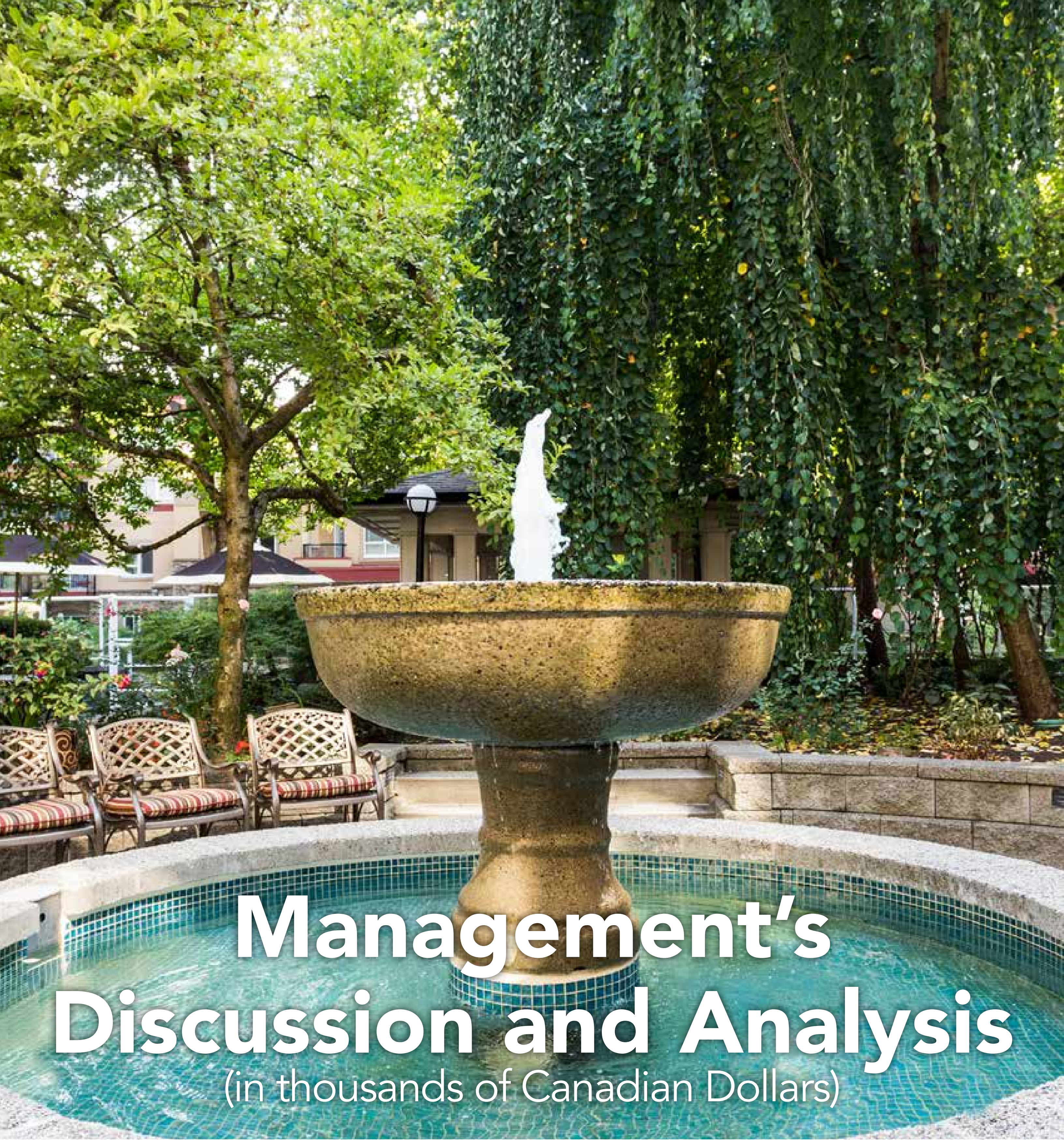
Report to Shareholders

Q2 2016

Sienna Senior Living Inc.

Sienna
SENIOR LIVING



Management's Discussion and Analysis

(in thousands of Canadian Dollars)

Q2 2016

Sienna Senior Living Inc.

Sienna SENIOR LIVING

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basis of Presentation

The following Management's Discussion and Analysis ("**MD&A**") for Sienna Senior Living Inc. (formerly Leisureworld Senior Care Corporation) (the "**Company**" or "**Sienna**") provides a summary of the financial results for the three and six months ended June 30, 2016. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2016 . This material is available on the Company's website at www.siennaliving.ca. Additional information about the Company, including its Annual Information Form ("**AIF**") for the year ended December 31, 2015 can be found on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com. In accessing the Company's information, readers are reminded of the Company's predecessor name, Leisureworld Senior Care Corporation, and that the information of Leisureworld Senior Care Corporation is the information of the Company.

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

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

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 August 10, 2016, the date on which this report was approved by the Board of Directors of the Company, and is based on information available to management as of that date.

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 is listed on the Toronto Stock Exchange (the "**TSX**") under the trading symbol **SIA** (formerly **LW**). As of August 10, 2016, the following securities of the Company were outstanding: 45,998,371 common shares; and $45,372 in aggregate principal amount of convertible unsecured subordinated debentures (TSX symbol: **SIA.DB**, formerly **LW.DB**) which, in the aggregate, are convertible into 2,708,776 common shares (the "**Convertible Debentures**"). The Convertible Debentures have a maturity date of June 30, 2018. The increase in outstanding common shares since March 31, 2016 was primarily driven by the issuance of 8,728,500 common shares, which was inclusive of the exercise in full by the underwriters of the over-allotment option, with respect to the Acquisition (as defined in the "Significant Events" section below) on August 2, 2016.

Sienna is a leading operator of seniors living in Canada providing the full continuum of seniors living. Additionally, Sienna is the largest licensed long-term care provider in Ontario. The Company and its predecessors have been operating since 1972. The Company's business is carried on through a number of wholly-owned limited partnerships formed under the laws of the Province of Ontario. Through its subsidiaries, the Company owns and operates 41 long-term care (“**LTC**”) homes (representing an aggregate 6,494 beds) and 13 retirement residences (“**RR**”) (representing 1,429 suites) in the Provinces of Ontario and British Columbia. The Company also operates a management services business that provides third-party management services to LTC homes and RR communities in Ontario. The results of the management services business are now reflected under the LTC business division results in this MD&A. On April 28, 2016, the Company completed the sale of its Preferred Health Care Services (**"PHCS"**), the ancillary home care ("**Home Care**") business of the Company (see "Significant Events" section below).

The table below presents the properties owned and operated by the Company in Ontario and British Columbia:

NAME OF COMMUNITY	LOCATION	TOTAL BEDS/SUITES
Astoria Retirement Residence	Port Coquitlam, BC	135
Cedarvale Lodge Retirement & Care Community	Keswick, ON	130
Island Park Retirement Residence	Campbellford, ON	85
Lincoln Park Retirement Residence	Grimsby, ON	70
Mayfair Terrace Retirement Residence	Port Coquitlam, BC	85
Midland Gardens Seniors Apartments	Scarborough, ON	53
Pacifica Retirement Residence	Surrey, BC	130
Peninsula Retirement Residence	Surrey, BC	127
Red Oak Retirement Residence	Kanata, ON	158
Rideau Retirement Residence	Burnaby, BC	138
Royale Place Retirement Residence	Kingston, ON	136
Traditions of Durham Retirement Residence	Oshawa, ON	140
Trillium Retirement and Care Community	Kingston, ON	42
Altamont Care Community	West Hill, ON	159
Barnswallow Place Care Community	Elmira, ON	96
Bloomington Cove Care Community	Stouffville, ON	112
Bradford Valley Care Community	Bradford, ON	246
Brookside Lodge	Surrey, BC	116
Camilla Care Community	Mississauga, ON	237
Case Manor Care Community	Bobcaygeon, ON	96
Cedarvale Lodge Retirement & Care Community	Keswick, ON	60
Cheltenham Care Community	Toronto, ON	170
Creedan Valley Care Community	Creemore, ON	95
Deerwood Creek Care Community	Etobicoke, ON	160
Fieldstone Commons Care Community	Scarborough, ON	224
Fountain View Care Community	Toronto, ON	158
Fox Ridge Care Community	Brantford, ON	122
Granite Ridge Care Community	Stittsville, ON	224
Harmony Hills Care Community	Toronto, ON	160
Hawthorn Woods Care Community	Brampton, ON	160
Lake Country Lodge	Lake Country, BC	90
Lakeview Lodge	West Kelowna, BC	114
Langstaff Square Care Community	Richmond Hill, ON	160
Madonna Care Community	Orleans, ON	160
Maple Grove Care Community	Brampton, ON	160
Mariposa Gardens	Osoyoos, BC	145
Midland Gardens Care Community	Scarborough, ON	299
Muskoka Shores Care Community	Gravenhurst, ON	206
Norfinch Care Community	North York, ON	160
Orillia	Orillia, ON	160
Owen Hill Care Community	Barrie, ON	57
Ridgeview Lodge	Kamloops, BC	129
Rockcliffe Care Community	Scarborough, ON	204
Secord Trails Care Community	Ingersoll, ON	80
Silverthorn Care Community	Mississauga, ON	160
St. George Care Community	Toronto, ON	238
Streetsville Care Community	Mississauga, ON	118
The Cascades	Chilliwack, BC	167
Trillium Retirement and Care Community	Kingston, ON	190
Tullamore Care Community	Brampton, ON	159

NAME OF COMMUNITY	LOCATION	TOTAL BEDS/SUITES
Waters Edge Care Community	North Bay, ON	148
Weston Terrace Care Community	Toronto, ON	224
Woodbridge Vista Care Community	Woodbridge, ON	224
Woodhall Park Care Community	Brampton, ON	147
Total		**7,923**

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 service and program offering
- Building a culture of high-performing, engaged employees and investing in talent management, leadership development, and systems to support our team to deliver on Sienna's brand promise
- Instituting our brand and operating standards across our portfolio
- Investing in our support services and systems including: human resource management, information technology, communications and financial management systems

Progress:

- Assisted living ("**AL**") services in all retirement residences are enabling residents to age in place
- Launched programs to improve the culinary and leisure experience in retirement residences
- All publicly reported quality and compliance indicators outperformed the provincial average
- Implemented new payroll system and upgrades to financial management system
- Enhanced employee learning and development with online learning system
- Improved employee collaboration with enhanced intranet functions
- Recipient of the Ontario Long Term Care Association Quality Improvement Innovation 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 our brand promise
- Communicating Sienna's brand strategy and proposition, internally and externally
- Leveraging a digital strategy to reach prospective residents and their families

Progress:

- Rebranded the Company in 2015 to Sienna Senior Living and renamed each residence to align with the local community
- Launched the digital strategy with enhanced online presence and social media
- Customizing marketing and community relations plans for each of our communities
- In our 2015 Team Engagement Survey, 92% of team members indicated they are aware of the Sienna vision and mission and support the direction of our 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 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)

Progress:

- ○ Completed sale of PHCS
- ○ Raised $138 million in a public offering for Subscription Receipts (as defined in the "Significant Events" section below) which were exchanged for common shares, proceeds used for acquisition of a portfolio of seniors residences in British Columbia and for general company purposes
- ○ Increased Interest Coverage Ratio by 0.2x
- ○ Increased year-over-year ("**YoY**") liquidity by $5 million and 7.7%
- ○ A (low) rating on Series B Debenture confirmed by DBRS in annual review completed in Q4 2015

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:

- Leverage the redevelopment of older LTC homes in key Ontario markets to create seniors living campuses providing retirement (independent living ("**IL**"), AL, memory care ("**MC**")) and LTC;
- Expanding additional seniors living capacity in existing Sienna residences with excess land.

