2015

Sienna
SENIOR LIVING

Report to Shareholders

Sienna Senior Living Inc.

2015

Sienna
SENIOR LIVING

Management's Discussion and Analysis
(in thousands of Canadian Dollars)

Sienna Senior Living Inc.

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 fourth quarter and year ended December 31, 2015. This MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes for the year ended December 31, 2015. 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, 2014 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 and retirement homes and the third-party management business of the Company. The direct ownership of such homes and operation of such business is 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 February 24, 2016, the following securities of the Company were outstanding: 36,507,954 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 February 24, 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 a recognized earnings measure that is widely used by public real estate entities, particularly by those entities that own and operate income-producing properties. FFO is a financial measure which should not be considered as an alternative to net income, cash flow from operations, or any other operating or liquidity measure prescribed under IFRS. 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 Series A Debentures redemption premium payment and its resulting tax shield, 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 and non-cash deferred share unit compensation expense less maintenance capital expenditures ("**maintenance capex**"). Management believes AFFO is useful in the assessment of the Company's operating cash performance, and is also a relevant measure of the ability of the Company to 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 (the "**IPO"**) 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 and apartments) in the Provinces of Ontario and British Columbia. The Company also owns Preferred Health Care Services ("**Home Care**" or "**PHCS**"), an accredited provider of personal support services for community-based home healthcare. Under its management services division, the Company provides management services to LTC homes and Retirement Residences in Ontario.

		LONG-TERM CARE (Beds)				RETIREMENT (Suites / Apartments)	TOTAL
ASSET CLASS	**COMMUNITIES**	**Basic and Other**	**Semi-Private**	**Private - $18.00 Premium**	**Private - Up to $25.00 Premium**	**Total**	**Beds / Suites / Apartments**
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 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.
- 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 coworkers, 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

Levels of Care

Seniors living residences provide a continuum of care, based on the individual's assessed needs and level of independence. Seniors who enjoy a high level of independence and require little assistance with activities of daily living ("**ADL**") may choose to live in seniors apartments or condos; while those who require and greater assistance with ADL and access to 24-7 nursing care are best suited to Long-Term Care. A full description of the levels of care are detailed below:

- **Independent Living (IL)**: independent living is the privacy and freedom of home combined with the convenience and security of on-call assistance and a maintenance-free environment. Residents typically have the option of purchasing à-la-carte services including meal packages, housekeeping, transportation, laundry. It is apartment-style accommodation with a full kitchen and is private pay. Tenure may be rental or some form of ownership such as condominium or life-lease.

- **Independent Supportive Living (ISL)**: supportive living is designed for seniors who pay for services such as 24 hour response, housekeeping, laundry, meals, transportation and accommodation as part of a total monthly private pay fee or rental rate. These residents require little or no assistance with daily living activities but benefit from the social setting and meal preparation. Some residences include a minimum amount of daily care but primarily this level of accommodation is for the senior who can live more independently with the option of additional care and services available on an as needed basis. Accommodation is private bed-sitting, one or two bedroom units with kitchenettes. Tenure is typically rental.

- **Assisted Living (AL):** assisted living is designed for frail seniors who need assistance with daily living activities but do not require skilled nursing care. These units can be offered in a separate wing, separate floor or separate building. In some communities, delivery of assisted living services is available through government home care services.

- **Memory Care / Alzheimer's (MC):** memory care is a specialized level of care for seniors with memory impairment, Alzheimer's, or other forms of dementia. Mild cases of dementia are typically suitably addressed within secure assisted living wings/floors. Moderate to severe levels of MC require specialized and more intensive "hands-on" care.

- **Long Term Care (LTC)**: long term care, also known as nursing homes, are residences for people who are not able to live independently and require skilled nursing care on a daily basis. Eligibility for placement is based on a person's care requirements and is determined and arranged through Government agencies. The resident pays for the accommodation as set by the local Government and the government pays for care, programs and supplies.

Source: CBRE Limited, Valuation & Advisory Services. (2015). *Feasibility Study: 'Seniors Housing Definitions'*.

Retirement Residences

Retirement Residences focus on independent living (IL), independent supportive living (ISL), assisted living (AL), or in some cases memory care (MC) and generally provide studio, one-bedroom or two-bedroom accommodation suites and amenity space. Amenities can include dining rooms, activity rooms, exercise rooms, bistros, games rooms, pools, libraries, lounges, theatres and outdoor space. Suites are rented to residents on a monthly basis, and provide for meals, snacks, leisure activities, transportation and, in some cases, AL services, which includes some care and services based on resident needs and preferences (such as assistance with bathing, medication administration and activities of daily living). Accommodation and services are private-pay based on market rates.

Retirement Residences are subject to regulation. The *Retirement Homes Act*, 2010 (Ontario) received Royal Assent on June 8, 2010. This legislation created a new regulatory body, the Retirement Home Regulatory Authority (the "**RHRA**") that provides consumer protection, but does not provide funding, for the provision of care and services in Ontario RR facilities. RRs are required to be licensed by the RHRA in order to operate in Ontario. RRs are inspected regularly by RHRA inspectors and the reports are publicly posted. In British Columbia, the *Community Care and Assisted Living Act* (British Columbia) provides consumer protection and regulation of independent living homes and assisted living facilities. All types of seniors housing providing personal support in British Columbia must be registered with the Assisted Living Registry.

RR occupancy and average rent in Canada experienced an overall increase in 2015 compared to 2014, with Ontario and British Columbia posting slight decreases in vacancy rates due to resident intake outpacing the increase in the number of spaces in the residences surveyed, and Ontario posting the highest average rent for bachelor units and private rooms (Source: CMHC, Seniors Housing Report, Canada Highlights, 2015).

Long-Term Care

The Ontario LTC sector provides essential health services to Ontario communities. This sector can be distinguished from other sectors of the seniors housing industry based on a number of factors, including the following:

- **Provision of an essential service**: LTC licenced homes provide essential health services in the form of 24-hour nursing support, assistance with activities of daily living, mobility, personal care and supervision to individuals who may otherwise require hospital care. LTC homes also provide specialized services such as memory care, continence management, skin and wound management, falls prevention and end of life care. Access is controlled through Ontario's Community Care Access Centres ("**CCACs**") and homes are regulated under the *Long-Term Care Homes Act, 2007* (Ontario) (the "**LTCHA**") (as described below).
- **Significant barriers to entry**: Barriers to entry are both regulatory and operational. The LTC sector in

the Province of Ontario is regulated by the Ministry of Health and Long-Term Care ("**MOHLTC**"), which requires that a home and operator must be licensed in order to operate as an LTC home and provider. The licensing requirements are extensive. In the Province of Ontario, the MOHLTC must approve the transfer of existing licences and no new issuances of licenses are anticipated. These regulations create significant barriers to entry. In addition to the regulatory barriers to entry, the successful operation of an LTC home requires a broad range of specialized expertise, including expertise in gerontological care, chronic disease management, health care operations, financial management and reporting, asset management, community and stakeholder engagement, labour relations and government relations. The Company has significant expertise in each of these areas, and has dedicated support services staff responsible for specific areas of expertise.

- **Sustainable competitive advantage:** LTC homes have a sustainable competitive advantage over other Ontario seniors' housing classes due to the affordability for seniors (on the basis that ability to pay is not a barrier to entry) and the provision of 24-hours a day, 7 days a week care. Residents of LTC homes are directly charged a co-payment for accommodation, which is annually set by the MOHLTC. Resident ability to pay the co-payment is not a barrier to admission to LTC homes in Ontario. In the event these amounts are unaffordable for a resident, MOHLTC subsidies are provided through a rate reduction mechanism to reduce the basic accommodation charge. LTC accommodation is generally comprised of ward, semi-private and private rooms. Residents pay a higher accommodation rate for private and semi-private accommodation, and such rates are fixed annually by the MOHLTC. In addition, there is excess demand over supply with a wait list of approximately 24,520 as of June 2015 (Source: MOHLTC Long-Term Care System Report, June 2015).

LTC Funding Model

Licensed operators of Ontario LTC homes are entitled to operational funding for care services to residents (subject to annual reconciliation), as well as various capital renewal program payments. Operational funding of LTC homes is used to fund care and is currently paid monthly and is divided into three "envelopes". The three envelopes are Nursing and Personal Care, Programs and Support Services and Accommodations (which includes the raw food-only ("**Raw Food**") component and other accommodation ("**OA**") component. Total operational revenue received by operators includes a provincial government component and a direct charge to residents in respect of accommodation services. Each envelope is structured as a fixed amount per resident per day, or "rate". If a LTC home's average annual occupancy meets or exceeds 97%, it is the MOHLTC's policy to provide funding based on 100% occupancy. Provincial support for the Ontario LTC sector has been demonstrated by annual increases in funding.

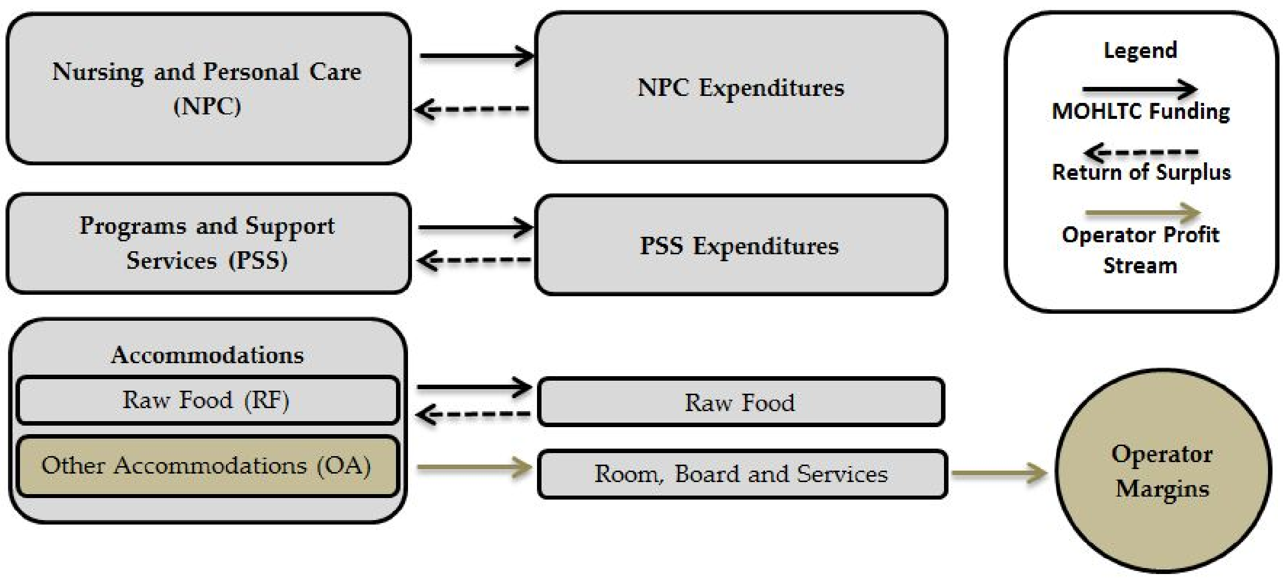
- **Nursing and Personal Care**: Flow-through envelope funded by the MOHLTC and designed to cover expenses associated with nursing and personal care staffing as well as medical and nursing supplies. LTC homes receive funding based on the assessed care needs of their residents.

- **Programs and Support Services**: Flow-through envelope funded by the MOHLTC and designed to cover expenses associated with therapeutic services, pastoral care, recreation, staff training, volunteer coordination and other services.

- **Accommodation**: Flow-through envelope funded by the MOHLTC and comprised of Raw Food and OA components. In connection with the OA component, a co-payment is charged to residents to cover funding for room and board expenses, such as housekeeping, dietary services, laundry and linen, administration, and building/property operations and maintenance.

Funding provided to the Nursing and Personal Care and Programs and Support Services may only be applied to expenses categorized for each respective envelope. Funding received from the Nursing and Personal Care or Programs and Support Services envelopes, or from the Raw Food component of the Accommodations envelope, in excess of the amounts spent by the operator must be reimbursed to the MOHLTC during an annual reconciliation process and any subsequent reimbursements may result in current year adjustments, known as "prior period adjustments". The OA component of the Accommodations envelope may be applied to expenses under any envelope or may generally be retained for profit. Should an operator incur costs in excess of the amount allocated for the flow through envelopes, then that expenditure must be paid from the OA component of the Accommodations envelope. The following diagram provides an overview of the overall funding framework for an LTC home in the Province of Ontario on a normalized basis.

MOHLTC Funding Model(1)



Notes:
(1) Basic model not taking into account any permitted cost transfers between eligible envelopes, which became effective in 2013.

Capital Renewal Initiatives

The MOHLTC categorizes and provides structural compliance and capital funding for LTC homes according to three structural classification types - Classes A, B and C. The Class designations are made by reference to whether or not the home meets or exceeds certain MOHLTC structural design guidelines. Class A homes, which make up the majority of the Company's portfolio, substantially meet (or, in the case of Class A beds designated as "New", meet or exceed) the MOHLTC's most recent design standards which were issued in 1998.

Capital funding is available to operators of LTC homes under the following MOHLTC programs, which together make up the "**Capital Renewal Initiatives**":

- **Structural Compliance Premiums**: Structural compliance funding is provided on a per person per day basis and applies to those operators who have fully or partially financed their own construction costs. The amount depends on the design standard that the LTC home meets and the amount of any government grants received. The current *per diem* funding levels are (on a per resident basis): Class A homes which are not receiving capital cost funding (explained below) - $5.00, Class B homes - $2.50, Class C homes - $1.00.

- **Capital Cost Funding for New Beds ($10.35 Government Per Diem Payments)**: Capital funding applies to homes that have New beds as a result of being constructed after April 1, 1998. Under the development agreements, New beds (whether converted or newly constructed) receive a 20-year commitment from the MOHLTC to provide per diem funding of up to $10.35 per bed. Approximately 61% of the Company's portfolio receives the $10.35 funding, with the maximum remaining term of the funding at 12 years and an average remaining term of 8 years.

- **Class B and C Beds:** There are currently approximately 35,000 Class B and C beds in Ontario. In October 2014, an announcement was made by the MOHLTC in regards to a LTC home renewal strategy to support operators in upgrading older LTC homes. The announcement included a number of initiatives, including a commitment to continue to increase premiums for preferred accommodation, and an extension to 30 years for the license terms of Class A homes. LTC renewal strategy details communicated to all stakeholders in March 2015 included a construction funding subsidy policy that increased the per diem funding amount to a minimum of $16.65 per resident per day for 25 years. The Company expects to develop older homes through this program and is currently undergoing detailed planning for its approximately 2,200 Class B and C beds.

In addition to operational funding and subsidies pursuant to the Capital Renewal Initiatives, LTC operators receive additional revenue from the following sources:

- **Accreditation**: LTC homes that are accredited by the Commission on Accreditation of Rehabilitation Facilities (or previously by Accreditation Canada) earn an additional *per diem* of $0.33 per bed from the MOHLTC. The Commission on Accreditation of Rehabilitation Facilities, a not-for-profit, independent organization provides healthcare organizations with a self-regulatory review process to assess and improve the quality of care and services provided to clients and residents. Accreditation is granted through a regular peer review process that examines and assesses the organization's services, systems and infrastructure. All of the Company's LTC homes are currently accredited and are re-accredited every three years.

- **Municipal Taxes, High Intensity Funding, Pay Equity & Preferred Accommodation**: The MOHLTC also provides additional funding or reimbursement for various other items including reimbursement of LTC homes' municipal property tax obligations (currently up to 85%) and additional funding for high intensity needs and specialty programs (e.g., convalescent care, and peritoneal dialysis). Funds are also provided to operators of LTC homes to cover past and continuing pay equity obligations for LTC homes that have used the "proxy pay equity method". Pay equity funding varies from home to home based on individual payroll obligations. An equalization adjustment of up to $3.25 per resident per day is provided to LTC homes. Preferred premiums are received from residents for semi-private or private accommodation.

LTC Ownership

The LTC sector in the Province of Ontario is comprised of a number of private, public sector operators and not-for-profit organizations offering a variety of services similar to those offered by the Company. The Ontario LTC sector has historically been fragmented, with small operators (including not for profit operators, which operate approximately 50% of the LTC beds in Ontario) providing most of the beds. The sector has experienced consolidation in recent years, which is expected to continue.

Home Care

Home Care services in Ontario are designed to support seniors that that require assistance in day-to-day activities and healthcare while living in their own homes. Funding for such services is provided by Ontario's CCACs, which are mandated by the MOHLTC with the administration of publicly funded home care and the management of LTC access and wait lists in the Province of Ontario. The Government of Ontario continues to fund a wide range of home care and community support services to enable seniors to continue to live in their own homes.

The current system goals are to improve integration with other sectors, improve care coordination, improve patient care and increase value for money. Home Care service providers must ensure their key performance indicators (KPI) are meeting or exceeding provincial targets in order to continue to receive their allocated funding volumes.

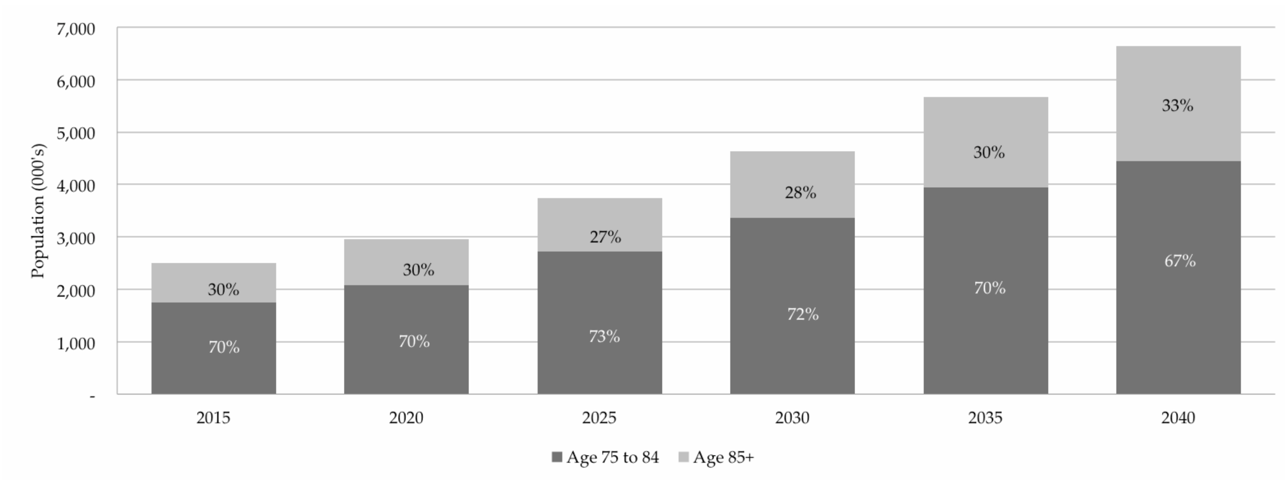
The Home Care sector in Ontario is experiencing a period of transition, with various calls to strengthen patient-centred care in the province with more consistent and accessible home care services, including through increased accountability and integration of home and community care by transferring direct responsibility for service management and delivery from the CCACs to the LHINs (Source: MOHLTC Discussion Paper, "Patients First, A Proposal to Strengthen Patient-Centred Health Care in Ontario", December 2015).

