Report to Shareholders

Q1 2016

Sienna Senior Living Inc.

Sienna SENIOR LIVING

Management's Discussion and Analysis

(in thousands of Canadian Dollars)

Q1 2016

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**") provides a summary of the financial results for the three months ended March 31, 2016. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2016. 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, 2015 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 long-term care homes, retirement residence communities and the third-party management business of the Company. The direct ownership of such homes and communities, 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.

All dollar references, unless otherwise stated, are expressed in thousands of Canadian dollars.

The Company is listed on the Toronto Stock Exchange (the "**TSX**") under the trading symbol **SIA** (formerly **LW**). As of May 11, 2016, the following securities of the Company were outstanding: 36,558,556 common shares; and $46,000 in aggregate principal amount of convertible unsecured subordinated debentures (TSX symbol: **SIA.DB**, formerly **LW.DB**) which, in the aggregate, are convertible into 2,746,269 common shares (the "**Convertible Debentures**"). The Convertible Debentures have a maturity date of June 30, 2018.

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 the Company's Chief Financial Officer, Nitin Jain, at 905-489-0787 or nitin.jain@siennaliving.ca.

Review and Approval by the Board of Directors

This MD&A is dated as of May 11, 2016, 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.

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.

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 NOI plus accretion interest on construction funding receivable and transaction costs, less cash interest, current income taxes and administrative expenses. FFO is a recognized earnings measure that is widely used by public real estate entities, particularly by those entities that own and 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 - Revised April 2014). 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 one-time items such as the tax shield resulting from the redemption premium payment for the previously outstanding Series A Senior Secured Debentures (the "**Series A Debentures**"), and presentation of finance charges on a cash interest basis. Management is of the view that OFFO presents a better measure of earnings for 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 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.

"**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 (loss) 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.

Company Profile

Sienna Senior Living Inc. was incorporated as "Leisureworld Senior Care Corporation" under the *Business Corporations Act* (Ontario) on February 10, 2010, and 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. Effective May 1, 2015, the Company changed its name to Sienna Senior Living Inc. pursuant to a Notice of Alteration filed with the British Columbia Registry Services on April 23, 2015, as further described below.

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.

The Company and its predecessors have been operating since 1972. The Company's business is carried on through a number of wholly-owned limited partnerships formed under the laws of the Province of Ontario. Through its subsidiaries, the Company owns and operates 35 long-term care ("**LTC**") homes (representing an aggregate of 5,733 beds) in the Province of Ontario. The Company also owns and operates 11 retirement residence ("**RR**") communities (representing 1,206 suites) in the Provinces of Ontario and British Columbia. The Company also operates a management services business that provides third party management services to LTC homes and RR communities in Ontario. The results of the management services business are are now reflected under the LTC business division in this MD&A. On March 24, 2016, the Company announced that it had entered into a definitive agreement to sell Preferred Health Care Services (**"PHCS"**), the ancillary home care ("**Home Care**") business of the Company, to Spectrum Health Care LP (see "Significant Events" section below).

		LONG-TERM CARE (Beds)				RETIREMENT (Suites)	TOTAL
ASSET CLASS	**COMMUNITIES**	**Basic and Other**	**Semi-Private**	**Private - $18.00 Premium**	**Private - Up to $25.00 Premium**	**Total**	**Beds / Suites**
LONG-TERM CARE	**35**	2,609	857	240	2,027	—	**5,733**
RETIREMENT	**11**	—	—	—	—	1,206	**1,206**
TOTAL	**46**	**2,609**	**857**	**240**	**2,027**	**1,206**	**6,939**

Company Objectives

The objectives of the Company are to:

1) Provide quality care and services to seniors, building on local brand recognition:

    - Improving the resident experience and satisfaction with care and services.
    - Employee engagement and leadership development.
    - Enhancing the services provided to meet the changing needs of seniors.

2) Maintain a strong financial position:

    - Maintaining an A (low) rating on the Series B Debentures (defined below).
    - Gradually reducing debt.
    - Maintaining adequate liquidity.
    - Creating a 10-year debt ladder over time.

3) Enhance the value of the Company's assets and promote the growth of its portfolio:

    - Maintaining existing assets with preventative maintenance and ongoing capital improvements.
    - Growing the portfolio within Canada.
    - Maximizing private pay services and rates.
    - Disciplined cost management.

4) Improve support services to operations:

    - Improving the Company's use of technology to provide timely information, tools and education to our team.
    - Achieving efficiencies to manage operating expenses.
    - Continue to build on the Sienna rebranding to maintain strong occupancy and employee engagement.

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.

Industry Overview

Please refer to the Company's MD&A for the year ended December 31, 2015, as well as the AIF, for an in-depth discussion of the Industry Overview.

Business Overview

Please refer to the Company's MD&A for the year ended December 31, 2015, as well as the AIF, for an in-depth discussion of the Business Overview.

2016 Outlook

Please refer to the Company's MD&A for the year ended December 31, 2015 for an in-depth discussion of the 2016 Outlook. Please also refer to the "Significant Events" section below for recent developments which will impact management's outlook for 2016.

Significant Events

Sale of PHCS

On March 24, 2016, the Company announced that it had entered into a definitive agreement to sell its Home Care business, PHCS, to Spectrum Health Care LP for cash proceeds of $16,500, before working capital adjustments (the "**PHCS Sale**"). The PHCS Sale was completed on April 28, 2016 following fulfillment of closing conditions and receipt of all regulatory approvals.

Announced Acquisition of a Portfolio of British Columbia LTC Homes and RR Communities

On April 18, 2016, the Company entered into an agreement (the "**Acquisition Agreement**") with Baltic Properties Investments Ltd., Baybridge-Baltic General Partnership (the "**Baltic Seller**"), Amica Mature Lifestyles Inc. and BayBridge Senior Living Partnership to acquire (the "**Acquisition**"): a portfolio of seniors housing assets in British Columbia, consisting of two independent living ("**IL**") RR communities (the "**IL Properties**") and six LTC homes (both private-pay and funded) providing LTC, IL and assisted living (the "**Baltic Properties**" and together with the IL Properties, the "**Acquired Properties**"); options to acquire up to a 100% interest (the first 50% of which will be at a discount to fair market value) in two additional newly built seniors housing assets (the "**Option Properties**"); and a 50% interest in Pacific Seniors Management General Partnership (“**PSM**”), the current manager and operator of the Baltic Properties (the “**Management Interest**” and together with the Acquired Properties and the Option Properties, the “**Purchased Assets**”).

The aggregate purchase price for the Purchased Assets is approximately $255,000 (the "**Purchase Price**"), subject to customary post-closing adjustments, which is being financed through a combination of (i) the assumption of approximately $137,000 in existing mortgages, at a weighted average interest rate of 3.9% and a weighted average term to maturity of 5.5 years; (ii) the issuance of $10,000 of common shares of the Company to the Baltic Seller (or affiliate(s) thereof) at the Offering Price (defined below); and (iii) net proceeds of the Offering (defined below). $2,000 will be set-off from the Purchase Price to be spent at the Company's discretion on capital expenditures for the Acquired Properties.

The Acquisition Agreement contains representations and warranties customary for transactions of this nature, certain of which are qualified as to materiality and knowledge and subject to reasonable exceptions. Completion of the Acquisition is subject to customary closing conditions, including third party consents and regulatory approvals. The Company expects completion of the Acquisition to occur in the third quarter of 2016.

On May 6, 2016, the Company completed a bought deal public offering of 8,728,500 subscription receipts (the "**Subscription Receipts**") at a price of $15.85 per Subscription Receipt, for total gross proceeds of $138,347 (inclusive of the exercise in full by the underwriters of the over-allotment option) (the "**Offering**"). A final short form prospectus in respect of the Offering was filed by the Company on April 29, 2016.

Each Subscription Receipt represents the right to receive one common share in the capital of the Company (each, a “**Common Share**”), at no additional consideration on the closing of the Acquisition. While the Subscription Receipts remain outstanding, holders thereof will be entitled to receive payments per Subscription Receipt equal to the per Common Share dividends, if any, actually paid or payable to holders of Common Shares in respect of all record dates for such dividends occurring from the closing date of the Offering to, but excluding, the last day on which the Subscription Receipts remain outstanding, to be paid to holders of Subscription Receipts concurrently with the payment date of each such dividend on the Common Shares.

Financial results from the Purchased Assets will be reported in the Company’s results after the completion of the Acquisition.

