6,261 in cash, which was primarily attributable to the following:

- Acquisition of Glenmore Lodge for $5,699 and Rosewood for $2,038.
- Purchase of property and equipment of $3,973 and intangibles of $736.
- Partially offset by construction funding received in the amount of $6,540.

For the six months ended June 30, 2016, investing activities provided $14,137 of cash, which was primarily attributable to the following:

- Proceeds from the sale of PHCS of $16,409.
- Construction funding received in the amount of $6,540.
- Partially offset by the purchase of equipment of $1,267 and intangibles of $1,162, and deposit on the BC Acquisition of $6,373.

Financing Activities

For the six months ended June 30, 2017, financing activities used $27,469 in cash, which was primarily attributable to the following:

- Repayment of long-term debt of $22,033 relating to mortgage principal payments and voluntary repayments on the Company's revolving credit facilities.
- Dividends paid of $18,199.
- Contributions to the Series B Debentures' principal reserve fund of $3,345.
- Partially offset by proceeds from long-term debt of $17,100.

For the six months ended June 30, 2016, financing activities used $39,455 in cash, which was primarily attributable to the following:

- Repayment of long-term debt of $20,197 relating to mortgage principal payments and voluntary repayments on the Company's revolving credit facilities.
- Dividends paid of $15,086.
- Subscription Receipts issuance costs of $3,769.
- Contributions to the Series B Debentures' principal reserve fund of $3,136.

Capital Resources

The Company’s total debt as at June 30, 2017 was $746,583 (December 31, 2016 - $734,459), net of the Series B Debentures' principal reserve fund of $20,461 (December 31, 2016 - $17,116). The increase of $12,124 was primarily related to the Company's net drawdown of the Royale Credit Facility and the mortgages assumed on the acquisitions of Glenmore Lodge and Rosewood, partially offset by monthly payments to the Series B Debentures' principal reserve fund and payments toward mortgage liabilities. The Company has credit facilities up to $126,500. As at June 30, 2017, the Company had drawn $35,000 from these facilities.

As at June 30, 2017, the Company had a working capital deficiency (current liabilities less current assets) of $111,352, primarily attributable to the Convertible Debentures of $44,096 and the current portion of long-term debt of $34,280 relating to the portion of mortgage liabilities that are due within a twelve-month period. To support the Company's working capital deficiency, the Company plans to use its operating cash flows, refinance its debt and, if necessary, use its undrawn credit facilities, which management believes will be sufficient to address this capital deficiency.

Liquidity and Capital Commitments

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 2017, 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.

Capital Commitments

The Company monitors all of its properties for capital requirements. As part of the monitoring process, items are assessed and prioritized based on the urgency and necessity of the expenditure.

Debt Strategy

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 secured debentures, conventional property-specific secured mortgages, bank credit facilities and the Convertible Debentures.

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. In fiscal 2017 and beyond, the Company plans to capitalize on external growth opportunities and refinance mortgages to build the 10-year debt maturity ladder around the Series B Debentures so as to reduce risk when these debentures mature. In March 2017, DBRS confirmed the A (low) rating for the Series B Debentures.

The Company has adopted interest coverage guidelines which are consistent with the coverage covenants contained in its bank credit facility agreements. Interest coverage ratios provide an indication of the ability to service or pay interest charges relating to the underlying debt. The interest coverage ratio calculations may be defined differently 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 June 30:

Thousands of dollars, except ratio	Three Months Ended **2017**	Three Months Ended 2016	Six Months Ended **2017**	Six Months Ended 2016
Net finance charges from continuing operations	**5,672**	6,884	**12,238**	12,450
Add (deduct):				
Amortization of financing charges and fair value adjustments on acquired debt	**(97)**	(141)	**(360)**	(253)
Amortization of loss on bond forward contract	**(220)**	(211)	**(435)**	(420)
Dividend equivalents on the Subscription Receipts	**—**	(1,309)	**—**	(1,309)
Interest income on construction funding receivable	**690**	829	**1,551**	1,687
Interest income on the Subscription Receipts funds held in escrow	**—**	112	**—**	112
Other interest income	**48**	71	**234**	132
Gain (loss) on interest rate swap contracts	**1,089**	(152)	**1,306**	(353)
Net finance charges, adjusted	**7,182**	6,083	**14,534**	12,046
Adjusted EBITDA from continuing operations	**27,632**	21,440	**53,188**	41,482
Interest coverage ratio	**3.8**	3.5	**3.7**	3.4

The following table represents the reconciliation of net income to Adjusted EBITDA from continuing operations for the periods ended June 30:

Thousands of dollars	Three Months Ended **2017**	Three Months Ended 2016	Six Months Ended **2017**	Six Months Ended 2016
Net income (loss) from continuing operations	**6,726**	(642)	**11,405**	(743)
Net finance charges	**5,672**	6,884	**12,238**	12,450
Provision for income taxes from continuing operations	**2,371**	796	**4,000**	867
Depreciation and amortization	**8,998**	8,969	**17,792**	18,890
Transaction costs	**695**	2,018	**1,213**	3,201
MOHLTC reconciliation adjustments	**—**	145	**—**	277
Proceeds from construction funding	**3,170**	3,270	**6,540**	6,540
Adjusted EBITDA from continuing operations	**27,632**	21,440	**53,188**	41,482

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 from continuing operations, as referenced below, is presented in accordance with defined terms in certain covenant calculations. The following is the calculation for the periods ended June 30:

	Three Months Ended		Six Months Ended	
Thousands of dollars, except ratio	**2017**	2016	**2017**	2016
Net finance charges from continuing operations	**5,672**	6,884	**12,238**	12,450
Add (deduct):				
Amortization of financing charges and fair value adjustments on acquired debt	**(97)**	(141)	**(360)**	(253)
Amortization of loss on bond forward contract	**(220)**	(211)	**(435)**	(420)
Dividend equivalents on the Subscription Receipts	**—**	(1,309)	**—**	(1,309)
Interest income on construction funding receivable	**690**	829	**1,551**	1,687
Interest income on the Subscription Receipts funds held in escrow	**—**	112	**—**	112
Other interest income	**48**	71	**234**	132
Gain (loss) on interest rate swap contracts	**1,089**	(152)	**1,306**	(353)
Net finance charges, adjusted	**7,182**	6,083	**14,534**	12,046
Principal repayments [1]	**3,418**	2,097	**7,033**	4,197
Principal reserve fund	**1,653**	1,581	**3,345**	3,136
Total debt service	**12,253**	9,761	**24,912**	19,379
Adjusted EBITDA from continuing operations	**27,632**	21,440	**53,188**	41,482
Deduct:				
Maintenance capex	**(1,106)**	(738)	**(1,662)**	(1,117)
Cash income taxes	**(2,005)**	(1,000)	**(6,305)**	(3,400)
Adjusted EBITDA from continuing operations (for covenant calculations)	**24,521**	19,702	**45,221**	36,965
Debt service coverage ratio	**2.0**	2.0	**1.8**	1.9

Note:

1. During each of the three and six months ended June 30, 2017, the Company made voluntary payments of $15,000 (2016 - $14,000 and $16,000, respectively) towards the Royale Credit Facility, which have 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.

