

Q2 2015

*Sienna*  
SENIOR LIVING



Report to Shareholders

Q2 2015



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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## Basis of Presentation

The following Management's Discussion and Analysis ("**MD&A**") for Sienna Senior Living Inc. (formerly Leisureworld Senior Care Corporation) (the "**Company**") provides a summary of the financial results for the three and six month periods ended June 30, 2015. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and six month periods ended June 30, 2015 and the notes thereto, the audited consolidated financial statements for the year ended December 31, 2014 and the notes thereto, and the MD&A for the year ended December 31, 2014. This material is available on the Company's website at [www.siennaliving.ca](http://www.siennaliving.ca). Additional information about the Company, including its Annual Information Form ("**AIF**") for the year ended December 31, 2014, can be found on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at [www.sedar.com](http://www.sedar.com). In accessing the Company's information, readers are reminded of the Company's predecessor name, Leisureworld Senior Care Corporation, and that the information of Leisureworld Senior Care Corporation is the information of the Company.

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

This MD&A was approved by the Board of Directors of the Company on August 11, 2015, and is based on information available to management as of that date.

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

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

The Company is listed on the Toronto Stock Exchange (the "**TSX**") under the trading symbol **SIA** (formerly **LW**). As of August 11, 2015, the following securities of the Company were outstanding: 36,414,487 common shares; and \$46,000 in aggregate principal amount of convertible unsecured subordinated debentures (TSX symbol: **SIA.DB**, formerly **LW.DB**) which, in the aggregate, are convertible into 2,746,269 common shares (the "**Convertible Debentures**"). The Convertible Debentures have a maturity date of June 30, 2018.

## Forward-Looking Statements

This document contains forward-looking information based on management's 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," "will," "expect," "believe," "plan", "should", "could", "anticipate", "intend", "continue", "project" and other similar terminology. The forward-looking statements contained in this MD&A are based on information currently available to management and that management currently believes are based on reasonable assumptions. However, neither the Company nor management can ensure actual results will be consistent with these forward-looking statements. These forward-looking statements are as of the date of this MD&A, and Sienna Senior Living Inc. and management assume no obligation to update or revise them to reflect new events or circumstances except as required by securities laws. Readers are cautioned not to place undue reliance on any forward-looking statements.

## Non-IFRS Performance Measures

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

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

"**FFO**" is a recognized earnings measure that is widely used by public real estate entities, particularly by those entities that own and operate income-producing properties. FFO is a financial measure which should not be considered as an alternative to net income, cash flow from operations, or any other operating or liquidity measure prescribed under IFRS. The Company presents FFO in accordance with the REALpac White Paper on Funds From Operations for IFRS (Source: White Paper on Funds From Operations for IFRS - Revised April 2014). The use of FFO, combined with the required IFRS presentations, has been included for the purpose of improving the understanding of the operating results.

"**OFFO**" is FFO adjusted for one-time items such as the Series A Debentures premium payment and presentation of finance charges on a cash interest basis. Management is of the view that OFFO presents a better measure of earnings for the Company.

"**AFFO**" is defined as OFFO plus the principal portion of construction funding received, amounts received from income support arrangements and non-cash deferred share unit compensation expense less maintenance capital expenditures ("**maintenance capex**"). Other adjustments may be made to AFFO as determined by

management and the Board of Directors at their discretion. Management believes AFFO is useful in the assessment of the Company's operating cash performance, and is also a relevant measure of the ability of the Company to pay dividends to shareholders.

"EBITDA" is defined as earnings before interest, taxes, depreciation and amortization, construction funding proceeds and non-recurring items. Other adjustments may be made as determined by management and the Board of Directors at their discretion.

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

### Key Performance Indicators

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

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

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

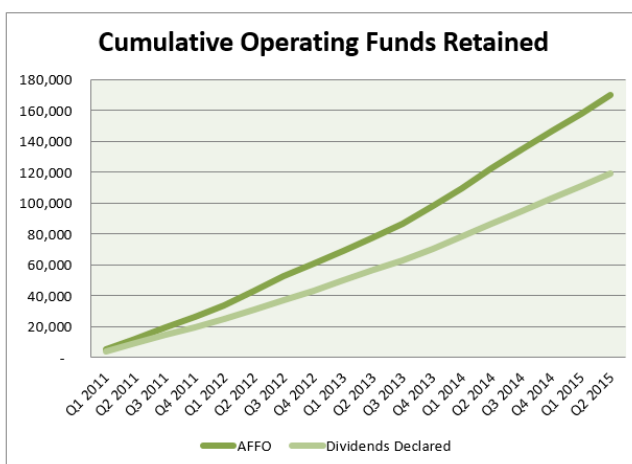
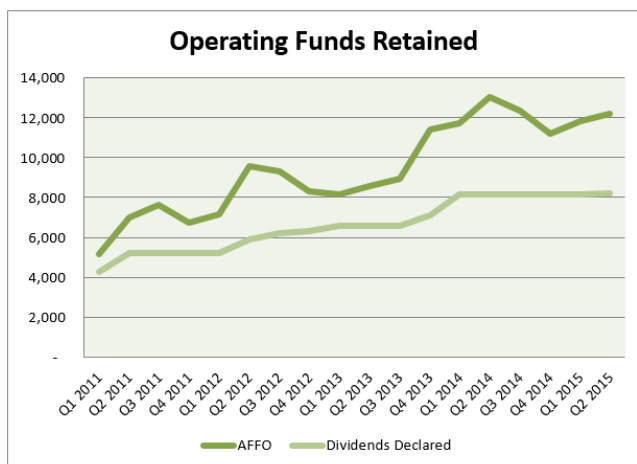
The following table presents the key performance indicators for the three and six months ended June 30, 2015 and 2014:

Thousands of Dollars, except occupancy, share and ratio data	Three Months Ended			Six Months Ended		
	2015	2014	Change	2015	2014	Change
<b>OCCUPANCY</b>						
LTC - Average total occupancy	<b>98.5%</b>	98.5%	—%	<b>98.3%</b>	98.5%	-0.2%
LTC - Average private occupancy	<b>99.7%</b>	99.1%	0.6%	<b>99.3%</b>	98.9%	0.4%
Retirement - Average occupancy	<b>87.0%</b>	83.0%	4.0%	<b>86.9%</b>	83.1%	3.8%
Retirement - As at occupancy	<b>88.8%</b>	83.0%	5.8%	<b>88.8%</b>	83.0%	5.8%
<b>FINANCIAL</b>						
NOI <sup>(1),(2)</sup>	<b>20,950</b>	20,175	775	<b>40,948</b>	39,703	1,245
OFFO	<b>10,448</b>	10,892	(444)	<b>20,057</b>	20,256	(199)
AFFO	<b>12,179</b>	13,047	(868)	<b>24,015</b>	24,751	(736)
<b>PER SHARE INFORMATION</b>						
OFFO per share, basic	<b>0.287</b>	0.300	(0.013)	<b>0.552</b>	0.559	(0.007)
OFFO per share, diluted	<b>0.279</b>	0.290	(0.011)	<b>0.537</b>	0.540	(0.003)
AFFO per share, basic	<b>0.335</b>	0.360	(0.025)	<b>0.661</b>	0.683	(0.022)
AFFO per share, diluted	<b>0.324</b>	0.345	(0.021)	<b>0.639</b>	0.655	(0.016)
Dividends per share	<b>0.225</b>	0.225	—	<b>0.450</b>	0.450	—
Payout ratio (basic AFFO)	<b>67.2%</b>	62.5%	4.7%	<b>68.1%</b>	65.9%	2.2%
<b>FINANCIAL RATIOS</b>						
Debt Service Coverage Ratio <sup>(3)</sup>	<b>2.0</b>	2.0	—	<b>2.0</b>	1.9	0.1
Debt to Gross Book Value as at period end	<b>55.4%</b>	57.4%	-2.0%	<b>55.4%</b>	57.4%	-2.0%
Weighted Average Cost of Debt as at period end	<b>3.8%</b>	3.9%	-0.1%	<b>3.8%</b>	4.0%	-0.2%
Debt to EBITDA Ratio as at period end	<b>7.8</b>	8.1	(0.3)	<b>7.8</b>	8.1	(0.3)
Interest Coverage Ratio	<b>3.3</b>	3.1	0.2	<b>3.2</b>	2.9	0.3
Weighted average term to maturity as at period end	<b>5.0</b>	5.2	(0.2)	<b>5.0</b>	5.2	(0.2)

	2015 v. 2014		2015 v. 2014	
<b>SAME PROPERTY PERCENT CHANGE IN NOI</b>				
Long-Term Care		1.1%		1.2%
Retirement		7.0%		8.9%
Total		3.8%		3.1%

Notes:

- Q2 2015 includes one-time restructuring charges of \$349 which comprises of \$90 for Home Care and \$259 for administrative expenses.
- For the three and six months ended June 30, 2015, the Company recorded MOHLTC reconciliation adjustments that decreased revenue and NOI by \$536 (2014 - \$956) and \$511 (2014 - \$956), respectively. The adjustments relate to the difference between the Company's annual reconciliation filings with the MOHLTC and their assessments of those filings as it relates to the 2007 and 2008 reconciliation years. These adjustments are based on current period correspondence with the MOHLTC and the Company's best estimate of the probability of recovery of the outstanding amounts.
- The Series B Debentures issued on February 3, 2014 require the funding of a principal reserve fund to fund the eventual repayment of such debentures. For Q2 2015, \$1,517 (2014 - \$1,282) was contributed to the principal reserve fund and for the six months ended June 30, 2015, \$2,940 (2014 - \$2,139) was contributed to the principal reserve fund, which contribution is included in the calculation of the Debt Service Coverage Ratio.



Operating funds retained is equal to AFFO less dividends declared.

## Company Profile

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

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

The Company and its predecessors have been operating since 1972. The Company's business is carried on through a number of wholly-owned limited partnerships formed under the laws of the Province of Ontario. Through its subsidiaries, the Company owns and operates 35 long-term care ("LTC") homes (representing an aggregate of 5,733 beds), all of which are located in the Province of Ontario. The Company also owns and operates 10 retirement residence ("RR") communities (representing 1,066 suites and apartments) in the Provinces of Ontario and British Columbia. An ancillary business of the Company is Preferred Health Care Services ("Home Care" or "PHCS"), an accredited provider of professional nursing and personal support services for both community-based home healthcare and LTC homes. The Company also operates a management services division which provides management and consulting services to LTC homes and RR communities in Ontario.

ASSET CLASS	COMMUNITIES	LONG-TERM CARE (Beds)				RETIREMENT (Suites / Apartments)	TOTAL
		Basic and Other	Semi-Private	Private - \$18.00 Premium	Private - Up to \$23.25 Premium	Total	Beds / Suites / Apartments
LONG-TERM CARE	35	2,609	857	240	2,027	—	5,733
RETIREMENT	10	—	—	—	—	1,066	1,066
<b>TOTAL</b>	<b>45</b>	<b>2,609</b>	<b>857</b>	<b>240</b>	<b>2,027</b>	<b>1,066</b>	<b>6,799</b>



On May 1, 2015, the Company effected a company-wide rebranding strategy, resulting in a legal name change of the Company from Leisureworld Senior Care Corporation to Sienna Senior Living Inc., and a renaming of the Company's LTC homes and RR communities. The Company's underlying subsidiaries were not impacted by the name change. The name change of the Company was approved at the Annual and Special Meeting of the Company's shareholders held on April 21, 2015. In connection with the name change, the Company commenced trading under the new trading symbol "SIA".

## Company Objectives

### The objectives of the Company are to:

- 1) Provide quality care and services to seniors that is responsive to their changing needs across the continuum of care, by focusing on:
  - Achieving stabilized occupancy in RR homes and maintaining high occupancy in LTC homes.
  - Enhancing the services provided, to include specialized services in LTC to meet the changing needs of seniors across the continuum of care.
  - Improving the resident experience and satisfaction with care and services.
  - Focusing on employee engagement and leadership development and building a strong team that is passionate about helping seniors "live fully every day".
- 2) Maintain a strong financial position, by focusing on:
  - Maintaining an A (low) rating on the Series B Debentures.
  - Gradually reducing debt.
  - Maintaining adequate liquidity.
  - Creating a 10-year debt ladder over time.
- 3) Enhance the value of the Company's assets and promote the growth of its portfolio, by focusing on:
  - Maintaining existing assets with preventative maintenance and ongoing capital improvements.
  - Growing the portfolio within Canada.
- 4) Improve support services by focusing on:
  - Building on the recent Company rebranding initiatives, with further enhancements to the Company's website and functionality, and renewed sales and marketing strategies.
  - Improving the Company's use of technology to provide timely information, tools and education to the various locations.
  - Achieving synergies and efficiencies to manage operating expenses.

### **Our Vision**

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

### **Our Mission**

To help you live fully, every day.

### **Our Values**

#### **Respect**

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

#### **Passion**

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

#### **Teamwork**

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

#### **Responsibility**

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

#### **Growth**

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

### **Industry Overview**

Please refer to the Company's MD&A for the year ended December 31, 2014, as well as the AIF, for an in-depth discussion of the Industry Overview.

### **Business Overview**

Please refer to the Company's MD&A for the year ended December 31, 2014, as well as the AIF, for an in-depth discussion of the Business Overview.

## Outlook

Management believes that with a diversified portfolio, development potential and strong operating platform, 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 outside of hospitals, and the regulatory and operational barriers to entry in all four of the Company's business segments.

### Long-Term Care

During Q2 2015, LTC delivered solid results, as reflected by the increase of 1.1% on same property NOI over the prior year comparable period. The Company continued to experience strong demand for all LTC beds, with private average occupancy for Q2 2015 at 99.7%. To date, 60.9% of its Class A private beds, compared to 58.9% as of March 31, 2015, have been converted to the increased per resident rates of \$19.75, \$21.50 or \$23.25 per day.

Management continues to work through detailed feasibility analyses and related planning with respect to the potential redevelopment of its older LTC homes, in light of the Ministry of Health and Long-Term Care's ("MOHLTC") renewal strategy guidelines, including with a view to redeveloping or upgrading to the new Class A structural classifications. Management anticipates that redeveloped LTC homes will be mostly green field projects, requiring extended periods of time for both planning and approvals phases, and further anticipates creating and implementing a seniors' living continuum of care in certain of these redeveloped LTC homes by providing a range of independent living, assisted living, memory care and specialized LTC services. See Growth Strategy below.

The MOHLTC recently issued notice of initiatives intended to reform the Ontario Drug Benefit ("ODB") program to implement a number of changes to pharmacy payments, practices and programs. The proposed initiatives would take effect on October 1, 2015 and include lowering the dispensing fee paid to pharmacies that serve LTC residents, as well as the mark-up paid to pharmacies on eligible ODB prescription drugs. The Company is currently actively reviewing the MOHLTC initiatives and is in the process of determining the impact of the proposed changes.

### Retirement

In Q2 2015, the Company's RR portfolio experienced a 7.0% increase in NOI over the prior year comparable period. As at occupancy increased by 5.8% over Q2 of the prior year to 88.8% at the end of Q2 2015. Management expects the Company to generate moderate organic growth in its RR portfolio through gains in occupancy in the following four RR homes that are currently in lease-up: Astoria Retirement Residence ("**Astoria**") (formerly Royale Astoria), Peninsula Retirement Residence ("**Peninsula**") (formerly Royale Peninsula), Royale Place Retirement Residence ("**Royale Place**") (formerly Royale Kingston) and Red Oak Retirement Residence ("**Red Oak**") (formerly Royale Kanata). Prompted by the Company's rebranding initiative, management expects that these lease-up homes are well positioned to achieve an average occupancy of 90% by the end of Q4 2015, with the exception of Red Oak. Management believes that the renaming of the RR homes and improvements in the Company's website and information flow, together with its demonstration of a renewed commitment to the communities in which the homes operates, will have a positive impact on sales and marketing efforts.

## Home Care

Management continues to expect that PHCS, the Company's Home Care business, will experience minimal growth in personal support worker volumes through its contractual arrangements with Community Care Access Centres ("CCACs"), offset by increased operating expenses resulting from ongoing regulatory and quality standards compliance. Management remains committed to maintaining high quality Home Care services to meet client needs.

## General and Administrative Expenses

Management continues to make progress on strengthening the systems and processes supporting all four of its business segments. Management expects to continue to incur some one time costs associated with the transition and rebranding, as well as in reinforcing and modernizing the head office functions to support the recent and anticipated future growth of the Company.

## Growth Strategy

The Company continues to strengthen its operating platform in RR living and LTC, and expects to maintain growth through:

- Organic Growth - by maximizing the Company's assets through gains in RR occupancy levels and assisted living services; maintaining consistently high LTC occupancy; maximizing LTC preferred accommodation occupancy; and disciplined cost management.
- Acquisition Growth - by effecting strategic acquisitions and focusing on growing the Company's operating platform across Canada in both LTC and RR living.
- Development and Redevelopment - analyzing and investing in feasible options to rebuild some of its older LTC facilities on green field sites and concurrently create a continuum of care with the addition of independent living, assisted living, memory care and specialized LTC services.

As a result of the Company's diversified strategy, management believes that the Company is well positioned to respond to changing preferences and trends in seniors living. In the near term, management expects stable financial performance. In the longer term, management remains confident in its beliefs that the Company and its stakeholders are well positioned for stable and predictable returns, a secure dividend and future growth.

## Significant Events

### *Rebranding*

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

## Quarterly Financial Information

Thousands of Dollars, except occupancy and per share data	2015		2014				2013	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	115,186	113,212	117,745	115,029	111,674	112,340	99,815	86,575
Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes	16,060	15,596	16,252	17,031	15,702	15,304	13,512	13,467
Net income (loss)	1,282	350	204	1,643	376	(18,064)	(6,348)	(706)
Per share and diluted per share	0.04	0.01	0.01	0.05	0.01	(0.50)	(0.20)	(0.02)
OFFO - Basic <sup>(1)</sup>	10,448	9,609	10,445	11,071	10,892	9,364	9,812	8,019
Per share	0.29	0.26	0.29	0.31	0.30	0.26	0.31	0.27
Per share diluted - excluding subscription receipts	0.28	0.26	0.29	0.29	0.29	0.25	0.30	0.26
Per share diluted - including subscription receipts	n/a	n/a	n/a	n/a	n/a	n/a	0.27	0.22
AFFO - Basic <sup>(1)</sup>	12,179	11,836	11,204	12,341	13,047	11,704	11,429	8,957
Per share	0.34	0.33	0.31	0.34	0.36	0.32	0.36	0.31
Per share diluted - excluding subscription receipts	0.32	0.32	0.31	0.33	0.35	0.31	0.35	0.29
Per share diluted - including subscription receipts	n/a	n/a	n/a	n/a	n/a	n/a	0.31	0.25
Dividends declared	8,188	8,175	8,164	8,160	8,159	8,158	7,116	6,598
Per share	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23
Occupancy								
LTC - Average total occupancy	98.5%	98.1%	98.8%	98.9%	98.5%	98.5%	98.7%	99.0%
LTC - Average private occupancy	99.7%	99.0%	99.8%	99.9%	99.1%	98.7%	99.4%	99.6%
Retirement - Average occupancy <sup>(2)</sup>	87.0%	86.9%	85.9%	84.3%	83.0%	82.7%	81.8%	78.5%
Retirement - As at occupancy <sup>(2)</sup>	88.8%	86.8%	86.8%	84.9%	83.0%	82.5%	82.9%	79.4%
Total assets	924,919	932,798	946,763	953,394	956,746	969,355	977,024	826,498
Total debt <sup>(3)</sup>	602,960	612,733	616,081	618,970	621,915	624,837	598,703	440,880

### Notes:

- Beginning in Q2 2014, management has elected to add back the impact of the MOHLTC reconciliation adjustments (discussion below) to OFFO and AFFO. Also, due to the immaterial nature of the adjustment in prior years, management has elected not to restate the 2013 information presented above.
- The comparative periods exclude respite occupancy data as it was not captured for periods prior to 2014.
- Total debt includes the Convertible Debentures and is net of amounts paid into the principal reserve fund on the Series B Debentures.

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

The Company recorded MOHLTC reconciliation adjustments that decreased revenue and NOI by \$536 in Q2 2015 and increased revenue and NOI by \$25 in Q1 2015. In the prior year, the MOHLTC reconciliation adjustments recorded decreased revenue and NOI by \$269 in Q4 2014, \$69 in Q3 2014 and \$956 in Q2 2014. The adjustments relate to the difference between the Company's annual reconciliation filings with the MOHLTC and the MOHLTC's assessments of those filings, primarily for the reconciliation years 2007 through to 2012 inclusive. These

adjustments are based on confirmation with the MOHLTC and the Company's best estimate of the probability of recovery of the outstanding amounts, based on recent information and interpretation of the funding mechanism.

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

In December 2013, the Company completed the acquisition of a portfolio of six LTC homes, two RRs, two properties containing both an LTC and RR component and third party seniors living management business previously operated by Specialty Care Inc. ("**2013 Acquisition**"), which contributed approximately \$1,783 to NOI for the one month period in Q4 2013.

A discussion of the operating results for the three and six months ended June 30, 2015 compared to the same period in the prior year is provided below under the section "Operating Results".

## Operating Results

The following are the operating results for the three and six months ended June 30, 2015 and 2014:

Thousands of Dollars	Three Months Ended			Six Months Ended		
	2015	2014	Change	2015	2014	Change
<b>Revenue</b>	<b>115,186</b>	111,674	3,512	<b>228,398</b>	224,014	4,384
<b>Expenses</b>						
Operating	<b>94,236</b>	91,499	2,737	<b>187,450</b>	184,311	3,139
Administrative	<b>4,890</b>	4,473	417	<b>9,292</b>	8,697	595
	<b>99,126</b>	95,972	3,154	<b>196,742</b>	193,008	3,734
<b>Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes</b>	<b>16,060</b>	15,702	358	<b>31,656</b>	31,006	650
<b>Other expenses</b>						
Depreciation and amortization	<b>8,907</b>	10,215	(1,308)	<b>18,416</b>	20,042	(1,626)
Net finance charges	<b>4,998</b>	5,513	(515)	<b>10,375</b>	34,906	(24,531)
Transaction costs	<b>232</b>	109	123	<b>270</b>	659	(389)
<b>Total other expenses</b>	<b>14,137</b>	15,837	(1,700)	<b>29,061</b>	55,607	(26,546)
<b>Income (loss) before the provision for (recovery of) income taxes</b>	<b>1,923</b>	(135)	2,058	<b>2,595</b>	(24,601)	27,196
<b>Provision for (recovery of) income taxes</b>						
Current	<b>343</b>	(471)	814	<b>628</b>	(2,178)	2,806
Deferred	<b>298</b>	(40)	338	<b>335</b>	(4,735)	5,070
	<b>641</b>	(511)	1,152	<b>963</b>	(6,913)	7,876
<b>Net income (loss)</b>	<b>1,282</b>	376	906	<b>1,632</b>	(17,688)	19,320
<b>Total assets</b>	<b>924,919</b>	956,746	(31,827)	<b>924,919</b>	956,746	(31,827)
<b>Total debt (net of principal reserve fund)</b>	<b>602,960</b>	621,915	(18,955)	<b>602,960</b>	621,915	(18,955)

## Revenue Breakdown

The following is the revenue breakdown for the three and six months ended June 30, 2015 and 2014:

Thousands of Dollars	Three Months Ended			Six Months Ended		
	2015	2014	Change	2015	2014	Change
<b>Long-Term Care</b>						
Same property	100,260	97,807	2,453	198,207	195,464	2,743
<b>Total Long-Term Care Revenue</b>	<b>100,260</b>	<b>97,807</b>	<b>2,453</b>	<b>198,207</b>	<b>195,464</b>	<b>2,743</b>
<b>Retirement</b>						
Same property	10,693	10,187	506	21,233	20,178	1,055
<b>Total Retirement Revenue</b>	<b>10,693</b>	<b>10,187</b>	<b>506</b>	<b>21,233</b>	<b>20,178</b>	<b>1,055</b>
<b>Home Care</b>						
Same property	4,296	4,297	(1)	8,498	8,688	(190)
<b>Total Home Care Revenue <sup>(1)</sup></b>	<b>4,296</b>	<b>4,297</b>	<b>(1)</b>	<b>8,498</b>	<b>8,688</b>	<b>(190)</b>
<b>Management Services</b>						
Same property	614	591	23	1,249	1,212	37
<b>Total Management Services Revenue</b>	<b>614</b>	<b>591</b>	<b>23</b>	<b>1,249</b>	<b>1,212</b>	<b>37</b>
<b>Total Revenue</b>						
Same property	115,863	112,882	2,981	229,187	225,542	3,645
MOHLTC reconciliation adjustments	(536)	(956)	420	(511)	(956)	445
Intersegment eliminations	(141)	(252)	111	(278)	(572)	294
<b>Total Revenue</b>	<b>115,186</b>	<b>111,674</b>	<b>3,512</b>	<b>228,398</b>	<b>224,014</b>	<b>4,384</b>

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

Note:

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



## Operating Expense Breakdown

The following operating expense breakdown is for the three and six months ended June 30, 2015 and 2014:

Thousands of Dollars	Three Months Ended			Six Months Ended		
	2015	2014	Change	2015	2014	Change
<b>Long-Term Care</b>						
Same property	84,281	82,008	2,273	167,972	165,586	2,386
<b>Total Long-Term Care Expenses</b>	<b>84,281</b>	<b>82,008</b>	<b>2,273</b>	<b>167,972</b>	<b>165,586</b>	<b>2,386</b>
<b>Retirement</b>						
Same property	6,000	5,801	199	11,825	11,538	287
<b>Total Retirement Expenses</b>	<b>6,000</b>	<b>5,801</b>	<b>199</b>	<b>11,825</b>	<b>11,538</b>	<b>287</b>
<b>Home Care</b>						
Same property	3,895	3,684	211	7,568	7,384	184
<b>Total Home Care Expenses</b>	<b>3,895</b>	<b>3,684</b>	<b>211</b>	<b>7,568</b>	<b>7,384</b>	<b>184</b>
<b>Management Services</b>						
Same property	201	258	(57)	363	375	(12)
<b>Total Management Services Expenses</b>	<b>201</b>	<b>258</b>	<b>(57)</b>	<b>363</b>	<b>375</b>	<b>(12)</b>
<b>Total Operating Expenses</b>						
Same property	94,377	91,751	2,626	187,728	184,883	2,845
Intersegment eliminations	(141)	(252)	111	(278)	(572)	294
<b>Total Operating Expenses</b>	<b>94,236</b>	<b>91,499</b>	<b>2,737</b>	<b>187,450</b>	<b>184,311</b>	<b>3,139</b>

## Net Operating Income Breakdown

The following net operating income breakdown is for the three and six months ended June 30, 2015 and 2014:

Thousands of Dollars	Three Months Ended			Six Months Ended		
	2015	2014	Change	2015	2014	Change
<b>Long-Term Care</b>						
Same property	15,979	15,799	180	30,235	29,878	357
<b>Total Long-Term Care NOI</b>	<b>15,979</b>	<b>15,799</b>	<b>180</b>	<b>30,235</b>	<b>29,878</b>	<b>357</b>
<b>Retirement</b>						
Same property	4,693	4,386	307	9,408	8,640	768
<b>Total Retirement NOI</b>	<b>4,693</b>	<b>4,386</b>	<b>307</b>	<b>9,408</b>	<b>8,640</b>	<b>768</b>
<b>Home Care</b>						
Same property	401	613	(212)	930	1,304	(374)
<b>Total Home Care NOI <sup>(1)</sup></b>	<b>401</b>	<b>613</b>	<b>(212)</b>	<b>930</b>	<b>1,304</b>	<b>(374)</b>
<b>Management Services</b>						
Same property	413	333	80	886	837	49
<b>Total Management Services NOI</b>	<b>413</b>	<b>333</b>	<b>80</b>	<b>886</b>	<b>837</b>	<b>49</b>
<b>Total NOI</b>						
Same property	21,486	21,131	355	41,459	40,659	800
MOHLTC reconciliation adjustments	(536)	(956)	420	(511)	(956)	445
<b>Total NOI</b>	<b>20,950</b>	<b>20,175</b>	<b>775</b>	<b>40,948</b>	<b>39,703</b>	<b>1,245</b>

Note:

1. The NOI decline in the Home Care business is primarily due to internal business realignment, relating to professional services that serviced the Company's LTC homes, and restructuring charges of \$90 during Q2 2015.

## For the Quarter

### Revenue

Revenues for Q2 2015 increased by \$3,512 to \$115,186, compared to Q2 2014. LTC revenues increased by \$2,453 which was primarily attributable to government funding changes to the flow-through envelopes and the related timing of revenue recognition along with higher preferred accommodation revenues.

RR revenues for Q2 2015 increased by \$506 to \$10,693, compared to Q2 2014, primarily due to gains in occupancy.

Home Care revenues of \$4,296 for Q2 2015 are consistent with the revenues for Q2 2014. Decrease in revenues due to internal business realignment, relating to professional services that serviced the Company's LTC operations, was offset by higher revenues resulting from the timing of CCAC volumes compared to Q2 2014.

### Operating Expenses

Operating expenses for Q2 2015 increased by \$2,737 to \$94,236, compared to Q2 2014. Of this increase, LTC represented \$2,273, which was primarily attributable to higher flow-through envelope expenses.

RR operating expenses for Q2 2015 increased by \$199 to \$6,000, compared to Q2 2014. The increase was primarily attributable to higher variable expenses resulting from gains in occupancy.

Home Care operating expenses increased by \$211 to \$3,895 which was primarily attributable to restructuring charges and timing of benefit costs.

### NOI

NOI for Q2 2015 increased by \$775 to \$20,950, compared to Q2 2014. LTC NOI increased by \$180, primarily due to timing of government funding revenues net of flow-through envelope expenses and increased preferred accommodation revenues.

RR NOI for Q2 2015 increased by \$307 to \$4,693, compared to Q2 2014 principally attributable to gains in occupancy.

Home Care's NOI for Q2 2015 decreased by \$212 to \$401, compared to Q2 2014. The decrease was primarily attributable to restructuring charges and timing of benefit costs.

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

### **Administrative Expenses**

Administrative expenses for Q2 2015 increased by \$417 to \$4,890 compared to Q2 2014. The increase was primarily attributable to restructuring charges of \$259, rebranding costs of \$129 and mark-to-market adjustments on deferred share units of \$114 partially offset by timing of other administrative expenses.

### **Depreciation and Amortization**

Depreciation and amortization for Q2 2015 decreased by \$1,308 to \$8,907 compared to Q2 2014. The decrease was primarily attributable to certain resident relationship intangibles and building assets being fully amortized during the fiscal year 2014.

### **Net Finance Charges**

Net finance charges for Q2 2015 decreased by \$515 to \$4,998 compared to Q2 2014. The decrease was primarily related to lower interest expense on long-term debt of \$384 and greater gain on the mark-to-market adjustments of interest rate swap contracts of \$266. This was partially offset by lower interest income earned on construction funding receivable.

### **Transaction Costs**

Transaction costs for Q2 2015 increased by \$123 to \$232, compared to Q2 2014. The increase of \$123 was primarily attributable to an income support adjustment of \$209 partially offset by the timing of transactional activities compared to the same period in the prior year.

### **Income Taxes**

Income tax expense for Q2 2015 was \$641, compared to an income tax recovery of \$511 in Q2 2014. The current income tax expense was \$343 compared to an income tax recovery of \$471 in Q2 2014. The comparative prior period tax recovery was primarily attributable to a book to filing adjustment for 2013 of approximately \$452. The current income taxes have been calculated at the weighted average combined corporate tax rate of 26.49%. The deferred tax expense of \$298 in Q2 2015 represents an increase of \$338 over the comparable prior year period recovery of \$40, primarily as a result of a book to filing adjustment of approximately \$229.

## For the Year to Date

### Revenue

Revenues for the six months ended June 30, 2015 increased by \$4,384, to \$228,398 over the comparable prior year period. LTC revenues increased by \$2,743 to \$198,207 which was primarily attributable to government funding changes to the flow-through envelopes and the related timing of revenue recognition in addition to higher preferred accommodation revenues.

RR revenues increased by \$1,055 to \$21,233 over the comparable prior year period, which was primarily attributable to gains in occupancy.

Home Care revenue decreased by \$190 to \$8,498 compared to the six months ended June 30, 2014. This was primarily attributable to the internal business realignment relating to professional services that serviced the Company's LTC homes, partly offset by higher revenues resulting from the timing of CCAC volumes.

### Operating Expenses

Operating expenses for the six months ended June 30, 2015 increased to \$187,450, compared to \$184,311 in the prior year. Of this \$3,139 increase, LTC accounted for \$2,386, which was primarily attributable to higher flow-through envelope expenses.

RR operating expenses for the six months ended June 30, 2015 were \$11,825, compared to \$11,538 in the prior year. The increase of \$287 was primarily attributable to increased variable expenses due to gains in occupancy.

Home Care expenses for the six months ended June 30, 2015 of \$7,568 increased by \$184 over the comparable prior year period which was primarily attributable to restructuring charges and timing of benefit costs.

### NOI

Sienna generated NOI of \$40,948 for the six months ended June 30, 2015. This represented an increase of \$1,245 over the comparable prior year period.

LTC NOI increased by \$357 for the period, due primarily to the increased preferred accommodation revenue, partly offset by higher flow-through envelope expenses net of flow-through government funding.

The retirement segment's NOI increased by \$768 over the prior year primarily due to gains in occupancy.

Home Care's NOI of \$930 reflects a decrease of \$374 over the comparable period. This was primarily due to restructuring charges and timing of benefit costs. In addition, Home Care experienced minimal growth in personal support worker volumes through its contractual arrangements with CCAC, offset by increased operating expenses resulting from ongoing regulatory and quality standards compliance.

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

### **Administrative Expenses**

Administrative expenses increased to \$9,292 during the six months ended June 30, 2015, compared to \$8,697 in the prior year. The increase of \$595 was primarily the result of restructuring charges of \$259, rebranding costs of \$242 and mark-to-market adjustment on deferred share units of \$223 partially offset by timing of other administrative expenses.

### **Depreciation and Amortization**

Depreciation and amortization for the six months ended June 30, 2015 decreased to \$18,416 from \$20,042 for the prior year. The decrease was primarily attributable to certain resident relationship intangibles and building assets being fully amortized during the fiscal year 2014.

### **Net Finance Charges**

Net finance charges for the six months ended June 30, 2015 were \$10,375, compared to \$34,906 for the comparable period last year. The decrease of \$24,531 was principally the result of the incremental finance charges of approximately \$23,353 from the redemption of the Series A Debentures in Q1 2014. The incremental finance charges of \$23,353 primarily resulted from the redemption premium of \$18,392 and the write-off of the remaining portion of the fair value increment on the Series A Debenture of \$3,835. The additional decrease in net finance charges of \$1,178 was primarily attributable to lower interest expense on long-term debt and the favourable change on the mark-to-market adjustment on interest rate swap contracts.

### **Transaction Costs**

For the six months ended June 30, 2015, transaction costs were \$270 compared to \$659 for the same period in the prior year. The decrease of \$389 was primarily attributable to the timing of transactional activities which was partly offset by the income support adjustment of \$201 during the six months ended June 30, 2015.

### **Income Taxes**

The income tax expense for the six months ended June 30, 2015 was \$963 compared to income tax recovery of \$6,913 in the comparable prior year period. The current income tax expense was \$628 compared to an income tax recovery of \$2,178 for the six months ended June 30, 2014. The comparative prior period tax recovery was primarily attributable to (i) the tax shield created by the redemption premium paid on the Series A Debenture and the settlement of a bond-lock hedge recorded in the first quarter of 2014, and (ii) a book to filing adjustment of approximately \$452. The current income taxes have been calculated at the weighted average combined corporate tax rate of 26.49%. The deferred tax expense of \$335 increased by \$5,070 over the comparable period in the prior year primarily as a result of the tax shields discussed above and a book to filing adjustment of approximately \$229 recorded in the current quarter.

## Business Performance

### Adjusted Funds from Operations

The following is a reconciliation of net income (loss) to FFO, OFFO and AFFO for the three and six months ended June 30, 2015 and 2014:

Thousands of Dollars, except share and per share data	Three Months Ended			Six Months Ended		
	2015	2014	Change	2015	2014	Change
<b>Net income (loss)</b>	<b>1,282</b>	376	906	<b>1,632</b>	(17,688)	19,320
Deferred income tax expense (recovery)	<b>298</b>	(40)	338	<b>335</b>	(4,735)	5,070
Depreciation and amortization	<b>8,882</b>	10,215	(1,333)	<b>18,361</b>	20,042	(1,681)
Transaction costs	<b>232</b>	109	123	<b>270</b>	659	(389)
Net settlement payment on interest rate swap contracts	<b>83</b>	93	(10)	<b>163</b>	186	(23)
Loss (gain) on interest rate swap contracts	<b>(314)</b>	(48)	(266)	<b>(270)</b>	512	(782)
<b>Funds from operations (FFO)</b>	<b>10,463</b>	10,705	(242)	<b>20,491</b>	(1,024)	21,515
Depreciation and amortization - Corporate	<b>25</b>	—	25	<b>55</b>	—	55
Net accretion of fair value increment on long-term debt	<b>(163)</b>	(207)	44	<b>(320)</b>	3,588	(3,908)
Amortization of deferred financing charges	<b>300</b>	280	20	<b>593</b>	1,081	(488)
Amortization of loss on bond forward contract	<b>204</b>	196	8	<b>403</b>	318	85
Net settlement payment on interest rate swap contracts	<b>(83)</b>	(93)	10	<b>(163)</b>	(186)	23
Redemption premium on long-term debt	—	—	—	—	18,392	(18,392)
Tax shield due to redemption premium on Series A Debentures	<b>(693)</b>	(692)	(1)	<b>(1,378)</b>	(966)	(412)
Tax shield due to the settlement of the bond-lock hedge	—	—	—	—	(1,650)	1,650
MOHLTC reconciliation adjustment (after tax)	<b>395</b>	703	(308)	<b>376</b>	703	(327)
<b>Operating funds from operations (OFFO)</b>	<b>10,448</b>	10,892	(444)	<b>20,057</b>	20,256	(199)
Deferred share unit compensation earned	<b>254</b>	265	(11)	<b>485</b>	439	46
Deferred share unit settlement	—	—	—	—	(73)	73
Income support	<b>10</b>	162	(152)	<b>27</b>	506	(479)
Construction funding principal	<b>2,333</b>	2,230	103	<b>4,654</b>	4,454	200
Maintenance capex	<b>(866)</b>	(502)	(364)	<b>(1,208)</b>	(831)	(377)
<b>Adjusted funds from operations (AFFO)</b>	<b>12,179</b>	13,047	(868)	<b>24,015</b>	24,751	(736)
Adjusted funds from operations (AFFO)	<b>12,179</b>	13,047	(868)	<b>24,015</b>	24,751	(736)
Dividends declared	<b>(8,188)</b>	(8,159)	(29)	<b>(16,363)</b>	(16,317)	(46)
<b>Operating cash flow retained</b>	<b>3,991</b>	4,888	(897)	<b>7,652</b>	8,434	(782)
<b>Basic FFO per share</b>	<b>0.288</b>	0.295	(0.007)	<b>0.564</b>	(0.028)	0.592
<b>Basic OFFO per share</b>	<b>0.287</b>	0.300	(0.013)	<b>0.552</b>	0.559	(0.007)
<b>Basic AFFO per share</b>	<b>0.335</b>	0.360	(0.025)	<b>0.661</b>	0.683	(0.022)
<b>Weighted average common shares outstanding - Basic</b>	<b>36,383,929</b>	36,264,976		<b>36,354,595</b>	36,257,968	
<b>Diluted FFO per share</b>	<b>0.280</b>	0.285	(0.005)	<b>0.548</b>	(0.006)	0.554
<b>Diluted OFFO per share</b>	<b>0.279</b>	0.290	(0.011)	<b>0.537</b>	0.540	(0.003)
<b>Diluted AFFO per share</b>	<b>0.324</b>	0.345	(0.021)	<b>0.639</b>	0.655	(0.016)
<b>Weighted average common shares outstanding - Diluted</b>	<b>39,130,198</b>	39,011,245		<b>39,100,864</b>	39,004,237	

## Reconciliation of diluted FFO, OFFO and AFFO

Thousands of Dollars	Three Months Ended			Six Months Ended		
	2015	2014	Change	2015	2014	Change
<b>FFO, Basic</b>	<b>10,463</b>	10,705	(242)	<b>20,491</b>	(1,024)	21,515
Net financing charges on convertible debt	653	552	101	1,298	1,097	201
Current income tax expense adjustment	(173)	(146)	(27)	(344)	(290)	(54)
<b>FFO, Diluted</b>	<b>10,943</b>	11,111	(168)	<b>21,445</b>	(217)	21,662
<b>OFFO, Basic</b>	<b>10,448</b>	10,892	(444)	<b>20,057</b>	20,256	(199)
FFO dilutive adjustment, net	480	406	74	954	807	147
<b>OFFO, Diluted</b>	<b>10,928</b>	11,298	(370)	<b>21,011</b>	21,063	(52)
<b>AFFO, Basic</b>	<b>12,179</b>	13,047	(868)	<b>24,015</b>	24,751	(736)
OFFO dilutive adjustment, net	480	406	74	954	807	147
<b>AFFO, Diluted</b>	<b>12,659</b>	13,453	(794)	<b>24,969</b>	25,558	(589)

### For the Quarter

#### FFO

FFO decreased by \$242 to \$10,463, compared to Q2 2014. The decrease of \$242 was primarily attributable to higher current income tax provision and administrative costs, partly offset by improved NOI contributions and lower net finance costs as a result of lower interest expense on long-term debt.

#### OFFO

OFFO decreased by \$444 to \$10,448, compared to the same quarter last year. The decrease was principally related to lower MOHLTC reconciliation adjustment and the decrease in FFO as noted above.

#### AFFO

AFFO decreased by \$868 to \$12,179, compared to Q2 2014. The decrease was principally related to the decrease in OFFO noted above and higher maintenance capex.

### For the Year to Date

#### FFO

FFO increased by \$21,515 to \$20,491 for the six months ended June 30, 2015 compared to the same period of 2014. The increase was primarily due to improved NOI contributions and lower net finance costs as a result of the costs incurred for the redemption of the Series A Debentures in Q1 2014, partly offset by an increase in the current income tax provision.

#### OFFO

OFFO decreased by \$199 to \$20,057 over the comparable period in the prior year. The decrease was principally related to the higher current income tax provision and lower MOHLTC reconciliation adjustments, partly offset by the income tax shield on the settlement of the bond-lock hedge recorded in the first quarter of 2014 and improved NOI contributions.



## AFFO

AFFO decreased by \$736 to \$24,015 for the six months ended June 30, 2015 as compared to the same period of 2014. The decrease was mainly attributable to the decrease in income support received and the lower OFFO discussed above.

## Reconciliation of Cash from Operations to Adjusted Funds from Operations

The following table is a reconciliation of cash provided by (used in) operations to AFFO for the three and six months ended June 30, 2015 and 2014:

Thousands of Dollars	Three Months Ended			Six Months Ended		
	2015	2014	Change	2015	2014	Change
<b>Cash provided by (used in) operating activities</b>	<b>16,883</b>	5,244	11,639	<b>20,669</b>	(9,058)	29,727
Redemption premium on long-term debt	—	—	—	—	18,392	(18,392)
Net settlement payment on bond forward contracts	—	—	—	—	6,234	(6,234)
Construction funding principal	<b>2,333</b>	2,230	103	<b>4,654</b>	4,454	200
Transaction costs	<b>232</b>	109	123	<b>270</b>	659	(389)
Income support adjustment <sup>(1)</sup>	<b>(209)</b>	—	(209)	<b>(201)</b>	—	(201)
MOHLTC reconciliation adjustment (after tax)	<b>395</b>	703	(308)	<b>376</b>	703	(327)
Maintenance capex	<b>(866)</b>	(502)	(364)	<b>(1,208)</b>	(831)	(377)
Net change in working capital, interest and taxes	<b>(5,930)</b>	6,033	(11,963)	<b>990</b>	7,039	(6,049)
Tax shield due to redemption premium on Series A Debentures	<b>(693)</b>	(692)	(1)	<b>(1,378)</b>	(966)	(412)
Tax shield due to the settlement of the bond-lock hedge	—	—	—	—	(1,650)	1,650
Restricted share units and long-term incentive plan expense	<b>34</b>	(78)	112	<b>(157)</b>	(152)	(5)
Deferred share unit settlement	—	—	—	—	(73)	73
<b>Adjusted funds from operations (AFFO)</b>	<b>12,179</b>	13,047	(868)	<b>24,015</b>	24,751	(736)
Adjusted funds from operations (AFFO)	<b>12,179</b>	13,047	(868)	<b>24,015</b>	24,751	(736)
Dividends declared	<b>(8,188)</b>	(8,159)	(29)	<b>(16,363)</b>	(16,317)	(46)
<b>Operating cash flow retained</b>	<b>3,991</b>	4,888	(897)	<b>7,652</b>	8,434	(782)
Dividend reinvestment	<b>543</b>	—	543	<b>1,160</b>	—	1,160
<b>Cash Retained after dividend reinvestment</b>	<b>4,534</b>	4,888	(354)	<b>8,812</b>	8,434	378

Note:

1. Included within this reconciliation is an income support adjustment for the three and six months ended June 30, 2015 which was recorded as transaction costs.

The Board of Directors determine the appropriate dividend levels based on their assessment of cash provided by operations normalized for unusual items, expected working capital requirements and actual and projected capital expenditures. For the six months ended June 30, 2014, the operating cash flow included the one time redemption premium for the Series A Debentures and net settlement payment on bond forward contracts.

## Liquidity and Capital Resources

### Financial Position Analysis

The following is a summary of cash flows for the three and six months ended June 30, 2015 and 2014:

Thousands of Dollars	Three Months Ended			Six Months Ended		
	2015	2014	Change	2015	2014	Change
Cash flow from operations before non-cash working capital items	<b>16,048</b>	15,936	112	<b>32,028</b>	30,938	1,090
Non-cash changes in working capital	<b>4,528</b>	(6,376)	10,904	<b>805</b>	(4,423)	5,228
Bond forward settlement, redemption premium, interest paid and other items	<b>(3,693)</b>	(4,316)	623	<b>(12,164)</b>	(35,573)	23,409
Cash provided by (used in):						
Operating activities	<b>16,883</b>	5,244	11,639	<b>20,669</b>	(9,058)	29,727
Investing activities	<b>(5)</b>	1,302	(1,307)	<b>4</b>	3,626	(3,622)
Financing activities	<b>(16,058)</b>	(9,885)	(6,173)	<b>(25,714)</b>	4,330	(30,044)
Increase (decrease) in cash	<b>820</b>	(3,339)	4,159	<b>(5,041)</b>	(1,102)	(3,939)
Cash	<b>23,992</b>	14,521	9,471	<b>23,992</b>	14,521	9,471

#### For the Quarter

##### Operating Activities

For Q2 2015, operating activities provided \$16,883 of cash primarily related to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled \$16,048.
- Accounts payable and accrued liabilities relating to operating activities increased by \$2,453, primarily related to the timing of wage and benefit accruals.
- Change in net government funding balances provided \$3,131 of cash due to timing of receipts.
- Partly offset by interest paid on long-term debt of \$3,610.
- Increase in prepaid expenses and deposits of \$1,342 due to timing of payments.

For Q2 2014, operating activities provided \$5,244 of cash primarily as a result of:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled \$15,936.
- Partially offset by the decrease in accounts payable and accrued liabilities of \$6,649, primarily related to the timing of trade payables and accruals, and wage and benefits accruals.
- Interest paid on long-term debt of \$3,764.
- Increase in prepaid expenses and deposits of \$735 as a result of timing.

### ***Investing Activities***

Investing activities for Q2 2015 used \$5 of cash. The principal use of cash was related to:

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

For Q2 2014, investing activities provided \$1,302 of cash, primarily as a result of:

- