Report to Shareholders

2016

Sienna Senior Living Inc.

Sienna
SENIOR LIVING

Management's Discussion and Analysis

(in thousands of Canadian Dollars)

2016

Sienna Senior Living Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Basis of Presentation

The following Management's Discussion and Analysis ("**MD&A**") for Sienna Senior Living Inc. (formerly Leisureworld Senior Care Corporation) (the "**Company**" or "**Sienna**") provides a summary of the financial results for the year ended December 31, 2016. This MD&A should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016. This material is available on the Company's website at www.siennaliving.ca. Additional information about the Company, including its Annual Information Form ("**AIF**") for the year ended December 31, 2015 can be found on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com. In accessing the Company's information, readers are reminded of the Company's predecessor name, Leisureworld Senior Care Corporation, and that the information of Leisureworld Senior Care Corporation is the information of the Company.

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

In this document, "Q1" refers to the three-month period ended March 31; "Q2" refers to the three-month period ended June 30; "Q3" refers to the three-month period ended September 30; and "Q4" refers to the three-month period ended December 31.

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

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

Additional Information

Additional information relating to the Company can be found on the Company's website at www.siennaliving.ca, by accessing the Company's public filings on SEDAR, or by contacting 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 16, 2017, the date on which this report was approved by the Board of Directors of the Company, and is based on information available to management as of that date.

Company Profile

Sienna Senior Living Inc. was incorporated as "Leisureworld Senior Care Corporation" under the *Business Corporations Act* (Ontario) on February 10, 2010, and subsequently continued under the *Business Corporations Act* (British Columbia) on March 18, 2010. The Company closed the initial public offering of its common shares on March 23, 2010. Effective May 1, 2015, the Company changed its name to Sienna Senior Living Inc. pursuant to a Notice of Alteration filed with the British Columbia Registry Services on April 23, 2015, as further described below. The 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.

The Company is listed on the Toronto Stock Exchange (the "**TSX**") under the trading symbol **SIA** (formerly **LW**). As of February 16, 2017, the following securities of the Company were outstanding: 46,143,181 common shares; and $45,083 in aggregate principal amount of convertible unsecured subordinated debentures (TSX symbol: **SIA.DB**, formerly **LW.DB**) which, in the aggregate, are convertible into 2,691,522 common shares (the "**Convertible Debentures**"). The Convertible Debentures have a maturity date of June 30, 2018. The increase in outstanding common shares during 2016 was primarily driven by the issuance of 8,728,500 common shares on August 2, 2016 in connection with the financing of the BC Acquisition (as defined in the "Significant Events" section below).

The Company is one of Canada's leading seniors living providers serving the continuum of independent living ("**IL**"), independent supportive living ("**ISL**"), assisted living ("**AL**"), memory care ("**MC**") and long-term care / residential care (referred to collectively as "**LTC**") through the operation of its 35 LTC homes (representing 5,733 beds), 13 retirement residences ("**RR**") (representing 1,429 suites), six seniors living residences providing both private-pay and funded long-term care (the "**Baltic Properties**"), the Company's current 40% interest in Nicola Lodge ("**Nicola Lodge**") (together with the Baltic Properties, representing 1,017 beds), and the Company's current 50% interest in Pacific Seniors Management General Partnership ("**PSM**"), the manager and operator of the Baltic Properties and Nicola Lodge. The Baltic Properties, Nicola Lodge and PSM are referred to collectively in this MD&A as "**Baltic**".

On April 28, 2016, the Company completed the sale of its Preferred Health Care Services (**"PHCS"**), its ancillary home care business ("**Home Care**").

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

NAME OF COMMUNITY	LOCATION	FUNDED	PRIVATE	TOTAL BEDS/ SUITES
Retirement				
Astoria Retirement Residence	Port Coquitlam, BC	—	135	135
Cedarvale Lodge Retirement & Care Community	Keswick, ON	—	130	130
Island Park Retirement Residence	Campbellford, ON	—	85	85
Lincoln Park Retirement Residence	Grimsby, ON	—	70	70
Mayfair Terrace Retirement Residence	Port Coquitlam, BC	—	86	86
Midland Gardens Seniors Apartments	Scarborough, ON	—	53	53
Pacifica Retirement Residence	Surrey, BC	—	130	130
Peninsula Retirement Residence	Surrey, BC	—	127	127
Red Oak Retirement Residence	Kanata, ON	—	158	158
Rideau Retirement Residence	Burnaby, BC	—	138	138
Royale Place Retirement Residence	Kingston, ON	—	136	136
Traditions of Durham Retirement Residence	Oshawa, ON	—	140	140
Trillium Retirement and Care Community	Kingston, ON	—	41	41
Total Retirement		**—**	**1,429**	**1,429**
Baltic				
Brookside Lodge	Surrey, BC	102	14	116
Lake Country Lodge	Lake Country, BC	45	45	90
Lakeview Lodge	West Kelowna, BC	100	14	114
Mariposa Gardens	Osoyoos, BC	114	31	145
Nicola Lodge	Port Coquitlam, BC	238	18	256
Ridgeview Lodge	Kamloops, BC	106	23	129
The Cascades	Chilliwack, BC	140	27	167
Total Baltic		**845**	**172**	**1,017**
Long-Term Care				
Altamont Care Community	West Hill, ON	159	—	159
Barnswallow Place Care Community	Elmira, ON	96	—	96
Bloomington Cove Care Community	Stouffville, ON	112	—	112
Bradford Valley Care Community	Bradford, ON	246	—	246
Camilla Care Community	Mississauga, ON	237	—	237
Case Manor Care Community	Bobcaygeon, ON	96	—	96
Cedarvale Lodge Retirement & Care Community	Keswick, ON	60	—	60
Cheltenham Care Community	Toronto, ON	170	—	170
Creedan Valley Care Community	Creemore, ON	95	—	95
Deerwood Creek Care Community	Etobicoke, ON	160	—	160
Fieldstone Commons Care Community	Scarborough, ON	224	—	224
Fountain View Care Community	Toronto, ON	158	—	158
Fox Ridge Care Community	Brantford, ON	122	—	122
Granite Ridge Care Community	Stittsville, ON	224	—	224
Harmony Hills Care Community	Toronto, ON	160	—	160
Hawthorn Woods Care Community	Brampton, ON	160	—	160
Langstaff Square Care Community	Richmond Hill, ON	160	—	160
Madonna Care Community	Orleans, ON	160	—	160
Maple Grove Care Community	Brampton, ON	160	—	160
Midland Gardens Care Community	Scarborough, ON	299	—	299
Muskoka Shores Care Community	Gravenhurst, ON	206	—	206

NAME OF COMMUNITY	LOCATION	FUNDED	PRIVATE	TOTAL BEDS/ SUITES
Norfinch Care Community	North York, ON	160	—	160
Orillia	Orillia, ON	160	—	160
Owen Hill Care Community	Barrie, ON	57	—	57
Rockcliffe Care Community	Scarborough, ON	204	—	204
Secord Trails Care Community	Ingersoll, ON	80	—	80
Silverthorn Care Community	Mississauga, ON	160	—	160
St. George Care Community	Toronto, ON	238	—	238
Streetsville Care Community	Mississauga, ON	118	—	118
Trillium Retirement and Care Community	Kingston, ON	190	—	190
Tullamore Care Community	Brampton, ON	159	—	159
Waters Edge Care Community	North Bay, ON	148	—	148
Weston Terrace Care Community	Toronto, ON	224	—	224
Woodbridge Vista Care Community	Woodbridge, ON	224	—	224
Woodhall Park Care Community	Brampton, ON	147	—	147
Total Long-Term Care		**5,733**	**—**	**5,733**
Total		**6,578**	**1,601**	**8,179**

Company Strategy & Objectives

Our Vision

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

Our Mission

To help you live fully, every day.

Our Values

Respect

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

Passion

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

Teamwork

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

Responsibility

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

Growth

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

We are dedicated to helping seniors live fully, every day. Our aim is to consistently improve the resident experience and to develop a high-performing team and workplace culture built on shared values and a commitment to innovation and quality, while focusing on priorities that translate into long-term accretive growth for our shareholders.

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

Strengthening our Operating Platform:

- Providing a consistent and high-quality resident experience; continuously enhancing our services and program offerings
- Building a culture of high-performing and engaged teams
- Instituting the Sienna brand and operating standards across the portfolio
- Investing in our support services and systems including: human resource management, information technology, communications, marketing and financial systems

Progress:

- ○ Received a 3-year third party accreditation award for all LTC communities
- ○ Launched programs to improve the culinary and leisure experience in RRs
- ○ All publicly reported quality and compliance indicators outperformed the provincial average
- ○ Enhanced talent management and leadership development
- ○ Improved employee collaboration with enhanced intranet functions
- ○ Recipient of the Ontario Long Term Care Association Resident Centred Home of the Year Award

Building our Brand Recognition:

- Developing the Sienna culture and consistently implementing service delivery across the Company to enable all residents and staff to experience Sienna's brand promise
- Advancing Sienna's brand in every community served
- Leveraging a digital strategy to reach prospective residents and their families

Progress:

- ○ Positioned each RR and LTC community in its local community under the new brand
- ○ Advanced the digital strategy with enhanced stakeholder engagement
- ○ Customized marketing and community relations plans for each of the communities
- ○ Results of 2016 Team Engagement Survey indicated that 94% of team members are aware of the Sienna vision and mission and 92% support the direction of the Company

Strong Balance Sheet and Liquidity:

- Creating a 10-year debt ladder to reduce refinancing risk and enhance ability to refinance at favourable rates
- Reducing leverage (measured as Debt to Gross Book Value)
- Increasing liquidity (measured as available funds from existing credit facilities plus available cash on hand) to deliver on Sienna's growth objectives
- Maintaining an A (low) rating on the Series B Debentures (as defined in the "Quarterly Financial Information" section below)

Progress:

- ○ Completed the sale of PHCS in April 2016
- ○ Raised $138,347 in a public offering of Subscription Receipts (as defined in the "Significant Events" section below), the proceeds of which were used for the BC Acquisition (as defined in the "Significant Events" section below) and for general company purposes
- ○ Successful refinancing of approximately $30,000 of property-level mortgages
- ○ Subsequent to year end, the Company merged two floating-rate credit facilities backed by three RRs to increase our combined credit facility from $80,000 to $105,000, providing liquidity to drive growth through acquisitions, development and redevelopment
- ○ Increased year-over-year Interest Coverage Ratio by 0.2x
- ○ Increased year-over-year liquidity by approximately $34,855 and 60.3%

Growing the Company:

Our growth plan is based on three key components:

Organic Growth:

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

Development:

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

***Acquisitions**:*

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

Progress:

- Completed the BC Acquisition (see "Significant Events" section below)
- Planning for development of additional capacity on excess land and redevelopment of 2,200 class C LTC beds, subject to regulatory approvals and financial feasibility
- Proceeding with the retrofit of one older class C LTC seniors living community, expected to be completed in 2017
- Strong year-over-year results in Retirement, an increase of 13.5% in same property Net Operating Income ("**NOI**")
- Overall same property NOI increased by 3.8% year-over-year

Industry Overview

Levels of Care

Seniors living residences provide a continuum of care, based on an 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 condominiums with minimal or no assistance or with the option of care and services on an as-needed basis (such residences being RRs having IL, ISL or AL services and, in some cases, MC); while those who require greater assistance with ADL and access to 24-hour registered nursing care support are best suited to LTC. A general description of the levels of care in seniors living residences is detailed below:

- **Independent Living ("IL")**: IL provides 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 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")**: ISL 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.

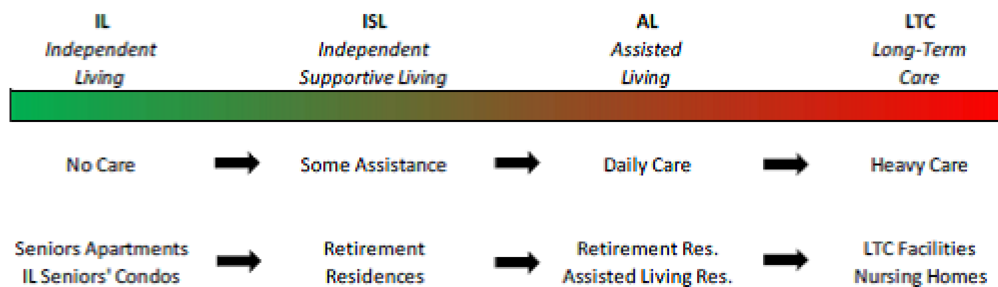
- **Assisted Living ("AL"):** AL is intended for frail seniors who need assistance with daily living activities but do not require skilled nursing care. These units can be offered in a separate wing, separate floor or separate building within a community. While most of AL is provided as private pay, some communities' delivery of AL services is available through government home care services.

- **Memory Care/ Alzheimer's ("MC"):** MC 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/ Residential Care**: LTC, also known as nursing homes or residential care, is 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 government and the government pays for care, programs and supplies.

The typical care continuum is shown in the table below:



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

Retirement Residences

RRs focus on IL, ISL, AL, and in some cases MC and generally provide studio, one-bedroom or two-bedroom accommodation suites and amenity space. Suites are rented to residents on a monthly basis, and provide for meals, snacks, leisure activities, transportation and AL services, which includes some care and services based on resident needs and preferences (such as assistance with bathing, medication administration and other ADL). Accommodation and services are private-pay based on market rates.

RRs are regulated by the *Retirement Homes Act*, 2010 (Ontario) (the "**RHA**") in Ontario and the *Community Care and Assisted Living Act* (British Columbia) (the "**CCALA**") in British Columbia. In Ontario, the Retirement Home Regulatory Authority (the "**RHRA**"), a regulatory body created by the RHA, provides consumer protection and regulation, but not funding, for the provision of care and services in RRs in the province. RRs are required to be licensed by the RHRA in order to operate in Ontario and are inspected regularly by RHRA inspectors. In British Columbia, the CCALA provides consumer protection and regulation of RRs in the province, such that all levels of seniors living residences providing personal support in British Columbia must be registered with the Assisted Living Registry.

Long-Term Care and Residential Care

The LTC sector in Ontario and British Columbia 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. In British Columbia,

approximately 70% of LTC beds are owned by not-for-profit operators. The sector has experienced consolidation in recent years, which is expected to continue.

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

- **Provision of an essential service**: LTC residences provide essential health services in the form of 24-hour registered nursing support, assistance with ADL and mobility, to individuals with complex medical care needs who may otherwise require hospital care. These residences also provide specialized services such as specialized dementia services, continence management, skin and wound care, palliation and end of life care. Access is controlled through governmental agencies, such as the Community Care Access Centres in Ontario and the Regional Health Authorities in British Columbia, and regulation occurs pursuant to provincial statute, such as the *Long Term Care Homes Act*, 2007 (Ontario) (the "**LTCHA**") in Ontario and the CCALA and *Residential Care Regulations, 2009* (British Columbia) in British Columbia.
- **Significant barriers to entry**: Barriers to entry are both regulatory and operational. The LTC sector requires that a residence and operator must be licensed by the regulatory authority in order to operate. The licensing requirements are extensive. In both Ontario and British Columbia, regulatory approval is required for the transfer of existing licenses. These regulations create significant barriers to entry. In addition to the regulatory barriers to entry, the successful operation of an LTC residence 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.

LTC Financial Model

All aspects of the operation of LTC are highly regulated by provincial government and/ or regional health authorities. In British Columbia and Ontario, access to LTC is controlled though a government agency based on eligibility. Provincial health programs provide funding for certain care services, with the residents contributing a co-payment (the rate is set by the regulatory body). Since each province establishes its own system for carrying out the oversight of LTC residences and administering programs, there are differences in the regulations governing care providers, as well as in the actual funding programs.

Ontario

Licensed operators of Ontario LTC homes are entitled to operational funding for care services to residents, as well as various other payments from the Ministry of Health and Long-Term Care ("**MOHLTC**"). Operational funding of LTC homes is used to fund certain eligible care services and is currently paid monthly in what is known as flow-through “envelopes”.

Funding received for flow-through envelopes in excess of the amounts spent by the operator must be returned to the MOHLTC during an annual reconciliation process, and any subsequent reimbursements may result in current year adjustments known as “prior period adjustments”. Funding provided to flow-through envelopes may only be applied to certain eligible expenses. Should an operator incur costs in excess of the amount allocated for the flow-through envelopes, that expenditure must be paid from the Other Accommodation envelope.

