Report to Shareholders

2017

Sienna Senior Living Inc.

Sienna
SENIOR LIVING

Management's Discussion and Analysis

(in thousands of Canadian Dollars)

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Basis of Presentation

The following Management's Discussion and Analysis ("**MD&A**") for Sienna Senior Living Inc. (the "**Company**" or "**Sienna**") provides a summary of the financial results for the year ended December 31, 2017. This MD&A should be read in conjunction with the Company's audited consolidated financial statements ("**consolidated financial statements**") for the year ended December 31, 2017. This material is available on the Company's website at www.siennaliving.ca. Additional information about the Company, including its Annual Information Form ("**AIF**") for the year ended December 31, 2016 can be found on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com. In accessing the Company's information, readers are reminded of the Company's predecessor name, Leisureworld Senior Care Corporation, and that the information of Leisureworld Senior Care Corporation is the information of the Company.

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

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

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

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

Additional Information

Additional information relating to the Company can be found on the Company's website at www.siennaliving.ca, by accessing the Company's public filings on SEDAR, or by contacting Nitin Jain, the Company's Chief Financial Officer and Chief Investment Officer, at 905-489-0787 or nitin.jain@siennaliving.ca.

Review and Approval by the Board of Directors

This MD&A is dated as of February 15, 2018, the date on which this report was approved by the Board of Directors of the Company, and is based on information available to management of the Company as of that date.

Company Profile

The Company and its predecessors have been operating since 1972. The Company is one of Canada's leading seniors' living providers serving the continuum of independent living ("**IL**"), independent supportive living ("**ISL**"), assisted living ("**AL**"), memory care ("**MC**") and long-term care/residential care ("**LTC**"/"**RC**", "**Long-term Care**") through the ownership and operation of seniors' living residences in the Provinces of British Columbia and Ontario. As at December 31, 2017, the Company owns and operates a total of 60 seniors' living residences: 17 retirement residences ("**RRs**" or "**Retirement Residences**"); 35 LTC residences; and 8 seniors' living residences providing both private-pay IL/AL and funded LTC/RC (including the Company's partial ownership in two newly built residences in British Columbia) ("**Baltic Properties**"). Under its management services division, the Company provides management services to 15 seniors' living residences in British Columbia and Ontario.

The Company was incorporated under the Business Corporations Act (Ontario) on February 10, 2010 and was continued under the Business Corporations Act (British Columbia) on March 18, 2010. The Company closed its initial public offering of common shares on March 23, 2010. In connection with a Company-wide rebranding initiative that took effect on May 1, 2015, the Company changed its name from Leisureworld Senior Care Corporation to Sienna Senior Living Inc., pursuant to the filing of a Notice of Alteration with the British Columbia Registry Services on April 23, 2015. In connection with the name change to Sienna Senior Living Inc., the Company's common shares commenced trading on the Toronto Stock Exchange under the symbol "SIA".

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

As of February 15, 2018, the Company had outstanding 62,183,006 common shares and $44,497 in aggregate principal amount of convertible unsecured subordinated debentures, which, in the aggregate, are convertible into 2,656,537 common shares (the "**Convertible Debentures**"). The Convertible Debentures have a maturity date of June 30, 2018.

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

NAME OF COMMUNITY	LOCATION	FUNDED	PRIVATE	TOTAL BEDS/ SUITES
Retirement				
Astoria Retirement Residence	Port Coquitlam, BC	—	135	135
Cedarvale Lodge Retirement & Care Community	Keswick, ON	—	130	130
Island Park Retirement Residence	Campbellford, ON	—	85	85
Kawartha Lakes Retirement Residence	Bobcaygeon, ON	—	93	93
Lincoln Park Retirement Residence	Grimsby, ON	—	70	70
Mayfair Terrace Retirement Residence	Port Coquitlam, BC	—	88	88
Midland Gardens Seniors Apartments	Scarborough, ON	—	53	53
Pacifica Retirement Residence	Surrey, BC	—	131	131
Peninsula Retirement Residence	Surrey, BC	—	127	127
Red Oak Retirement Residence	Kanata, ON	—	158	158
Rideau Retirement Residence	Burnaby, BC	—	138	138
Rosewood Retirement Residence	Kingston, ON	—	68	68
Royale Place Retirement Residence	Kingston, ON	—	136	136
Traditions of Durham Retirement Residence	Oshawa, ON	—	141	141
Trillium Retirement and Care Community	Kingston, ON	—	41	41
Waterford Barrie Retirement Residence	Barrie, ON	—	202	202
Waterford Kingston Retirement Residence	Kingston, ON	—	182	182
Total Retirement		**—**	**1,978**	**1,978**
Baltic Properties				
Brookside Lodge	Surrey, BC	102	14	116
Lake Country Lodge	Lake Country, BC	45	45	90
Lakeview Lodge	West Kelowna, BC	100	14	114
Mariposa Gardens	Osoyoos, BC	114	31	145
Nicola Lodge [1]	Port Coquitlam, BC	238	18	256
Glenmore Lodge [1]	Kelowna, BC	100	18	118
Ridgeview Lodge	Kamloops, BC	106	23	129
The Cascades	Chilliwack, BC	140	27	167
Total Baltic Properties		**945**	**190**	**1,135**
Long-term Care				
Altamont Care Community	West Hill, ON	159	—	159
Barnswallow Place Care Community	Elmira, ON	96	—	96
Bloomington Cove Care Community	Stouffville, ON	112	—	112
Bradford Valley Care Community	Bradford, ON	246	—	246
Camilla Care Community	Mississauga, ON	237	—	237
Case Manor Care Community	Bobcaygeon, ON	96	—	96
Cedarvale Lodge Retirement & Care Community	Keswick, ON	60	—	60
Cheltenham Care Community	Toronto, ON	170	—	170
Creedan Valley Care Community	Creemore, ON	95	—	95
Deerwood Creek Care Community	Etobicoke, ON	160	—	160
Fieldstone Commons Care Community	Scarborough, ON	224	—	224
Fountain View Care Community	Toronto, ON	158	—	158
Fox Ridge Care Community	Brantford, ON	122	—	122
Granite Ridge Care Community	Stittsville, ON	224	—	224
Harmony Hills Care Community	Toronto, ON	160	—	160
Hawthorn Woods Care Community	Brampton, ON	160	—	160
Langstaff Square Care Community	Richmond Hill, ON	160	—	160
Madonna Care Community	Orleans, ON	160	—	160

NAME OF COMMUNITY	LOCATION	FUNDED	PRIVATE	TOTAL BEDS/
Maple Grove Care Community	Brampton, ON	160	—	160
Midland Gardens Care Community	Scarborough, ON	299	—	299
Muskoka Shores Care Community	Gravenhurst, ON	206	—	206
Norfinch Care Community	North York, ON	160	—	160
Spencer House, Orillia [(2)]	Orillia, ON	160	—	160
Owen Hill Care Community	Barrie, ON	57	—	57
Rockcliffe Care Community	Scarborough, ON	204	—	204
Secord Trails Care Community	Ingersoll, ON	80	—	80
Silverthorn Care Community	Mississauga, ON	160	—	160
St. George Care Community	Toronto, ON	238	—	238
Streetsville Care Community	Mississauga, ON	118	—	118
Trillium Retirement and Care Community	Kingston, ON	190	—	190
Tullamore Care Community	Brampton, ON	159	—	159
Waters Edge Care Community	North Bay, ON	148	—	148
Weston Terrace Care Community	Toronto, ON	224	—	224
Woodbridge Vista Care Community	Woodbridge, ON	224	—	224
Woodhall Park Care Community	Brampton, ON	147	—	147
Total Long-term Care		**5,733**	**—**	**5,733**
Total Retirement, Baltic Properties and Long-term Care		**6,678**	**2,168**	**8,846**

Notes:

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

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

Company Strategy & Objectives

Our Vision

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

Our Mission

To help you live fully, every day.

Our Values

Respect

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

Passion

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

Teamwork

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

Responsibility

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

Growth

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

The Sienna team is dedicated to helping seniors live fully, every day with an aim to constantly improve the resident experience, and 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 the Company's shareholders.

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

Operating Platform:

- Providing a quality resident experience; continuously enhancing services and program offerings in response to changing needs and preferences
- Building a strong culture of high-performing and engaged teams
- Advancing Sienna's brand in every community served

Progress:

- In November 2017, awarded one of "Canada's Most Admired Corporate Cultures" for 2017 by Waterstone Human Capital
- As at December 2017, continued to outperform the provincial average on quality and compliance indicators
- Investing in technology to support quality of care and services
- Enhancements to social media and digital marketing strategy
- Advanced the people strategy around talent management and leadership development
- Launched 'Sienna for Seniors', a charitable giving program designed to generate funds for seniors in need

Strong Balance Sheet and Liquidity:

- Creating a 10-year debt ladder to reduce refinancing risk and enhance the ability to refinance at favourable rates
- Optimizing leverage (measured as Debt to Gross Book Value)
- Increasing liquidity (measured as available funds from existing credit facilities plus available cash on hand) to deliver on Sienna's growth objectives
- Maintaining an A (low) rating on the 3.474% Series B Senior Secured Debentures, with an aggregate principal amount of $322,000 and a maturity date of February 3, 2021 ("**Series B Debentures**")

Progress:

- In February 2018, raised $160,015 in a public offering of common shares, the proceeds of which will be used to acquire the Acquired Properties (as defined in the "Significant Events" section below).
- Raised $115,007 in the November 2017 Offering (as defined in the "Significant Events" section below), the proceeds of which were used for the Waterford Acquisition (as defined in the "Significant Events" section below)
- In March 2017, Dominion Bond Rating Service ("**DBRS**") confirmed the A (low) rating for the Series B Debentures
- Successfully financed/refinanced $144,169 of property-level mortgages and credit facilities during 2017
- Decreased year-over-year Debt to Gross Book Value by 190 basis points to 49.6% as at December 31, 2017
- Increased year-over-year Interest Coverage Ratio by 0.2x to 3.7x as at December 31, 2017
- Decreased year-over-year Debt to Adjusted EBITDA from continuing operations ratio by 0.5x to 7.4x as at December 31, 2017

Growing the Company:

Our growth plan is based on three key components:

Organic Growth:

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

Development:

- Leveraging the redevelopment of older LTC residences in key Ontario markets to create seniors' living residences providing IL, AL, MC and LTC
- Development of free standing RRs in certain markets with adequate demand
- Expanding seniors' living capacity in existing Sienna RRs with excess land

- Respond to requests for proposals, where feasible

Acquisitions:

- Identifying opportunities to acquire high quality seniors' living residences in key markets in Canada; expanding Sienna's private-pay retirement portfolio

Progress:

- Strong year-over-year results in the Retirement segment, an increase of 10.0% in same property net operating income
- Overall same property net operating income increased by 3.7% year-over-year
- In the last 4 years, the Company completed or announced a total of $1,136,000 in acquisitions. In 2017, the Company completed a total of $214,300 in acquisitions:

  -In January 2018, announced the acquisition of a portfolio of ten seniors' living residences in Ontario, consisting of 1,245 high quality private-pay ISL and AL suites (see the "Significant Events" section below). The acquisition is expected to close during Q2 2018.

  -In December 2017, acquired two high quality RR residences, Waterford Barrie Retirement Residence located in Barrie, Ontario ("Waterford Barrie"), and Waterford Kingston Retirement Residence located in Kingston, Ontario ("Waterford Kingston") which together, consist of 384 IL, AL, and MC suites (see the "Significant Events" section below).

  -In July 2017, acquired Kawartha Lakes Retirement Residence ("Kawartha Lakes"), a 93 suite IL and AL residence located in Bobcaygeon, Ontario. In June, acquired Rosewood Retirement Residence ("Rosewood"), a 68 suite IL and AL residence located in Kingston, Ontario. In March 2017, acquired an initial 61% interest in Glenmore Lodge, a 118 bed seniors' living residence located in Kelowna, British Columbia.
- In Q4 2017, the Company began expanding the Island Park Retirement Residence in Campbellford, Ontario, to add an additional 50 suites and amenity space, which is expected to be completed at the end of 2018.
- In the final stages of the retrofit of one older Class C LTC seniors' living residence, expected to be completed in Q2 2018
- Planning for development of additional capacity on excess land and redevelopment of 2,200 Class C LTC beds, subject to regulatory approvals and financial feasibility

Significant Events

Acquisition of Two High Quality Retirement Residences in Ontario and $115 Million Bought Deal Public Offering of Common Shares

On December 1, 2017, the Company acquired two retirement residences located in Barrie, Ontario and Kingston, Ontario (the "**Waterford Acquisition**"). Waterford Barrie is a 202 suite IL, AL, and MC community, and Waterford Kingston is a 182 suite IL, AL, and MC community. The aggregate purchase price for the acquisition was $164,000, subject to customary closing adjustments. The Company financed the Waterford Acquisition and related transaction costs through a combination of: (i) the assumption of $61,600 of debt, at a weighted average interest rate of 3.6% and a weighted average term to maturity of 5.7 years (extended from 4.2 years on assumption); (ii) net proceeds of the November 2017 Offering (as defined below); and the remainder through (iii) draws on the Company's existing credit facilities. The Company plans to up-finance the existing mortgages on the acquired properties in the near term, at which time the proceeds are expected to be used to repay debt incurred in connection with the Waterford Acquisition, and for other general company purposes.

As one of the properties is currently in the final stage of lease-up, the aggregate purchase price includes a revenue guarantee of $1,000 for a two-year term to be held in escrow.

On November 3, 2017, the Company completed an offering of common shares at a price of $17.45 per common share, on a bought deal basis. The syndicate of underwriters elected to exercise its over-allotment option in full, resulting in the issuance of 6,590,650 common shares for total gross proceeds of $115,007 (the "**November 2017 Offering**").

Agreement to Acquire Ten High Quality Retirement Residences in Ontario and $160 Million Bought Deal Public Offering of Common Shares

On January 22, 2018, the Company entered into an agreement to acquire a portfolio of ten seniors' living residences in Ontario (the "**Acquisition**"), consisting of high quality private-pay ISL and AL retirement residences (the "**Acquired Properties**"). The Acquired Properties consist of 1,245 private-pay suites, and are located primarily in the Greater Toronto Area and the Greater Ottawa Area. The aggregate purchase price for the Acquired Properties is approximately $382,000, subject to customary closing adjustments. The Company expects the completion of the Acquisition during the second quarter of 2018. The Company expects to finance the Acquisition and its related transaction costs through a combination of: (i) the assumption of approximately $76,000 in existing mortgages, at a weighted average interest rate of 4.0% and a weighted average term to maturity of 6.3 years; (ii) a $162,614 acquisition term loan facility that the Company expects to refinance post-closing; (iii) net proceeds of the Offering (as defined below); and (iv) draws on the Company's existing credit facilities.

On February 9, 2018, the Company completed an offering of 9,066,000 common shares at a price of $17.65 per common share, on a bought deal basis, for gross proceeds of $160,015 (the “**Offering**”). Pursuant to the underwriting agreement for the Offering, the Company has granted the syndicate of underwriters an over-allotment option, exercisable in whole or in part at any time not later than the 30th day following the closing of the Offering, to purchase up to an additional 1,359,900 common shares on the same terms as the Offering.

Industry Overview

Levels of Care

Seniors' living residences provide a continuum of care, based on an individual’s assessed needs and level of independence. Seniors who enjoy a high level of independence and require little assistance with activities of daily living ("**ADL**") may choose to live in seniors' apartments or condominiums with minimal or no assistance or with the option of care and services on an as-needed basis (such residences being RRs having IL, ISL or AL services and, in some cases, MC); while those who require greater assistance with ADL and access to 24-hour registered nursing care support are best suited to LTC/RC. A general description of the levels of care in seniors' living residences is detailed below:

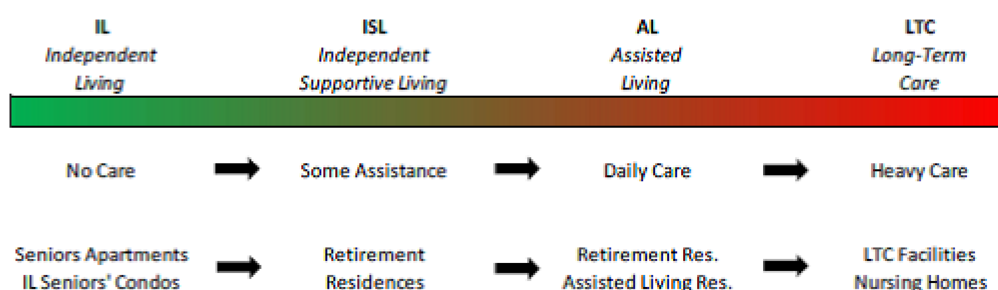
- **Independent Living ("IL")**: IL provides the privacy and freedom of home combined with the convenience and security of on-call assistance and a maintenance-free environment. Residents typically have the option of purchasing à la carte services including meal packages, housekeeping, transportation, laundry. It is typically apartment-style accommodation with a full kitchenette and is private-pay. Tenure may be rental or some form of ownership, such as condominium or life lease.
- **Independent Supportive Living ("ISL")**: ISL is designed for seniors who pay for services such as 24-

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

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

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

- **Long-term Care/Residential Care**: LTC/RC is for people who are not able to live independently and require supervision and care, including skilled nursing care on a daily basis. Eligibility for placement is based on a person's care requirements and is determined and arranged through government agencies. The resident pays for the accommodation as set by the government and the government typically pays for care, programs and supplies.



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

Retirement Residences

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

RRs are regulated by the *Retirement Homes Act*, 2010 (Ontario) (the "**RHA**") in Ontario and the *Community Care and Assisted Living Act* (British Columbia) (the "**CCALA**") in British Columbia. In Ontario, the Retirement

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

Long-term Care and Residential Care

The LTC/RC sector in Ontario and British Columbia is comprised of a number of private, public sector operators and not-for-profit organizations offering a variety of services similar to those offered by the Company. The Ontario LTC sector has historically been fragmented, with small operators (including not-for-profit operators, which operate approximately 23% of the LTC beds in Ontario) providing most of the beds. In British Columbia, approximately 35% of RC beds are owned by not-for-profit operators. The sector has experienced consolidation in recent years, which is expected to continue.

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

- **Provision of an essential service**: LTC/RC residences provide essential health services in the form of 24-hour registered nursing support, assistance with ADL and mobility, to individuals with complex physical and medical care needs who may otherwise require hospital care. These residences also provide specialized services such as dementia care, continence management, skin and wound care, palliation and end of life care. Access is controlled through governmental agencies, and regulation occurs pursuant to provincial statutes.

- **Significant barriers to entry**: Barriers to entry are both regulatory and operational. The LTC sector requires that a residence and operator must be licensed by the regulatory authority in order to operate. The licensing requirements are extensive. In both British Columbia and Ontario, regulatory approval is required for the transfer of existing licenses. These regulations create significant barriers to entry. In addition to the regulatory barriers to entry, the successful operation of an LTC residence requires a broad range of specialized expertise, including systems and processes to comply with extensive regulation, expertise in gerontological care, chronic disease management, health care operations, financial management and reporting, asset management, community and stakeholder engagement, labour relations and government relations.