Thousands of dollars, except ratio	June 30 **2017**	June 30 2016
Total indebtedness		
Series B Debentures	**322,000**	322,000
Series B Debentures - Principal reserve fund	**(20,461)**	(13,905)
Credit facilities	**35,000**	53,500
Mortgages	**365,482**	202,091
Convertible Debentures	**44,584**	45,372
	746,605	609,058
Adjusted EBITDA from continuing operations	**106,376**	82,964
Debt to Adjusted EBITDA from continuing operations	**7.0**	7.3

Debt Profile

The debt profile is presented to depict the weighted average interest rates based on the nature of the underlying debt split between fixed and floating rate instruments.

	Weighted Average Debt							
	Three Months Ended June 30				Six Months Ended June 30			
	2017	**Rate (%)**	2016	Rate (%)	**2017**	**Rate (%)**	2016	Rate (%)
Fixed Rate								
Debentures	**322,000**	**3.47%**	322,000	3.47%	**322,000**	**3.47%**	322,000	3.47%
Mortgages (1)	**339,399**	**4.11%**	203,013	4.44%	**375,574**	**4.09%**	204,000	4.45%
Convertible Debentures	**44,584**	**4.65%**	45,855	4.65%	**44,584**	**4.65%**	46,072	4.65%
Total Fixed	**705,983**	**3.86%**	570,868	3.92%	**742,158**	**3.83%**	572,072	3.92%
Floating Rate								
Credit facilities	**36,011**	**2.57%**	58,731	2.73%	**41,282**	**2.57%**	63,489	2.73%
Mortgages	**10,413**	**3.21%**	—	—%	**5,297**	**3.22%**	—	—%
Total Floating	**46,424**	**2.71%**	58,731	2.73%	**46,579**	**2.64%**	63,489	2.73%
Total Debt	**752,407**	**3.79%**	629,599	3.80%	**788,737**	**3.78%**	635,561	3.79%

(1) For the three and six months ended June 30, 2017, includes floating rate mortgages of $64,645 and $103,935 (2016 -$14,085 and $14,145) respectively, that have been fixed through interest rate swaps.

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.

Thousands of dollars, except ratio	June 30 2017	June 30 2016
Total indebtedness		
Series B Debentures	**322,000**	322,000
Series B Debentures - Principal reserve fund	**(20,461)**	(13,905)
Credit facilities	**35,000**	53,500
Mortgages	**365,482**	202,091
Convertible Debentures	**44,584**	45,372
	746,605	609,058
Total assets	**1,210,433**	931,932
Accumulated depreciation on property and equipment	**161,176**	131,321
Accumulated amortization on intangible assets	**78,494**	74,641
Gross book value	**1,450,103**	1,137,894
Debt to gross book value	**51.5%**	53.5%
Debt, excluding Convertible Debentures, to gross book value	**48.4%**	49.5%

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, issue additional long-term debt, issue 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 reviews and approves monthly dividends in advance on a quarterly basis.

The Company has property-level mortgages that 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 is in compliance with all financial covenants on its borrowings. 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 affected.

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

Contractual Obligations and Other Commitments

Long-term Debt

The following table summarizes the Company's long-term debt commitments by maturity date.

Year	Series B Debentures	Floating Rate Debt	Convertible Debentures	Amortizing Debt: Regular Principal Payments	Amortizing Debt: Principal Due at Maturity	**Total**	% of Total	Weighted Average Interest on Maturing Debt
2017	—	—	—	7,898	9,977	**17,875**	2.3%	3.0%
2018	—	—	44,584	15,677	29,914	**90,175**	11.8%	4.9%
2019	—	—	—	14,009	65,142	**79,151**	10.2%	4.5%
2020	—	35,000	—	10,474	19,992	**65,466**	8.5%	2.9%
2021	322,000	—	—	10,190	1,500	**333,690**	43.5%	3.5%
2022	—	—	—	9,101	12,091	**21,192**	2.8%	3.2%
2023	—	—	—	7,775	51,152	**58,927**	7.7%	3.1%
2024	—	—	—	6,337	20,617	**26,954**	3.5%	4.2%
2025	—	—	—	5,006	—	**5,006**	0.7%	—%
2026	—	—	—	5,162	—	**5,162**	0.7%	—%
Thereafter	—	—	—	28,532	34,936	**63,468**	8.3%	4.4%
	322,000	**35,000**	**44,584**	**120,161**	**245,321**	**767,066**	100.0%	
Mark-to-market adjustment arising from acquisitions						**4,540**		
Less: Deferred financing costs						**(4,074)**		
Less: Deferred financing costs on convertible debentures						**(403)**		
Less: Equity component of convertible debentures						**(85)**		
						767,044		

Convertible Debentures

The Company has Convertible Debentures outstanding with an aggregate principal amount of $44,584, convertible into common shares at $16.75 per common share. The Convertible Debentures have a maturity date of June 30, 2018 and bear interest at 4.65% per annum, which is payable semi-annually in June and December.

Operating Leases

The Company has a 10-year operating lease with respect to its Markham, Ontario office, which expires on October 31, 2024. The lease includes the assignment of the Company's obligation under its office lease in Vaughan, Ontario which expires in August 2019. As well, there are various operating leases for office and other equipment that expire over the next five years and thereafter.

Related Party Transactions

As at June 30, 2017, the Company had amounts outstanding from certain key management of $1,200 (December 31, 2016 - $1,026) in relation to the long-term incentive plan issuances and share purchase loans, which have been recorded as a reduction to shareholders' equity. The incentive plan terms provide for the loans to bear interest at the prime rate prevailing at the Company's bank at the time of grant, and are due on demand. The underlying common shares have been pledged as security against the respective loans.

Critical Accounting Estimates and Accounting Policies

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, 2016. Please refer to those statements for further detail.

In preparing the 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, 2016 which are available on SEDAR or may be accessed on the Company's website.

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, 2016, 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 Company's AIF, for a discussion of the Risk Factors applicable to the Company.

The Government of Ontario recently introduced legislation to amend employment and labour laws in the Province of Ontario. It is anticipated that these proposed amendments, if effected, will increase the labour costs of employers in the Province of Ontario, including Sienna. The Company is assessing the potential operational and financial impact of these proposed changes. There can be no assurance at this time as to whether some or any of the legislative proposals will be enacted by the Government of Ontario, and the Company continues to actively monitor the legislative developments in this regard.