Additional funds are provided for structural compliance and capital funding as part of capital renewal initiatives 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 structural design guidelines.

In addition, funds are provided for accreditation of LTC homes, specialty programs and pay equity obligations based on specified criteria, and reimbursement of up to 85% of LTC homes' municipal property tax obligations.

British Columbia

Funded Residential Care Beds

The funding contracts between operators and the Health Authorities are on a per diem basis, adjusted annually, for resident services provided and capital cost of the homes, and outline the hours of direct care required by a resident per day, minimum occupancy thresholds and maintaining minimum levels of professional staffing. If the requirements in the funding contracts are not met, the funding per diem may be clawed back. In addition, there is resident co-payment revenue which is based on the number of resident days in the period multiplied by the per diem amounts legislated by the Health Authorities. Each resident's co-payment is determined by the applicable Health Authority and is based on individual resident income levels. Resident co-payments in excess of certain thresholds are clawed back by the Health Authorities to the base funding per diem.

Private Pay Residential Care Beds

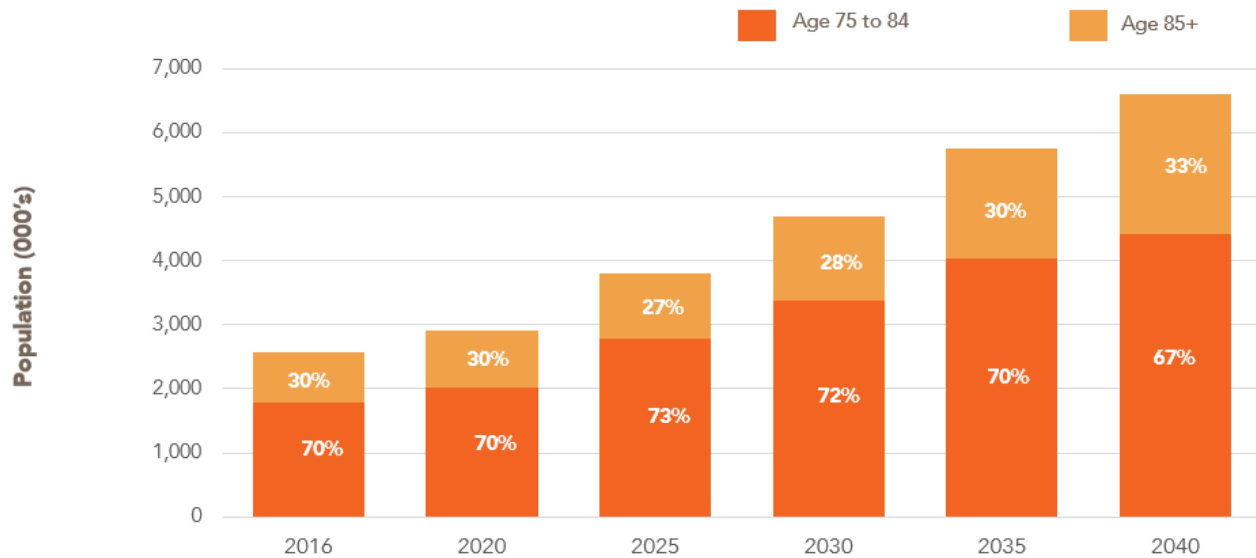
In British Columbia, operators may designate a number of beds for private-pay residential care whereby the operator provides the same level of care and services to the resident as in the funded beds. Rates paid by the resident are market driven.

Demand for Seniors Living

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 and RR services. The primary factors driving demand, among others, are described below:

Aging demographic*:* The primary demographic group living in LTC homes and RR communities is 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 150% between 2016 and 2040.

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.

Sustainable competitive advantage: LTC homes have a sustainable competitive advantage over other 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 applicable funding authority.

2017 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 our RR portfolio, management expects moderate growth through continued strong occupancy and rate increases in accordance with market conditions.

In 2016, the Company continued to invest in 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 2016. The RR portfolio experienced a 13.5% increase in same property NOI over 2015 and as at occupancy increased to 94.5% in 2016 from 93.6% in the prior year.

Sienna expects to continue to operate efficiently with disciplined cost management and respond to the changing needs of seniors through its offering of care services.

Long-Term Care

During 2016, the Company's LTC segment delivered consistent results, as reflected by the same property NOI increase of 0.9% over 2015. The Company continued to experience strong demand for all Classes of LTC beds, with average occupancy at 98.8%. As of December 31, 2016, 74.9% of the Company's Class A private LTC beds, compared to 64.1% as of December 31, 2015, have been converted to the increased per resident rates of $19.97, $21.74, $23.51 or $25.28 per day.

In 2017, management expects that LTC will continue to achieve consistent performance, with continued conversion of the Class A private LTC beds to the new preferred accommodation rates and focus on disciplined cost management.

Baltic

The Company's Baltic segment consists of seven communities located in British Columbia, which were acquired in Q3 2016. The Baltic segment contributed 4.7% of the Company's net revenues and generated 7.3% of the NOI since the BC Acquisition and the acquisition of an initial 40% interest in Nicola Lodge. In 2017, the Company expects consistent performance from the Baltic segment, annualized for the full year ownership.

The Company expects to complete the acquisition of its initial 40% interest in Glenmore Lodge during the first half of 2017.

Development

Sienna intends to develop a number of senior living campuses (comprised of AL and LTC) over the next 10 years, and anticipates leveraging the redevelopment of its 2,200 Class B and Class C LTC beds. Management is actively

engaged with regional and provincial authorities in seeking approvals for certain projects, as per the MOHLTC's renewal strategy guidelines. Management anticipates that the projects will be primarily greenfield projects. As at this time, for redevelopment projects to be feasible and in line with the Company's growth and operating strategies, management would expect to achieve a return sufficiently in excess of the cost of capital for each project development.

Management is also planning for the intensification at certain RR locations with high occupancy, market demand and excess land for expansion.

In 2017, the Company is proceeding with the retrofit of one older Class C LTC seniors living residence, which is expected to be completed in 2017.

Significant Events

Acquisition of a Seniors Living Portfolio in British Columbia

On August 2, 2016, the Company completed the acquisition (the "**BC Acquisition**") of a portfolio of seniors living assets in British Columbia, consisting of: two IL RR communities (the "**IL Properties**") and the Baltic Properties (Baltic Properties together with the IL Properties, the "**Acquired Properties**"); options to acquire up to a 100% interest, with the purchase price for the initial 50% interest at a discount to fair market value, in two additional newly built seniors living assets, Nicola Lodge and Glenmore Lodge (the "**Option Properties**"); and a 50% interest in PSM, the manager and operator of the Baltic Properties.

The aggregate purchase price for the Purchased Assets was $254,900, less $2,075 to be spent at the Company's discretion on capital expenditures for the Acquired Properties (the "**Purchase Price**"), which was financed through a combination of: (i) the assumption of $135,139 (with a fair value of $138,950) in existing mortgages, at a weighted average interest rate of 4.0% and a weighted average term to maturity of 5.9 years; (ii) the private placement of $10,000 (with a fair value of $10,928) of common shares of the Company at the Offering Price (defined below); and (iii) net proceeds of the Company's bought deal public offering of subscription receipts ("**Subscription Receipts**") described below.

On May 6, 2016, the Company completed a bought deal public offering of 8,728,500 Subscription Receipts at a price of $15.85 per Subscription Receipt (the "**Offering Price**"), for total gross proceeds of $138,347, which was inclusive of the exercise in full by the underwriters of the over-allotment option (the "**Offering**").

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

As a result of the completion of the BC Acquisition on August 2, 2016, each outstanding Subscription Receipt was automatically exchanged for one common share of the Company, resulting in the issuance of 8,728,500 common shares in aggregate to the holders of Subscription Receipts.

Acquisition of 40% interest in Nicola Lodge

On September 15, 2016, the Company completed the acquisition of an initial 40% interest in Nicola Lodge, a 256-bed seniors living residence in British Columbia. The 40% interest was purchased for $27,600, which reflects the negotiated discount to fair market value, before closing costs and subject to customary closing adjustments. The purchase price was partially financed through an assumption of the existing property-level mortgage of $18,098 (with a fair value of $19,042), representing the Company's 40% interest, with a term maturing in August 2041 and bearing interest at a rate of 5.0%. The remainder of the purchase price was paid using the Company's available cash.

Exercise of option to acquire 40% interest in Glenmore Lodge

On September 15, 2016, the Company also exercised its first option to acquire an initial 40% interest in Glenmore Lodge, a 118-bed seniors living residence currently under construction in British Columbia. The operations at Glenmore Lodge are expected to commence in the first quarter of 2017. Sienna expects to complete the acquisition of its initial 40% interest in Glenmore Lodge within 90 days following commencement of operations. The purchase price to be paid by Sienna for its 40% interest will be $12,600, which reflects the negotiated discount to fair market value, before closing costs and subject to customary closing adjustments.

The purchase price is expected to be financed through an assumption of the property-level mortgage of approximately $8,700 (representing Sienna's 40% interest), with an expected term of 15 years and bearing interest at a rate of approximately 4.7%. The remainder of the purchase price is expected to be paid using the Company's available cash.

Sale of PHCS

On April 28, 2016, the Company completed the sale of PHCS for cash proceeds of $16,409. The Company recorded a gain on sale of $7,719, net of taxes of $2,142.

Revolving Credit Facility

Subsequent to year end, The Royale LP, a wholly owned subsidiary of the Company, replaced the Revolving Credit Facility and the Astoria Credit Facility with a new revolving credit facility of $105,000 (the "**Royale Credit Facility**"). Furthermore, subsequent to year end, The Royale LP drew an additional $2,000 under this Royale Credit Facility, bringing the total amount drawn to $37,500, leaving $67,500 available to be drawn. The Royale Credit Facility is guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Royale Credit Facility matures on January 18, 2020.

Non-IFRS Performance Measures

In this document, we use certain supplemental measures of key performance that are not measures recognized under International Financial Reporting Standards ("**IFRS**") and do not have standardized meanings prescribed by IFRS. These performance measures are net operating income ("**NOI**"), funds from operations ("**FFO**"), operating funds from operations ("**OFFO**"), adjusted funds from operations ("**AFFO**") and earnings before interest, taxes, depreciation and amortization ("**EBITDA**"). The IFRS measurement most directly related to these measures is cash flow from operations. Please refer to the "Business Performance" section of this MD&A for a reconciliation of cash flow from operations to AFFO.

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

"**FFO**" is defined as mainly NOI less certain finance charges, current income taxes, and non-controlling interest. FFO is a recognized earnings measure that is widely used by public real estate entities, particularly by those entities that own and operate income-producing properties. The Company presents FFO in accordance with the Real Property Association of Canada (REALpac) White Paper on Funds From Operations for IFRS (Source: White Paper on Funds From Operations for IFRS - Revised April 2014). The use of FFO, combined with the required IFRS presentations, has been included for the purpose of improving the understanding of the operating results.

"**OFFO**" is FFO adjusted for non-recurring items such as the tax benefit from one-time items, interest income on Subscription Receipts funds and dividend equivalents on Subscription Receipts (see "Significant Events" section below), and presentation of finance charges on a cash interest basis. Management is of the view that OFFO presents a better measure of cash flow from operations for the Company.

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

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

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

Key Performance Indicators

Management uses the following non-IFRS measures as the Company's key performance indicators (the "**Key Performance Indicators**") to assess the overall performance of the Company's operations. The calculation for the financial Key Performance Indicators have been disclosed throughout this MD&A.

- **Occupancy**: Occupancy is a key driver of the Company's revenues.
- **NOI**: This value represents the underlying performance of the operating business segments.
- **OFFO and OFFO per Share**: Management uses OFFO as an operating and financial performance measure.
- **AFFO and AFFO per Share**: These indicators are used by management to help measure the Company's ability to pay dividends.
- **Payout Ratio**: Management monitors the ratio of dividends per share to basic AFFO per share to ensure the Company adheres to its dividend policy, in line with the Company's objectives.
- **Debt Service Coverage Ratio**: This ratio is useful for management to ensure it is in compliance with its financial covenants.
- **Debt to Gross Book Value**: In conjunction with the debt service coverage ratio, management monitors this to ensure compliance with certain financial covenants.
- **Weighted Average Cost of Debt**: This is a point in time calculation which is useful in comparing interest rates, either period over period, or to the then current market parameters.
- **Debt to Adjusted EBITDA Ratio**: This ratio measures the number of years required for current cash flows to repay all indebtedness.
- **Interest Coverage Ratio**: Interest coverage ratio is a common measure used by debt rating agencies to assess an entity's ability to service its debt obligations.
- **Weighted Average Term to Maturity**: This indicator is used by management to monitor its debt maturities.
- **Same Property Percent Change in NOI**: This measure is similar to "same-store sales" measures used in the retail business and is intended to measure the period over period performance of the same asset base, excluding assets undergoing new development, redevelopment or demolition.

The above Key Performance Indicators used by management to assess the overall financial performance of the Company's operations should not be construed as alternatives to net income or cash flow from operations 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 represents the key performance indicators for the year ended December 31:

Thousands of dollars, except occupancy, share and ratio data	Three Months Ended 2016	2015	Change	Year Ended 2016	2015	Change
OCCUPANCY						
LTC - Average total occupancy	**98.7%**	98.8%	(0.1%)	**98.8%**	98.7%	0.1%
LTC - Average private occupancy	**98.7%**	99.9%	(1.2%)	**99.8%**	99.8%	—%
Retirement - Average occupancy	**95.2%**	93.4%	1.8%	**93.2%**	89.3%	3.9%
Retirement - As at occupancy	**94.5%**	93.6%	0.9%	**94.5%**	93.6%	0.9%
Baltic - Average total occupancy	**97.9%**	n/a	n/a	**97.9%**	n/a	n/a
Baltic - Average private occupancy	**96.3%**	n/a	n/a	**96.1%**	n/a	n/a
FINANCIAL						
Net income from continuing operations	**4,044**	1,873	2,171	**2,937**	5,736	(2,799)
NOI [(1)]	**27,409**	22,010	5,399	**97,822**	85,402	12,420
OFFO [(1)]	**15,106**	11,453	3,653	**52,780**	43,007	9,773
AFFO [(1)]	**15,241**	12,180	3,061	**59,116**	49,451	9,665
PER SHARE INFORMATION						
OFFO per share, basic	**0.328**	0.314	0.014	**1.303**	1.182	0.121
OFFO per share, diluted	**0.318**	0.304	0.014	**1.259**	1.148	0.111
AFFO per share, basic	**0.331**	0.334	(0.003)	**1.460**	1.359	0.101
AFFO per share, diluted	**0.321**	0.323	(0.002)	**1.405**	1.312	0.093
Dividends per share	**0.225**	0.225	—	**0.900**	0.900	—
Payout ratio (basic AFFO)	**68.0%**	67.4%	0.6 %	**61.6%**	66.2%	(4.6)%
FINANCIAL RATIOS						
Debt service coverage ratio	**1.8**	2.0	(0.2)	**1.9**	2.1	(0.2)
Debt to gross book value as at period end	**51.5%**	55.6%	(4.1)%	**51.5%**	55.6%	(4.1)%
Weighted average cost of debt as at period end	**3.9%**	3.8%	0.1%	**3.9%**	3.8%	0.1%
Debt to Adjusted EBITDA from continuing operations ratio as at period end	**7.9**	8.0	(0.1)	**7.9**	8.0	(0.1)
Interest coverage ratio	**3.6**	3.4	0.2	**3.5**	3.3	0.2
Weighted average term to maturity as at period end	**4.8**	4.5	0.3	**4.8**	4.5	0.3

SAME PROPERTY PERCENT CHANGE IN NOI	Three Months Ended	Year Ended
Long-term Care	—%	0.9%
Retirement	7.1%	13.5%
Baltic	n/a	n/a
Total	1.8%	3.8%

Note:

1. These amounts include the Q4 2016 net operating loss of $nil (2015 - NOI of $539) and NOI for the year ended December 31, 2016 of $382 (2015 - $2,038) from the discontinued operations of PHCS.