Demand for Seniors Housing

The demand for seniors' housing and programs continues to grow in Canada. Management believes the aging demographic, increasing life expectancy, increasing seniors' affluence and changing family dynamics have, and will continue to, increase demand for LTC, RR and home care services. The primary factors driving demand, among others, are described below:

Aging demographic*:* The primary demographic group living in LTC homes and RR communities are Canadians who are older than 85 years of age. According to Statistics Canada, the 75-plus and 85-plus age cohorts in Canada are anticipated to be among the fastest growing population groups. Canada's 85-plus age cohort is projected to grow over 191% between 2015 and 2040. Projected growth in 85-plus age cohort in the province of Ontario mirrors the national forecast.

Estimated Population in Canada's 75 to 84 and 85+ Age Cohorts



Source: Statistics Canada, CANSIM table 052-0005.

Recession stability*:* The LTC sector has historically been insulated from economic cycles. This can be attributed to several factors, including: (i) demand for LTC housing is not discretionary but driven by need, which does not fluctuate during economic cycles; (ii) stability of tenure, since seniors are generally unable to move to alternative accommodation once they have taken up residence in a facility; and (iii) the continual increase in the demand for LTC.

The Retirement sector is less insulated from economic cycles when compared to the LTC sector, as seniors choose retirement living usually based on need and affordability. Certain of the same factors that support the recession stability of the LTC sector also apply to RRs: (i) seniors are generally retired and receiving stable, fixed and predictable income from private and public pensions, RRSPs and other fixed income investment securities; and (ii) stability of tenure, as seniors, once having moved into a retirement home are reluctant or are unable to move to alternative accommodation, until they require the level of care that makes them eligible for LTC.

2016 Outlook

Management believes that the Company continues to be well positioned for both organic and external growth, supported by the favourable demographics of a growing seniors population, the strong demand for seniors services and the regulatory and operational barriers to the seniors living sector.

Retirement

In 2015, the Company continued to enhance its retirement platform and made strong improvements in sales and marketing through rebranding efforts focused on each local community. The Company made further contributions towards increased resident satisfaction through enhanced care services offerings, as well as improvements to the resident culinary experience and leisure programs at the residences. The Company believes that these efforts contributed to positive results in 2015. The RR portfolio experienced a 13% increase in same property NOI over 2014 and as at occupancy increased by 6.8% over 2014 to 93.6% from 86.8%.

Management expects moderate growth in the RR portfolio as the Company continues to build on the recent sales and marketing improvements and operating platform. The Company anticipates growing revenue through enhanced care services and rate increases consistent with market rates, and by maintaining the current margin percentage.

Long-Term Care

During 2015, the Company's LTC's division delivered solid results, as reflected by the same property NOI increase of 1.8% over 2014. The Company continued to experience strong demand for all Classes of LTC beds, with average occupancy at 98.7%. As of December 31, 2015, 64.1% of the Company's Class A private LTC beds, compared to 53.7% as of December 31, 2014, have been converted to the increased per resident rates of $19.75, $21.50, $23.25 or $25.00 per day.

In 2016, management expects that LTC will continue to achieve stable performance, with continued conversion of the Class A private LTC beds to the new preferred accommodation rates and focus on disciplined cost management.

Management continues to work through detailed feasibility analyses and related planning with respect to the potential redevelopment of its older LTC homes, as per the MOHLTC's renewal strategy guidelines, with a view to redevelop or upgrade to the new Class A structural classifications. MOHLTC approval is required to proceed with redevelopment projects. Management anticipates that redeveloped LTC homes will be mostly greenfield projects, requiring extended periods of time for both planning and approvals phases. As at this time, for redevelopment projects to be feasible and in line with the Company's growth and operating strategies, management expects to endeavour to create and implement, to the extent possible, a seniors living continuum by providing a range of independent living, assisted living, memory care and specialized LTC services.

General and Administrative Expenses

In 2015, the Company incurred one-time rebranding costs of $489, consistent with the original anticipated cost of $500. Management believes that the Company has, and will continue to, realize benefits from the rebranding initiatives: building local brand reputation, improved online presence and efficiencies in marketing and promotions and to facilitate the Company’s future growth. In 2015, the Company further undertook additional upgrades to modernize its information technology infrastructure and employee payroll system, which management believes results in important improvements to the security and management of Company information and processes.

Management believes that General and Administrative expenses are at a sustainable level, adjusted for inflation, to enable the Company to continue to meet regulatory requirements and support strong operations.

Significant Events

Rebranding

On May 1, 2015, the Company effected a company-wide rebranding strategy, resulting in a legal name change of the Company from Leisureworld Senior Care Corporation to Sienna Senior Living Inc., and a renaming of the Company's LTC homes and RR communities. The name change of the Company was approved at the Annual and Special Meeting of the Company's shareholders held on April 21, 2015. In connection with the name change, the Company commenced trading under the new trading symbol "**SIA**".

Acquisition

On December 31, 2015, the Company completed the acquisition of Traditions of Durham ("**Traditions**") from Durham Retirement Residence LP. Traditions is a 140-suite independent and assisted living residence located in Oshawa, Ontario. The purchase price of $37,000, before closing costs and subject to customary closing adjustments, was satisfied, in part, by the assumption of $22,704 of property-level mortgage maturing in March 2020 and bearing interest at 3.49% per annum, with the remainder being paid in available cash and drawdowns from the Company's credit facilities. As part of the total purchase consideration for Traditions, the Company negotiated a $550 income support agreement with the vendor, which was held in escrow as an annual net operating income guarantee. This is considered to be a related party transaction as a member of the Board of Directors of the Company, Ms. Jourdain Coleman, had minority ownership and significant influence over Traditions. Total purchase consideration for the acquisition is equal to the fair value of the identifiable net assets acquired.

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 and year ended December 31:

	Three Months Ended			Year Ended		
Thousands of Dollars, except occupancy, share and ratio data	**2015**	2014	Change	**2015**	2014	Change
OCCUPANCY						
LTC - Average total occupancy	**98.8%**	98.8%	—%	**98.7%**	98.7%	—%
LTC - Average private occupancy	**99.9%**	99.8%	0.1%	**99.8%**	99.4%	0.4%
Retirement - Average occupancy	**93.4%**	85.9%	7.5%	**89.3%**	84.1%	5.2%
Retirement - As at occupancy	**93.6%**	86.8%	6.8%	**93.6%**	86.8%	6.8%
FINANCIAL						
NOI [(1)]	**22,010**	20,678	1,332	**85,402**	81,800	3,602
OFFO	**11,453**	10,445	1,008	**43,007**	41,772	1,235
AFFO	**12,180**	11,204	976	**49,451**	48,296	1,155
PER SHARE INFORMATION						
OFFO per share, basic	**0.314**	0.288	0.026	**1.182**	1.152	0.030
OFFO per share, diluted	**0.304**	0.286	0.018	**1.148**	1.120	0.028
AFFO per share, basic	**0.334**	0.309	0.025	**1.359**	1.332	0.027
AFFO per share, diluted	**0.323**	0.305	0.018	**1.312**	1.287	0.025
Dividends per share	**0.225**	0.225	—	**0.900**	0.900	—
Payout ratio (basic AFFO)	**67.4%**	72.8%	-5.4%	**66.2%**	67.6%	-1.4%
FINANCIAL RATIOS						
Debt Service Coverage Ratio	**2.0**	2.0	—	**2.1**	2.1	—
Debt to Gross Book Value as at period end	**55.6%**	56.4%	-0.8%	**55.6%**	56.4%	-0.8%
Weighted Average Cost of Debt as at period end	**3.8%**	3.8%	—%	**3.8%**	3.9%	-0.1%
Debt to EBITDA ratio as at period end	**7.8**	7.9	(0.1)	**7.8**	7.9	(0.1)
Interest Coverage Ratio	**3.5**	3.2	0.3	**3.4**	3.1	0.3
Weighted Average Term to Maturity as at period end	**4.5**	5.3	(0.8)	**4.5**	5.3	(0.8)

	2015 v. 2014	2015 v. 2014
SAME PROPERTY PERCENT CHANGE IN NOI		
Long-Term Care	2.5%	1.8%
Retirement	20.4%	13.0%
Total	6.4%	4.4%

Notes:

1. For the three months and year ended December 31, 2015, the Company recorded MOHLTC reconciliation adjustments that decreased revenue and NOI by $95 (2014 - $269) and $606 (2014 - $1,294), respectively. The adjustments relate to the difference between the Company's annual reconciliation filings with the MOHLTC and their assessments of those filings, primarily for the reconciliation years 2008 through to 2014. These adjustments are based on current period correspondence with the MOHLTC and the Company's best estimate of the probability of recovery of the outstanding amounts.

Quarterly Financial Information

Thousands of Dollars, except occupancy and per share data	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1
Revenue	**122,775**	**118,931**	**115,186**	**113,212**	117,745	115,029	111,674	112,340
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	**17,546**	**17,967**	**16,060**	**15,596**	16,252	17,031	15,702	15,304
Net income (loss)	**2,271**	**3,334**	**1,282**	**350**	204	1,643	376	(18,064)
Per share and diluted per share	**0.06**	**0.09**	**0.04**	**0.01**	0.01	0.05	0.01	(0.50)
OFFO - Basic [1]	**11,453**	**11,497**	**10,448**	**9,609**	10,445	11,071	10,892	9,364
Per share	**0.31**	**0.32**	**0.29**	**0.26**	0.29	0.31	0.30	0.26
Per share diluted - excluding subscription receipts	**0.30**	**0.31**	**0.28**	**0.26**	0.29	0.29	0.29	0.25
AFFO - Basic [1]	**12,180**	**13,256**	**12,179**	**11,836**	11,204	12,341	13,047	11,704
Per share	**0.33**	**0.36**	**0.34**	**0.33**	0.31	0.34	0.36	0.32
Per share diluted - excluding subscription receipts	**0.32**	**0.35**	**0.32**	**0.32**	0.31	0.33	0.35	0.31
Dividends declared	**8,205**	**8,196**	**8,188**	**8,175**	8,164	8,160	8,159	8,158
Per share	**0.23**	**0.23**	**0.23**	**0.23**	0.23	0.23	0.23	0.23
Occupancy								
LTC - Average total occupancy	**98.8%**	**99.1%**	**98.5%**	**98.1%**	98.8%	98.9%	98.5%	98.5%
LTC - Average private occupancy	**99.9%**	**99.9%**	**99.7%**	**99.0%**	99.8%	99.9%	99.1%	98.7%
Retirement - Average occupancy	**93.4%**	**90.2%**	**87.0%**	**86.9%**	85.9%	84.3%	83.0%	82.7%
Retirement - As at occupancy	**93.6%**	**92.3%**	**88.8%**	**86.8%**	86.8%	84.9%	83.0%	82.5%
Total assets	**951,469**	**912,933**	**924,919**	**932,798**	946,763	953,394	956,746	969,355
Total debt [2]	**629,068**	**593,633**	**602,960**	**612,733**	616,081	618,970	621,915	624,837

Notes:

1. Beginning in Q2 2014, the impact of the MOHLTC reconciliation adjustments (discussion below) was added back to OFFO and AFFO.
2. Total debt includes the Convertible Debentures and is net of amounts paid into the principal reserve fund on the Series B Debentures.

The Company's quarterly financial results are impacted by various factors including, but not limited to, the timing of acquisitions, seasonality of utility expenses, timing of 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 MOHLTC reconciliation adjustments that decreased revenue and NOI by $95 in Q4 2015, $nil in Q3 2015, $536 in Q2 2015 and increased revenue and NOI by $25 in Q1 2015. In the prior year, the MOHLTC reconciliation adjustments recorded decreased revenue and NOI by $269 in Q4 2014, $69 in Q3 2014 and $956 in Q2 2014. 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 the reconciliation years 2008 through to 2014. These adjustments are based on confirmation with the MOHLTC and the Company's best estimate of the probability of recovery of the outstanding amounts, based on recent information and interpretation of the funding mechanism.

During Q1 2014, $322 million of Series B Debentures were issued to generate proceeds to redeem the Series A Debentures in full, resulting in the payment of an $18.4 million redemption premium and associated expenses. The Series A Debentures and Series B Debentures were both outstanding for a 21 day-period during Q1 2014.

A discussion of the operating results for the year ended December 31, 2015 compared to the same period in the prior year is provided below under the section "Operating Results".

Selected Annual Financial Information

The following table summarizes selected annual financial information for the years ended December 31, 2015, 2014 and 2013:

Thousands of Dollars, except per share data	2015	2014	2013
Revenue	470,104	456,788	353,323
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	67,169	64,289	49,541
Net income (loss)	7,237	(15,841)	(9,384)
Basic and diluted income (loss) per share	0.20	(0.44)	(0.31)
OFFO - Basic [1]	43,007	41,772	30,958
Per share	1.18	1.15	1.04
Per share diluted - excluding subscription receipts	1.15	1.12	1.02
Per share diluted - including subscription receipts	n/a	n/a	0.91
AFFO - Basic [1]	49,451	48,296	37,134
Per share	1.36	1.33	1.24
Per share diluted - excluding subscription receipts	1.31	1.29	1.21
Per share diluted - including subscription receipts	n/a	n/a	1.08
Dividends declared	32,764	32,641	26,895
Per share	0.90	0.90	0.90
Total assets	951,469	946,763	977,024
Total debt [2]	629,068	616,081	598,703

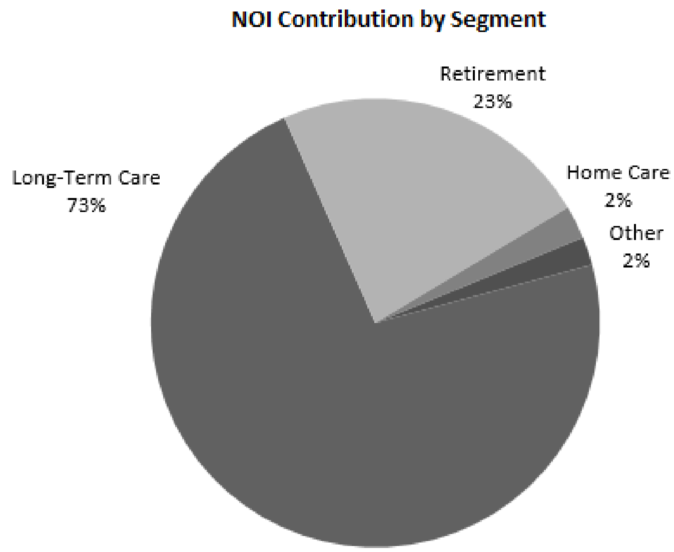
Notes:

1. Beginning in Q2 2014, the impact of the MOHLTC reconciliation adjustments was added back to OFFO and AFFO.
2. Total debt includes the Convertible Debentures and is net of amounts paid into the principal reserve fund on the Series B Debentures.

Business Overview

The Company and its predecessors have been operating since 1972. The Company is one of Canada's largest operators of seniors housing and is the largest owner and operator provider of licensed LTC in Ontario. Since inception, the Company has expanded both through acquisition and organically, which reflects a proven ability to increase the capacity and occupancy of its portfolio.

The following is the business segment contribution to NOI for the year ended December 31, 2015.

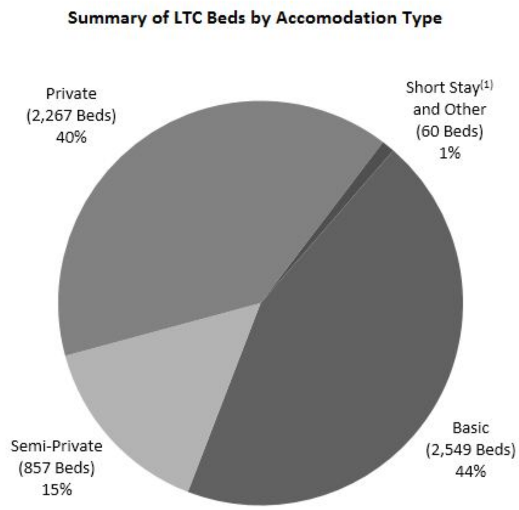


Retirement and Independent Living Residences

The Company's retirement portfolio consists of 11 RR communities, three of which are located in British Columbia (the "**BC Homes"**) and eight of which are located in Ontario. One Ontario property was added from the Company's Traditions acquisition on December 31, 2015. Four of the Ontario properties were acquired as part of the Company's Specialty Care Acquisition on December 2, 2013. The remaining two Ontario properties are The Royale Kingston and The Royale Kanata (the "**Ontario Homes"**). The Company also has one IL community in Ontario. The Company's RR portfolio, while still growing its revenue base, generated approximately 9% of its net revenues and approximately 23% of its NOI in 2015.

Long-Term Care

In 2015, the Company's LTC portfolio contributed approximately 86% of its net revenues and generated approximately 73% of its NOI. Approximately 55% of the Company's LTC beds are designated as preferred accommodation (private and semi-private rooms). Approximately 4% of the net revenues and 27% of the NOI from the Company's LTC operations were derived from charging residents the regulated premiums for these types of accommodations in 2015. Effective July 1, 2015, the MOHLTC announced that the regulated per diem premiums had increased to $25.00 and $12.00 for new admissions to private and semi-private accommodation, respectively, in Class A homes, with existing residents in such preferred accommodations being grandfathered at historical rates. The rates for Class C homes are currently $18.00 and $8.00 for private and semi-private accommodation, respectively.



Note

(1) Short stay ("SS) and convalescent care ("CC") beds are reserved for people requiring stays in an LTC home of less than 30 and 90 days, respectively. SS beds are designated to provide home caregivers with relief from their caregiving duties on a periodic basis. CC beds are typically used to provide resident support following a hospital stay. SS beds are funded at 100% occupancy regardless of actual occupancy and CC beds are funded at 100% occupancy, provided average annual occupancy meets or exceeds 80%. In addition, CC beds earn additional funding as a result of the higher level of cash required.

Home Care Services

PHCS operates the Company's Home Care segment. PHCS offers personal support services to seniors in their homes, funded through CCACs and private pay home care. PHCS has been in operation in Ontario since 1987. In 2015, the Company's Home Care segment contributed approximately 4% of its net revenues and generated approximately 2% of its NOI.

Currently, the Company holds three CCAC contracts in the Greater Toronto Area for personal support worker services through its ownership of PHCS, the Company's personal support services provider for community-based home care. PHCS continues to invest in quality driven programs and ongoing education for its front line workers and to maintain high quality of care and services for continued performance on all key performance indicators.

Management Services

The Company operates a management services business that is focused on the third party management in both the LTC and RR sectors. In 2015, the Company's Management Services segment contributed approximately 1% of the net revenues and generated approximately 2% of the NOI.