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 document 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. When used in this MD&A, such statements use words such as "may", "might", "will", "expect", "believe", "plan", "budget", "should", "could", "would", "anticipate", "estimate", "forecast", "intend", "continue", "project", "schedule" and other similar terminology. The forward-looking statements contained in this MD&A are based on information currently available to management and that management currently believes are based on reasonable assumptions. However, neither the Company nor management 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)

Q2 2017

Sienna Senior Living Inc.

Sienna SENIOR LIVING

Condensed Interim Consolidated Financial Statements

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

Thousands of dollars

	Notes	**June 30, 2017**	December 31, 2016
ASSETS			
Current assets			
Cash		**17,670**	27,200
Accounts receivable and other assets	16	**5,766**	8,380
Prepaid expenses and deposits		**4,702**	1,693
Government funding receivable		**3,613**	3,221
Construction funding receivable		**10,371**	10,138
		42,122	50,632
Government funding receivable		**224**	1,030
Interest rate swap contract	6	**929**	1,172
Restricted cash	7	**24,227**	20,375
Construction funding receivable		**59,365**	64,637
Property and equipment		**771,168**	756,986
Intangible assets		**204,547**	202,160
Goodwill		**107,851**	107,226
Total assets		**1,210,433**	1,204,218
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**70,478**	73,752
Government funding payable		**3,379**	1,917
Current portion of long-term debt	6, 8	**34,280**	93,196
Convertible debentures	6, 9	**44,096**	—
Income taxes payable		**800**	3,400
Interest rate swap contracts	6	**441**	810
		153,474	173,075
Long-term debt	6, 8	**688,668**	614,027
Convertible debentures	6, 9	**—**	44,352
Deferred income taxes	11	**61,293**	60,856
Government funding payable		**2,892**	1,816
Share-based compensation liability	14	**6,393**	5,078
Obligation to purchase interest in PSM	20	**2,100**	2,100
Interest rate swap contracts	6	**1,527**	2,707
Total liabilities		**916,347**	904,011
EQUITY			
Shareholders' equity		**294,050**	300,176
Non-controlling interest		**36**	31
Total equity		**294,086**	300,207
Total liabilities and equity		**1,210,433**	1,204,218

See accompanying notes.

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

"Dino Chiesa"	*"Janet Graham"*
Dino Chiesa Chairman and Director	Janet Graham Director

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

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Shareholders' deficit	Accumulated other comprehensive income (loss)	Total Shareholders' equity	Non-controlling interest	Total equity
Balance, January 1, 2017		**522,766**	**515**	**121**	**(220,401)**	**(2,825)**	**300,176**	**31**	**300,207**
Issuance of shares	12	**3,056**	**—**	**—**	**—**	**—**	**3,056**	**—**	**3,056**
Net income	20	**—**	**—**	**—**	**11,217**	**—**	**11,217**	**188**	**11,405**
Other comprehensive income		**—**	**—**	**—**	**—**	**320**	**320**	**—**	**320**
Long-term incentive plan	12, 14	**27**	**—**	**36**	**—**	**—**	**63**	**—**	**63**
Share purchase loan	12	**11**	**—**	**—**	**—**	**—**	**11**	**—**	**11**
Dividends	13	**—**	**—**	**—**	**(20,793)**	**—**	**(20,793)**	**—**	**(20,793)**
Distributions		**—**	**—**	**—**	**—**	**—**	**—**	**(183)**	**(183)**
Balance, June 30, 2017		**525,860**	**515**	**157**	**(229,977)**	**(2,505)**	**294,050**	**36**	**294,086**

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Shareholders' deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non-controlling interest	Total equity
Balance, January 1, 2016		374,967	515	89	(195,240)	(3,452)	176,879	—	176,879
Issuance of shares	12	2,133	—	—	—	—	2,133	—	2,133
Net income		—	—	—	7,263	—	7,263	—	7,263
Other comprehensive income		—	—	—	—	309	309	—	309
Long-term incentive plan	12, 14	23	—	32	—	—	55	—	55
Share purchase loan	12	11	—	—	—	—	11	—	11
Dividends	13	—	—	—	(16,449)	—	(16,449)	—	(16,449)
Balance, June 30, 2016		377,134	515	121	(204,426)	(3,143)	170,201	—	170,201

See accompanying notes.

Thousands of dollars, except share and per share data

	Notes	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Revenue	17	**137,527**	115,226	**271,493**	229,458
Expenses					
Operating		**108,117**	92,643	**214,622**	185,851
Depreciation and amortization		**8,998**	8,969	**17,792**	18,890
Administrative		**4,948**	4,558	**10,223**	8,942
	18	**122,063**	106,170	**242,637**	213,683
Income from continuing operations before net finance charges, transaction costs and provision for (recovery of) income taxes		**15,464**	9,056	**28,856**	15,775
Net finance charges	10	**5,672**	6,884	**12,238**	12,450
Transaction costs		**695**	2,018	**1,213**	3,201
Total other expenses		**6,367**	8,902	**13,451**	15,651
Income from continuing operations before provision for (recovery of) income taxes		**9,097**	154	**15,405**	124
Provision for (recovery of) income taxes from continuing operations					
Current		**2,179**	693	**3,705**	1,883
Deferred		**192**	103	**295**	(1,016)
	11	**2,371**	796	**4,000**	867
Net income (loss) from continuing operations		**6,726**	(642)	**11,405**	(743)
Net income from discontinued operations, net of taxes	5	—	7,701	—	8,006
Net income		**6,726**	7,059	**11,405**	7,263
Net income attributable to:					
Shareholders of the Company		**6,641**	7,059	**11,217**	7,263
Non-controlling interest	20	**85**	—	**188**	—
		6,726	7,059	**11,405**	7,263
Net income (loss) attributable to shareholders of the Company					
Basic and diluted net income (loss) from continuing operations per share	12	**$0.14**	($0.02)	**$0.24**	($0.02)
Basic net income from discontinued operations per share	12	**$0.00**	$0.21	**$0.00**	$0.22
Diluted net income from discontinued operations per share	12	**$0.00**	$0.20	**$0.00**	$0.20
Weighted average number of common shares outstanding - basic	12	**46,237,594**	36,575,901	**46,189,745**	36,542,177
Weighted average number of common shares outstanding - diluted	12	**48,925,816**	39,313,119	**48,879,609**	39,283,921

See accompanying notes.

Thousands of dollars, except share and per share data

		Three months ended June 30,		Six months ended June 30,	
	Notes	**2017**	2016	**2017**	2016
Net income		**6,726**	7,059	**11,405**	7,263
Other comprehensive income					
Items that may be subsequently reclassified to the consolidated statements of operations:					
Loss on bond forward contracts, net of tax	11	162	155	320	309
Total comprehensive income		**6,888**	7,214	**11,725**	7,572

See accompanying notes.