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 that 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 that 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 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 (loss) 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 calculating 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 presents the key performance indicators for the three months ended March 31:

Thousands of Dollars, except occupancy, share and ratio data	Three Months Ended 2016	2015	Change
OCCUPANCY			
LTC - Average total occupancy	**98.6%**	98.1%	0.5%
LTC - Average private occupancy	**99.7%**	99.0%	0.7%
Retirement - Average occupancy	**92.0%**	86.9%	5.1%
Retirement - As at occupancy	**91.5%**	86.8%	4.7%
FINANCIAL			
NOI [(1)]	**21,440**	19,998	1,442
OFFO [(1)]	**10,815**	9,609	1,206
AFFO [(1)]	**13,189**	11,836	1,353
PER SHARE INFORMATION			
OFFO per share, basic	**0.296**	0.265	0.031
OFFO per share, diluted	**0.288**	0.258	0.030
AFFO per share, basic	**0.361**	0.326	0.035
AFFO per share, diluted	**0.348**	0.315	0.033
Dividends per share	**0.225**	0.225	—
Payout ratio (basic AFFO)	**62.3%**	69.0%	-6.7%
FINANCIAL RATIOS			
Debt Service Coverage Ratio	**1.8**	1.9	(0.1)
Debt to Gross Book Value as at period end	**55.2%**	56.4%	-1.2%
Weighted Average Cost of Debt as at period end	**3.8%**	3.8%	—%
Debt to EBITDA from continuing operations ratio as at period end	**7.8**	8.4	(0.6)
Interest Coverage Ratio	**3.4**	3.1	0.3
Weighted Average Term to Maturity as at period end	**4.2**	5.2	(1.0)

	2016 vs. 2015
SAME PROPERTY PERCENT CHANGE IN NOI	
Long-Term Care	3.4%
Retirement	14.0%
Total	6.0%

Notes:

1. These numbers include the Q1 2016 NOI of $416 (2015 - $530) from discontinued operations of PHCS.

Quarterly Financial Information

Thousands of Dollars, except occupancy and per share data	2016	2015				2014		
	Q1	**Q4**	**Q3**	**Q2**	Q1	Q4	Q3	Q2
Revenue from continuing operations (1)	**114,232**	**118,380**	**114,341**	**110,890**	109,010	113,269	110,344	107,377
Income from continuing operations before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes (1)	**16,640**	**17,005**	**17,397**	**15,658**	15,066	15,616	16,484	15,090
Net (loss) income from continuing operations (1)	**(101)**	**1,730**	**2,764**	**880**	(40)	(432)	1,096	(236)
Per share basic and diluted per share (1)	**0.00**	**0.05**	**0.08**	**0.02**	0.00	(0.01)	0.03	(0.01)
Net income from discontinued operations	**305**	**541**	**570**	**402**	390	636	547	612
Per share basic	**0.01**	**0.01**	**0.02**	**0.01**	0.01	0.02	0.02	0.02
Per share diluted	**0.01**	**0.01**	**0.01**	**0.01**	0.01	0.02	0.01	0.02
OFFO - Basic (2)	**10,815**	**11,453**	**11,497**	**10,448**	9,609	10,445	11,071	10,892
Per share	**0.30**	**0.31**	**0.32**	**0.29**	0.26	0.29	0.31	0.30
Per share diluted	**0.29**	**0.30**	**0.31**	**0.28**	0.26	0.29	0.29	0.29
AFFO - Basic (2)	**13,189**	**12,180**	**13,256**	**12,179**	11,836	11,204	12,341	13,047
Per share	**0.36**	**0.33**	**0.36**	**0.34**	0.33	0.31	0.34	0.36
Per share diluted	**0.35**	**0.32**	**0.35**	**0.32**	0.32	0.31	0.33	0.35
Dividends declared	**8,217**	**8,205**	**8,196**	**8,188**	8,175	8,164	8,160	8,159
Per share	**0.23**	**0.23**	**0.23**	**0.23**	0.23	0.23	0.23	0.23
Occupancy								
LTC - Average total occupancy	**98.6%**	**98.8%**	**99.1%**	**98.5%**	98.1%	98.8%	98.9%	98.5%
LTC - Average private occupancy	**99.7%**	**99.9%**	**99.9%**	**99.7%**	99.0%	99.8%	99.9%	99.1%
Retirement - Average occupancy	**92.0%**	**90.2%**	**90.2%**	**87.0%**	86.9%	85.9%	84.3%	83.0%
Retirement - As at occupancy	**91.5%**	**92.3%**	**92.3%**	**88.8%**	86.8%	86.8%	84.9%	83.0%
Total assets	**939,477**	**951,469**	**912,933**	**924,919**	932,798	946,763	953,394	956,746
Total debt (3)	**623,513**	**629,068**	**593,633**	**602,960**	612,733	616,081	618,970	621,915

Notes:

1. These amounts exclude the results of the Home Care business (discontinued operations) and prior period comparative figures have been restated accordingly.
2. Beginning in Q2 2014, the impact of the MOHLTC (defined below) reconciliation adjustments (discussion below) was added back to OFFO and AFFO.
3. Total debt includes the Convertible Debentures and is net of amounts paid into the principal reserve fund on the Series B Senior Secured Debentures ("**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 changes, government funding rate increases and the timing of revenue recognition to match spending within the flow-through envelopes, and capital market and financing activities.

The Company recorded Ministry of Health and Long-Term Care ("**MOHLTC**") reconciliation adjustments that decreased revenue and NOI by $132 in Q1 2016. In the prior year, MOHLTC reconciliation adjustments decreased revenue and NOI by $95 in Q4 2015, $nil in Q3 2015 and $536 in Q2 2015, and increased revenue and NOI by $25 in Q1 2015. The adjustments relate to the difference between the Company's annual reconciliation filings with the MOHLTC and the MOHLTC's assessments of those filings, primarily for 2012. These adjustments are based on confirmation with the MOHLTC and the Company's best estimate of the probability of payment (recovery) of the outstanding amounts, based on recent information and interpretation of the funding mechanism.

A discussion of the operating results for the three months ended March 31, 2016 compared to the same period in the prior year is provided below under the section "Operating Results".

Operating Results

The following are the operating results for the periods ended March 31:

	Three Months Ended		
Thousands of Dollars	**2016**	2015	Change
Revenue	**114,232**	109,010	5,222
Expenses			
Operating	**93,208**	89,542	3,666
Administrative	**4,384**	4,402	(18)
	97,592	93,944	3,648
Income from continuing operations before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	**16,640**	15,066	1,574
Other expenses			
Depreciation and amortization	**9,921**	9,509	412
Net finance charges	**5,566**	5,377	189
Transaction costs	**1,183**	38	1,145
Total other expenses	**16,670**	14,924	1,746
(Loss) Income from continuing operations before the provision for (recovery of) income taxes	**(30)**	142	(172)
Provision for (recovery of) income taxes			
Current	**1,190**	149	1,041
Deferred	**(1,119)**	33	(1,152)
	71	182	(111)
Net loss from continuing operations	**(101)**	(40)	(61)
Net income from discontinued operations, net of tax of $111 (2015 - $140)	**305**	390	(85)
Net income	**204**	350	(146)
Total assets	**939,477**	932,798	6,679
Total debt (net of principal reserve fund)	**623,513**	612,733	10,780

Revenue Breakdown

The following is the revenue breakdown for the periods ended March 31:

Thousands of Dollars	Three Months Ended 2016	2015	Change
Long-Term Care [1]			
Same property	**101,406**	98,582	2,824
Total Long-Term Care Revenue	**101,406**	98,582	2,824
Retirement			
Same property	**11,631**	10,540	1,091
Transaction [2]	**1,331**	—	1,331
Total Retirement Revenue	**12,962**	10,540	2,422
Home Care (Discontinued Operations)			
Same property	**4,038**	4,202	(164)
Total Home Care (Discontinued Operations) Revenue	**4,038**	4,202	(164)
Total Revenue			
Same property from continuing operations	**113,037**	109,122	3,915
Discontinued operations	**4,038**	4,202	(164)
Transaction [2]	**1,331**	—	1,331
MOHLTC reconciliation adjustments	**(132)**	25	(157)
Intersegment eliminations	**(4)**	(137)	133
Total Revenue	**118,270**	113,212	5,058

Notes:

1. Beginning in Q1 2016, the results for the management services division are reflected under the LTC division and prior period comparative figures have been restated accordingly.
2. The amount represents the results of Traditions of Durham ("**Traditions**"), which was acquired on December 31, 2015.