Operating Results

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

	Three Months Ended			Year Ended		
Thousands of Dollars	**2015**	2014	Change	**2015**	2014	Change
Revenue	**122,775**	117,745	5,030	**470,104**	456,788	13,316
Expenses						
Operating	**100,765**	97,067	3,698	**384,702**	374,988	9,714
Administrative	**4,464**	4,426	38	**18,233**	17,511	722
	105,229	101,493	3,736	**402,935**	392,499	10,436
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	**17,546**	16,252	1,294	**67,169**	64,289	2,880
Other expenses						
Depreciation and amortization	**8,090**	9,818	(1,728)	**34,589**	39,511	(4,922)
Net finance charges	**5,362**	5,400	(38)	**21,096**	45,686	(24,590)
Transaction costs	**618**	447	171	**922**	1,163	(241)
Total other expenses	**14,070**	15,665	(1,595)	**56,607**	86,360	(29,753)
Income (loss) before the provision for (recovery of) income taxes	**3,476**	587	2,889	**10,562**	(22,071)	32,633
Provision for (recovery of) income taxes						
Current	**686**	252	434	**2,257**	(1,686)	3,943
Deferred	**519**	131	388	**1,068**	(4,544)	5,612
	1,205	383	822	**3,325**	(6,230)	9,555
Net income (loss)	**2,271**	204	2,067	**7,237**	(15,841)	23,078
Total assets	**951,469**	946,763	4,706	**951,469**	946,763	4,706
Total debt (net of principal reserve fund)	**629,068**	616,081	12,987	**629,068**	616,081	12,987

Revenue Breakdown

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

	Three Months Ended			Year Ended		
Thousands of Dollars	**2015**	2014	Change	**2015**	2014	Change
Long-Term Care						
Same property	**106,314**	102,730	3,584	**407,204**	398,078	9,126
Total Long-Term Care Revenue	**106,314**	102,730	3,584	**407,204**	398,078	9,126
Retirement						
Same property	**11,660**	10,445	1,215	**44,105**	40,815	3,290
Total Retirement Revenue	**11,660**	10,445	1,215	**44,105**	40,815	3,290
Home Care						
Same property	**4,395**	4,476	(81)	**17,483**	17,849	(366)
Total Home Care Revenue [1]	**4,395**	4,476	(81)	**17,483**	17,849	(366)
Management Services						
Same property	**611**	609	2	**2,446**	2,426	20
Total Management Services Revenue	**611**	609	2	**2,446**	2,426	20
Total Revenue						
Same property	**122,980**	118,260	4,720	**471,238**	459,168	12,070
MOHLTC reconciliation adjustments	**(95)**	(269)	174	**(606)**	(1,294)	688
Intersegment eliminations	**(110)**	(246)	136	**(528)**	(1,086)	558
Total Revenue	**122,775**	117,745	5,030	**470,104**	456,788	13,316

"**Intersegment eliminations**" refers to activities that took place between the separate lines of business. The activities are eliminated on consolidation and should still be reflected as part of the operating line of business results. The activities relate to educational services provided by the Home Care segment to the LTC segment. The operation and management of a portion of these services has been transferred to the LTC segment in the current year for internal management and synergies.

Note:
1. The revenue decline in the Home Care business is primarily due to internal business realignment, relating to professional services that serviced the Company's LTC homes.

Operating Expense Breakdown

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

	Three Months Ended			Year Ended		
Thousands of Dollars	**2015**	2014	Change	**2015**	2014	Change
Long-Term Care						
Same property	**90,520**	87,322	3,198	**344,654**	336,647	8,007
Total Long-Term Care Expenses	**90,520**	87,322	3,198	**344,654**	336,647	8,007
Retirement						
Same property	**6,329**	6,016	313	**24,430**	23,399	1,031
Total Retirement Expenses	**6,329**	6,016	313	**24,430**	23,399	1,031
Home Care						
Same property	**3,856**	3,840	16	**15,445**	15,362	83
Total Home Care Expenses	**3,856**	3,840	16	**15,445**	15,362	83
Management Services						
Same property	**170**	135	35	**701**	666	35
Total Management Services Expenses	**170**	135	35	**701**	666	35
Total Operating Expenses						
Same property	**100,875**	97,313	3,562	**385,230**	376,074	9,156
Intersegment eliminations	**(110)**	(246)	136	**(528)**	(1,086)	558
Total Operating Expenses	**100,765**	97,067	3,698	**384,702**	374,988	9,714

Net Operating Income Breakdown

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

	Three Months Ended			Year Ended		
Thousands of Dollars	**2015**	2014	Change	**2015**	2014	Change
Long-Term Care						
Same property	**15,794**	15,408	386	**62,550**	61,431	1,119
Total Long-Term Care NOI	**15,794**	15,408	386	**62,550**	61,431	1,119
Retirement						
Same property	**5,331**	4,429	902	**19,675**	17,416	2,259
Total Retirement NOI	**5,331**	4,429	902	**19,675**	17,416	2,259
Home Care						
Same property	**539**	636	(97)	**2,038**	2,487	(449)
Total Home Care NOI (1)	**539**	636	(97)	**2,038**	2,487	(449)
Management Services						
Same property	**441**	474	(33)	**1,745**	1,760	(15)
Total Management Services NOI	**441**	474	(33)	**1,745**	1,760	(15)
Total NOI						
Same property	**22,105**	20,947	1,158	**86,008**	83,094	2,914
MOHLTC reconciliation adjustments	**(95)**	(269)	174	**(606)**	(1,294)	688
Total NOI	**22,010**	20,678	1,332	**85,402**	81,800	3,602

Note:

1. The NOI decline in the Home Care business for the year ended December 31, 2015 is primarily due to internal business realignment, relating to professional services that serviced the Company's LTC homes.

For the Quarter

Revenue

Revenues for Q4 2015 increased by $5,030 to $122,775, compared to Q4 2014. LTC revenues increased by $3,584, primarily attributable to funding changes in the flow-through envelopes, along with higher preferred and other accommodation revenues.

RR revenues for Q4 2015 increased by $1,215 to $11,660, compared to Q4 2014, primarily due to increases in occupancy.

Home Care revenues of $4,395 for Q4 2015 are slightly lower than the revenues for Q4 2014. The decrease in revenues was primarily due to internal business realignment.

Operating Expenses

Operating expenses for Q4 2015 increased by $3,698 to $100,765, compared to Q4 2014. Of this increase, LTC represented $3,198, which was primarily attributable to higher flow-through envelope expenses, partially offset by lower operating equipment and utilities expenses.

RR operating expenses for Q4 2015 increased by $313 to $6,329, compared to Q4 2014. The increase was primarily attributable to higher variable expenses resulting from increases in occupancy.

Home Care operating expenses for Q4 2015 of $3,856 were relatively flat compared to the same period in the prior year.

NOI

NOI for Q4 2015 increased by $1,332 to $22,010, compared to Q4 2014. LTC's NOI increased by $386, primarily due to higher preferred and other accommodation revenues.

RR's NOI for Q4 2015 increased by $902 to $5,331, compared to Q4 2014 principally attributable to increases in occupancy.

Home Care’s NOI for Q4 2015 decreased by $97 to $539, compared to Q4 2014 as a result of internal business realignment.

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 Q4 2015 of $4,464 were relatively flat compared to Q4 2014 administrative expenses of $4,426.

Depreciation and Amortization

Depreciation and amortization for Q4 2015 decreased by $1,728 to $8,090 compared to Q4 2014. The decrease was primarily attributable to certain resident relationship intangibles and building assets being fully amortized during the fiscal year 2014.

Net Finance Charges

Net finance charges for Q4 2015 of $5,362 were relatively flat compared to Q4 2014 net finance charges of $5,400.

Income Taxes

Income tax expense for Q4 2015 increased by $822 to $1,205 compared to Q4 2014. The current income tax expense was $686 for Q4 2015, compared to a current income tax expense of $252 in Q4 2014. The increase in the current income taxes was primarily due to the increase in NOI over the comparable period and decrease in tax shield on the deferred financing charges over the comparable prior year period. The current income taxes have been calculated at the weighted average combined corporate tax rate of 26.49%. The deferred tax expense of $519 in Q4 2015 represents an increase of $388 over the comparable prior year period, primarily as a result of timing differences.

For the Year

Revenue

Revenues for the year ended December 31, 2015 increased by $13,316, to $470,104 compared to the prior year. LTC revenues increased by $9,126 to $407,204, primarily attributable to funding changes to the flow-through envelopes, along with higher preferred and other accommodation revenues.

RR revenues increased by $3,290 to $44,105 compared to the prior year due to increases in occupancy.

Home Care revenue decreased by $366 to $17,483 compared to the prior year. This was primarily attributable to the internal business realignment.

Operating Expenses

Operating expenses for the year ended December 31, 2015 increased by $9,714 to $384,702, compared to $374,988 in 2014. Of this increase, LTC accounted for $8,007, which was primarily attributable to higher flow-through envelope and dietary expenses.

RR operating expenses for the year ended December 31, 2015 increased by $1,031 to $24,430 compared to the prior year, primarily attributable to increases in occupancy.

Home Care expenses for the year ended December 31, 2015 increased by $83 to $15,445 compared to the prior year, primarily due to internal business realignment.

NOI

The Company generated NOI of $85,402 for the year ended December 31, 2015. This represented an increase of $3,602 over prior year.

LTC's NOI increased by $1,119 to $62,550 for the year, primarily due to the increased preferred and other accommodation revenue.

RR's NOI increased by $2,259 to $19,675 compared to the prior year, primarily due to higher revenue resulting from increases in occupancy.

Home Care's NOI of $2,038 reflects a decrease of $449 over the prior year primarily due to internal business realignment.

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 increased by $722 to $18,233 during the year ended December 31, 2015, compared to $17,511 in the prior year. The increase was primarily due to rebranding costs of $489 and inflationary increases in other administrative expenses.

Depreciation and Amortization

Depreciation and amortization for the year ended December 31, 2015 decreased by $4,922 to $34,589 compared to the prior year. The decrease was primarily attributable to certain resident relationship intangibles and building assets being fully amortized during the fiscal year 2014.

Net Finance Charges

Net finance charges for the year ended December 31, 2015 were $21,096, compared to $45,686 for the prior year. The decrease of $24,590 was principally the result of the incremental finance charges in the prior year of approximately $23,353 from the redemption of the Series A Debentures. The remaining decrease in net finance charges of $1,237 was primarily attributable to lower interest expense on long-term debt due to repayments on mortgage principal and voluntary repayments on credit facilities as well as gain on interest rate swaps, partially offset by lower interest income earned.

Transaction Costs

For the year ended December 31, 2015, transaction costs were $922 compared to $1,163 in the prior year. The decrease of $241 was primarily attributable to the timing of transactional activities which was partially offset by the income support adjustment of $201 during the year ended December 31, 2015.

Income Taxes

The income tax expense for the year ended December 31, 2015 was $3,325, compared to an income tax recovery of $6,230 in the prior year. The current income tax expense was $2,257 compared to an income tax recovery of $1,686 for the year ended December 31, 2014. The prior year tax recovery primarily resulted from the tax shield created by the redemption premium paid on the Series A Debentures and the settlement of a bond-lock hedge recorded in Q1 2014. In addition, there was a book to filing adjustment recovery of $452 recorded in

2014 compared to an expense of $414 in 2015. The current income taxes have been calculated at the weighted average combined corporate tax rate of 26.49%. The deferred tax expense of $1,068 is an increase of $5,612 over prior year, primarily as a result of the tax shields discussed above.

Business Performance

Adjusted Funds from Operations

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

	Three Months Ended			Year Ended		
Thousands of Dollars, except share and per share data	**2015**	2014	Change	**2015**	2014	Change
Net income (loss)	**2,271**	204	2,067	**7,237**	(15,841)	23,078
Deferred income tax expense (recovery)	**519**	131	388	**1,068**	(4,544)	5,612
Depreciation and amortization	**8,031**	9,818	(1,787)	**34,433**	39,511	(5,078)
Transaction costs	**618**	447	171	**922**	1,163	(241)
Net settlement payment on interest rate swap contracts	**74**	83	(9)	**321**	358	(37)
(Gain) loss on interest rate swap contracts	**(71)**	38	(109)	**(187)**	581	(768)
Funds from operations (FFO)	**11,442**	10,721	721	**43,794**	21,228	22,566
Depreciation and amortization - corporate	**59**	—	59	**156**	—	156
Net accretion of fair value increment on long-term debt	**(123)**	(202)	79	**(596)**	3,181	(3,777)
Amortization of deferred financing charges	**298**	286	12	**1,214**	1,651	(437)
Amortization of loss on bond forward contract	**209**	202	7	**820**	720	100
Net settlement payment on interest rate swap contracts	**(74)**	(83)	9	**(321)**	(358)	37
Redemption premium on long-term debt	**—**	23	(23)	**—**	18,415	(18,415)
Tax shield due to redemption premium on Series A Debentures	**(427)**	(700)	273	**(2,505)**	(2,366)	(139)
Tax shield due to the settlement of the bond-lock hedge	**—**	—	—	**—**	(1,650)	1,650
MOHLTC reconciliation adjustment (after tax)	**69**	198	(129)	**445**	951	(506)
Operating funds from operations (OFFO)	**11,453**	10,445	1,008	**43,007**	41,772	1,235
Deferred share unit compensation earned	**5**	239	(234)	**900**	856	44
Deferred share unit settlement	**—**	—	—	**—**	(73)	73
Income support	**—**	62	(62)	**27**	644	(617)
Construction funding principal	**2,413**	2,264	149	**9,352**	8,930	422
Maintenance capex	**(1,691)**	(1,806)	115	**(3,835)**	(3,833)	(2)
Adjusted funds from operations (AFFO)	**12,180**	11,204	976	**49,451**	48,296	1,155
Adjusted funds from operations (AFFO)	**12,180**	11,204	976	**49,451**	48,296	1,155
Dividends declared	**(8,205)**	(8,164)	(41)	**(32,764)**	(32,641)	(123)
Operating cash flow retained	**3,975**	3,040	935	**16,687**	15,655	1,032
Basic FFO per share	**0.314**	0.296	0.018	**1.203**	0.585	0.618
Basic OFFO per share	**0.314**	0.288	0.026	**1.182**	1.152	0.030
Basic AFFO per share	**0.334**	0.309	0.025	**1.359**	1.332	0.027
Weighted average common shares outstanding - Basic	**36,460,650**	36,277,018		**36,398,297**	36,264,658	
Diluted FFO per share	**0.304**	0.293	0.011	**1.168**	0.593	0.575
Diluted OFFO per share	**0.304**	0.286	0.018	**1.148**	1.120	0.028
Diluted AFFO per share	**0.323**	0.305	0.018	**1.312**	1.287	0.025
Weighted average common shares outstanding - Diluted	**39,206,919**	39,023,287		**39,144,566**	39,010,927	

Reconciliation of diluted FFO, OFFO and AFFO

Thousands of Dollars	Three Months Ended 2015	2014	Change	Year Ended 2015	2014	Change
FFO, Basic	**11,442**	10,721	721	**43,794**	21,228	22,566
Net financing charges on convertible debt	**660**	960	(300)	**2,618**	2,614	4
Current income tax expense adjustment	**(175)**	(254)	79	**(694)**	(692)	(2)
FFO, Diluted	**11,927**	11,427	500	**45,718**	23,150	22,568
OFFO, Basic	**11,453**	10,445	1,008	**43,007**	41,772	1,235
FFO dilutive adjustment, net	**485**	706	(221)	**1,924**	1,922	2
OFFO, Diluted	**11,938**	11,151	787	**44,931**	43,694	1,237
AFFO, Basic	**12,180**	11,204	976	**49,451**	48,296	1,155
OFFO dilutive adjustment, net	**485**	706	(221)	**1,924**	1,922	2
AFFO, Diluted	**12,665**	11,910	755	**51,375**	50,218	1,157

For the Quarter

FFO

FFO increased by $721 to $11,442, compared to Q4 2014. The increase was primarily attributable to improved NOI contribution, partially offset by higher current income tax provision and lower interest income earned on construction funding receivable.

OFFO

OFFO increased by $1,008 to $11,453, compared to Q4 2014. The increase was principally related to the increase in FFO as noted above and the income tax shield on the redemption premium of the Series A Debentures recorded in 2014.

AFFO

AFFO increased by $976 to $12,180, compared to Q4 2014. The increase was principally related to the increase in OFFO noted above.

For the Year

FFO

FFO for the year ended December 31, 2015 increased by $22,566 to $43,794 compared to the prior year. The increase was primarily due to improved NOI contribution and lower net finance costs as a result of the costs incurred for the redemption of the Series A Debentures in 2014, partially offset by an increase in the current income tax provision.

OFFO

OFFO for the year ended December 31, 2015 increased by $1,235 to $43,007 compared to the prior year. The increase was principally related to the increase in FFO as noted above, and the income tax shield on the settlement of the bond-lock hedge recorded in 2014.

AFFO

AFFO for the year ended December 31, 2015 increased by $1,155 to $49,451 as compared to the prior year. The increase was mainly attributable to the increase in OFFO, as noted above.

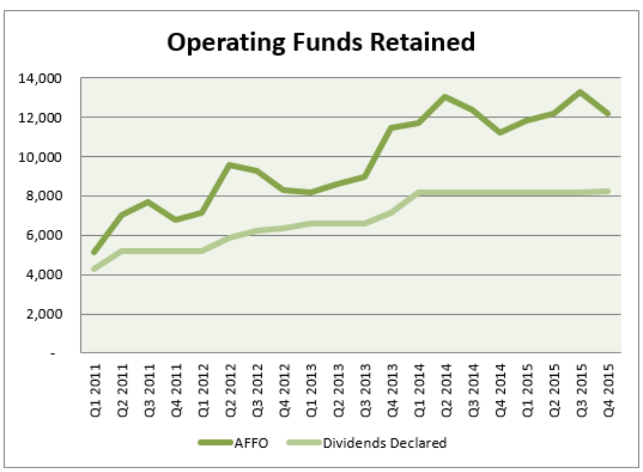
Reconciliation of Cash from Operations to Adjusted Funds from Operations

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

	Three Months Ended			Year Ended		
Thousands of Dollars	**2015**	2014	Change	**2015**	2014	Change
Cash provided by operating activities	**15,690**	15,075	615	**48,233**	24,447	23,786
Redemption premium on long-term debt	**—**	23	(23)	**—**	18,415	(18,415)
Net settlement payment on bond forward contracts	**—**	—	—	**—**	6,234	(6,234)
Construction funding principal	**2,413**	2,264	149	**9,352**	8,930	422
Transaction costs	**618**	447	171	**922**	1,163	(241)
Income support adjustment [1]	**—**	—	—	**(201)**	—	(201)
MOHLTC reconciliation adjustment (after tax)	**69**	198	(129)	**445**	951	(506)
Maintenance capex	**(1,691)**	(1,806)	115	**(3,835)**	(3,833)	(2)
Net change in working capital, interest and taxes	**(4,448)**	(4,224)	(224)	**(2,685)**	(3,634)	949
Tax shield due to redemption premium on Series A Debentures	**(427)**	(700)	273	**(2,505)**	(2,366)	(139)
Tax shield due to the settlement of the bond-lock hedge	**—**	—	—	**—**	(1,650)	1,650
Restricted share units and long-term incentive plan expense	**(44)**	(73)	29	**(275)**	(288)	13
Deferred share unit settlement	**—**	—	—	**—**	(73)	73
Adjusted funds from operations (AFFO)	**12,180**	11,204	976	**49,451**	48,296	1,155
Adjusted funds from operations (AFFO)	**12,180**	11,204	976	**49,451**	48,296	1,155
Dividends declared	**(8,205)**	(8,164)	(41)	**(32,764)**	(32,641)	(123)
Operating cash flow retained	**3,975**	3,040	935	**16,687**	15,655	1,032
Dividend reinvestment	**612**	442	170	**2,396**	442	1,954
Cash Retained after dividend reinvestment	**4,587**	3,482	1,105	**19,083**	16,097	2,986

Note:
1. Included within this reconciliation is an income support adjustment for the year ended December 31, 2015, which was recorded as transaction costs.

Operating funds retained is equal to AFFO less dividends declared.



Operating cash flow retained for the three months and year ended December 31, 2015 were $3,975 (2014 - $3,040) and $16,687 (2014 - $15,655), respectively.

The Board of Directors 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. For the year ended December 31, 2014, the operating cash flow included the one-time redemption premium for the Series A Debentures and net settlement payment on bond forward contracts.