Thousands of dollars

	Notes	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
OPERATING ACTIVITIES					
Net income		**6,726**	7,059	**11,405**	7,263
Add (deduct) items not affecting cash					
Depreciation of property and equipment		**7,457**	6,509	**14,830**	12,972
Amortization of intangible assets		**1,541**	2,460	**2,962**	5,918
Current income taxes		**2,179**	693	**3,705**	1,883
Deferred income taxes		**192**	103	**295**	(1,016)
Share-based compensation	14	**547**	380	**1,197**	746
Net finance charges	10	**5,672**	6,884	**12,238**	12,450
		24,314	24,088	**46,632**	40,216
Non-cash changes in working capital					
Accounts receivable and other assets		**(125)**	2,041	**2,274**	2,281
Prepaid expenses and deposits		**(2,709)**	(1,532)	**(3,194)**	(1,420)
Accounts payable and accrued liabilities		**5,000**	1,007	**(3,504)**	1,388
Income support		**—**	76	**—**	139
Government funding, net		**11**	459	**2,952**	4,289
		2,177	2,051	**(1,472)**	6,677
Interest paid on long-term debt and convertible debentures		**(4,659)**	(5,013)	**(14,070)**	(13,160)
Net settlement payment on interest rate swap contracts		**(302)**	(62)	**(585)**	(130)
Income taxes paid		**(2,005)**	(1,000)	**(6,305)**	(3,400)
Cash used in operating activities of discontinued operations	5	**—**	(7,732)	**—**	(8,171)
Cash provided by operating activities		**19,525**	12,332	**24,200**	22,032
INVESTING ACTIVITIES					
Purchase of property and equipment		**(2,823)**	(772)	**(3,973)**	(1,267)
Purchase of intangible assets		**(267)**	(539)	**(736)**	(1,162)
Amounts received from construction funding		**3,170**	3,270	**6,540**	6,540
Interest received from cash		**48**	71	**152**	129
Cash provided by discontinued operations	5	**—**	16,409	**—**	16,409
Deposit on acquisition of the BC Portfolio		**—**	(6,373)	**—**	(6,373)
Acquisition of Glenmore Lodge	4	**—**	—	**(5,699)**	—
Acquisition of Rosewood Retirement Residence	4	**(2,038)**	—	**(2,038)**	—
Change in restricted cash	7	**(278)**	(72)	**(507)**	(139)
Cash (used in) provided by investing activities		**(2,188)**	11,994	**(6,261)**	14,137
FINANCING ACTIVITIES					
Repayment of long-term debt		**(18,418)**	(16,097)	**(22,033)**	(20,197)
Proceeds from long-term debt		**2,600**	—	**17,100**	—
Deferred financing costs		**(28)**	—	**(809)**	(13)
Change in Series B Debentures principal reserve fund	7	**(1,653)**	(1,581)	**(3,345)**	(3,136)
Distributions to non-controlling interest		**(91)**	—	**(183)**	—
Dividends paid	13	**(8,973)**	(7,531)	**(18,199)**	(15,086)
Net proceeds from issuance of subscription receipts		**—**	138,347	**—**	138,347
Subscription receipts issuance costs		**—**	(3,769)	**—**	(3,769)
Subscription receipts funds held in escrow		**—**	(135,037)	**—**	(135,037)
Dividend equivalents paid on subscription receipts		**—**	(655)	**—**	(655)
Interest received from subscription receipts funds held in escrow		**—**	112	**—**	112
Share issuance costs		**—**	—	**—**	(21)
Cash used in financing activities		**(26,563)**	(26,211)	**(27,469)**	(39,455)
Decrease in cash during the period		**(9,226)**	(1,885)	**(9,530)**	(3,286)
Cash, beginning of period		**26,896**	24,944	**27,200**	26,345
Cash, end of period		**17,670**	23,059	**17,670**	23,059

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, assisted living ("**AL**"), memory care and long-term care/ residential care ("**LTC**", "**Long-term Care**", "**RC**") through the ownership and operation of seniors' living residences in the Provinces of British Columbia and Ontario. As at June 30, 2017, the Company owns and operates a total of 57 seniors' living residences: 14 retirement residences ("**RR**" or "**Retirement Residences**"); 35 LTC residences; and eight seniors' living residences providing both private-pay IL and AL and funded LTC/ RC which include the Company's partial ownership in two newly built communities in British Columbia ("**Baltic Properties**"). Subsequent to June 30, 2017, the Company acquired an additional RR (Note 23).

Under its management services division, including the Company's 50% interest in its management platform in British Columbia ("**PSM**"), the Company provides management services to seniors' living communities in the Provinces of British Columbia and Ontario.

The Company was incorporated under the Business Corporations Act (Ontario) as "Leisureworld Senior Care Corporation" 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. In connection with a Company-wide rebranding initiative that took effect on May 1, 2015, the Company changed its name from Leisureworld Senior Care Corporation to Sienna Senior Living Inc., pursuant to the filing of a Notice of Alteration with the British Columbia Registry Services on April 23, 2015. In connection with the name change to Sienna Senior Living Inc., the Company commenced trading under the symbol "**SIA**".

The Company's business is carried on through a number of wholly owned limited partnerships formed under the laws of the Province of Ontario, except for two properties (referred to as the Option Properties and defined in Note 21), which are owned through a partnership between the Company and WVJ II General Partnership (an affiliate of Pacific Seniors Management Investments Ltd.).

As at June 30, 2017, the Company had outstanding 46,304,640 common shares and $44,584 in aggregate principal amount of convertible unsecured subordinated debentures (TSX symbol: **SIA.DB**) (formerly LW.DB) which, in aggregate, are convertible into 2,689,864 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.

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

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. 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, 2016, which have been prepared in accordance with International Financial Reporting Standards.

The interim consolidated financial statements were approved by the Board of Directors for issuance on August 9, 2017.

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, 2016.

4 Acquisitions

Rosewood Retirement Residence

On June 1, 2017, the Company completed the acquisition of a formerly managed independent and assisted living seniors residence containing 68 beds in Kingston, Ontario ("**Rosewood**").

The total net purchase price of $5,038 was allocated to the assets and liabilities on a preliminary basis as follows:

Assets	
Accounts receivable and other assets	25
Prepaid expenses	29
Property and equipment	8,449
Intangible assets	1,333
Goodwill	66
Total assets	9,902
Liabilities	
Accounts payable and accrued liabilities	206
Long-term debt	4,658
Total liabilities	4,864
Net assets acquired	5,038

Transaction costs expensed related to the Rosewood acquisition for the six months ended June 30, 2017 were $412.