Operating Expense Breakdown

The following operating expense breakdown is for the periods ended March 31:

	Three Months Ended		
Thousands of Dollars	**2016**	2015	Change
Long-Term Care [(1)]			
Same property	**86,171**	83,854	2,317
Total Long-Term Care Expenses	**86,171**	**83,854**	**2,317**
Retirement			
Same property	**6,256**	5,825	431
Transaction [(2)]	**785**	—	785
Total Retirement Expenses	**7,041**	**5,825**	**1,216**
Home Care (Discontinued Operations)			
Same property	**3,622**	3,672	(50)
Total Home Care (Discontinued Operations) Expenses	**3,622**	**3,672**	**(50)**
Total Operating Expenses			
Same property from continuing operations	**92,427**	89,679	2,748
Discontinued operations	**3,622**	3,672	(50)
Transaction [(2)]	**785**	—	785
Intersegment eliminations	**(4)**	(137)	133
Total Operating Expenses	**96,830**	**93,214**	**3,616**

Notes:

1. Beginning in Q1 2016, the results for the management services division are reflected under the LTC division and prior period comparative figures have been restated accordingly.
2. The amount represents the results of Traditions, which was acquired on December 31, 2015.

Net Operating Income Breakdown

The following net operating income breakdown is for the periods ended March 31:

	Three Months Ended		
Thousands of Dollars	**2016**	2015	Change
Long-Term Care [1]			
Same property	**15,235**	14,728	507
Total Long-Term Care NOI	**15,235**	14,728	507
Retirement			
Same property	**5,375**	4,715	660
Transaction [2]	**546**	—	546
Total Retirement NOI	**5,921**	4,715	1,206
Home Care (Discontinued Operations)			
Same property	**416**	530	(114)
Total Home Care (Discontinued Operations) NOI	**416**	530	(114)
Total NOI			
Same property from continuing operations	**20,610**	19,443	1,167
Discontinued operations	**416**	530	(114)
Transaction [2]	**546**	—	546
MOHLTC reconciliation adjustments	**(132)**	25	(157)
Total NOI	**21,440**	19,998	1,442

Notes:

1. Beginning in Q1 2016, the results for the management services division are reflected under the LTC division and prior period comparative figures have been restated accordingly.
2. The amount represents the results of Traditions, which was acquired on December 31, 2015.

For the Quarter

Revenue

Same property revenues from continuing operations for Q1 2016 increased by $3,915 to $113,037, compared to Q1 2015. LTC revenues increased by $2,824, primarily attributable to funding changes in the flow-through envelopes, along with higher preferred and other accommodation revenues.

RR same property revenues for Q1 2016 increased by $1,091 to $11,631, compared to Q1 2015, primarily attributable to increases in occupancy and year-over-year rent increases. The acquisition of Traditions in Q4 2015 contributed to incremental revenues of $1,331 over Q1 2015.

Operating Expenses

Same property operating expenses from continuing operations for Q1 2016 increased by $2,748 to $92,427, compared to Q1 2015. Of this increase, LTC represented $2,317, which was primarily attributable to higher flow-through envelope expenses, partially offset by lower utilities expenses due to warmer temperatures.

RR same property operating expenses for Q1 2016 increased by $431 to $6,256, compared to Q1 2015. The increase was primarily attributable to higher variable expenses resulting from gains in occupancy. The acquisition of Traditions in Q4 2015 resulted in incremental operating expenses of $785 over Q1 2015.

NOI

Same property NOI from continuing operations for Q1 2016 increased by $1,167 to $20,610, compared to Q1 2015. LTC's NOI increased by $507, primarily attributable to increased preferred rates, disciplined cost management and lower utilities expenses due to warmer temperatures.

RR's same property NOI for Q1 2016 increased by $660 to $5,375, compared to Q1 2015 primarily attributable to increases in occupancy. The acquisition of Traditions in Q4 2015 contributed to incremental NOI of $546 over Q1 2015.

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 upon net operating margin calculations herein.

Administrative Expenses

Administrative expenses for Q1 2016 of $4,384 were flat compared to Q1 2015.

Depreciation and Amortization

Depreciation and amortization for Q1 2016 increased by $412 to $9,921 compared to Q1 2015. The increase was primarily attributable to certain service contracts being fully amortized during Q1 2016, the acquisition of Traditions in Q4 2015 and higher depreciation on building assets, partially offset by certain resident relationship intangibles being fully amortized during the year ended December 31, 2015.

Net Finance Charges

Net finance charges from continuing operations for Q1 2016 increased by $189 to $5,566 compared to Q1 2015. The increase was primarily attributable to a higher loss on interest rate swap contracts.

Income Taxes

Income tax expense for continuing operations for Q1 2016 decreased by $111 to $71 compared to Q1 2015. The current income tax expense for continuing operations was $1,190 for Q1 2016, compared to $149 in Q1 2015. The increase in the current income tax expense over Q1 2015 was primarily attributable to the increase in NOI and temporary differences not currently deductible. The current income tax expense has been calculated at the weighted average combined corporate tax rate of 26.49%. The deferred tax recovery for continuing operations of $1,119 in Q1 2016 represents an increase of $1,152 over the comparable prior year period, primarily as a result of timing differences.

Business Performance

Adjusted Funds from Operations

The following is a reconciliation of net income (loss) to FFO, OFFO and AFFO for the periods ended March 31:

Thousands of Dollars, except share and per share data	Three Months Ended 2016	2015	Change
Net loss from continuing operations	**(101)**	(40)	(61)
Deferred income tax (recovery) expense	**(1,119)**	33	(1,152)
Depreciation and amortization	**9,891**	9,479	412
Transaction costs	**1,183**	38	1,145
Net settlement payment on interest rate swap contracts	**68**	80	(12)
Net income from discontinued operations, net of current income tax of $104 (2015 - $136)	**312**	394	(82)
Loss on interest rate swap contracts	**201**	44	157
Funds from operations (FFO)	**10,435**	10,028	407
Depreciation and amortization - corporate	**30**	30	—
Net accretion of fair value increment on long-term debt	**(184)**	(157)	(27)
Amortization of deferred financing charges	**296**	293	3
Amortization of loss on bond forward contract	**209**	199	10
Net settlement payment on interest rate swap contracts	**(68)**	(80)	12
Tax shield due to redemption premium on Series A Debentures	**—**	(685)	685
MOHLTC reconciliation adjustment (after tax)	**97**	(19)	116
Operating funds from operations (OFFO)	**10,815**	9,609	1,206
Deferred share unit compensation earned	**278**	231	47
Income support	**63**	17	46
Construction funding principal	**2,412**	2,321	91
Maintenance capex	**(379)**	(342)	(37)
Adjusted funds from operations (AFFO)	**13,189**	11,836	1,353
Adjusted funds from operations (AFFO)	**13,189**	11,836	1,353
Dividends declared	**(8,217)**	(8,175)	(42)
Operating cash flow retained	**4,972**	3,661	1,311
Basic FFO per share	**0.286**	0.276	0.010
Basic OFFO per share	**0.296**	0.265	0.031
Basic AFFO per share	**0.361**	0.326	0.035
Weighted average common shares outstanding - Basic	**36,508,453**	36,324,934	
Diluted FFO per share	**0.278**	0.269	0.009
Diluted OFFO per share	**0.288**	0.258	0.030
Diluted AFFO per share	**0.348**	0.315	0.033
Weighted average common shares outstanding - Diluted	**39,254,722**	39,071,203	

Reconciliation of diluted FFO, OFFO and AFFO

	Three Months Ended		
Thousands of Dollars	**2016**	2015	Change
FFO, Basic	**10,435**	10,028	407
Net financing charges on convertible debt	**653**	645	8
Current income tax expense adjustment	**(173)**	(171)	(2)
FFO, Diluted	**10,915**	10,502	413
OFFO, Basic	**10,815**	9,609	1,206
FFO dilutive adjustment, net	**480**	474	6
OFFO, Diluted	**11,295**	10,083	1,212
AFFO, Basic	**13,189**	11,836	1,353
OFFO dilutive adjustment, net	**480**	474	6
AFFO, Diluted	**13,669**	12,310	1,359

For the Quarter

FFO

FFO for the three months ended March 31, 2016 increased by $407 to $10,435 compared to the same period in the prior year. The increase was primarily attributable to improved NOI contribution, partially offset by an increase in the current income tax provision.

OFFO

OFFO for the three months ended March 31, 2016 increased by $1,206 to $10,815 compared to the same period in the prior year. The increase was primarily attributable to the increase in FFO as noted above, and expiry of the income tax shield on the redemption premium on Series A Debentures in Q4 2015, resulting in no adjustment required for Q1 2016.