Liquidity and Capital Resources

Financial Position Analysis

The following is a summary of cash flows for the periods ended December 31:

	Three Months Ended			Year Ended		
Thousands of Dollars	**2015**	2014	Change	**2015**	2014	Change
Cash flow from operations before non-cash working capital items	**16,977**	16,117	860	**67,422**	64,270	3,152
Non-cash changes in working capital	**2,310**	2,773	(463)	**2,860**	5,619	(2,759)
Interest paid, bond forward settlement, redemption premium, and other items	**(3,597)**	(3,815)	218	**(22,049)**	(45,442)	23,393
Cash provided by (used in):						
Operating activities	**15,690**	15,075	615	**48,233**	24,447	23,786
Investing activities	**(15,772)**	(347)	(15,425)	**(16,102)**	4,023	(20,125)
Financing activities	**6,464**	(9,482)	15,946	**(34,819)**	(15,060)	(19,759)
Increase (decrease) in cash	**6,382**	5,246	1,136	**(2,688)**	13,410	(16,098)
Cash	**26,345**	29,033	(2,688)	**26,345**	29,033	(2,688)

For the Quarter

Operating Activities

For Q4 2015, operating activities provided $15,690 of cash primarily related to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $16,977.
- Increase in accounts payable and accrued liabilities of $5,847 and decrease in prepaid expenses and deposits of $1,419 due to timing of payments.
- Partially offset by interest paid on long-term debt of $3,523 and change in net government funding balances, due to timing of receipts, used $4,664 of cash.

For Q4 2014, operating activities provided $15,075 of cash primarily as a result of:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $16,117.
- Prepaid expenses and deposits decreased by $2,944 due to timing of payments.
- Accounts payable and accrued liabilities increased by $723, primarily related to the timing of wage and benefit accruals and increased trade payables.
- This was partially offset by interest paid on long-term debt of $3,709.

Investing Activities

Investing activities for Q4 2015 used $15,772 of cash. The principal use of cash was related to:

- Acquisition of Traditions of $14,151.
- Increase in restricted cash of $1,565, primarily for the contributions to the Series B Debentures principal reserve fund in the amount of $1,520.
- Purchase of equipment of $2,187 and intangibles of $1,184.
- Partially offset by construction funding received in the amount of $3,270.

For Q4 2014, investing activities used $347 of cash, primarily as a result of:

- Increase in restricted cash of $1,365, primarily for the funding of the Series B Debentures principal reserve fund in the amount of $1,320, and the purchase of equipment of $1,842.
- Partially offset by Construction funding received in the amount of $3,270.

Financing Activities

Financing activities in Q4 2015 provided $6,464 of cash. This was primarily related to:

- Drawdown on credit facilities of $20,000.
- Partially offset by the repayment of long-term debt of $5,923 relating to mortgage principal payments and voluntary payments on the Company's revolving credit facilities, and dividends paid in the quarter of $7,590.

For Q4 2014, financing activities used $9,482 of cash primarily as a result of:

- Dividends paid in the quarter of $7,719.
- Repayment of long-term debt of $35,307, which was partially offset by refinancing a $34,000 mortgage.

For the Year

Operating Activities

For the year ended December 31, 2015, operating activities provided $48,233 of cash, primarily related to the following:

- Cash flow from operating activities before non-cash changes in working capital, interest and taxes totaled $67,422.
- Change in net government funding balances provided $1,618 of cash due to timing of receipts.
- Increase in accounts payable and accrued liabilities of $3,247, primarily related to the timing of payments on wages and benefits, trade and other payables.
- Income tax refund of $1,807.
- Partially offset by interest paid on long-term debt of $23,535 and increase in accounts receivable and other assets of $2,000.

For the year ended December 31, 2014, operating activities provided $24,447 of cash, primarily as a result of:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $64,270.
- Increase in accounts payable and accrued liabilities of $2,136, primarily related to the timing of wage and benefit accruals partially offset by decrease in trade payables and accruals.
- The change in income tax balances for the period of $1,367 mainly related to the timing of tax refund.
- Income support received of $1,072.
- This was partially offset by the redemption premium on the settlement of the Series A Debentures and property level mortgages, which used $18,415 of cash.
- Interest paid on long-term debt of $21,802.

Investing Activities

For the year ended December 31, 2015, investing activities used $16,102 of cash, primarily due to:

- Acquisition of Traditions of $14,151.
- Increase in restricted cash of $6,844, primarily for the contributions to the Series B Debentures principal reserve fund in the amount of $5,974.
- Purchase of equipment of $5,734 and intangibles of $2,608.
- Partially offset by construction funding received in the amount of $13,080.

For the year ended December 31, 2014, investing activities provided $4,023 of cash, primarily as a result of:

- Construction funding received in the amount of $13,080.
- Partially offset by increase in restricted cash of $5,036, primarily for funding of the Series B Debentures principal reserve fund.
- Purchase of property and equipment of $3,880.

Financing Activities

For the year ended December 31, 2015, financing activities used $34,819 of cash, which comprised of:

- Dividends paid of $30,350.
- Repayment of long-term debt of $24,052 relating to mortgage principal payments and voluntary payments on the Company's credit facilities, majority of which was offset by a drawdown on those credit facilities of $20,000.

For the year ended December 31, 2014, financing activities used $15,060 of cash, primarily as a result of:

- Proceeds of $322,000 from the issuance of the Series B Debentures and refinancing of a $34,000 mortgage, which was offset by the repayment of long-term debt of $334,770, related to the Series A Debentures, mortgage refinancing and reduction of the credit facility.
- Dividends paid of $32,194.
- Payment of deferred financing costs of $4,004.

Capital Resources

The Company’s total debt as at December 31, 2015 was $629,068 (December 31, 2014 - $616,081), net of the Series B Debentures principal reserve fund of $10,725 (December 31, 2014 - $4,751). The increase of $12,987 was primarily related to the mortgage assumed upon the acquisition of Traditions, which was partially offset by monthly payments to the Series B Debentures principal reserve fund, payments towards mortgage liabilities, and a net repayment on the Company's credit facilities. During Q1 2015, the Company extended the maturities of Red Oak and Royale Place's ("**Ontario Portfolio**") credit facility and Astoria's credit facility by two years to April 26, 2017 and May 22, 2017, respectively. As at December 31, 2015, the Company had drawn $47,000 under the Ontario Portfolio's credit facility and $22,500 under Astoria's credit facility. The Company's Leisureworld Senior Care LP (**"LSCLP"**) subsidiary has a revolving credit facility for which the credit available was increased from $10,000 to $20,000 during 2015. No amount had been drawn from this credit facility as at year end. As at December 31, 2015, the Company had total undrawn facilities of $31,500.

As of December 31, 2015, the Company had a working capital deficiency of $37,880 arising from the timing of wage and benefit accruals and the current portion of long-term debt of $18,838, primarily relating to the portion of mortgage liabilities due within a 12-month period. To support Sienna Senior Living Inc.'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 deficit.

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 plans and has started to optimize a 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 December 31:

	Three Months Ended		Year Ended	
Thousands of Dollars, except ratio	**2015**	2014	**2015**	2014
Net finance charges	**5,362**	5,400	**21,096**	45,686
Add (deduct):				
Net accretion of fair value adjustments on long-term debt	**123**	202	**596**	(3,181)
Amortization of deferred financing charges	**(298)**	(286)	**(1,214)**	(1,651)
Amortization of loss on bond forward contracts	**(209)**	(202)	**(820)**	(720)
Redemption premium on long-term debt	**—**	(23)	**—**	(18,415)
Interest income on construction funding receivable	**857**	1,006	**3,728**	4,150
Other interest income	**45**	34	**155**	307
Gain (loss) on interest rate swap contracts	**71**	(38)	**187**	(581)
Net finance charges, adjusted	**5,951**	6,093	**23,728**	25,595
EBITDA	**20,911**	19,791	**80,855**	78,663
Interest coverage ratio	**3.5**	3.2	**3.4**	3.1

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

	Three Months Ended		Year Ended	
Thousands of Dollars	**2015**	2014	**2015**	2014
Net income (loss)	**2,271**	204	**7,237**	(15,841)
Net finance charges	**5,362**	5,400	**21,096**	45,686
Provision for (recovery of) income taxes	**1,205**	383	**3,325**	(6,230)
Depreciation and amortization	**8,090**	9,818	**34,589**	39,511
Transaction costs	**618**	447	**922**	1,163
MOHLTC reconciliation adjustments	**95**	269	**606**	1,294
Proceeds from construction funding	**3,270**	3,270	**13,080**	13,080
EBITDA	**20,911**	19,791	**80,855**	78,663

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 December 31:

Thousands of Dollars, except ratio	Three Months Ended 2015	2014	Year Ended 2015	2014
Net finance charges	**5,362**	5,400	**21,096**	45,686
Add (deduct):				
Net accretion of fair value adjustments on long-term debt	**123**	202	**596**	(3,181)
Amortization of deferred financing charges	**(298)**	(286)	**(1,214)**	(1,651)
Amortization of loss on bond forward contracts	**(209)**	(202)	**(820)**	(720)
Redemption premium on long-term debt	**—**	(23)	**—**	(18,415)
Interest income on construction funding receivable	**857**	1,006	**3,728**	4,150
Other interest income	**45**	34	**155**	307
Gain (loss) on interest rate swap contracts	**71**	(38)	**187**	(581)
Net finance charges, adjusted	**5,951**	6,093	**23,728**	25,595
Principal repayments [1]	**1,923**	1,567	**7,552**	6,704
Principal reserve fund	**1,520**	1,320	**5,974**	4,751
Total debt service	**9,394**	8,980	**37,254**	37,050
EBITDA	**20,911**	19,791	**80,855**	78,663
Deduct:				
Maintenance capex	**(1,691)**	(1,806)	**(3,835)**	(3,833)
Cash income taxes	**—**	—	**1,807**	1,367
EBITDA, adjusted	**19,220**	17,985	**78,827**	76,197
Debt service coverage ratio	**2.0**	2.0	**2.1**	2.1

Note:
1. During the three months and year ended December 31, 2015, the Company made voluntary payments of $4,000 and $16,500, respectively, 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	December 31, 2015	2014
Total indebtedness		
Series B Senior Secured Debentures	**322,000**	322,000
Series B Senior Secured Debentures - Principal reserve fund	**(10,725)**	(4,751)
Credit facilities	**69,500**	66,000
Mortgages	**206,288**	191,136
Convertible debentures	**46,000**	46,000
	633,063	620,385
EBITDA	**80,855**	78,663
Debt to EBITDA	**7.8**	7.9

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				Year Ended			
	2015	**Rate (%)**	2014	Rate (%)	**2015**	**Rate (%)**	2014	Rate (%)
Fixed Rate								
Debentures	**322,000**	**3.47%**	322,000	3.47%	**322,000**	**3.47%**	337,238	3.65%
Mortgages	**180,410**	**4.57%**	175,627	4.39%	**186,214**	**4.56%**	174,116	4.34%
Convertible Debentures	**46,000**	**4.65%**	46,000	4.65%	**46,000**	**4.65%**	46,000	4.65%
Total Fixed	**548,410**	**3.94%**	543,627	3.87%	**554,214**	**3.92%**	557,354	3.94%
Floating Rate								
Credit Facilities	**55,870**	**2.73%**	71,283	3.04%	**59,621**	**2.81%**	72,710	3.03%
Construction Loan	**—**	**—%**	10,449	4.25%	**—**	**—%**	12,693	4.25%
Total Floating	**55,870**	**2.73%**	81,732	3.19%	**59,621**	**2.81%**	85,403	3.03%
Total Debt	**604,280**	**3.82%**	625,359	3.78%	**613,835**	**3.83%**	642,757	3.85%

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.

	December 31,	
Thousands of Dollars, except ratio	**2015**	2014
Total indebtedness		
Series B Senior Secured Debentures	**322,000**	322,000
Series B Senior Secured Debentures - Principal reserve fund	**(10,725)**	(4,751)
Credit facilities	**69,500**	66,000
Mortgages	**206,288**	191,136
Convertible debentures	**46,000**	46,000
	633,063	620,385
Total assets	**951,469**	946,763
Accumulated depreciation on property and equipment	**118,352**	94,132
Accumulated amortization on intangible assets	**68,723**	58,354
Gross book value	**1,138,544**	1,099,249
Debt to Gross Book Value	**55.6%**	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 reviews and approves monthly dividends on a quarterly basis.

The Series B Debentures and a $20,000 revolving credit facility are (and the Series A Debentures previously were) collateralized by all assets of LSCLP. Under the indenture governing the Series B Debentures (and previously the Series A 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 Royal Developments LP.

The debt assumed and entered into as part of the Specialty Care acquisition, which consisted of six LTC homes, two RRs and two properties containing both LTC and RR components ("**Specialty Care Acquisition**"), Astoria, Pacifica and Peninsula retirement residences ("**BC Portfolio**"), the Ontario Portfolio, Traditions and Madonna are secured by each of the 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	—	—	—	8,547	10,020	**18,567**	2.9%	4.2%
2017	—	69,500	—	7,421	32,506	**109,427**	17.0%	3.6%
2018	—	—	46,000	7,027	22,217	**75,244**	11.7%	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**	50.4%	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**	3.5%	4.2%
2025	—	—	—	761	—	**761**	0.1%	—%
Thereafter	—	—	—	2,708	5,477	**8,185**	1.3%	5.2%
	322,000	**69,500**	**46,000**	**45,192**	**161,096**	**643,788**	100.0%	
Mark-to-market adjustment arising from acquisition						**1,252**		
Less: Deferred financing costs						**(4,029)**		
Less: Deferred financing costs on convertible debentures						**(1,009)**		
Less: Equity component of convertible debentures						**(209)**		
						639,793		

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 corporate office, which expires on October 31, 2024. As well, there are various operating leases for office and other equipment that expire over the next five years and thereafter.

Lease payments in respect of the remaining years of the operating leases are as follows:

2016	902
2017	822
2018	799
2019	757
2020	754
Thereafter	2,975
	7,009

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 year ended December

31, 2015 was $1,891 (2014 - $1,892). Included in accounts receivable is $98 owing from Spencer House Inc. as at December 31, 2015 (December 31, 2014 - $102). 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 December 31, 2015, the Company has amounts outstanding from certain key executives of $430 (December 31, 2014 - $287) in relation to the LTIP issuance, which have been recorded as a reduction to shareholders' equity.

The Company provided a loan to the Chief Executive Officer (**"CEO"**) to purchase the Company's common shares. The outstanding loan balance as at December 31, 2015 was $447 (December 31, 2014 - $469), which has been recorded as a reduction to shareholders' equity. The loan bears interest at the prime rate and is due on demand. The common shares have been pledged as security against the loan, which is personally guaranteed by the CEO.

Key Performance Drivers

There are a number of factors that drive the performance of Sienna Senior Living Inc. as outlined below:

Occupancy levels enhance cash flow

Occupancy is a key driver of the Company's performance. A LTC home that meets or exceeds 97% annual average occupancy receives funding from the MOHLTC based on 100% occupancy.

Under current MOHLTC policy, a LTC home that provides basic accommodation for at least 40% of residents in Class A homes may offer the remaining residents private or semi-private accommodation at a regulated premium. The LTC home operator retains the premiums collected from residents for such accommodation.

In the retirement portfolio, the resident rates are adjusted annually and provide the Company with organic growth.

Disciplined cost management

Due to its size, the Company is able to realize economies of scale in administration, operations, purchasing and cost controls. The average size of the Company's LTC home (with 164 beds) is greater than the Ontario provincial average of 125 beds, which also enhances the Company's ability to achieve efficiencies and economies of scale. As a very experienced operator, the Company prudently endeavors to manage its costs in all divisions while providing quality accommodation and services to seniors.

Ensuring continued maintenance and upgrade of properties

Annual capital budgets and regular operational and equipment/building service contract reviews are used by management in the planning, monitoring and maintenance of the Company's physical assets. The Company has established an active, ongoing preventative maintenance program to maintain and operate its properties efficiently.

Critical Accounting Estimates and Accounting Policies

The accounting policies and estimates that are critical to the understanding of the Company's business operations and results of operations are identified in Note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2015.

Accounting Standards Issued But Not Yet Applied

IAS 1, Presentation of Financial Statements

In December 2014, the IASB amended IAS 1, Presentation of Financial Statements to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments are effective January 1, 2016 with early adoption permitted. This amendment will not have a material impact on the financial statements.

IFRS 7, Financial Instruments: Disclosures

IFRS 7, Financial Instruments: Disclosures, clarifies that the additional disclosure required by the amendments to IFRS 7, Disclosure – offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by IAS 34. The amendment is effective January 1, 2016 with early adoption permitted. This amendment will not have a material impact on the financial statements.

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39, Financial Instruments: Recognition and Measurement, that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at the time of initial recognition. The classification depends on the Company's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main difference is that, in cases where the fair value option is chosen for financial liabilities, the portion of fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than net income (loss), unless this creates an accounting mismatch. In July 2014, IFRS 9 was amended to establish a mandatory effective date of January 1, 2018 with early adoption permitted. The Company has not adopted this standard and management has not yet determined the impact of this standard.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued the new revenue standard that requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. In September 2015, the IASB deferred the effective date for the new standard for annual periods beginning on January 1, 2018 with early adoption permitted. The Company has not yet adopted this standard and management has not yet determined the impact of this standard.

IFRS 16, Leases

In October 2015, the IASB issued the new standard that sets out the principles for the recognition, measurement and disclosure of leases. This new standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, although earlier application is permitted for entities that apply IFRS 15. The Company has not adopted this standard and management has not yet determined the impact of this standard.

There are no other accounting standards issued but not yet applied that would be expected to have a material impact on the Company.

Significant Judgments and Estimates

The preparation of consolidated financial statements under IFRS requires the Company to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions, which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, are discussed below.

Property and equipment and intangible assets

(i) Fair values

Property and equipment and intangible assets from acquisitions were initially recorded at their estimated fair values.

(ii) Indefinite-lived intangible assets

In the Province of Ontario, all LTC homes must be licensed under the LTCHA. The LTCHA provides license terms for the Company's LTC homes ranging from 15 years for Class B and C homes to a minimum of 20 years for Class A homes. Previously, Ontario LTC licences were renewed annually by the MOHLTC. Under the LTCHA, ultimate control of LTC licences in Ontario remains with the MOHLTC, including approval of new licences and the transfer or revocation of existing licences. With an existing wait list of approximately 24,520 in Ontario and the demand for LTC beds projected to increase, management is of the view that licences continue to have indefinite lives and will not be amortized.

Goodwill and indefinite-lived intangible asset impairment analysis

On an annual basis, the Company uses the fair value less costs of disposal valuation model to assess whether goodwill and indefinite-lived intangible assets may be impaired. If the results of operations in a future period are adverse to the estimates used for impairment testing, an impairment charge may be triggered at that point, or a reduction in useful economic life may be required. Any impairment losses are recognized in net income (loss). Impairment losses on goodwill are permanent. The significant estimates used in the valuation model include the discount rates and growth assumptions.

Deferred taxes

Deferred tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred tax assets should be recognized with consideration given to the timing and level of future taxable income.

Income taxes

The actual tax on the results for the year is determined in accordance with tax laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for tax to be paid on past profits, which are recognized in the consolidated financial statements. The Company considers the estimates, assumptions and judgments to be reasonable but this can involve complex issues, which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the consolidated financial statements.

Risk Factors

There are certain risks inherent in the activities of the Company, including the ones described below.