Quarterly Financial Information

Thousands of dollars, except occupancy and per share data	2016				2015			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue from continuing operations [1]	**138,011**	**130,418**	**115,226**	**114,232**	118,380	114,341	110,890	109,010
Income from continuing operations before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes [1]	**22,758**	**21,995**	**18,025**	**16,640**	17,010	17,397	15,658	15,066
Net income (loss) from continuing operations [1]	**4,044**	**(364)**	**(642)**	**(101)**	1,873	2,915	988	(40)
Per share basic and diluted [1]	**0.10**	**(0.01)**	**(0.02)**	**0.00**	0.05	0.09	0.02	—
Net income (loss) from discontinued operations [2]	**—**	**(7)**	**(10)**	**305**	541	419	402	390
Per share basic and diluted [2]	**0.00**	**0.00**	**0.00**	**0.01**	0.01	0.01	0.01	0.01
OFFO	**15,106**	**15,474**	**11,385**	**10,815**	11,453	11,497	10,448	9,609
Per share basic	**0.33**	**0.36**	**0.31**	**0.30**	0.31	0.32	0.29	0.26
Per share diluted	**0.32**	**0.35**	**0.30**	**0.29**	0.30	0.31	0.28	0.26
AFFO	**15,241**	**17,220**	**13,466**	**13,189**	12,180	13,256	12,179	11,836
Per share basic	**0.33**	**0.40**	**0.37**	**0.36**	0.33	0.36	0.34	0.33
Per share diluted	**0.32**	**0.39**	**0.35**	**0.35**	0.32	0.35	0.32	0.32
Dividends declared	**10,367**	**9,652**	**8,232**	**8,217**	8,205	8,196	8,188	8,175
Per share	**0.23**	**0.23**	**0.23**	**0.23**	0.23	0.23	0.23	0.23
Occupancy								
LTC - Average total occupancy	**98.7%**	**99.0%**	**98.8%**	**98.6%**	98.8%	99.1%	98.5%	98.1%
LTC - Average private occupancy	**98.7%**	**99.9%**	**99.9%**	**99.7%**	99.9%	99.9%	99.7%	99.0%
Retirement - Average occupancy	**95.2%**	**93.9%**	**92.3%**	**92.0%**	93.4%	90.2%	87.0%	86.9%
Retirement - As at occupancy	**94.5%**	**95.0%**	**93.5%**	**91.5%**	93.6%	92.3%	88.8%	86.8%
Baltic - Average total occupancy	**97.9%**	**98.1%**	**n/a**	**n/a**	n/a	n/a	n/a	n/a
Baltic - Average private occupancy	**96.3%**	**95.8%**	**n/a**	**n/a**	n/a	n/a	n/a	n/a
Total assets	**1,204,218**	**1,212,546**	**1,066,969**	**939,477**	951,469	912,933	924,919	932,798
Total debt [3]	**734,459**	**746,570**	**605,344**	**623,513**	629,068	593,633	602,960	612,733

Notes:

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

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

The Company recorded MOHLTC reconciliation adjustments that impacted revenue and NOI during the year ended December 31, 2016 and the comparative prior year periods. 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 relating to 2008 through 2013 reconciliation years. These adjustments are based on confirmation with the MOHLTC and the Company's best estimate of the probability of payment (recovery) of the outstanding amounts, based on recent information and interpretation of the funding mechanism.

A discussion of the operating results for the year ended December 31, 2016 compared to the comparative prior year periods 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, 2016, 2015 and 2014:

Thousands of Dollars, except per share data	2016	2015	2014
Revenue from continuing operations [1]	**497,887**	452,621	438,939
Income from continuing operations before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes [1]	**79,418**	65,131	61,802
Net income (loss) from continuing operations [1]	**2,937**	5,736	(17,671)
Per share basic and diluted [1]	**0.07**	0.16	(0.49)
Net income from discontinued operations [2]	**288**	1,501	1,830
Per share basic and diluted [2]	**0.01**	0.04	0.05
OFFO [3]	**52,780**	43,007	41,772
Per share basic	**1.30**	1.18	1.15
Per share diluted	**1.26**	1.15	1.12
AFFO [3]	**59,116**	49,451	48,296
Per share basic	**1.46**	1.36	1.33
Per share diluted	**1.41**	1.31	1.29
Dividends declared	**36,468**	32,764	32,641
Per share	**0.90**	0.90	0.90
Total assets	**1,204,218**	951,469	919,141
Total debt [4]	**734,459**	629,068	616,081

Notes:

1. These amounts exclude the results of PHCS (discontinued operations) and the prior period comparative figures have been restated accordingly.
2. Net income for 2016 excludes the gain on sale of PHCS of $7,719, net of taxes of $2,142, and a non-recurring tax recovery of $539 in Q4 2016.
3. Beginning in Q2 2014, the impact of the MOHLTC reconciliation adjustments was added back to OFFO and AFFO.
4. 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 living and is the largest owner and operator provider of licensed LTC in Ontario. Since inception, the Company has expanded both through acquisition and organically.

Retirement and Independent Living Residences

The Company's retirement portfolio consists of 13 RR communities, five of which are located in British Columbia (the "**BC Homes**") and eight of which are located in Ontario. The Company's RR portfolio, while still growing its revenue base, generated 11.3% of the Company's net revenues and 26.7% of its NOI in 2016.

Long-Term Care

In 2016, the Company's LTC portfolio contributed 83% of the Company's net revenues and generated 66.3% of its NOI. Approximately 54% of the Company's LTC beds are designated as preferred accommodation (private and semi-private rooms), which contributed approximately 4% of the Company's LTC segment net revenues. Effective July 1, 2016, the MOHLTC announced that the regulated per diem premiums had increased to $25.28 and $12.13 for new admissions to private and semi-private accommodation, respectively, in Class A homes, with existing residents in such preferred accommodations being grandfathered at substantially historical rates. The rates for Class C homes are currently $18.20 and $8.09 for private and semi-private accommodation, respectively.

Baltic

The Company's Baltic segment consists of seven communities located in British Columbia which were acquired in Q3 2016. This contributed 4.7% of the Company's net revenues and generated 7.3% of the Company's NOI since the BC Acquisition and the acquisition of an initial 40% interest in Nicola Lodge.

Operating Results

The following table represents the operating results for the periods ended December 31:

	Three Months Ended			Year Ended		
Thousands of dollars	**2016**	2015	Change	**2016**	2015	Change
Revenue	**138,011**	118,380	19,631	**497,887**	452,621	45,266
Expenses						
Operating	**110,602**	96,909	13,693	**400,447**	369,257	31,190
Administrative	**4,651**	4,464	187	**18,022**	18,233	(211)
	115,253	101,373	13,880	**418,469**	387,490	30,979
Income from continuing operations before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	**22,758**	17,007	5,751	**79,418**	65,131	14,287
Other expenses						
Depreciation and amortization	**9,622**	8,090	1,532	**39,646**	34,588	5,058
Net finance charges	**6,669**	5,364	1,305	**26,240**	21,102	5,138
Transaction costs	**634**	618	16	**8,007**	922	7,085
Total other expenses	**16,925**	14,072	2,853	**73,893**	56,612	17,281
Income from continuing operations before the provision for (recovery of) income taxes	**5,833**	2,935	2,898	**5,525**	8,519	(2,994)
Provision for (recovery of) income taxes from continuing operations						
Current	**2,065**	544	1,521	**4,572**	1,719	2,853
Deferred	**(276)**	518	(794)	**(1,984)**	1,064	(3,048)
	1,789	1,062	727	**2,588**	2,783	(195)
Net income from continuing operations	**4,044**	1,873	2,171	**2,937**	5,736	(2,799)
Net income from discontinued operations, net of taxes	**547**	398	149	**8,546**	1,501	7,045
Net income	**4,591**	2,271	2,320	**11,483**	7,237	4,246
Net income attributable to:						
Shareholders of the Company	**4,489**	2,271	2,218	**11,307**	7,237	4,070
Non-controlling interest	**102**	—	102	**176**	—	176
	4,591	2,271	2,320	**11,483**	7,237	4,246
Total assets	**1,204,218**	951,469	252,749	**1,204,218**	951,469	252,749
Total debt (net of principal reserve fund)	**734,459**	629,068	105,391	**734,459**	629,068	105,391

Revenue Breakdown

The following table represents the revenue breakdown for the periods ended December 31:

	Three Months Ended			Year Ended		
Thousands of dollars	**2016**	2015	Change	**2016**	2015	Change
Long-term Care [1]						
Same property	**107,374**	106,925	449	**417,581**	409,650	7,931
Total Long-term Care Revenue	**107,374**	106,925	449	**417,581**	409,650	7,931
Retirement						
Same property	**12,248**	11,660	588	**47,719**	44,105	3,614
Transaction [2]	**3,728**	—	3,728	**9,390**	—	9,390
Total Retirement Revenue	**15,976**	11,660	4,316	**57,109**	44,105	13,004
Baltic						
Transaction [3]	**15,024**	—	15,024	**23,840**	—	23,840
Total Baltic Revenue	**15,024**	—	15,024	**23,840**	—	23,840
Home Care (Discontinued Operations)						
Same property	**—**	4,395	(4,395)	**5,278**	17,483	(12,205)
Total Home Care (Discontinued Operations) Revenue	**—**	**4,395**	**(4,395)**	**5,278**	17,483	(12,205)
Total Revenue						
Same property from continuing operations	**119,622**	118,585	1,037	**465,300**	453,755	11,545
Discontinued operations	—	4,395	(4,395)	**5,278**	17,483	(12,205)
Transaction [2]	**18,752**	—	18,752	**33,230**	—	33,230
MOHLTC reconciliation adjustments	**(366)**	(95)	(271)	**(643)**	(606)	(37)
Intersegment eliminations	**3**	(110)	113	**—**	(528)	528
Total Revenue	**138,011**	122,775	15,236	**503,165**	470,104	33,061

Notes:

1. Beginning in Q1 2016, the results for the management services division are reflected under the LTC division and prior period comparative figures have been restated accordingly.
2. The amount represents the combined results of Traditions of Durham ("**Traditions**"), which was acquired on December 31, 2015, and the results of the IL Properties, which were acquired on August 2, 2016. See "Significant Events" section above.
3. The amount represents the combined results from the acquisition of the Baltic Properties, PSM and Nicola Lodge, which were acquired in Q3 2016. See "Significant Events" section above.

Operating Expense Breakdown

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

	Three Months Ended			Year Ended		
Thousands of dollars	**2016**	2015	Change	**2016**	2015	Change
Long-term Care [1]						
Same property	**91,139**	90,690	449	**352,721**	345,355	7,366
Total Long-term Care Expenses	**91,139**	90,690	449	**352,721**	345,355	7,366
Retirement						
Same property	**6,539**	6,329	210	**25,391**	24,430	961
Transaction [2]	**2,271**	—	2,271	**5,640**	—	5,640
Total Retirement Expenses	**8,810**	6,329	2,481	**31,031**	24,430	6,601
Baltic						
Transaction [3]	**10,650**	—	10,650	**16,695**	—	16,695
Total Baltic Expenses	**10,650**	—	10,650	**16,695**	—	16,695
Home Care (Discontinued Operations)						
Same property	**—**	3,856	(3,856)	**4,896**	15,445	(10,549)
Total Home Care (Discontinued Operations) Expenses	**—**	3,856	(3,856)	**4,896**	15,445	(10,549)
Total Operating Expenses						
Same property from continuing operations	**97,678**	97,019	659	**378,112**	369,785	8,327
Discontinued operations	**—**	3,856	(3,856)	**4,896**	15,445	(10,549)
Transaction [2]	**12,921**	—	12,921	**22,335**	—	22,335
Intersegment eliminations	**3**	(110)	113	**—**	(528)	528
Total Operating Expenses	**110,602**	100,765	9,837	**405,343**	384,702	20,641

Notes:

1. Beginning in Q1 2016, the results for the management services division are reflected under the LTC division and prior period comparative figures have been restated accordingly.
2. The amount represents the combined results of Traditions, which was acquired on December 31, 2015, and the results of the IL Properties, which were acquired on August 2, 2016. See "Significant Events" section above.
3. The amount represents the combined results from the acquisition of the Baltic Properties, PSM and Nicola Lodge, which were acquired in Q3 2016. See "Significant Events" section above.

Net Operating Income Breakdown

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

	Three Months Ended			Year Ended		
Thousands of dollars	**2016**	2015	Change	**2016**	2015	Change
Long-term Care [1]						
Same property	**16,235**	16,235	—	**64,860**	64,295	565
Total Long-term Care NOI	**16,235**	16,235	—	**64,860**	64,295	565
Retirement						
Same property	**5,709**	5,331	378	**22,328**	19,675	2,653
Transaction [2]	**1,457**	—	1,457	**3,750**	—	3,750
Total Retirement NOI	**7,166**	5,331	1,835	**26,078**	19,675	6,403
Baltic						
Transaction [3]	**4,374**	—	4,374	**7,145**	—	7,145
Total Baltic NOI	**4,374**	—	4,374	**7,145**	—	7,145
Home Care (Discontinued Operations)						
Same property	**—**	539	(539)	**382**	2,038	(1,656)
Total Home Care (Discontinued Operations) NOI	**—**	539	(539)	**382**	2,038	(1,656)
Total NOI						
Same property from continuing operations	**21,944**	21,566	378	**87,188**	83,970	3,218
Discontinued operations	**—**	539	(539)	**382**	2,038	(1,656)
Transaction [2]	**5,831**	—	5,831	**10,895**	—	10,895
MOHLTC reconciliation adjustments	**(366)**	(95)	(271)	**(643)**	(606)	(37)
Total NOI	**27,409**	22,010	5,399	**97,822**	85,402	12,420

Notes:

1. Beginning in Q1 2016, the results for the management services division are reflected under the LTC division and prior period comparative figures have been restated accordingly.
2. The amount represents the combined results of Traditions, which was acquired on December 31, 2015, and the results of the IL Properties, which were acquired on August 2, 2016. See "Significant Events" section above.
3. The amount represents the combined results from the acquisition of the Baltic Properties, PSM and Nicola Lodge, which were acquired in Q3 2016. See "Significant Events" section above.

For the Quarter

Revenue

Same property revenues from continuing operations for Q4 2016 increased by $1,037 to $119,622, compared to Q4 2015. LTC revenues increased by $449 to $107,374, compared to Q4 2015, primarily attributable to funding changes in the flow-through envelopes, along with higher preferred accommodation rates and other accommodation revenues. RR same property revenues for Q4 2016 increased by $588 to $12,248, compared to Q4 2015, primarily attributable to increases in occupancy and year-over-year rent increases.

The RR acquisitions in Q4 2015 and Q3 2016 contributed to incremental revenues of $3,728 over Q4 2015. Baltic contributed $15,024 of revenue for Q4 2016 (2015 - $nil).

Operating Expenses

Same property operating expenses from continuing operations for Q4 2016 increased by $659 to $97,678, compared to Q4 2015. LTC operating expenses increased by $449 to $91,139, compared to Q4 2015. RR same property operating expenses for Q4 2016 increased by $210 to $6,539, compared to Q4 2015. The increase was primarily attributable to higher variable expenses resulting from increase in occupancy.

The RR acquisitions in Q4 2015 and Q3 2016 resulted in incremental operating expenses of $2,271 over Q4 2015. Baltic contributed $10,650 of operating expenses for Q4 2016 (2015 - $nil).

NOI

Same property NOI from continuing operations for Q4 2016 increased by $378 to $21,944, compared to Q4 2015. LTC's same property NOI remained flat at $16,235 in Q4 2016, compared to Q4 2015. RR's same property NOI for Q4 2016 increased by $378 to $5,709, compared to Q4 2015, primarily attributable to increases in occupancy and year-over-year rent increases.

The RR acquisitions in Q4 2015 and Q3 2016 contributed $1,457 to NOI over Q4 2015. Baltic contributed $4,374 to NOI for Q4 2016 (2015 - $nil).

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

Administrative Expenses

Administrative expenses for Q4 2016 were $4,651 which represents an increase of $187 compared to $4,464 in Q4 2015.

Depreciation and Amortization

Depreciation and amortization for Q4 2016 increased by $1,532 to $9,622 compared to Q4 2015. The increase was primarily attributable to the acquisitions in Q4 2015 and Q3 2016, higher depreciation on building assets and higher amortization on intangible assets.

Net Finance Charges

Net finance charges from continuing operations for Q4 2016 increased by $1,305 to $6,669 compared to Q4 2015. The increase was primarily attributable to incremental mortgage interest expense from the acquisitions in Q4 2015 and Q3 2016.

Transaction Costs

Transaction costs for Q4 2016 were $634, consistent with $618 in the comparative prior year period.

Income Taxes

Income tax expense from continuing operations for Q4 2016 increased by $727 to $1,789 compared to Q4 2015. The current income tax expense from continuing operations was $2,065 for Q4 2016, compared to $544 in Q4 2015. The increase in the current income tax expense over Q4 2015 was primarily attributable to increase in NOI and transaction costs not currently deductible, offset by incremental mortgage interest expense on the acquired properties and the tax depreciation associated with these properties. The current income tax expense has been calculated at the weighted average combined corporate tax rate of 26.46% (2015 - 26.49%). The deferred income tax recovery for continuing operations of $276 in Q4 2016 represents a decrease in deferred income tax expense of $794 over the comparable prior year period, primarily as a result of deferred tax items associated with the Acquired Properties.

For the Year

Revenue

Same property revenues from continuing operations for the year ended December 31, 2016 increased by $11,545 to $465,300 compared to the prior year. LTC revenues increased by $7,931 to $417,581, primarily attributable to funding changes in the flow-through envelopes, along with higher preferred accommodation rates and other accommodation revenues. RR same property revenues for the year ended December 31, 2016 increased by $3,614 to $47,719, compared to the prior year, primarily attributable to increases in occupancy and year-over-year rent increases.

The RR acquisitions in Q4 2015 and Q3 2016 contributed to incremental revenues of $9,390 over the prior year. Baltic contributed $23,840 of revenue for the year ended December 31, 2016 (2015 - $nil).

Operating Expenses

Same property operating expenses from continuing operations for the year ended December 31, 2016 increased by $8,327 to $378,112, compared to the prior year. LTC operating expenses increased by $7,366 to $352,721, compared to the prior year, primarily attributable to higher flow-through envelope expenses. RR same property operating expenses for the year ended December 31, 2016 increased by $961 to $25,391 compared to the prior year, primarily attributable to higher variable expenses resulting from increase in occupancy.

The RR acquisitions in Q4 2015 and Q3 2016 resulted in incremental operating expenses of $5,640 over the prior year. Baltic recorded $16,695 of operating expenses for the year ended December 31, 2016 (2015 - $nil).

NOI

Same property NOI from continuing operations of $87,188 for the year ended December 31, 2016 represented an increase of $3,218 over the prior year. LTC's NOI increased by $565 to $64,860 for the year ended December

31, 2016, compared to the prior year, primarily attributable to increased preferred accommodation rates and disciplined cost management. RR's same property NOI increased by $2,653 to $22,328 compared to the prior year, primarily due to increases in occupancy and year-over year rent increases.

The RR acquisitions in Q4 2015 and Q3 2016 contributed to incremental NOI of $3,750 over the prior year. Baltic contributed $7,145 of NOI for the year ended December 31, 2016 (2015 - $nil).

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

Administrative Expenses

Administrative expenses for the year ended December 31, 2016 were $18,022, substantially consistent with the prior year.

Depreciation and Amortization

Depreciation and amortization for the year ended December 31, 2016 increased by $5,058 to $39,646 compared to the prior year. The increase was primarily attributable to the acquisitions in Q4 2015 and Q3 2016, higher depreciation on building assets and higher amortization on intangible assets.

Net Finance Charges

Net finance charges from continuing operations for the year ended December 31, 2016 were $26,240, compared to $21,102 for the prior year. The increase of $5,138 was primarily attributable to incremental mortgage interest expense from the acquisitions in Q4 2015 and Q3 2016, and dividend equivalents on the Subscription Receipts (net of interest income on funds from issuance of Subscription Receipts).

Transaction Costs

Transaction costs for the year ended December 31, 2016 were $8,007 compared to $922 in the prior year. The increase of $7,085 was primarily attributable to higher transactional activity, as described in the "Significant Events" section above.

Income Taxes

The income tax expense from continuing operations for the year ended December 31, 2016 was $2,588, compared to $2,783 in the prior year. The current income tax expense from continuing operations was $4,572 compared to $1,719 for the year ended December 31, 2015. The increase of $2,853 compared to the prior year primarily resulted from temporary differences not currently deductible (net of tax depreciation), and prior year's tax shield related to the debenture refinancing, which was not available during the year ended December 31, 2016. The current income taxes have been calculated at the weighted average combined corporate tax rate of 26.46% (2015 - 26.49%). The deferred income tax recovery from continuing operations of $1,984 represents a decrease in deferred income tax expense of $3,048 over the prior year, primarily as a result of deferred tax items associated with the Acquired Properties, offset by book to filing adjustments.

Business Performance

The following table represents the reconciliation of net income from continuing operations to FFO, OFFO and AFFO for the periods ended December 31:

Thousands of dollars, except share and per share data	Three Months Ended			Year Ended		
	2016	2015	Change	**2016**	2015	Change
Net income from continuing operations	**4,044**	1,873	2,171	**2,937**	5,736	(2,799)
Deferred income tax expense (recovery)	**(276)**	518	(794)	**(1,984)**	1,064	(3,048)
Depreciation and amortization	**9,416**	8,031	1,385	**38,759**	34,432	4,327
Transaction costs	**634**	618	16	**8,007**	922	7,085
Net settlement payment on interest rate swap contracts	**241**	74	167	**428**	321	107
Net income from discontinued operations[1]	**—**	399	(399)	**288**	1,506	(1,218)
Gain on Nicola Lodge option (net of taxes)	**—**	—	—	**(188)**	—	(188)
Non-controlling interest	**(102)**	—	(102)	**(176)**	—	(176)
Loss (gain) on interest rate swap contracts	**(259)**	(71)	(188)	**606**	(187)	793
Funds from operations (FFO)	**13,698**	11,442	2,256	**48,677**	43,794	4,883
Depreciation and amortization - corporate	**206**	59	147	**887**	156	731
Net accretion of fair value adjustments on long-term debt	**(268)**	(123)	(145)	**(763)**	(596)	(167)
Amortization of deferred financing charges	**367**	298	69	**1,276**	1,214	62
Amortization of loss on bond forward contract	**217**	209	8	**852**	820	32
Dividend equivalents on Subscription Receipts	**—**	—	—	**1,964**	—	1,964
Interest income on Subscription Receipts funds	**—**	—	—	**(155)**	—	(155)
Net settlement payment on interest rate swap contracts	**(241)**	(74)	(167)	**(428)**	(321)	(107)
Tax benefit from capital loss carryforwards	**861**	—	861	**—**	—	—
Temporary tax difference due to redemption premium on Series A Debentures	**—**	(427)	427	**—**	(2,505)	2,505
MOHLTC reconciliation adjustment, net of taxes	**266**	69	197	**470**	445	25
Operating funds from operations (OFFO)	**15,106**	11,453	3,653	**52,780**	43,007	9,773
Deferred share unit compensation earned	**22**	5	17	**986**	900	86
Income support	**132**	—	132	**330**	27	303
Construction funding principal	**2,567**	2,413	154	**9,790**	9,352	438
Maintenance capex	**(2,586)**	(1,691)	(895)	**(4,770)**	(3,835)	(935)
Adjusted funds from operations (AFFO)	**15,241**	12,180	3,061	**59,116**	49,451	9,665
Adjusted funds from operations (AFFO)	**15,241**	12,180	3,061	**59,116**	49,451	9,665
Dividends declared	**(10,367)**	(8,205)	(2,162)	**(36,468)**	(32,764)	(3,704)
Operating cash flow retained	**4,874**	3,975	899	**22,648**	16,687	5,961
Basic FFO per share	**0.297**	0.314	(0.017)	**1.202**	1.203	(0.001)
Basic OFFO per share	**0.328**	0.314	0.014	**1.303**	1.182	0.121
Basic AFFO per share	**0.331**	0.334	(0.003)	**1.460**	1.359	0.101
Weighted average common shares outstanding - Basic	**46,069,644**	36,460,650		**40,498,775**	36,398,297	
Diluted FFO per share	**0.295**	0.304	(0.009)	**1.172**	1.168	0.004
Diluted OFFO per share	**0.318**	0.304	0.014	**1.259**	1.148	0.111
Diluted AFFO per share	**0.321**	0.323	(0.002)	**1.405**	1.312	0.093
Weighted average common shares outstanding - Diluted	**48,798,660**	39,206,919		**43,218,219**	39,144,566	

Note:

1. Net income for the year ended December 31, 2016 excludes the gain on sale of PHCS of $7,719, net of taxes of $2,142, and a non-recurring tax recovery of $539 in Q4 2016.

Reconciliation of diluted FFO, OFFO and AFFO

	Three Months Ended			Year Ended		
Thousands of Dollars	**2016**	2015	Change	**2016**	2015	Change
FFO, Basic	**13,698**	11,442	2,256	**48,677**	43,794	4,883
Net financing charges on convertible debt	**935**	660	275	**2,691**	2,618	73
Current income tax expense adjustment	**(248)**	(175)	(73)	**(713)**	(694)	(19)
FFO, Diluted	**14,385**	11,927	2,458	**50,655**	45,718	4,937
OFFO, Basic	**15,106**	11,453	3,653	**52,780**	43,007	9,773
Interest expense on convertible debentures	**549**	559	(10)	**2,205**	2,216	(11)
Current income tax expense adjustment	**(145)**	(74)	(71)	**(584)**	(292)	(292)
OFFO, Diluted	**15,510**	11,938	3,572	**54,401**	44,931	9,470
AFFO, Basic	**15,241**	12,180	3,061	**59,116**	49,451	9,665
OFFO dilutive adjustment, net	**404**	485	(81)	**1,621**	1,924	(303)
AFFO, Diluted	**15,645**	12,665	2,980	**60,737**	51,375	9,362

For the Quarter

FFO

FFO increased by $2,256 to $13,698, compared to Q4 2015. The increase was primarily attributable to improved NOI contribution from same properties, and the acquisitions in Q4 2015 and Q3 2016, partially offset by higher current income tax expense (see "Income Taxes" discussion in the "Operating Results" section above) and incremental mortgage interest expense from Traditions, the Acquired Properties and Nicola Lodge.

OFFO

OFFO increased by $3,653 to $15,106, compared to Q4 2015. The increase was primarily related to the increase in FFO noted above, as well as adjusting for the tax benefit from capital loss carryforwards, and the temporary tax difference on redemption of the Series A Debentures realized in Q4 2015.

AFFO

AFFO increased by $3,061 to $15,241, compared to Q4 2015. The increase was principally related to the increase in OFFO noted above, partially offset by an increase in maintenance capex.

For the Year

FFO

FFO for the year ended December 31, 2016 increased by $4,883 to $48,677 compared to the prior year. The increase was primarily attributable to improved NOI contribution from same properties, and the acquisitions in Q4 2015 and Q3 2016, partially offset by dividend equivalents on Subscription Receipts, net of interest income on funds received from Subscriptions Receipts, incremental mortgage interest expense from the acquisitions in Q4 2015 and Q3 2016, and an increase in the current income tax expense (see "Income Taxes" discussion in the "Operating Results" section above).

OFFO

OFFO for the year ended December 31, 2016 increased by $9,773 to $52,780 compared to the prior year. The increase was primarily attributable to the increase in FFO noted above, excluding the impact of dividend equivalent payments on Subscription Receipts, and the interest income on funds received from Subscription Receipts. This increase was partially offset by incremental mortgage interest expense from the acquisitions in Q4 2015 and Q3 2016, as well as the temporary tax difference on redemption of the Series A Debentures realized in Q4 2015.

AFFO

AFFO for the year ended December 31, 2016 increased by $9,665 to $59,116 compared to the prior year. The increase was primarily attributable to the increase in OFFO as noted above, and increases in construction funding principal and income support, offset by an increase in maintenance capex.

Reconciliation of Cash from Operations to Adjusted Funds from Operations

The following table represents the reconciliation of cash provided by operating activities to AFFO for the periods ended December 31:

	Three Months Ended			Year Ended		
Thousands of dollars	**2016**	2015	Change	**2016**	2015	Change
Cash provided by operating activities	**19,499**	15,691	3,808	**46,879**	48,233	(1,354)
Gain on Nicola Lodge option (net of taxes)	**—**	—	—	**(188)**	—	(188)
Non-controlling interest	**(102)**	—	(102)	**(176)**	—	(176)
Construction funding principal	**2,567**	2,413	154	**9,790**	9,352	438
Transaction costs	**634**	618	16	**8,007**	922	7,085
Income support adjustment[(1)]	**(270)**	—	(270)	**(270)**	(201)	(69)
MOHLTC reconciliation adjustment, net of taxes	**266**	69	197	**470**	445	25
Maintenance capex	**(2,586)**	(1,691)	(895)	**(4,770)**	(3,835)	(935)
Net change in working capital, interest and taxes	**(4,738)**	(4,449)	(289)	**(372)**	(2,685)	2,313
Tax shield due to redemption premium on Series A Debentures	**—**	(427)	427	**—**	(2,505)	2,505
Restricted share units and long-term incentive plan expense	**(29)**	(44)	15	**(254)**	(275)	21
Adjusted funds from operations (AFFO)	**15,241**	12,180	3,061	**59,116**	49,451	9,665
Adjusted funds from operations (AFFO)	**15,241**	12,180	3,061	**59,116**	49,451	9,665
Dividends declared	**(10,367)**	(8,205)	(2,162)	**(36,468)**	(32,764)	(3,704)
Operating cash flow retained	**4,874**	3,975	899	**22,648**	16,687	5,961
Dividend reinvestment	**935**	612	323	**2,960**	2,396	564
Cash retained after dividend reinvestment	**5,809**	4,587	1,222	**25,608**	19,083	6,525

Note:

1. Included within this reconciliation is an income support adjustment which was recorded as transaction costs.

Operating cash flow retained is equal to AFFO less dividends declared. Operating cash flow retained for the three months and year ended December 31, 2016 was $4,874 (2015 - $3,975) and $22,648 (2015 - $16,687), respectively.

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

Liquidity and Capital Resources

Financial Position Analysis

The following table represents the summary of cash flows for the periods ended December 31:

	Three Months Ended			Year Ended		
Thousands of dollars	**2016**	2015	Change	**2016**	2015	Change
Cash flow from operations before non-cash working capital items	**22,723**	16,836	5,887	**81,197**	66,885	14,312
Non-cash changes in working capital	**1,445**	2,710	(1,265)	**5,012**	3,839	1,173
Interest and taxes paid, and swap settlement	**(4,669)**	(3,597)	(1,072)	**(31,148)**	(22,049)	(9,099)
Cash flow used in operating activities of discontinued operations	**—**	(259)	259	**(8,182)**	(442)	(7,740)
Cash provided by (used in):						
Operating activities	**19,499**	15,691	3,808	**46,879**	48,233	(1,354)
Investing activities	**5,707**	(14,252)	19,959	**(92,546)**	(10,128)	(82,418)
Financing activities	**(26,716)**	4,944	(31,660)	**46,522**	(40,793)	87,315
Increase (decrease) in cash during the period	**(1,510)**	6,383	(7,893)	**855**	(2,688)	3,543
Cash, end of period	**27,200**	26,345	855	**27,200**	26,345	855

For the Quarter

Operating Activities

For Q4 2016, operating activities provided $19,499 in cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $22,723.
- Increase in accounts payable and accrued liabilities provided $10,411.
- Partially offset by interest paid on long-term debt of $3,428, increase in prepaid expenses and deposits of $5,016, increase in accounts receivable and other assets of $1,558, change in net government funding balances of $2,794, and income taxes paid of $1,000.

For Q4 2015, operating activities provided $15,691 in cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $16,836.
- Increase in accounts payable and accrued liabilities provided $6,240.
- Decrease in prepaid expenses and deposits provided $1,416.
- Partially offset by interest paid on long-term debt of $3,523 and change in net government funding balances of $4,664.

Investing Activities

Investing activities for Q4 2016 provided $5,707 in cash, which was primarily attributable to the following:

- Construction funding received in the amount of $3,270.

- During the quarter, the Company reclassified $6,691 from operating activities to investing activities with respect to the acquisitions.
- Partially offset by purchase of equipment of $3,067 and intangible assets of $937.

For Q4 2015, investing activities used $14,252 in cash, which was primarily attributable to the following:

- Cash used in the Traditions of Durham acquisition of $14,151.
- Purchase of equipment of $2,187 and intangible assets of $1,184.
- Partially offset by construction funding received in the amount of $3,270.