***Acquisitions**:*

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

Progress:

- ○ Strong YoY results in Retirement - 16.6% same property NOI increase
- ○ As at occupancy in Retirement up 4.7% YoY
- ○ Stable growth in LTC, NOI increased by 2.3% YoY
- ○ Acquired Traditions of Durham, a high-quality Retirement Residence in Oshawa on December 31, 2015
- ○ Planning for redevelopment of 2,200 class C LTC beds, subject to approvals and financial feasibility
- ○ Proceeding with retrofit of one older class C home, expected to be completed in 2017
- ○ Acquired a seniors living portfolio in British Columbia of 8 high-quality residences with 984 units and excess land for an additional 171 retirement suites in addition to a 50% interest in Pacific Seniors Management and options to acquire up to a 100% interest in two new state-of-the-art seniors residences in British Columbia

Industry Overview

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

Business Overview

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

2016 Outlook

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

Non-IFRS Performance Measures

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

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

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

"**OFFO**" is FFO adjusted for one-time items such as the tax shield resulting from the redemption premium payment for the previously outstanding Series A Senior Secured Debentures (the "**Series A Debentures**"), tax benefit from one-time items, interest income on Subscription Receipts funds held in escrow 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 earnings for the Company.

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

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

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

Significant Events

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.

Acquisition of a Seniors Living Portfolio in British Columbia

On April 18, 2016, the Company entered into an agreement (the "**Acquisition Agreement**") with Baltic Properties Investments Ltd., Baybridge-Baltic General Partnership (the "**Baltic Seller**"), Amica Mature Lifestyles Inc. and BayBridge Senior Living Partnership to acquire (the "**Acquisition**"): a portfolio of seniors living assets in British Columbia, consisting of two IL RR communities (the "**IL Properties**") and six LTC homes (both private-pay and funded) providing LTC, IL and AL (the "**Baltic Properties**" and together with the IL Properties, the "**Acquired Properties**"); options to acquire up to a 100% interest (the first 50% of which will be at a discount to fair market value) in two additional newly built seniors living assets (the "**Option Properties**"); and a 50% interest in Pacific Seniors Management General Partnership ("**PSM**"), the current manager and operator of the Baltic Properties (the "**Management Interest**" and together with the Acquired Properties and the Option Properties, the "**Purchased Assets**"). The Acquisition was completed on August 2, 2016.

The aggregate purchase price for the Purchased Assets was $254,900, less $2,000 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 $135,165 in existing mortgages, at a weighted average interest rate of 3.9% and a weighted average term to maturity of 5.2 years; (ii) the issuance of $10,000 of common shares of the Company to the Baltic Seller (or affiliate(s) thereof) at the Offering Price (defined below); and (iii) net proceeds of the Company's public offering of subscription receipts ("**Subscription Receipts**"). The Company made a deposit of $6,373 related to the Acquisition as at June 30, 2016.

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, 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 (each, a "**Common Share**"), at no additional consideration on the closing of the 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 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. The Common Shares were contingent on the closing of the Acquisition; therefore they have been excluded for the purposes of calculating diluted net income (loss), OFFO and AFFO per share for the three and six months ended June 30, 2016.

As a result of the completion of the 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 the aggregate to the holders of Subscription Receipts. Additionally, all holders of Subscription Receipts of record as of July 29, 2016 will receive a cash dividend equivalent payment of $0.075 per Subscription Receipt (being equal to the dividend per Common Share of the Company for the month of July 2016, less any applicable withholding taxes), payable on August 15, 2016.

Financial results from the Purchased Assets will be reported in the Company's Q3 results after the completion of the Acquisition.

Key Performance Indicators

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

- **Occupancy**: Occupancy is a key driver of the Company's revenues.
- **NOI**: This value represents the underlying performance of the operating business segments. Please refer to the "Non-IFRS Performance Measures" section of this MD&A.
- **OFFO and OFFO per Share**: Management uses OFFO as an operating and financial performance measure. Please refer to the "Non-IFRS Performance Measures" section of this MD&A.
- **AFFO and AFFO per Share**: These indicators are used by management to help measure the Company's ability to pay dividends. Please refer to the "Non-IFRS Performance Measures" section of this MD&A.
- **Payout Ratio**: Management monitors the ratio of dividends per share to basic AFFO per share to ensure that the Company adheres to its dividend policy, in line with the Company's objectives.
- **Debt Service Coverage Ratio**: This ratio is useful for management to ensure that it is in compliance with its financial covenants.
- **Debt to Gross Book Value**: In conjunction with the debt service coverage ratio, management monitors this to ensure compliance with certain financial covenants.
- **Weighted Average Cost of Debt**: This is a point in time calculation which is useful in comparing interest rates, either period over period, or to the then current market parameters.
- **Debt to EBITDA Ratio**: This ratio measures the number of years required for current cash flows to repay all indebtedness.
- **Interest Coverage Ratio**: Interest coverage ratio is a common measure used by debt rating agencies to assess an entity's ability to service its debt obligations.

- **Weighted Average Term to Maturity**: This indicator is used by management to monitor its debt maturities.
- **Same Property Percent Change in NOI**: This measure is similar to "same-store sales" measures used in the retail business and is intended to measure the period over period performance of the same asset base, excluding assets undergoing new development, redevelopment or demolition.

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

The following table presents the key performance indicators for the three and six months ended June 30:

Thousands of Dollars, except occupancy, share and ratio data	Three Months Ended			Six Months Ended		
	2016	2015	Change	**2016**	2015	Change
OCCUPANCY						
LTC - Average total occupancy	**98.8%**	98.5%	0.3%	**98.7%**	98.3%	0.4%
LTC - Average private occupancy	**99.9%**	99.7%	0.2%	**99.8%**	99.3%	0.5%
Retirement - Average occupancy	**92.3%**	87.0%	5.3%	**92.1%**	86.9%	5.2%
Retirement - As at occupancy	**93.5%**	88.8%	4.7%	**93.5%**	88.8%	4.7%
FINANCIAL						
NOI (1)	**22,567**	20,950	1,617	**44,007**	40,948	3,059
OFFO (1)	**11,385**	10,448	937	**22,200**	20,057	2,143
AFFO (1)	**13,466**	12,179	1,287	**26,655**	24,015	2,640
PER SHARE INFORMATION						
OFFO per share, basic	**0.311**	0.287	0.024	**0.608**	0.552	0.056
OFFO per share, diluted	**0.300**	0.279	0.021	**0.588**	0.537	0.051
AFFO per share, basic	**0.368**	0.335	0.033	**0.729**	0.661	0.068
AFFO per share, diluted	**0.353**	0.324	0.029	**0.701**	0.639	0.062
Dividends per share	**0.225**	0.225	—	**0.450**	0.450	—
Payout ratio (basic AFFO)	**61.1%**	72.8%	(5.4)%	**61.7%**	68.1%	(6.4)%
FINANCIAL RATIOS						
Debt Service Coverage Ratio	**2.0**	2.0	—	**1.9**	2.0	(0.1)
Debt to Gross Book Value (2) as at period end	**53.5%**	55.4%	(1.9)%	**53.5%**	55.4%	(1.9)%
Weighted Average Cost of Debt as at period end	**3.8%**	3.8%	—%	**3.8%**	3.8%	—%
Debt to EBITDA from continuing operations ratio as at period end	**7.3**	8.0	(0.7)	**7.3**	8.0	(0.7)
Interest Coverage Ratio	**3.5**	3.3	0.2	**3.4**	3.2	0.2
Weighted Average Term to Maturity as at period end	**4.0**	5.0	(1.0)	**4.0**	5.0	(1.0)

	Three Months Ended	Six Months Ended
SAME PROPERTY PERCENT CHANGE IN NOI		
Long-Term Care	1.2%	2.3%
Retirement	19.3%	16.6%
Total	5.2%	5.6%

Notes:

1. These amounts include the Q2 2016 net operating loss of $16 (2015 - NOI of $401) and NOI for the six months ended June 30, 2016 of $400 (2015 - $930) from the discontinued operations of PHCS.
2. Gross book value as at June 30, 2016 excludes Subscription Receipts funds held in escrow of $135,037 (June 30, 2015 - $nil).

Quarterly Financial Information

Thousands of Dollars, except occupancy and per share data	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3
Revenue from continuing operations [1]	**115,226**	**114,232**	**118,380**	**114,341**	110,890	109,010	113,269	110,344
Income from continuing operations before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes [1]	**18,025**	**16,640**	**17,005**	**17,397**	15,658	15,066	15,616	16,484
Net (loss) income from continuing operations [1]	**(642)**	**(101)**	**1,730**	**2,764**	880	(40)	(432)	1,096
Per share basic and diluted per share [1]	**(0.02)**	**0.00**	**0.05**	**0.08**	0.02	0.00	(0.01)	0.03
Net (loss) income from discontinued operations [2]	**(10)**	**305**	**541**	**570**	402	390	636	547
Per share basic	**0.00**	**0.01**	**0.01**	**0.02**	0.01	0.01	0.02	0.02
Per share diluted	**0.00**	**0.01**	**0.01**	**0.01**	0.01	0.01	0.02	0.01
OFFO - Basic	**11,385**	**10,815**	**11,453**	**11,497**	10,448	9,609	10,445	11,071
Per share	**0.31**	**0.30**	**0.31**	**0.32**	0.29	0.55	0.29	0.31
Per share diluted	**0.30**	**0.29**	**0.30**	**0.31**	0.28	0.26	0.29	0.29
AFFO - Basic	**13,466**	**13,189**	**12,180**	**13,256**	12,179	11,836	11,204	12,341
Per share	**0.37**	**0.36**	**0.33**	**0.36**	0.34	0.33	0.31	0.34
Per share diluted	**0.35**	**0.35**	**0.32**	**0.35**	0.32	0.32	0.31	0.33
Dividends declared	**8,232**	**8,217**	**8,205**	**8,196**	8,188	8,175	8,164	8,160
Per share	**0.23**	**0.23**	**0.23**	**0.23**	0.23	0.23	0.23	0.23
Occupancy								
LTC - Average total occupancy	**98.8%**	**98.6%**	**98.8%**	**99.1%**	98.5%	98.1%	98.8%	98.9%
LTC - Average private occupancy	**99.9%**	**99.7%**	**99.9%**	**99.9%**	99.7%	99.0%	99.8%	99.9%
Retirement - Average occupancy	**92.3%**	**92.0%**	**90.2%**	**90.2%**	87.0%	86.9%	85.9%	84.3%
Retirement - As at occupancy	**93.5%**	**91.5%**	**92.3%**	**92.3%**	88.8%	86.8%	86.8%	84.9%
Total assets	**1,066,969**	**939,477**	**951,469**	**912,933**	924,919	932,798	946,763	953,394
Total debt [3]	**605,344**	**623,513**	**629,068**	**593,633**	602,960	612,733	616,081	618,970

Notes:

1. These amounts exclude the results of the 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.
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 in the flow-through envelopes and the timing of revenue recognition to match spending within the flow-through envelopes, and capital market and financing activities.

The Company recorded Ministry of Health and Long-Term Care ("**MOHLTC**") reconciliation adjustments that impacted revenue and NOI during the three and six months ended June 30, 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 for 2012. These adjustments are based on confirmation with the MOHLTC and the Company’s best estimate of the probability of payment (recovery) of the outstanding amounts, based on recent information and interpretation of the funding mechanism.

A discussion of the operating results for the three and six months ended June 30, 2016 compared to the comparative prior year periods is provided below under the section "Operating Results".