Business risks

The Company is subject to general business risks inherent in the seniors' housing industry. These risks include fluctuations in levels of occupancy and the inability to achieve adequate OA or preferred accommodation revenue or annual increases (including anticipated increases) in resident rates. The inability to achieve such rate increases could occur as a result of, among other factors, regulations controlling LTC funding or regulations controlling rents for RR homes. Additional risks include possible future changes in labour relations; increases in labour costs, other personnel costs, and other operating costs; competition from or oversupply of other similar properties; changes in conditions of the Company's properties or general economic conditions; the imposition of increased or new taxes; capital expenditure requirements; health-related risks, natural disasters and disease outbreaks. Moreover, there is no assurance that future occupancy rates at the Company's homes will be consistent with historical occupancy rates achieved. Any one of, or a combination of, these factors may have an adverse impact on the business, operating results and financial condition of the Company, which could adversely affect its results and the Company's ability to pay dividends to shareholders.

Government regulation

Both LTC homes and RRs are subject to extensive regulation and the potential for regulatory change. There can be no assurance that future regulatory changes affecting the seniors' housing industry will not adversely affect the Company's business.

All RRs and LTC homes are required to adhere to quality control, public health, infection control and other care-related operating standards. Accordingly, all RRs and LTC homes are subject to regulatory inspections to ensure compliance with applicable regulations and to investigate complaints, including resident injury or death. It is not unusual for the stringent inspection procedures to identify deficiencies in operations. Every effort is made by the Company to correct legitimate problem areas that have been identified. It is possible that the Company may not be able to remedy deficiencies or address complaints within the time frames allowed or in a manner satisfactory to the applicable regulatory authority, which could lead to periods of enhanced monitoring and imposing sanctions (such as limiting admissions in the case of an LTC home), which, in turn, could have an impact on the Company's business. Further, once deficiencies have been corrected, it could nonetheless take a period of time before public records note the compliance.

All RRs are required to be licensed under the *Retirement Homes Act, 2010* (Ontario) to operate in Ontario and RRs in Ontario are regulated under this statute. In British Columbia, the Community Care and Assisted Living Act (British Columbia) provides consumer protection and regulation of independent living homes and assisted living facilities. All types of seniors housing providing personal support in British Columbia must be registered with the Assisted Living Registry. The Company has obtained all required licenses and registrations. There can be no assurance that future regulatory changes affecting RRs will not adversely affect the Company.

LTC funding in Ontario

The provincial regulation of LTC homes includes the control of resident co-payment fees. The MOHLTC funds care and support programs provided in LTC homes and subsidizes accommodation costs for qualifying residents. As a result of increasing healthcare costs, the risk exists that funding agencies may in the future reduce the level of, or eliminate, such fees, payments or subsidies. There can be no assurance that the current level of such fees, payments and subsidies will be continued or that such fees, payments and subsidies will increase commensurate with expenses. A reduction of these fees, payments or subsidies could have an impact on the business, operating results or financial condition of the Company, which could adversely affect its results and ability to pay dividends to shareholders.

Licence terms

The LTCHA contains a licence term regime for all LTC homes which will result in licence terms for the the Company's homes ranging from 15 years for Class B and C homes to 30 years for Class A homes. Under the LTCHA, ultimate control of LTC licences in Ontario remains with the MOHLTC, including approval of new licences, and transfer, renewal or revocation of existing licences. Although the licence does not support any guarantee of continued operation beyond the term of the licence, with an existing wait list of approximately 24,520 in Ontario and the demand for LTC beds projected to increase, management is of the view that licenses will continue to be renewed. A failure of the Company’s LTC licences to be renewed or conditional renewal could have an impact on the Company business.

Acquisitions

The success of the Company’s business acquisition activities will be determined by numerous factors, including the ability of the Company to identify suitable acquisition targets, competition for acquisition opportunities, purchase price, ability to obtain adequate financing on reasonable terms, financial performance of the businesses after acquisition, and the ability of the Company to effectively integrate and operate the acquired businesses. Acquired businesses may not meet financial or operational expectations due to unexpected costs associated with the acquisition, as well as the general investment risks inherent in any real estate investment or business acquisition, including the existence of unexpected or undisclosed liabilities and the risk that the Company’s recourse against third parties may not be adequate to mitigate such liabilities entirely. Moreover, new acquisitions may require significant management attention or capital expenditures that would otherwise be allocated to existing businesses. Any failure by the Company to identify suitable candidates for acquisition or operate the acquired businesses effectively may have an adverse effect on its business, results of operations or financial condition.

Capital intensive industry

The ability of the Company to maintain and enhance its properties in a suitable condition to meet regulatory standards, operate efficiently and remain competitive in its markets will require it to commit a portion of cash to its facilities and equipment. Significant future capital requirements could have a material adverse effect on the business, operating results or financial condition of the Company, which could adversely affect the Company's results and ability to pay dividends to its shareholders.

Financing risk

The Company expects its working capital needs and capital expenditure needs to increase in the future as it continues to expand and enhance its portfolio. The Company's ability to raise additional capital will depend on the financial success of its current business and the successful implementation of its key strategic initiatives, financial, economic and market conditions and other factors, some of which are beyond its control. No assurance can be given that it will be successful in raising the required capital at reasonable cost and at the required times, or at all. Further equity financings may have a dilutive effect on shareholders. If the Company is unsuccessful in raising additional capital, it may not be able to continue its business operations and advance its growth initiatives, which could adversely impact its results and the ability to pay dividends to its shareholders.

A portion of the Company's cash flow is devoted to servicing its debt and there can be no assurance that the Company will continue to generate sufficient cash flow from operations to meet the required interest and principal payments on its debt. If the Company were unable to meet such interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. If this were to occur, it could have an impact upon the business, operating results or financial condition of the Company, which could adversely affect its results and ability to pay dividends. The Company is subject to the risk that its existing indebtedness may not be able to be refinanced at maturity or that the terms of any refinancing may not be as favourable as the terms of its existing indebtedness. If the Company requires additional debt financing, its lenders may require it to agree on restrictive covenants that could limit its flexibility in conducting future business activities or that contain customary provisions that, upon an event of default or other breach of debt covenant, result in the acceleration of repayment of amounts owed and that restrict the dividends that may be paid to shareholders. Some of the Company's current debt instruments include such covenants.

Redevelopment of Class B and C homes

The redevelopment of the Company's Class B and Class C beds may include significant capital outlays. To the extent such redevelopment plans proceed on significantly different timing or terms, including with respect to the levels of expected MOHLTC funding, there could be an adverse effect on the Company's results and ability to pay dividends to its shareholders.

Real property ownership

All real property investments are subject to a degree of risk. They are affected by various factors, including changes in general economic conditions (such as the availability of long-term mortgage funds) and in local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to residents, competition from other available space and various other factors, including increasing property taxes. In addition, fluctuations in interest rates could have a material adverse effect on the business, operating results or financial condition of the Company.

Reconciliations of MOHLTC funding will result in current year adjustments made in respect of prior years

Reconciliations of MOHLTC funding versus actual expenses are performed annually, based on previous calendar years. From time to time, the reconciliations will result in current year adjustments made in respect of prior years. These ''prior period adjustments'' can have either a favourable or unfavourable impact on NOI generally related to differences identified in the reconciliation attributable to occupancy days, special circumstances and differences between projected and actual property tax.

Labour relations

Employees working at the the Company properties are unionized with approximately 80% of employees represented by union locals of either the Service Employees International Union, the Ontario Nurses Association, the Christian Labour Association of Canada, the Canadian Union of Public Employees or Unifor. While the Issuer has traditionally maintained positive labour relations, there can be no assurance the the Company will not at any time, whether in connection with a renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees, which could have a material adverse effect on the Issuer's operating results and financial condition. However, all LTC homes in the Province of Ontario are governed by the Hospital Labour Disputes Arbitration Act (Ontario), which prohibits strikes and lockouts in the seniors housing industry. Therefore, collective bargaining disputes are more likely to be resolved through compulsory third party arbitration.

The Company's business is labour intensive

The business of the Company is labour intensive, with labour-related costs comprising a substantial portion of the Company's direct operating expenses. The Company's businesses compete with other providers with respect to attracting and retaining qualified personnel. Any shortage of qualified personnel and general inflationary pressures may require the Company to enhance its pay and benefits package to compete effectively for such personnel. An increase in labour related costs or a failure to attract, train and retain qualified and skilled personnel could adversely affect the business, results of operations and financial condition of the Company, which could adversely affect its results and ability to pay dividends.

Reliance on key personnel

The Company's success depends upon the retention of senior management. There can be no assurance that the Company would be able to find qualified replacements for the individuals who make up its senior management team if their services were no longer available. The loss of services of one or more members of such senior management team could have a material adverse effect on the Company's business, its operating results and financial condition. The Company does not currently carry any "key man" life insurance on its executives.

Information systems security threats

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services in connection with its operations. The Company's operations depend, in part, on how well the Company and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, terrorism, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation and results of operations.

Although to date the Company has not experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Any significant damage to administrative or the Company's properties, as a result of fire or other calamities, could have a material adverse effect

The Company's ability to sustain or grow its business is heavily dependent on efficient, proper and uninterrupted operations at its properties. Power failures or disruptions, the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment and the destruction of buildings, equipment and other facilities due to natural disasters or other causes could severely affect its ability to continue operations. While it does maintain certain insurance policies covering losses due to fire, lightning and explosions, there can be no assurance its coverage would be adequate to compensate the Company for the actual cost of replacing such buildings, equipment and infrastructure nor can there be any assurance that such events would not have a material adverse effect on its business, financial condition, results of operations or prospects.

Liability and insurance

The businesses, which are carried on, directly or indirectly, by the Company, entail an inherent risk of liability, including with respect to injury to or death of its residents. Management expects that from time to time the Company may be subject to such lawsuits as a result of the nature of its businesses. The Company maintains business and property insurance policies in amounts and with such coverage and deductibles as deemed appropriate, based on the nature and risks of the businesses, historical experience and industry standards. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. There are certain types of risks, generally of a catastrophic nature, such as floods, earthquakes, power outages, war, terrorism or environmental contamination, which are either uninsurable or are not insurable on an economic basis. A successful claim against the Company not covered by, or in excess of, its insurance could have a material adverse effect on the Company and its business, operating results and financial condition. Claims against the Company, regardless of their merit or eventual outcome, also may have a material adverse effect on the ability to attract residents or expand the Company's business, and will require management of the Company to devote time to matters unrelated to the operation of the business.

Competition

Numerous other seniors housing facilities, predominantly RRs, compete with the Company's RR in seeking residents. While the existence of competing owners and competition for the Company's residents could have an adverse effect on the Company's ability to find residents for its seniors housing properties and on the rents charged, and could adversely affect the Company's revenues and its ability to meet its debt obligations and the Company's ability to pay dividends on its Common Shares.

Geographic concentration

A majority of the business and operations of the Company are conducted in Ontario. The fair value of the Company assets and the income generated therefrom could be negatively affected by changes in local and regional economic conditions. The Company has expanded its retirement portfolio to include 3 properties in British Columbia.

Changes in the Company's credit ratings may affect the Company's capital structure

The credit ratings assigned to the Senior B Debentures (see *"Indebtedness - Senior Secured Debentures"*) are an assessment of the Company's ability to pay its obligations. DBRS Limited has assigned a rating of A (low), with a Stable trend, to the Series B Debentures. Real or anticipated changes in the Company's credit ratings may affect its capital structure.

Environmental liabilities

The Company is subject to various environmental laws and regulations under which it could become liable for the costs of removing or remediating certain hazardous, toxic or regulated substances released on or in its properties or disposed of at other locations, in some cases regardless of whether or not the Company knew of or was responsible for their presence. The failure to address such issues may adversely affect the Company's ability to sell such properties or to borrow using such properties as collateral and could potentially result in claims against the Company. Notwithstanding the above, management is not aware of any material non-compliance, liability or other claim in connection with any of the Company's properties. It is the Company's operating policy to obtain a Phase I environmental site assessment, conducted by an independent and experienced environmental consultant, prior to acquiring or financing any property. Where Phase I environmental site assessments identify sufficient environmental concerns or recommend further assessments, Phase II or Phase III environmental site assessments are conducted. Appropriate remediation activities would be undertaken if required.

Environmental laws and regulations may change and the Company may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on the Company's business, financial condition or results of operation, and dividends.

Risk Relating to a Public Company and Common Shares

Volatile market price for securities of the Company

The market price for securities of the Company, including the Common Shares, may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- changes in estimates of future results of operations by the Company or securities research analysts;
- changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;

- addition or departure of the Company’s executive officers and other key personnel;
- release or other transfer restrictions on outstanding common shares;
- sales or perceived sales of additional securities, including common shares;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; and
- news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in the Company’s industry or target markets.

Financial markets may experience price and volume fluctuations that affect the market prices of equity securities of companies and that are unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the securities of the Company may decline even if the Company’s operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Company’s environmental, governance and social practices and performance against such institutions’ respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the securities of the Company by those institutions, which could adversely affect the trading price of the Company’s securities, including the common shares. There can be no assurance that fluctuations in price and volume will not occur due to these and other factors.

Sienna Senior Living Inc. ("SSLI") is a holding company

SSLI is a holding company and a substantial portion of its assets are the partnership units of its subsidiaries. As a result, investors in SSLI are subject to the risks attributable to its subsidiaries. As a holding company, SSLI conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, the Company’s cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to SSLI. The ability of these entities to pay distributions will depend on their operating results and may be subject to applicable laws and regulations and to contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of the Company’s subsidiaries, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to SSLI.

Dividend policy

Commencing with the December 2012 dividend, the Board established a dividend policy authorizing the declaration and payment of an annual dividend of $0.90 per Common Share, to be paid to holders of Common Shares on a monthly basis. Any determination to pay cash dividends will be at the discretion of the Board after taking into account such factors as the Company’s financial condition, results of operations, current and anticipated cash needs, regulatory capital requirements, the requirements of any future financing agreements and other factors that the Board may deem relevant.

The Company needs to comply with financial reporting and other requirements as a public company

The Company is subject to reporting and other obligations under applicable Canadian securities laws and Toronto Stock Exchange (“TSX”) rules, including National Instrument 52-109. These reporting and other obligations place significant demands on the Company’s management, administrative, operational and accounting resources. Moreover, any failure to maintain effective internal controls could cause the Company to fail to meet its reporting obligations or result in material misstatements in its consolidated financial statements. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially harmed, which could also cause investors to lose confidence in the Company's reported financial information, which could result in a lower trading price of its securities.

Management does not expect that the Company's disclosure controls and procedures and internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that its objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within a company are detected. The inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Future sales of the Company's securities by directors and executive officers

Subject to compliance with applicable securities laws, officers and directors and their affiliates may sell some or all of their securities in the Company in the future. No prediction can be made as to the effect, if any, such future sales will have on the market price of the Company's securities prevailing from time to time. However, the future sale of a substantial number of securities by the Company's officers and directors and their affiliates, or the perception that such sales could occur, could adversely affect prevailing market prices for the Company's securities.

Directors and officers may have conflicts of interest

Certain of the directors and officers of the Company may also serve as directors and/or officers of other companies and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving the Company are being made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company.

Dilution and future sales of the Company's securities may occur

The Company's articles permit the issuance of an unlimited number of common shares and an unlimited number of preferred shares (the "**Preferred Shares**"), and shareholders will have no pre-emptive rights in connection with such further issuances. The directors of the Company have the discretion to determine the price and the terms of issue of further issuances of Common Shares and Preferred Shares.

Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to Management, including the President and Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2015, an evaluation was carried out, under the supervision of and with the participation of Management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as defined under National Instrument 52-109. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2015.

Management is 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 statements for external purposes in accordance with IFRS. The President and Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision of the design and operating effectiveness of the Company's internal controls over financial reporting as at December 31, 2015. Based on that assessment they determined that the Company's internal controls over financial reporting were appropriately designed and were operating effectively. This evaluation was performed using the 2013 Integrated Control framework as published by the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**"), which as of December 15, 2014 supersedes the COSO 1992 framework.

No changes were made in the Company's design of internal controls over financial reporting during the year ended December 31, 2015 which have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that Management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

2015

Sienna
SENIOR LIVING

Consolidated Financial Statements

(in thousands of Canadian Dollars)

Sienna Senior Living Inc.

Consolidated Financial Statements

Management's Responsibility for Financial Reporting

The consolidated financial statements are the responsibility of the management of Sienna Senior Living Inc. (the **"Company"**), and have been approved by the Board of Directors of the Company. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include amounts that are based on estimates and judgments. Financial information contained elsewhere in this report is consistent with the consolidated financial statements.

The Company maintains a system of internal controls that are designed to provide reasonable assurance that the financial records are reliable and accurate and form a proper basis for the preparation of the consolidated financial statements.

The external auditor, PricewaterhouseCoopers LLP, has audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Shareholders their opinion on the consolidated financial statements. The following report of PricewaterhouseCoopers LLP outlines the scope of their examination and their opinion on the consolidated financial statements.

The consolidated financial statements have been further examined by the Board of Directors and by its Audit Committee. The Audit Committee meets with the auditors and management to review the activities of each, and reports to the Board of Directors. The auditor has direct and full access to the Audit Committee and meets with the Audit Committee both with and without management present on a quarterly basis. The Board of Directors, directly and through its Audit Committee, oversees management's responsibilities and is responsible for reviewing and approving the consolidated financial statements.

"Lois Cormack"	*"Nitin Jain"*
Lois Cormack	Nitin Jain
President and Chief Executive Officer	Executive Vice President and Chief Financial Officer

Markham, Canada
February 24, 2016

February 24, 2016

Independent Auditor's Report

To the Shareholders of Sienna Senior Living Inc.

We have audited the accompanying consolidated financial statements of Sienna Senior Living Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of changes in shareholders' equity, operations and comprehensive income (loss) and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sienna Senior Living Inc. and its subsidiaries as at December 31, 2015 and December 31, 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Thousands of dollars

	Notes	**December 31, 2015**	December 31, 2014
ASSETS			
Current assets			
Cash		**26,345**	29,033
Accounts receivable and other assets	5, 24	**7,227**	5,163
Income support	4	**550**	228
Prepaid expenses and deposits		**1,664**	1,428
Government funding receivable		**3,124**	5,061
Construction funding receivable	5, 22	**9,680**	9,355
Income taxes receivable		**—**	1,580
		48,590	51,848
Government funding receivable		**1,570**	1,630
Interest rate swap contract	5	**1,393**	704
Restricted cash	7	**12,793**	5,949
Construction funding receivable	5, 22	**74,886**	84,563
Property and equipment	8	**588,332**	577,539
Intangible assets	9	**125,101**	125,726
Goodwill	10	**98,804**	98,804
Total assets		**951,469**	946,763
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	17	**62,195**	59,153
Government funding payable		**2,720**	3,051
Current portion of long-term debt	5, 11	**18,838**	74,039
Income taxes payable		**2,484**	—
Interest rate swap contract	5	**233**	169
		86,470	136,412
Long-term debt	5, 11	**576,173**	502,490
Convertible debentures	5, 12	**44,782**	44,303
Deferred income taxes	15	**59,973**	58,688
Government funding payable		**1,475**	1,523
Share-based compensation liability	18	**3,685**	2,574
Interest rate swap contract	5	**2,032**	1,594
Total liabilities		**774,590**	747,584
SHAREHOLDERS' EQUITY			
Total shareholders' equity		**176,879**	199,179
Total liabilities and shareholders' equity		**951,469**	946,763
Commitments and contingencies	21		

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

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, 2015		**372,373**	**515**	**59**	**(169,713)**	**(4,055)**	**199,179**
Issuance of shares	**16**	**2,544**	**—**	**—**	**—**	**—**	**2,544**
Net income		**—**	**—**	**—**	**7,237**	**—**	**7,237**
Other comprehensive income		**—**	**—**	**—**	**—**	**603**	**603**
Long-term incentive plan	**18**	**28**	**—**	**30**	**—**	**—**	**58**
Share purchase loan	**24**	**22**	**—**	**—**	**—**	**—**	**22**
Dividends	**17**	**—**	**—**	**—**	**(32,764)**	**—**	**(32,764)**
Balance, December 31, 2015		**374,967**	**515**	**89**	**(195,240)**	**(3,452)**	**176,879**

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, January 1, 2014		371,789	515	27	(121,231)	1,386	252,486
Issuance of shares	16	545	—	—	—	—	545
Net loss		—	—	—	(15,841)	—	(15,841)
Other comprehensive loss		—	—	—	—	(5,441)	(5,441)
Long-term incentive plan	18	19	—	32	—	—	51
Share purchase loan	24	20	—	—	—	—	20
Dividends	17	—	—	—	(32,641)	—	(32,641)
Balance, December 31, 2014		372,373	515	59	(169,713)	(4,055)	199,179

See accompanying notes.