AFFO

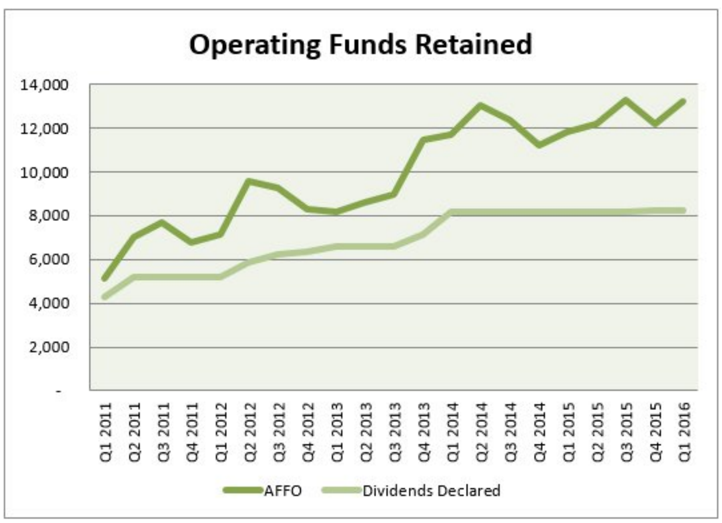
AFFO for the three months ended March 31, 2016 increased by $1,353 to $13,189 compared to the same period in the prior year. The increase was primarily attributable to the increase in OFFO as noted above.

Reconciliation of Cash from Operations to Adjusted Funds from Operations

The following table is a reconciliation of cash provided by operations to AFFO for the periods ended March 31:

	Three Months Ended		
Thousands of Dollars	**2016**	2015	Change
Cash provided by operating activities	**9,700**	3,786	5,914
Construction funding principal	**2,412**	2,321	91
Transaction costs	**1,183**	38	1,145
MOHLTC reconciliation adjustment (after tax)	**97**	(19)	116
Maintenance capex	**(379)**	(342)	(37)
Net change in working capital, interest and taxes	**264**	6,928	(6,664)
Tax shield due to redemption premium on Series A Debentures	**—**	(685)	685
Restricted share units and long-term incentive plan expense	**(88)**	(191)	103
Adjusted funds from operations (AFFO)	**13,189**	11,836	1,353
Adjusted funds from operations (AFFO)	**13,189**	11,836	1,353
Dividends declared	**(8,217)**	(8,175)	(42)
Operating cash flow retained	**4,972**	3,661	1,311
Dividend reinvestment	**657**	617	40
Cash retained after dividend reinvestment	**5,629**	4,278	1,351

Operating funds retained is equal to AFFO less dividends declared.



Operating cash flow retained for the three months ended March 31, 2016 was $4,972 (2015 - $3,661).

The Board of Directors of the Company determine the appropriate dividend levels based on their 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 is a summary of cash flows for the periods ended March 31:

	Three Months Ended		
Thousands of Dollars	**2016**	2015	Change
Cash flow from operations before non-cash working capital items	**16,128**	15,840	288
Non-cash changes in working capital	**4,626**	(2,972)	7,598
Interest and taxes paid, swap settlement, and discontinued operations	**(10,615)**	(8,471)	(2,144)
Cash flow used in discontinued operations	**(439)**	(611)	172
Cash provided by (used in):			
Operating activities	**9,700**	3,786	5,914
Investing activities	**588**	9	579
Financing activities	**(11,689)**	(9,656)	(2,033)
Decrease in cash	**(1,401)**	(5,861)	4,460
Cash	**24,944**	23,172	1,772

For the Quarter

Operating Activities

For Q1 2016, operating activities provided $9,700 of cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $16,128.
- Increase in accounts payable and accrued liabilities of $381 and decrease in accounts receivable and other assets of $240.
- Change in net government funding balances provided $3,830 of cash.
- Partially offset by interest paid on long-term debt of $8,147, incomes taxes paid of $2,400, and discontinued operations' use of cash in operating activities of $439.

For Q1 2015, operating activities provided $3,786 of cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $15,840.
- Change in net government funding balances provided $3,664 of cash due to timing of receipts.
- Partially offset by interest paid on long-term debt of $8,391, decrease in accounts payable and accrued liabilities of $5,248, increase in prepaid expenses and deposits of $852 and discontinued operations' use of cash in operating activities of $611.

Investing Activities

Investing activities for Q1 2016 provided $588 of cash, which was primarily attributable to the following:

- Construction funding received in the amount of $3,270.
- Partially offset by an increase in restricted cash of $1,622, primarily for the contributions to the Series B Debentures principal reserve fund in the amount of $1,520.
- Purchase of equipment of $495 and intangibles of $623.

For Q1 2015, investing activities provided $9 of cash, which was primarily attributable to the following:

- Construction funding received in the amount of $3,270.
- Partially offset by an increase in restricted cash of $2,046, primarily for the funding of the Series B Debentures principal reserve fund in the amount of $1,423, and the purchase of equipment of $948.

Financing Activities

Financing activities in Q1 2016 used $11,689 of cash, which was primarily attributable to the following:

- Repayment of long-term debt of $4,100 relating to mortgage principal payments and voluntary payments on the Company's revolving credit facilities, and dividends paid in the quarter of $7,555.

For Q1 2015, financing activities used $9,656 of cash, which was primarily attributable to the following:

- Dividends paid in the quarter of $7,548.
- Repayment of long-term debt of $1,870 relating to mortgage principal payments.

Capital Resources

The Company's total debt as at March 31, 2016 was $623,513 (December 31, 2015 - $629,068), net of the Series B Debentures principal reserve fund of $12,300 (December 31, 2015 - $10,725). The decrease of $5,555 was primarily related to monthly payments to the Series B Debentures principal reserve fund, payments towards mortgage liabilities, and a voluntary repayment on the Company's credit facilities. During 2015, the Company extended the maturities of the Red Oak and Royale Place ("**Ontario Portfolio**") credit facility and the Astoria credit facility by two years to April 26, 2017 and May 22, 2017, respectively. As at March 31, 2016, the Company had drawn $45,000 under the Ontario Portfolio credit facility and $22,500 under the Astoria credit facility. The Company's subsidiary, Leisureworld Senior Care LP (**"LSCLP"**), has a revolving credit facility of $20,000, from which no amount has been drawn as at March 31, 2016. As at March 31, 2016, the Company had total undrawn facilities of $33,500.

As at March 31, 2016, the Company had a working capital deficiency of $51,043 arising from the timing of wage and benefit accruals and the current portion of long-term debt of $39,827, primarily relating to the portion of mortgage liabilities due within a 12-month period. To support the Company's working capital deficiency, the Company plans to use its operating cash flows and, if necessary, 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 2016, 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 exercise, items are assessed and prioritized based on the urgency and necessity of the expenditure.

Debt Strategy

Management's objectives are to access and maintain the lowest cost of debt with the most flexible terms available. The Company's debt strategy involves the use of four types of debt: secured debentures, conventional property-specific secured mortgages, bank credit facilities and the Convertible Debentures.

Management'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. This is a multi-year strategy which will take considerable time to execute. In fiscal 2016 and beyond, the Company plans to capitalize on external growth opportunities and refinancing of mortgages to build the 10-year debt maturity ladder around the Series B Debentures so as to reduce risk when this debenture matures.

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. Some interest coverage ratios, as defined in certain debt instruments, may be defined differently and there may be unique calculations depending on the lender.

Interest Coverage Ratio

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 March 31:

	Three Months Ended	
Thousands of Dollars, except ratio	**2016**	2015
Net finance charges from continuing operations	**5,566**	5,377
Add (deduct):		
Net accretion of fair value adjustments on long-term debt	**184**	157
Amortization of deferred financing charges	**(296)**	(293)
Amortization of loss on bond forward contracts	**(209)**	(199)
Interest income on construction funding receivable	**858**	949
Other interest income	**61**	6
Loss on interest rate swap contracts	**(201)**	(44)
Net finance charges, adjusted	**5,963**	5,953
EBITDA from continuing operations	**20,042**	18,311
Interest coverage ratio	**3.4**	3.1

The following is the reconciliation of net income (loss) to EBITDA for the periods ended March 31:

	Three Months Ended	
Thousands of Dollars	**2016**	2015
Net loss from continuing operations	**(101)**	(40)
Net finance charges	**5,566**	5,377
Provision for income taxes for continuing operations	**71**	182
Depreciation and amortization	**9,921**	9,509
Transaction costs	**1,183**	38
MOHLTC reconciliation adjustments	**132**	(25)
Proceeds from construction funding	**3,270**	3,270
EBITDA from continuing operations	**20,042**	18,311

Debt Service Coverage Ratio

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 takes into consideration the payments into the Series B Debentures principal reserve fund as part of the debt service costs. EBITDA adjusted, as referenced below, is presented in accordance with defined terms in certain covenant calculations. The following is the calculation for the periods ended March 31:

Thousands of Dollars, except ratio	Three Months Ended 2016	2015
Net finance charges from continuing operations	**5,566**	5,377
Add (deduct):		
Net accretion of fair value adjustments on long-term debt	**184**	157
Amortization of deferred financing charges	**(296)**	(293)
Amortization of loss on bond forward contracts	**(209)**	(199)
Interest income on construction funding receivable	**858**	949
Other interest income	**61**	6
Loss on interest rate swap contracts	**(201)**	(44)
Net finance charges, adjusted	**5,963**	5,953
Principal repayments [1]	**2,100**	1,870
Principal reserve fund	**1,555**	1,423
Total debt service	**9,618**	9,246
EBITDA from continuing operations	**20,042**	18,311
Deduct:		
Maintenance capex	**(379)**	(342)
Cash income taxes	**(2,400)**	—
EBITDA from continuing operations, adjusted	**17,263**	17,969
Debt service coverage ratio	**1.8**	1.9

Note:

1. During the three months ended March 31, 2016, the Company made voluntary payments of $2,000 towards its credit facilities, which have been excluded for the debt service coverage ratio calculation.

Debt to EBITDA Ratio

Debt to 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	March 31, 2016	2015
Total indebtedness		
Series B Debentures	**322,000**	322,000
Series B Debentures - Principal reserve fund	**(12,300)**	(6,174)
Credit facilities	**67,500**	66,000
Mortgages	**204,188**	189,266
Convertible debentures	**46,000**	46,000
	627,388	617,092
EBITDA from continuing operations (quarterly annualized)	**80,168**	73,244
Debt to EBITDA from continuing operations	**7.8**	8.4

Debt Profile

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

	Weighted Average Debt			
	Three Months Ended			
	2016	**Rate (%)**	2015	Rate (%)
Fixed Rate				
Debentures	**322,000**	**3.47%**	322,000	3.47%
Mortgages	**200,772**	**4.45%**	190,125	4.56%
Convertible Debentures	**46,000**	**4.65%**	46,000	4.65%
Total Fixed	**568,772**	**3.92%**	558,125	3.94%
Floating Rate				
Credit Facilities	**68,247**	**2.73%**	66,000	2.81%
Total Floating	**68,247**	**2.73%**	66,000	2.81%
Total Debt	**637,019**	**3.79%**	624,125	3.82%

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.

	March 31,	
Thousands of Dollars, except ratio	**2016**	2015
Total indebtedness		
Series B Debentures	**322,000**	322,000
Series B Debentures - Principal reserve fund	**(12,300)**	(6,174)
Credit facilities	**67,500**	66,000
Mortgages	**204,188**	189,266
Convertible debentures	**46,000**	46,000
	627,388	617,092
Total assets	**939,477**	932,798
Accumulated depreciation on property and equipment	**124,815**	100,160
Accumulated amortization on intangible assets	**72,181**	61,835
Gross book value	**1,136,473**	1,094,793
Debt to Gross Book Value	**55.2%**	56.4%

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, pursuant to 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 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 Series B Debentures and a $20,000 revolving credit facility are collateralized by all assets of LSCLP. Under the indenture governing the Series B Debentures, LSCLP is subject to certain financial and non-financial covenants including the maintenance of a certain debt service coverage ratio. A $1,500 revolving operating loan is collateralized by assets of The Royale Development LP, a subsidiary of the Company.

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 in the future. 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

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
2016	—	—	—	6,447	10,020	**16,467**	2.6%	4.2%
2017	—	67,500	—	7,421	32,506	**107,427**	16.8%	3.6%
2018	—	—	46,000	7,027	22,217	**75,244**	11.8%	5.0%
2019	—	—	—	5,921	37,860	**43,781**	6.8%	4.3%
2020	—	—	—	2,663	19,992	**22,655**	3.5%	3.5%
2021	322,000	—	—	2,661	—	**324,661**	50.8%	3.5%
2022	—	—	—	2,773	—	**2,773**	0.4%	—%
2023	—	—	—	2,505	12,407	**14,912**	2.3%	3.0%
2024	—	—	—	2,205	20,617	**22,822**	3.6%	4.2%
2025	—	—	—	761	—	**761**	0.1%	—%
Thereafter	—	—	—	2,708	5,477	**8,185**	1.3%	5.2%
	322,000	**67,500**	**46,000**	**43,092**	**161,096**	**639,688**	100.0%	
Mark-to-market adjustment arising from acquisition						**1,068**		
Less: Deferred financing costs						**(3,846)**		
Less: Deferred financing costs on convertible debentures						**(908)**		
Less: Equity component of convertible debentures						**(189)**		
						635,813		

Convertible Debentures

The Company has Convertible Debentures outstanding with an aggregate principal amount of $46,000, convertible at $16.75 per common share. The maturity date of the Convertible Debentures is 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

A subsidiary of the Company has been contracted to manage the operations of Spencer House Inc., a charitable organization that owns a licence to operate a LTC home in Orillia, Ontario, and is related by virtue of the management relationship. The total revenue earned from Spencer House Inc. for the three months ended March 31, 2016 was $479 (2015 - $470). Included in accounts receivable is $146 owing from Spencer House Inc. as at March 31, 2016 (December 31, 2015 - $98). These transactions are in the normal course of operations and have been valued in these consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties pursuant to the management agreement. These amounts are due on demand and are non-interest bearing.

As at March 31, 2016, the Company has amounts outstanding from certain key executives of $1,049 (December 31, 2015 - $877) in relation to the long-term incentive plan issuance and share purchase loans, which have been recorded as a reduction to shareholders' equity. The loans bear interest at the prime rate and are due on demand. The underlying common shares have been pledged as security against the respective loans.

Key Performance Drivers

Please refer to the Company's MD&A for the year ended December 31, 2015 for a discussion of certain factors that drive the performance of the Company.

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 consolidated financial statements for the year ended December 31, 2015. Please refer to those statements for further detail.

In preparing the unaudited condensed 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, 2015 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 consolidated financial statements for the year ended December 31, 2015 which are available on SEDAR or the Company's website. Please refer to those statements for further detail.

Risk Factors and Risks Relating to a Public Company and Common Shares

The Company's AIF dated March 15, 2016 and the MD&A filed for the year ended December 31, 2015, which are available on SEDAR or may be accessed on the Company's website, contain detailed discussions of risks and uncertainties that could affect the Company, its properties and holders of its securities.

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.

Consolidated Financial Statements

(in thousands of Canadian Dollars)

Q1 2016

Sienna Senior Living Inc.

Sienna
SENIOR LIVING

Condensed Interim Consolidated Financial Statements

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

Thousands of dollars

	Notes	**March 31, 2016**	December 31, 2015
ASSETS			
Current assets			
Cash		**24,944**	26,345
Accounts receivable and other assets	15	**7,081**	7,227
Income support		**487**	550
Prepaid expenses and deposits		**1,522**	1,664
Government funding receivable		**2,599**	3,124
Construction funding receivable		**9,773**	9,680
Assets held for sale	4	**6,531**	—
		52,937	48,590
Government funding receivable		**1,161**	1,570
Interest rate swap contract	5	**1,670**	1,393
Restricted cash	6	**14,415**	12,793
Construction funding receivable		**72,381**	74,886
Property and equipment		**582,364**	588,332
Intangible assets		**122,266**	125,101
Goodwill		**92,283**	98,804
Total assets		**939,477**	951,469
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	12	**59,460**	62,195
Government funding payable		**3,029**	2,720
Current portion of long-term debt	7	**39,827**	18,838
Income taxes payable		**1,378**	2,484
Interest rate swap contract	5	**286**	233
		103,980	86,470
Long-term debt	7	**551,083**	576,173
Convertible debentures	8	**44,903**	44,782
Deferred income taxes	10	**58,917**	59,973
Government funding payable		**4,062**	1,475
Share-based compensation liability	13	**4,193**	3,685
Interest rate swap contract	5	**2,456**	2,032
Total liabilities		**769,594**	774,590
SHAREHOLDERS' EQUITY			
Total shareholders' equity		**169,883**	176,879
Total liabilities and shareholders' equity		**939,477**	951,469

See accompanying notes.

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

"Dino Chiesa"
Dino Chiesa
Chairman and Director

"Janet Graham"
Janet Graham
Director

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Thousands of dollars

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, January 1, 2016		**374,967**	**515**	**89**	**(195,240)**	**(3,452)**	**176,879**
Issuance of shares	**11**	**810**	**—**	**—**	**—**	**—**	**810**
Net income		**—**	**—**	**—**	**204**	**—**	**204**
Other comprehensive income		**—**	**—**	**—**	**—**	**154**	**154**
Long-term incentive plan	**13**	**16**	**—**	**32**	**—**	**—**	**48**
Share purchase loan		**5**	**—**	**—**	**—**	**—**	**5**
Dividends	**12**	**—**	**—**	**—**	**(8,217)**	**—**	**(8,217)**
Balance, March 31, 2016		**375,798**	**515**	**121**	**(203,253)**	**(3,298)**	**169,883**

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, January 1, 2015		372,373	515	59	(169,713)	(4,055)	199,179
Issuance of shares	11	759	—	—	—	—	759
Net income		—	—	—	350	—	350
Other comprehensive income		—	—	—	—	147	147
Long-term incentive plan	13	12	—	30	—	—	42
Share purchase loan		6	—	—	—	—	6
Dividends	12	—	—	—	(8,175)	—	(8,175)
Balance, March 31, 2015		373,150	515	89	(177,538)	(3,908)	192,308

See accompanying notes.