If the acquisition of Rosewood had taken place on January 1, 2017, the consolidated revenue from continuing operations and consolidated net income from continuing operations for the Company for the six months ended June 30, 2017 are estimated to be approximately $272,673 and $11,406 respectively.

As part of the Rosewood acquisition, the Company assumed an existing mortgage in the amount of $4,611 with a fair value of $4,658, bearing interest at a rate of 3.77% and maturing January 1, 2018. The mortgage is secured by a first charge on all Rosewood assets owned by the Company and located at the property, and is subject to certain customary financial and non-financial covenants.

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

The net assets were acquired with cash consideration of $2,038. In addition, the Company entered into a vendor-take-back mortgage of $3,000, bearing interest at a rate of 3.00% and maturing June 15, 2021. The vendor-take-back mortgage is secured by the Rosewood assets owned by the Company and located at the property, and is subject to certain customary financial covenants.

Glenmore Lodge

On March 15, 2017, the Company completed the acquisition of an initial 61% interest in a seniors living residence containing 118 beds in British Columbia ("**Glenmore Lodge**"). The Company has classified its joint arrangement in Glenmore Lodge as a joint operation since it has rights to the assets and obligations for the liabilities related to Glenmore Lodge.

The total net purchase price of $6,927 was allocated to the assets and liabilities on a preliminary basis as follows:

Assets	
Cash	428
Accounts receivable and other assets	3
Prepaid expenses	36
Property and equipment	16,590
Intangible assets	3,280
Goodwill	560
Deferred income taxes	136
Total assets	21,033
Liabilities	
Accounts payable and accrued liabilities	456
Long-term debt	13,650
Total liabilities	14,106
Net assets acquired	6,927

Transaction costs expensed related to the Glenmore Lodge acquisition for the six months ended June 30, 2017 were $112.

The net assets were acquired at a discount to fair market value due to the partial exercise of the option acquired in 2016 with cash consideration of $6,377, which included a deposit of $250 made in 2016.

If the acquisition of the 61% interest in Glenmore Lodge had taken place on January 1, 2017, it is estimated that the consolidated revenue from continuing operations and consolidated net income from continuing operations for the Company for the six months ended June 30, 2017 would have been approximately $272,572 and $11,586 respectively.

As part of the Glenmore Lodge acquisition, the Company assumed 61% of Glenmore Lodge's existing mortgage in the amount of $13,223 with a fair value of $13,650, bearing interest at a rate of 4.68% and maturing June 1, 2032. The mortgage is secured by a first charge on all Glenmore Lodge assets owned by the Company and located at the property, and is subject to certain customary financial and non-financial covenants.

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

5 Discontinued operations

On April 28, 2016, the Company completed the sale of Preferred Health Care Services ("**PHCS**"), the ancillary home care ("**Home Care**") business of the Company, for cash proceeds of $16,409, and discontinued its Home Care business. The Company recorded a gain on sale of $7,719, net of taxes of $2,142 for the six months ended June 30, 2016.

The following table summarizes the net income from discontinued operations:

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	2016
Revenue	—	1,240	—	5,278
Expenses	—	1,256	—	4,878
(Loss) Income before net finance income and provision for income taxes	—	(16)	—	400
Net finance income	—	(3)	—	(3)
Gain on sale	—	(9,861)	—	(9,861)
Total other income	—	(9,864)	—	(9,864)
Income before provision for income taxes	—	9,848	—	10,264
Provision for income taxes				
Current	—	2,139	—	2,243
Deferred	—	8	—	15
	—	2,147	—	2,258
Net income from discontinued operations	—	7,701	—	8,006

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

6 Financial instruments

Fair value of financial instruments

The Company's use of 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) in the valuation of financial instruments are as follows as at June 30, 2017 and December 31, 2016:

	As at June 30, 2017			
		Fair value		
	Carrying value	Level 1	Level 2	Level 3
Financial Assets				
Construction funding receivable	**69,736**	**—**	**—**	**74,131**
Interest rate swap contract	**929**	**—**	**929**	**—**
Financial Liabilities				
Long-term debt	**722,948**	**—**	**730,111**	**—**
Convertible debentures	**44,096**	**48,151**	**—**	**—**
Interest rate swap contracts	**1,968**	**—**	**1,968**	**—**

	As at December 31, 2016			
		Fair value		
	Carrying value	Level 1	Level 2	Level 3
Financial Assets				
Construction funding receivable	74,775	—	—	80,006
Interest rate swap contracts	1,172	—	1,172	—
Financial Liabilities				
Long-term debt	707,223	—	717,175	—
Convertible debentures	44,352	46,886	—	—
Interest rate swap contracts	3,517	—	3,517	—

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 the 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 June 30, 2017. A failure by the Company to comply with the obligations in these credit agreements could result in a default, which, if not rectified or waived, could permit acceleration of the relevant indebtedness.

As at June 30, 2017, the Company had negative working capital (current liabilities less current assets) of $111,352 (December 31, 2016 - $122,443). To support the Company's working capital deficiency, the Company has available cash generated from its operations and, if necessary, undrawn credit facilities.

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

7 Restricted cash

Restricted cash comprises the Series B Debentures principal reserve fund, capital maintenance reserve funds required for certain mortgages and an employee benefits reserve.

	June 30, 2017	December 31, 2016
Series B Debentures principal reserve fund	**20,461**	17,116
Capital maintenance reserve	**3,181**	2,675
Benefits reserve	**585**	584
Restricted cash	**24,227**	20,375

8 Long-term debt

	Interest rate	Maturity date	June 30, 2017	December 31, 2016
Series B Debentures	3.474%	February 3, 2021	**322,000**	322,000
Credit facilities	Floating	January 18. 2020	**35,000**	35,500
Mortgages at fixed rates	2.31% - 7.11%	2017-2041	**320,797**	335,396
Mortgages at variable rates	Floating	2023-2029	**44,685**	13,784
			722,482	706,680
Mark-to-market adjustments on acquisitions			**4,540**	4,506
Financing costs			**(4,074)**	(3,963)
Total debt			**722,948**	707,223
Less: current portion			**34,280**	93,196
			688,668	614,027

9 Convertible debentures

The Company has convertible unsecured subordinated debentures outstanding with an aggregate principal amount of $44,584 (**"Convertible Debentures"**). These debentures are convertible into common shares of the Company at $16.75 per common share. The Convertible Debentures have a maturity date of June 30, 2018, and bear interest at 4.65% per annum, which is payable semi-annually in June and December.