LTC Financial Model

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

Ontario

Licensed operators of Ontario LTC residences are entitled to operational funding for care services to residents, as well as various other payments from the MOHLTC. Operational funding of LTC residences is used to fund certain eligible care services and is currently paid monthly in what is known as flow-through “envelopes”.

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

Additional funds are provided for structural compliance and capital funding as part of capital renewal initiatives for LTC residences according to three structural classification types - Classes A, B and C. The Class designations are made by reference to whether or not the residence meets or exceeds certain structural design guidelines.

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

British Columbia

Funded Residential Care Beds

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

Private-Pay Residential Care Beds

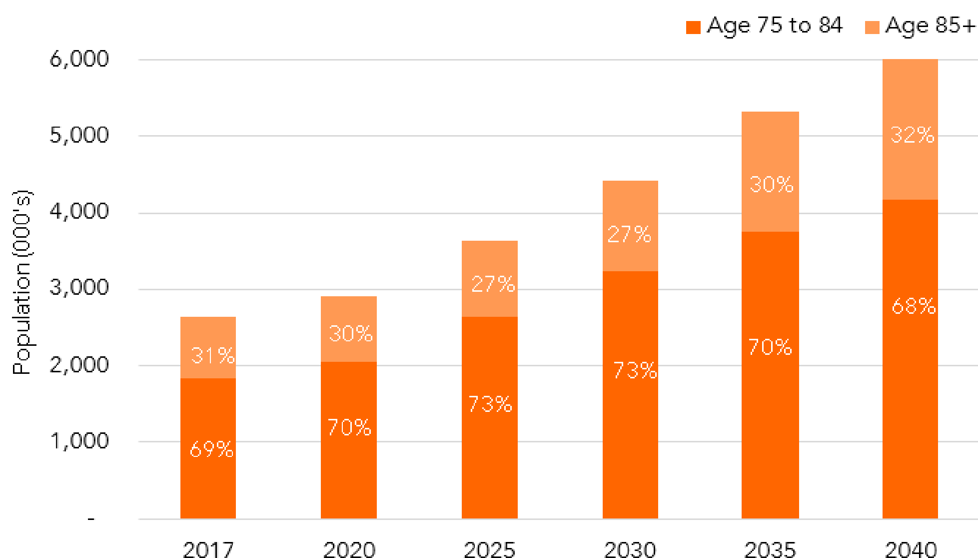
In British Columbia, operators may designate a number of beds for private-pay RC whereby the operator provides the same level of care and services to the resident as in the funded beds. Rates paid by the resident are market driven and the beds are subject to the same regulations and inspection as funded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

Demand for Seniors Living

The demand for seniors’ living residences and programs continues to grow in Canada. Management of the Company believes the aging demographic, increasing life expectancy, increasing seniors’ affluence and changing family dynamics have, and will continue to, increase demand for LTC/RC and RR services. The primary factors driving demand, among others, are described below:

Aging demographic*:* The primary demographic group living in LTC/RC residences and RRs is Canadians who are older than 85 years of age. According to Statistics Canada, the 75-plus and 85-plus age cohorts in Canada are anticipated to be among the fastest growing population groups. Canada's 85-plus age cohort is projected to grow over 145% between 2017 and 2040.

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



Source: Statistics Canada, CANSIM table 052-0005.

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

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

Sustainable competitive advantage: LTC/RC residences have a sustainable competitive advantage over other seniors' housing classes due to the affordability for seniors (on the basis that ability to pay is not a barrier to entry) and the provision of 24 hours a day, 7 days a week care. Residents of LTC/RC residences are directly charged a co-payment for accommodation, which is annually set by the applicable health authority.

2018 Outlook

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

Retirement

In Sienna's Retirement segment, management of the Company expects moderate growth through continued strong occupancy and rate increases in accordance with market conditions. On a pro forma basis, after giving effect to the contribution from the Acquired Properties and the Waterford Acquisition, the Retirement portfolio is expected to represent approximately 44% of the Company's NOI in 2018 and the Retirement suite count will grow by 63%.

In 2017, the Company continued to invest in its Retirement platform and continued to make improvements in sales and marketing. The Company made further enhancements through enhanced care services offerings, as well as improvements to the resident culinary experience and leisure programs at the residences. The Company believes that these efforts contributed to positive results in 2017. The Company's RR portfolio experienced a 10.0% increase in same property NOI over 2016 and average occupancy increased to 93.8% in 2017 from 93.2% in the prior year.

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

Long-Term Care

During 2017, the Company's LTC segment delivered consistent results, as reflected by the same property NOI increase of 1.4% over 2016. The Company continued to experience strong demand for all Classes of LTC beds, with average occupancy at 98.7%. As of December 31, 2017, 81.7% of the Company's Class A private LTC beds, compared to 74.9% as of December 31, 2016, have been converted to the increased per resident rates of $20.25, $22.04, $23.84 or $25.63 per day, which have all increased by 1.4% over the prior year.

In 2018, management of the Company expects to continue to manage the complexities of its LTC segment with its experienced team and sophisticated operating platform. Management of the Company also expects that its LTC segment will continue to achieve consistent performance, with continued conversion of the Class A private LTC beds to the new preferred accommodation rates, focus on disciplined cost management and stable funding.

Baltic

The Company's Baltic segment consists of eight communities located in British Columbia, which were acquired in Q3 2016 and Q1 2017 (the "**BC Acquisition**"). The Baltic segment contributed 11.5% of the Company's revenues, and generated 16.6% of the Company's NOI in 2017. In 2018, the management of the Company expects consistent performance from the Baltic segment.

Prior to December 31, 2017, the Company had a 50% interest in its management platform in British Columbia through the Pacific Seniors Management general partnerships ("**PSM**"). Effective December 31, 2017, the Company completed the early acquisition of the remaining 50% interest in PSM for a purchase price of $2,227, subject to customary closing adjustments. Pursuant to the applicable partnership agreements, this acquisition was required to be completed in June 2019. The Company has made good progress on integrating the Baltic residences into the Sienna operating platform and such early acquisition will further facilitate such integration.

LTC/RC

In 2018, the Baltic segment will be merged with the LTC segment to become the LTC/RC segment, as these businesses are similar and will share a common operating platform.

Development

Sienna intends to develop a number of seniors' living campuses (comprised of AL and LTC) over the next 10 years, and anticipates leveraging the redevelopment of its 2,200 Class B and Class C LTC beds. Management of the Company is actively engaged with regional and provincial authorities in seeking approvals for certain projects, as per the MOHLTC's renewal strategy guidelines. Management of the Company anticipates that the projects will be primarily greenfield projects. As at this time, for redevelopment projects to be feasible and in line with the Company's growth and operating strategies, management of the Company would expect to achieve a return sufficiently in excess of the cost of capital for each project redevelopment.

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

In 2017, the Company proceeded with the retrofit of Bloomington Cove, located in Stouffville, Ontario, to upgrade 32 Class C LTC beds to Class A LTC beds in the 112 bed LTC residence, which is expected to be completed in Q2 2018.

In Q4 2017, the Company proceeded with the expansion of Island Park Retirement Residence in Campbellford, Ontario, to add an additional 50 suites and amenity space. The Company expects the project to be completed at the end of 2018, followed by an 18-month lease-up period of the new suites.

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**").

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

"**FFO**" is defined as NOI less certain adjustments including finance charges, current income taxes and non-controlling interest. FFO is a recognized earnings measure that is widely used by public real estate entities, particularly by those entities that own and/or operate income-producing properties. The Company presents FFO in accordance with the Real Property Association of Canada (REALpac) White Paper on Funds From Operations for IFRS (Source: White Paper on Funds From Operations for IFRS - February 2017). The use of FFO, combined with the required IFRS presentations, has been included for the purpose of improving the understanding of the Company's operating results. The IFRS measure most directly comparable to FFO is "net income from continuing operations". Please refer to the "Business Performance" section of this MD&A for a reconciliation of net income from continuing operations to FFO.

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

"**AFFO**" is defined as OFFO plus the principal portion of construction funding received, amounts received for revenue guarantees and non-cash deferred share unit compensation expenses less actual maintenance capital expenditures ("**maintenance capex**"). Management of the Company believes AFFO is a cash flow measure, which is relevant in understanding the Company's ability to earn cash and pay dividends to shareholders. The IFRS measure most directly comparable to AFFO is "cash flow from operating activities". Please refer to the "Business Performance" section of this MD&A for a reconciliation of cash flow from operating activities to AFFO.

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

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

Key Performance Indicators

Management of the Company 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 of the Company uses OFFO as an operating performance measure. Please refer to the "Non-IFRS Performance Measures" section of this MD&A.
- **AFFO and AFFO per Share**: Management of the Company uses AFFO as a cash flow measure to assess the Company's ability to earn cash and pay dividends. Please refer to the "Non-IFRS Performance Measures" section of this MD&A.
- **Payout Ratio**: Management of the Company monitors the ratio of dividends per share to basic AFFO per share to ensure the Company adheres to its dividend policy, in line with the Company's objectives.

- **Debt Service Coverage Ratio**: This ratio is useful for management of the Company to ensure it is in compliance with its financial covenants.
- **Debt to Gross Book Value**: In conjunction with the debt service coverage ratio, management of the Company monitors this to ensure compliance with certain financial covenants.
- **Weighted Average Cost of Debt**: This is a point in time calculation which is useful in comparing interest rates, either period over period, or to the then current market parameters.
- **Debt to Adjusted EBITDA Ratio**: This ratio measures the number of years required for current cash flows to repay all indebtedness.
- **Interest Coverage Ratio**: Interest coverage ratio is a common measure used by debt rating agencies to assess an entity's ability to service its debt obligations.
- **Weighted Average Term to Maturity**: This indicator is used by management of the Company to monitor its debt maturities.
- **Same Property**: Measures with "same property" are similar to "same-store" 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 of the Company to assess the overall financial performance of the Company's operations should not be construed as alternatives to net income from continuing operations or cash flow from operating activities determined in accordance with IFRS as indicators of the Company's performance. The Company's use of these measures and its method of calculation may differ from other issuers' use and methods and accordingly, may not be comparable to the key performance indicators of other publicly traded entities.

The following table represents the Key Performance Indicators for the periods ended December 31:

Thousands of dollars, except occupancy, share and ratio data	Three Months Ended			Year Ended		
	2017	2016	Change	**2017**	2016	Change
OCCUPANCY						
LTC - Average total occupancy	**99.0%**	98.7%	0.3%	**98.7%**	98.8%	(0.1)%
LTC - Average private occupancy	**99.3%**	98.7%	0.6%	**99.2%**	99.8%	(0.6)%
Retirement - Average occupancy	**93.2%**	95.2%	(2.0%)	**93.8%**	93.2%	0.6 %
Retirement - As at occupancy	**92.3%**	94.5%	(2.2%)	**92.3%**	94.5%	(2.2)%
Baltic - Average total occupancy	**96.2%**	97.9 %	(1.7)%	**96.7%**	97.9%	(1.2)%
FINANCIAL						
Revenue from continuing operations	**146,330**	138,011	8,319	**557,690**	497,887	59,803
Net income from continuing operations	**4,196**	4,044	152	**21,815**	2,937	18,878
EBITDA	**25,309**	22,758	2,551	**97,643**	79,418	18,225
NOI [1]	**30,499**	27,409	3,090	**118,128**	97,822	20,306
OFFO [1]	**17,834**	15,106	2,728	**64,343**	52,780	11,563
AFFO [1]	**17,290**	15,241	2,049	**70,151**	59,116	11,035
PER SHARE INFORMATION						
OFFO per share, basic	**0.353**	0.328	0.025	**1.359**	1.303	0.056
OFFO per share, diluted	**0.343**	0.318	0.025	**1.318**	1.259	0.059
AFFO per share, basic	**0.339**	0.331	0.008	**1.482**	1.460	0.022
AFFO per share, diluted	**0.330**	0.321	0.009	**1.434**	1.405	0.029
Dividends per share	**0.225**	0.225	—	**0.900**	0.900	—
Payout ratio (basic AFFO)	**66.4%**	68.0%	(1.6)%	**60.7%**	61.6%	(0.9)%
FINANCIAL RATIOS						
Debt service coverage ratio	**1.6**	1.8	(0.2)	**1.8**	1.9	(0.1)
Debt to gross book value as at period end	**49.6%**	51.5%	(1.9)%	**49.6%**	51.5%	(1.9)%
Debt, excluding Convertible Debentures, to gross book value as at period end	**46.9%**	48.4%	(1.5)%	**46.9%**	48.4%	(1.5)%
Weighted average cost of debt as at period end	**3.8%**	3.9%	(0.1%)	**3.8%**	3.9%	(0.1)%
Debt to Adjusted EBITDA from continuing operations ratio as at period end	**7.4**	7.9	(0.5)	**7.4**	7.9	(0.5)
Interest coverage ratio	**3.7**	3.6	0.1	**3.7**	3.5	0.2
Weighted average term to maturity as at period end	**4.8**	4.8	—	**4.8**	4.8	—

	Three Months Ended	Year Ended
SAME PROPERTY PERCENT CHANGE IN NOI		
Long-term Care	2.3%	1.4%
Retirement	8.0%	10.0%
Baltic [2]	2.4%	1.8%
Total	3.8%	3.7%

Notes:

1. These amounts include the Q4 2017 net operating loss of $nil (2016 - $nil) and NOI for the year ended December 31, 2017 of $nil (2016 - $382) from Preferred Health Care Services ("**PHCS**"), the ancillary home care ("**Home Care**") business of the Company, which was sold and discontinued in April 2016.
2. The Baltic Properties and PSM are referred to collectively as "**Baltic"**, and comprise the Baltic segment.

Quarterly Financial Information

Thousands of dollars, except occupancy and per share data	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1
Revenue from continuing operations [1]	146,330	139,867	137,527	133,966	138,011	130,418	115,226	114,232
Income from continuing operations before net finance charges, transaction costs and provision for (recovery of) income taxes [1]	15,508	15,659	15,464	13,392	13,136	10,861	9,056	6,719
Net income (loss) from continuing operations [1]	4,196	6,214	6,726	4,679	4,044	(364)	(642)	(101)
Per share basic and diluted [1]	0.081	0.131	0.144	0.099	0.102	(0.009)	(0.017)	(0.003)
Net income (loss) from discontinued operations [2]	—	—	—	—	—	(7)	(10)	305
Per share basic and diluted [2]	—	—	—	—	—	—	—	0.010
OFFO	17,834	16,565	15,754	14,190	15,106	15,474	11,385	10,815
Per share basic	0.353	0.357	0.341	0.308	0.328	0.362	0.311	0.296
Per share diluted	0.343	0.346	0.330	0.299	0.318	0.349	0.300	0.288
AFFO	17,290	18,537	17,657	16,666	15,241	17,220	13,466	13,189
Per share basic	0.339	0.400	0.382	0.361	0.331	0.403	0.368	0.361
Per share diluted	0.330	0.386	0.369	0.349	0.321	0.387	0.353	0.348
Dividends declared	11,437	10,430	10,429	10,364	10,367	9,652	8,232	8,217
Per share	0.225	0.225	0.225	0.225	0.225	0.225	0.225	0.225
Occupancy								
LTC - Average total occupancy	99.0 %	98.9 %	98.8 %	98.1 %	98.7 %	99.0 %	98.8 %	98.6 %
LTC - Average private occupancy	99.3 %	99.3 %	99.3 %	98.9 %	98.7 %	99.9 %	99.9 %	99.7 %
Retirement - Average occupancy	93.2 %	94.1 %	94.2 %	94.3 %	95.2 %	93.9 %	92.3 %	92.0 %
Retirement - As at occupancy	92.3 %	94.1 %	94.7 %	93.8 %	94.5 %	95.0 %	93.5 %	91.5 %
Baltic - Average total occupancy	96.2 %	96.9 %	96.7 %	96.2 %	97.9 %	98.3 %	n/a	n/a
Total assets	1,394,858	1,221,813	1,210,433	1,213,132	1,204,218	1,212,546	1,066,969	939,477
Total debt [3]	818,951	762,044	746,583	756,902	734,459	746,570	605,344	623,513

Notes:

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

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

A discussion of the operating results for the year ended December 31, 2017 compared to the same period in the prior year is provided below under the section "Operating Results".

Selected Annual Financial Information

The following table summarizes selected annual financial information for the years ended December 31, 2017, 2016 and 2015:

Thousands of Dollars, except per share data	2017	2016	2015
Revenue from continuing operations [1]	**557,690**	497,887	452,621
Income from continuing operations before net finance charges, transaction costs and the provision for (recovery of) income taxes [1]	**60,023**	39,772	30,543
Net income from continuing operations [1]	**21,815**	2,937	5,736
Per share basic and diluted [1]	**0.455**	0.073	0.158
Net income from discontinued operations [2]	**—**	288	1,501
Per share basic and diluted[2]	**—**	0.007	0.041
OFFO [3]	**64,343**	52,780	43,007
Per share basic	**1.359**	1.303	1.182
Per share diluted	**1.318**	1.259	1.148
AFFO	**70,151**	59,116	49,451
Per share basic	**1.482**	1.460	1.359
Per share diluted	**1.434**	1.405	1.312
Dividends declared	**42,660**	36,468	32,764
Per share	**0.900**	0.900	0.900
Total assets	**1,394,858**	1,204,218	951,469
Total debt [3]	**818,951**	734,459	629,068

Notes:

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

Business Overview

The Company and its predecessors have been operating since 1972. The Company is one of Canada's largest operators of seniors' living residences and is the largest owner and operator of licensed LTC in Ontario. Since inception, the Company has expanded both through acquisition and organically.

Retirement Residences

The Company's Retirement portfolio consists of 17 RRs, five of which are located in British Columbia and twelve of which are located in Ontario. The Company's RR portfolio, while still growing its revenue base, generated 12.7% of the Company's revenues and 27.7% of its NOI in 2017.

Long-Term Care

The Company’s LTC portfolio contributed 75.7% of the Company's revenues and generated 55.7% of its NOI in 2017. Approximately 55% of the Company’s LTC beds are designated as preferred accommodation (private and semi-private rooms), which contributed approximately 4.5% of the Company's LTC segment revenues. Effective July 1, 2017, the MOHLTC announced that the regulated per diem premiums had increased to $25.63 for new admissions to private accommodation in Class A homes, with existing residents in such preferred accommodations being grandfathered at substantially historical rates. The rates for Class C homes are currently $18.45 and $8.20 for private and semi-private accommodation, respectively.

Baltic

The Company's Baltic segment consists of eight communities located in British Columbia. The Baltic segment contributed 11.5% of the Company's revenues and generated 16.6% of the Company's NOI in 2017.

Operating Results

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

	Three Months Ended			Year Ended		
Thousands of dollars	**2017**	2016	Change	**2017**	2016	Change
Revenue	**146,330**	138,011	8,319	**557,690**	497,887	59,803
Expenses						
Operating	**115,831**	110,602	5,229	**439,562**	400,447	39,115
Depreciation and amortization	**9,801**	9,622	179	**37,620**	39,646	(2,026)
Administrative	**5,190**	4,651	539	**20,485**	18,022	2,463
	130,822	124,875	5,947	**497,667**	458,115	39,552
Income from continuing operations before net finance charges, transaction costs and provision for (recovery of) income taxes	**15,508**	13,136	2,372	**60,023**	39,772	20,251
Net finance charges	**6,655**	6,669	(14)	**25,421**	26,240	(819)
Transaction costs	**4,039**	634	3,405	**6,008**	8,007	(1,999)
Total other expenses	**10,694**	7,303	3,391	**31,429**	34,247	(2,818)
Income from continuing operations before provision for (recovery of) income taxes	**4,814**	5,833	(1,019)	**28,594**	5,525	23,069
Provision for (recovery of) income taxes from continuing operations						
Current	**1,131**	2,065	(934)	**7,285**	4,572	2,713
Deferred	**(513)**	(276)	(237)	**(506)**	(1,984)	1,478
	618	1,789	(1,171)	**6,779**	2,588	4,191
Net income from continuing operations	**4,196**	4,044	152	**21,815**	2,937	18,878
Net income from discontinued operations, net of taxes	**—**	547	(547)	**—**	8,546	(8,546)
Net income	**4,196**	4,591	(395)	**21,815**	11,483	10,332
Net income attributable to:						
Shareholders of the Company	**4,105**	4,489	(384)	**21,402**	11,307	10,095
Non-controlling interest	**91**	102	(11)	**413**	176	237
	4,196	4,591	(395)	**21,815**	11,483	10,332
Total assets	**1,394,858**	1,204,218	190,640	**1,394,858**	1,204,218	190,640
Total debt (net of principal reserve fund)	**818,951**	734,459	84,492	**818,951**	734,459	84,492

Revenue Breakdown

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

	Three Months Ended			Year Ended		
Thousands of dollars	**2017**	2016	Change	**2017**	2016	Change
Long-term Care						
Same property	**109,647**	107,374	2,273	**422,377**	417,581	4,796
Total Long-term Care Revenue	**109,647**	107,374	2,273	**422,377**	417,581	4,796
Retirement						
Same property [(1)]	**16,857**	15,976	881	**60,811**	57,109	3,702
Transactions [(1)]	**3,178**	—	3,178	**10,246**	—	10,246
Total Retirement Revenue	**20,035**	15,976	4,059	**71,057**	57,109	13,948
Baltic						
Same property [(2)]	**15,262**	15,024	238	**24,344**	23,840	504
Transactions [(2)]	**1,386**	—	1,386	**39,912**	—	39,912
Total Baltic Revenue	**16,648**	15,024	1,624	**64,256**	23,840	40,416
Total Revenue						
Same property from continuing operations	**141,766**	138,374	3,392	**507,532**	498,530	9,002
Home Care discontinued operations	—	—	—	—	5,278	(5,278)
Transactions	**4,564**	—	4,564	**50,158**	—	50,158
MOHLTC reconciliation adjustments	—	(366)	366	—	(643)	643
Intersegment eliminations	—	3	(3)	—	—	—
Total Revenue	**146,330**	138,011	8,319	**557,690**	503,165	54,525

Notes:

1. Beginning January 1, 2017, the results of Traditions of Durham Retirement Residence ("**Traditions of Durham**"), which was acquired on December 31, 2015, have been re-classified from Transactions to Same property. Beginning August 2, 2017, the results of Mayfair Terrace Retirement Residence ("**Mayfair**") and Rideau Retirement Residence ("**Rideau**"), which were acquired on August 2, 2016, have been re-classified from Transactions to Same property. The results of Rosewood, which was acquired on June 1, 2017, Kawartha Lakes, which was acquired on July 5, 2017, and Waterford Barrie and Waterford Kingston, which were both acquired on December 1, 2017 (together with Mayfair and Rideau, collectively referred to as the "**RR Properties**"), are included in Transactions for the applicable periods.

2. Beginning August 2, 2017, the results of the Baltic Properties (excluding Nicola Lodge and Glenmore Lodge), which were acquired on August 2, 2016, have been re-classified from Transactions to Same property. Beginning September 15, 2017, the results of Nicola Lodge, which was acquired on September 15, 2016, have been re-classified from Transactions to Same property.

Operating Expense Breakdown

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

	Three Months Ended			Year Ended		
Thousands of dollars	**2017**	2016	Change	**2017**	2016	Change
Long-term Care						
Same property	**93,033**	91,139	1,894	**356,634**	352,721	3,913
Total Long-term Care Expenses	**93,033**	91,139	1,894	**356,634**	352,721	3,913
Retirement						
Same property [(1)]	**9,115**	8,810	305	**32,135**	31,031	1,104
Transactions [(1)]	**1,941**	—	1,941	**6,176**	—	6,176
Total Retirement Expenses	**11,056**	8,810	2,246	**38,311**	31,031	7,280
Baltic						
Same property [(2)]	**10,781**	10,650	131	**17,072**	16,695	377
Transactions [(2)]	**961**	—	961	**27,545**	—	27,545
Total Baltic Expenses	**11,742**	10,650	1,092	**44,617**	16,695	27,922
Total Operating Expenses						
Same property from continuing operations	**112,929**	110,599	2,330	**405,841**	400,447	5,394
Home Care discontinued operations	—	—	—	—	4,896	(4,896)
Transactions	**2,902**	—	2,902	**33,721**	—	33,721
Intersegment eliminations	—	3	(3)	—	—	—
Total Operating Expenses	**115,831**	110,602	5,229	**439,562**	405,343	34,219

Notes:

1. Beginning January 1, 2017, the results of Traditions of Durham, which was acquired on December 31, 2015, have been re-classified from Transactions to Same property. Beginning August 2, 2017, the results of Mayfair and Rideau which were acquired on August 2, 2016, have been re-classified from Transactions to Same property. The results of the RR Properties are included in Transactions for the applicable periods.

2. Beginning August 2, 2017, the results of the Baltic Properties (excluding Nicola Lodge and Glenmore Lodge), which were acquired on August 2, 2016, have been re-classified from Transactions to Same property. Beginning September 15, 2017, the results of Nicola Lodge, which was acquired on September 15, 2016, have been re-classified from Transactions to Same property.

Net Operating Income Breakdown

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

	Three Months Ended			Year Ended		
Thousands of dollars	**2017**	2016	Change	**2017**	2016	Change
Long-term Care						
Same property	**16,614**	16,235	379	**65,743**	64,860	883
Total Long-term Care NOI	**16,614**	16,235	379	**65,743**	64,860	883
Retirement						
Same property [(1)]	**7,742**	7,166	576	**28,676**	26,078	2,598
Transactions [(1)]	**1,237**	—	1,237	**4,070**	—	4,070
Total Retirement NOI	**8,979**	7,166	1,813	**32,746**	26,078	6,668
Baltic						
Same property [(2)]	**4,481**	4,374	107	**7,272**	7,145	127
Transactions [(2)]	**425**	—	425	**12,367**	—	12,367
Total Baltic NOI	**4,906**	4,374	532	**19,639**	7,145	12,494
Total NOI						
Same property from continuing operations	**28,837**	27,775	1,062	**101,691**	98,083	3,608
Home Care discontinued operations	—	—	—	—	382	(382)
Transactions	**1,662**	—	1,662	**16,437**	—	16,437
MOHLTC reconciliation adjustments	—	(366)	366	—	(643)	643
Total NOI	**30,499**	27,409	3,090	**118,128**	97,822	20,306

Notes:

1. Beginning January 1, 2017, the results of Traditions of Durham, which was acquired on December 31, 2015, have been re-classified from Transactions to Same property. Beginning August 2, 2017, the results of Mayfair and Rideau which were acquired on August 2, 2016, have been re-classified from Transactions to Same property. The results of the RR Properties are included in Transactions for the applicable periods.

2. Beginning August 2, 2017, the results of the Baltic Properties (excluding Nicola Lodge and Glenmore Lodge), which were acquired on August 2, 2016, have been re-classified from Transactions to Same property. Beginning September 15, 2017, the results of Nicola Lodge, which was acquired on September 15, 2016, have been re-classified from Transactions to Same property.

For the Quarter

Revenue

Same property revenues from continuing operations for Q4 2017 increased by $3,392 to $141,766, compared to Q4 2016. LTC revenues for Q4 2017 increased by $2,273 to $109,647, compared to Q4 2016, primarily attributable to funding changes in the flow-through envelopes, along with higher preferred accommodation rates and other accommodation revenues. Retirement's same property revenues for Q4 2017 increased by $881 to $16,857, compared to Q4 2016, primarily attributable to year-over-year rent increases. Baltic's same property revenues for Q4 2017 increased by $238 to $15,262, compared to Q4 2016, primarily due to an inflationary increase in government funding over the comparable prior year period.

Retirement's transactions contributed to incremental revenues of $3,178 for Q4 2017 (2016 - $nil). Baltic's transactions contributed $1,386 of revenues for Q4 2017 (2016 - $nil).

Operating Expenses

Same property operating expenses from continuing operations for Q4 2017 increased by $2,330 to $112,929, compared to Q4 2016. LTC operating expenses for Q4 2017 increased by $1,894 to $93,033, compared to Q4 2016, due to inflationary increases, partially offset by lower utility costs. Retirement's same property operating expenses for Q4 2017 increased by $305 to $9,115, compared to Q4 2016, due to inflationary increases. Baltic's same property operating expenses for Q4 2017 increased by $131 to $10,781, compared to Q4 2016, due to inflationary increases.

Retirement's transactions recorded $1,941 of operating expenses for Q4 2017 (2016 - $nil). Baltic's transactions recorded $961 of operating expenses for Q4 2017 (2016 - $nil).

NOI

Same property NOI from continuing operations for Q4 2017 increased by $1,062 to $28,837, compared to Q4 2016. LTC's NOI for Q4 2017 increased by $379 to $16,614 compared to Q4 2016. Retirement's same property NOI for Q4 2017 increased by $576 to $7,742, compared to Q4 2016, primarily attributable to year-over-year rent increases. Baltic's same property NOI for Q4 2017 increased by $107 to $4,481, compared to Q4 2016.

Retirement's transactions contributed incremental NOI of $1,237 for Q4 2017 (2016 - $nil). Baltic's transactions contributed $425 of NOI for Q4 2017 (2016 - $nil).

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

Depreciation and Amortization

Depreciation and amortization for Q4 2017 increased by $179 to $9,801, compared to Q4 2016, due to incremental depreciation and amortization from the RR Properties acquired in 2017, partially offset by certain intangible assets being fully depreciated at the end of 2016.

Administrative Expenses

Administrative expenses for Q4 2017 increased by $539 to $5,190, compared to Q4 2016, reflecting the Company's growth, and an increase in mark-to market adjustments on share-based compensation.

Net Finance Charges

Net finance charges from continuing operations for Q4 2017 decreased by $14 to $6,655, compared to Q4 2016, primarily attributable to an increase in the fair value gain on interest rate swap contracts in Q4 2017, offset by an adjustment on the revolving credit facility fees compared to Q4 2016.

Transaction Costs

Transaction costs for Q4 2017 increased by $3,405 to $4,039 compared to Q4 2016, primarily attributable to higher transactional activity in the current period related to the Waterford Properties acquired in Q4 2017.

Income Taxes

Income tax expense from continuing operations for Q4 2017 decreased by $1,171 to $618, compared to Q4 2016. The current income tax expense from continuing operations for Q4 2017 decreased by $934 to $1,131 compared to Q4 2016, primarily attributable to an increase in tax depreciation associated with the acquisitions in 2017, partially offset by an increase in NOI and adjustments to prior years' temporary differences. The current income tax expense has been calculated at the weighted average combined corporate tax rate of 26.46% (2016 - 26.46%). The deferred income tax recovery for continuing operations of $513 in Q4 2017 represents an increase in deferred income tax recovery of $237 over the comparable prior year period, primarily attributable to favourable adjustments to prior years' temporary differences.

For the Year

Revenue

Same property revenues from continuing operations for the year ended December 31, 2017 increased by $9,002 to $507,532 over the comparable prior year period. LTC revenues for the year ended December 31, 2017 increased by $4,796 to $422,377 primarily attributable to funding changes in the flow-through envelopes, along with higher preferred accommodation rates and other accommodation revenues. Retirement same property revenues for the year ended December 31, 2017 increased by $3,702 to $60,811, primarily attributable to increases in occupancy and year-over-year rent increases. Baltic's same property revenues for the year ended December 31, 2017 increased by $504 to $24,344, primarily due to an inflationary increase in government funding over the comparable prior year period.

Retirement's transactions contributed to incremental revenues of $10,246 for the year ended December 31, 2017 (2016 - $nil). Baltic's transactions contributed $39,912 of revenues for the year ended December 31, 2017 (2016 - $nil).

Operating Expenses

Same property operating expenses from continuing operations for the year ended December 31, 2017 increased by $5,394 to $405,841, over the comparable prior year period. LTC operating expenses for the year ended December 31, 2017 increased by $3,913 to $356,634, primarily attributable to inflationary increases. Retirement same property operating expenses for the year ended December 31, 2017 increased by $1,104 to $32,135,

primarily attributable to inflationary increases and higher variable expenses resulting from an increase in occupancy. Baltic's same property operating expenses for the year ended December 31, 2017 increased by $377 to $17,072 over the comparable prior year period, primarily attributable to inflationary increases.

Retirement's transactions recorded $6,176 of operating expenses for the year ended December 31, 2017 (2016 - $nil). Baltic's transactions recorded $27,545 of operating expenses for the year ended December 31, 2017 (2016 - $nil).

NOI

Same property NOI from continuing operations for the year ended December 31, 2017 increased by $3,608 to $101,691 over the comparable prior year period. LTC's NOI for the year ended December 31, 2017 increased by $883 to $65,743 for the year ended December 31, 2017, primarily attributable to increased preferred accommodation rates and disciplined cost management. Retirement's same property NOI increased by $2,598 to $28,676, primarily due to increases in occupancy and year-over year rent increases. Baltic's same property NOI for the year ended December 31, 2017 was $7,272, which was stable over the comparable prior year period.

Retirement's transactions contributed incremental NOI of $4,070 for the year ended December 31, 2017 (2016 - $nil). Baltic's transactions contributed $12,367 of NOI for the year ended December 31, 2017 (2016 - $nil).

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

Depreciation and Amortization

Depreciation and amortization for the year ended December 31, 2017 decreased by $2,026 to $37,620 over the comparable prior year period, due to certain intangible assets being fully depreciated at the end of 2016, partially offset by incremental depreciation and amortization from the Baltic Properties and the RR Properties acquired in 2016 and 2017.

Administrative Expenses

Administrative expenses for the year ended December 31, 2017 increased by $2,463 to $20,485 over the comparable prior year period, reflecting the Company's growth, and an increase in mark-to market adjustments on share-based compensation.

Net Finance Charges

Net finance charges from continuing operations for the year ended December 31, 2017 decreased by $819 to $25,421 over the comparable prior year period, primarily attributable to the 2016 dividend equivalents paid on the subscription receipts issued by the Company in Q2 2016, and an increase in the fair value gain on interest rate swap contracts in 2017, partially offset by incremental mortgage interest expense from the Baltic Properties and the RR Properties acquired in 2016 and 2017.

Transaction Costs

Transaction costs for the year ended December 31, 2017 decreased by $1,999 to $6,008 over the comparable prior year period, primarily attributable to higher transactional activity in the comparable prior year period related to the Baltic Properties and the RR Properties acquired in 2016.

Income Taxes

The income tax expense from continuing operations for the year ended December 31, 2017 increased by $4,191 to $6,779 over the comparable prior year period. The current income tax expense from continuing operations increased by $2,713 over the comparable prior year period to $7,285, primarily attributable to an increase in NOI, and adjustments to prior periods' temporary differences, offset by an increase in tax depreciation associated with the acquisitions in 2017. The current income tax expense has been calculated at the weighted average combined corporate tax rate of 26.46% (2016 - 26.46%). The deferred income tax recovery from continuing operations of $506 represents a decrease in deferred income tax recovery of $1,478 over the comparable prior year period, primarily attributable to the benefit realized on deferred tax items set up in prior years, offset by the favourable adjustments to prior years' temporary differences.

Business Performance

The IFRS measure most directly comparable to FFO and OFFO is "net income (loss) from continuing operations". The following table represents the reconciliation of "net income (loss) from continuing operations" to FFO and OFFO for the periods ended December 31. The reconciliation from FFO to AFFO is provided as supplementary information.

	Three Months Ended			Year Ended		
Thousands of dollars, except share and per share data	**2017**	2016	Change	**2017**	2016	Change
Net income from continuing operations	**4,196**	4,044	152	**21,815**	2,937	18,878
Deferred income tax recovery	**(513)**	(276)	(237)	**(506)**	(1,984)	1,478
Depreciation and amortization	**9,405**	9,416	(11)	**36,094**	38,759	(2,665)
Transaction costs	**4,039**	634	3,405	**6,008**	8,007	(1,999)
Fair value (gain) loss on interest rate swap contracts	**(667)**	(18)	(649)	**(1,581)**	1,034	(2,615)
Net income from discontinued operations[1]	**—**	—	—	**—**	288	(288)
Gain on Nicola Lodge option (net of taxes)	**—**	—	—	**—**	(188)	188
Gain on Glenmore Lodge option (net of taxes)	**—**	—	—	**(62)**	—	(62)
Non-controlling interest	**(91)**	(102)	11	**(413)**	(176)	(237)
Funds from operations (FFO)	**16,369**	13,698	2,671	**61,355**	48,677	12,678
Depreciation and amortization - corporate	**396**	206	190	**1,526**	887	639
Amortization of financing charges and fair value adjustments on acquired debt	**288**	99	189	**755**	513	242
Amortization of loss on bond forward contract	**226**	217	9	**885**	852	33
Dividend equivalents on subscription receipts	**—**	—	—	**—**	1,964	(1,964)
Interest income on subscription receipts' funds	**—**	—	—	**—**	(155)	155
Net settlement payment on interest rate swap contracts	**(174)**	(241)	67	**(907)**	(428)	(479)
Tax benefit from capital loss carryforwards	**—**	861	(861)	**—**	—	—
Tax shield due to the settlement of the bond-lock hedge	**729**	—	729	**729**	—	729
MOHLTC reconciliation adjustment, net of taxes	**—**	266	(266)	**—**	470	(470)
Operating funds from operations (OFFO)	**17,834**	15,106	2,728	**64,343**	52,780	11,563
Deferred share unit compensation earned	**342**	22	320	**1,664**	986	678
Income support	**135**	132	3	**135**	330	(195)
Construction funding[2]	**2,574**	2,567	7	**10,162**	9,790	372
Maintenance capex	**(3,595)**	(2,586)	(1,009)	**(6,153)**	(4,770)	(1,383)
Adjusted funds from operations (AFFO)	**17,290**	15,241	2,049	**70,151**	59,116	11,035
Adjusted funds from operations (AFFO)	**17,290**	15,241	2,049	**70,151**	59,116	11,035
Dividends declared	**(11,437)**	(10,367)	(1,070)	**(42,660)**	(36,468)	(6,192)
AFFO retained	**5,853**	4,874	979	**27,491**	22,648	4,843
Basic FFO per share	**0.323**	0.297	0.026	**1.296**	1.202	0.094
Basic OFFO per share	**0.353**	0.328	0.025	**1.359**	1.303	0.056
Basic AFFO per share	**0.339**	0.331	0.008	**1.482**	1.460	0.022
Weighted average common shares outstanding - Basic	**50,635,054**	46,069,644		**47,349,605**	40,498,775	
Diluted FFO per share	**0.316**	0.295	0.021	**1.264**	1.172	0.092
Diluted OFFO per share	**0.343**	0.318	0.025	**1.318**	1.259	0.059
Diluted AFFO per share	**0.330**	0.321	0.009	**1.434**	1.405	0.029
Weighted average common shares outstanding - Diluted	**53,294,259**	48,798,660		**50,024,573**	43,218,219	

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

Note 2: The Company receives funding from the Ontario government for the construction costs of LTC homes constructed after April 1, 1988. The amounts are non-interest bearing, and are received for certain LTC homes, subject to the condition that the homes continue to operate as long-term care communities for the period for which the homes are entitled to the construction funding. As at December 2017, the condition for the funding has been met.

Reconciliation of diluted FFO, OFFO and AFFO

	Three Months Ended			Year Ended		
Thousands of Dollars	**2017**	2016	Change	**2017**	2016	Change
FFO, Basic	**16,369**	13,698	2,671	**61,355**	48,677	12,678
Net financing charges on convertible debt	**644**	935	(291)	**2,572**	2,691	(119)
Current income tax expense adjustment	**(171)**	(248)	77	**(681)**	(713)	32
FFO, Diluted	**16,842**	14,385	2,457	**63,246**	50,655	12,591
OFFO, Basic	**17,834**	15,106	2,728	**64,343**	52,780	11,563
Interest expense on convertible debentures	**544**	549	(5)	**2,167**	2,205	(38)
Current income tax expense adjustment	**(144)**	(145)	1	**(573)**	(584)	11
OFFO, Diluted	**18,234**	15,510	2,724	**65,937**	54,401	11,536
AFFO, Basic	**17,290**	15,241	2,049	**70,151**	59,116	11,035
Interest expense on convertible debentures	**544**	549	(5)	**2,167**	2,205	(38)
Current income tax expense adjustment	**(144)**	(145)	1	**(573)**	(584)	11
AFFO, Diluted	**17,690**	15,645	2,045	**71,745**	60,737	11,008

Construction funding

The construction funding amount to reconcile from OFFO to AFFO represents the change in the construction funding receivable balance, which consists of the cash to be received offset by the interest income on the construction funding receivable recognized in "net income from continuing operations". For the years ending December 31, 2018 through 2023, and thereafter, the Company estimates that the construction funding amount will be as follows:

Thousands of Dollars	Interest income on construction funding receivable	Adjustment to AFFO for construction funding	Total construction funding to be received
2018	2,490	10,589	13,079
2019	2,047	10,685	12,732
2020	1,610	10,780	12,390
2021	1,175	9,666	10,841
2022	786	8,986	9,772
2023	458	6,116	6,574
Thereafter	650	7,792	8,442
	9,216	**64,614**	**73,830**

For the Quarter

FFO increased by $2,671 to $16,369, compared to Q4 2016. The increase was primarily attributable to improved NOI contribution from same properties, the Baltic Properties and RR Properties acquired in 2016 and 2017, and a decrease in current income taxes.

OFFO increased by $2,728 to $17,834, compared to Q4 2016. The increase was primarily attributable to the increase in FFO noted above, excluding a Q4 2017 adjustment of $729 to the tax shield on the prior settlement of the bond-lock hedge, partially offset by an adjustment to the tax benefit from capital loss carryforwards in Q4 2016 .

AFFO increased by $2,049 to $17,290, compared to Q4 2016. The increase in AFFO was principally related to the increase in OFFO noted above, partially offset by an increase in maintenance capex mainly due to timing of expenditures.

For the Year

FFO for the year ended December 31, 2017 increased by $12,678 to $61,355 over the prior year. The increase was primarily attributable to improved NOI contribution from same properties, the Baltic Properties and RR Properties acquired in 2016 and 2017, and the 2016 dividend equivalents paid on subscription receipts issued by the Company. These increases were partially offset by incremental mortgage interest expense from the Baltic Properties and RR Properties acquired in 2016 and 2017, increased current income taxes and increased administrative expenses.

OFFO for the year ended December 31, 2017 increased by $11,563 to $64,343 over the prior year. The increase was primarily attributable to the increase in FFO noted above, excluding the impact of the 2016 dividend equivalents paid on subscription receipts issued by the Company in Q2 2016 and the 2017 adjustment to the tax shield on the prior settlement of the bond-lock hedge, partially offset by increased net settlement payments on interest rate swap contracts.

AFFO for the year ended December 31, 2017 increased by $11,035 to $70,151 over the prior year. The increase was primarily attributable to the increase in OFFO as noted above, partially offset by an increase in maintenance capital expenditures.

Reconciliation of Cash Flow from Operations to Adjusted Funds from Operations

The IFRS measure most directly comparable to AFFO is "cash flow from operating activities". The following table represents the reconciliation of cash provided by operating activities to AFFO for the periods ended December 31:

	Three Months Ended			Year Ended		
Thousands of dollars	**2017**	2016	Change	**2017**	2016	Change
Cash provided by operating activities	**24,578**	19,499	5,079	**61,049**	46,874	14,175
Gain on Glenmore Lodge option (net of taxes)	**—**	—	—	**(62)**	—	(62)
Gain on Nicola Lodge option (net of taxes)	**—**	—	—	**—**	(188)	188
Non-controlling interest	**(91)**	(102)	11	**(413)**	(176)	(237)
Construction funding principal	**2,574**	2,567	7	**10,162**	9,790	372
Transaction costs	**4,039**	634	3,405	**6,008**	8,007	(1,999)
Income support adjustment[1]	**—**	(270)	270	**—**	(270)	270
MOHLTC reconciliation adjustment, net of taxes	**—**	266	(266)	**—**	470	(470)
Tax shield due to the settlement of the bond-lock hedge	**729**	—	729	**729**	—	729
Maintenance capex	**(3,595)**	(2,586)	(1,009)	**(6,153)**	(4,770)	(1,383)
Net change in working capital, interest and taxes	**(10,877)**	(4,738)	(6,139)	**(843)**	(372)	(471)
Restricted share units and long-term incentive plan	**(67)**	(29)	(38)	**(326)**	(254)	(72)
Adjusted funds from operations (AFFO)	**17,290**	15,241	2,049	**70,151**	59,111	11,040
Adjusted funds from operations (AFFO)	**17,290**	15,241	2,049	**70,151**	59,116	11,035
Dividends declared	**(11,437)**	(10,367)	(1,070)	**(42,660)**	(36,468)	(6,192)
AFFO retained	**5,853**	4,874	979	**27,491**	22,648	4,843
Dividend reinvestment	**1,360**	935	425	**5,276**	2,960	2,316
AFFO retained after dividend reinvestment	**7,213**	5,809	1,404	**32,767**	25,608	7,159

Note 1: Included within this reconciliation is an income support adjustment which was recorded as transaction costs in 2016.

AFFO retained is equal to AFFO less dividends declared. AFFO retained for the three months ended and year ended December 31, 2017 was $5,853 (2016 - $4,874) and $27,491 (2016 - $22,648), respectively.

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

The following table summarizes the dividends declared in relation to cash flows from operating activities for the periods ended December 31:

	Three Months Ended			Year Ended		
Thousands of dollars	**2017**	2016	Change	**2017**	2016	Change
Dividends declared	**11,437**	10,367	1,070	**42,660**	36,648	6,012
Cash flows from operating activities	**24,578**	19,499	5,079	**61,049**	46,874	14,175
Excess of cash flows from operating activities over dividends declared	**13,141**	9,132	4,009	**18,389**	10,226	8,163

Liquidity and Capital Resources

Financial Position Analysis

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

	Three Months Ended			Year Ended		
Thousands of dollars	**2017**	2016	Change	**2017**	2016	Change
Cash provided by (used in):						
Operating activities	**24,578**	19,499	5,079	**61,049**	46,874	14,175
Investing activities	**(119,522)**	5,707	(125,229)	**(143,830)**	(92,541)	(51,289)
Financing activities	**98,640**	(26,716)	125,356	**74,346**	46,522	27,824
Increase (decrease) in cash during the period	**3,696**	(1,510)	5,206	**(8,435)**	855	(9,290)
Cash, end of period	**18,765**	27,200	(8,435)	**18,765**	27,200	(8,435)

For the Quarter

Operating Activities

Operating activities for Q4 2017 provided $24,578 of cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes of $21,679.
- Increase in accounts payable and accrued liabilities of $14,318.
- Decrease in prepaid expenses and deposits $2,014.
- Partially offset by interest paid on long-term debt of $5,049, decrease in net government funding payables of $4,441 and income taxes paid of $3,310.

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

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

Investing Activities

Investing activities for Q4 2017 used $119,522 in cash, which was primarily attributable to the following:

- Acquisition of the Waterford Properties for $102,390.
- Deposit for the Acquired Properties of $7,730.
- Purchase of property and equipment of $6,266 and intangible assets of $998.
- Acquisition of the remaining 50% interest in PSM for $2,227.
- Partially offset by the construction funding received in the amount of $3,270.

For Q4 2016, investing activities provided $5,707 of cash, which was primarily attributable to the following:

- The Company reclassified $6,691 from operating activities to investing activities with respect to the BC Acquisition of $6,437 and the acquisition of Nicola Lodge of $254.

- Construction funding received in the amount of $3,270.
- Partially offset by the purchase of property and equipment of $3,067 and intangible assets of $937.

Financing Activities

Financing activities in Q4 2017 provided $98,640 of cash, which was primarily attributable to the following:

- Gross proceeds from the issuance of common shares of $115,007.
- Proceeds from long-term debt of $76,155.
- Partially offset by repayment of long-term debt of $75,460 relating to mortgage principal payments and voluntary repayments on the Company's revolving credit facilities, and dividends paid in the quarter of $9,577.

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

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

For the Year

Operating Activities

For the year ended December 31, 2017, operating activities provided $61,049 of cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes of $93,625.
- Increase in accounts payable and accrued liabilities of $7,146.
- Increase in net government funding payables of $1,467.
- Partially offset by interest paid on long-term debt of $28,547 and income taxes paid of $11,820.

For the year ended December 31, 2016, operating activities provided $46,874 of cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes of $81,197.
- Increase in accounts payable and accrued liabilities of $6,405.
- Partially offset by interest paid on long-term debt of $25,320, use of cash in discontinued operations of $8,182, income taxes paid of $5,400 and increase in prepaid expenses and deposits of $2,332.

Investing Activities

For the year ended December 31, 2017, investing activities used $143,830 in cash, which was primarily attributable to the following:

- Acquisition of the Waterford Properties for $102,390, Kawartha Lakes for $20,896, Glenmore Lodge for $5,699, Rosewood for $2,038 and the remaining 50% interest in PSM for $2,227.
- Deposit for the Acquired Properties of $7,730.
- Purchase of property and equipment, net of disposals, of $13,068 and intangible assets of $2,400.
- Partially offset by construction funding received in the amount of $13,079.

For the year ended December 31, 2016, investing activities used $92,541 of cash, which was primarily attributable to the following:

- Cash used in the BC Acquisition of $103,570 and in the acquisition of Nicola Lodge of $9,242.
- Purchase of property and equipment, net of disposals, of $5,649 and intangible assets of $2,612.
- Partially offset by cash provided by discontinued operations of $16,409 and construction funding received in the amount of $13,080.

Financing Activities

For the year ended December 31, 2017, financing activities provided $74,346 in cash, which was primarily attributable to the following:

- Proceeds from long-term debt of $146,662.
- Gross proceeds from the issuance of common shares of $115,007.
- Partially offset by repayment of long-term debt of $136,116 relating to mortgage principal payments and voluntary repayments on the Company's revolving credit facilities, dividends paid of $36,863 and contributions to the Series B Debentures' principal reserve fund of $6,808.

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

- Gross proceeds from the issuance of common shares of $138,347.
- Proceeds from long-term debt of $31,500.
- Partially offset by repayment of long-term debt of $75,672 relating to mortgage principal payments and voluntary repayments on the Company's revolving credit facilities, dividends paid of $32,787, contributions to the Series B Debentures principal reserve fund of $6,391, and dividend equivalent payments on subscriptions receipts issued by the Company in Q2 2016 of $1,964.

Capital Resources

The Company's total debt as at December 31, 2017 was $818,951 (December 31, 2016 - $734,459), net of the Series B Debentures' principal reserve fund of $23,924 (December 31, 2016 - $17,116). The increase of $84,492 was primarily related to the Company's net drawdown of its Royale Credit Facility and the mortgages assumed on the acquisitions during 2017, partially offset by monthly payments to the Series B Debentures' principal reserve fund and payments toward mortgage liabilities. The Company has credit facilities of $147,000, and as at December 31, 2017, had drawn $68,500 from these facilities.

As at December 31, 2017, the Company had a working capital deficiency (current liabilities less current assets) of $124,551, primarily attributable to the Convertible Debentures of $44,267 and the current portion of long-term debt of $47,185 relating to the portion of mortgage liabilities that are due within a twelve-month period. To support the Company's working capital deficiency, the Company plans to use its operating cash flows, proceeds from refinancing its debt, other than the Convertible Debentures which mature in June 2018, and, if necessary, its undrawn credit facilities, all of which management of the Company believes will be sufficient to address this working capital deficiency.

In January 2018, the Company obtained a commitment in respect of an acquisition term loan facility of $162,614 (the "**Bridge Loan**"). The Bridge Loan is due one year from the closing of the Acquisition, and is intended to be used to finance the Acquisition. Borrowings under the Bridge Loan can take place by way of bankers' acceptances ("**BA**") at the BA rate plus 200 basis points and loans at an interest rate of prime plus a margin. The Bridge Loan will be secured by a pool of properties, and will be subject to certain customary financial and non-financial covenants. The Company expects to refinance the Bridge Loan post-closing of the Acquisition.

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 2018, including required working capital, capital expenditures, and currently scheduled interest payments on debt, from cash on hand, cash flow from operations and its committed, but unutilized borrowing capacity.

Capital Commitments

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

Debt Strategy

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

The Company's goal is to continue to optimize its debt maturity schedule over a 10-year period in order to manage interest rate and financial risks. In fiscal 2018 and beyond, the Company plans to capitalize on external growth opportunities and refinance mortgages to build the 10-year debt maturity ladder around the Series B

Debentures so as to reduce risk when these debentures mature in 2021. In March 2017, DBRS confirmed the A (low) rating for the Series B Debentures.

The Company has adopted interest coverage guidelines which are consistent with the coverage covenants contained in its bank credit facility agreements. Interest coverage ratios provide an indication of the ability to service or pay interest charges relating to the underlying debt. The interest coverage ratio calculations may differ depending on the lender.

Interest Coverage Ratio

The Interest Coverage Ratio is a common measure used to assess an entity's ability to service its debt obligations. In general, higher ratios indicate a lower risk of default. The interest coverage ratio is calculated as follows for the periods ended December 31:

	Three Months Ended		Year Ended	
Thousands of dollars, except ratio	**2017**	2016	**2017**	2016
Net finance charges from continuing operations	**6,655**	6,669	**25,421**	26,240
Add (deduct):				
Amortization of financing charges and fair value adjustments on acquired debt	**(288)**	(99)	**(755)**	(513)
Amortization of loss on bond forward contract	**(226)**	(217)	**(885)**	(852)
Dividend equivalents on subscription receipts	**—**	—	**—**	(1,964)
Interest income on construction funding receivable	**696**	721	**2,918**	3,307
Interest income on subscription receipts funds held in escrow	—	—	—	155
Other interest (expense) income	**(51)**	39	**413**	490
Gain (loss) on interest rate swap contracts	**841**	259	**2,488**	(606)
Net finance charges, adjusted	**7,627**	7,372	**29,600**	26,257
Adjusted EBITDA from continuing operations	**28,579**	26,394	**110,722**	93,141
Interest coverage ratio	**3.7**	3.6	**3.7**	3.5

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

	Three Months Ended		Year Ended	
Thousands of dollars	**2017**	2016	**2017**	2016
Net income from continuing operations	**4,196**	4,044	**21,815**	2,937
Net finance charges	**6,655**	6,669	**25,421**	26,240
Provision for income taxes from continuing operations	**618**	1,789	**6,779**	2,588
Depreciation and amortization	**9,801**	9,622	**37,620**	39,646
Transaction costs	**4,039**	634	**6,008**	8,007
MOHLTC reconciliation adjustments	—	366	—	643
Proceeds from construction funding	**3,270**	3,270	**13,079**	13,080
Adjusted EBITDA from continuing operations	**28,579**	26,394	**110,722**	93,141

Debt Service Coverage Ratio

The Debt Service Coverage Ratio is a common measure used to assess an entity's ability to service its debt obligations. Maintaining the debt service coverage ratio forms part of the Company's debt covenant requirements. In general, higher ratios indicate a lower risk of default. The following calculation includes the payments to the Series B Debentures' principal reserve fund as part of the debt service costs. Adjusted EBITDA from continuing operations, as referenced below, is presented in accordance with defined terms in certain covenant calculations. The following is the calculation for the periods ended December 31:

	Three Months Ended		Year Ended	
Thousands of dollars, except ratio	**2017**	2016	**2017**	2016
Net finance charges from continuing operations	**6,655**	6,669	**25,421**	26,240
Add (deduct):				
Amortization of financing charges and fair value adjustments on acquired debt	**(288)**	(99)	**(755)**	(513)
Amortization of loss on bond forward contract	**(226)**	(217)	**(885)**	(852)
Dividend equivalents on subscription receipts	**—**	—	**—**	(1,964)
Interest income on construction funding receivable	**696**	721	**2,918**	3,307
Interest income on subscription receipts funds held in escrow	**—**	—	**—**	155
Other interest (expense) income	**(51)**	39	**413**	490
Gain (loss) on interest rate swap contracts	**841**	259	**2,488**	(606)
Net finance charges, adjusted	**7,627**	7,372	**29,600**	26,257
Principal repayments [(1)]	**3,983**	3,697	**14,867**	10,453
Principal reserve fund	**1,705**	1,595	**6,808**	6,391
Total debt service	**13,315**	12,664	**51,275**	43,101
Adjusted EBITDA from continuing operations	**28,579**	26,394	**110,722**	93,141
Deduct:				
Maintenance capex	**(3,595)**	(2,586)	**(6,153)**	(4,770)
Cash income taxes	**(3,310)**	(1,000)	**(11,820)**	(5,400)
Adjusted EBITDA from continuing operations (for covenant calculations)	**21,674**	22,808	**92,749**	82,971
Debt service coverage ratio	**1.6**	1.8	**1.8**	1.9

Note:

1. During the three months and year ended December 31, 2017, the Company made voluntary payments of $61,500 and $91,500, respectively (2016 - $38,219 and $65,219, respectively) towards its Royale Credit Facility, which have been excluded from the debt service coverage ratio calculation. Debt repayments on maturity have also been excluded from the debt service coverage ratio calculation.

Debt to Adjusted EBITDA Ratio

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

	December 31	
Thousands of dollars, except ratio	**2017**	2016
Total indebtedness		
Series B Debentures	**322,000**	322,000
Series B Debentures - Principal reserve fund	**(23,924)**	(17,116)
Credit facilities	**68,500**	35,500
Mortgages	**408,999**	349,180
Convertible Debentures	**44,509**	45,083
	820,084	734,647
Adjusted EBITDA from continuing operations	**110,722**	93,141
Debt to Adjusted EBITDA from continuing operations	**7.4**	7.9

Debt Profile

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

	Weighted Average Debt							
	Three Months Ended December 31				Year Ended December 31			
	2017	**Rate (%)**	2016	Rate (%)	**2017**	**Rate (%)**	2016	Rate (%)
Fixed Rate								
Debentures	**322,000**	**3.47%**	322,000	3.47%	**322,000**	**3.47%**	322,000	3.47%
Mortgages [1]	**378,318**	**4.00%**	346,394	4.26%	**355,351**	**4.06%**	353,521	4.26%
Convertible Debentures	**44,509**	**4.65%**	45,083	4.65%	**44,509**	**4.65%**	45,551	4.65%
Total Fixed	**744,827**	**3.82%**	713,477	3.94%	**721,860**	**3.80%**	721,072	3.91%
Floating Rate								
Credit facilities	**48,380**	**3.17%**	37,337	2.77%	**48,323**	**3.07%**	52,721	2.77%
Mortgages	**119**	**4.00%**	127	4.00%	**4,424**	**3.71%**	127	4.00%
Total Floating	**48,499**	**3.17%**	37,464	2.77%	**52,747**	**3.13%**	52,848	2.77%
Total Debt	**793,326**	**3.77%**	750,941	3.87%	**774,607**	**3.79%**	773,920	3.86%

Note:
1. For the three months and year ended December 31, 2017, includes floating rate mortgages of $79,754 and $71,481 (2016 - $51,359 and $51,634), respectively, that have been fixed through interest rate swaps.

Debt to Gross Book Value

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

Thousands of dollars, except ratio	December 31 2017	December 31 2016
Total indebtedness		
Series B Debentures	**322,000**	322,000
Series B Debentures - Principal reserve fund	**(23,924)**	(17,116)
Credit facilities	**68,500**	35,500
Mortgages	**408,999**	349,180
Convertible Debentures	**44,509**	45,083
	820,084	734,647
Total assets	**1,394,858**	1,204,218
Accumulated depreciation on property and equipment	**177,255**	146,346
Accumulated amortization on intangible assets	**82,243**	75,532
Gross book value	**1,654,356**	1,426,096
Debt to gross book value	**49.6%**	51.5%
Debt, excluding Convertible Debentures, to gross book value	**46.9%**	48.4%

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, or the limitations in its credit facilities, or taking on undue risks;

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

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

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

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

The Company has property-level mortgages that are secured by each of the underlying properties' assets, guaranteed by the Company and are subject to certain customary financial and non-financial covenants. The Company is in compliance with all financial covenants on its borrowings as at December 31, 2017. However, there can be no assurance that covenant requirements will be met at all times. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be adversely affected.

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

Contractual Obligations and Other Commitments

Long-term Debt

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

				Amortizing Debt				
Year	Series B Debentures	Floating Rate Debt	Convertible Debentures	Regular Principal Payments	Principal Due at Maturity	**Total**	% of Total	Weighted Average Interest on Maturing Debt
2018	—	—	44,509	17,219	29,914	**91,642**	10.9%	4.9%
2019	—	18,500	—	15,647	65,142	**99,289**	11.8%	4.4%
2020	—	50,000	—	12,204	19,992	**82,196**	9.7%	3.1%
2021	322,000	—	—	13,520	11,926	**347,446**	41.2%	3.5%
2022	—	—	—	10,444	25,858	**36,302**	4.3%	3.5%
2023	—	—	—	8,704	51,152	**59,856**	7.1%	3.1%
2024	—	—	—	7,318	20,617	**27,935**	3.3%	4.2%
2025	—	—	—	6,054	—	**6,054**	0.7%	—%
2026	—	—	—	6,200	14,361	**20,561**	2.4%	3.6%
2027	—	—	—	5,228	21,945	**27,173**	3.2%	3.1%
Thereafter	—	—	—	15,016	30,538	**45,554**	5.4%	4.5%
	322,000	**68,500**	**44,509**	**117,554**	**291,445**	**844,008**	100.0%	
Mark-to-market adjustment arising from acquisitions						**3,638**		
Less: Deferred financing costs						**(4,529)**		
Less: Deferred financing costs on Convertible Debentures						**(200)**		
Less: Equity component of Convertible Debentures						**(42)**		
						842,875		

Convertible Debentures

The Company has Convertible Debentures outstanding with an aggregate principal amount of $44,509, convertible into common shares at $16.75 per common share. The Convertible Debentures have a maturity date of June 30, 2018 and bear interest at a rate of 4.65% per annum, which is payable semi-annually in June and December.

Operating Leases

The Company has a 10-year operating lease with respect to its Markham corporate office, which expires on October 31, 2024. As well, the Company has various operating leases for office and other equipment that expire over the next five years and thereafter.

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

2018	1,057
2019	1,003
2020	968
2021	940
2022	909
Thereafter	1,664
	6,541

Related Party Transactions

As at December 31, 2017, the Company had amounts outstanding from certain key management of $1,171 (December 31, 2016 - $1,026) in relation to grants under the Company's Long-term Incentive Plan ("**LTIP**") and related share purchase loans, which have been recorded as a reduction to shareholders' equity. The LTIP's terms provide for the loans to bear interest at the Canadian prime rate prevailing at the Company's bank at the time of grant. The underlying common shares have been pledged as security against the respective loans.

Critical Accounting Estimates and Accounting Policies

The accounting policies and estimates that are critical to the understanding of the Company's business operations and results of operations are identified in Note 3 of the Company's consolidated financial statements for the year ended December 31, 2017.

Accounting Standards Issued But Not Yet Applied

IFRS 9, Financial Instruments

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

IFRS 15, Revenue from Contracts with Customers
In May 2014, the International Accounting Standards Board ("**IASB**") issued the new revenue standard that requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. In September 2015, the IASB deferred the effective date for the new standard for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company has not yet adopted this standard, but based on management's assessment, the impact of this new standard will not be material for the contracts in scope for IFRS 15. The adoption will require a disclosure change in the notes to the consolidated financial statements whereby revenue earned under IFRS 15 will be separately disclosed from revenue earned under IAS 17, Leases.

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

IFRIC 23, Uncertainty over Income Tax Treatments
In June 2017, the IASB issued International Financial Reporting Interpretations Committee ("**IFRIC**") Interpretation 23, Uncertainty over Income Tax Treatments, which clarifies the application of recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Company is in the process of assessing the impact of this new interpretation.

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

Significant Judgments and Estimates

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

Property and equipment and intangible assets

(i) Fair values

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

(ii) Indefinite-lived intangible assets

In Ontario, the Long-Term Care Homes Act, 2007 ("**LTCHA**") contains a licence term regime for all LTC residences which will result in licence terms for the Company's residences ranging from 15 years for Class B and C residences to 30 years for Class A residences. Under the LTCHA, ultimate control of LTC licences in Ontario remains with the MOHLTC, including approval of new licences, and transfer, renewal or revocation of existing licences. Although the licence does not support any guarantee of continued operation beyond the term of the licence, based on the current demographics in Canada and the demand for LTC beds projected to increase, management of the Company is of the view that licences will continue to be renewed.

In British Columbia, the RC licenses have an indefinite term.

Goodwill and indefinite-lived intangible asset impairment analysis

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

Deferred taxes

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

Income taxes

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

Risk Factors

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

Business risks

The Company is subject to general business risks inherent in the seniors' housing sector. These risks include fluctuations in levels of occupancy and the inability to achieve adequate other accommodation or preferred accommodation revenue or annual increases (including anticipated increases) in resident rates. The inability to achieve such rate increases could occur as a result of, among other factors, new supply in a given catchment area, regulations controlling LTC/RC funding or regulations controlling rents for RRs. Additional risks include possible future changes in labour relations; increases in labour costs, other personnel costs, and other operating

costs; competition from or oversupply of other similar properties; changes in conditions of the Company's properties or general economic conditions; the imposition of increased or new taxes; capital expenditure requirements; health-related risks, natural disasters and disease outbreaks. Moreover, there is no assurance that future occupancy rates at the Company's residences will be consistent with historical occupancy rates achieved. Any one of, or a combination of, these factors may have a material adverse impact on the business, operating results and financial condition of the Company.

Government regulation

Both LTC/RC residences and RRs are subject to extensive regulation and the potential for regulatory change. There can be no assurance that future regulatory changes affecting the seniors' housing industry would not have a material adverse impact on the business, operating results and financial condition of the Company.

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

All RRs are required to be licensed under the RHA to operate in Ontario and RRs in Ontario are regulated under this statute. In British Columbia, the CCALA provides consumer protection and regulation of independent living homes and assisted living facilities. All types of seniors' living residences providing personal support in British Columbia must be registered with the Assisted Living Registry. The Company has obtained all required licences and registrations. There can be no assurance that future regulatory changes affecting RRs would not have a material adverse impact on the business, operating results and financial condition of the Company.

LTC/RC funding

The provincial regulation of LTC/RC residences includes the control of resident co-payment fees. Certain provincial regulators are authorized to fund care and support programs provided in LTC residences and subsidize accommodation costs for qualifying residents. As a result of increasing healthcare costs, and the adverse impact of minimum wage legislation (Bill 148) in Ontario, risk exists that health authorities may in the future reduce the level of, or eliminate, such fees, payments or subsidies. There can be no assurance that the current level of such fees, payments and subsidies will be continued or that such fees, payments and subsidies will increase commensurate with expenses. A reduction of these fees, payments or subsidies may have a material adverse impact on the business, operating results and financial condition of the Company.

Licence terms

In Ontario, the LTCHA establishes a licence term regime for all LTC residences which results in licence terms for the Company's residences ranging from 15 years for Class B and C residences to 30 years for Class A residences. Under the LTCHA, ultimate control of LTC licences in Ontario remains with the MOHLTC, including approval of

new licences, and transfer, renewal or revocation of existing licences. Although the licence does not support any guarantee of continued operation beyond the term of the licence, based on the current demographics in Canada and the demand for LTC beds projected to increase, management of the Company is of the view that licences will continue to be renewed. In British Columbia, the CCALA establishes a licence term regime for all RC residences. A failure of the Company's LTC licences to be renewed or conditionally renewed may have a material adverse impact on the business, operating results and financial condition of the Company.

Acquisitions

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

Capital intensive industry

The ability of the Company to maintain and enhance its properties in a suitable condition to meet regulatory standards, operate efficiently and remain competitive in its markets requires it to commit a portion of cash to its facilities and equipment. Significant future capital requirements may have a material adverse impact on the business, operating results and financial condition of the Company.

Financing risk

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

A portion of the Company's cash flow is devoted to servicing its debt and there can be no assurance that the Company will continue to generate sufficient cash flow from operations to meet the required interest and principal payments on its debt. If the Company were unable to meet such interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. If this were to occur, it may have a material adverse impact on the business, operating results and financial condition of the Company. The Company is subject to the risk that its existing indebtedness may not be able to

be refinanced at maturity or that the terms of any refinancing may not be as favourable as the terms of its existing indebtedness. If the Company requires additional debt financing, its lenders may require it to agree to restrictive covenants that could limit its flexibility in conducting future business activities or that contain customary provisions that, upon an event of default, result in the acceleration of repayment of amounts owed and that restrict the amount of dividends, if any, that may be paid to its shareholders. Some of the Company's current debt instruments include such covenants.

Redevelopment of Class B and C residences

The redevelopment of the Company's Class B and Class C beds may include significant capital outlays. To the extent such redevelopment plans proceed on significantly different timing or terms, including with respect to the levels of expected funding, there may be a material adverse impact on the business, operating results and financial condition of the Company.

Real property ownership

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

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

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

Labour relations

Employees working at the the Company properties are unionized with approximately 83% of employees represented by union locals of either the Service Employees International Union, the Ontario Nurses Association, the BC Nurses' Association, the BC Government and Service Employees' Union, the Hospital Employees' Union, the Christian Labour Association of Canada, the Canadian Union of Public Employees or Unifor. While the Company has traditionally maintained positive labour relations, there can be no assurance the Company will not at any time, whether in connection with a renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees, which may have a material adverse impact on the business, operating results and financial condition of the Company. Notwithstanding the foregoing, all LTC residences in the Province of Ontario are governed by the *Hospital Labour Disputes Arbitration Act* (Ontario), which prohibits strikes and lockouts in the seniors' living industry, collective bargaining disputes in Ontario are more likely to be resolved through compulsory third party arbitration.

The Company's business is labour intensive

The business of the Company is labour intensive, with labour-related costs comprising a substantial portion of the Company's direct operating expenses. The Company's businesses compete with other providers with respect to attracting and retaining qualified personnel. Any shortage of qualified personnel and general inflationary

pressures may require the Company to enhance its pay and benefits package to compete effectively for such personnel. An increase in labour-related costs or a failure to attract, train and retain qualified and skilled personnel may have a material adverse impact on the business, operating results and financial condition of the Company.

Reliance on key personnel

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

Information systems security threats

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

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

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

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

Liability and insurance

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

Competition

Numerous other seniors' living residences, predominantly RRs, compete with the Company's RRs in seeking residents. The existence of competing owners and competition for the Company's residents may have a material adverse impact on the Company's ability to attract residents to its seniors' living residences and on the rents charged, and may have a material adverse impact on the business, operating results and financial condition of the Company.

Geographic concentration

A majority of the business and operations of the Company is conducted in Ontario, with the remainder in British Columbia. The fair value of the Company's assets and the income generated therefrom may be adversely impacted by changes in local and regional economic conditions in either jurisdiction.

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

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

Environmental liabilities

The Company is subject to various environmental laws and regulations under which it could become liable for the costs of removing or remediating certain hazardous, toxic or regulated substances released on or in the properties it owns or manages, or disposed of at other locations, in some cases regardless of whether or not the Company knew of or was responsible for their presence. The failure to address such issues may adversely affect the Company's ability to sell properties or to borrow using properties as collateral and/or could potentially result in claims against the Company. Notwithstanding the above, management of the Company is not aware of any material non-compliance, liability or other claim in connection with any of the Company's owned properties or those it manages. It is the Company's operating policy to obtain a Phase I environmental site assessment, conducted by an independent and experienced environmental consultant, prior to acquiring or financing any property, or to otherwise obtain applicable reliance letters in respect thereof. Where Phase

I environmental site assessments identify sufficient environmental concerns or recommend further assessments, Phase II or Phase III environmental site assessments are conducted.

Environmental laws and regulations may change and the Company may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations may have a material adverse impact on the business, operating results and financial condition of the Company.

Risks Relating to a Public Company and Common Shares

Volatile market price for securities of the Company

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

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- changes in estimates of future results of operations by the Company or securities research analysts;
- changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;
- additions to or departures of, the Company's senior management and other key personnel;
- imposition or removal of re-sale restrictions on outstanding common shares;
- sales or perceived sales of additional securities, including common shares;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; and
- news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

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

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

SSLI is a holding company and a substantial portion of its assets consist of the partnership units of its subsidiaries. As a result, investors in SSLI are subject to the risks attributable to its subsidiaries. As a holding company, SSLI conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, the Company's cash flows and ability to complete existing or future opportunities are dependent

on the earnings of its subsidiaries and the distribution of those earnings to SSLI. The ability of these entities to pay distributions to SSLI depends on their operating results and may be subject to applicable laws and regulations and to contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of the Company's subsidiaries, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to SSLI.

Dividend policy

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

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

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

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

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

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

Directors and officers may have conflicts of interest

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

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

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

Controls and Procedures

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

As of December 31, 2017, an evaluation was carried out, under the supervision of and with the participation of management of the Company, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as defined under National Instrument 52-109. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2017.

Management of the Company is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The President and Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision of the design and operating effectiveness of the Company's internal controls over financial reporting as at December 31, 2017. Based on that assessment they determined that the Company's internal controls over financial reporting were appropriately designed and were operating effectively. This evaluation was performed using the 2013 Integrated Control framework as published by the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**"), which as of December 15, 2014 supersedes the COSO 1992 framework.

No changes were made in the Company's design of internal controls over financial reporting during the year ended December 31, 2017 which have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control

systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

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

Forward-Looking Statements

This document contains forward-looking information based on management's current expectations, estimates and projections about the future results, performance, achievements, prospects or opportunities for the Company as of the date of this MD&A. Forward-looking statements involve significant known and unknown risks and uncertainties and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. Such known and unknown risks, uncertainties and other factors may cause the actual results to be materially different from any future results expressed or implied by such forward-looking statements. When used in this MD&A, such statements use words such as "may", "might", "will", "expect", "believe", "plan", "budget", "should", "could", "would", "anticipate", "estimate", "forecast", "intend", "continue", "project", "schedule" and other similar terminology. The forward-looking statements contained in this MD&A are based on information currently available to management of the Company and that management currently believes are based on reasonable assumptions. However, neither the Company nor management of the Company 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)

2017

Sienna Senior Living Inc.

Sienna
SENIOR LIVING

Consolidated Financial Statements

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Management's Responsibility for Financial Reporting

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

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

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

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

"Lois Cormack"
Lois Cormack
President and Chief Executive Officer

"Nitin Jain"
Nitin Jain
Chief Financial Officer and Chief Investment Officer

Markham, Canada
February 15, 2018

February 15, 2018

Independent Auditor's Report

To the Shareholders of Sienna Senior Living Inc.

We have audited the accompanying consolidated financial statements of Sienna Senior Living Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of changes in equity, operations, comprehensive income and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sienna Senior Living Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

	Notes	**December 31, 2017**	December 31, 2016
ASSETS			
Current assets			
Cash		**18,765**	27,200
Accounts receivable and other assets	6, 24	**7,833**	8,380
Income support	4	**865**	—
Prepaid expenses and deposits		**9,530**	1,693
Government funding receivable		**3,751**	3,221
Construction funding receivable	6, 22	**10,589**	10,138
Income taxes receivable		**934**	—
		52,267	50,632
Government funding receivable		**639**	1,030
Interest rate swap contracts	6	**1,881**	1,172
Restricted cash	8	**27,975**	20,375
Construction funding receivable	6, 22	**54,025**	64,637
Property and equipment	9	**906,610**	756,986
Intangible assets	10	**229,810**	202,160
Goodwill	11	**121,651**	107,226
Total assets		**1,394,858**	1,204,218
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	17	**81,858**	73,752
Government funding payable		**3,128**	1,917
Current portion of long-term debt	6, 12	**47,185**	93,196
Convertible debentures	6, 13	**44,267**	—
Income taxes payable		**—**	3,400
Interest rate swap contracts	6	**380**	810
		176,818	173,075
Long-term debt	6, 12	**751,423**	614,027
Convertible debentures	6, 13	**—**	44,352
Deferred income taxes	15	**59,662**	60,856
Government funding payable		**2,211**	1,816
Share-based compensation liability	18	**7,186**	5,078
Obligation to purchase interest in PSM	29	**—**	2,100
Interest rate swap contracts	6	**1,358**	2,707
Total liabilities		**998,658**	904,011
EQUITY			
Shareholders' equity		**396,200**	300,176
Non-controlling interest	29	**—**	31
Total equity		**396,200**	300,207
Total liabilities and equity		**1,394,858**	1,204,218
Commitments and contingencies	21		

See accompanying notes.

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

"Dino Chiesa"
Dino Chiesa
Chair and Director

"Janet Graham"
Janet Graham
Director

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Shareholders' deficit	Accumulated other comprehensive income (loss)	Total Shareholders' equity	Non-controlling interest	Total equity
Balance, January 1, 2017		**522,766**	**515**	**121**	**(220,401)**	**(2,825)**	**300,176**	**31**	**300,207**
Issuance of shares	16	**116,528**	**—**	**—**	**—**	**—**	**116,528**	**—**	**116,528**
Net income	29	**—**	**—**	**—**	**21,402**	**—**	**21,402**	**413**	**21,815**
Other comprehensive income		**—**	**—**	**—**	**—**	**651**	**651**	**—**	**651**
Long-term incentive plan	16, 18	**44**	**—**	**36**	**—**	**—**	**80**	**—**	**80**
Share purchase loan	16	**23**	**—**	**—**	**—**	**—**	**23**	**—**	**23**
Dividends	17	**—**	**—**	**—**	**(42,660)**	**—**	**(42,660)**	**—**	**(42,660)**
Distributions		**—**	**—**	**—**	**—**	**—**	**—**	**(444)**	**(444)**
Balance, December 31, 2017		**639,361**	**515**	**157**	**(241,659)**	**(2,174)**	**396,200**	**—**	**396,200**

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

See accompanying notes.

	Notes	Year ended December 31, 2017	2016
Revenue	25	**557,690**	497,887
Expenses			
Operating		**439,562**	400,447
Depreciation and amortization		**37,620**	39,646
Administrative		**20,485**	18,022
	26	**497,667**	458,115
Income from continuing operations before net finance charges, transaction costs and provision for (recovery of) income taxes		**60,023**	39,772
Net finance charges	14	**25,421**	26,240
Transaction costs		**6,008**	8,007
Total other expenses		**31,429**	34,247
Income from continuing operations before provision for (recovery of) income taxes		**28,594**	5,525
Provision for (recovery of) income taxes from continuing operations			
Current		**7,285**	4,572
Deferred		**(506)**	(1,984)
	15	**6,779**	2,588
Net income from continuing operations		**21,815**	2,937
Net income from discontinued operations, net of taxes	5	**—**	8,546
Net income		**21,815**	11,483
Net income attributable to:			
Shareholders of the Company		**21,402**	11,307
Non-controlling interest	29	**413**	176
		21,815	11,483
Net income attributable to shareholders of the Company			
Basic and diluted net income from continuing operations per share	16	**$0.45**	$0.07
Basic net income from discontinued operations per share	16	**$0.00**	$0.21
Diluted net income from discontinued operations per share	16	**$0.00**	$0.20
Weighted average number of common shares outstanding - basic	16	**47,349,605**	40,498,775
Weighted average number of common shares outstanding - diluted	16	**50,024,573**	43,218,219

See accompanying notes.

	Notes	Year ended December 31, 2017	2016
Net income		**21,815**	11,483
Other comprehensive income			
Items that may be subsequently reclassified to the consolidated statements of operations:			
Loss on bond forward contracts, net of tax	15	651	627
Total comprehensive income		**22,466**	12,110

See accompanying notes.

	Notes	Year ended December 31, 2017	2016
OPERATING ACTIVITIES			
Net income		**21,815**	11,483
Add (deduct) items not affecting cash			
Depreciation of property and equipment		**30,909**	28,335
Amortization of intangible assets		**6,711**	11,311
Current income taxes		**7,285**	4,572
Deferred income taxes		**(506)**	(1,984)
Share-based compensation	18	**1,990**	1,240
Net finance charges	14	**25,421**	26,240
		93,625	81,197
Non-cash changes in working capital			
Accounts receivable and other assets		**203**	335
Prepaid expenses and deposits		**(253)**	(2,332)
Accounts payable and accrued liabilities		**7,146**	6,405
Income support		**135**	600
Government funding, net		**1,467**	(1)
		8,698	5,007
Interest paid on long-term debt and convertible debentures		**(28,547)**	(25,320)
Net settlement payment on interest rate swap contracts		**(907)**	(428)
Income taxes paid		**(11,820)**	(5,400)
Cash used in operating activities of discontinued operations	5	**—**	(8,182)
Cash provided by operating activities		**61,049**	46,874
INVESTING ACTIVITIES			
Purchase of property and equipment, net of disposals	9	**(13,068)**	(5,649)
Purchase of intangible assets	10	**(2,400)**	(2,612)
Amounts received from construction funding	22	**13,079**	13,080
Interest received from cash		**331**	234
Cash provided by discontinued operations	5	**—**	16,409
Deposit on acquisition		**(7,730)**	—
BC Acquisition		**—**	(103,570)
Acquisition of Nicola Lodge		**—**	(9,242)
Acquisition of Glenmore Lodge	4	**(5,699)**	—
Acquisition of Rosewood	4	**(2,038)**	—
Acquisition of Kawartha Lakes	4	**(20,896)**	—
Acquisition of Waterford Properties	4	**(102,390)**	—
Acquisition of remaining 50% interest in PSM		**(2,227)**	—
Change in restricted cash	8	**(792)**	(1,191)
Cash used in investing activities		**(143,830)**	(92,541)
FINANCING ACTIVITIES			
Gross proceeds from issuance of common shares	16	**115,007**	138,347
Share issuance costs		**(5,257)**	(5,591)
Repayment of long-term debt		**(136,116)**	(75,672)
Proceeds from long-term debt		**146,662**	31,500
Deferred financing costs		**(1,835)**	(930)
Change in Series B Debentures principal reserve fund	8	**(6,808)**	(6,391)
Distributions to non-controlling interest		**(444)**	(145)
Dividends paid	17	**(36,863)**	(32,787)
Dividend equivalents paid on subscription receipts		**—**	(1,964)
Interest received from subscription receipts funds		**—**	155
Cash provided by financing activities		**74,346**	46,522
(Decrease) increase in cash during the period		**(8,435)**	855
Cash, beginning of period		**27,200**	26,345
Cash, end of period		**18,765**	27,200

See accompanying notes.

1 Organization

Sienna Senior Living Inc. (the "**Company**") and its predecessors have been operating since 1972. The Company is one of Canada's leading seniors' living providers serving the continuum of independent living ("**IL**"), independent supportive living, assisted living ("**AL**"), memory care ("**MC**") and long-term care/ residential care ("**LTC**"/"**RC**", "**Long-term Care**") through the ownership and operation of seniors' living residences in the Provinces of British Columbia and Ontario. As at December 31, 2017, the Company owns and operates a total of 60 seniors' living residences: 17 retirement residences ("**RRs**" or "**Retirement Residences**"); 35 LTC residences; and eight seniors' living residences providing both private-pay IL and AL and funded LTC/ RC (including the Company's partial ownership in two newly built residences in British Columbia) ("**Baltic Properties**"). Under its management services division, the Company provides management services to 15 seniors' living residences in British Columbia and Ontario. In January 2018, the Company entered into an agreement to acquire ten additional RR's (Note 32).

The Company was incorporated under the Business Corporations Act (Ontario) on February 10, 2010 and was continued under the Business Corporations Act (British Columbia) on March 18, 2010. The Company closed its initial public offering of common shares on March 23, 2010. In connection with a Company-wide rebranding initiative that took effect on May 1, 2015, the Company changed its name from Leisureworld Senior Care Corporation to Sienna Senior Living Inc., pursuant to the filing of a Notice of Alteration with the British Columbia Registry Services on April 23, 2015. In connection with the name change to Sienna Senior Living Inc., the Company commenced trading on the Toronto Stock Exchange ("**TSX**") under the symbol "SIA".

The Company's business is carried on through a number of wholly owned limited partnerships formed under the laws of the Province of Ontario, except for two properties (referred to as the Option Properties and defined in Note 30), which are owned through a partnership between the Company and WVJ II General Partnership (an affiliate of Pacific Seniors Management Investments Ltd.).

As at December 31, 2017, the Company had outstanding 53,054,642 common shares and $44,509 in aggregate principal amount of convertible unsecured subordinated debentures (TSX symbol: SIA.DB) (formerly LW.DB) which, in aggregate, are convertible into 2,657,253 common shares.

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

2 Basis of preparation

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

The consolidated financial statements were approved by the Board of Directors for issuance on February 15, 2018.

3 Summary of significant accounting policies, judgments and estimation uncertainty

Basis of measurement

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

Basis of preparation

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

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

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

Basis of consolidation and business combinations

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

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

Subsidiaries are 100% owned and controlled by the Company, with the exception of Pacific Seniors Management ("**PSM**") which was only 50% owned by the Company until December 31, 2017 (Note 29) but is controlled by the Company. Subsidiaries are consolidated in these consolidated financial statements from the date of acquisition where control is transferred to the Company and continue to be consolidated until the date when the Company no longer controls the subsidiary. Non-controlling interest represents the 50% interest in PSM that is not held by the Company up to December 31, 2017.

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

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

Revenue recognition

Revenue includes amounts earned from the operation of LTC/RC, RRs, Preferred Health Care Services ("**PHCS**") and management fees associated with the operation of managed LTC and retirement residences. A significant portion of the LTC/RC revenue is earned from health authorities.

Long-term care revenue

Ontario's LTC sector is regulated by the Ministry of Health and Long-Term Care (**"MOHLTC"**), which provides funding to LTC residences for care. Operational funding is received monthly and is recognized to the extent that an eligible expense has been incurred. Funding that is not spent in accordance with the MOHLTC guidelines in the current year is recorded as government funding payable. The exception to this is the Other Accommodation funding, which is recognized as the services are rendered. Approximately 68% (2016 - 68%) of revenue from the Company's LTC residences is received from the MOHLTC, which primarily relates to flow-through envelopes. The Company also receives funding for structural compliance premiums, capital cost, accreditation and pay equity obligations, and reimbursement for up to 85% of property tax costs.

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

Baltic revenue

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

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

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

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

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

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

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

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

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

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

Construction in progress includes costs incurred for properties under redevelopment but not yet completed, including cost of funds used to finance the redevelopment, and is valued at cost. No depreciation is taken on the assets until the redevelopment is completed and the related assets are placed in use.

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

Intangible assets

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

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

Goodwill

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

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

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal ("**fair value**"). Fair value is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. These cash flows are discounted to arrive at the recoverable amount. In assessing fair value, the estimated future cash flows covering a five-year period are derived from the most recent financial budget, adjusted where appropriate to reflect market participant assumptions. Cash flows beyond the five-year period are extrapolated using the estimated growth rate. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Impairment of non-financial assets

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

Financial instruments

In accordance with International Accounting Standard (**"IAS"**) 39 – Financial Instruments – Recognition and Measurement ("IAS 39"), financial assets and financial liabilities are initially recognized on the date

they are originated at fair value, and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments.

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

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

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

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

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

Cash

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

Accounts receivable and other assets

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

Construction funding receivable

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

Restricted cash

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

Accounts payable and accrued liabilities

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

Government funding receivable/payable

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

Long-term debt

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

Convertible debentures

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

Obligation to purchase interest in PSM

Obligation to purchase the remaining 50% interest in PSM was classified as other financial liabilities. This obligation was initially recorded at fair value and subsequently measured at amortized cost.

Derivatives for which hedge accounting has not been applied

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

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

Impairment of financial assets

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

Transaction costs

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

instrument. Transaction costs directly attributable to the issuance of shares are recognized as a reduction of share capital.

Interest bearing debt obligations

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

Operating lease payments

Payments made under operating leases are recognized in the consolidated statements of operations on a straight-line basis over the term of the lease.

Share capital

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

Dividends

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

Earnings per share

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

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

Share-based compensation

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

Employee benefits

Short-term benefits

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

Long-term benefits

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

Income taxes

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

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

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

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

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

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

Segmented reporting

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

Accounting standards issued but not yet applied

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at the time of initial recognition. The classification depends on the Company's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main difference is that, in cases where the fair value option is chosen for financial liabilities, the portion of fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than net income, unless this creates an accounting mismatch. In July 2014, IFRS 9 was amended to establish a mandatory effective date of January 1, 2018 with early adoption

permitted. The Company has not yet adopted this standard. Due to the nature of the Company's financial instruments, the impact of this new standard will not be material. The principal area impacted by the adoption will be the new impairment model for receivables.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued the new revenue standard that requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. In September 2015, the IASB deferred the effective date for the new standard for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company has not yet adopted this standard, but based on management's assessment, the impact of this new standard will not be material for the contracts in scope for IFRS 15. The adoption will require a disclosure change in the notes to the consolidated financial statements whereby revenue earned under IFRS 15 will be separately disclosed from revenue earned under IAS 17, Leases.

IFRS 16, Leases

In October 2015, the IASB issued the new standard that sets out the principles for the recognition, measurement and disclosure of leases. This new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, although earlier application is permitted for entities that apply IFRS 15. The Company has not adopted this standard, however, the impact will be to record the majority of the Company's operating leases in the consolidated statements of financial position.

IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB issued International Financial Reporting Interpretations Committee ("**IFRIC**") Interpretation 23, Uncertainty over Income Tax Treatments, which clarifies the application of recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Company is in the process of assessing the impact of this new interpretation.

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

Significant judgments and estimates

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

Property and equipment and intangible assets

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

(ii) Indefinite-lived intangible assets
In Ontario, the Long-Term Care Homes Act, 2007 ("**LTCHA**") contains a licence term regime for all LTC residences which will result in licence terms for the Company's residences ranging from 15 years for Class B and C residences to 30 years for Class A residences. Under the LTCHA, ultimate control of LTC licences in Ontario remains with the MOHLTC, including approval of new

licences, and transfer, renewal or revocation of existing licences. Although the licence does not support any guarantee of continued operation beyond the term of the licence, based on the current demographics in Canada and the demand for LTC beds projected to increase, management of the Company is of the view that licences will continue to be renewed.

In British Columbia, the RC licenses have an indefinite term.

Goodwill and indefinite lived intangible asset impairment analysis

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

Deferred taxes

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

Income taxes

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

4 Acquisitions

The total net purchase price of acquisitions during the year ended December 31, 2017 was allocated to the assets and liabilities on a preliminary basis as follows:

Acquisition date	December 1, 2017	July 5, 2017	June 1, 2017	March 15, 2017
	Waterford Properties	Kawartha Lakes	Rosewood	Glenmore Lodge
Assets				
Cash	—	—	—	428
Accounts receivable and other assets	—	18	25	3
Prepaid expenses	—	39	29	36
Property and equipment	124,804	17,622	8,449	16,590
Intangible assets	24,373	2,975	1,333	3,280
Goodwill	13,398	401	66	560
Deferred income taxes	—	—	—	136
Total assets	162,575	21,055	9,902	21,033
Liabilities				
Accounts payable and accrued liabilities	169	159	206	456
Long-term debt	61,016	—	4,658	13,650
Total liabilities	61,185	159	4,864	14,106
Net assets acquired	101,390	20,896	5,038	6,927
Cash consideration	102,390	20,896	2,038	6,377
Vendor-take-back mortgage	—	—	3,000	—
Settlement of option	—	—	—	550
Income support	(1,000)	—	—	—
Total consideration	101,390	20,896	5,038	6,927

On December 1, 2017, the Company acquired two retirement residences located in Barrie, Ontario and Kingston, Ontario (the "**Waterford Acquisition**"). Waterford Barrie Retirement Residence is a 202 suite IL, AL, and MC community, and Waterford Kingston Retirement Residence, a 182 suite IL, AL, and MC community, together the "**Waterford Properties**".

As part of the total purchase consideration for the Waterford Acquisition, the Company negotiated a $1,000 income support for a two-year term to be held in escrow. The Company has drawn down $135 of income support for the year ended December 31, 2017 (2016 - $nil).

The net assets of the Waterford Properties were acquired with cash consideration of $101,390. As part of the Waterford Acquisition, the Company assumed existing property-level mortgages in the amount of $43,091 with a fair value of $42,516, bearing interest at a rate ranging from 2.86% to 3.64% and maturing from December 30, 2021 to December 29, 2027. The mortgages are secured by a first charge on all Waterford Properties' assets owned by the Company and located at the property, and are subject to certain customary financial and non-financial covenants. The Company also assumed a non-revolving construction facility of $18,500.

On July 5, 2017, the Company completed the acquisition of Kawartha Lakes Retirement Residence, a 93 suite IL and AL retirement residence located in Bobcaygeon, Ontario (**"Kawartha Lakes"**).

The net assets of Kawartha Lakes were acquired with cash consideration of $20,896.

On June 1, 2017, the Company completed the acquisition of a formerly managed IL and AL retirement residence containing 68 suites in Kingston, Ontario ("**Rosewood**").

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

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

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

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

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

Transaction costs expensed related to these acquisitions for the year ended December 31, 2017 were $4,707.

If the acquisitions of the Waterford Properties, Kawartha Lakes, Rosewood and Glenmore Lodge had taken place on January 1, 2017, it is estimated that the consolidated revenue from continuing operations and consolidated net income from continuing operations for the Company for the year ended December 31, 2017 would have been approximately $579,345 and $36,734, respectively.

The total net purchase price of acquisitions during the year ended December 31, 2016 was allocated to the assets and liabilities as follows:

Acquisition date	September 15, 2016	August 2, 2016
	Nicola Lodge	BC Acquisition
Assets		
Cash	694	780
Accounts receivable and other assets	43	2,971
Prepaid expenses	29	488
Property and equipment	20,216	171,124
Intangible assets	9,766	75,992
Goodwill	413	14,530
Deferred income taxes	77	—
Total assets	31,238	265,885
Liabilities		
Accounts payable and accrued liabilities	407	5,493
Long-term debt	19,042	138,950
Deferred income taxes	—	4,114
Obligation to purchase interest in PSM	—	2,100
Total liabilities	19,449	150,657
Net assets acquired	11,789	115,228
Cash consideration	9,936	104,350
Share consideration	—	10,928
Settlement of option	1,853	—
Income support	—	(50)
Total consideration	11,789	115,228

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

- two IL retirement residences and six seniors' living residences providing both private-pay and funded RC;
- options to acquire up to a 100% interest, with the purchase price for the initial 50% interest being at a discount to fair market value, in two additional newly built seniors' living residences, Nicola Lodge (defined below) and Glenmore Lodge; and
- a 50% interest in PSM, the manager and operator of the Baltic Properties.

The BC Acquisition comprises in total 761 RC beds and 223 retirement suites.

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

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

The net assets of Nicola Lodge were acquired at a discount to fair value due to the partial exercise of the option acquired on the BC Acquisition, resulting in a cash consideration of $9,936.

Transaction costs expensed related to these acquisitions for the year ended December 31, 2016 were $6,012.

5 Discontinued operations

On April 28, 2016, the Company completed the sale of PHCS, the ancillary home care ("**Home Care**") business of the Company, for cash proceeds of $16,409, and discontinued its Home Care business. The Company recorded a gain on sale of $7,719, net of taxes of $2,142 for the year ended December 31, 2016.

The following table summarizes the net income from discontinued operations:

	Year ended December 31,	
	2017	**2016**
Revenue	—	5,278
Expenses	—	4,896
Income before net finance income and provision for income taxes	—	382
Net finance income	—	3
Gain on sale	—	9,861
Total other income	—	9,864
Income before provision for income taxes	—	10,246
Provision for (recovery of) income taxes		
Current	—	1,722
Deferred	—	(22)
	—	1,700
Net income from discontinued operations	—	8,546

6 Financial instruments

Fair value of financial instruments

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

	As at December 31, 2017			
		Fair value		
	Carrying value	**Level 1**	**Level 2**	**Level 3**
Financial Assets:				
Construction funding receivable	**64,614**	—	—	**67,925**
Interest rate swap contracts	**1,881**	—	**1,881**	—
Financial Liabilities:				
Long-term debt	**798,608**	—	**799,619**	—
Convertible debentures	**44,267**	**48,515**	—	—
Interest rate swap contracts	**1,738**	—	**1,738**	—

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

The fair value of construction funding receivable is estimated by discounting the expected future cash flows using current applicable rates for Government of Ontario bonds of comparable maturity plus a risk premium. As at December 31, 2017, the construction funding receivable was discounted using rates between 2.32% (December 31, 2016 - 2.36%) and 3.15% (December 31, 2016 - 3.34%).

The fair values of floating-rate debt approximate their carrying values. The fair values of fixed-rate debt are estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities. As at December 31, 2017, the fixed-rate debt was discounted using rates between 2.49% (December 31, 2016 - 2.52%) and 4.61% (December 31, 2016 - 4.61%).

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

Impairment charges on accounts receivable are discussed below. All finance income and costs from financial instruments have been disclosed in Note 14.

Maturities of financial instruments

For the years ending December 31, 2018 through 2022 and thereafter, the Company has estimated that the following undiscounted cash flows will arise from its government funding receivable/payable, interest rate swap contracts, construction funding receivable, long-term debt and convertible debentures at the consolidated statements of financial position date:

	As at December 31, 2017					
	2018	2019	2020	2021	2022	Thereafter
Government funding receivable/payable						
Cash inflows	3,751	639	—	—	—	—
Cash outflows	(3,128)	(2,211)	—	—	—	—
	623	(1,572)	—	—	—	—
Interest rate swap contracts						
Cash inflows	3,590	3,315	3,067	2,171	1,955	4,382
Cash outflows	(4,369)	(3,933)	(3,528)	(2,794)	(2,560)	(5,672)
	(779)	(618)	(461)	(623)	(605)	(1,290)
Construction funding receivable						
Cash inflows	13,079	12,732	12,390	10,841	9,771	15,017
Long-term debt						
Cash outflows	(83,256)	(122,870)	(112,169)	(320,770)	(46,454)	(216,455)
Convertible debentures						
Cash outflows	(45,535)	—	—	—	—	—
Net cash outflows	**(115,868)**	**(112,328)**	**(100,240)**	**(310,552)**	**(37,288)**	**(202,728)**

Nature and extent of risks arising from financial instruments

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

Interest rate risk

Interest rate risk arises as the fair value of future cash flows from a financial instrument can fluctuate because of changes in market interest rates. The Company is subject to interest rate risk on floating-rate debt associated with certain residences. The floating interest rates on these residences' debt are offset by interest rate swap contracts. The Company has not adopted hedge accounting for these interest rate swap contracts. Interest rates, maturities and security affecting the interest rate and credit risk of the Company's financial liabilities have been disclosed in Notes 12 and 13.

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

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, accounts receivable and other assets, restricted cash, construction funding receivable, government funding receivable and interest rate swap contracts. The Company is exposed to credit risk from its residents and customers. However, the Company has a significant number of residents and customers, which minimizes

concentration of credit risk. The credit risk related to amounts owed by LTC and Baltic residents is further mitigated by the Company's ability to recover certain amounts written off from the health authorities. A provision for management's estimate of uncollectible accounts receivable is established when there is objective evidence the Company will not be able to collect all amounts due. The Company assesses collectibility of specific accounts receivable and also assesses the requirement for a provision based on historical experience. When a receivable is uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of operations.

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

Balance, January 1, 2016	467
Provision for receivables during the year	427
Receivables written off during the year	(186)
Balance, December 31, 2016	708
Provision for receivables during the year	344
Receivables written off during the year	(38)
Balance, December 31, 2017	**1,014**

The Company has $1,366 in trade receivables (December 31, 2016 - $2,494) that are past due but not impaired. This amount has not been provided for as there has not been a significant change in the credit quality and the amount is still considered recoverable. The Company does not hold any collateral to support these balances.

The aging analysis of these receivables is as follows:

	2017	2016
0 - 30 days	886	1,339
31 - 60 days	217	317
61 - 90 days	90	57
Over 90 days	173	781
	1,366	2,494

The Company is also exposed to credit risk through the amounts receivable from the health authorities. The Company has assessed the credit risk associated with the amounts owed by the health authorities as low, as they are receivable from governments. During the year ended December 31, 2017, the Company provided for amounts receivable from the MOHLTC of $593; in 2016, the Company wrote off $643 primarily relating to 2008 through 2013 reconciliation years. Management has assessed the credit risk associated with the interest rate swap contracts, restricted cash and cash balances as low given the counterparties are major Canadian financial institutions that have been accorded investment grade ratings by a primary rating agency.

Liquidity risk

Liquidity risk is the risk the Company may encounter difficulties in meeting its obligations associated with financial liabilities and commitments. The Company has credit agreements in place related to the long-term debt. These credit agreements contain a number of standard financial and other covenants. The Company was in compliance with all covenants on its borrowings as at December 31, 2017. A failure by the Company to comply with the obligations in these credit agreements could result in a default, which, if not rectified or waived, could permit acceleration of the relevant indebtedness.

As at December 31, 2017, the Company had negative working capital (current liabilities less current assets) of $124,551 (December 31, 2016 - $122,443). The change in the negative working capital from December

31, 2016 primarily relates to the Company's convertible debentures and the portion of mortgage liabilities due within a twelve-month period. To support the Company's working capital deficiency, the Company has available cash generated from its operations and, if necessary, undrawn credit facilities.

Sensitivity analysis

IFRS requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of the Company's financial position, performance and fair value of cash flows associated with the Company's financial instruments to changes in market variables. The sensitivity analysis provided discloses the effect on the consolidated statements of operations as at December 31, 2017 assuming that a reasonably possible change in the relevant risk variable has occurred as at December 31, 2017. The reasonably possible changes in market variables used in the sensitivity analysis were determined based on implied volatilities where available or historical data.

The sensitivity analysis has been prepared based on December 31, 2017 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and the derivatives as at December 31, 2017 are all constant. Excluded from this analysis are all non-financial assets and liabilities that are not classified as financial instruments.

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

		Interest rate risk	
		-1%	**+1%**
	Fair Value	**Comprehensive Income**	**Comprehensive Income**
Financial Assets:			
Restricted cash	27,975	(32)	241
Interest rate swap contracts	1,881	1,199	(1,199)
Financial Liabilities:			
Credit facilities at variable rates subject to interest rate risk	68,500	331	(331)
Interest rate swap contracts	1,738	(634)	634

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

7 Capital management

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

The Company's objectives when managing capital are to: (i) maintain a capital structure that provides financing options to the Company for accessing capital, on commercially reasonable terms, without exceeding its debt capacity, pursuant to limitations in its credit facilities, or taking on undue risks; (ii) maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments and dividend payments; and (iii) deploy capital to provide an appropriate investment return to its shareholders.

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

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

The $322,000 Series B Senior Secured Debentures (**"Series B Debentures"**) and $20,000 revolving credit facility (Note 12) are collateralized by all assets of Leisureworld Senior Care LP (**"LSCLP"**) and its subsidiary partnerships and guaranteed by the subsidiary partnerships. Under its Master Trust Indenture, LSCLP is subject to certain financial and non-financial covenants including a debt service coverage ratio defined as income from operations and construction funding to debt service.

The Royale LP $105,000 Revolving Credit Facility (the "**Royale Credit Facility**") (Note 12) is secured by the Red Oak Retirement Residence and Royale Place Retirement Residence ("**Ontario Portfolio**") assets and the Astoria Retirement Residence ("**Astoria**") assets, and is subject to certain customary financial and non-financial covenants, including restrictions on the pledging of assets and the maintenance of various financial covenants.

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

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

8 Restricted cash

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

	December 31, 2017	December 31, 2016
Series B Debentures principal reserve fund	**23,924**	17,116
Capital maintenance reserve	**3,462**	2,675
Benefits reserve	**589**	584
Restricted cash	**27,975**	20,375

9 Property and equipment

	Land	Buildings	Furniture and fixtures	Automobiles	Computer hardware	Circulating equipment	Construction in progress	Total
Cost								
At January 1, 2016	80,018	603,465	20,243	394	1,612	952	—	706,684
BC Acquisition	19,237	145,873	5,803	211	—	—	—	171,124
Acquisition of Nicola Lodge	2,496	15,865	1,753	50	52	—	—	20,216
Additions	—	2,774	2,602	—	226	52	—	5,654
Dispositions	—	(8)	(207)	—	(131)	—	—	(346)
At December 31, 2016	101,751	767,969	30,194	655	1,759	1,004	—	903,332
Acquisition of Glenmore Lodge	1,715	13,109	1,660	63	43	—	—	16,590
Acquisition of Rosewood	1,078	7,278	93	—	—	—	—	8,449
Acquisition of Kawartha Lakes	1,053	16,351	178	40	—	—	—	17,622
Acquisition of Waterford Properties	3,609	119,705	1,490	—	—	—	—	124,804
Additions	198	4,291	3,210	21	753	115	4,488	13,076
Dispositions	—	—	—	—	(57)	—	—	(57)
At December 31, 2017	**109,404**	**928,703**	**36,825**	**779**	**2,498**	**1,119**	**4,488**	**1,083,816**
Accumulated depreciation								
At January 1, 2016	—	106,545	10,991	184	632	—	—	118,352
Charges for the year	—	26,140	1,869	99	227	—	—	28,335
Dispositions	—	(4)	(206)	—	(131)	—	—	(341)
At December 31, 2016	—	132,681	12,654	283	728	—	—	146,346
Charges for the year	—	27,755	2,709	129	316	—	—	30,909
Dispositions	—	—	—	—	(49)	—	—	(49)
At December 31, 2017	**—**	**160,436**	**15,363**	**412**	**995**	**—**	**—**	**177,206**
Net book value								
At December 31, 2016	101,751	635,288	17,540	372	1,031	1,004	—	756,986
At December 31, 2017	**109,404**	**768,267**	**21,462**	**367**	**1,503**	**1,119**	**4,488**	**906,610**

10 Intangible assets

	Licences	Resident relationships	Service contracts	Computer software	Total
Cost					
At January 1, 2016	106,020	73,395	10,968	3,441	193,824
BC Acquisition	70,783	5,209	—	—	75,992
Acquisition of Nicola Lodge	9,570	196	—	—	9,766
Additions	—	—	—	2,612	2,612
Dispositions	—	(4,453)	—	(49)	(4,502)
At December 31, 2016	186,373	74,347	10,968	6,004	277,692
Acquisition of Glenmore Lodge	2,909	371	—	—	3,280
Acquisition of Rosewood	—	1,333	—	—	1,333
Acquisition of Kawartha Lakes	—	2,975	—	—	2,975
Acquisition of Waterford Properties	—	24,373	—	—	24,373
Additions	—	—	—	2,400	2,400
At December 31, 2017	**189,282**	**103,399**	**10,968**	**8,404**	**312,053**
Accumulated amortization					
At January 1, 2016	—	61,033	7,274	416	68,723
Charges for the year	—	8,949	1,754	608	11,311
Dispositions	—	(4,453)	—	(49)	(4,502)
At December 31, 2016	—	65,529	9,028	975	75,532
Charges for the year	—	5,155	412	1,144	6,711
At December 31, 2017	**—**	**70,684**	**9,440**	**2,119**	**82,243**
Net book value					
At December 31, 2016	186,373	8,818	1,940	5,029	202,160
At December 31, 2017	**189,282**	**32,715**	**1,528**	**6,285**	**229,810**

11 Goodwill

Cost and carrying value, at January 1, 2016	98,804
BC Acquisition	14,530
Acquisition of Nicola Lodge	413
Less: Disposition of PHCS	(6,521)
Cost and carrying value, at December 31, 2016	107,226
Acquisition of Glenmore Lodge	560
Acquisition of Rosewood	66
Acquisition of Kawartha Lakes	401
Acquisition of Waterford Properties	13,398
Cost and carrying value, at December 31, 2017	**121,651**

For the 2017 goodwill impairment analysis, the Company used an average post-tax discount rate of approximately 4.82% across the CGUs and an average growth rate of 1.48% (2016 - 1.39%) before considering expansion projects. The Company has not recognized any goodwill impairment losses.

12 Long-term debt

	Interest rate	Maturity date	December 31, 2017	December 31, 2016
Series B Debentures	3.474%	February 3, 2021	**322,000**	322,000
Credit facilities	Floating	2019-2020	**68,500**	35,500
Mortgages at fixed rates	2.77% - 7.11%	2018-2041	**305,896**	288,301
Mortgages at variable rates	Floating	2019-2029	**103,103**	60,879
			799,499	706,680
Mark-to-market adjustments on acquisitions			**3,638**	4,506
Financing costs			**(4,529)**	(3,963)
Total debt			**798,608**	707,223
Less: current portion			**47,185**	93,196
			751,423	614,027

Principal repayments on long-term debt are as follows:

2018	47,133
2019	99,289
2020	82,196
2021	335,520
2022	36,302
Thereafter	199,059
	799,499

Continuity of debt

The following table is the long-term debt continuity for the year ended December 31, 2017:

	Current portion of long-term debt and long-term debt
Balance, January 1, 2017	707,223
Proceeds from long-term debt	146,662
Repayment of long-term debt	(136,116)
Deferred financing costs	(1,835)
Amortization of financing charges and fair value adjustments on acquired debt	350
Acquisition of Glenmore Lodge	13,650
Acquisition of Rosewood	7,658
Acquisition of Waterford Properties	61,016
Balance, December 31, 2017	**798,608**

Series B Senior Secured Debentures

The Series B Debentures have a face value of $322,000 maturing on February 3, 2021, and are collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships. The Series B Debentures bear interest at a rate of 3.474%, payable semi-annually in February and August of each year.

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

Principal Reserve Fund for Series B Debentures

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

Required contributions to the principal reserve fund are as follows:

2018	6,920
2019	7,112
2020	7,283
2021	610
	21,925

Offsetting of financial instruments

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

The following table presents the financial instruments that may be subject to enforceable master netting arrangements or other similar agreements but not offset as at December 31, 2017 and 2016 and shows in the 'Net amount' column what the net impact would be on the Company's consolidated statements of financial position if the set-off rights were exercised in the circumstance described above. As at December 31, 2017 and 2016, no recognized financial instruments are offset in the consolidated statements of financial position.

	As at December 31, 2017		
	Gross amount presented in the consolidated statements of financial position	Related accounts not set-off in the consolidated statements of financial position	Net amount
Financial Liabilities:			
Series B Debentures	322,000	(23,924)	298,076

	As at December 31, 2016		
	Gross amount presented in the consolidated statements of financial position	Related accounts not set-off in the consolidated statements of financial position	Net amount
Financial Liabilities:			
Series B Debentures	322,000	(17,116)	304,884

Credit facilities

Prior to January 18, 2017, the Company had a $57,000 revolving credit facility ("**Revolving Credit Facility**") that bore an interest rate of 187.5 bps per annum over the floating 30-day Banker's Acceptance ("**BA**") rate and was secured by the Ontario Portfolio assets of the Company's wholly owned subsidiary, The Royale

LP, and a $22,500 credit facility (the "**Astoria Credit Facility**") that bore an interest rate of 187.5 bps per annum over the floating 30-day BA rate and was secured by Astoria's assets. Both the Revolving Credit Facility and Astoria Credit Facility were guaranteed by the Company and were subject to certain customary financial and non-financial covenants.

On January 18, 2017, The Royale LP completed the amendment and restatement of the Royale Credit Facility. This amendment incorporated the Astoria Credit Facility (effectively terminating and replacing the facility) and increased the borrowing capacity from a combined $79,500 up to $105,000. The Royale Credit Facility matures on January 18, 2020. Borrowings under the Royale Credit Facility can take place by way of loans (at Canadian prime rate plus 75 bps per annum), BAs (at 175 bps per annum over the floating BA rate published by the Bank of Canada) and letters of credit (at prime rate plus 2.5 bps per annum). The Royale Credit Facility is secured by the Ontario Portfolio assets and the Astoria assets, and is subject to certain customary financial and non-financial covenants, including restrictions on the pledging of assets and the maintenance of various financial covenants. As at December 31, 2017, the Company had drawn $50,000 under the Royale Credit Facility (December 31, 2016 - $13,000 drawn under the Revolving Credit Facility and $22,500 drawn under the Astoria Credit Facility).

LSCLP has a $20,000 revolving credit facility which can be accessed for working capital purposes. This facility is collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships. It bears interest on cash advances at a rate of 150 bps per annum over the floating BA rate (30, 60 or 90 days), or at 50 bps per annum over the Canadian prime rate, and bears interest on letters of credit at 150 bps per annum. As at December 31, 2017, the Company had no amounts drawn on this facility (December 31, 2016 - $nil) and no letters of credit were outstanding (December 31, 2016 - $nil). During the year ended December 31, 2017, charges related to standby fees totalled $88 (2016 - $88).

13 Convertible debentures

The Company has convertible unsecured subordinated debentures outstanding with an aggregate principal amount of $44,509 (**"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 a rate of 4.65% per annum, which is payable semi-annually in June and December.

On issuance, the debt and equity components of the Convertible Debentures were bifurcated with $45,593 classified as a liability and $515 classified as equity attributable to the conversion option. The equity component included a deferred tax asset of $108. The liability portion of the Convertible Debentures was initially recorded at fair value and is subsequently carried at amortized cost. The Company incurred financing costs of $2,111 related to the Convertible Debentures, which are amortized over their term using the effective interest method and are recognized as part of net finance charges. During the year ended December 31, 2017, $574 (December 31, 2016 - $917) of Convertible Debentures were converted into 34,270 (December 31, 2016 - 54,744) common shares. As at December 31, 2017, $200 (December 31, 2016 - $605) of financing costs remain to be amortized and $42 (December 31, 2016 - $127) of fair value adjustment remains to be accreted.

14 Net finance charges

	Year ended December 31,	
	2017	2016
Finance costs		
Interest expense on long-term debt	**26,230**	23,397
Interest expense on Convertible Debentures	**2,167**	2,205
Fees on revolving credit facilities	**296**	227
Amortization of financing charges and fair value adjustments on acquired debt	**755**	513
Amortization of loss on bond forward contract	**885**	852
Dividend equivalents on subscription receipts	**—**	1,964
Fair value (gain) loss on interest rate swap contracts	**(1,581)**	1,034
	28,752	30,192
Finance income		
Interest income on construction funding receivable	**2,918**	3,307
Other interest income	**413**	490
Interest income on subscription receipts funds held in escrow	**—**	155
	3,331	3,952
Net finance charges from continuing operations	**25,421**	26,240

15 Income taxes

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

	Year ended December 31,	
	2017	2016
Income from continuing operations before provision for (recovery of) income taxes	**28,594**	5,525
Canadian combined income tax rate	**26.46%**	26.46%
Income tax expense	**7,566**	1,462
Adjustments to income tax provision:		
Non-deductible items	**285**	723
Book to filing adjustment	**(442)**	488
Other items	**(630)**	(85)
Provision for income taxes from continuing operations	**6,779**	2,588

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

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

	Accelerated tax depreciation	Intangible assets	Share issuance	Construction funding interest	Other	Total
As at January 1, 2016	(59,774)	(6,104)	539	4,714	652	(59,973)
Due to acquisitions during the year	(4,162)	(995)	—	—	1,119	(4,038)
Credit (charge) to net income	2,079	1,500	(660)	(875)	24	2,068
Book to filing adjustment	(46)	(236)	(5)	—	(34)	(321)
Charge to other comprehensive income	—	—	—	—	(225)	(225)
Credit to equity	—	—	1,633	—	—	1,633
As at December 31, 2016	(61,903)	(5,835)	1,507	3,839	1,536	(60,856)
Due to acquisitions in the year	(45)	73	—	—	91	119
Credit (charge) to net income	13,579	(12,956)	(185)	(772)	(591)	(925)
Book to filing adjustment	503	89	(51)	—	907	1,448
Charge to other comprehensive income	—	—	—	—	(234)	(234)
Credit to equity	—	—	786	—	—	786
As at December 31, 2017	**(47,866)**	**(18,629)**	**2,057**	**3,067**	**1,709**	**(59,662)**

The loss on bond forward contracts on the consolidated statements of comprehensive income is net of tax for the year ended December 31, 2017 of $234 (2016 - $225).

16 Share capital

Authorized

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

Issued and outstanding

Common shares

	Common shares	Amount
Balance, January 1, 2016	36,478,871	374,967
Long-term incentive plan, net of loans receivable	13,288	37
Share-based compensation	—	22
Dividend reinvestment plan	185,416	2,960
Issued common shares, net of issuance costs	64,767	1,075
Common shares issued in exchange for Subscription Receipts, net of share issuance costs	8,728,500	132,777
Common shares issued to partial seller of BC Acquisition	630,915	10,928
Balance, December 31, 2016	46,101,757	522,766
Long-term incentive plan, net of loans receivable (Note 18)	12,026	44
Share-based compensation (Note 18)	—	23
Dividend reinvestment plan	307,903	5,276
Issued common shares, net of share issuance costs (Notes 13 and 18)	6,632,956	111,252
Balance, December 31, 2017	**53,054,642**	**639,361**

On November 3, 2017, the Company completed its offering of common shares at a price of $17.45 per common share, on a bought deal basis. The syndicate of underwriters elected to exercise its over-allotment option in full, resulting in the issuance of 6,590,650 common shares for total gross proceeds of $115,007 (the "**November 2017 Offering**").

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

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

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

Dividend reinvestment plan

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

Earnings per share

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

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

	Year ended December 31,	
	2017	2016
Reconciliation of net income used as the numerator		
Net income from continuing operations	**21,815**	2,937
Less: Net income attributable to non-controlling interest	**413**	176
Net income used in calculating basic income from continuing operations per share	**21,402**	2,761
Net finance charges on convertible debentures	**2,572**	2,691
Current income tax adjustment	**(681)**	(712)
Net income used in calculating diluted income from continuing operations per share	**23,293**	4,740
Weighted average number of common shares used as the denominator		
Weighted average number of common shares - basic	**47,349,605**	40,498,775
Shares issued if all convertible debentures were converted	**2,674,968**	2,719,444
Weighted average number of common shares - diluted	**50,024,573**	43,218,219

17 Dividends

The Company paid dividends at $0.075 per month per common share totaling $36,863 for the year ended December 31, 2017 (2016 - $32,787). Dividends payable of $3,979 are included in accounts payable and accrued liabilities as at December 31, 2017 (December 31, 2016 - $3,458). Subsequent to December 31, 2017, the Board of Directors declared dividends of $0.075 per common share for January 2018 totaling $3,981. The Board of Directors also declared dividends of $0.075 per common share for February 2018, for common shares that will be outstanding as of February 28, 2018. These dividends have not been recorded in these consolidated financial statements.

18 Share-based compensation

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

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

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

On February 15, 2017, incentive award amounts entitling eligible Participants to acquire 12,026 common shares were granted pursuant to the LTIP. On the grant date, the Company provided a loan to the Participants for the LTIP shares granted and the Participants paid $11 towards the acquisition of common shares. This payment was recorded as an increase to share capital. Related to the LTIP in the year ended December 31, 2017, the Company recorded an increase of $44 to share capital (2016 - $37) and $36 to contributed surplus (2016 - $32). As at December 31, 2017, the outstanding loan balance was $772 (December 31, 2016 - $603). Total expense related to the LTIP for the year ended December 31, 2017 $36 (2016 - $32).

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

Valuation date	**February 15, 2017**	February 24, 2016
Fair value at grant date	**$17.75**	$15.68
Volatility	**16.55%**	16.67%
Monthly discrete dividend	**$0.075**	$0.075
Risk-free rate	**2.00%**	1.37%
Annual interest rate on Participant's loan	**2.70%**	2.70%
Forfeiture rate	**0.00%**	0.00%

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

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

During the year ended December 31, 2017, 2,382 RSUs (2016 - 16,706) were granted pursuant to the RSUP. Total expenses related to the RSUP for the year ended December 31, 2017 were $290 (2016 - $222), net of forfeitures. During the year ended December 31, 2017, 8,075 RSUs vested and were settled in shares, resulting in a decrease of $142 to the share-based compensation liability. The total liability recorded as part of the share-based compensation liability as at December 31, 2017 was $512 (December 31, 2016 - $364).

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

	Number of RSUs
Outstanding, January 1, 2016	33,564
Granted	16,706
Dividends reinvested	2,160
Settled in cash	(962)
Settled in shares	(10,023)
Outstanding, December 31, 2016	41,445
Granted	2,382
Dividends reinvested	1,984
Settled in shares	(8,075)
Outstanding, December 31, 2017	37,736

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

Eligible members of the Board of Directors (**"Members"**) can elect on an annual basis to receive their annual retainer fees up to 100% as DSUs, which may be redeemed only when the Member no longer serves on the Board of Directors for any reason. Redemptions will be paid out in cash. All such fees are credited to each Member in the form of notional shares using the Average Closing Price on the grant date. The Company will match the amount elected by each Member to be contributed to the DSU plan. Dividends accrue on the DSUs, as long as the Member continues to serve on the Board of Directors, as additional notional units under the DSU plan. The Compensation, Nominating and Governance Committee reserves the right to amend the eligible Members and compensation structure under this plan.

Total expenses related to the DSUP for the year ended December 31, 2017 were $1,158 (2016 - $596), which was recognized in administrative expenses. The total liability recorded related to the DSUP as a part of the share-based compensation liability as at December 31, 2017 was $4,925 (December 31, 2016 - $3,767). The value of each deferred share unit is measured at each reporting date and is equivalent to the fair value of a common share of the Company at the reporting date.

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

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

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

The value of each vested EDSU is measured at each reporting date and is equivalent to the fair value of a common share of the Company at the reporting date. During the year ended December 31, 2017, 44,159 (2016 - 35,543) executive deferred share units were granted. Total expenses related to the EDSUP for the year ended December 31, 2017 were $506 (2016 - $390), which was recognized in administrative expenses. The total liability recorded related to the EDSUP as a part of the share-based compensation liability as at December 31, 2017 was $1,749 (December 31, 2016 - $947).

19 Employee salaries and benefits

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

	Year ended December 31,	
	2017	2016
Salaries and short-term employee benefits	**324,621**	293,220
Group retirement savings plan	**8,083**	7,422
Termination benefits	**1,030**	1,153
Share-based compensation	**1,990**	1,240
	335,724	303,035

20 Key management compensation

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

	Year ended December 31,	
	2017	2016
Salaries and short-term employee benefits	**3,453**	2,936
Share-based compensation	**1,990**	1,240
	5,443	4,176

21 Commitments and contingencies

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

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

2018	1,057
2019	1,003
2020	968
2021	940
2022	909
Thereafter	1,664
	6,541

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

22 Construction funding receivable

As at December 31, 2017, the Company will receive gross funding from the Ontario government of approximately $73,830 (December 31, 2016 - $86,909) related to the construction costs of LTC residences. The amounts are non-interest bearing and will be received for certain LTC residences for various periods ending over the next 12 years, subject to the condition that the residences continue to operate as long-term care residences for the period for which the residences are entitled to the construction funding. As at December 31, 2017, the condition for the funding has been met.

The construction funding receivable is initially recorded at estimated fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates. Included in net finance charges is interest income on the construction funding receivable of $2,918 for the year ended December 31, 2017 (2016 - $3,307).

23 Trust funds

The Company maintains separate trust accounts on behalf of its LTC residents, which are not included in these consolidated financial statements. The total balance in the trust bank accounts as at December 31, 2017 was $1,146 (December 31, 2016 - $1,116).

24 Related party transactions

As at December 31, 2017, the Company had amounts outstanding from certain key management of $1,171 (December 31, 2016 - $1,026) in relation to grants under the LTIP and related share purchase loans, which have been recorded as a reduction to shareholders' equity. The LTIP's terms provide for the loans to bear interest at the Canadian prime rate prevailing at the Company's bank at the time of grant. The underlying common shares have been pledged as security against the respective loans.

25 Economic dependence

The Company holds licences related to each of its LTC/ RC residences and receives funding from the applicable health authorities related to those licences. During the year ended December 31, 2017, the Company received approximately $339,401 (2016 - $312,854) in respect of these licences.

26 Expenses by nature

	Year ended December 31,	
	2017	2016
Salaries, benefits and other people costs	**342,797**	310,480
Depreciation and amortization	**37,620**	39,646
Food	**24,516**	21,487
Purchased services and non-medical supplies	**18,506**	17,166
Property taxes	**12,601**	13,367
Utilities	**14,632**	14,525
Other	**46,995**	41,444
Total expenses from continuing operations	**497,667**	458,115

27 Subsidiaries

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

		Percentage of equity interest	
Name	**Country of incorporation**	**December 31, 2017**	December 31, 2016
Leisureworld Senior Care LP (Ontario)	Canada	100%	100%
2063412 Investment LP (Ontario)	Canada	100%	100%
2063414 Investment LP (Ontario)	Canada	100%	100%
2063415 Investment LP (Ontario)	Canada	100%	100%
2067474 Investment LP (Ontario)	Canada	100%	100%
2067475 Investment LP (Ontario)	Canada	100%	100%
Vigour Limited Partnership (Ontario)	Canada	100%	100%
The Royale LP (Ontario)	Canada	100%	100%
The Royale Development LP (Ontario)	Canada	100%	100%
The Royale West Coast LP (Ontario)	Canada	100%	100%
Sienna Baltic LP	Canada	100%	100%
Sienna Baltic Development LP	Canada	100%	100%
2371281 Investment LP (Ontario)	Canada	100%	100%
Sienna Management LP (Ontario)	Canada	100%	100%

28 Segmented information

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

The Company is comprised of the following main business segments:

- LTC - The Company's LTC segment consists of 35 LTC residences in the Province of Ontario and the LTC management services business.
- Retirement - The Company's Retirement segment consists of 17 RRs, five of which are located in the Province of British Columbia and twelve of which are located in the Province of Ontario, and the RR management services business.
- Baltic - The Baltic segment consists of the eight Baltic Properties, which are located in the Province of British Columbia, and a 50% interest in PSM held during the year. The remaining 50% interest in PSM was acquired effective December 31, 2017.
- Corporate, Eliminations and Other - This segment represents the results of head office, intercompany eliminations and other items that are not allocable to the segments; and
- Discontinued operations - The Company's Home Care segment, operating as PHCS, was sold on April 28, 2016 (Note 5).

	Year ended December 31, 2017						
	Long-term Care	**Retirement**	**Baltic**	**Corporate, Eliminations and Other**	**Total From Continuing Operations**	**Home Care - Discontinued Operations**	**Total**
Gross revenue	**434,920**	**71,057**	**66,470**	**44,979**	**617,426**	**—**	**617,426**
Less: Internal revenue	**12,543**	**—**	**2,214**	**44,979**	**59,736**	**—**	**59,736**
Net revenue	**422,377**	**71,057**	**64,256**	**—**	**557,690**	**—**	**557,690**
Income (loss) before net finance charges, transaction costs and the provision for income taxes	**50,376**	**20,021**	**12,586**	**(22,960)**	**60,023**	**—**	**60,023**
Finance costs	**16,739**	**4,688**	**4,754**	**2,571**	**28,752**	**—**	**28,752**
Finance income	**(3,387)**	**—**	**(91)**	**147**	**(3,331)**	**—**	**(3,331)**
Transaction costs	**—**	**—**	**—**	**6,008**	**6,008**	**—**	**6,008**
Income tax expense	**—**	**—**	**—**	**6,779**	**6,779**	**—**	**6,779**
Net income (loss)	**37,024**	**15,333**	**7,923**	**(38,465)**	**21,815**	**—**	**21,815**
Purchase of property and equipment, net of disposals	**8,441**	**154,335**	**17,382**	**375**	**180,533**	**—**	**180,533**
Purchase of intangible assets	**17**	**28,691**	**3,281**	**2,372**	**34,361**	**—**	**34,361**

	Year ended December 31, 2016						
	Long-term Care	Retirement	Baltic	Corporate, Eliminations and Other	Total From Continuing Operations	Home Care - Discontinued Operations	Total
Gross revenue	426,122	57,109	24,487	36,719	544,437	5,278	549,715
Less: Internal revenue	9,184	—	647	36,719	46,550	—	46,550
Net revenue	416,938	57,109	23,840	—	497,887	5,278	503,165
Income (loss) before net finance charges, transaction costs and the provision for income taxes	43,467	10,681	4,537	(18,913)	39,772	382	40,154
Finance costs	17,149	6,304	2,144	4,595	30,192	—	30,192
Finance income	(3,459)	(7)	(1)	(485)	(3,952)	(3)	(3,955)
Transaction costs	—	—	—	8,007	8,007	—	8,007
Gain on sale	—	—	—	—	—	(9,861)	(9,861)
Income tax expense	—	—	—	2,588	2,588	1,700	4,288
Net income (loss)	29,777	4,384	2,394	(33,618)	2,937	8,546	11,483
Purchase of property and equipment, net of disposals	2,939	31,902	161,649	504	196,994	(5)	196,989
Purchase of intangible assets, net of disposals	8	1,791	83,952	2,619	88,370	—	88,370

	As at December 31, 2017						
	Long-term Care	**Retirement**	**Baltic**	**Corporate, Eliminations and Other**	**Total From Continuing Operations**	**Home Care - Discontinued Operations**	**Total**
Total assets	**617,603**	**473,057**	**280,520**	**23,678**	**1,394,858**	**—**	**1,394,858**
Goodwill	**89,773**	**16,375**	**15,503**	**—**	**121,651**	**—**	**121,651**
Intangible assets	**106,897**	**31,153**	**85,495**	**6,265**	**229,810**	**—**	**229,810**

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

29 Non-controlling interest

Non-controlling interest represents the 50% interest in PSM that was not held by the Company during the years ended December 31, 2017 and 2016. The movement in non-controlling interest is shown in the consolidated statement of changes in equity. Effective December 31, 2017, the Company acquired the remaining 50% interest in PSM for $2,227.

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

	Year ended December 31,	
	2017	2016
Net income and total comprehensive income from PSM	**826**	352
Non-controlling interest share of ownership	**50%**	50%
Net income and total comprehensive income attributable to non-controlling interest	**413**	176

30 Joint arrangements

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

	December 31, 2017	**December 31, 2016**
Current assets	**3,129**	4,179
Long-term assets	**105,972**	68,197
Total assets	**109,101**	72,376
Current liabilities	**3,608**	3,309
Long-term liabilities	**67,513**	44,089
Total liabilities	**71,121**	47,398
Net assets	**37,980**	24,978
Share of net assets	**17,324**	9,991

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

As at December 31, 2017, the Company's share of net assets in Nicola Lodge and Glenmore Lodge were $11,119 and $6,205 (December 31, 2016 - $9,991 and $nil), respectively.

	Year ended December 31,	
	2017	**2016**
Revenue	**26,203**	5,540
Expenses	**20,666**	3,807
Income before other expenses	**5,537**	1,733
Other expenses	**2,961**	1,047
Net income	**2,576**	686
Share of net income	**1,210**	274

For the year ended December 31, 2017, the Company's share of net income in Nicola Lodge and Glenmore Lodge were $688 and $522 (2016 - $274 and $nil), respectively.

31 Comparative figures

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

32 Subsequent events

On January 22, 2018, the Company entered into an agreement to acquire a portfolio of ten senior's living residences consisting of 1,245 private-pay suites (the "**Acquired Properties**") located primarily in the Greater Toronto Area and the Greater Ottawa Area (the "**Acquisition**"). The aggregate purchase price for the Acquired Properties is approximately $382,000, subject to customary closing adjustments. The Company expects the completion of the Acquisition during the second quarter of 2018. The Company expects to finance the Acquisition and its related transaction costs through a combination of: (i) the assumption of approximately $76,000 in existing mortgages, at a weighted average interest rate of 4.0% and a weighted average term to maturity of 6.3 years; (ii) a $162,614 acquisition term loan facility that the Company expects to refinance post-closing; (iii) net proceeds of the Offering (as defined below); and (iv) draws on the Company's existing credit facilities.

On February 9, 2018, the Company completed an offering of 9,066,000 common shares at a price of $17.65 per common share, on a bought deal basis, for gross proceeds of $160,015 (the “**Offering**”). Pursuant to the underwriting agreement for the Offering, the Company has granted the syndicate of underwriters an over-allotment option, exercisable in whole or in part at any time not later than the 30th day following the closing of the Offering, to purchase up to an additional 1,359,900 common shares on the same terms as the Offering.