Thousands of dollars, except share and per share data

Consolidated Statements of Operations

	Notes	Three months ended March 31, 2016	2015
Revenue	**15, 16**	**114,232**	109,010
Expenses			
Operating		**93,208**	89,542
Administrative		**4,384**	4,402
	17	**97,592**	93,944
Income from continuing operations before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes		**16,640**	15,066
Depreciation and amortization		**9,921**	9,509
Net finance charges	9	**5,566**	5,377
Transaction costs		**1,183**	38
Total other expenses		**16,670**	14,924
Income (loss) from continuing operations before provision for (recovery of) income taxes		**(30)**	142
Provision for (recovery of) income taxes from continuing operations			
Current		**1,190**	149
Deferred		**(1,119)**	33
	10	**71**	182
Net loss from continuing operations		**(101)**	(40)
Net income from discontinued operations, net of tax	4	**305**	390
Net income		**204**	350
Basic and diluted loss from continuing operations per share	11	**$0.00**	$0.00
Basic and diluted income from discontinued operations per share	11	**$0.01**	$0.01
Weighted average number of common shares outstanding - basic	11	**36,508,453**	36,324,934
Weighted average number of common shares outstanding - diluted	11	**39,254,722**	39,071,203

Consolidated Statements of Comprehensive Income

	Notes	Three months ended March 31, 2016	2015
Net income		**204**	350
Items that may be subsequently reclassified to the consolidated statements of operations:			
Realized loss on bond forward contracts, net of tax	10	**154**	147
Total comprehensive income		**358**	497

See accompanying notes.

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

	Notes	Three months ended March 31, 2016	2015
OPERATING ACTIVITIES			
Net income		**204**	350
Add (deduct) items not affecting cash			
Depreciation of property and equipment		**6,463**	6,028
Amortization of intangible assets		**3,458**	3,481
Current income taxes		**1,190**	149
Deferred income taxes		**(1,119)**	33
Share-based compensation	13	**366**	422
Net finance charges	9	**5,566**	5,377
		16,128	15,840
Non-cash changes in working capital			
Accounts receivable and other assets		**240**	(545)
Prepaid expenses and deposits		**112**	(852)
Accounts payable and accrued liabilities		**381**	(5,248)
Income support		**63**	9
Government funding, net		**3,830**	3,664
		4,626	(2,972)
Interest paid on long-term debt and convertible debentures		**(8,147)**	(8,391)
Net settlement payment on interest rate swap contracts		**(68)**	(80)
Income taxes paid		**(2,400)**	—
Cash used in operating activities of discontinued operations		**(439)**	(611)
Cash provided by operating activities		**9,700**	3,786
INVESTING ACTIVITIES			
Purchase of property and equipment		**(495)**	(948)
Purchase of intangible assets		**(623)**	(273)
Amounts received from construction funding		**3,270**	3,270
Interest received from cash		**58**	6
Change in restricted cash	6	**(1,622)**	(2,046)
Cash provided by investing activities		**588**	9
FINANCING ACTIVITIES			
Share issuance costs		**(21)**	(27)
Repayment of long-term debt		**(4,100)**	(1,870)
Deferred financing costs		**(13)**	(211)
Dividends paid	12	**(7,555)**	(7,548)
Cash used in financing activities		**(11,689)**	(9,656)
Decrease in cash during the period		**(1,401)**	(5,861)
Cash, beginning of period		**26,345**	29,033
Cash, end of period		**24,944**	23,172

See accompanying notes.

1 Organization

On May 1, 2015, Leisureworld Senior Care Corporation effected a company-wide rebranding strategy, resulting in a legal name change from Leisureworld Senior Care Corporation to Sienna Senior Living Inc. (the **"Company"**). The name change of the Company was approved at the Annual and Special Meeting of the Company's shareholders on April 21, 2015. The Company was incorporated as Leisureworld Senior Care Corporation under the *Business Corporations Act* (Ontario) on February 10, 2010 and was continued under the *Business Corporations Act* (British Columbia) on March 18, 2010. Leisureworld Senior Care Corporation closed its Initial Public Offering on March 23, 2010. Effective May 1, 2015, the Company changed its name to Sienna Senior Living Inc. pursuant to the filing of a Notice of Alteration with the British Columbia Registry Services on April 23, 2015.

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.

The Company and its predecessors have been operating since 1972. Through its subsidiaries, the Company owns and operates 35 long-term care (**"LTC"**) homes (representing an aggregate of 5,733 beds), all of which are located in the Province of Ontario. The Company also owns and operates 11 retirement residence (**"RR"**) communities (representing 1,206 suites) in the Provinces of Ontario and British Columbia. The Company also operates a management services business that provides third-party management services to LTC homes and RR communities in Ontario. On March 24, 2016, the Company announced that it had entered into a definitive agreement to sell Preferred Health Care Services (**"PHCS"**), the ancillary home care (**"Home Care"**) business of the Company, to Spectrum Health Care LP (Note 4).

The Company is listed on the Toronto Stock Exchange (the **"TSX"**) under the trading symbol **SIA**. As of March 31, 2016, the following securities of the Company were outstanding: 36,544,667 common shares; $46,000 in aggregate principal amount of extendible convertible unsecured subordinated debentures (TSX symbol: **SIA.DB**) which, in aggregate, are convertible into 2,746,269 common shares (Note 8).

2 Basis of preparation

These unaudited condensed interim consolidated financial statements (**"interim consolidated financial statements"**) have been prepared in accordance with International Accounting Standard (**"IAS"**) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (**"IASB"**). The interim consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with International Financial Reporting Standards (**"IFRS"**).

The interim consolidated financial statements were approved by the Board of Directors for issuance on May 11, 2016.

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

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, 2015.

Significant judgments and estimates

The significant judgments made 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, 2015.

4 Discontinued operations

On March 24, 2016, the Company announced that it had entered into a definitive agreement to sell its Home Care business, PHCS, to Spectrum Health Care LP for cash proceeds of $16,500, before working capital adjustments (the **"PHCS Sale"**). The PHCS Sale was completed on April 28, 2016 following fulfillment of closing conditions and receipt of all regulatory approvals.

The following table summarizes the significant assets held for sale on March 31, 2016:

	March 31, 2016
Assets	
Prepaid expenses and other assets	**10**
Goodwill	**6,521**
Total assets	**6,531**

The following table summarizes the net income from discontinued operations:

	Three months ended March 31,	
	2016	2015
Revenue	**4,038**	4,202
Expenses	**3,622**	3,672
Income before provision for income taxes	**416**	530
Provision for income taxes		
Current	**104**	136
Deferred	**7**	4
	111	140
Net income from discontinued operations	**305**	390

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

5 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 March 31, 2016 and December 31, 2015:

	As at March 31, 2016			
		Fair value		
	Carrying value	**Level 1**	**Level 2**	**Level 3**
Financial Assets:				
Construction funding receivable	**82,154**	—	—	**88,756**
Interest rate swap contract	**1,670**	—	**1,670**	—
Financial Liabilities:				
Long-term debt	**590,910**	—	**611,023**	—
Convertible debentures	**44,903**	**49,105**	—	—
Interest rate swap contract	**2,742**	—	**2,742**	—

	As at December 31, 2015			
		Fair value		
	Carrying value	Level 1	Level 2	Level 3
Financial Assets:				
Construction funding receivable	84,566	—	—	91,859
Interest rate swap contract	1,393	—	1,393	—
Financial Liabilities:				
Long-term debt	595,011	—	617,151	—
Convertible debentures	44,782	47,840	—	—
Interest rate swap contract	2,265	—	2,265	—

Liquidity risk

Liquidity risk is the risk that 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 March 31, 2016. 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 March 31, 2016, the Company had negative working capital of $51,043 (December 31, 2015 - $37,880). To support the Company's working capital deficiency, the Company will use its operating cash flows and, if necessary, undrawn credit facilities.

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

6 Restricted cash

Restricted cash comprises the Series B Senior Secured Debentures (**"Series B Debentures"**) principal reserve fund, a capital maintenance reserve fund required for certain mortgages and an employee benefits reserve for the employees of the homes to which the Company provides management services.

	March 31, 2016	December 31, 2015
Series B Debentures principal reserve fund	**12,300**	10,725
Capital maintenance reserve	**1,534**	1,488
Benefits reserve	**581**	580
Restricted cash	**14,415**	12,793

7 Long-term debt

	Interest rate	Maturity date	**March 31, 2016**	December 31, 2015
Series B Debentures	3.474%	February 3, 2021	**322,000**	322,000
Credit facilities	Floating	April/May 2017	**67,500**	69,500
Mortgages at fixed rates	3.04% - 7.11%	2016 - 2024	**190,046**	192,028
Mortgage at variable rate	Floating	April 16, 2029	**14,142**	14,260
			593,688	597,788
Mark-to-market adjustments on acquisition			**1,068**	1,252
Deferred financing costs			**(3,846)**	(4,029)
Total debt			**590,910**	595,011
Less: current portion			**39,827**	18,838
			551,083	576,173

Credit facilities

The Red Oak Retirement Residence and Royale Place Retirement Residence (**"Ontario Portfolio"**) have a $57,000 revolving credit facility (**"Revolving Credit Facility"**) that bears interest at 187.5 basis points (**"bps"**) per annum over the floating 30-day Banker's Acceptance (**"BA"**) rate and is secured by the Ontario Portfolio assets of the Company’s subsidiary, The Royale LP, guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The revolving credit facility is due on April 26, 2017. As at March 31, 2016, the Company had drawn $45,000 under this credit facility (December 31, 2015 - $47,000).

The Astoria Retirement Residence (**"Astoria"**) has a $22,500 credit facility (**"Credit Facility"**) that bears interest at 187.5 bps per annum over the floating 30-day BA rate and is secured by Astoria's assets, guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The credit facility is due on May 22, 2017. As at March 31, 2016, the Company had drawn $22,500 under this credit facility (December 31, 2015 - $22,500).

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

8 Convertible debentures

The Company has extendible convertible unsecured subordinated debentures outstanding with an aggregate principal amount of $46,000 (**"Convertible Debentures"**). These debentures are convertible into common shares of the Company at $16.75 per common share, for net proceeds of $44,160. 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.

Upon issuance, the debt and equity components of the Convertible Debentures had been 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 recognized as part of net finance charges. As at March 31, 2016, $908 (December 31, 2015 - $1,009) of financing costs remain to be amortized and $189 (December 31, 2015 - $209) of fair value adjustment remains to be accreted.

9 Net finance charges

	Three months ended March 31,	
	2016	2015
Finance costs		
Interest expense on long-term debt	**5,337**	5,295
Interest expense on convertible debentures	**553**	546
Fees on revolving credit facility	**5**	32
Net accretion of the fair value adjustments on long-term debt	**(184)**	(157)
Amortization of deferred financing charges	**296**	293
Amortization of loss on bond forward contract	**209**	199
Net settlement payment on interest rate swap contracts	**68**	80
Loss on interest rate swap contracts	**201**	44
	6,485	6,332
Finance income		
Interest income on construction funding receivable	**858**	949
Other interest income	**61**	6
	919	955
Net finance charges	**5,566**	5,377

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

10 Income taxes

Total income tax expense for the year can be reconciled to the consolidated statements of operations and comprehensive income as follows:

	Three months ended March 31, 2016	2015
(Loss) income from continuing operations before provision for income taxes	**(30)**	142
Canadian combined income tax rate	**26.49%**	26.49%
Income tax (recovery) expense	**(8)**	38
Adjustments to income tax provision:		
Non-deductible items	**38**	55
Book to filing adjustment	**41**	89
Income tax expense	**71**	182

The effective tax rate for discontinued operations for the three months ended March 31, 2016 is 26.55% (2015 - 26.42%). The provision for income taxes for discontinued operations is disclosed in Note 4.

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, 2015	(63,058)	(6,072)	1,164	5,712	3,566	(58,688)
Credit (charge) to net loss	3,535	(256)	(625)	(987)	(2,215)	(548)
Book to filing adjustment	(251)	224	—	(11)	(482)	(520)
Charge to other comprehensive income	—	—	—	—	(217)	(217)
As at December 31, 2015	(59,774)	(6,104)	539	4,714	652	(59,973)
Credit (charge) to net income	757	624	(84)	(228)	86	1,155
Book to filing adjustment	(5)	—	—	—	(39)	(44)
Charge to other comprehensive income	—	—	—	—	(55)	(55)
As at March 31, 2016	**(59,022)**	**(5,480)**	**455**	**4,486**	**644**	**(58,917)**

The realized loss on bond forward contracts on the consolidated statements of comprehensive income is net of tax of $55 for the three months ended March 31, 2016 (2015 - $53).

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

11 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, 2015	36,299,038	372,373
Long-term incentive plan, net of loans receivable (Note 13)	11,669	28
Share purchase loan	—	22
Dividend reinvestment plan	158,388	2,396
Issued common shares (Note 13)	9,776	148
Balance, December 31, 2015	36,478,871	374,967
Long-term incentive plan, net of loans receivable (Note 13)	13,288	16
Share purchase loan	—	5
Dividend reinvestment plan	42,983	657
Issued common shares (Note 13)	9,525	153
Balance, March 31, 2016	**36,544,667**	**375,798**

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 income (loss) per share is calculated using the weighted average number of common shares outstanding during the year. Diluted income (loss) 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 income (loss) from operations.

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

	Three months ended March 31,	
	2016	2015
Reconciliation of net income (loss) used as the numerator		
Net loss from continuing operations	**(101)**	(40)
Net finance charges on convertible debentures	**653**	645
Current income tax adjustment	**(173)**	(171)
Net income used in calculating diluted income from continuing operations per share	**379**	434
Weighted average number of shares used as the denominator		
Weighted average number of shares - basic	**36,508,453**	36,324,934
Shares issued if all convertible debentures were converted	**2,746,269**	2,746,269
Weighted average number of common shares - diluted	**39,254,722**	39,071,203

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

12 Dividends

The Company paid dividends at $0.075 per month per common share totalling $7,555 for the three months ended March 31, 2016 (2015 - $7,548). Dividends payable of $2,742 are included in accounts payable and accrued liabilities as at March 31, 2016 (December 31, 2015 - $2,737). Subsequent to March 31, 2016, the Board of Directors declared dividends of $0.075 per common share for April 2016 totaling $2,742. These dividends have not been recorded in these interim consolidated financial statements.

13 Share-based compensation

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

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

On February 24, 2016, incentive award amounts entitling eligible senior executives (**"Participants"**) to acquire 13,288 common shares were granted pursuant to the LTIP. On the grant date, the Participants paid $11 towards the acquisition of common shares. This payment was recorded as an increase in share capital. Related to the LTIP in the three months ended March 31, 2016, the Company recorded an increase of $16 in share capital (2015 - $12) and $32 in contributed surplus (2015 - $30). As at March 31, 2016, the outstanding loan balance was $624 (December 31, 2015 - $430). Total expense related to the LTIP for the three months ended March 31, 2016 was $32 (2015 - $30).

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 24, 2016	February 25, 2015
Fair value at grant date	$15.68	$14.80
Volatility	16.67%	15.78%
Monthly discrete dividend	$0.075	$0.075
Risk-free rate	1.37%	1.79%
Annual interest rate on participant's loan	3.00%	3.00%
Forfeiture rate	0.00%	0.00%

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

During the three months ended March 31, 2016, 16,706 restricted share units (**"RSUs"**) (2015 - 17,007) were granted pursuant to the RSUP. Total expenses related to the RSUP for the three months ended March 31, 2016 were $56 (2015 - $161), net of forfeitures. During the three months ended March 31, 2016, 10,487 RSUs vested and were settled in cash and shares, resulting in a decrease of $169 to the share-based compensation liability. The total liability recorded as part of the share-based compensation liability as at March 31, 2016 was $187 (December 31, 2015 - $300).

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, December 31, 2015	33,564
Granted	16,706
Forfeited	—
Dividends reinvested	517
Settled in cash	(962)
Settled in shares	(9,525)
Outstanding, March 31, 2016	**40,300**

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

Total expenses related to the DSUP for the three months ended March 31, 2016 were $226 (2015 - $227), 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 March 31, 2016 was $3,397 (December 31, 2015 - $3,171). 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 unit plan (**"EDSUP"**)*

During the three months ended March 31, 2016, 35,543 (2015 - 21,922) executive deferred share units were granted. Total expenses related to the EDSUP for the three months ended March 31, 2016 were $52 (2015 - $4), 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 March 31, 2016 was $609 (December 31, 2015 - $214).

14 Key management compensation

The remuneration of key management is set out below in aggregate for each of the categories specified in IAS 24, Related Party Disclosures.

	Three months ended March 31,	
	2016	2015
Salaries and short-term employee benefits	**726**	461
Share-based compensation	**366**	419
	1,092	880

15 Related party transactions

A subsidiary of the Company has been contracted to manage the operations of Spencer House Inc., a charitable organization that owns a licence to operate a LTC home in Orillia, Ontario, and is related by virtue of the management relationship. The total revenue earned from Spencer House Inc. for the three months ended March 31, 2016 was $479 (2015 - $470). Included in accounts receivable is $146 owing from Spencer House Inc. as at March 31, 2016 (December 31, 2015 - $98). These transactions are in the normal course of operations and have been valued in these condensed interim consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties pursuant to the management agreement. These amounts are due on demand and are non-interest bearing.

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

As at March 31, 2016, the Company has amounts outstanding from certain key executives of $1,049 (December 31, 2015 - $877) in relation to the LTIP issuance and share purchase loans, which have been recorded as a reduction to shareholders' equity. The loans bear interest at the prime rate and are due on demand. The underlying common shares have been pledged as security against the respective loans.

16 Economic dependence

The Company holds licences related to each of its LTC homes and receives funding from the Ministry of Health and Long-Term Care (**"MOHLTC"**) related to those licences. Funding is received on or about the 22nd of each month. During the three months ended March 31, 2016, the Company received approximately $74,063 (2015 - $70,395) in respect of these licences for flow-through envelope revenues and other MOHLTC funded initiatives.

17 Expenses by nature

	Three months ended March 31,	
	2016	2015
Salaries, benefits and other people costs	**73,161**	69,904
Food	**4,785**	4,596
Property taxes	**3,326**	3,322
Utilities	**3,802**	3,965
Purchased services and non-medical supplies	**3,938**	3,767
Other	**8,580**	8,390
Total expenses from continuing operations	**97,592**	93,944

18 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 business - LTC includes 35 owned LTC homes and the management of third party LTC homes;
- Retirement - Retirement includes 11 owned RR communities;
- 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 - Discontinued operations is comprised of the Home Care business that was divested on April 28, 2016 (Note 4).

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

The significant accounting policies of the reportable operating segments are the same as those disclosed in Note 3.

	Three months ended March 31, 2016					
	Long-Term Care	**Retirement**	**Corporate, Eliminations and Other**	**Total From Continuing Operations**	**Home Care - Discontinued Operations**	**Total**
Gross revenue	**103,218**	**12,962**	**8,217**	**124,397**	**4,038**	**128,435**
Less: Internal revenue	**1,944**	**—**	**8,221**	**10,165**	**—**	**10,165**
Net revenue	**101,274**	**12,962**	**(4)**	**114,232**	**4,038**	**118,270**
Income (loss) before depreciation and amortization, net finance charges, transaction costs and the provision for income taxes	**15,103**	**5,921**	**(4,384)**	**16,640**	**416**	**17,056**
Depreciation of property and equipment	**4,301**	**2,102**	**60**	**6,463**	**—**	**6,463**
Amortization of intangible assets	**1,668**	**1,707**	**83**	**3,458**	**—**	**3,458**
Finance costs	**4,402**	**1,430**	**653**	**6,485**	**—**	**6,485**
Finance income	**(901)**	**(3)**	**(15)**	**(919)**	**—**	**(919)**
Transaction costs	**—**	**—**	**1,183**	**1,183**	**—**	**1,183**
Income tax expense	**—**	**—**	**71**	**71**	**111**	**182**
Net income (loss)	**5,633**	**685**	**(6,419)**	**(101)**	**305**	**204**
Purchase of property and equipment	**222**	**156**	**117**	**495**	**—**	**495**
Purchase of intangible assets	**1**	**—**	**622**	**623**	**—**	**623**

	Three months ended March 31, 2015					
	Long-Term Care	Retirement	Corporate, Eliminations and Other	Total From Continuing Operations	Home Care - Discontinued Operations	Total
Gross revenue	99,939	10,540	8,175	118,654	4,202	122,856
Less: Internal revenue	1,332	—	8,312	9,644	—	9,644
Net revenue	98,607	10,540	(137)	109,010	4,202	113,212
Income (loss) before depreciation and amortization, net finance charges, costs and the provision for income taxes	14,753	4,715	(4,402)	15,066	530	15,596
Depreciation of property and equipment	4,243	1,758	27	6,028	—	6,028
Amortization of intangible assets	982	2,496	3	3,481	—	3,481
Finance costs	4,331	1,356	645	6,332	—	6,332
Finance income	(950)	—	(5)	(955)	—	(955)
Transaction costs	—	—	38	38	—	38
Income tax expense	—	—	182	182	140	322
Net income (loss)	6,147	(895)	(5,292)	(40)	390	350
Purchase of property and equipment	17	325	606	948	—	948
Purchase of intangible assets	4	—	269	273	—	273

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

	As at March 31, 2016					
	Long-Term Care	**Retirement**	**Corporate, Eliminations and Other**	**Total From Continuing Operations**	**Home Care - Discontinued Operations**	**Total**
Total assets	**656,740**	**264,081**	**12,125**	**932,946**	**6,531**	**939,477**
Goodwill	**89,772**	**2,511**	**—**	**92,283**	**6,521**	**98,804**
Intangible assets	**109,159**	**9,558**	**3,549**	**122,266**	**—**	**122,266**

	As at December 31, 2015					
	Long-Term Care	Retirement	Corporate, Eliminations and Other	Total From Continuing Operations	Home Care - Discontinued Operations	Total
Total assets	669,330	268,438	4,796	942,564	8,905	951,469
Goodwill	89,772	2,511	—	92,283	6,521	98,804
Intangible assets	110,826	11,265	3,010	125,101	—	125,101

19 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. This reclassification includes:

- In the segmented information note, the management services business is now reflected under Long-Term Care.

This reclassification had no impact on the reported net income (loss).

20 Subsequent events

Acquisition of a portfolio of British Columbia LTC homes and RR communities

On April 18, 2016 the Company entered into an agreement (the **"Acquisition Agreement"**) with Baltic Properties Investments Ltd., Baybridge-Baltic General Partnership (the **"Baltic Seller"**), Amica Mature Lifestyles Inc. and BayBridge Senior Living Partnership to acquire (the **"Acquisition"**): a portfolio of seniors housing assets in British Columbia, consisting of two independent living RR communities (**"IL Properties"**) and six LTC homes (the **"Baltic Properties"** and together with the IL Properties, the **"Acquired Properties"**); options to acquire up to a 100% interest (the first 50% of which will be at a discount to fair market value) in two additional newly built seniors housing assets (the **"Option Properties"**); and a 50% interest in Pacific Seniors Management General Partnership (**"PSM"**), the current manager and operator of the Baltic Properties (the **"Management Interest"** and together with the Acquired Properties and the Option Properties, the **"Purchased Assets"**).

The aggregate purchase price for the Purchased Assets is approximately $255,000 (the **"Purchase Price"**), subject to customary post-closing adjustments, which is being financed through a combination of (i) the assumption of approximately $137,000 in existing mortgages, at a weighted average interest rate of 3.9% and a weighted average term to maturity of 5.5 years; (ii) the issuance of $10,000 of common shares of the Company to the Baltic Seller (or affiliate(s) thereof) at the Offering Price (defined below); and (iii) net proceeds of the Offering (defined below). $2,000 will be set-off from the Purchase Price to be spent at the Company's discretion on capital expenditures for the Acquired Properties.

The Acquisition Agreement contains representations and warranties customary for transactions of this nature, certain of which are qualified as to materiality and knowledge and subject to reasonable exceptions. Completion of the Acquisition is subject to customary closing conditions, including third party consents and regulatory approvals.

Subsequent to March 31, 2016, the Company made a $6,373 deposit related to the Acquisition.

On May 6, 2016, the Company completed a bought deal public offering of 8,728,500 subscription receipts (the **"Subscription Receipts"**) at a price of $15.85 per Subscription Receipt, for total gross proceeds of $138,347 (inclusive of the exercise in full by underwriters of the over-allotment option) (the **"Offering"**). A final short form prospectus in respect of the Offering was filed by the Company on April 29, 2016.

Each Subscription Receipt represents the right to receive one common share in the capital of the Company (each, a **"Common Share"**), at no additional consideration on the closing of the Acquisition. While the Subscription Receipts remain outstanding, holders thereof will be entitled to receive payments per Subscription Receipt equal to the per Common Share dividends, if any, actually paid or payable to holders of Common Shares in respect of all record dates for such dividends occurring from the closing date of the Offering to, but excluding, the last day on which the Subscription Receipts remain outstanding, to be paid to holders of Subscription Receipts concurrently with the payment date of each such dividend on the Common Shares.

Financial results from the Purchased Assets will be reported in the Company's results after the completion of the Acquisition.