On issuance, the debt and equity components of the Convertible Debentures were bifurcated with $45,593 classified as a liability and $515 classified as equity attributable to the conversion option. The equity component included a deferred tax asset of $108. The liability portion of the Convertible Debentures was initially recorded at fair value and is subsequently carried at amortized cost. The Company incurred financing costs of $2,111 related to the Convertible Debentures, which are amortized over their term using the effective interest method and are recognized as part of net finance charges. During the three and six months ended June 30, 2017 and 2016, $499 of convertible debentures were converted into 29,790 common shares. As at June 30, 2017, $403 (December 31, 2016 - $605) of financing costs remain to be amortized and $85 (December 31, 2016 - $127) of fair value adjustment remains to be accreted.

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

10 Net finance charges

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
Finance costs				
Interest expense on long-term debt	**6,220**	5,349	**12,427**	10,686
Interest expense on convertible debentures	**543**	552	**1,080**	1,105
Fees on revolving credit facility	**117**	120	**442**	125
Amortization of financing charges and fair value adjustments on acquired debt	**97**	141	**360**	253
Amortization of loss on bond forward contract	**220**	211	**435**	420
Dividend equivalents on subscription receipts	**—**	1,309	**—**	1,309
Fair value (gain) loss on interest rate swap contracts	**(787)**	214	**(721)**	483
	6,410	7,896	**14,023**	14,381
Finance income				
Interest income on construction funding receivable	**690**	829	**1,551**	1,687
Other interest income	**48**	71	**234**	132
Interest income on subscription receipts funds held in escrow	**—**	112	**—**	112
	738	1,012	**1,785**	1,931
Net finance charges from continuing operations	**5,672**	6,884	**12,238**	12,450

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 June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
Income from continuing operations before provision for income taxes	**9,097**	154	**15,405**	124
Canadian combined income tax rate	**26.46%**	26.49%	**26.46%**	26.49%
Income tax expense	**2,407**	41	**4,076**	33
Adjustments to income tax provision:				
Non-deductible items	**44**	411	**93**	449
Book to filing adjustment	**6**	291	**6**	332
Other items	**(86)**	53	**(175)**	53
Income tax expense from continuing operations	**2,371**	796	**4,000**	867

The effective tax rate for discontinued operations for the three and six months ended June 30, 2016 was 21.79% and 21.99%, respectively. The provision for income taxes for discontinued operations is disclosed in Note 5.

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

The following are the major deferred tax assets (liabilities) recognized by the Company and movements thereon during the period:

	Accelerated tax depreciation	Intangible assets	Share issuance	Construction funding interest	Other	Total
As at January 1, 2016	(59,774)	(6,104)	539	4,714	652	(59,973)
Due to acquisitions during the year	(4,162)	(995)	—	—	1,119	(4,038)
Credit (charge) to net income	2,079	1,500	(660)	(875)	24	2,068
Book to filing adjustment	(46)	(236)	(5)	—	(34)	(321)
Charge to other comprehensive income	—	—	—	—	(225)	(225)
Credit to equity	—	—	1,633	—	—	1,633
As at December 31, 2016	(61,903)	(5,835)	1,507	3,839	1,536	(60,856)
Credit (charge) to net income	986	(865)	(256)	(410)	(53)	(598)
Due to acquisitions in the period	(45)	73	—	—	91	119
Book to filing adjustment	(487)	87	(51)	—	608	157
Charge to other comprehensive income	—	—	—	—	(115)	(115)
As at June 30, 2017	**(61,449)**	**(6,540)**	**1,200**	**3,429**	**2,067**	**(61,293)**

The loss on bond forward contracts on the consolidated statements of comprehensive income is net of tax for the three and six months ended June 30, 2017 of $58 and $115, respectively (2016 - $56 and $111, respectively).

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, 2016	36,478,871	374,967
Long-term incentive plan, net of loans receivable	13,288	37
Share-based compensation	—	22
Dividend reinvestment plan	185,416	2,960
Issued common shares, net of issuance costs	64,767	1,075
Common shares issued in exchange for Subscription Receipts, net of share issuance costs	8,728,500	132,777
Common shares issued to partial seller of BC Acquisition	630,915	10,928
Balance, December 31, 2016	46,101,757	522,766
Long-term incentive plan, net of loans receivable (Note 14)	12,026	27
Share-based compensation (Note 14)	—	11
Dividend reinvestment plan	153,028	2,578
Issued common shares, net of share issuance costs (Note 14)	37,829	478
Balance, June 30, 2017	**46,304,640**	**525,860**

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

Dividend reinvestment plan

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

Earnings 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 from continuing operations.

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

	Three months ended June 30		Six months ended June 30	
	2017	2016	**2017**	2016
Reconciliation of net income (loss) used as the numerator				
Net income (loss) from continuing operations	**6,726**	(642)	**11,405**	(743)
Less: Net income attributable to non-controlling interest	**85**	—	**188**	—
Net income (loss) used in calculating basic income from continuing operations per share	**6,641**	(642)	**11,217**	(743)
Net finance charges on convertible debentures	**624**	673	**1,281**	1,326
Current income tax adjustment	**(165)**	(178)	**(339)**	(351)
Net income (loss) used in calculating diluted income from continuing operations per share	**7,100**	(147)	**12,159**	232
Weighted average number of common shares used as the denominator				
Weighted average number of common shares - basic	**46,237,594**	36,575,901	**46,189,745**	36,542,177
Shares issued if all convertible debentures were converted	**2,688,222**	2,737,218	**2,689,864**	2,741,744
Weighted average number of common shares - diluted	**48,925,816**	39,313,119	**48,879,609**	39,283,921

13 Dividends

The Company paid dividends at $0.075 per month per common share totaling $8,973 for the three months ended and $18,199 for the six months ended June 30, 2017 (2016 - $7,531 and $15,086, respectively). Dividends payable of $3,474 are included in accounts payable and accrued liabilities as at June 30, 2017 (December 31, 2016 - $3,458). Subsequent to June 30, 2017, the Board of Directors declared dividends of $0.075 per common share for July 2017 totaling $3,475. These dividends have not been recorded in these interim consolidated financial statements.

All amounts are in thousands of 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"**)*

On February 15, 2017, incentive award amounts entitling eligible senior executives (**"Participants"**) to acquire 12,026 common shares were granted pursuant to the LTIP. On the grant date, the Company provided a loan to the Participants for the LTIP shares granted and the Participants paid $11 towards the acquisition of common shares. This payment was recorded as an increase to share capital. Related to the LTIP in the six months ended June 30, 2017, the Company recorded an increase of $27 to share capital (2016 - $23) and $36 to contributed surplus (2016 - $32). As at June 30, 2017, the outstanding loan balance was $789 (December 31, 2016 - $603). Total expense related to the LTIP for the three and six months ended June 30, 2017 was $2 and $36, respectively (2016 - $nil and $32, 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, 2017	February 24, 2016
Fair value at grant date	$17.75	$15.68
Volatility	16.55%	16.67%
Monthly discrete dividend	$0.075	$0.075
Risk-free rate	2.00%	1.37%
Annual interest rate on Participant's loan	3.00%	3.00%
Forfeiture rate	0.00%	0.00%

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

During the six months ended June 30, 2017, 2,382 restricted share units (**"RSUs"**) (2016 - 16,706) were granted pursuant to the RSUP. Total expenses related to the RSUP for the three and six months ended June 30, 2017 were $66 and $159, respectively (2016 - $77 and $133, respectively), net of forfeitures. During the six months ended June 30, 2017, 8,075 RSUs vested and were settled in cash and shares, resulting in a decrease of $142 to the share-based compensation liability. The total liability recorded as part of the share-based compensation liability as at June 30, 2017 was $381 (December 31, 2016 - $364).