Thousands of dollars, except share and per share data

Consolidated Statements of Operations

	Notes	Year ended December 31, 2015	2014
Revenue	24, 25	**470,104**	456,788
Expenses			
Operating		**384,702**	374,988
Administrative		**18,233**	17,511
	26	**402,935**	392,499
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes		**67,169**	64,289
Depreciation and amortization		**34,589**	39,511
Net finance charges	13	**21,096**	45,686
Transaction costs	4	**922**	1,163
Total other expenses		**56,607**	86,360
Income (loss) before provision for (recovery of) income taxes		**10,562**	(22,071)
Provision for (recovery of) income taxes			
Current		**2,257**	(1,686)
Deferred		**1,068**	(4,544)
	15	**3,325**	(6,230)
Net income (loss)		**7,237**	(15,841)
Basic and diluted income (loss) per share		**$0.20**	($0.44)
Weighted average number of common shares outstanding - basic	16	**36,398,297**	36,264,658
Weighted average number of common shares outstanding - diluted	16	**39,144,566**	39,010,927

Consolidated Statements of Comprehensive Income (Loss)

	Notes	Year ended December 31, 2015	2014
Net income (loss)		**7,237**	(15,841)
Items that may be subsequently reclassified to statements of operations:			
Realized loss on bond forward contracts, net of tax	15	**603**	(5,441)
Total comprehensive income (loss)		**7,840**	(21,282)

See accompanying notes.

Thousands of dollars

	Notes	Year ended December 31, 2015	2014
OPERATING ACTIVITIES			
Net income (loss)		**7,237**	(15,841)
Add (deduct) items not affecting cash			
Depreciation of property and equipment		**24,220**	24,830
Amortization of intangible assets		**10,369**	14,681
Current income taxes		**2,257**	(1,686)
Deferred income taxes		**1,068**	(4,544)
Share-based compensation	18	**1,175**	1,144
Net finance charges	13	**21,096**	45,686
		67,422	64,270
Non-cash changes in working capital			
Accounts receivable and other assets		**(2,014)**	547
Prepaid expenses and deposits		**(219)**	1,926
Accounts payable and accrued liabilities		**3,247**	2,136
Income support		**228**	1,072
Government funding, net		**1,618**	(62)
		2,860	5,619
Net settlement payment on bond forward contracts		—	(6,234)
Redemption premium paid on long-term debt		—	(18,415)
Interest paid on long-term debt and convertible debentures		**(23,535)**	(21,802)
Net settlement payment on interest rate swap contracts		**(321)**	(358)
Income taxes refunded		**1,807**	1,367
Cash provided by operating activities		**48,233**	24,447
INVESTING ACTIVITIES			
Purchase of property and equipment	8	**(5,734)**	(3,880)
Purchase of intangible assets	9	**(2,608)**	(448)
Amounts received from construction funding	22	**13,080**	13,080
Interest received from cash		**155**	307
Acquisition of Traditions of Durham	4	**(14,151)**	—
Change in restricted cash	7	**(6,844)**	(5,036)
Cash (used in) provided by investing activities		**(16,102)**	4,023
FINANCING ACTIVITIES			
Share issuance costs		**(27)**	(92)
Repayment of long-term debt		**(24,052)**	(334,770)
Proceeds from long-term debt		**20,000**	356,000
Deferred financing costs		**(390)**	(4,004)
Dividends paid	17	**(30,350)**	(32,194)
Cash used in financing activities		**(34,819)**	(15,060)
(Decrease) increase in cash during the year		**(2,688)**	13,410
Cash, beginning of year		**29,033**	15,623
Cash, end of year		**26,345**	29,033

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 (**"IPO"**) 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 residences (**"RR"**) (representing 1,206 suites and apartments) in the Provinces of Ontario and British Columbia. An ancillary business of the Company is Preferred Health Care Services (**"Home Care"** or **"PHCS"**), an accredited provider of professional nursing and personal support services for both community-based home healthcare and LTC homes. The Company also operates a management services business that is focused on the third party management in both the LTC and retirement sectors.

The Company is listed on the Toronto Stock Exchange (the **"TSX"**) under the trading symbol **SIA** (formerly, **LW**). As of December 31, 2015, the following securities of the Company were outstanding: 36,478,871 common shares; $46,000 in aggregate principal amount of extendible convertible unsecured subordinated debentures (TSX symbol: **SIA.DB** (formerly, **LW.DB**)) which, in aggregate, are convertible into 2,746,269 common shares (Note 12).

2 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (**"IFRS"**) as issued by the International Accounting Standards Board (**"IASB"**).

The consolidated financial statements were approved by the Board of Directors for issuance on February 24, 2016.

3 Summary of significant accounting policies, judgments and estimation uncertainty

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for derivatives, which are measured at fair value.

Basis of preparation

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed below under the heading "Significant judgments and estimates."

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimate is revised and in future periods, if affected.

The following accounting policies have been applied consistently to all periods presented in the consolidated financial statements.

Basis of consolidation and business combinations

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company, using consistent accounting policies.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Total consideration for the acquisition is measured at the fair value of the assets transferred and equity instruments issued on the date of the acquisition. Transaction costs related to the acquisition are expensed as incurred. Identifiable assets acquired and liabilities assumed are measured at their fair value at the date of acquisition. The excess of fair value of consideration transferred above the fair value of the identifiable net assets acquired is recorded as goodwill, with any negative goodwill recognized in net income (loss) on the acquisition date.

Subsidiaries are 100% owned and controlled by the Company. Subsidiaries are consolidated in these consolidated financial statements from the date of acquisition where control is transferred to the group and continue to be consolidated until the date when the Company no longer controls the subsidiary.

All intercompany balances, transactions and unrealized gains and losses arising from intercompany transactions are eliminated on consolidation.

Revenue recognition

Revenue includes amounts earned from the operation of LTC homes, retirement residences and the independent living facility, PHCS, and management fees associated with the operation of managed LTC and retirement homes, including Spencer House Inc. A significant portion of the LTC homes' revenue is funded by the Ministry of Health and Long-Term Care (**"MOHLTC"**).

Long-term care revenue

Ontario's LTC sector is regulated by the MOHLTC, which provides government funding to LTC homes. Operational funding, received monthly, is comprised of three envelopes: nursing, programs, and other accommodations, which includes funding for raw food. Revenue for nursing, programs and raw food is recognized to the extent that an eligible expense has been incurred. All envelope funding received that is not spent in the current year is recorded as a government funding payable. The exception to this is the non-raw food portion of the other accommodation funding, which is recognized as earned in the month of receipt. Approximately 68% (2014 - 70%) of revenue from the Company's LTC homes is received from the MOHLTC, which primarily relates to flow-through envelopes. The Company also receives structural compliance premiums from the MOHLTC on a per resident per day basis. In addition, the MOHLTC provides funding to the Company including, but not limited to, funding for LTC homes that have been accredited and reimburses up to 85% of property tax costs.

Revenue for accommodation fees is recognized based on the number of resident days in the period multiplied by the per diem amounts legislated by the MOHLTC. Revenue for each LTC home is recognized based on full occupancy if the LTC home is expected to have an occupancy rate of 97% or above. For occupancy levels above 90% and below 97%, the adjustment range is up to 2% over actual occupancy. There is no adjustment to occupancy below the 90% threshold.

Retirement residence and independent living residence revenue
Residents pay for accommodations and other services on a monthly basis and revenue is recognized when the service is rendered.

PHCS revenue
Revenue associated with PHCS is recognized when the service is rendered. Revenue generated from providing services to other operating segments of the Company is eliminated on consolidation.

Management services revenue
The Company earns a management fee based on a percentage of gross revenues of the operations for managing LTC and retirement homes for third parties. Revenue is recognized when the services are rendered.

Spencer House Inc. revenue
Spencer House Inc. is a charitable organization that owns a licence to operate a LTC home in Orillia, Ontario. A subsidiary of the Company owns the land, building and equipment used by the home and has been contracted to manage the operations of Spencer House Inc. The Company earns rental income from leasing the land, building and equipment to Spencer House Inc. as well as a management fee based on a percentage of gross revenues of the operation for managing the home. Revenue is recognized when the services are rendered.

Construction funding
The MOHLTC provides funding to homes constructed after April 1, 1998. Under the development agreements, these homes received a 20-year commitment from the MOHLTC to provide per diem funding of up to $10.35 per bed, which was dependent on actual construction costs. The construction funding receivable is initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Property and equipment
Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are capitalized to the asset's carrying amount or recognized as a separate asset, as appropriate, when it is probable that future economic benefits associated with the cost will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repair and maintenance costs are charged to net income (loss) during the period in which they are incurred.

The Company records depreciation at rates designed to depreciate the cost of the property and equipment less the estimated residual value over the estimated useful lives. The annual depreciation rates and methods are as follows:

Buildings	10 to 55 years straight-line
Furniture and fixtures	3 to 10 years straight-line
Automobiles	5 years straight-line
Computer hardware	3 to 5 years straight-line
Circulating equipment	Not depreciated

Circulating equipment is comprised of china, linen, glassware and silverware in circulation, which is valued at cost. The cost of acquiring a basic stock is capitalized and any replacement incurred thereafter is expensed.

The Company allocates the initial cost of an item of property and equipment to its significant components and depreciates separately each such component. Residual values, method of depreciation and useful lives of the assets are reviewed at least annually and adjusted if appropriate. Gains and losses on disposals of property and equipment are included in net income (loss).

Intangible assets

Intangible assets include LTC licences, resident relationships, service contracts and computer software that is not integral to the computer hardware included in property and equipment. Intangible assets with finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets with indefinite lives are measured at cost less accumulated impairment losses and are not amortized. The annual amortization rates and methods are as follows:

Licences	Not amortized
Resident relationships	2 - 3 years straight-line
Service contracts	2 - 8 years straight-line
Computer software	5 years straight-line

Goodwill

Goodwill arises on the acquisition of subsidiaries, and is the excess of the purchase consideration over the fair value attributable to the net identifiable assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Cash Generating Units (**"CGUs"**), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Impairment of non-financial assets

The Company reviews the carrying amounts of its property and equipment and finite lived intangible assets at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. Finite and indefinite lived long-lived assets are tested for impairment at the lowest level at which they generated largely independent cash inflows. The Company has defined each home to be a CGU. Homes are tested for impairment annually if the CGU contains an indefinite lived licence or if there is an indication of impairment. Non-financial assets, other than goodwill, that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

Financial instruments

In accordance with International Accounting Standard (**"IAS"**) 39 – Financial Instruments – Recognition and Measurement ("IAS 39"), financial assets and financial liabilities are initially recognized on the date they are originated at fair value, and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments.

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the rights to receive the contractual cash flows are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when the Company's contractual obligations are discharged, cancelled or expired.

Financial instruments are comprised of cash, accounts receivable and other assets, construction funding receivable, government funding receivable/payable, restricted cash, accounts payable and accrued liabilities, long-term debt and interest rate swap contracts.

The following is a summary of the accounting model the Company elected to apply to each of its significant categories of financial instruments:

Cash	Loans and receivables
Accounts receivable and other assets	Loans and receivables
Construction funding receivable	Loans and receivables
Government funding receivable	Loans and receivables
Restricted cash	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Government funding payable	Other financial liabilities
Long-term debt	Other financial liabilities
Convertible debentures	Other financial liabilities
Interest rate swap contracts	Fair value through profit or loss

Cash

Cash includes deposits held with Canadian chartered banks. Cash is classified as loans and receivables and is accounted for at amortized cost, which approximates fair value. Interest earned is recorded in the consolidated statements of operations and comprehensive income (loss).

Accounts receivable and other assets

Accounts receivable and other assets are classified as loans and receivables. Accounts receivable and other assets are initially recorded at fair value and subsequently measured at amortized cost. The carrying value of accounts receivable and other assets, after consideration of the provision for doubtful accounts, approximates their fair value due to the short-term maturity of these instruments.

Construction funding receivable

The construction funding receivable is classified as loans and receivables. The construction funding receivable is initially recorded at fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates.

Restricted cash

Restricted cash consists of deposits held with Canadian chartered banks, and relates to a principal reserve fund required for certain debentures, capital expenditure reserves required for certain mortgages as well an employee benefits reserve for the employees of the homes to which the Company provides management services. Restricted cash is classified as loans and receivables and is measured at amortized cost, which approximates fair value.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities. Accounts payable and accrued liabilities are initially recorded at fair value and subsequently measured at amortized cost, which approximates fair value due to the short-term nature of the instruments.

Long-term debt

The Company's long-term debt is initially recorded at fair value and is subsequently measured at amortized cost using the effective interest method, and is classified as other financial liabilities. The fair value of the Company's long-term debt is subject to changes in interest rates and the Company's credit rating.

Convertible debentures

The Company has extendible convertible unsecured subordinated debentures, convertible into common shares of the Company (**"Convertible Debentures"**). These convertible debentures have a debt and equity component, with the liability portion recorded initially at fair value and subsequently carried at amortized cost. The convertible debentures are classified as other financial liabilities.

Government funding receivable/payable

The government funding balances are classified as either loans and receivables or other financial liabilities, which are measured at amortized cost. Government funding receivable/payable represents the difference between the amounts earned and those received from the MOHLTC, which are non-interest bearing. The carrying value of the government funding approximates its fair value.

Derivatives for which hedge accounting has not been applied

The Company has interest rate swap contracts for which hedge accounting has not been applied. These interest rate swap contracts are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. The changes in fair value are recorded in the consolidated statements of operations and comprehensive income (loss).

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for at fair value when their economic characteristics and risks are not closely related to those of the host contract. The Company has determined it does not have any outstanding contracts or financial instruments with embedded derivatives that require separation, except for the convertible debentures (Note 12).

Impairment of financial assets

Financial assets are reviewed at each consolidated statement of financial position date to assess whether there is objective evidence that indicates an impairment of a financial asset. If such evidence exists, the Company recognizes an impairment loss measured at the excess of the carrying amount over the fair value of the asset, which is reflected in net income (loss).

Transaction costs

Transaction costs are incremental costs directly related to the acquisition of a financial asset or the issuance of a financial liability or equity. The Company incurs transaction costs primarily through the issuance of debt, shares and acquisitions, and classifies these costs with the related debt, or as a reduction of the value of the proceeds received for the share issuance. Transaction costs associated with the issuance of debt are amortized into interest expense using the effective interest method over the life of the related debt instrument. Transaction costs directly attributable to the issuance of shares are recognized as a reduction of share capital. Transaction costs associated with business acquisitions are expensed as incurred.

Interest bearing debt obligations

All interest bearing debt obligations are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing debt obligations are subsequently measured at their amortized cost using the effective interest method.

Operating lease payments

Payments made under operating leases are recognized in the consolidated statements of operations and comprehensive income (loss) on a straight-line basis over the term of the lease.

Share capital

Common shares are classified as shareholders' equity. Transaction costs directly attributable to the issuance of shares are recognized as a reduction from shareholders' equity.

Dividends

Dividends on common shares are recognized in the consolidated financial statements in the period in which the dividends are declared by the Board of Directors of the Company.

Earnings (loss) per share

Basic earnings (loss) per share (**"EPS"**) is calculated by dividing the net income (loss) for the year by the weighted average number of common shares outstanding during the year.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Company's potentially dilutive instruments include the convertible debentures.

Share-based compensation

The Company applies the fair value method of accounting for share-based compensation. The loans offered to senior executives related to the long-term incentive plan (**"LTIP"**) are recorded as a reduction to shareholders' equity. Fair value of the shares is measured at the grant date using the Cox-Ross-Rubinstein binomial tree model. The fair value of restricted share units (**"RSU"**) and deferred share units (**"DSU"**) are measured based on the closing price of the Company's shares at each reporting date.

The expense related to share-based compensation is recognized in administrative expenses.

Employee benefits

Short-term benefits

Short-term employee benefit obligations, including vacation and bonus payments, are measured on an undiscounted basis and are expensed as the related service is provided. Assuming the obligation can be reasonably estimated, liabilities are recognized for the amounts expected to be paid within the next 12 months as the Company has an obligation to pay the amount as a result of past service provided by the employee. These benefits are recorded in accounts payable and accrued liabilities.

Long-term benefits

Payments to group retirement savings plans are based on a percentage of gross wages and charged to expense as incurred.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Income taxes are comprised of current and deferred taxes. Income taxes are recognized in the consolidated statements of operations and comprehensive income (loss) except to the extent they relate to items recognized directly in shareholders' equity. Income tax balances are also recorded on initial recognition of a deferred tax asset or liability arising from business combinations.

Current taxes are the expected taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to taxes payable in respect of previous years.

In general, deferred taxes are recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are also recognized on business acquisitions. Deferred taxes are determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statements of financial position dates and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current.

The carrying amount of deferred tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset. This applies when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Segmented reporting

The Company operates solely within Canada, hence, no geographical segment disclosures are presented. Segmented information is presented in respect of business segments, based on management's internal reporting structure. Further details are provided in Note 28.

Accounting standards issued but not yet applied

IAS 1, Presentation of Financial Statements
In December 2014, the IASB amended IAS 1, Presentation of Financial Statements to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments are effective January 1, 2016 with early adoption permitted. This amendment will not have a material impact on the financial statements.

IFRS 7, Financial Instruments: Disclosures
IFRS 7, Financial Instruments: Disclosures, clarifies that the additional disclosure required by the amendments to IFRS 7, Disclosure – offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by IAS 34. The amendment is effective January 1, 2016 with early adoption permitted. This amendment will not have a material impact on the financial statements.

IFRS 9, Financial Instruments
IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39, Financial Instruments: Recognition and Measurement, that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at the time of initial recognition. The classification depends on the Company's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main difference is that, in cases where the fair value option is chosen for financial liabilities, the portion of fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than net income (loss), unless this creates an accounting mismatch. In July 2014, IFRS 9 was amended to establish a mandatory effective date of January 1, 2018 with early adoption permitted. The Company has not adopted this standard and management has not yet determined the impact of this standard.

IFRS 15, Revenue from Contracts with Customers
In May 2014, the IASB issued the new revenue standard that requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. In September 2015, the IASB deferred the effective date for the new standard for annual periods beginning on January 1, 2018 with early adoption permitted. The Company has not yet adopted this standard and management has not yet determined the impact of this standard.

IFRS 16, Leases
In October 2015, the IASB issued the new standard that sets out the principles for the recognition, measurement and disclosure of leases. This new standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, although earlier application is permitted for entities that apply IFRS 15. The Company has not adopted this standard and management has not yet determined the impact of this standard.

There are no other accounting standards issued but not yet applied that would be expected to have a material impact on the Company.

Significant judgments and estimates

The preparation of consolidated financial statements under IFRS requires the Company to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. Actual results may differ from those estimates. The estimates and assumptions, which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, are discussed below.

Property and equipment and intangible assets

(i) Fair values
Property and equipment and intangible assets from acquisitions were initially recorded at their estimated fair values.

(ii) Indefinite-lived intangible assets
In the Province of Ontario, all LTC homes must be licensed. The Long-Term Care Homes Act, 2007 (**"LTCHA"**) became effective July 1, 2010. The LTCHA provides licence terms for the Company's LTC homes ranging from 15 years for Class B and C homes to a minimum of 20 years for Class A homes. Previously, Ontario LTC licences were renewed annually by the MOHLTC. Under the LTCHA, ultimate control of LTC licences in Ontario remains with the MOHLTC, including approval of new licences and the transfer or revocation of existing licences. With an existing wait-list of approximately 24,520 as of June 2015 (Source: MOHLTC Long-Term Care System Report, June 2015) in Ontario and the demand for LTC beds projected to increase, management is of the view that licences continue to have indefinite lives and will not be amortized.

Goodwill and indefinite lived intangible asset impairment analysis

On an annual basis, the Company uses the fair value less cost of disposal valuation model to assess whether goodwill and indefinite lived intangible assets may be impaired. If the results of operations in a future period are adverse to the estimates used for impairment testing, an impairment charge may be triggered at that point, or a reduction in useful economic life may be required. Any impairment losses are recognized in net income (loss). Impairment losses on goodwill are permanent. The significant estimates used in the valuation model include the discount rates and growth assumptions.

Deferred taxes

Deferred tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred tax assets should be recognized with consideration given to the timing and level of future taxable income.

Income taxes

The actual tax on the results for the period is determined in accordance with tax laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for tax to be paid on past profits, which are recognized in the consolidated financial statements. The Company considers the estimates, assumptions and judgments to be reasonable but this can involve complex issues, which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the consolidated financial statements.

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

4 Acquisition

On December 31, 2015, the Company completed the acquisition of a retirement residence containing 140 suites located in Oshawa, Ontario (**"Traditions"**). This is considered to be a related party transaction as a member of the Board of Directors of the Company had minority ownership and significant influence over Traditions.

The total net purchase price of $13,601 was allocated to the assets and liabilities as follows:

Assets	
Prepaid expenses	17
Property and equipment	29,279
Intangible assets	7,136
Total assets	36,432
Liabilities	
Accounts payable and accrued liabilities	127
Long-term debt	22,704
Total liabilities	22,831
Net assets acquired	13,601
Cash consideration	14,151
Income support	(550)
Total consideration	13,601

As part of the total purchase consideration for Traditions, the Company negotiated a $550 income support agreement with the vendor, which was held in escrow as an income guarantee.

Transaction costs expensed related to the Traditions acquisition for the year ended December 31, 2015 were $592.

If the Traditions acquisition had taken place on January 1, 2015, the consolidated revenue and consolidated net income for the Company for the year ended December 31, 2015 are estimated to have been $475,606 and $7,829, respectively.

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 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**	**—**

	As at December 31, 2014			
		Fair value		
	Carrying value	Level 1	Level 2	Level 3
Financial Assets:				
Construction funding receivable	93,918	—	—	100,727
Interest rate swap contract	704	—	704	—
Financial Liabilities:				
Long-term debt	576,529	—	596,796	—
Convertible debentures	44,303	46,506	—	—
Interest rate swap contracts	1,763	—	1,763	—

The fair value of construction funding receivable is estimated by discounting the expected future cash flows using current applicable rates for Government of Ontario bonds of comparable maturity plus a risk premium. As at December 31, 2015, the construction funding receivable was discounted using rates between 1.454% (December 31, 2014 - 2.05%) and 3.58% (December 31, 2014 - 3.55%).

The fair values of floating rate debt approximate their carrying values. The fair values of fixed rate debt are estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities. As at December 31, 2015, the fixed-rate debt was discounted using rates between 2.29% (December 31, 2014 - 3.31%) and 4.01% (December 31, 2014 - 4.18%).

The fair value of the convertible debentures is based on quoted market price.

Impairment charges on accounts receivable are discussed below. All finance income and costs from financial instruments have been disclosed in Note 13.

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

Maturities of financial instruments

For the years ending December 31, 2016 through 2020, and thereafter, the Company has estimated that the following undiscounted cash flows will arise from its government funding receivable/payable, interest rate swap contracts, construction funding receivable, long-term debt and convertible debentures at the consolidated statements of financial position date:

	As at December 31, 2015					
	2016	**2017**	**2018**	**2019**	**2020**	**Thereafter**
Government funding receivable/payable						
Cash inflows	3,124	1,570	—	—	—	—
Cash outflows	(2,720)	(449)	(1,026)	—	—	—
Net cash inflows (outflows)	404	1,121	(1,026)	—	—	—
Interest rate swap contracts						
Cash inflows	694	876	1,069	1,269	1,477	1,465
Cash outflows	(787)	(894)	(1,008)	(1,127)	(1,251)	(2,655)
Net cash (outflows) inflows	(93)	(18)	61	142	226	(1,190)
Construction funding receivable						
Cash inflows	13,080	13,080	13,080	12,732	12,390	35,627
Long-term debt						
Cash outflows	(46,357)	(136,185)	(52,996)	(66,322)	(43,024)	(344,718)
Convertible debentures						
Cash outflows	(2,139)	(2,139)	(47,070)	—	—	—
Net cash outflows	**(35,105)**	**(124,141)**	**(87,951)**	**(53,448)**	**(30,408)**	**(310,281)**

Nature and extent of risks arising from financial instruments

The following discussion is limited to the nature and extent of risks arising from financial instruments. The Company's normal operating, investing and financing activities expose it to a variety of financial risks including interest rate risk, credit risk and liquidity risk. The Company is not exposed to foreign currency risk as all operations are located in Canada and all purchases are contracted in Canadian dollars. The Company does not have significant exposure to price risk as most of its revenues are regulated by the MOHLTC. The Company's overall risk management process is designed to identify, manage and mitigate business risk, which includes financial risk.

Interest rate risk

Interest rate risk arises as the fair value of future cash flows from a financial instrument can fluctuate because of changes in market interest rates. The Company is subject to interest rate risk on floating-rate debt associated with the Kingston and Kanata retirement residences (**"Ontario Portfolio"**), Astoria retirement residence and Madonna long-term care home. The floating interest rate on the Madonna debt is offset by an interest rate swap contract. The Company has not adopted hedge accounting for this interest rate swap contract. Interest rates, maturities and security affecting the interest rate and credit risk of the Company's financial liabilities have been disclosed in Notes 11, 12 and 14.

The Company's credit facilities are, and future borrowings may be, at variable or floating rates of interest, which exposes the Company to the risk of interest rate volatility.

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, accounts receivable and other assets, restricted cash, construction funding receivable, government funding receivable and interest rate swap contracts. The Company is exposed to credit risk from its residents and customers. However, the Company has a significant number of residents and customers, which minimizes concentration of credit risk. The credit risk related to amounts owed by LTC residents is further mitigated by the Company's ability to recover 50% of any LTC amounts written off from the MOHLTC. A provision for management's estimate of uncollectible accounts receivable is established when there is objective evidence the Company will not be able to collect all amounts due. The Company assesses collectibility of specific accounts receivable and also assesses the requirement for a provision based on historical experience. The amount of the provision is reduced by amounts that would be recovered from the MOHLTC on ultimate write-off. When a receivable is uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of operations and comprehensive income (loss).

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

The continuity of the allowance for doubtful accounts is as follows:

Balance, January 1, 2014	250
Provision for receivables during the year	353
Receivables written off during the year	(168)
Balance, December 31, 2014	435
Provision for receivables during the year	177
Receivables written off during the year	(145)
Balance, December 31, 2015	**467**

The Company has $2,474 in trade and other receivables (December 31, 2014 - $2,013) that is past due but not impaired. This amount has not been provided for as there has not been a significant change in the credit quality and the amount is still considered recoverable. The Company does not hold any collateral for the support of these balances.

The aging analysis of these receivables is as follows:

	2015	2014
0 - 30 days	**1,382**	1,253
31 - 60 days	**412**	471
61 - 90 days	**287**	98
Over 90 days	**393**	191
	2,474	2,013

The Company is also exposed to credit risk through the amounts receivable from the MOHLTC. The Company has assessed the credit risk associated with the amounts owed by the MOHLTC as low, as they are receivable from the Ontario government. During the year ended December 31, 2015, the Company wrote off $606 (2014 - $1,294) for amounts receivable from the MOHLTC primarily relating to 2007 through 2012 reconciliation years. Management has assessed the credit risk associated with the interest rate swap contracts, restricted cash and cash balances as low given the counterparties are major Canadian financial institutions that have been accorded investment grade ratings by a primary rating agency.

Liquidity risk

Liquidity risk is the risk the Company may encounter difficulties in meeting its obligations associated with financial liabilities and commitments. The Company has credit agreements in place related to the long-term debt. These credit agreements contain a number of standard financial and other covenants.

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

To support the Company's working capital deficiency, the Company will use its operating cash flows and, if necessary, undrawn credit facilities.

Sensitivity analysis

IFRS requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of the Company's financial position, performance and fair value of cash flows associated with the Company's financial instruments to changes in market variables. The sensitivity analysis provided discloses the effect on the consolidated statements of operations and comprehensive income (loss) as at December 31, 2015 assuming that a reasonably possible change in the relevant risk variable has occurred as at December 31, 2015. The reasonably possible changes in market variables used in the sensitivity analysis were determined based on implied volatilities where available or historical data.

The sensitivity analysis has been prepared based on December 31, 2015 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and the derivatives as at December 31, 2015 are all constant. Excluded from this analysis are all non-financial assets and liabilities that are not classified as financial instruments.

The sensitivity analysis provided is hypothetical and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced as the Company's actual exposure to market rates may change. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in the market variable and the change in fair values or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company.

		Interest rate risk	
		-1%	+1%
	Fair Value	Comprehensive Income	Comprehensive Income
Financial Assets:			
Restricted cash	12,793	(12)	96
Interest rate swap contract	1,393	(945)	945
Financial Liabilities:			
Debt at variable rates subject to interest rate risk	69,500	597	(597)
Interest rate swap contract	2,265	(1,366)	1,366

Any changes in the interest payable under the debt assumed with Madonna would be offset by a change in the cash flows from the related swap contract.

6 Capital management

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

The Company's objectives when managing capital are to: (i) maintain a capital structure that provides financing 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 preserve its ability to meet financial obligations, including debt servicing payments and dividend payments; and (iii) deploy capital to provide an appropriate investment return to its shareholders.

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

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 such things as the Company's needs and market and economic conditions at the time of the transaction.

The Board of Directors reviews the level of monthly dividends paid on a quarterly basis.

The Series B Senior Secured Debentures (**"Series B Debentures"**) and $20,000 revolving credit facility (Note 14) are collateralized by all assets of Leisureworld Senior Care LP (**"LSCLP"**) and the subsidiary partnerships and guaranteed by the subsidiary partnerships. Under its Master Trust Indenture, LSCLP is subject to certain financial and non-financial covenants including a debt service coverage ratio defined as income from operations and construction funding (**"EBITDA"**) to debt service.

The debt assumed and entered into as part of the Specialty Care Acquisition, which consisted of six LTC homes, two RRs and two properties containing both LTC and RR components (**"Specialty Care Acquisition"**), the Astoria, Pacifica and Peninsula retirement residences (**"BC Portfolio"**) and the Ontario Portfolio are secured by each of the properties' assets, guaranteed by the Company, and are subject to certain customary financial and non-financial covenants. The mortgage assumed on the acquisition of Traditions and Madonna LTC home is collateralized by a first collateral mortgage on the property and guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Company is in compliance with all financial covenants on its borrowings as at December 31, 2015. However, there can be no assurance future covenant requirements will be met. 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 year.

7 Restricted cash

Restricted cash comprises of the 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.

	December 31, 2015	December 31, 2014
Series B Debentures principal reserve fund	**10,725**	4,751
Capital maintenance reserve	**1,488**	1,198
Benefits reserve	**580**	—
Restricted cash	**12,793**	5,949

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

8 Property and equipment

	Land	Buildings	Furniture and fixtures	Automobiles	Computer hardware	Circulating equipment	Total
Cost							
At January 1, 2014	77,218	571,061	17,487	309	728	988	667,791
Additions	—	2,882	891	—	55	52	3,880
At December 31, 2014	77,218	573,943	18,378	309	783	1,040	671,671
Acquisition of Traditions	2,800	26,037	357	85	—	—	29,279
Additions	—	3,485	1,420	—	829	—	5,734
Transfers	—	—	88	—	—	(88)	—
At December 31, 2015	**80,018**	**603,465**	**20,243**	**394**	**1,612**	**952**	**706,684**
Accumulated depreciation							
At January 1, 2014	—	60,866	7,963	59	414	—	69,302
Charges for the year	—	23,099	1,568	63	100	—	24,830
At December 31, 2014	—	83,965	9,531	122	514	—	94,132
Charges for the year	—	22,580	1,460	62	118	—	24,220
At December 31, 2015	**—**	**106,545**	**10,991**	**184**	**632**	**—**	**118,352**
Net book value							
At December 31, 2014	77,218	489,978	8,847	187	269	1,040	577,539
At December 31, 2015	**80,018**	**496,920**	**9,252**	**210**	**980**	**952**	**588,332**

9 Intangible assets

	Licences	Resident relationships	Service contracts	Computer software	Total
Cost					
At January 1, 2014	106,020	66,259	10,968	385	183,632
Additions	—	—	—	448	448
At December 31, 2014	106,020	66,259	10,968	833	184,080
Acquisition of Traditions	—	7,136	—	—	7,136
Additions	—	—	—	2,608	2,608
At December 31, 2015	**106,020**	**73,395**	**10,968**	**3,441**	**193,824**
Accumulated amortization					
At January 1, 2014	—	40,090	3,255	328	43,673
Charges for the year	—	12,249	2,383	49	14,681
At December 31, 2014	—	52,339	5,638	377	58,354
Charges for the year	—	8,694	1,636	39	10,369
At December 31, 2015	**—**	**61,033**	**7,274**	**416**	**68,723**
Net book value					
At December 31, 2014	106,020	13,920	5,330	456	125,726
At December 31, 2015	**106,020**	**12,362**	**3,694**	**3,025**	**125,101**

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

10 Goodwill

Cost and carrying value, at January 1 and December 31, 2015 and 2014	98,804

The recoverable amount is the higher of its value in use and fair value less costs of disposal (**"fair value"**). Fair value is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. These cash flows are discounted to arrive at the recoverable amount. In assessing fair value, the estimated future cash flows covering a five-year period are derived from the most recent financial budget, adjusted where appropriate to reflect market participant assumptions. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. For the 2015 goodwill impairment analysis, the Company used an average post-tax discount rate of approximately 6.93% (2014 - 8.65%) across the CGUs and an average growth rate of 2.10% (2014 - 2.10%) before considering expansion projects. The Company has not recognized any goodwill impairment losses.

11 Long-term debt

	Interest rate	Maturity date	December 31, 2015	December 31, 2014
Series B Senior Secured Debentures	3.474%	February 3, 2021	**322,000**	322,000
Credit facilities	Floating	April/May 2017	**69,500**	66,000
Mortgages at fixed rates	3.04% - 7.11%	2016 - 2024	**192,028**	176,422
Mortgage at variable rate	Floating	April 16, 2029	**14,260**	14,714
			597,788	579,136
Mark-to-market adjustments on acquisition			**1,252**	1,848
Financing costs			**(4,029)**	(4,455)
Total debt			**595,011**	576,529
Less: current portion			**18,838**	74,039
			576,173	502,490

Principal repayments on long-term debt are as follows:

2016	18,567
2017	109,427
2018	29,244
2019	43,781
2020	22,655
Thereafter	374,114
	597,788

Series A and B Senior Secured Debentures

On February 3, 2014, LSCLP issued $322,000 of aggregate principal amount of 3.474% Series B Debentures due February 3, 2021. The net proceeds of $313,657, after financing costs of $2,109 and the settlement of the bond forward contract that resulted in a payment of $6,234 were used on February 24, 2014 to repurchase $294,326 principal amount of its Series A Senior Secured Debentures (**"Series A Debentures"**) for a cash consideration of $312,718, which includes a redemption premium of $18,392. The settlement of the bond forward contract created a tax shield of $1,650. Accrued interest of $3,571 on the Series A Debentures and financing costs of $1,489 on the Series B Debentures were also paid in the first quarter of 2014.

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

The Series B Debentures have a face value of $322,000 as at December 31, 2015 (December 31, 2014 - $322,000) and are collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships. Interest on the Series B Debentures is payable semi-annually in arrears on February 3rd and August 3rd of each year.

The Series B Debentures may be redeemed in whole or in part at the option of the Company at any time, on not less than 15 days and not more than 30 days notice to the holders of the Series B Debentures. The redemption price is the greater of: (i) the face amount of the Series B Debentures to be redeemed; and (ii) the price that will provide a yield to the remaining average life of such Series B Debentures equal to the Canada Yield Price, in each case together with accrued and unpaid interest. The Canada Yield Price is defined as a price equal to the price of the debenture calculated to provide an annual yield to maturity equal to the Government of Canada Yield plus 0.375%.

Series B Debentures - Principal Reserve Fund

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

Required contributions to the principal reserve fund are as follows:

2016	6,319
2017	6,618
2018	6,920
2019	7,112
2020	7,283
Thereafter	610
	34,862

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where the Company currently has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The principal reserve fund arrangement described above does not meet the criteria for offsetting in the consolidated statements of financial position but still allows for the related amounts to be set-off in certain circumstances, such as the repurchase of the Series B Debentures.

The following table presents the financial instruments that may be subject to enforceable master netting arrangements or other similar agreements but not offset as at December 31, 2015 and 2014, and shows in the ‘Net amount’ column what the net impact would be on the Company’s consolidated statements of financial position if the set-off rights were exercised in the circumstance described above. As at December 31, 2015 and 2014, no recognized financial instruments are offset in the consolidated statements of financial position.

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

	As at December 31, 2015		
	Gross amount presented in the consolidated statements of financial position	Related accounts not set-off in the consolidated statements of financial position	Net amount
Financial Liabilities:			
Series B Senior Secured Debentures	322,000	(10,725)	311,275

	As at December 31, 2014		
	Gross amount presented in the consolidated statements of financial position	Related accounts not set-off in the consolidated statements of financial position	Net amount
Financial Liabilities:			
Series B Senior Secured Debentures	322,000	(4,751)	317,249

Credit facilities

The Red Oak Retirement Residence and Royale Place Retirement Residence (formerly the Royale Kingston and Royale Kanata retirement residences) (**"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 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 December 31, 2015, the Company had drawn $47,000 under this credit facility (December 31, 2014 - $42,000).

The Astoria Retirement Residence (**"Astoria"**) has a $22,500 credit facility (**"Credit Facility"**) that bears a floating interest rate equal to the floating 30-day BA rate plus 187.5 bps per annum. The credit facility is secured by Astoria's assets and 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 December 31, 2015, the Company had drawn $22,500 under this credit facility (December 31, 2014 - $24,000).

Mortgage assumed from Traditions

As part of the Traditions acquisition (Note 4), the Company assumed a mortgage in the amount of $22,704. The assumed mortgage bears a fixed interest rate of 3.49% per annum and matures on March 11, 2020. The mortgage is secured by a first charge on all assets owned by Traditions and located at the respective property, and is subject to certain customary financial and non-financial covenants.

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

12 Convertible debentures

The Company has extendible convertible unsecured subordinated debentures outstanding with an aggregate principal of $46,000. These Convertible 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 December 31, 2015, $1,009 (December 31, 2014 - $1,411) of financing costs remain to be amortized and $209 (December 31, 2014 - $286) of fair value adjustment remains to be accreted.

13 Net finance charges

	2015	2014
Finance costs		
Interest expense on long-term debt	**20,998**	22,882
Interest expense on convertible debentures	**2,216**	2,212
Fees on revolving credit facility	**193**	143
Net accretion of the fair value adjustments on long-term debt	**(596)**	3,181
Amortization of deferred financing charges	**1,214**	1,651
Amortization of loss on bond forward contract	**820**	720
Redemption premium on long-term debt	**—**	18,415
Net settlement payment on interest rate swap contracts	**321**	358
(Gain) loss on interest rate swap contracts	**(187)**	581
	24,979	50,143
Finance income		
Interest income on construction funding receivable (Note 22)	**3,728**	4,150
Other interest income	**155**	307
	3,883	4,457
Net finance charges	**21,096**	45,686

14 Revolving credit facilities

LSCLP has a $20,000 revolving credit facility with a Canadian chartered bank, which it can access for working capital purposes. This facility is collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships. It bears interest on cash advances at 150 bps per annum over the floating BA rate (30, 60 or 90 days), or at 50 bps per annum over the prime rate and bears interest on letters of credit at 150 bps per annum. As at December 31, 2015, the Company had no amounts drawn on this facility (December 31, 2014 - $nil) and no letters of credit were outstanding (December 31, 2014 - $nil). During the year ended December 31, 2015, charges related to standby fees totalled $66 (2014 - $37).

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

15 Income taxes

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

	2015	2014
Income (loss) before provision for (recovery of) income taxes	**10,562**	(22,071)
Canadian combined income tax rate	**26.49%**	26.47%
Income tax expense (recovery)	**2,798**	(5,842)
Adjustments to income tax provision:		
Non-deductible items	**125**	415
Book to filing adjustment	**414**	(452)
Other items	**(12)**	(351)
Income tax expense (recovery)	**3,325**	(6,230)

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

	Accelerated tax depreciation	Intangible assets	Share issuance	Construction funding interest	Other	Total
As at January 1, 2014	(65,824)	(8,746)	2,414	7,762	(796)	(65,190)
Credit (charge) to net loss	1,645	2,674	(1,274)	(1,098)	2,137	4,084
Book to filing adjustment	1,121	—	—	(952)	76	245
Credit to other comprehensive loss	—	—	24	—	2,149	2,173
As at, December 31, 2014	(63,058)	(6,072)	1,164	5,712	3,566	(58,688)
Credit (charge) to net income	3,535	(256)	(625)	(987)	(2,215)	(548)
Book to filing adjustment	(251)	224	—	(11)	(482)	(520)
Credit (charge) to other comprehensive income	—	—	—	—	(217)	(217)
As at December 31, 2015	**(59,774)**	**(6,104)**	**539**	**4,714**	**652**	**(59,973)**

The realized loss on bond forward contracts on the consolidated statements of comprehensive income (loss) is net of tax of $217 for the year ended December 31, 2015 (2014 - $1,460).

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

16 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, 2014	36,239,653	371,789
Long-term incentive plan, net of loans receivable (Note 18)	10,396	19
Share purchase loan (Note 24)	—	20
Dividend reinvestment plan	32,892	350
Issued common shares (Note 18)	16,097	195
Balance, December 31, 2014	36,299,038	372,373
Long-term incentive plan, net of loans receivable (Note 18)	11,669	28
Share purchase loan (Note 24)	—	22
Dividend reinvestment plan	158,388	2,396
Issued common shares (Note 18)	9,776	148
Balance, December 31, 2015	**36,478,871**	**374,967**

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 (loss) per share calculation.

	Year ended December 31,	
	2015	2014
Numerator for basic and diluted income (loss) per share		
Net income (loss) for basic income (loss) per share	**7,237**	(15,841)
Net finance charges on convertible debentures	**2,618**	2,614
Current income tax adjustment	**(694)**	(692)
Net income (loss) used to determine diluted income (loss) per share	**9,161**	(13,919)
Denominator for basic and diluted income (loss) per share		
Weighted average number of shares for basic income (loss) per share	**36,398,297**	36,264,658
Shares issued if all convertible debentures were converted	**2,746,269**	2,746,269
Total for diluted income (loss) per share	**39,144,566**	39,010,927

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

17 Dividends

The Company paid dividends at $0.075 per month per common share totalling $30,350 for the year ended December 31, 2015 (2014 - $32,194). Dividends payable of $2,737 are included in accounts payable and accrued liabilities as at December 31, 2015 (December 31, 2014 - $2,723). Subsequent to December 31, 2015, the Board of Directors declared dividends of $0.075 per common share for January and February 2016 totaling $5,473. These dividends have not been recorded in these consolidated financial statements.

18 Share-based compensation

The Company has share-based compensation plans described as follows:

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

Certain senior executives ("Participants") and past executives may be awarded incentive amounts on an annual basis based on performance targets being achieved. Participants have the option to purchase the number of common shares equal to their eligible incentive amount divided by the weighted average closing price of common shares on the TSX for the five trading days (**"Average Closing Price"**) prior to date of grant. At most 95% of the eligible incentive amount may be financed by a loan from the Company to the Participant for the purpose of investing in the LTIP and bearing interest at the prime rate per annum, fixed at the time of the loan. The loan and interest are due and payable 10 years (formerly five years) from the grant date. Until the loan has been repaid in full, the related shares will be pledged to the Company as security against the outstanding balance of the loan and any cash dividends declared on such shares will be applied against the outstanding balance of the loan, first to interest then to principal.

On February 25, 2015, incentive award amounts entitling eligible participants to acquire 11,669 common shares were granted pursuant to the LTIP. On the grant date, the participants paid $9 towards the acquisition of common shares. This payment was recorded as an increase in share capital. Related to the LTIP in the year ended December 31, 2015, the Company recorded an increase of $28 in share capital (2014 - $19) and $30 in contributed surplus (2014 - $32). As at December 31, 2015, the outstanding loan balance was $430 (December 31, 2014 - $287). Total expense related to the LTIP for the year ended December 31, 2015 was $30 (2014 - $32).

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 25, 2015	February 25, 2014
Fair value at grant date	$14.80	$12.30
Volatility	15.78%	16.46%
Monthly discrete dividend	$0.075	$0.075
Risk-free rate	1.79%	2.83%
Annual interest rate on participant's loan - prime rate	3.00%	3.00%
Forfeiture rate	0.00%	0.00%

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

Certain employees (**"Employees"**) may be awarded RSUs based on performance targets being achieved. Employees are awarded the number of notional shares equal to a portion of their compensation amount divided by the Average Closing Price on the grant date. Employees participating in the RSU plan are entitled to receive notional distributions equal to the amount of dividend per common share. Such distributions will be granted to the Employee in the form of additional RSUs equal to the dividend amount divided by the Average Closing Price as of the day such dividend was declared. RSU awards granted in 2015 and onward vest on the third anniversary of the grant date and the related compensation expense is recognized over the three-year vesting period. RSU awards granted in 2014 and prior vest equally at the end of years one, two and three from the grant date and the related compensation expense is recognized on a graded basis over the vesting periods. On vesting of the RSUs, the Employees have the option to redeem all or a portion of vested RSUs in cash or receive one common share of the Company for each RSU redeemed. Any lump sum payment in cash will be calculated by multiplying the number of RSUs to be redeemed for cash by the Average Closing Price as of the applicable vesting date. The value of each RSU is measured at each reporting date and is equivalent to the market value of a common share of the Company at the reporting date.

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

During the year ended December 31, 2015, 17,007 restricted share units (**"RSUs"**) (2014 - 23,730) were granted pursuant to the RSUP. Total expenses related to the RSUP for the year ended December 31, 2015 were $245 (2014 - $271), net of forfeitures. During the year ended December 31, 2015, 2,567 RSUs were forfeited causing a decrease of $3 to the share-based compensation liability. During the year ended December 31, 2015, 12,155 RSUs vested and were settled in cash and shares, resulting in a decrease of $180 to the share-based compensation liability. The total liability recorded as part of the share-based compensation liability as at December 31, 2015 was $300 (December 31, 2014 - $235).

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

	Number of RSUs
Outstanding, January 1, 2014	26,027
Granted	23,730
Forfeited	(3,664)
Dividends reinvested	2,126
Settled in cash	(2,791)
Settled in shares	(16,097)
Outstanding, December 31, 2014	29,331
Granted	17,007
Forfeited	(2,567)
Dividends reinvested	1,948
Settled in cash	(2,379)
Settled in shares	(9,776)
Outstanding, December 31, 2015	**33,564**

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

Eligible members of the Board of Directors (**"Members"**) can elect on an annual basis to receive their annual retainer fees up to 100% as DSUs, which may be redeemed only when the Member no longer serves on the Board of Directors for any reason. Redemptions will be paid out in cash. All such fees are credited to each Member in the form of notional shares using the Average Closing Price on the grant date. The Company will match the amount elected by each Member to be contributed to the DSU plan. Dividends accrue on the DSUs, as long as the Member continues to serve on the Board of Directors, as additional notional units under the DSU plan. The Compensation, Nominating and Governance Committee reserves the right to amend the eligible Members and compensation structure under this plan. The value of each DSU is measured at each reporting date and is equivalent to the fair market value of a common share of the Company at the reporting date. Total expenses related to the DSUP for the year ended December 31, 2015 were $832 (2014 - $856), 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 December 31, 2015 was

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$3,171 (December 31, 2014 - $2,339). The value of each DSU 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 year ended December 31, 2015, the Board approved the adoption of its amended and restated EDSUP for executive officers and such other officers or employees (**"EDSUP Member**") as the Board of Directors may determine from time to time. Each EDSUP Member, at his or her discretion, is entitled to elect to have up to 100% of his or her annual base incentive awards contributed to the EDSUP. The Company will match all EDSUs so credited in respect of long-term incentive awards up to a maximum of 25% of the long-term incentive awards (up to 35% in the case of the Chief Executive Officer), or such other amount as the Board of Directors may determine. In satisfaction of such contribution, the EDSUP Member is credited that number of EDSUs equal to the quotient obtained by dividing the amount of the contribution by the volume weighted average closing price of the common shares on the TSX for the five trading days immediately preceding the date of payment. Dividends earned on such EDSUs will be credited to the EDSUP Member's account in the form of additional EDSUs, which are calculated using the same methodology as the original grant.

EDSUs vest on the third anniversary of the date on which the EDSUs are granted (except for EDSUs credited in respect of short-term incentive awards, which vest immediately once granted), or otherwise at the discretion of the Board of Directors, but may be redeemed only when an EDSUP Member no longer serves the Company. Redemptions are paid out in cash.

The value of each vested EDSU is measured at each reporting date and is equivalent to the fair value of a common share of the Company at the reporting date. One award issued during the year ended December 31, 2015 under the EDSUP vested immediately once granted with a value of $146. Total expenses related to the EDSUP for the year ended December 31, 2015 were $68 (2014 - $nil), which was recognized in administrative expenses. The total liability recorded as a part of the share-based compensation liability as at December 31, 2015 was $214 (December 31, 2014 - $nil).

19 Employee salaries and benefits

Payroll costs for all employees, including key management, consist of:

	2015	2014
Salaries and short-term employee benefits	**284,756**	277,004
Group retirement savings plan	**7,137**	6,820
Termination benefits	**1,548**	1,047
Share-based compensation	**1,175**	1,144
	294,616	286,015

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

20 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.

	2015	2014
Salaries and short-term employee benefits	**2,492**	2,339
Termination benefits	**288**	232
Share-based compensation	**1,170**	1,130
	3,950	3,701

21 Commitments and contingencies

The Company has a ten-year operating lease with respect to its corporate office located in Markham, which expires on October 31, 2024. The Company also has various operating leases for office and other equipment.

Lease payments in respect of the remaining years of the operating leases are as follows:

2016	902
2017	822
2018	799
2019	757
2020	754
Thereafter	2,975
	7,009

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. Management believes the final outcome of such matters will not have a material adverse effect on the Company's financial position, results of operation or liquidity. However, actual outcomes may differ from management's expectations.

22 Construction funding receivable

As at December 31, 2015, the Company will receive gross funding from the Ontario government of approximately $99,989 (December 31, 2014 - $113,069) related to the construction costs of LTC homes. The amounts are non-interest bearing and will be received for certain LTC homes for various periods ending over the next 14 years, subject to the condition that the homes continue to operate as long-term care communities for the remaining period. As at December 31, 2015, the condition for the funding has been met.

The construction funding receivable is initially recorded at estimated fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates. Included in net finance charges is interest income on the construction funding receivable of $3,728 for the year ended December 31, 2015 (2014 - $4,150).

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

23 Trust funds

The Company maintains separate trust accounts on behalf of its LTC home residents, which are not included in these consolidated financial statements. The total balance in the trust bank accounts as at December 31, 2015 was $1,035 (December 31, 2014 - $1,717).

24 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 year ended December 31, 2015 was $1,891 (2014 - $1,892). Included in accounts receivable is $98 owing from Spencer House Inc. as at December 31, 2015 (December 31, 2014 - $102). 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 December 31, 2015, the Company has amounts outstanding from certain key executives of $430 (December 31, 2014 - $287) (Note 18) in relation to the LTIP issuance, which have been recorded as a reduction to shareholders' equity.

The Company provided a loan to the Chief Executive Officer (**"CEO"**) to purchase the Company's common shares. The outstanding loan balance as at December 31, 2015 was $447 (December 31, 2014 - $469), which has been recorded as a reduction to shareholders' equity. The loan bears interest at the prime rate and is due on demand. The common shares have been pledged as security against the loan, which is personally guaranteed by the CEO.

25 Economic dependence

The Company holds licences related to each of its LTC homes and receives funding from the MOHLTC related to those licences. Funding is received on or about the 22nd of each month. During the year ended December 31, 2015, the Company received approximately $287,721 (2014 - $285,087) in respect of these licences for flow-through envelope revenues and other MOHLTC funded initiatives.

26 Expenses by nature

	2015	2014
Salaries, benefits and other people costs	**299,587**	291,742
Food	**19,342**	18,964
Property taxes	**13,077**	13,317
Utilities	**12,490**	12,562
Purchased services and non-medical supplies	**16,158**	16,305
Other	**42,281**	39,609
Total expenses	**402,935**	392,499

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

27 Subsidiaries

The following are the significant subsidiaries of the Company, all of which are included in these consolidated financial statements:

		Percentage of equity interest	
Name	**Country of incorporation**	**December 31, 2015**	December 31, 2014
Leisureworld Senior Care LP (Ontario)	Canada	100%	100%
2063412 Investment LP (Ontario)	Canada	100%	100%
2063414 Investment LP (Ontario)	Canada	100%	100%
2063415 Investment LP (Ontario)	Canada	100%	100%
2067474 Investment LP (Ontario)	Canada	100%	100%
2067475 Investment LP (Ontario)	Canada	100%	100%
Vigour Limited Partnership (Ontario)	Canada	100%	100%
The Royale LP (Ontario)	Canada	100%	100%
The Royale Development LP (Ontario)	Canada	100%	100%
The Royale West Coast LP (Ontario)	Canada	100%	100%
2371281 Investment LP (Ontario)	Canada	100%	100%

28 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 long-term care homes;
- Retirement - Retirement includes 11 retirement residences;
- Home Care - Home Care is an accredited provider of personal support for community-based home care;
- Management Services - Management Services is a division that is focused on the third party management business in both the LTC and retirement sectors; and
- Corporate, Eliminations and Other - This segment represents the results of head office, intercompany eliminations and other items that are not allocable to the segments.

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

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

	Year ended December 31, 2015					
	Long-Term Care	**Retirement**	**Home Care**	**Management Services**	**Corporate, Eliminations and Other**	**Total**
Gross revenue	**411,941**	**44,105**	**17,483**	**2,446**	**32,764**	**508,739**
Less: Internal revenue	**5,343**	**—**	**—**	**—**	**33,292**	**38,635**
Net revenue	**406,598**	**44,105**	**17,483**	**2,446**	**(528)**	**470,104**
Income (loss) before depreciation and amortization, net finance charges, transaction costs and the provision for income taxes	**61,944**	**19,675**	**2,038**	**1,745**	**(18,233)**	**67,169**
Depreciation of property and equipment	**17,044**	**7,054**	**1**	**—**	**121**	**24,220**
Amortization of intangible assets	**2,061**	**6,635**	**—**	**1,637**	**36**	**10,369**
Finance costs	**17,179**	**5,182**	**—**	**—**	**2,618**	**24,979**
Finance income	**(3,844)**	**(4)**	**(6)**	**—**	**(29)**	**(3,883)**
Transaction costs	**1**	**—**	**—**	**—**	**921**	**922**
Income tax expense	**—**	**—**	**—**	**—**	**3,325**	**3,325**
Net income (loss)	**29,503**	**808**	**2,043**	**108**	**(25,225)**	**7,237**
Purchase of property and equipment	**2,561**	**1,274**	**—**	**—**	**1,899**	**5,734**
Purchase of intangible assets	**8**	**—**	**—**	**—**	**2,600**	**2,608**

	Year ended December 31, 2014					
	Long-Term Care	Retirement	Home Care	Management Services	Corporate, Eliminations and Other	Total
Gross revenue	402,163	40,815	17,849	2,426	32,641	495,894
Less: Internal revenue	5,379	—	—	—	33,727	39,106
Net revenue	396,784	40,815	17,849	2,426	(1,086)	456,788
Income (loss) before depreciation and amortization, net finance charges, transaction costs and the recovery of income taxes	60,137	17,416	2,487	1,760	(17,511)	64,289
Depreciation of property and equipment	17,849	6,980	1	—	—	24,830
Amortization of intangible assets	2,186	10,486	6	2,003	—	14,681
Finance costs	42,021	5,503	—	5	2,614	50,143
Finance income	(4,425)	—	(4)	—	(28)	(4,457)
Transaction costs	—	—	—	—	1,163	1,163
Income tax recovery	—	—	—	—	(6,230)	(6,230)
Net income (loss)	2,506	(5,553)	2,484	(248)	(15,030)	(15,841)
Purchase of property and equipment	2,785	1,048	—	—	47	3,880
Purchase of intangible assets	2	—	—	—	446	448

	As at December 31, 2015					
	Long-Term Care	**Retirement**	**Home Care**	**Management Services**	**Corporate, Eliminations and Other**	**Total**
Total assets	**664,800**	**268,438**	**8,905**	**4,530**	**4,796**	**951,469**
Goodwill	**89,322**	**2,511**	**6,521**	**450**	**—**	**98,804**
Intangible assets	**107,843**	**11,265**	**—**	**2,983**	**3,010**	**125,101**

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

	As at December 31, 2014					
	Long-Term Care	Retirement	Home Care	Management Services	Corporate, Eliminations and Other	Total
Total assets	687,135	243,682	8,645	6,815	486	946,763
Goodwill	89,322	2,511	6,521	450	—	98,804
Intangible assets	109,896	10,764	—	4,620	446	125,726