Operating Results

The following are the operating results for the periods ended June 30:

	Three Months Ended			Six Months Ended		
Thousands of Dollars	**2016**	2015	Change	**2016**	2015	Change
Revenue	**115,226**	110,890	4,336	**229,458**	219,900	9,558
Expenses						
Operating	**92,643**	90,341	2,302	**185,851**	179,882	5,969
Administrative	**4,558**	4,890	(332)	**8,942**	9,292	(350)
	97,201	95,231	1,970	**194,793**	189,174	5,619
Income from continuing operations before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	**18,025**	15,659	2,366	**34,665**	30,726	3,939
Other expenses						
Depreciation and amortization	**8,969**	8,906	63	**18,890**	18,415	475
Net finance charges	**6,884**	5,000	1,884	**12,450**	10,378	2,072
Transaction costs	**2,018**	232	1,786	**3,201**	270	2,931
Total other expenses	**17,871**	14,138	3,733	**34,541**	29,063	5,478
Income from continuing operations before the provision for (recovery of) income taxes	**154**	1,521	(1,367)	**124**	1,663	(1,539)
Provision for (recovery of) income taxes						
Current	**693**	233	460	**1,883**	382	1,501
Deferred	**103**	300	(197)	**(1,016)**	333	(1,349)
	796	533	263	**867**	715	152
Net (loss) income from continuing operations	**(642)**	988	(1,630)	**(743)**	948	(1,691)
Net income from discontinued operations, net of taxes	**7,701**	294	7,407	**8,006**	684	7,322
Net income	**7,059**	1,282	5,777	**7,263**	1,632	5,631
Total assets	**1,066,969**	924,919	142,050	**1,066,969**	924,919	142,050
Total debt (net of principal reserve fund)	**605,344**	602,960	2,384	**605,344**	602,960	2,384

Revenue Breakdown

The following is the revenue breakdown for the periods ended June 30:

	Three Months Ended			Six Months Ended		
Thousands of Dollars	**2016**	2015	Change	**2016**	2015	Change
Long-Term Care (1)						
Same property	**102,231**	100,874	1,357	**203,637**	199,456	4,181
Total Long-Term Care Revenue	**102,231**	100,874	1,357	**203,637**	199,456	4,181
Retirement						
Same property	**11,776**	10,693	1,083	**23,407**	21,233	2,174
Transaction (2)	**1,364**	—	1,364	**2,695**	—	2,695
Total Retirement Revenue	**13,140**	10,693	2,447	**26,102**	21,233	4,869
Home Care (Discontinued Operations)						
Same property	**1,240**	4,296	(3,056)	**5,278**	8,498	(3,220)
Total Home Care (Discontinued Operations) Revenue	**1,240**	4,296	(3,056)	**5,278**	8,498	(3,220)
Total Revenue						
Same property from continuing operations	**114,007**	111,567	2,440	**227,044**	220,689	6,355
Discontinued operations	**1,240**	4,296	(3,056)	**5,278**	8,498	(3,220)
Transaction (2)	**1,364**	—	1,364	**2,695**	—	2,695
MOHLTC reconciliation adjustments	**(145)**	(536)	391	**(277)**	(511)	234
Intersegment eliminations	**—**	(141)	141	**(4)**	(278)	274
Total Revenue	**116,466**	115,186	1,280	**234,736**	228,398	6,338

Notes:

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

Operating Expense Breakdown

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

	Three Months Ended			Six Months Ended		
Thousands of Dollars	**2016**	2015	Change	**2016**	2015	Change
Long-Term Care [1]						
Same property	**85,643**	84,482	1,161	**171,814**	168,335	3,479
Total Long-Term Care Expenses	**85,643**	84,482	1,161	**171,814**	168,335	3,479
Retirement						
Same property	**6,177**	6,000	177	**12,433**	11,825	608
Transaction [2]	**823**	—	823	**1,608**	—	1,608
Total Retirement Expenses	**7,000**	6,000	1,000	**14,041**	11,825	2,216
Home Care (Discontinued Operations)						
Same property	**1,256**	3,895	(2,639)	**4,878**	7,568	(2,690)
Total Home Care (Discontinued Operations) Expenses	**1,256**	3,895	(2,639)	**4,878**	7,568	(2,690)
Total Operating Expenses						
Same property from continuing operations	**91,820**	90,482	1,338	**184,247**	180,160	4,087
Discontinued operations	**1,256**	3,895	(2,639)	**4,878**	7,568	(2,690)
Transaction [2]	**823**	—	823	**1,608**	—	1,608
Intersegment eliminations	—	(141)	141	**(4)**	(278)	274
Total Operating Expenses	**93,899**	94,236	(337)	**190,729**	187,450	3,279

Notes:

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

Net Operating Income Breakdown

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

	Three Months Ended			Six Months Ended		
Thousands of Dollars	**2016**	2015	Change	**2016**	2015	Change
Long-Term Care (1)						
Same property	**16,588**	16,392	196	**31,823**	31,121	702
Total Long-Term Care NOI	**16,588**	16,392	196	**31,823**	31,121	702
Retirement						
Same property	**5,599**	4,693	906	**10,974**	9,408	1,566
Transaction (2)	**541**	—	541	**1,087**	—	1,087
Total Retirement NOI	**6,140**	4,693	1,447	**12,061**	9,408	2,653
Home Care (Discontinued Operations)						
Same property	**(16)**	401	(417)	**400**	930	(530)
Total Home Care (Discontinued Operations) NOI	**(16)**	401	(417)	**400**	930	(530)
Total NOI						
Same property from continuing operations	**22,187**	21,085	1,102	**42,797**	40,529	2,268
Discontinued operations	**(16)**	401	(417)	**400**	930	(530)
Transaction (2)	**541**	—	541	**1,087**	—	1,087
MOHLTC reconciliation adjustments	**(145)**	(536)	391	**(277)**	(511)	234
Total NOI	**22,567**	20,950	1,617	**44,007**	40,948	3,059

Notes:

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

For the Quarter

Revenue

Same property revenues from continuing operations for Q2 2016 increased by $2,440 to $114,007, compared to Q2 2015. LTC revenues increased by $1,357, 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 Q2 2016 increased by $1,083 to $11,776, compared to Q2 2015, primarily attributable to increases in occupancy and year-over-year rent increases. The acquisition of Traditions in Q4 2015 contributed to incremental revenues of $1,364 over Q2 2015.

Operating Expenses

Same property operating expenses from continuing operations for Q2 2016 increased by $1,338 to $91,820, compared to Q2 2015. Of this increase, LTC represented $1,161, which was primarily attributable to higher flow-through envelope expenses.

RR same property operating expenses for Q2 2016 increased by $177 to $6,177, compared to Q2 2015. The increase was primarily attributable to higher variable expenses resulting from gains in occupancy. The acquisition of Traditions in Q4 2015 resulted in incremental operating expenses of $823 over Q2 2015.

NOI

Same property NOI from continuing operations for Q2 2016 increased by $1,102 to $22,187, compared to Q2 2015. LTC's NOI increased by $196, primarily attributable to increased preferred accommodation rates, disciplined cost management and lower utilities expenses.

RR's same property NOI for Q2 2016 increased by $906 to $5,599, compared to Q2 2015 primarily attributable to increases in occupancy. The acquisition of Traditions in Q4 2015 contributed to incremental NOI of $541 over Q2 2015.

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

Administrative Expenses

Administrative expenses for Q2 2016 of $4,558 decreased by $332 compared to Q2 2015, primarily due to one-time rebranding costs which were incurred in Q2 2015 but not in the current quarter.

Depreciation and Amortization

Depreciation and amortization for Q2 2016 increased by $63 to $8,969 compared to Q2 2015. The increase was primarily attributable to the acquisition of Traditions in Q4 2015 and higher depreciation on building assets, partially offset by certain resident relationship intangibles being fully amortized during the year ended December 31, 2015.

Net Finance Charges

Net finance charges from continuing operations for Q2 2016 increased by $1,884 to $6,884 compared to Q2 2015. The increase was primarily attributable to dividend equivalents on the outstanding Subscription Receipts (net of interest income on funds held in escrow from issuance of Subscription Receipts) and higher loss on interest rate swap contracts.

Transaction Costs

Transaction costs for the three months ended June 30, 2016 were $2,018 compared to $232 in the comparative prior year period. The increase of $1,786 was primarily attributable to higher transactional activity, as described in the "Significant Events" section above.

Income Taxes

Income tax expense from continuing operations for Q2 2016 increased by $263 to $796 compared to Q2 2015. The current income tax expense from continuing operations was $693 for Q2 2016, compared to $233 in Q2 2015. The increase in the current income tax expense over Q2 2015 was primarily due to temporary differences not currently deductible (net of capital loss claimed), non-deductible dividend equivalent payments, and prior period's tax shield related to the debenture refinancing no longer available during Q2 2016. The current income tax expense has been calculated at the weighted average combined corporate tax rate of 26.49%. The deferred tax expense for continuing operations of $103 in Q2 2016 represents a decrease of $197 over the comparable prior year period, primarily as a result of timing differences offset by book to filing adjustments.

For the Year to Date

Revenue

Same property revenues from continuing operations for the six months ended June 30, 2016 increased by $6,355 to $227,044 compared to the comparative prior year period. LTC revenues increased by $4,181 to $203,637, 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 six months ended June 30, 2016 increased by $2,174 to $23,407, compared to the comparative prior year period, primarily attributable to increases in occupancy and year-over-year rent increases. The acquisition of Traditions in Q4 2015 contributed to incremental revenues of $2,695 over the comparative prior year period.

Operating Expenses

Same property operating expenses from continuing operations for the six months ended June 30, 2016 increased by $4,087 to $184,247, compared to the comparative prior year period. Of this increase, LTC accounted for $3,479, which was primarily attributable to higher flow-through envelope expenses, partially offset by lower utilities expenses due to warmer temperatures.

RR same property operating expenses for the six months ended June 30, 2016 increased by $608 to $12,433 compared to the comparative prior year period, primarily attributable to higher variable expenses resulting from gains in occupancy.

NOI

Same property NOI from continuing operations of $42,797 for the six months ended June 30, 2016 represented an increase of $2,268 over the comparative prior year period.

LTC's NOI increased by $702 to $31,823 for the six months ended June 30, 2016, compared to the comparative prior year period, primarily attributable to increased preferred accommodation rates, disciplined cost management and lower utilities expenses.

RR's same property NOI increased by $1,566 to $10,974 compared to the comparative prior year period, primarily due to increases in occupancy. The acquisition of Traditions in Q4 2015 contributed to incremental NOI of $1,087 over the comparative prior year period.

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

Administrative Expenses

Administrative expenses for the six months ended June 30, 2016 decreased by $350 to $8,942 compared to the comparative prior year period. The decrease was primarily due to one-time rebranding costs which were incurred in the comparative prior year period but not in the six months ended June 30, 2016.

Depreciation and Amortization

Depreciation and amortization for the six months ended June 30, 2016 increased by $475 to $18,890 compared to the comparative prior year period. The increase was primarily attributable to the acquisition of Traditions in Q4 2015 and higher depreciation on building assets, partially offset by certain resident relationship intangibles being fully amortized during the year ended December 31, 2015.

Net Finance Charges

Net finance charges from continuing operations for the six months ended June 30, 2016 were $12,450, compared to $10,378 for the comparative prior year period. The increase of $2,072 was primarily attributable to dividend equivalents on the outstanding Subscription Receipts (net of interest income on funds held in escrow from issuance of Subscription Receipts), and higher loss on interest rate swap contracts.

Transaction Costs

Transaction costs for the six months ended June 30, 2016 were $3,201 compared to $270 in the comparative prior year period. The increase of $2,931 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 six months ended June 30, 2016 was $867, compared to $715 in the comparative prior year period. The current income tax expense from continuing operations was $1,883 compared to $382 for the six months ended June 30, 2015. The increase of $1,501 compared to the comparative prior year period was primarily temporary differences not currently deductible (net of capital loss claimed), non-deductible dividend equivalent payments, and prior period's tax shield related to the debenture refinancing, which was not available during the six months ended June 30, 2016. The current income taxes have been calculated at the weighted average combined corporate tax rate of 26.49%. The deferred tax recovery from continuing operations of $1,016 represents a decrease in deferred income taxes of $1,349 over the comparative prior year period, primarily as a result of benefitting from the temporary differences mentioned above, offset by book to filing adjustments.

Business Performance

Adjusted Funds from Operations

The following is a reconciliation of net income (loss) to FFO, OFFO and AFFO for the periods ended June 30:

	Three Months Ended			Six Months Ended		
Thousands of Dollars, except share and per share data	**2016**	2015	Change	**2016**	2015	Change
Net (loss) income from continuing operations	**(642)**	988	(1,630)	**(743)**	948	(1,691)
Deferred income tax expense (recovery)	**103**	300	(197)	**(1,016)**	333	(1,349)
Depreciation and amortization	**8,662**	8,881	(219)	**18,553**	18,360	193
Transaction costs	**2,018**	232	1,786	**3,201**	270	2,931
Net settlement payment on interest rate swap contracts	**62**	83	(21)	**130**	163	(33)
Net (loss) income from discontinued operations, net of taxes[1] and depreciation	**(10)**	293	(303)	**302**	687	(385)
Loss (gain) on interest rate swap contracts	**152**	(314)	466	**353**	(270)	623
Funds from operations (FFO)	**10,345**	10,463	(118)	**20,780**	20,491	289
Depreciation and amortization - corporate	**307**	25	282	**337**	55	282
Net accretion of fair value increment on long-term debt	**(151)**	(163)	12	**(335)**	(320)	(15)
Amortization of deferred financing charges	**292**	300	(8)	**588**	593	(5)
Amortization of loss on bond forward contract	**211**	204	7	**420**	403	17
Dividend equivalents on subscription receipts	**1,309**	—	1,309	**1,309**	—	1,309
Interest income on subscription receipts funds held in escrow	**(112)**	—	(112)	**(112)**	—	(112)
Net settlement payment on interest rate swap contracts	**(62)**	(83)	21	**(130)**	(163)	33
Tax benefit from capital loss carryforwards	**(861)**	—	(861)	**(861)**	—	(861)
Tax shield due to redemption premium on Series A Debentures	**—**	(693)	693	**—**	(1,378)	1,378
MOHLTC reconciliation adjustment, net of taxes	**107**	395	(288)	**204**	376	(172)
Operating funds from operations (OFFO)	**11,385**	10,448	937	**22,200**	20,057	2,143
Deferred share unit compensation earned	**303**	254	49	**581**	485	96
Income support	**76**	10	66	**139**	27	112
Construction funding principal	**2,440**	2,333	107	**4,852**	4,654	198
Maintenance capex	**(738)**	(866)	128	**(1,117)**	(1,208)	91
Adjusted funds from operations (AFFO)	**13,466**	12,179	1,287	**26,655**	24,015	2,640
Adjusted funds from operations (AFFO)	**13,466**	12,179	1,287	**26,655**	24,015	2,640
Dividends declared	**(8,232)**	(8,188)	(44)	**(16,449)**	(16,363)	(86)
Operating cash flow retained	**5,234**	3,991	1,243	**10,206**	7,652	2,554
Basic FFO per share	**0.283**	0.288	(0.005)	**0.569**	0.564	0.005
Basic OFFO per share	**0.311**	0.287	0.024	**0.608**	0.552	0.056
Basic AFFO per share	**0.368**	0.335	0.033	**0.729**	0.661	0.068
Weighted average common shares outstanding - Basic	**36,575,901**	36,383,929		**36,542,177**	36,354,595	
Diluted FFO per share	**0.273**	0.280	(0.007)	**0.552**	0.548	0.004
Diluted OFFO per share	**0.300**	0.279	0.021	**0.588**	0.537	0.051
Diluted AFFO per share	**0.353**	0.324	0.029	**0.701**	0.639	0.062
Weighted average common shares outstanding - Diluted	**39,313,119**	39,130,198		**39,283,921**	39,100,864	

Note:

1. Three months ended June 30, 2016 - current income tax recovery of $3 (2015 - current income taxes of $110).
   Six months ended June 30, 2016 - current income taxes of $101 (2015 - $246).

Reconciliation of diluted FFO, OFFO and AFFO

Thousands of Dollars	Three Months Ended 2016	2015	Change	Six Months Ended 2016	2015	Change
FFO, Basic	**10,345**	10,463	(118)	**20,780**	20,491	289
Net financing charges on convertible debt	**552**	653	(101)	**1,205**	1,298	(93)
Current income tax expense adjustment	**(146)**	(173)	27	**(319)**	(344)	25
FFO, Diluted	**10,751**	10,943	(192)	**21,666**	21,445	221
OFFO, Basic	**11,385**	10,448	937	**22,200**	20,057	2,143
FFO dilutive adjustment, net	**406**	480	(74)	**886**	954	(68)
OFFO, Diluted	**11,791**	10,928	863	**23,086**	21,011	2,075
AFFO, Basic	**13,466**	12,179	1,287	**26,655**	24,015	2,640
OFFO dilutive adjustment, net	**406**	480	(74)	**886**	954	(68)
AFFO, Diluted	**13,872**	12,659	1,213	**27,541**	24,969	2,572

For the Quarter

FFO

FFO decreased by $118 to $10,345, compared to Q2 2015. The decrease was primarily attributable to dividend equivalents on Subscription Receipts, net of interest income on funds received from Subscriptions Receipts held in escrow, and higher current income tax provision, partially offset by improved NOI contribution and lower administrative expenses.

OFFO

OFFO increased by $937 to $11,385, compared to Q2 2015. The increase was principally related to the increase in NOI and lower administrative expenses, partially offset by higher current income tax provision before the tax benefit from capital loss carryforwards.

AFFO

AFFO increased by $1,287 to $13,466, compared to Q2 2015. The increase was principally related to the increase in OFFO noted above and lower maintenance capex.

For the Year to Date

FFO

FFO for the six months ended June 30, 2016 increased by $289 to $20,780 compared to the comparative prior year period. The increase was primarily attributable to improved NOI contribution and lower administrative expenses, partially offset by dividend equivalents on Subscription Receipts, net of interest income on funds received from Subscriptions Receipts held in escrow, and an increase in the current income tax provision.

OFFO

OFFO for the six months ended June 30, 2016 increased by $2,143 to $22,200 compared to the comparative prior year period. The increase was primarily attributable to the increase in NOI and lower administrative expenses, partially offset by a higher current income tax provision before the tax benefit from capital loss carryforwards.

AFFO

AFFO for the six months ended June 30, 2016 increased by $2,640 to $26,655 compared to the comparative prior year period. The increase was primarily attributable to the increase in OFFO as noted above.

Reconciliation of Cash from Operations to Adjusted Funds from Operations

The following table is a reconciliation of cash provided by operations to AFFO for the periods ended June 30:

	Three Months Ended			Six Months Ended		
Thousands of Dollars	**2016**	2015	Change	**2016**	2015	Change
Cash provided by operating activities	**12,332**	16,883	(4,551)	**22,032**	20,669	1,363
Construction funding principal	**2,440**	2,333	107	**4,852**	4,654	198
Transaction costs	**2,018**	232	1,786	**3,201**	270	2,931
Income support adjustment	**—**	(209)	209	**—**	(201)	201
MOHLTC reconciliation adjustment, net of taxes	**107**	395	(288)	**204**	376	(172)
Maintenance capex	**(738)**	(866)	128	**(1,117)**	(1,208)	91
Net change in working capital, interest and taxes	**(2,616)**	(5,930)	3,314	**(2,352)**	990	(3,342)
Tax shield due to redemption premium on Series A Debentures	**—**	(693)	693	**—**	(1,378)	1,378
Restricted share units and long-term incentive plan expense	**(77)**	34	(111)	**(165)**	(157)	(8)
Adjusted funds from operations (AFFO)	**13,466**	12,179	1,287	**26,655**	24,015	2,640
Adjusted funds from operations (AFFO)	**13,466**	12,179	1,287	**26,655**	24,015	2,640
Dividends declared	**(8,232)**	(8,188)	(44)	**(16,449)**	(16,363)	(86)
Operating cash flow retained	**5,234**	3,991	1,243	**10,206**	7,652	2,554
Dividend reinvestment	**695**	543	152	**1,352**	1,160	192
Cash retained after dividend reinvestment	**5,929**	4,534	1,395	**11,558**	8,812	2,746

Operating cash flow retained is equal to AFFO less dividends declared. Operating cash flow retained for the three and six months ended June 30, 2016 was $5,234 (2015 - $3,991) and $10,206 (2015 - $7,652), respectively. The Board of Directors of the Company determine the appropriate dividend levels based on their assessment of cash provided by operations normalized for unusual items, expected working capital requirements and actual and projected capital expenditures.

Liquidity and Capital Resources

Financial Position Analysis

The following is a summary of cash flows for the periods ended June 30:

	Three Months Ended			Six Months Ended		
Thousands of Dollars	**2016**	2015	Change	**2016**	2015	Change
Cash flow from operations before non-cash working capital items	**24,088**	15,941	8,147	**40,216**	31,782	8,434
Non-cash changes in working capital	**2,051**	4,096	(2,045)	**6,677**	1,123	5,554
Interest and taxes paid, swap settlement, and discontinued operations	**(6,075)**	(3,693)	(2,382)	**(16,690)**	(12,164)	(4,526)
Cash flow provided by discontinued operations	**(7,732)**	539	(8,271)	**(8,171)**	(72)	(8,099)
Cash provided by (used in):						
Operating activities	**12,332**	16,883	(4,551)	**22,032**	20,669	1,363
Investing activities	**10,413**	(5)	10,418	**11,001**	4	10,997
Financing activities	**(24,630)**	(16,058)	(8,572)	**(36,319)**	(25,714)	(10,605)
Decrease in cash	**(1,885)**	820	(2,705)	**(3,286)**	(5,041)	1,755
Cash	**23,059**	23,992	(933)	**23,059**	23,992	(933)

For the Quarter

Operating Activities

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

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

For Q2 2015, operating activities provided $16,883 of cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $15,941.
- Increase in accounts payable and accrued liabilities provided $2,090, primarily related to the timing of wage and benefit accruals.
- Change in net government funding balances provided $3,131 of cash due to timing of receipts.
- Discontinued operations provided $539 of cash.
- Partially offset by interest paid on long-term debt of $3,610 and increase in prepaid expenses and deposits of $1,320.

Investing Activities

Investing activities for Q2 2016 provided $10,413 of cash, which was primarily attributable to the following:

- Proceeds from sale of PHCS of $16,409.
- Construction funding received in the amount of $3,270.
- Partially offset by an increase in restricted cash of $1,653, primarily for the contributions to the Series B Debentures principal reserve fund in the amount of $1,581, purchase of equipment of $772 and intangibles of $539 and deposit on the Acquisition of $6,373.

For Q2 2015, investing activities used $5 of cash, which was primarily attributable to the following:

- Increase in restricted cash of $1,670, primarily for the contributions to the Series B Debentures principal reserve fund in the amount of $1,517.
- Purchase of equipment of $1,067 and intangibles of $594.
- Partially offset by construction funding received in the amount of $3,270.

Financing Activities

Financing activities in Q2 2016 used $24,630 of cash, which was primarily attributable to the following:

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

For Q2 2015, financing activities used $16,058 of cash, which was primarily attributable to the following:

- Dividends paid in the quarter of $7,643.
- Repayment of long-term debt of $8,372 relating to mortgage principal payments and voluntary payments on the Company's revolving credit facilities.

For the Year to Date

Operating Activities

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

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $40,216.
- Decrease in accounts receivable and other assets provided $2,281.
- Increase in accounts payable and accrued liabilities provided $1,388.
- Change in net government funding balances provided $4,289.
- Partially offset by interest paid on long-term debt of $13,160, increase in prepaid expenses and deposits of $1,420, use of cash in discontinued operations of $8,171 and incomes taxes paid of $3,400.

For the six months ended June 30, 2015, operating activities provided $20,669 of cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $31,782.
- Change in net government funding balances provided $6,795 of cash due to timing of receipts.
- Partially offset by interest paid on long-term debt of $12,001, increase in accounts receivable and other assets of $569, increase in prepaid expenses and deposits of $2,172 and decrease in accounts payable and accrued liabilities of $3,159.

Investing Activities

Investing activities for six months ended June 30, 2016 provided $11,001 of cash, which was primarily attributable to the following:

- Proceeds from sale of PHCS of $16,409.
- Construction funding received in the amount of $6,540.
- Partially offset by an increase in restricted cash of $3,275, primarily for the contributions to the Series B Debentures principal reserve fund in the amount of $3,136, purchase of equipment of $1,267 and intangibles of $1,162 and deposit on the Acquisition of $6,373.

For the six months ended June 30, 2015, investing activities provided $4 of cash, which was primarily attributable to the following:

- Construction funding received in the amount of $6,540.
- Partially offset by increase in restricted cash of $3,716, primarily for the contributions to the Series B Debentures principal reserve fund in the amount of $2,940 and purchase of equipment of $2,015 and intangibles of $867.

Financing Activities

Financing activities in six months ended June 30, 2016 used $36,319 of cash, which was primarily attributable to the following:

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

For six months ended June 30, 2015, financing activities used $25,714 of cash, which was primarily attributable to the following:

- Dividends paid of $15,191.
- Repayment of long-term debt of $10,242 relating to mortgage principal payments and voluntary payments on the Company's revolving credit facilities.

Capital Resources

The Company’s total debt as at June 30, 2016 was $605,344 (December 31, 2015 - $629,068), net of the Series B Debentures principal reserve fund of $13,905 (December 31, 2015 - $10,725). The decrease of $23,724 was primarily related to monthly payments to the Series B Debentures principal reserve fund, payments towards mortgage liabilities and voluntary repayments on the Company's credit facilities. During 2015, the Company extended the maturities of the Red Oak and Royale Place ("**Ontario Portfolio**") credit facility and the Astoria credit facility by two years to April 26, 2017 and May 22, 2017, respectively. As at June 30, 2016, the Company had drawn $31,000 under the Ontario Portfolio credit facility and $22,500 under the Astoria credit facility. The Company's subsidiary, Leisureworld Senior Care LP (**"LSCLP"**), has a revolving credit facility of $20,000, from which no amount had been drawn as at June 30, 2016. The Company also has a $1,500 revolving operating loan collateralized by assets of The Royale Development LP, a subsidiary of the Company, from which no amount had been drawn as at June 30, 2016. As at June 30, 2016, the Company had total undrawn facilities of $47,500.

As at June 30, 2016, the Company had a working capital deficiency of $122,101 arising from the timing of wage and benefit accruals and the current portion of long-term debt of $104,401, primarily 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.

Liquidity and Capital Commitments

Liquidity

The Company’s primary source of liquidity is cash flow generated from operating activities. The Company expects to meet its operating cash requirements through fiscal 2016, including required working capital, capital expenditures, and currently scheduled interest payments on debt, from cash on hand, cash flow from operations and its committed, but unutilized borrowing capacity.

Capital Commitments

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

Debt Strategy

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

Management's goal is to continue to optimize its debt maturity schedule over a 10-year period in order to manage interest rate and financial risks. This is a multi-year strategy which will take considerable time to execute. In fiscal 2016 and beyond, the Company plans to capitalize on external growth opportunities and refinancing of mortgages to build the 10-year debt maturity ladder around the Series B Debentures so as to reduce risk when this debenture matures.

The Company has adopted interest coverage guidelines which are consistent with the coverage covenants contained in its bank credit facility agreements. Interest coverage ratios provide an indication of the ability to service or pay interest charges relating to the underlying debt. Some interest coverage ratios, as defined in certain debt instruments, may be defined differently and there may be unique calculations depending on the lender.

Interest Coverage Ratio

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

	Three Months Ended		Six Months Ended	
Thousands of Dollars, except ratio	**2016**	2015	**2016**	2015
Net finance charges from continuing operations	**6,884**	5,000	**12,450**	10,378
Add (deduct):				
Net accretion of fair value adjustments on long-term debt	**151**	163	**335**	320
Amortization of deferred financing charges	**(292)**	(300)	**(588)**	(593)
Amortization of loss on bond forward contracts	**(211)**	(204)	**(420)**	(403)
Dividend equivalents on subscription receipts	**(1,309)**	—	**(1,309)**	—
Interest income on construction funding receivable	**829**	937	**1,687**	1,886
Interest income on subscription receipts funds held in escrow	**112**	—	**112**	—
Other interest income	**71**	53	**132**	59
(Loss) gain on interest rate swap contracts	**(152)**	314	**(353)**	270
Net finance charges, adjusted	**6,083**	5,963	**12,046**	11,917
EBITDA from continuing operations	**21,440**	19,465	**41,482**	37,777
Interest coverage ratio	**3.5**	3.3	**3.4**	3.2

The following is the reconciliation of net income (loss) to EBITDA for the periods ended June 30:

	Three Months Ended		Six Months Ended	
Thousands of Dollars	**2016**	2015	**2016**	2015
Net (loss) income from continuing operations	**(642)**	988	**(743)**	948
Net finance charges	**6,884**	5,000	**12,450**	10,378
Provision for income taxes from continuing operations	**796**	533	**867**	715
Depreciation and amortization	**8,969**	8,906	**18,890**	18,415
Transaction costs	**2,018**	232	**3,201**	270
MOHLTC reconciliation adjustments	**145**	536	**277**	511
Proceeds from construction funding	**3,270**	3,270	**6,540**	6,540
EBITDA from continuing operations	**21,440**	19,465	**41,482**	37,777

Debt Service Coverage Ratio

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

Thousands of Dollars, except ratio	Three Months Ended 2016	2015	Six Months Ended 2016	2015
Net finance charges from continuing operations	**6,884**	5,000	**12,450**	10,378
Add (deduct):				
Net accretion of fair value adjustments on long-term debt	**151**	163	**335**	320
Amortization of deferred financing charges	**(292)**	(300)	**(588)**	(593)
Amortization of loss on bond forward contracts	**(211)**	(204)	**(420)**	(403)
Dividend equivalents on subscription receipts	**(1,309)**	—	**(1,309)**	—
Interest income on construction funding receivable	**829**	937	**1,687**	1,886
Interest income on subscription receipts funds held in escrow	**112**	—	**112**	—
Other interest income	**71**	53	**132**	59
Loss on interest rate swap contracts	**(152)**	314	**(353)**	270
Net finance charges, adjusted	**6,083**	5,963	**12,046**	11,917
Principal repayments [1]	**2,097**	1,872	**4,197**	3,742
Principal reserve fund	**1,581**	1,517	**3,136**	2,940
Total debt service	**9,761**	9,352	**19,379**	18,599
EBITDA from continuing operations	**21,440**	19,465	**41,482**	37,777
Deduct:				
Maintenance capex	**(738)**	(866)	**(1,117)**	(1,208)
Cash income taxes	**(1,000)**	—	**(3,400)**	—
EBITDA from continuing operations, adjusted	**19,702**	18,599	**36,965**	36,569
Debt service coverage ratio	**2.0**	2.0	**1.9**	2.0

Note:

1. During the three and six months ended June 30, 2016, the Company made voluntary payments of $14,000 and $16,000, respectively, towards its credit facilities, which have been excluded from the debt service coverage ratio calculation.

Debt to EBITDA Ratio

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

Thousands of Dollars, except ratio	June 30, 2016	2015
Total indebtedness		
Series B Debentures	**322,000**	322,000
Series B Debentures - Principal reserve fund	**(13,905)**	(7,691)
Credit facilities	**53,500**	59,500
Mortgages	**202,091**	187,394
Convertible debentures	**45,372**	46,000
	609,058	607,203
EBITDA from continuing operations (quarterly annualized)	**82,964**	75,554
Debt to EBITDA from continuing operations	**7.3**	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				Six Months 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	**203,013**	**4.44%**	188,188	4.39%	**204,000**	**4.45%**	189,118	4.56%
Convertible Debentures	**45,855**	**4.65%**	46,000	4.65%	**46,072**	**4.65%**	46,000	4.65%
Total Fixed	**570,868**	**3.92%**	556,188	3.87%	**572,072**	**3.92%**	557,118	3.94%
Floating Rate								
Credit Facilities	**58,731**	**2.73%**	60,918	2.79%	**63,489**	**2.73%**	63,445	2.81%
Total Floating	**58,731**	**2.73%**	60,918	2.79%	**63,489**	**2.73%**	63,445	2.81%
Total Debt	**629,599**	**3.80%**	617,106	3.83%	**635,561**	**3.79%**	620,563	3.82%

Debt to Gross Book Value

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

	June 30,	
Thousands of Dollars, except ratio	**2016**	2015
Total indebtedness		
Series B Debentures	**322,000**	322,000
Series B Debentures - Principal reserve fund	**(13,905)**	(7,691)
Credit facilities	**53,500**	59,500
Mortgages	**202,091**	187,394
Convertible debentures	**45,372**	46,000
	609,058	607,203
Total assets (excluding Subscription Receipts funds held in escrow)	**931,932**	924,919
Accumulated depreciation on property and equipment	**131,321**	106,201
Accumulated amortization on intangible assets	**74,641**	64,701
Gross book value	**1,137,894**	1,095,821
Debt to Gross Book Value	**53.5%**	55.4%

Capital Disclosure

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

The Company's objectives when managing capital are to:

(i) maintain a capital structure that provides options to the Company for accessing capital, on commercially reasonable terms, without exceeding its debt capacity, pursuant to limitations in its credit facilities, or taking on undue risks;

(ii) maintain financial flexibility in order to meet financial obligations, including debt service payments and regular dividend payments; and

(iii) deploy capital to provide an appropriate investment return to its shareholders.

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

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

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

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

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

Contractual Obligations and Other Commitments

Long-Term Debt

Year	Series B Debentures	Floating Rate Debt	Convertible Debentures	Amortizing Debt: Regular Principal Payments	Amortizing Debt: Principal Due at Maturity	**Total**	% of Total	Weighted Average Interest on Maturing Debt
2016	—	—	—	4,350	10,020	**14,370**	2.3%	4.2%
2017	—	53,500	—	7,421	32,506	**93,427**	15.0%	3.6%
2018	—	—	45,372	7,027	22,217	**74,616**	12.0%	5.0%
2019	—	—	—	5,921	37,860	**43,781**	7.0%	4.3%
2020	—	—	—	2,663	19,992	**22,655**	3.6%	3.5%
2021	322,000	—	—	2,661	—	**324,661**	52.1%	3.5%
2022	—	—	—	2,773	—	**2,773**	0.4%	—%
2023	—	—	—	2,505	12,407	**14,912**	2.4%	3.0%
2024	—	—	—	2,205	20,617	**22,822**	3.7%	4.2%
2025	—	—	—	761	—	**761**	0.1%	—%
Thereafter	—	—	—	2,708	5,477	**8,185**	1.3%	5.2%
	322,000	**53,500**	**45,372**	**40,995**	**161,096**	**622,963**	100.0%	
Mark-to-market adjustment arising from acquisition						**917**		
Less: Deferred financing costs						**(3,655)**		
Less: Deferred financing costs on convertible debentures						**(808)**		
Less: Equity component of convertible debentures						**(168)**		
						619,249		

Convertible Debentures

The Company has Convertible Debentures outstanding with an aggregate principal amount of $45,372, convertible at $16.75 per common share. The maturity date of the Convertible Debentures is June 30, 2018 and bear interest at 4.65% per annum, which is payable semi-annually in June and December.

Operating Leases

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

Related Party Transactions

As at June 30, 2016, the Company has amounts outstanding from certain key management of $1,051 (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 June 30, 2016, the Company also has amounts outstanding from certain key management of $113 (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 underlying Subscription Receipts, which were exchanged for the Company's common shares on August 2, 2016, are pledged as security against the respective loans.

Key Performance Drivers

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

Critical Accounting Estimates and Accounting Policies

The critical accounting estimates used by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2015. Please refer to those statements for further detail.

In preparing the unaudited condensed interim consolidated financial statements, the accounting policies utilized are consistent with those utilized in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2015 which are available on SEDAR or may be accessed on the Company's website.

Significant Judgments and Estimates

The critical accounting estimates used by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2015 which are available on SEDAR or the Company's website. Please refer to those statements for further detail.

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

The Company's final short form prospectus dated April 29, 2016, which is available on SEDAR, contains detailed discussions of risks and uncertainties that could affect the Company, its properties and holders of its securities.

Controls and Procedures

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

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

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

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

Forward-Looking Statements

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

Consolidated Financial Statements

(in thousands of Canadian Dollars)

Q2 2016

Sienna Senior Living Inc.

Sienna
SENIOR LIVING

Condensed Interim Consolidated Financial Statements

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
Thousands of dollars

	Notes	June 30, 2016	December 31, 2015
ASSETS			
Current assets			
Cash		**23,059**	26,345
Subscription receipts funds held in escrow	8	**135,037**	—
Accounts receivable and other assets	16	**5,032**	7,227
Income support		**411**	550
Prepaid expenses and deposits		**13,197**	1,664
Government funding receivable		**2,690**	3,124
Construction funding receivable		**9,970**	9,680
		189,396	48,590
Government funding receivable		**792**	1,570
Interest rate swap contract	5	**1,715**	1,393
Restricted cash	6	**16,068**	12,793
Construction funding receivable		**69,743**	74,886
Property and equipment		**576,627**	588,332
Intangible assets		**120,345**	125,101
Goodwill		**92,283**	98,804
Total assets		**1,066,969**	951,469
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	13	**61,445**	62,195
Subscription receipts	8	**139,001**	—
Government funding payable		**3,128**	2,720
Current portion of long-term debt	7	**104,401**	18,838
Income taxes payable		**3,210**	2,484
Interest rate swap contract	5	**312**	233
		311,497	86,470
Long-term debt	7	**470,452**	576,173
Convertible debentures	9	**44,396**	44,782
Deferred income taxes	11	**59,083**	59,973
Government funding payable		**4,144**	1,475
Share-based compensation liability	14	**4,569**	3,685
Interest rate swap contract	5	**2,627**	2,032
Total liabilities		**896,768**	774,590
SHAREHOLDERS' EQUITY			
Total shareholders' equity		**170,201**	176,879
Total liabilities and shareholders' equity		**1,066,969**	951,469

See accompanying notes.

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

"Dino Chiesa"
Dino Chiesa
Chairman and Director

"Janet Graham"
Janet Graham
Director

Thousands of dollars

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

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, January 1, 2015		372,373	515	59	(169,713)	(4,055)	199,179
Issuance of shares	12	1,308	—	—	—	—	1,308
Net income		—	—	—	1,632	—	1,632
Other comprehensive income		—	—	—	—	296	296
Long-term incentive plan	14	17	—	30	—	—	47
Share purchase loan		12	—	—	—	—	12
Dividends	13	—	—	—	(16,363)	—	(16,363)
Balance, June 30, 2015		373,710	515	89	(184,444)	(3,759)	186,111

See accompanying notes.

Thousands of dollars, except share and per share data

Consolidated Statements of Operations

	Notes	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenue	16, 17	**115,226**	110,890	**229,458**	219,900
Expenses					
Operating		**92,643**	90,341	**185,851**	179,882
Administrative		**4,558**	4,890	**8,942**	9,292
	18	**97,201**	95,231	**194,793**	189,174
Income from continuing operations before depreciation and amortization, net finance charges, transaction costs and provision for (recovery of) income taxes		**18,025**	15,659	**34,665**	30,726
Depreciation and amortization		**8,969**	8,906	**18,890**	18,415
Net finance charges	10	**6,884**	5,000	**12,450**	10,378
Transaction costs		**2,018**	232	**3,201**	270
Total other expenses		**17,871**	14,138	**34,541**	29,063
Income from continuing operations before provision for (recovery of) income taxes		**154**	1,521	**124**	1,663
Provision for (recovery of) income taxes from continuing operations					
Current		**693**	233	**1,883**	382
Deferred		**103**	300	**(1,016)**	333
	11	**796**	533	**867**	715
Net (loss) income from continuing operations		**(642)**	988	**(743)**	948
Net income from discontinued operations, net of taxes	4	**7,701**	294	**8,006**	684
Net income		**7,059**	1,282	**7,263**	1,632
Basic and diluted net (loss) income from continuing operations per share	12	**($0.02)**	$0.03	**($0.02)**	$0.02
Basic net income from discontinued operations per share	12	**$0.21**	$0.01	**$0.22**	$0.02
Diluted net income from discontinued operations per share	12	**$0.20**	$0.01	**$0.20**	$0.02
Weighted average number of common shares outstanding - basic	12	**36,575,901**	36,383,929	**36,542,177**	36,354,595
Weighted average number of common shares outstanding - diluted	12	**39,313,119**	39,130,198	**39,283,921**	39,100,864

Consolidated Statements of Comprehensive Income

	Notes	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net income		**7,059**	1,282	**7,263**	1,632
Items that may be subsequently reclassified to the consolidated statements of operations:					
Realized loss on bond forward contracts, net of tax	11	**155**	149	**309**	296
Total comprehensive income		**7,214**	1,431	**7,572**	1,928

See accompanying notes.

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

	Notes	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
OPERATING ACTIVITIES					
Net income		**7,059**	1,282	**7,263**	1,632
Add (deduct) items not affecting cash					
Depreciation of property and equipment		**6,509**	6,040	**12,972**	12,068
Amortization of intangible assets		**2,460**	2,866	**5,918**	6,347
Current income taxes		**693**	233	**1,883**	382
Deferred income taxes		**103**	300	**(1,016)**	333
Share-based compensation	14	**380**	220	**746**	642
Net finance charges	10	**6,884**	5,000	**12,450**	10,378
		24,088	15,941	**40,216**	31,782
Non-cash changes in working capital					
Accounts receivable and other assets		**2,041**	(24)	**2,281**	(569)
Prepaid expenses and deposits		**(1,532)**	(1,320)	**(1,420)**	(2,172)
Accounts payable and accrued liabilities		**1,007**	2,090	**1,388**	(3,159)
Income support		**76**	219	**139**	228
Government funding, net		**459**	3,131	**4,289**	6,795
		2,051	4,096	**6,677**	1,123
Interest paid on long-term debt and convertible debentures		**(5,013)**	(3,610)	**(13,160)**	(12,001)
Net settlement payment on interest rate swap contracts		**(62)**	(83)	**(130)**	(163)
Income taxes paid		**(1,000)**	—	**(3,400)**	—
Cash (used in) provided by operating activities of discontinued operations	4	**(7,732)**	539	**(8,171)**	(72)
Cash provided by operating activities		**12,332**	16,883	**22,032**	20,669
INVESTING ACTIVITIES					
Purchase of property and equipment		**(772)**	(1,067)	**(1,267)**	(2,015)
Purchase of intangible assets		**(539)**	(594)	**(1,162)**	(867)
Amounts received from construction funding		**3,270**	3,270	**6,540**	6,540
Interest received from cash		**71**	56	**129**	62
Cash provided by discontinued operations	4	**16,409**	—	**16,409**	—
Acquisition related deposit	1	**(6,373)**	—	**(6,373)**	—
Change in restricted cash	6	**(1,653)**	(1,670)	**(3,275)**	(3,716)
Cash provided by (used in) investing activities		**10,413**	(5)	**11,001**	4
FINANCING ACTIVITIES					
Net proceeds from issuance of subscription receipts	8	**138,347**	—	**138,347**	—
Subscription receipts issuance costs	8	**(3,769)**	—	**(3,769)**	—
Subscription receipts funds held in escrow	8	**(135,037)**	—	**(135,037)**	—
Dividend equivalents paid on subscription receipts	8	**(655)**	—	**(655)**	—
Interest received from subscription receipts funds held in escrow	8	**112**	—	**112**	—
Share issuance costs		**—**	—	**(21)**	(27)
Repayment of long-term debt		**(16,097)**	(8,372)	**(20,197)**	(10,242)
Deferred financing costs		**—**	(43)	**(13)**	(254)
Dividends paid	13	**(7,531)**	(7,643)	**(15,086)**	(15,191)
Cash used in financing activities		**(24,630)**	(16,058)	**(36,319)**	(25,714)
(Decrease) increase in cash during the period		**(1,885)**	820	**(3,286)**	(5,041)
Cash, beginning of period		**24,944**	23,172	**26,345**	29,033
Cash, end of period		**23,059**	23,992	**23,059**	23,992

See accompanying notes.

1 Organization

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

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

The Company and its predecessors have been operating since 1972. Through its subsidiaries, the Company owns and operates 35 long-term care (**"LTC"**) homes (representing an aggregate of 5,733 beds), all of which are located in the Province of Ontario. The Company also owns and operates 11 retirement residence (**"RR"**) communities (representing 1,206 suites) in the Provinces of Ontario and British Columbia. The Company also operates a management services business that provides third-party management services to LTC homes and RR communities in Ontario. On April 28, 2016, the Company completed the sale of Preferred Health Care Services (**"PHCS"**), the ancillary home care (**"Home Care"**) business of the Company (Note 4).

The Company is listed on the Toronto Stock Exchange (the **"TSX"**) under the trading symbol **SIA**. As of June 30, 2016, the following securities of the Company were outstanding: 36,625,040 common shares; 8,728,500 subscription receipts (TSX symbol: **SIA.R**), which represent the right to receive one common share upon closing of the BC Acquisition (Note 8); $45,372 in aggregate principal amount of extendible convertible unsecured subordinated debentures (TSX symbol: **SIA.DB**) which, in aggregate, are convertible into 2,708,776 common shares (Note 9).

Acquisition

On April 18, 2016 the Company entered into an agreement (the **"Acquisition Agreement"**) with Baltic Properties Investments Ltd., Baybridge-Baltic General Partnership (the **"Baltic Seller"**), Amica Mature Lifestyles Inc. and BayBridge Senior Living Partnership to acquire (the **"Acquisition"**): a portfolio of seniors living assets in British Columbia, consisting of two independent living RR communities (**"IL Properties"**) and six LTC homes (the **"Baltic Properties"** and together with the IL Properties, the **"Acquired Properties"**); options to acquire up to a 100% interest (the first 50% of which will be at a discount to fair market value) in two additional newly built seniors living assets (the **"Option Properties"**); and a 50% interest in Pacific Seniors Management General Partnership (**"PSM"**), the current manager and operator of the Baltic Properties (the **"Management Interest"** and together with the Acquired Properties and the Option Properties, the **"Purchased Assets"**). The Acquisition was completed on August 2, 2016.

The aggregate purchase price for the Purchased Assets was $254,900, less $2,000 to be spent at the Company's discretion on capital expenditures for the Acquired Properties (the **"Purchase Price"**), subject to customary post-closing adjustments, which was financed through a combination of (i) the assumption of $135,165 in existing mortgages, at a weighted average interest rate of 3.9% and a weighted average term to maturity of 5.5 years; (ii) the issuance of $10,000 of common shares of the Company to the Baltic Seller (or affiliate(s) thereof) at the Offering Price (defined in Note 8); and (iii) net proceeds of the Company's offering of subscription receipts ("**Subscription Receipts**", further described in Note 8). The Company made a deposit of $6,373 related to the Acquisition as at June 30, 2016.

The Acquisition Agreement contains representations and warranties customary for transactions of this nature, certain of which are qualified as to materiality and knowledge and subject to reasonable exceptions.

2 Basis of preparation

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

The interim consolidated financial statements were approved by the Board of Directors for issuance on August 10, 2016.

3 Summary of significant accounting policies, judgments and estimation uncertainty

In preparing these interim consolidated financial statements, the accounting policies utilized are consistent with those utilized in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2015.

Significant judgments and estimates

The significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual audited consolidated financial statements for the year ended December 31, 2015.

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

4 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:

	Three months ended June 30,		Six months ended June 30,	
	2016	**2015**	**2016**	2015
Revenue	**1,240**	4,296	**5,278**	8,498
Expenses	**1,256**	3,895	**4,878**	7,568
(Loss) income before depreciation, net finance income and provision for (recovery of) income taxes	**(16)**	401	**400**	930
Depreciation	**—**	1	**—**	1
Net finance income	**(3)**	(2)	**(3)**	(3)
Gain on sale	**(9,861)**	—	**(9,861)**	—
Total other income	**(9,864)**	(1)	**(9,864)**	(2)
Income before provision for (recovery of) income taxes	**9,848**	402	**10,264**	932
Provision for (recovery of) income taxes				
Current	**2,139**	110	**2,243**	246
Deferred	**8**	(2)	**15**	2
	2,147	108	**2,258**	248
Net income from discontinued operations	**7,701**	294	**8,006**	684

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

5 Financial instruments

Fair value of financial instruments

The Company's use of unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), inputs that are observable for the assets or liabilities either directly or indirectly (Level 2) and inputs for assets or liabilities that are not based on observable market data (Level 3) in the valuation of financial instruments are as follows as at June 30, 2016 and December 31, 2015:

	As at June 30, 2016			
		Fair value		
	Carrying value	**Level 1**	**Level 2**	**Level 3**
Financial Assets:				
Subscription receipts funds held in escrow	**135,037**	**—**	**135,037**	**—**
Construction funding receivable	**79,713**	**—**	**—**	**90,523**
Interest rate swap contract	**1,715**	**—**	**1,715**	**—**
Financial Liabilities:				
Subscription receipts	**139,001**	**149,170**	**—**	**—**
Long-term debt	**574,853**	**—**	**599,988**	**—**
Convertible debentures	**44,396**	**48,435**	**—**	**—**
Interest rate swap contract	**2,939**	**—**	**2,939**	**—**

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

Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting its obligations associated with financial liabilities and commitments. The Company has credit agreements in place related to the long-term debt. These credit agreements contain a number of standard financial and other covenants. The Company was in compliance with all covenants on its borrowings as at June 30, 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 June 30, 2016, the Company had negative working capital of $122,101 (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 will use its operating cash flows and, if necessary, undrawn credit facilities.

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

6 Restricted cash

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

	June 30, 2016	December 31, 2015
Series B Debentures principal reserve fund	**13,905**	10,725
Capital maintenance reserve	**1,580**	1,488
Benefits reserve	**583**	580
Restricted cash	**16,068**	12,793

7 Long-term debt

	Interest rate	**Maturity date**	**June 30, 2016**	December 31, 2015
Series B Debentures	3.474%	February 3, 2021	**322,000**	322,000
Credit facilities	Floating	April/May 2017	**53,500**	69,500
Mortgages at fixed rates	3.04% - 7.11%	2016 - 2024	**188,066**	192,028
Mortgage at variable rate	Floating	April 16, 2029	**14,025**	14,260
			577,591	597,788
Mark-to-market adjustments on acquisition			**917**	1,252
Deferred financing costs			**(3,655)**	(4,029)
Total debt			**574,853**	595,011
Less: current portion			**104,401**	18,838
			470,452	576,173

Credit facilities

The Red Oak Retirement Residence and Royale Place Retirement Residence (**"Ontario Portfolio"**) have a $57,000 revolving credit facility (**"Revolving Credit Facility"**) that bears interest at 187.5 basis points (**"bps"**) per annum over the floating 30-day Banker's Acceptance (**"BA"**) rate and is secured by the Ontario Portfolio assets of the Company's subsidiary, The Royale LP, guaranteed by the Company and is subject to certain customary financial and non-financial covenants. During the three and six months ended June 30, 2016, the Company repaid $14,000 and $16,000, respectively, against this credit facility. The revolving credit facility is due on April 26, 2017. As at June 30, 2016, the Company had drawn $31,000 under this credit facility (December 31, 2015 - $47,000).

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

8 Subscription receipts

On May 6, 2016, the Company completed a bought deal public offering of 8,728,500 subscription receipts (the **"Subscription Receipts"**) at a price of $15.85 per Subscription Receipt, for total gross proceeds of

$138,347, which is inclusive of the exercise in full by underwriters of the over-allotment option (the **"Offering"**).

Each Subscription Receipt represents the right to receive one common share in the capital of the Company (each, a "**Common Share**"), at no additional consideration on the closing of the Acquisition. While the Subscription Receipts remain outstanding, holders thereof are entitled to receive payments per Subscription Receipt equal to the per Common Share dividends, if any, actually paid or payable to holders of Common Shares in respect of all record dates for such dividends occurring from the closing date of the Offering to, but excluding, the last day on which the Subscription Receipts remain outstanding, to be paid to holders of Subscription Receipts concurrently with the payment date of each such dividend on the Common Shares. Dividend Equivalents payable of $655 are included in subscription receipts liability on the Interim Consolidated Statement of Financial Position at June 30, 2016.

As a result of the completion of the Acquisition on August 2, 2016, each outstanding Subscription Receipt was exchanged for one common share of Sienna, resulting in the issuance of 8,728,500 common shares in the aggregate to the holders of Subscription Receipts. The Common Shares are contingent on the closing of the Acquisition; therefore they have been excluded for the purposes of calculating net income (loss) per share.

The Subscription Receipts, classified as financial liabilities, are being carried at amortized cost, with the Dividend Equivalent recognized as part of net finance charges (Note 10). The offering proceeds, net of 50% of total underwriters' fees, dividend equivalents and interest earned, are held by an escrow agent pending closing of the Acquisition and are reported on the interim consolidated statement of financial position as Subscription Receipts funds held in escrow. As at June 30, 2016 , the Company incurred issuance costs of $3,769, which consisted of $2,767 in underwriters' fees and other issuance costs of $1,002. These issuance costs have been recorded in prepaid expenses and deposits.

9 Convertible debentures

The Company has extendible convertible unsecured subordinated debentures outstanding with an aggregate principal amount of $45,372 (**"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 had been bifurcated with $45,593 classified as a liability and $515 classified as equity attributable to the conversion option. The equity component included a deferred tax asset of $108. The liability portion of the Convertible Debentures was initially recorded at fair value and is subsequently carried at amortized cost. The Company incurred financing costs of $2,111 related to the Convertible Debentures, which are amortized over their term using the effective interest method and recognized as part of net finance charges. During the three and six months ended June 30, 2016, $628 worth of convertible debentures were converted into 37,491 common shares. As at June 30, 2016, $808 (December 31, 2015 - $1,009) of financing costs remain to be amortized and $168 (December 31, 2015 - $209) of fair value adjustment remains to be accreted.

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

10 Net finance charges

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Finance costs				
Interest expense on long-term debt	**5,349**	5,281	**10,686**	10,576
Interest expense on convertible debentures	**552**	552	**1,105**	1,098
Fees on revolving credit facility	**120**	48	**125**	80
Net accretion of the fair value adjustments on long-term debt	**(151)**	(163)	**(335)**	(320)
Amortization of deferred financing charges	**292**	300	**588**	593
Amortization of loss on bond forward contract	**211**	204	**420**	403
Net settlement payment on interest rate swap contracts	**62**	83	**130**	163
Dividend equivalents on subscription receipts	**1,309**	—	**1,309**	—
Loss (gain) on interest rate swap contracts	**152**	(314)	**353**	(270)
	7,896	5,991	**14,381**	12,323
Finance income				
Interest income on construction funding receivable	**829**	937	**1,687**	1,886
Other interest income	**71**	54	**132**	59
Interest income on subscription receipts funds held in escrow	**112**	—	**112**	—
	1,012	991	**1,931**	1,945
Net finance charges from continuing operations	**6,884**	5,000	**12,450**	10,378

11 Income taxes

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Income from continuing operations before provision for income taxes	**154**	1,521	**124**	1,663
Canadian combined income tax rate	**26.49%**	26.49%	**26.49%**	26.49%
Income tax expense	**41**	402	**33**	440
Adjustments to income tax provision:				
Non-deductible items	**411**	15	**449**	70
Book to filing adjustment	**291**	59	**332**	148
Other items	**53**	57	**53**	57
Income tax expense from continuing operations	**796**	533	**867**	715

The effective tax rate for discontinued operations for the three and six months ended June 30, 2016 is 21.79% and 21.99%, respectively (2015 - 26.34% and 26.44%, respectively). The provision for (recovery of) income taxes for discontinued operations is disclosed in Note 4.

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

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

	Accelerated tax depreciation	Intangible assets	Share issuance	Construction funding interest	Other	Total
As at January 1, 2015	(63,058)	(6,072)	1,164	5,712	3,566	(58,688)
Credit (charge) to net loss	3,535	(256)	(625)	(987)	(2,215)	(548)
Book to filing adjustment	(251)	224	—	(11)	(482)	(520)
Charge to other comprehensive income	—	—	—	—	(217)	(217)
As at December 31, 2015	(59,774)	(6,104)	539	4,714	652	(59,973)
Credit (charge) to net income	1,632	986	(167)	(448)	(668)	1,335
Book to filing adjustment	(46)	(236)	(5)	—	(47)	(334)
Charge to other comprehensive income	—	—	—	—	(111)	(111)
As at June 30, 2016	**(58,188)**	**(5,354)**	**367**	**4,266**	**(174)**	**(59,083)**

The realized loss on bond forward contracts on the interim consolidated statements of comprehensive income is net of tax for the three and six months ended June 30, 2016 of $56 and $111, respectively (2015 - $40 and $107, respectively).

12 Share capital

Authorized

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

Issued and outstanding

Common shares

	Common shares	Amount
Balance, January 1, 2015	36,299,038	372,373
Long-term incentive plan, net of loans receivable (Note 14)	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 14)	13,288	23
Share purchase loan	—	11
Dividend reinvestment plan	85,625	1,352
Issued common shares (Note 14)	47,256	781
Balance, June 30, 2016	**36,625,040**	**377,134**

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Reconciliation of net (loss) income used as the numerator				
Net (loss) income from continuing operations	**(642)**	988	**(743)**	948
Net finance charges on convertible debentures	**673**	653	**1,326**	1,298
Current income tax adjustment	**(178)**	(173)	**(351)**	(344)
Net (loss) income used in calculating diluted income from continuing operations per share	**(147)**	1,468	**232**	1,902
Weighted average number of common shares used as the denominator				
Weighted average number of common shares - basic	**36,575,901**	36,383,929	**36,542,177**	36,354,595
Shares issued if all convertible debentures were converted	**2,737,218**	2,746,269	**2,741,744**	2,746,269
Weighted average number of common shares - diluted	**39,313,119**	39,130,198	**39,283,921**	39,100,864

13 Dividends

The Company paid dividends at $0.075 per month per common share totaling $7,531 for the three months ended and $15,086 for the six months ended June 30, 2016 (2015 - $7,643 and $15,191, respectively). Dividends payable of $2,748 are included in accounts payable and accrued liabilities as at June 30, 2016 (December 31, 2015 - $2,737). Subsequent to June 30, 2016, the Board of Directors declared dividends of $0.075 per common share for July 2016 totaling $2,747. These dividends have not been recorded in these interim consolidated financial statements.

14 Share-based compensation

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

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

On February 24, 2016, incentive award amounts entitling eligible senior executives (**"Participants"**) to acquire 13,288 common shares were granted pursuant to the LTIP. On the grant date, the Participants paid $11 towards the acquisition of common shares. This payment was recorded as an increase in share capital. Related to the LTIP in the six months ended June 30, 2016, the Company recorded an increase of $23 in share capital (2015 - $17) and $32 in contributed surplus (2015 - $30). As at June 30, 2016, the outstanding loan balance was $617 (December 31, 2015 - $430). Total expense related to the LTIP for the three and six months ended June 30, 2016 were $nil and $32, respectively (2015 - $nil and $30, respectively).

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

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

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

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

During the six months ended June 30, 2016, 16,706 restricted share units (**"RSUs"**) (2015 - 17,007) were granted pursuant to the RSUP. Total expenses related to the RSUP for the three and six months ended June 30, 2016 were $77 and $133, respectively (2015 - negative $34 and $127, respectively), net of forfeitures. During the six months ended June 30, 2016, 10,727 RSUs vested and were settled in cash and shares, resulting in a decrease of $173 to the share-based compensation liability. The total liability recorded as part of the share-based compensation liability as at June 30, 2016 was $260 (December 31, 2015 - $300).

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

	Number of RSUs
Outstanding, December 31, 2015	33,564
Granted	16,706
Dividends reinvested	1,060
Settled in cash	(962)
Settled in shares	(9,765)
Outstanding, June 30, 2016	**40,603**

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

Total expenses related to the DSUP for the three and six months ended June 30, 2016 were $239 and $465, respectively (2015 - $232 and $459, respectively), which was recognized in administrative expenses. The total liability recorded related to the DSUP as a part of the share-based compensation liability as at June 30, 2016 was $3,636 (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 six months ended June 30, 2016, 35,543 (2015 - 21,922) executive deferred share units were granted. Total expenses related to the EDSUP for the three and six months ended June 30, 2016 were $64 and $116, respectively (2015 - $22 and $26, respectively), which was recognized in administrative expenses. The total liability recorded related to the EDSUP as a part of the share-based compensation liability as at June 30, 2016 was $673 (December 31, 2015 - $214).

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

15 Key management compensation

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Salaries and short-term employee benefits	**689**	630	**1,415**	1,091
Termination benefits	—	259	—	259
Share-based compensation	**380**	215	**746**	634
	1,069	1,104	**2,161**	1,984

16 Related party transactions

As at June 30, 2016, the Company has amounts outstanding from certain key management of $1,051 (December 31, 2015 - $877) in relation to the LTIP issuance and share purchase loans, which have been recorded as a reduction to shareholders' equity. The loans bear interest at the prime rate and are due on demand. The underlying common shares have been pledged as security against the respective loans. As at June 30, 2016, the Company also has amounts outstanding from certain key management of $113 (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 underlying Subscription Receipts, which were exchanged for the Company's common shares on August 2, 2016 (Note 8), are pledged as security against the respective loans.

17 Economic dependence

The Company holds licences related to each of its LTC homes and receives funding from the Ministry of Health and Long-Term Care (**"MOHLTC"**) related to those licences. Funding is received on or about the 22nd of each month. During the three and six months ended June 30, 2016, the Company received approximately $72,618 and $146,681, respectively (2015 - $72,940 and $143,335, respectively) in respect of these licences for flow-through envelope revenues and other MOHLTC funded initiatives.

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

18 Expenses by nature

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Salaries, benefits and other people costs	**71,928**	70,188	**145,089**	140,092
Food	**4,967**	4,811	**9,752**	9,407
Purchased services and non-medical supplies	**4,027**	4,015	**7,965**	7,782
Property taxes	**3,210**	3,224	**6,536**	6,546
Utilities	**3,169**	2,591	**6,971**	6,556
Other	**9,900**	10,402	**18,480**	18,791
Total expenses from continuing operations	**97,201**	95,231	**194,793**	189,174

19 Segmented information

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

The Company is comprised of the following main business segments:

- LTC business - LTC includes 35 owned LTC homes and the management of third party LTC homes;
- Retirement - Retirement includes 11 owned RR communities;
- Corporate, Eliminations and Other - This segment represents the results of head office, intercompany eliminations and other items that are not allocable to the segments; and
- Discontinued operations - Discontinued operations is comprised of the Home Care business that was divested on April 28, 2016 (Note 4).

The significant accounting policies of the reportable operating segments are the same as those disclosed in the annual audited consolidated financial statements for the year ended December 31, 2015.

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

	Three months ended June 30, 2016					
	Long-Term Care	**Retirement**	**Corporate, Eliminations and Other**	**Total From Continuing Operations**	**Home Care - Discontinued Operations**	**Total**
Gross revenue	**104,000**	**13,140**	**8,232**	**125,372**	**1,240**	**126,612**
Less: Internal revenue	**1,914**	**—**	**8,232**	**10,146**	**—**	**10,146**
Net revenue	**102,086**	**13,140**	**—**	**115,226**	**1,240**	**116,466**
Income (loss) before depreciation and amortization, net finance charges, transaction costs and the provision for income taxes	**16,443**	**6,140**	**(4,558)**	**18,025**	**(16)**	**18,009**
Depreciation of property and equipment	**4,303**	**2,104**	**102**	**6,509**	**—**	**6,509**
Amortization of intangible assets	**662**	**1,706**	**92**	**2,460**	**—**	**2,460**
Finance costs	**4,407**	**1,527**	**1,962**	**7,896**	**—**	**7,896**
Finance income	**(888)**	**(1)**	**(123)**	**(1,012)**	**(3)**	**(1,015)**
Transaction costs	**—**	**—**	**2,018**	**2,018**	**—**	**2,018**
Gain on sale	**—**	**—**	**—**	**—**	**(9,861)**	**(9,861)**
Income tax expense	**—**	**—**	**796**	**796**	**2,147**	**2,943**
Net income (loss)	**7,959**	**804**	**(9,405)**	**(642)**	**7,701**	**7,059**
Purchase (disposal) of property and equipment	**431**	**191**	**150**	**772**	**(346)**	**426**
Purchase (disposal) of intangible assets	**2**	**(16)**	**553**	**539**	**—**	**539**

	Three months ended June 30, 2015					
	Long-Term Care	Retirement	Corporate, Eliminations and Other	Total From Continuing Operations	Home Care - Discontinued Operations	Total
Gross revenue	101,655	10,693	8,188	120,536	4,296	124,832
Less: Internal revenue	1,317	—	8,329	9,646	—	9,646
Net revenue	100,338	10,693	(141)	110,890	4,296	115,186
Income (loss) before depreciation and amortization, net finance charges, transaction costs and the provision for income taxes	15,856	4,693	(4,890)	15,659	401	16,060
Depreciation of property and equipment	4,255	1,760	25	6,040	1	6,041
Amortization of intangible assets	954	1,912	—	2,866	—	2,866
Finance costs	4,032	1,306	653	5,991	—	5,991
Finance income	(982)	(1)	(8)	(991)	(2)	(993)
Transaction costs	—	—	232	232	—	232
Income tax expense	—	—	533	533	108	641
Net income (loss)	7,597	(284)	(6,325)	988	294	1,282
Purchase of property and equipment	498	368	201	1,067	—	1,067
Purchase of intangible assets	2	—	592	594	—	594

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

	Six months ended June 30, 2016					
	Long-Term Care	**Retirement**	**Corporate, Eliminations and Other**	**Total From Continuing Operations**	**Home Care - Discontinued Operations**	**Total**
Gross revenue	**207,218**	**26,102**	**16,449**	**249,769**	**5,278**	**255,047**
Less: Internal revenue	**3,858**	**—**	**16,453**	**20,311**	**—**	**20,311**
Net revenue	**203,360**	**26,102**	**(4)**	**229,458**	**5,278**	**234,736**
Income (loss) before depreciation and amortization, net finance charges, transaction costs and the provision for income taxes	**31,546**	**12,061**	**(8,942)**	**34,665**	**400**	**35,065**
Depreciation of property and equipment	**8,604**	**4,206**	**162**	**12,972**	**—**	**12,972**
Amortization of intangible assets	**2,330**	**3,413**	**175**	**5,918**	**—**	**5,918**
Finance costs	**8,809**	**2,957**	**2,615**	**14,381**	**—**	**14,381**
Finance income	**(1,789)**	**(4)**	**(138)**	**(1,931)**	**(3)**	**(1,934)**
Transaction costs	**—**	**—**	**3,201**	**3,201**	**—**	**3,201**
Gain on sale	**—**	**—**	**—**	**—**	**(9,861)**	**(9,861)**
Income tax expense	**—**	**—**	**867**	**867**	**2,258**	**3,125**
Net income (loss)	**13,592**	**1,489**	**(15,824)**	**(743)**	**8,006**	**7,263**
Purchase (disposal) of property and equipment	**653**	**347**	**267**	**1,267**	**(346)**	**921**
Purchase (disposal) of intangible assets	**3**	**(16)**	**1,175**	**1,162**	**—**	**1,162**

	Six months ended June 30, 2015					
	Long-Term Care	Retirement	Corporate, Eliminations and Other	Total From Continuing Operations	Home Care - Discontinued Operations	Total
Gross revenue	201,594	21,233	16,363	239,190	8,498	247,688
Less: Internal revenue	2,649	—	16,641	19,290	—	19,290
Net revenue	198,945	21,233	(278)	219,900	8,498	228,398
Income (loss) before depreciation and amortization, net finance charges, transaction costs and the provision for income taxes	30,610	9,408	(9,292)	30,726	930	31,656
Depreciation of property and equipment	8,498	3,518	52	12,068	1	12,069
Amortization of intangible assets	1,936	4,408	3	6,347	—	6,347
Finance costs	8,363	2,662	1,298	12,323	—	12,323
Finance income	(1,931)	(1)	(13)	(1,945)	(3)	(1,948)
Transaction costs	—	—	270	270	—	270
Income tax expense	—	—	715	715	248	963
Net income (loss)	13,744	(1,179)	(11,617)	948	684	1,632
Purchase of property and equipment	515	693	807	2,015	—	2,015
Purchase of intangible assets	6	—	861	867	—	867

	As at June 30, 2016					
	Long-Term Care	**Retirement**	**Corporate, Eliminations and Other**	**Total From Continuing Operations**	**Home Care - Discontinued Operations**	**Total**
Total assets	**789,996**	**260,973**	**16,000**	**1,066,969**	**—**	**1,066,969**
Goodwill	**89,772**	**2,511**	**—**	**92,283**	**—**	**92,283**
Intangible assets	**108,499**	**7,836**	**4,010**	**120,345**	**—**	**120,345**

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

20 Comparative figures

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