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

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

	Number of RSUs
Outstanding, January 1, 2016	33,564
Granted	16,706
Dividends reinvested	2,160
Settled in cash	(962)
Settled in shares	(10,023)
Outstanding, December 31, 2016	41,445
Granted	2,382
Dividends reinvested	1,047
Settled in shares	(8,075)
Outstanding, June 30, 2017	36,799

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

Total expenses related to the DSUP for the three and six months ended June 30, 2017 were $328 and $728, respectively (2016 - $239 and $465, respectively), which was recognized in administrative expenses. The total liability recorded related to the DSUP as a part of the share-based compensation liability as at June 30, 2017 was $4,495 (December 31, 2016 - $3,767). The value of each deferred share unit is measured at each reporting date and is equivalent to the fair value of a common share of the Company at the reporting date.

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

During the six months ended June 30, 2017, 44,924 (2016 - 35,543) executive deferred share units were granted. Total expenses related to the EDSUP for the three and six months ended June 30, 2017 were $151 and $274, respectively (2016 - $64 and $116, respectively), which was recognized in administrative expenses. The total liability recorded related to the EDSUP as a part of the share-based compensation liability as at June 30, 2017 was $1,517 (December 31, 2016 - $947).

15 Key management compensation

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

	Three months ended June 30,		**Six months ended June 30,**	
	2017	2016	**2017**	2016
Salaries and short-term employee benefits	**851**	689	**1,624**	1,415
Share-based compensation	**547**	380	**1,197**	746
	1,398	1,069	**2,821**	2,161

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

16 Related party transactions

As at June 30, 2017, the Company had amounts outstanding from certain key management of $1,200 (December 31, 2016 - $1,026) in relation to the LTIP issuance and share purchase loans, which have been recorded as a reduction to shareholders' equity. The incentive plan terms provide for the loans to bear interest at the prime rate prevailing at the Company's bank at the time of grant, and are due on demand. 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/ RC homes and receives funding from the funding authorities related to those licences. During the three and six months ended June 30, 2017, the Company received approximately $84,643 and $168,678, respectively (2016 - $72,618 and $146,681, respectively) in respect of these licences.

18 Expenses by nature

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
Salaries, benefits and other people costs	**85,341**	71,928	**168,066**	145,089
Depreciation and amortization	**8,998**	8,969	**17,792**	18,890
Food	**5,960**	4,967	**11,675**	9,752
Purchased services and non-medical supplies	**4,492**	4,027	**8,938**	7,965
Property taxes	**3,073**	3,210	**6,506**	6,536
Utilities	**3,293**	3,169	**7,749**	6,971
Other	**10,906**	9,900	**21,911**	18,480
Total expenses from continuing operations	**122,063**	106,170	**242,637**	213,683

19 Segmented information

Segmented information is presented in respect of the Company's business segments. The primary format, business segments, is 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:

- LTC - The Company's LTC segment consists of 35 LTC residences in the Province of Ontario and the LTC management services business.
- Retirement - The Company's Retirement segment consists of 14 Retirement Residences, five of which are located in the Province of British Columbia and nine of which are located in the Province of Ontario, and the RR management services business.
- Baltic - The Baltic segment consists of the eight Baltic Properties, which are located in the Province of British Columbia, and a 50% interest in PSM.
- Corporate, Eliminations and Other - This segment represents the results of head office, intercompany eliminations and other items that are not allocable to the segments; and
- Discontinued operations - The Company's Home Care segment, operating as PHCS, was sold on April 28, 2016 (Note 5).

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

	Three months ended June 30, 2017						
	Long-Term Care	**Retirement**	**Baltic**	**Corporate, Eliminations and Other**	**Total From Continuing Operations**	**Home Care - Discontinued Operations**	**Total**
Gross revenue	**107,810**	**16,666**	**16,708**	**10,638**	**151,822**	**—**	**151,822**
Less: Internal revenue	**3,139**	**—**	**518**	**10,638**	**14,295**	**—**	**14,295**
Net revenue	**104,671**	**16,666**	**16,190**	**—**	**137,527**	**—**	**137,527**
Income (loss) before net finance charges, transaction costs and the provision for income taxes	**12,972**	**4,882**	**3,236**	**(5,626)**	**15,464**	**—**	**15,464**
Finance costs	**434**	**1,038**	**948**	**3,990**	**6,410**	**—**	**6,410**
Finance income	**(778)**	**—**	**(1)**	**41**	**(738)**	**—**	**(738)**
Transaction costs	**—**	**—**	**—**	**695**	**695**	**—**	**695**
Income tax expense	**—**	**—**	**—**	**2,371**	**2,371**	**—**	**2,371**
Net income (loss)	**13,316**	**3,844**	**2,289**	**(12,723)**	**6,726**	**—**	**6,726**
Purchase of property and equipment	**2,003**	**8,935**	**171**	**163**	**11,272**	**—**	**11,272**
Purchase of intangible assets	**2**	**1,333**	**—**	**265**	**1,600**	**—**	**1,600**

	Three months ended June 30, 2016						
	Long-Term Care	Retirement	Baltic	Corporate, Eliminations and Other	Total From Continuing Operations	Home Care - Discontinued Operations	Total
Gross revenue	104,000	13,140	—	8,232	125,372	1,240	126,612
Less: Internal revenue	1,914	—	—	8,232	10,146	—	10,146
Net revenue	102,086	13,140	—	—	115,226	1,240	116,466
Income (loss) before net finance charges, transaction costs and the provision for income taxes	11,478	2,330	—	(4,752)	9,056	(16)	9,040
Finance costs	4,407	1,527	—	1,962	7,896	—	7,896
Finance income	(888)	(1)	—	(123)	(1,012)	(3)	(1,015)
Transaction costs	—	—	—	2,018	2,018	—	2,018
Gain on sale	—	—	—	—	—	(9,861)	(9,861)
Income tax expense	—	—	—	796	796	2,147	2,943
Net income (loss)	7,959	804	—	(9,405)	(642)	7,701	7,059
Purchase of property and equipment	431	191	—	150	772	(346)	426
Purchase of intangible assets	2	(16)	—	553	539	—	539

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

	Six months ended June 30, 2017						
	Long-term Care	**Retirement**	**Baltic**	**Corporate, Eliminations and Other**	**Total From Continuing Operations**	**Home Care - Discontinued Operations**	**Total**
Gross revenue	**213,925**	**32,663**	**32,179**	**21,253**	**300,020**	**—**	**300,020**
Less: Internal revenue	**6,232**	**—**	**1,042**	**21,253**	**28,527**	**—**	**28,527**
Net revenue	**207,693**	**32,663**	**31,137**	**—**	**271,493**	**—**	**271,493**
Income (loss) before net finance charges, transaction costs and the provision for income taxes	**24,771**	**9,464**	**6,088**	**(11,467)**	**28,856**	**—**	**28,856**
Finance costs	**1,449**	**2,526**	**2,334**	**7,714**	**14,023**	**—**	**14,023**
Finance income	**(1,696)**	**—**	**(86)**	**(3)**	**(1,785)**	**—**	**(1,785)**
Transaction costs	**—**	**—**	**—**	**1,213**	**1,213**	**—**	**1,213**
Income tax expense	**—**	**—**	**—**	**4,000**	**4,000**	**—**	**4,000**
Net income (loss)	**25,018**	**6,938**	**3,840**	**(24,391)**	**11,405**	**—**	**11,405**
Purchase of property and equipment	**2,490**	**9,434**	**16,895**	**193**	**29,012**	**—**	**29,012**
Purchase of intangible assets	**2**	**1,333**	**3,281**	**733**	**5,349**	**—**	**5,349**

	Six months ended June 30, 2016						
	Long-term Care	Retirement	Baltic	Corporate, Eliminations and Other	Total From Continuing Operations	Home Care - Discontinued Operations	Total
Gross revenue	207,218	26,102	—	16,449	249,769	5,278	255,047
Less: Internal revenue	3,858	—	—	16,453	20,311	—	20,311
Net revenue	203,360	26,102	—	(4)	229,458	5,278	234,736
Income (loss) before net finance charges, transaction costs and the provision for income taxes	20,612	4,442	—	(9,279)	15,775	400	16,175
Finance costs	8,809	2,957	—	2,615	14,381	—	14,381
Finance income	(1,789)	(4)	—	(138)	(1,931)	(3)	(1,934)
Transaction costs	—	—	—	3,201	3,201	—	3,201
Gain on sale	—	—	—	—	—	(9,861)	(9,861)
Income tax expense	—	—	—	867	867	2,258	3,125
Net income (loss)	13,592	1,489	—	(15,824)	(743)	8,006	7,263
Purchase of property and equipment	653	347	—	267	1,267	(346)	921
Purchase of intangible assets	3	(16)	—	1,175	1,162	—	1,162

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

	As at June 30, 2017						
	Long-term Care	**Retirement**	**Baltic**	**Corporate, Eliminations and Other**	**Total From Continuing Operations**	**Home Care - Discontinued Operations**	**Total**
Total assets	**632,240**	**289,359**	**282,254**	**6,580**	**1,210,433**	**—**	**1,210,433**
Goodwill	**89,773**	**2,575**	**15,503**	**—**	**107,851**	**—**	**107,851**
Intangible assets	**107,072**	**6,160**	**86,120**	**5,195**	**204,547**	**—**	**204,547**

	As at December 31, 2016						
	Long-term Care	Retirement	Baltic	Corporate, Eliminations and Other	Total From Continuing Operations	Home Care - Discontinued Operations	Total
Total assets	651,244	284,261	262,754	5,959	1,204,218	—	1,204,218
Goodwill	89,772	2,511	14,943	—	107,226	—	107,226
Intangible assets	107,304	6,352	83,479	5,025	202,160	—	202,160

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

20 Non-controlling interest

Non-controlling interest represents the 50% interest in PSM that is not held by the Company. The movement in non-controlling interest is shown in the interim consolidated statement of changes in equity.

The calculation of net income and total comprehensive income attributable to non-controlling interest is set out below:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
Net income and total comprehensive income from PSM	**170**	—	**376**	—
Non-controlling interest share of ownership	**50%**	—%	**50%**	—%
Net income and total comprehensive income attributable to non-controlling interest	**85**	—	**188**	—

As the 50% interest in PSM was acquired on August 2, 2016, there was no non-controlling interest for the three and six months ended June 30, 2016.

Subject to certain conditions, the Company will be required to purchase the remaining 50% interest in PSM by June 2019 for a specified cash purchase price of approximately $2,100, subject to certain adjustments.

21 Joint arrangements

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

Nicola Lodge and Glenmore Lodge

	June 30, 2017	**December 31, 2016**
Current assets	**4,853**	4,179
Long-term assets	**107,332**	68,197
Total assets	**112,185**	72,376
Current liabilities	**3,549**	3,309
Long-term liabilities	**68,156**	44,089
Total liabilities	**71,705**	47,398
Net assets	**40,480**	24,978
Share of net assets	**18,438**	9,991

The prior year comparatives have been revised to increase the Company's share of net assets by $9,822 to eliminate intercompany amounts.

As at June 30, 2017, the Company's share of net assets in Nicola Lodge and Glenmore Lodge were $11,900 and $6,538 (December 31, 2016 - $9,991 and $nil), respectively.

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	**2016**
Revenue	**6,950**	—	**12,031**	—
Expenses	**5,325**	—	**9,401**	—
Income before other expenses	**1,625**	—	**2,630**	—
Other expenses	**869**	—	**1,466**	—
Net income	**756**	—	**1,164**	—
Share of net income	**391**	—	**541**	—

For the three months ended June 30, 2017, the Company's share of net income in Nicola Lodge and Glenmore Lodge were $134 and $257 (2016 - $nil and $nil), respectively.

For the six months ended June 30, 2017, the Company's share of net income in Nicola Lodge and Glenmore Lodge were $321 and $220 (2016 - $nil and $nil), respectively.

As the 40% interest in Nicola Lodge and 61% interest in Glenmore Lodge were acquired on September 15, 2016 and March 15, 2017, respectively, there were no joint arrangements as at June 30, 2016.

22 Comparative figures

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

23 Subsequent event

On July 5, 2017, the Company completed the acquisition of Retirement Suites of Kawartha Lakes (now rebranded as Kawartha Lakes Retirement Residence), a 94-suite independent and assisted living retirement residence located in Bobcaygeon, Ontario. The purchase price of $21,000, subject to customary closing adjustments, was financed using available cash and drawdowns from the Company's credit facilities. Preliminary purchase price allocation will be completed in the quarter ending September 30, 2017.