Financing Activities

Financing activities in Q4 2016 used $26,716 in cash, which was primarily attributable to the following:

- Dividends paid in the quarter of $9,428.
- Repayment of long-term debt of $41,916 relating to mortgage principal payments and voluntary repayments on the Company's revolving credit facilities and certain property-level mortgages.
- During the quarter, the Company reclassified $4,904 of share issuance costs from operating activities to financing activities.
- Contribution to Series B Debentures principal reserve fund of $1,595.
- Partially offset by proceeds from refinancing of long-term debt of $31,500.

For Q4 2015, financing activities provided $4,944 in cash, which was primarily attributable to the following:

- Proceeds from long-term debt of $20,000.
- Partially offset by dividends paid in the quarter of $7,590, repayment of long-term debt of $5,923 relating to mortgage principal payments and voluntary repayments on the Company's revolving credit facilities and contribution to Series B Debentures principal reserve fund of $1,520.

For the Year

Operating Activities

For the year ended December 31, 2016, operating activities provided $46,879 in cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $81,197.
- Increase in accounts payable and accrued liabilities of $6,410.
- Partially offset by interest paid on long-term debt of $25,320, use of cash in discontinued operations of $8,182, increase in prepaid expenses and deposits of $2,332 and income taxes paid of $5,400.

For the year ended December 31, 2015, operating activities provided $48,233 in cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $66,885.
- Increase in accounts payable and accrued liabilities of $3,910.
- Income tax refund received of $1,807.
- Change in net government funding balances provided $1,618 of cash due to timing of receipts.
- Partially offset by interest paid on long-term debt of $23,535 and increase in accounts receivable and other assets of $1,709.

Investing Activities

Investing activities for the year ended December 31, 2016 used $92,546 in cash, which was primarily attributable to the following:

- Cash used in the BC Acquisition of $103,570 and the acquisition of Nicola Lodge of $9,242.
- Increase in restricted cash of $1,191, primarily due to contribution to the capital maintenance reserve.
- Cash used in purchase of equipment of $5,654 and intangible assets of $2,612.
- Partially offset by construction funding received in the amount of $13,080 and cash provided by discontinued operations of $16,409.

For the year ended December 31, 2015, investing activities used $10,128 in cash, which was primarily attributable to the following:

- Cash used in the Traditions of Durham acquisition of $14,151.
- Increase in restricted cash of $870, primarily due to contribution to the capital maintenance reserve.
- Purchase of equipment of $5,734 and intangible assets of $2,608.
- Partially offset by construction funding received in the amount of $13,080.

Financing Activities

Financing activities in the year ended December 31, 2016 provided $46,522 in cash, which was primarily attributable to the following:

- Net proceeds from issuance of common shares and Subscription Receipts of $132,777.
- Proceeds from refinancing of long-term debt of $31,500.
- Partially offset by repayment of long-term debt of $75,672 relating to mortgage principal payments and voluntary repayments on the Company's revolving credit facilities, dividends paid of $32,787, dividend equivalent payments on Subscription Receipts of $1,964 and contribution to Series B Debentures principal reserve fund of $6,391. During the quarter, contributions to the Series B Debentures principal reserve fund were reclassified from investing activities to financing activities.

For the year ended December 31, 2015, financing activities used $40,793 in cash, which was primarily attributable to the following:

- Dividends paid of $30,350.
- Repayment of long-term debt of $24,052 relating to mortgage principal payments and voluntary repayments on the Company's revolving credit facilities.
- Contribution to the Series B Debentures principal reserve fund of $5,974.
- Partially offset by proceeds from long-term debt of $20,000.

Capital Resources

The Company's total debt as at December 31, 2016 was $734,459 (December 31, 2015 - $629,068), net of the Series B Debentures principal reserve fund of $17,116 (December 31, 2015 - $10,725). The increase of $105,391 was primarily related to mortgage liabilities assumed from the acquisition of the Acquired Properties and Nicola Lodge, partially offset by monthly payments to the Series B Debentures' principal reserve fund, payments toward mortgage liabilities and voluntary repayments on the Company's credit facilities. The Company has credit facilities totaling $101,000. As at December 31, 2016, the Company had drawn $35,500 from these facilities, leaving $65,500 available to be drawn.

As at December 31, 2016, the Company had a working capital deficiency (current liabilities less current assets) of $122,443 arising primarily from the current portion of long-term debt of $93,196, relating to the portion of mortgage liabilities and credit facilities due within a twelve-month period. To support the Company's working capital deficiency, the Company plans to use its operating cash flows and, if necessary, undrawn credit facilities, which management believes will be sufficient to address this capital deficiency. The Company intends to refinance its long-term debt at market terms and conditions.

Subsequent to year end, the Company refinanced two floating-rate credit lines by consolidating them and increasing the combined credit line from $79,500 to $105,000. Furthermore, the maturity of these facilities was changed from Q2 2017 for the two separate credit lines to Q1 2020 for the combined facility. This refinancing would have reduced the working capital deficiency from $122,443 to $86,903 and would have increased the Company's liquidity from $92,700 to $118,200 on a pro-forma basis as at December 31, 2016.

Liquidity and Capital Commitments

Liquidity

The Company's primary source of liquidity is cash flow generated from operating activities. The Company expects to meet its operating cash requirements through fiscal 2017, including required working capital, capital expenditures, and currently scheduled interest payments on debt, from cash on hand, cash flow from operations and its committed, but unutilized borrowing capacity.

Capital Commitments

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

Debt Strategy

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

Management's goal is to continue to optimize its debt maturity schedule over a 10-year period in order to manage interest rate and financial risks. In fiscal 2017 and beyond, the Company plans to capitalize on external growth opportunities and refinance mortgages to build the 10-year debt maturity ladder around the Series B Debentures so as to reduce risk when 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	**2016**	2015	**2016**	2015
Net finance charges from continuing operations	**6,669**	5,364	**26,240**	21,102
Add (deduct):				
Net accretion of fair value adjustments on long-term debt	**268**	123	**763**	596
Amortization of deferred financing charges	**(367)**	(298)	**(1,276)**	(1,214)
Amortization of loss on bond forward contracts	**(217)**	(209)	**(852)**	(820)
Dividend equivalents on Subscription Receipts	**—**	—	**(1,964)**	—
Interest income on construction funding receivable	**721**	857	**3,307**	3,728
Interest income on Subscription Receipts funds	**—**	—	**155**	—
Other interest income	**39**	43	**490**	149
Gain (loss) on interest rate swap contracts	**259**	71	**(606)**	187
Net finance charges, adjusted	**7,372**	5,951	**26,257**	23,728
Adjusted EBITDA from continuing operations	**26,394**	20,372	**93,141**	78,817
Interest coverage ratio	**3.6**	3.4	**3.5**	3.3

The following table represents the reconciliation of net income to Adjusted EBITDA for the periods ended December 31:

	Three Months Ended		Year Ended	
Thousands of dollars	**2016**	2015	**2016**	2015
Net income from continuing operations	**4,044**	1,873	**2,937**	5,736
Net finance charges	**6,669**	5,364	**26,240**	21,102
Provision for income taxes from continuing operations	**1,789**	1,062	**2,588**	2,783
Depreciation and amortization	**9,622**	8,090	**39,646**	34,588
Transaction costs	**634**	618	**8,007**	922
MOHLTC reconciliation adjustments	**366**	95	**643**	606
Proceeds from construction funding	**3,270**	3,270	**13,080**	13,080
Adjusted EBITDA from continuing operations	**26,394**	20,372	**93,141**	78,817

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 for the Series B Debentures principal reserve fund as part of the debt service costs. Adjusted EBITDA from continuing operations, as referenced below, is presented in accordance with defined terms in certain covenant calculations. The following is the calculation for the periods ended December 31:

	Three Months Ended		Year Ended	
Thousands of dollars, except ratio	**2016**	2015	**2016**	2015
Net finance charges from continuing operations	**6,669**	5,364	**26,240**	21,102
Add (deduct):				
Net accretion of fair value adjustments on long-term debt	**268**	123	**763**	596
Amortization of deferred financing charges	**(367)**	(298)	**(1,276)**	(1,214)
Amortization of loss on bond forward contracts	**(217)**	(209)	**(852)**	(820)
Dividend equivalents on Subscription Receipts	**—**	—	**(1,964)**	—
Interest income on construction funding receivable	**721**	857	**3,307**	3,728
Interest income on Subscription Receipts funds held in escrow	**—**	—	**155**	—
Other interest income	**39**	43	**490**	149
Gain (loss) on interest rate swap contracts	**259**	71	**(606)**	187
Net finance charges, adjusted	**7,372**	5,951	**26,257**	23,728
Principal repayments [(1)]	**3,697**	1,923	**10,453**	7,552
Principal reserve fund	**1,595**	1,520	**6,391**	5,974
Total debt service	**12,664**	9,394	**43,101**	37,254
Adjusted EBITDA from continuing operations	**26,394**	20,372	**93,141**	78,817
Deduct:				
Maintenance capex	**(2,586)**	(1,691)	**(4,770)**	(3,835)
Cash income taxes	**(1,000)**	—	**(5,400)**	1,807
Adjusted EBITDA from continuing operations (for covenant calculations)	**22,808**	18,681	**82,971**	76,789
Debt service coverage ratio	**1.8**	2.0	**1.9**	2.1

Note:

1. During the three months and year ended December 31, 2016, the Company made voluntary payments of $38,219 (2015 - $4,000) and $65,219 (2015 - $16,500), respectively, toward its credit facilities, which have been excluded from the debt service coverage ratio calculation.

Debt to Adjusted EBITDA Ratio

Debt to Adjusted EBITDA ratio is an indicator of the approximate number of years required for current cash flows to repay all indebtedness.

	December 31	
Thousands of dollars, except ratio	**2016**	2015
Total indebtedness		
Series B Debentures	**322,000**	322,000
Series B Debentures - Principal reserve fund	**(17,116)**	(10,725)
Credit facilities	**35,500**	69,500
Mortgages	**349,180**	206,288
Convertible debentures	**45,083**	46,000
	734,647	633,063
Adjusted EBITDA from continuing operations	**93,141**	78,817
Debt to Adjusted EBITDA from continuing operations	**7.9**	8.0

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			
	2016	**Rate (%)**	2015	Rate (%)	**2016**	**Rate (%)**	2015	Rate (%)
Fixed Rate								
Debentures	**322,000**	**3.47%**	322,000	3.47%	**322,000**	**3.47%**	322,000	3.47%
Mortgages	**346,394**	**4.26%**	180,410	4.57%	**353,521**	**4.26%**	186,214	4.56%
Convertible Debentures	**45,083**	**4.65%**	46,000	4.65%	**45,551**	**4.65%**	46,000	4.65%
Total Fixed	**713,477**	**3.94%**	548,410	3.94%	**721,072**	**3.91%**	554,214	3.92%
Floating Rate								
Credit facilities	**37,337**	**2.77%**	55,870	2.73%	**52,721**	**2.77%**	59,621	2.81%
Mortgages	**127**	**4.00%**	—	—%	**127**	**4.00%**	—	—%
Total Floating	**37,464**	**2.77%**	55,870	2.73%	**52,848**	**2.77%**	59,621	2.81%
Total Debt	**750,941**	**3.87%**	604,280	3.82%	**773,920**	**3.86%**	613,835	3.83%

Debt to Gross Book Value

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

Thousands of dollars, except ratio	December 31 2016	December 31 2015
Total indebtedness		
Series B Debentures	**322,000**	322,000
Series B Debentures - Principal reserve fund	**(17,116)**	(10,725)
Credit facilities	**35,500**	69,500
Mortgages	**349,180**	206,288
Convertible Debentures	**45,083**	46,000
	734,647	633,063
Total assets	**1,204,218**	951,469
Accumulated depreciation on property and equipment	**146,346**	118,352
Accumulated amortization on intangible assets	**75,532**	68,723
Gross book value	**1,426,096**	1,138,544
Debt to gross book value	**51.5%**	55.6%

Capital Disclosure

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

The Company's objectives when managing capital are to:

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

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

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

As at December 31, 2016, the Company had $65,500 available to be drawn from its credit facilities.

The Company has property-level mortgages that are secured by each of the underlying properties' assets, guaranteed by the Company and are subject to certain customary financial and non-financial covenants. The Company is in compliance with all financial covenants on its borrowings. However, there can be no assurance that covenant requirements will be met at all times in the future. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be affected.

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

Contractual Obligations and Other Commitments

Long-term Debt

				Amortizing Debt				
Year	Series B Debentures	Floating Rate Debt	Convertible Debentures	Regular Principal Payments	Principal Due at Maturity	**Total**	% of Total	Weighted Average Interest on Maturing Debt
2017	—	35,500	—	13,212	44,015	**92,727**	12.3%	3.7%
2018	—	—	45,083	12,240	25,430	**82,753**	11.0%	5.0%
2019	—	—	—	10,531	65,142	**75,673**	10.0%	4.5%
2020	—	—	—	6,937	19,992	**26,929**	3.6%	3.5%
2021	322,000	—	—	7,088	—	**329,088**	43.8%	3.5%
2022	—	—	—	7,068	4,003	**11,071**	1.5%	3.3%
2023	—	—	—	6,459	51,152	**57,611**	7.7%	3.1%
2024	—	—	—	5,011	20,617	**25,628**	3.4%	4.2%
2025	—	—	—	3,669	—	**3,669**	0.5%	—%
2026	—	—	—	3,815	—	**3,815**	0.5%	—%
Thereafter	—	—	—	17,767	25,032	**42,799**	5.7%	4.3%
	322,000	**35,500**	**45,083**	**93,797**	**255,383**	**751,763**	100.0%	
Mark-to-market adjustment arising from acquisition						**4,506**		
Less: Deferred financing costs						**(3,963)**		
Less: Deferred financing costs on convertible debentures						**(604)**		
Less: Equity component of convertible debentures						**(127)**		
						751,575		

Convertible Debentures

The Company has Convertible Debentures outstanding with an aggregate principal amount of $45,083, convertible at $16.75 per common share. The Convertible Debentures have a maturity date of June 30, 2018 and bear interest at 4.65% per annum, which is payable semi-annually in June and December.

Operating Leases

The Company has a 10-year operating lease with respect to its Markham 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:

2017	906
2018	884
2019	820
2020	785
2021	778
Thereafter	2,198
	6,371

Related Party Transactions

As at December 31, 2016, the Company has amounts outstanding from certain key management of $1,026 (December 31, 2015 - $877) in relation to the long-term incentive plan issuance and share purchase loans, which have been recorded as a reduction to shareholders' equity. The loans bear interest at the prime rate and are due on demand. The underlying common shares have been pledged as security against the respective loans.

As at December 31, 2016, the Company also has amounts outstanding from certain key management of $115 (December 31, 2015 - $nil) in relation to the purchase of the Subscription Receipts. The loans have a term of one year and bear an interest rate of 3%. The common shares received upon the exchange of Subscription Receipts on August 2, 2016 are pledged as security against the respective loans.

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 consolidated financial statements for the year ended December 31, 2016.

Accounting Standards Issued But Not Yet Applied

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 International Accounting Standard ("**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, 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 expects to report

more detailed information, including estimated quantitative financial effects in our 2017 consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board ("**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 expects to report more detailed information, including estimated quantitative financial effects in our 2017 consolidated financial statements.

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 recognize 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, however, the impact has been determined to record the majority of the Company's operating leases in the consolidated statements of financial position.

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 Ontario, the Long-Term Care Homes Act, 2007 (**"LTCHA"**) contains a licence term regime for all LTC homes which will result in licence terms for 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, based on the current demographics in Canada and the demand for LTC beds projected to increase, management is of the view that licences will continue to be renewed. In British Columbia, the LTC licenses have an indefinite term.

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. 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 LTC homes and RRs are required to adhere to quality control, public health, infection control and other care-related operating standards. Accordingly, all LTC homes and RRs 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 residence), 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 RHA to operate in Ontario and RRs in Ontario are regulated under this statute. In British Columbia, the CCALA provides consumer protection and regulation of independent living homes and assisted living facilities. All types of seniors living providing personal support in British Columbia must be registered with the Assisted Living Registry. The Company has obtained all required licences and registrations. There can be no assurance that future regulatory changes affecting RRs will not adversely affect the Company.

LTC funding

The provincial regulation of LTC homes includes the control of resident co-payment fees. Certain provincial regulators are authorized to fund care and support programs provided in LTC homes and subsidize accommodation costs for qualifying residents. As a result of increasing healthcare costs, the risk exists that funding authorities 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

In Ontario, the LTCHA contains a licence term regime for all LTC homes which will result in licence terms for 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, based on the current demographics in Canada and the demand for LTC beds projected to increase, management is of the view that licences will continue to be renewed. In British Columbia, the CCALA establishes a licence term regime for all LTC homes. 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 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 funding will result in current year adjustments made in respect of prior years

Reconciliations of 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 88% of employees represented by union locals of either the Service Employees International Union, the Ontario Nurses Association, the BC Nurses' Association, the BC Government and Service Employees' Union, the Hospital Employees' Union, the Christian Labour Association of Canada, the Canadian Union of Public Employees or Unifor. While the Company has traditionally maintained positive labour relations, there can be no assurance 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 Company'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 living 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 operations 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 the Company 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 living facilities, predominantly RRs, compete with the Company's RR in seeking residents. 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 living 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 is conducted in Ontario, with the remainder in British Columbia. The fair value of the Company's assets and the income generated therefrom could be negatively affected by changes in local and regional economic conditions in either jurisdiction.

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

The credit ratings assigned to the Senior B 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 the properties it owns or manages, 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 properties or to borrow using properties as collateral and/or 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 or those it manages. 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, or to otherwise obtain reliance letters in respect thereof. Where Phase I environmental site assessments identify sufficient environmental concerns or recommend further assessments, Phase II or Phase III environmental site assessments are conducted.

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.

Risks 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 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, 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, 2016, 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, 2016.

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, 2016. 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, 2016 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.

Forward-Looking Statements

This document contains forward-looking information based on management's current expectations, estimates and projections about the future results, performance, achievements, prospects or opportunities for the Company as of the date of this MD&A. Forward-looking statements involve significant known and unknown risks and uncertainties and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. Such known and unknown risks, uncertainties and other factors may cause the actual results to be materially different from any future results expressed or implied by such forward-looking statements. When used in this MD&A, such statements use words such as "may", "might", "will", "expect", "believe", "plan", "budget", "should", "could", "would", "anticipate", "estimate", "forecast", "intend", "continue", "project", "schedule" and other similar terminology. The forward-looking statements contained in this MD&A are based on information currently available to management and that management currently believes are based on reasonable assumptions. However, neither the Company nor management can ensure actual results will be consistent with these forward-looking statements. These forward-looking statements are as of the date of this MD&A, and the Company and its management assume no obligation to update or revise them to reflect new events or circumstances except as required by securities laws. Readers are cautioned not to place undue reliance on any forward-looking statements.

Consolidated Financial Statements

(in thousands of Canadian Dollars)

2016

Sienna Senior Living Inc.

Sienna
SENIOR LIVING

Consolidated Financial Statements

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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 consolidated financial statements have been examined by the Board of Directors and by its Audit Committee. The Audit Committee meets with 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.

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.

"Lois Cormack"

Lois Cormack
President and Chief Executive Officer

"Nitin Jain"

Nitin Jain
Executive Vice President and Chief Financial Officer

Markham, Canada
February 16, 2017

February 16, 2017

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, 2016 and December 31, 2015 and the consolidated statements of changes in shareholders' equity, operations, comprehensive income 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

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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, 2016 and December 31, 2015 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

	Notes	**December 31, 2016**	December 31, 2015
ASSETS			
Current assets			
Cash		**27,200**	26,345
Accounts receivable and other assets	6, 24	**8,380**	7,227
Income support	4	**—**	550
Prepaid expenses and deposits		**1,693**	1,664
Government funding receivable		**3,221**	3,124
Construction funding receivable	6, 22	**10,138**	9,680
		50,632	48,590
Government funding receivable		**1,030**	1,570
Interest rate swap contract	6	**1,172**	1,393
Restricted cash	8	**20,375**	12,793
Construction funding receivable	6, 22	**64,637**	74,886
Property and equipment	9	**756,986**	588,332
Intangible assets	10	**202,160**	125,101
Goodwill	11	**107,226**	98,804
Total assets		**1,204,218**	951,469
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	17	**73,752**	62,195
Government funding payable		**1,917**	2,720
Current portion of long-term debt	6, 12	**93,196**	18,838
Income taxes payable		**3,400**	2,484
Interest rate swap contract	6	**810**	233
		173,075	86,470
Long-term debt	6, 12	**614,027**	576,173
Convertible debentures	6, 13	**44,352**	44,782
Deferred income taxes	15	**60,856**	59,973
Government funding payable		**1,816**	1,475
Share-based compensation liability	18	**5,078**	3,685
Obligation to purchase interest in PSM	29	**2,100**	—
Interest rate swap contract	6	**2,707**	2,032
Total liabilities		**904,011**	774,590
EQUITY			
Shareholders' equity		**300,176**	176,879
Non-controlling interest	29	**31**	—
Total equity		**300,207**	176,879
Total liabilities and equity		**1,204,218**	951,469
Commitments and contingencies	21		

See accompanying notes.

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

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

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Shareholders' deficit	Accumulated other comprehensive income (loss)	Total Shareholders' equity	Non-controlling interest	Total equity
Balance, January 1, 2016		**374,967**	**515**	**89**	**(195,240)**	**(3,452)**	**176,879**	**—**	**176,879**
Issuance of shares	16	**147,740**	**—**	**—**	**—**	**—**	**147,740**	**—**	**147,740**
Net income	29	**—**	**—**	**—**	**11,307**	**—**	**11,307**	**176**	**11,483**
Other comprehensive income		**—**	**—**	**—**	**—**	**627**	**627**	**—**	**627**
Long-term incentive plan	16, 18	**37**	**—**	**32**	**—**	**—**	**69**	**—**	**69**
Share purchase loan	16	**22**	**—**	**—**	**—**	**—**	**22**	**—**	**22**
Dividends	17	**—**	**—**	**—**	**(36,468)**	**—**	**(36,468)**	**—**	**(36,468)**
Distributions		**—**	**—**	**—**	**—**	**—**	**—**	**(145)**	**(145)**
Balance, December 31, 2016		**522,766**	**515**	**121**	**(220,401)**	**(2,825)**	**300,176**	**31**	**300,207**

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Shareholders' deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non-controlling interest	Total equity
Balance, January 1, 2015		372,373	515	59	(169,713)	(4,055)	199,179	—	199,179
Issuance of shares	16	2,544	—	—	—	—	2,544	—	2,544
Net income		—	—	—	7,237	—	7,237	—	7,237
Other comprehensive income		—	—	—	—	603	603	—	603
Long-term incentive plan	16, 18	28	—	30	—	—	58	—	58
Share purchase loan	16	22	—	—	—	—	22	—	22
Dividends	17	—	—	—	(32,764)	—	(32,764)	—	(32,764)
Balance, December 31, 2015		374,967	515	89	(195,240)	(3,452)	176,879	—	176,879

See accompanying notes.

	Notes	Year ended December 31, 2016	2015
Revenue	25	**497,887**	452,621
Expenses			
Operating		**400,447**	369,257
Administrative		**18,022**	18,233
	26	**418,469**	387,490
Income from continuing operations before depreciation and amortization, net finance charges, transaction costs and provision for (recovery of) income taxes		**79,418**	65,131
Depreciation and amortization		**39,646**	34,588
Net finance charges	14	**26,240**	21,102
Transaction costs		**8,007**	922
Total other expenses		**73,893**	56,612
Income from continuing operations before provision for (recovery of) income taxes		**5,525**	8,519
Provision for (recovery of) income taxes from continuing operations			
Current		**4,572**	1,719
Deferred		**(1,984)**	1,064
	15	**2,588**	2,783
Net income from continuing operations		**2,937**	5,736
Net income from discontinued operations, net of taxes	5	**8,546**	1,501
Net income		**11,483**	7,237
Net income attributable to:			
Shareholders of the Company		**11,307**	7,237
Non-controlling interest	29	**176**	—
		11,483	7,237
Net income attributable to shareholders of the Company			
Basic and diluted net income from continuing operations per share	16	**$0.07**	$0.16
Basic net income from discontinued operations per share	16	**$0.21**	$0.04
Diluted net income from discontinued operations per share	16	**$0.20**	$0.04
Weighted average number of common shares outstanding - basic	16	**40,498,775**	36,398,297
Weighted average number of common shares outstanding - diluted	16	**43,218,219**	39,144,566

See accompanying notes.

	Notes	Year ended December 31, 2016	2015
Net income		**11,483**	7,237
Other comprehensive income			
Items that may be subsequently reclassified to the consolidated statements of operations:			
Loss on bond forward contracts, net of tax	15	627	603
Total comprehensive income		**12,110**	7,840

See accompanying notes.

	Notes	Year ended December 31, 2016	2015
OPERATING ACTIVITIES			
Net income		**11,483**	7,237
Add (deduct) items not affecting cash			
Depreciation of property and equipment		**28,335**	24,219
Amortization of intangible assets		**11,311**	10,369
Current income taxes		**4,572**	1,719
Deferred income taxes		**(1,984)**	1,064
Share-based compensation	18	**1,240**	1,175
Net finance charges	14	**26,240**	21,102
		81,197	66,885
Non-cash changes in working capital			
Accounts receivable and other assets		**335**	(1,709)
Prepaid expenses and deposits		**(2,332)**	(208)
Accounts payable and accrued liabilities		**6,410**	3,910
Income support		**600**	228
Government funding, net		**(1)**	1,618
		5,012	3,839
Interest paid on long-term debt and convertible debentures		**(25,320)**	(23,535)
Net settlement payment on interest rate swap contracts		**(428)**	(321)
Income taxes (paid) refunded		**(5,400)**	1,807
Cash used in operating activities of discontinued operations	5	**(8,182)**	(442)
Cash provided by operating activities		**46,879**	48,233
INVESTING ACTIVITIES			
Purchase of property and equipment	9	**(5,654)**	(5,734)
Purchase of intangible assets	10	**(2,612)**	(2,608)
Amounts received from construction funding	22	**13,080**	13,080
Interest received from cash		**234**	155
Acquisition of Traditions of Durham property		**—**	(14,151)
Acquisition of the BC Portfolio	4	**(103,570)**	—
Acquisition of Nicola Lodge	4	**(9,242)**	—
Change in restricted cash	8	**(1,191)**	(870)
Cash provided by discontinued operations	5	**16,409**	—
Cash used in investing activities		**(92,546)**	(10,128)
FINANCING ACTIVITIES			
Net proceeds from issuance of common shares and Subscription Receipts	16	**132,777**	—
Dividend equivalents paid on Subscription Receipts		**(1,964)**	—
Interest received from Subscription Receipts funds		**155**	
Share issuance costs		**(21)**	(27)
Repayment of long-term debt		**(75,672)**	(24,052)
Proceeds from long-term debt		**31,500**	20,000
Deferred financing costs		**(930)**	(390)
Change in Series B Debentures principal reserve fund	8	**(6,391)**	(5,974)
Distributions to non-controlling interest		**(145)**	—
Dividends paid	17	**(32,787)**	(30,350)
Cash provided by (used in) financing activities		**46,522**	(40,793)
Increase (decrease) in cash during the period		**855**	(2,688)
Cash, beginning of period		**26,345**	29,033
Cash, end of period		**27,200**	26,345

See accompanying notes.

1 Organization

Sienna Senior Living Inc. was incorporated as "Leisureworld Senior Care Corporation" under the Business Corporations Act (Ontario) on February 10, 2010, and subsequently continued under the Business Corporations Act (British Columbia) on March 18, 2010. The Company closed the initial public offering of its common shares on March 23, 2010. Effective May 1, 2015, the Company changed its name to Sienna Senior Living Inc. pursuant to a Notice of Alteration filed with the British Columbia Registry Services on April 23, 2015, as further described below. The 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.

The Company is listed on the Toronto Stock Exchange (the **"TSX"**) under the trading symbol **SIA** (formerly LW). As at December 31, 2016, the following securities of the Company were outstanding: 46,101,757 common shares; $45,083 in aggregate principal amount of convertible unsecured subordinated debentures (TSX symbol: **SIA.DB**) (formerly LW.DB) which, in aggregate, are convertible into 2,691,523 common shares.

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

The Company is one of Canada's leading seniors living providers serving the continuum of independent living ("**IL**"), independent supportive living ("**ISL**"), assisted living (**"AL"**), memory care (**"MC"**) and long-term care/ residential care (referred to collectively as **"LTC"**) through the operation of its 35 LTC homes (representing 5,733 beds), 13 retirement residences (**"RR"**) (representing 1,429 suites), six seniors living residences providing both private-pay and funded residential care ("**Baltic Properties**"), the Company's current 40% interest in Nicola Lodge ("**Nicola Lodge**") (together with the Baltic Properties, representing 1,017 beds), and the Company's current 50% interest in Pacific Seniors Management General Partnership ("**PSM**"), the manager and operator of the Baltic Properties and Nicola Lodge. The Baltic Properties, Nicola Lodge and PSM are referred to collectively as "**Baltic**".

On April 28, 2016, the Company completed the sale of its Preferred Health Care Services (**"PHCS"**), its ancillary home care business of the Company (**"Home Care"**).

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 16, 2017.

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 direct and indirect subsidiaries, as well as its proportionate share of interest in joint arrangements. The financial statements of the subsidiaries and joint arrangements are prepared for the same reporting periods as the Company, using consistent accounting policies.

The acquisition method of accounting is used to account for the acquisition of subsidiaries and joint arrangements. Total consideration for the acquisition is measured at the fair value of the assets transferred and equity instruments issued on the date of 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 recoded as goodwill, with any negative goodwill recognized in net income on the acquisition date.

Subsidiaries are 100% owned and controlled by the Company, with the exception of PSM which is only 50% owned by the Company but is controlled by the Company. Subsidiaries are consolidated in these consolidated financial statements from the date of acquisition where control is transferred to the Company and continue to be consolidated until the date when the Company no longer controls the subsidiary. Non-controlling interest represents the 50% interest in PSM that is not held by the Company.

Joint arrangements are jointly controlled by the Company and a third party in terms of decision making. The Company has classified its joint arrangement in Nicola Lodge as a joint operation since it has rights to the assets and obligations for the liabilities related to Nicola Lodge. Joint operations are proportionately consolidated in these consolidated financial statements from the date when joint control is transferred to the Company and continue to be proportionately consolidated until the date when the Company no longer has joint control over the joint operation.

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. A significant portion of the LTC homes' revenue is earned from funding authorities.

Long-term care revenue

Ontario's LTC sector is regulated by the Ministry of Health and Long-Term Care (**"MOHLTC"**), which provides funding to LTC homes for care. Operational funding is received monthly and is recognized to the extent that an eligible expense has been incurred. Funding that is not spent in accordance with the MOHLTC guidelines in the current year is recorded as government funding payable. The exception to this is the Other Accommodation funding, which is recognized on a monthly basis as the services are rendered. Approximately 68% (2015 - 68%) of revenue from the Company's LTC homes is received from the MOHLTC, which primarily relates to flow-through envelopes. The Company also receives funding for structural compliance premiums, capital cost, accreditation and pay equity obligations, and reimbursement for up to 85% of property tax costs.

Co-payment revenue from residents for accommodation 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 Ontario LTC home is recognized based on full occupancy if the Ontario 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.

Baltic revenue

The funding contracts between operators and the Health Authorities are on a per diem basis, adjusted annually, for resident services provided and capital cost of the homes, and outline the hours of direct care required by a resident per day, minimum occupancy thresholds and maintaining minimum levels of professional staffing. If the requirements in the funding contracts are not met, the funding per diem may be clawed back. In addition, there is resident co-payment revenue which is based on the number of resident days in the period multiplied by the per diem amounts legislated by the Health Authorities. Each resident's co-payment is determined by the applicable Health Authority and is based on individual resident income levels. Resident co-payments in excess of certain thresholds are clawed back by the Health Authorities to the base funding per diem.

In British Columbia, operators may designate a number of beds for private-pay residential care whereby the operator provides the same level of care and services to the resident as in the funded beds. Revenue is recognized on a monthly basis when the services are rendered.

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. Rental revenue is recognized on a straight-line basis, and management fee revenue is recognized when the services are rendered.

Construction funding receivable

In Ontario, 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 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.

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 ("**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. 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
Obligation to purchase interest in PSM	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.

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.

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 funding authorities, which are non-interest bearing. The carrying value of the government funding approximates its fair value.

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 convertible unsecured subordinated debentures, convertible into common shares of the Company. 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.

Obligation to purchase interest in PSM

Obligation to purchase interest in PSM is classified as other financial liabilities. Obligation to purchase interest in PSM is initially recorded at fair value and subsequently measured at amortized cost.

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.

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.

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.

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 business acquisitions and the issuance of debt or shares, 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 business acquisitions are expensed as incurred. 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.

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 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 per share

Basic earnings per share (**"EPS"**) is calculated by dividing the net income 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"**), deferred share units (**"DSU"**) and executive deferred share units (**"EDSU"**) 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 except to the extent they relate to items recognized directly in other comprehensive income or 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.

Accounting standards issued but not yet applied

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 International Accounting Standard ("**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, 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 expects to report more detailed information, including estimated quantitative financial effects in our 2017 consolidated financial statements.

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 expects to report more detailed information, including estimated quantitative financial effects in our 2017 consolidated financial statements.

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 recognize 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, however, the impact has been determined to record the majority of the Company's operating leases in the consolidated statements of financial position.

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 these 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 Ontario, the Long-Term Care Homes Act, 2007 (**"LTCHA"**) contains a licence term regime for all LTC homes which will result in licence terms for 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, based on the current demographics in Canada and the demand for LTC beds projected to increase, management is of the view that licences will continue to be renewed.
In British Columbia, the LTC licenses have an indefinite term.

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. 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.

4 Acquisitions

*British Columbia Portfolio ("**BC Portfolio**")*

On August 2, 2016, the Company completed the acquisition ("**BC Acquisition**") of a portfolio of seniors living assets in British Columbia ("**BC**"), consisting of:

- two IL RR communities (**"IL Properties**") and the Baltic Properties (Baltic Properties together with the IL Properties, the "**Acquired Properties**")
- options to acquire up to a 100% interest, with the purchase price for the initial 50% interest being at a discount to fair market value, in two additional newly built seniors living assets ("**Options**"), Nicola Lodge and Glenmore Lodge ("**Option Properties**"); and
- a 50% interest in PSM, the manager and operator of the Baltic Properties.

The acquisition of the BC Portfolio comprises in total 761 LTC beds and 223 retirement suites.

The total net purchase price of $115,228 was allocated to the assets and liabilities as follows:

Assets	
Cash	780
Accounts receivable and other assets	2,971
Prepaid expenses	488
Property and equipment	171,124
Intangible assets	75,992
Goodwill	14,530
Total assets	265,885
Liabilities	
Accounts payable and accrued liabilities	5,493
Long-term debt	138,950
Deferred income taxes	4,114
Obligation to purchase interest in PSM	2,100
Total liabilities	150,657
Net assets acquired	115,228
Cash consideration	104,350
Share consideration	10,928
Income support	(50)
Total consideration	115,228

As part of the total purchase consideration for the BC Acquisition, the Company negotiated a $2,075 capital expenditures allowance and a $50 income support agreement with the vendor, which was immediately recognized as a reduction to the purchase price.

Transaction costs expensed related to the BC Acquisition for the year ended December 31, 2016 were $5,906.

Nicola Lodge

On September 15, 2016, the Company completed the acquisition of an initial 40% interest in a seniors living residence containing 256 LTC beds located in Port Coquitlam, BC ("**Nicola Lodge**").

The total net purchase price of $11,789 was allocated to the assets and liabilities as follows:

Assets	
Cash	694
Accounts receivable and other assets	43
Prepaid expenses	29
Property and equipment	20,216
Intangible assets	9,766
Goodwill	413
Deferred income taxes	77
Total assets	31,238
Liabilities	
Accounts payable and accrued liabilities	407
Long-term debt	19,042
Total liabilities	19,449
Net assets acquired	11,789

Transaction costs expensed related to the Nicola Lodge acquisition for the year ended December 31, 2016 were $106.

The net assets were acquired at a discount to fair market value due to the partial exercise of the Option acquired from the BC Acquisition, resulting in a cash consideration of $9,936.

BC Acquisition and Nicola Lodge

If the acquisitions of the BC Portfolio and the 40% interest in Nicola Lodge had taken place on January 1, 2016, the consolidated revenue from continuing operations and consolidated net income from continuing operations for the Company for the year ended December 31, 2016 would have been estimated to be approximately $538,410 and $7,589, respectively.

Glenmore Lodge

On September 15, 2016, the Company also exercised its first option to acquire an initial 40% interest in Glenmore Lodge, a 118-bed seniors living residence currently under construction in British Columbia. The operations at Glenmore Lodge are expected to commence in the first quarter of 2017. Sienna expects to complete the acquisition of its initial 40% interest in Glenmore Lodge within 90 days following commencement of operations. The purchase price to be paid by Sienna for its 40% interest will be $12,600, which reflects the negotiated discount to fair market value, before closing costs and subject to customary closing adjustments.

5 Discontinued operations

On April 28, 2016, the Company completed the sale of its Home Care business, PHCS, for cash proceeds of $16,409. The Company recorded a gain on sale of $7,719, net of taxes of $2,142.

The following table summarizes the net income from discontinued operations:

	Year ended December 31,	
	2016	2015
Revenue	**5,278**	17,483
Expenses	**4,896**	15,445
Income before depreciation, net finance income and provision for (recovery of) income taxes	**382**	2,038
Depreciation	—	(1)
Net finance income	**3**	6
Gain on sale	**9,861**	—
Total other income	**9,864**	5
Income before provision for (recovery of) income taxes	**10,246**	2,043
Provision for (recovery of) income taxes		
Current	**1,722**	538
Deferred	**(22)**	4
	1,700	542
Net income from discontinued operations	**8,546**	1,501

6 Financial instruments

Fair value of financial instruments

The Company's use of unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), inputs that are observable for the assets or liabilities either directly or indirectly (Level 2) and inputs for assets or liabilities that are not based on observable market data (Level 3) in the valuation of financial instruments are as follows:

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

	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 contracts	2,265	—	2,265	—

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, 2016, the construction funding receivable was discounted using rates between 2.36% (December 31, 2015 - 1.45%) and 3.34% (December 31, 2015 - 3.58%).

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, 2016, the fixed-rate debt was discounted using rates between 2.52% (December 31, 2015 - 2.29%) and 4.61% (December 31, 2015 - 4.01%).

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 14.

Maturities of financial instruments

For the years ending December 31, 2017 through 2021, 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, 2016					
	2017	**2018**	**2019**	**2020**	**2021**	**Thereafter**
Government funding receivable/payable						
Cash inflows	3,221	1,030	—	—	—	—
Cash outflows	(1,917)	(517)	(1,299)	—	—	—
Net cash inflows (outflows)	1,304	513	(1,299)	—	—	—
Interest rate swap contracts						
Cash inflows	2,359	2,132	1,866	1,635	1,177	3,029
Cash outflows	(3,362)	(2,975)	(2,617)	(2,294)	(1,427)	(4,157)
Net cash outflows	(1,003)	(843)	(751)	(659)	(250)	(1,128)
Construction funding receivable						
Cash inflows	13,080	13,080	12,732	12,390	10,841	24,786
Long-term debt						
Cash outflows	(88,896)	(136,461)	(102,145)	(50,503)	(297,704)	(168,380)
Convertible debentures						
Cash outflows	(2,096)	(2,096)	(46,131)	—	—	—
Net cash outflows	**(77,611)**	**(125,807)**	**(137,594)**	**(38,772)**	**(287,113)**	**(144,722)**

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 funding authorities. 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 certain residences. The floating interest rates on these residences' debt are offset by interest rate swap contracts. The Company has not adopted hedge accounting for these interest rate swap contracts. Interest rates, maturities and security affecting the interest rate and credit risk of the Company's financial liabilities have been disclosed in Notes 12 and 13.

The Company's credit facilities are, and future borrowings may be, at variable or floating rates of interest, which expose 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 and Baltic residents is further mitigated by the Company's ability to recover certain amounts written off from the funding authorities. 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. 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.

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

Balance, January 1, 2015	435
Provision for receivables during the year	177
Receivables written off during the year	(145)
Balance, December 31, 2015	467
Provision for receivables during the year	427
Receivables written off during the year	(186)
Balance, December 31, 2016	**708**

The Company has $2,494 in trade and other receivables (December 31, 2015 - $2,474) 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:

	2016	2015
0 - 30 days	**1,339**	1,382
31 - 60 days	**317**	412
61 - 90 days	**57**	287
Over 90 days	**781**	393
	2,494	2,474

The Company is also exposed to credit risk through the amounts receivable from the funding authorities. The Company has assessed the credit risk associated with the amounts owed by the funding authorities as low, as they are receivable from governments. During the year ended December 31, 2016, the Company wrote off $643 (2015 - $606) for amounts receivable from the MOHLTC primarily relating to 2008 through 2013 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. The Company was in compliance with all covenants on its borrowings as at December 31, 2016. A failure by the Company to comply with the obligations in these credit agreements could result in a default, which, if not rectified or waived, could permit acceleration of the relevant indebtedness.

As at December 31, 2016, the Company had negative working capital (current liabilities less current assets) of $122,443 (December 31, 2015 - $37,880). The change in the negative working capital from December 31, 2015 primarily relates to the portion of mortgage liabilities and credit facilities due within a twelve-month period. To support the Company's working capital deficiency, the Company has available cash generated from its operations and, if necessary, undrawn credit facilities. Refer also to Note 12 in relation to the Company's refinancing of certain of its credit facilities subsequent to year end.

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 as at December 31, 2016 assuming that a reasonably possible change in the relevant risk variable has occurred as at December 31, 2016. 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, 2016 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and the derivatives as at December 31, 2016 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	20,375	(17)	163
Interest rate swap contract	1,172	851	(851)
Financial Liabilities:			
Debt at variable rates subject to interest rate risk	35,500	526	(526)
Interest rate swap contract	3,517	(3,711)	3,711

Any changes in the interest payable under the floating-rate debt would be offset by a change in the cash flows from the related swap contracts.

7 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.

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 12) 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 Company has property-level mortgages that are secured by each of the underlying properties' assets, guaranteed by the Company and are subject to certain customary financial and non-financial covenants. The Company is in compliance with all financial covenants on its borrowings. However, there can be no assurance that covenant requirements will be met at all times in the future. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be affected.

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

8 Restricted cash

Restricted cash comprises the Series B Debentures principal reserve fund, capital maintenance reserve funds required for certain mortgages and an employee benefits reserve for the employees of the homes to which the Company provides management services.

	December 31, 2016	December 31, 2015
Series B Debentures principal reserve fund	**17,116**	10,725
Capital maintenance reserve	**2,675**	1,488
Benefits reserve	**584**	580
Restricted cash	**20,375**	12,793

9 Property and equipment

	Land	**Buildings**	**Furniture and fixtures**	**Automobiles**	**Computer hardware**	**Circulating equipment**	**Total**
Cost							
At January 1, 2015	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
Acquisition of BC Portfolio and Nicola Lodge	21,733	161,738	7,556	261	52	—	191,340
Additions	—	2,774	2,602	—	226	52	5,654
Dispositions	—	(8)	(207)	—	(131)	—	(346)
At December 31, 2016	**101,751**	**767,969**	**30,194**	**655**	**1,759**	**1,004**	**903,332**
Accumulated depreciation							
At January 1, 2015	—	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
Charges for the year	—	26,140	1,869	99	227	—	28,335
Dispositions	—	(4)	(206)	—	(131)	—	(341)
At December 31, 2016	**—**	**132,681**	**12,654**	**283**	**728**	**—**	**146,346**
Net book value							
At December 31, 2015	80,018	496,920	9,252	210	980	952	588,332
At December 31, 2016	**101,751**	**635,288**	**17,540**	**372**	**1,031**	**1,004**	**756,986**

10 Intangible assets

	Licences	Resident relationships	Service contracts	Computer software	Total
Cost					
At January 1, 2015	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
Acquisition of BC Portfolio and Nicola Lodge	80,353	5,405	—	—	85,758
Additions	—	—	—	2,612	2,612
Dispositions	—	(4,453)	—	(49)	(4,502)
At December 31, 2016	**186,373**	**74,347**	**10,968**	**6,004**	**277,692**
Accumulated amortization					
At January 1, 2015	—	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
Charges for the year	—	8,949	1,754	608	11,311
Dispositions	—	(4,453)	—	(49)	(4,502)
At December 31, 2016	**—**	**65,529**	**9,028**	**975**	**75,532**
Net book value					
At December 31, 2015	106,020	12,362	3,694	3,025	125,101
At December 31, 2016	**186,373**	**8,818**	**1,940**	**5,029**	**202,160**

11 Goodwill

Cost and carrying value, at January 1 and December 31, 2015	98,804
Acquisition of BC Portfolio (Note 4)	14,530
Acquisition of Nicola Lodge (Note 4)	413
Less: Disposition of PHCS (Note 5)	(6,521)
Cost and carrying value, at December 31, 2016	**107,226**

For the 2016 goodwill impairment analysis, the Company used an average post-tax discount rate of approximately 6.99% (2015 - 6.93%) across the CGUs and an average growth rate of 1.39% (2015 - 2.10%) before considering expansion projects. The Company has not recognized any goodwill impairment losses.

12 Long-term debt

	Interest rate	Maturity date	**December 31, 2016**	December 31, 2015
Series B Debentures	3.474%	February 3, 2021	**322,000**	322,000
Credit facilities	Floating	April/May 2017	**35,500**	69,500
Mortgages at fixed rates	3.04% - 7.11%	2017 - 2041	**335,396**	192,028
Mortgage at variable rate	Floating	April 16, 2029	**13,784**	14,260
			706,680	597,788
Mark-to-market adjustments on acquisitions			**4,506**	1,252
Deferred financing costs			**(3,963)**	(4,029)
Total debt			**707,223**	595,011
Less: current portion			**93,196**	18,838
			614,027	576,173

Principal repayments on long-term debt are as follows:

2017	92,727
2018	37,670
2019	75,673
2020	26,929
2021	329,088
Thereafter	144,593
	706,680

Series B Senior Secured Debentures

The Series B Debentures have a face value of $322,000, mature on February 3, 2021, and are collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships. The Series B Debentures bear interest at 3.474%, 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:

2017	6,618
2018	6,920
2019	7,112
2020	7,283
2021	610
Thereafter	—
	28,543

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, 2016 and 2015 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, 2016 and 2015, no recognized financial instruments are offset in the consolidated statements of financial position.

	As at December 31, 2016		
	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 Debentures	322,000	(17,116)	304,884

	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 Debentures	322,000	(10,725)	311,275

Credit facilities

As at December 31, 2016, the Red Oak Retirement Residence and Royale Place Retirement Residence (**"Ontario Portfolio"**) had a $57,000 revolving credit facility (**"Revolving Credit Facility"**) that bore an interest rate of 187.5 basis points (**"bps"**) per annum over the floating 30-day Banker's Acceptance (**"BA"**) rate and was secured by the Ontario Portfolio assets of the Company's wholly-owned subsidiary, The Royale LP, guaranteed by the Company and is subject to certain customary financial and non-financial covenants. During the year ended December 31, 2016, the Company repaid $34,000, respectively, against this credit facility. The Revolving Credit Facility matures on April 26, 2017. As at December 31, 2016, the Company had drawn $13,000 under this credit facility (December 31, 2015 - $47,000).

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

Subsequent to year end, The Royale LP replaced the Revolving Credit Facility and the Astoria Credit Facility with a new revolving credit facility in the amount of $105,000 (the "**Royale Credit Facility**"). Furthermore, subsequent to year end, The Royale LP drew an additional $2,000 under this Royale Credit Facility, bringing the total amount drawn to $37,500, leaving $67,500 available to be drawn. The Royale Credit Facility is guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Royale Credit Facility matures on January 18, 2020.

LSCLP has a $20,000 revolving credit facility which can be accessed 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, 2016, the Company had no amounts drawn on this facility (December 31, 2015 - $nil) and no letters of credit were outstanding (December 31, 2015 - $nil). During the year ended December 31, 2016, charges related to standby fees totalled $88 (2015 - $66).

Mortgages assumed from acquisitions

As part of the BC Acquisition, the Company assumed mortgages in the amount of $135,139 with a fair value of $138,950. The mortgages assumed bear fixed interest rates ranging from 2.31% to 5.61% with maturity dates through to 2028. The mortgages are secured by a first charge on all BC Portfolio assets owned by the Company and located at the respective properties, and are subject to certain customary financial and non-financial covenants.

As part of the Nicola Lodge acquisition, the Company assumed a mortgage in the amount of $18,098 with a fair value of $19,042 for its 40% interest in Nicola Lodge. The mortgage assumed bears a fixed interest rate of 5.00% and matures in 2041. The mortgage is secured by a first charge on all Nicola Lodge assets owned by the Company and located at the property, and is subject to certain customary financial and non-financial covenants.

13 Convertible debentures

The Company has convertible unsecured subordinated debentures outstanding with an aggregate principal amount of $45,083 (**"Convertible Debentures"**). These debentures are convertible into common shares of the Company at $16.75 per common share. The Convertible Debentures have a maturity date of June 30, 2018, and bear interest at 4.65% per annum, which is payable semi-annually in June and December.

Upon issuance, the debt and equity components of the Convertible Debentures were bifurcated with $45,593 classified as a liability and $515 classified as equity attributable to the conversion option. The equity component included a deferred tax asset of $108. The liability portion of the Convertible Debentures was initially recorded at fair value and is subsequently carried at amortized cost. The Company incurred financing costs of $2,111 related to the Convertible Debentures, which are amortized over their term using the effective interest method and recognized as part of net finance charges. During the year ended December 31, 2016, $917 worth of convertible debentures were converted into 54,744 common shares. As at December 31, 2016, $605 (December 31, 2015 - $1,009) of financing costs remain to be amortized and $127 (December 31, 2015 - $209) of fair value adjustment remains to be accreted.

14 Net finance charges

	Year ended December 31,	
	2016	2015
Finance costs		
Interest expense on long-term debt	**23,397**	20,998
Interest expense on convertible debentures	**2,205**	2,216
Fees on revolving credit facility	**227**	193
Net accretion of fair value adjustments on long-term debt	**(763)**	(596)
Amortization of deferred financing charges	**1,276**	1,214
Amortization of loss on bond forward contract	**852**	820
Net settlement payment on interest rate swap contracts	**428**	321
Dividend equivalents on Subscription Receipts	**1,964**	—
Loss (gain) on interest rate swap contracts	**606**	(187)
	30,192	24,979
Finance income		
Interest income on construction funding receivable	**3,307**	3,728
Other interest income	**490**	149
Interest income on Subscription Receipts funds	**155**	—
	3,952	3,877
Net finance charges from continuing operations	**26,240**	21,102

15 Income taxes

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

	Year ended December 31, 2016	Year ended December 31, 2015
Income from continuing operations before provision for income taxes	**5,525**	8,519
Canadian combined income tax rate	**26.46%**	26.49%
Income tax expense	**1,462**	2,257
Adjustments to income tax provision:		
Non-deductible items	**723**	124
Book to filing adjustment	**488**	414
Other items	**(85)**	(12)
Income tax expense from continuing operations	**2,588**	2,783

The effective tax rate for discontinued operations for the year ended December 31, 2016 is 16.6% (2015 - 26.5%). The provision for income taxes for discontinued operations is disclosed in Note 5.

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

	Accelerated tax depreciation	Intangible assets	Share issuance	Construction funding interest	Other	Total
As at January 1, 2015	(63,058)	(6,072)	1,164	5,712	3,566	(58,688)
Credit (charge) to net income	3,535	(256)	(625)	(987)	(2,215)	(548)
Book to filing adjustment	(251)	224	—	(11)	(482)	(520)
Charge to other comprehensive income	—	—	—	—	(217)	(217)
As at December 31, 2015	(59,774)	(6,104)	539	4,714	652	(59,973)
Due to acquisitions of BC Portfolio and Nicola Lodge	(4,162)	(995)	—	—	1,119	(4,038)
Credit (charge) to net income	2,079	1,500	(660)	(875)	24	2,068
Book to filing adjustment	(46)	(236)	(5)	—	(34)	(321)
Charge to other comprehensive income	—	—	—	—	(225)	(225)
Credit to equity	—	—	1,633	—	—	1,633
As at December 31, 2016	**(61,903)**	**(5,835)**	**1,507**	**3,839**	**1,536**	**(60,856)**

The loss on bond forward contracts on the consolidated statements of comprehensive income is net of tax for the year ended December 31, 2016 of $225 (2015 - $217).

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, 2015	36,299,038	372,373
Long-term incentive plan, net of loans receivable (Note 18)	11,669	28
Share purchase loan	—	22
Dividend reinvestment plan	158,388	2,396
Issued common shares (Note 14)	9,776	148
Balance, December 31, 2015	36,478,871	374,967
Long-term incentive plan, net of loans receivable (Note 18)	13,288	37
Share purchase loan	—	22
Dividend reinvestment plan	185,416	2,960
Issued common shares (Note 18)	64,767	1,075
Common shares issued in exchange for Subscription Receipts, net of share issuance costs	8,728,500	132,777
Common shares issued to partial seller of BC Acquisition (Note 4)	630,915	10,928
Balance, December 31, 2016	**46,101,757**	**522,766**

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

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

As a result of the completion of the BC Acquisition on August 2, 2016, each outstanding Subscription Receipt was automatically exchanged for one common share of the Company, resulting in the issuance of 8,728,500 common shares in aggregate to the holders of Subscription Receipts.

On August 2, 2016, the Company issued 630,915 common shares in a private placement as part of the purchase price paid to the partial seller for the BC Acquisition.

During the year ended December 31, 2016, the Company incurred share issuance costs net of taxes of $5,570, which consisted of $4,482 in underwriters' fees and other issuance costs of $1,088.

Dividend reinvestment plan

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

Earnings per share

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

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

	Year ended December 31,	
	2016	2015
Reconciliation of net income used as the numerator		
Net income from continuing operations	**2,937**	5,736
Less: Net income attributable to non-controlling interest	**176**	—
Net income used in calculating basic income from continuing operations per share	**2,761**	5,736
Net finance charges on convertible debentures	**2,691**	2,618
Current income tax adjustment	**(712)**	(694)
Net income used in calculating diluted income from continuing operations per share	**4,740**	7,660
Weighted average number of common shares used as the denominator		
Weighted average number of common shares - basic	**40,498,775**	36,398,297
Shares issued if all convertible debentures were converted	**2,719,444**	2,746,269
Weighted average number of common shares - diluted	**43,218,219**	39,144,566

17 Dividends

The Company paid dividends at $0.075 per month per common share totaling $32,787 for the year ended December 31, 2016 (2015 - $30,350). Dividends payable of $3,458 are included in accounts payable and accrued liabilities as at December 31, 2016 (December 31, 2015 - $2,737). Subsequent to December 31, 2016, the Board of Directors declared dividends of $0.075 per common share for January and February 2017 totaling $6,917. These dividends have not been recorded in these consolidated financial statements.

18 Share-based compensation

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

*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 24, 2016, incentive award amounts entitling eligible senior executives ("**Participants**") to acquire 13,288 common shares were granted pursuant to the LTIP. On the grant date, the Participants paid $11 towards the acquisition of common shares. This payment was recorded as an increase to share capital. Related to the LTIP in the year ended December 31, 2016, the Company recorded an increase of $37 to share capital (2015 - $28) and $32 to contributed surplus (2015 - $30). As at December 31, 2016, the outstanding loan balance was $603 (December 31, 2015 - $430). Total expense related to the LTIP for the year ended December 31, 2016 was $32 (2015 - $30).

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

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

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

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.

During the year ended December 31, 2016, 16,706 restricted share units (**"RSUs"**) (2015 - 17,007) were granted pursuant to the RSUP. Total expenses related to the RSUP for the year ended December 31, 2016 were $222 (2015 - $245), net of forfeitures. During the year ended December 31, 2016, 10,985 RSUs vested and were settled in cash and shares, resulting in a decrease of $158 to share-based compensation liability. The total liability recorded as part of share-based compensation liability as at December 31, 2016 was $364 (December 31, 2015 - $300).

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

	Number of RSUs
Outstanding, January 1, 2015	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
Granted	16,706
Dividends reinvested	2,160
Settled in cash	(962)
Settled in shares	(10,023)
Outstanding, December 31, 2016	**41,445**

*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.

Total expenses related to the DSUP for the year ended December 31, 2016 were $596 (2015 - $832), 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, 2016 was $3,767 (December 31, 2015 - $3,171). The value of each deferred share unit is measured at each reporting date and is equivalent to the fair value of a common share of the Company at the reporting date.

*Executive deferred share units 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. During the year ended December 31, 2016, 35,543 (2015 - 21,922) executive deferred share units were granted. Total expenses related to the EDSUP for the year ended December 31, 2016 were $390 (2015 - $68), which was recognized in administrative expenses. The total liability recorded related to the EDSUP as a part of the share-based compensation liability as at December 31, 2016 was $947 (December 31, 2015 - $214).

19 Employee salaries and benefits

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

	2016	2015
Salaries and short-term employee benefits	**289,814**	270,057
Group retirement savings plan	**7,422**	7,110
Termination benefits	**1,153**	1,419
Share-based compensation	**1,240**	1,175
	299,629	279,761

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.

	Year ended December 31,	
	2016	2015
Salaries and short-term employee benefits	**2,936**	2,492
Termination benefits	—	288
Share-based compensation	**1,240**	1,170
	4,176	3,950

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:

2017	906
2018	884
2019	820
2020	785
2021	778
Thereafter	2,198
	6,371

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, 2016, the Company will receive gross funding from the Ontario government of approximately $86,909 (December 31, 2015 - $99,989) 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 13 years, subject to the condition that the homes continue to operate as long-term care communities for the remaining period. As at December 31, 2016, 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 $3,307 for the year ended December 31, 2016 (2015 - $3,728).

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, 2016 was $1,116 (December 31, 2015 - $1,035).

24 Related party transactions

As at December 31, 2016, the Company has amounts outstanding from certain key management of $1,026 (December 31, 2015 - $887) in relation to the LTIP issuance and share purchase loans, which have been recorded as a reduction to shareholders' equity. The loans bear interest at the prime rate and are due on demand. The underlying common shares have been pledged as security against the respective loans.

As at December 31, 2016, the Company also has amounts outstanding from certain key management of $115 (December 31, 2015 - $nil) in relation to the purchase of Subscription Receipts. The loans have a term of one year and bear an interest rate of 3%. The common shares received upon exchange of the Subscription Receipts on August 2, 2016 are pledged as security against the respective loans.

25 Economic dependence

The Company holds licences related to each of its LTC homes and receives funding from the funding authorities related to those licences. During the year ended December 31, 2016, the Company received approximately $312,854 (2015 - $287,721) in respect of these licences.

26 Expenses by nature

	Year ended December 31,	
	2016	2015
Salaries, benefits and other people costs	**310,480**	284,792
Food	**21,487**	19,342
Purchased services and non-medical supplies	**17,166**	16,097
Property taxes	**13,367**	13,077
Utilities	**14,525**	12,490
Other	**41,444**	41,692
Total expenses from continuing operations	**418,469**	387,490

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, 2016**	December 31, 2015
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%
Sienna Baltic LP	Canada	100%	n/a
Sienna Baltic Development LP	Canada	100%	n/a
2371281 Investment LP (Ontario)	Canada	100%	100%
Sienna Management LP (Ontario)	Canada	100%	n/a

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 owned LTC homes and the management services business;
- Retirement - Retirement includes 13 owned RR communities;
- Baltic - Baltic includes 6 Baltic properties, the Company's current 40% interest in Nicola Lodge and PSM;
- Corporate, Eliminations and Other - This segment represents the results of head office, intercompany eliminations and other items that are not allocable to the segments; and
- Discontinued operations - Discontinued operations are comprised of the Home Care business that was divested on April 28, 2016 (Note 5).

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

	Year ended December 31, 2016						
	Long-Term Care	**Retirement**	**Baltic**	**Corporate, Eliminations and Other**	**Total From Continuing Operations**	**Home Care - Discontinued Operations**	**Total**
Gross revenue	**426,122**	**57,109**	**24,487**	**36,719**	**544,437**	**5,278**	**549,715**
Less: Internal revenue	**9,184**	**—**	**647**	**36,719**	**46,550**	**—**	**46,550**
Net revenue	**416,938**	**57,109**	**23,840**	**—**	**497,887**	**5,278**	**503,165**
Income (loss) before depreciation and amortization, net finance charges, transaction costs and provision for income taxes	**64,217**	**26,078**	**7,145**	**(18,022)**	**79,418**	**382**	**79,800**
Depreciation of property and equipment	**17,220**	**8,693**	**2,135**	**287**	**28,335**	**—**	**28,335**
Amortization of intangible assets	**3,530**	**6,704**	**473**	**604**	**11,311**	**—**	**11,311**
Finance costs	**17,149**	**6,304**	**2,144**	**4,595**	**30,192**	**—**	**30,192**
Finance income	**(3,459)**	**(7)**	**(1)**	**(485)**	**(3,952)**	**(3)**	**(3,955)**
Transaction costs	**—**	**—**	**—**	**8,007**	**8,007**	**—**	**8,007**
Gain on sale	**—**	**—**	**—**	**—**	**—**	**(9,861)**	**(9,861)**
Income tax expense	**—**	**—**	**—**	**2,588**	**2,588**	**1,700**	**4,288**
Net income (loss)	**29,777**	**4,384**	**2,394**	**(33,618)**	**2,937**	**8,546**	**11,483**
Purchase (disposal) of property and equipment	**2,939**	**1,606**	**605**	**504**	**5,654**	**(346)**	**5,308**
Purchase (disposal) of intangible assets	**8**	**(15)**	**—**	**2,619**	**2,612**	**(4,502)**	**(1,890)**

	Year ended December 31, 2015						
	Long-Term Care	Retirement	Baltic	Corporate, Eliminations and Other	Total From Continuing Operations	Home Care - Discontinued Operations	Total
Gross revenue	414,387	44,105	—	32,764	491,256	17,483	508,739
Less: Internal revenue	5,343	—	—	33,292	38,635	—	38,635
Net revenue	409,044	44,105	—	(528)	452,621	17,483	470,104
Income (loss) before depreciation and amortization, net finance charges, transaction costs and provision for income taxes	63,689	19,675	—	(18,233)	65,131	2,038	67,169
Depreciation of property and equipment	17,044	7,054	—	121	24,219	1	24,220
Amortization of intangible assets	3,698	6,635	—	36	10,369	—	10,369
Finance costs	17,179	5,182	—	2,618	24,979	—	24,979
Finance income	(3,844)	(4)	—	(29)	(3,877)	(6)	(3,883)
Transaction costs	1	—	—	921	922	—	922
Income tax expense	—	—	—	2,783	2,783	542	3,325
Net income (loss)	29,611	808	—	(24,683)	5,736	1,501	7,237
Purchase of property and equipment	2,561	1,274	—	1,899	5,734	—	5,734
Purchase of intangible assets	8	—	—	2,600	2,608	—	2,608

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

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

29 Non-controlling interest

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

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

	Year ended December 31,
	2016
Net income and total comprehensive income from PSM	352
Non-controlling interest share of ownership	**50%**
Net income and total comprehensive income attributable to non-controlling interest	**176**

As the 50% interest in PSM was acquired on August 2, 2016, there was no non-controlling interest for the year ended December 31, 2015.

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

30 Joint arrangement

The following tables outline the net assets and net income for Nicola Lodge and the Company's share of Nicola Lodge that has been recognized in the consolidated financial statements:

	December 31, 2016
Current assets	**4,179**
Long-term assets	**43,642**
Total assets	**47,821**
Current liabilities	**3,309**
Long-term liabilities	**44,089**
Total liabilities	**47,398**
Net assets	**423**
Percentage ownership	**40%**
Share of net assets	**169**

	Year ended December 31, 2016
Revenue	**5,540**
Expenses	**3,807**
Income before other expenses	**1,733**
Other expenses	**1,047**
Net income	**686**
Percentage ownership	**40%**
Share of net income	**274**

As the 40% interest in Nicola Lodge was acquired on September 15, 2016, there were no joint arrangements as at December 31, 2015 or for the year then ended.

31 Comparative figures

Certain comparative figures have been reclassified from the consolidated financial statements previously presented to conform to the presentation adopted in the current year. In the segmented information note, the management services business is now reflected under Long-Term Care for the current year end and comparative period. This reclassification had no impact on the reported net income.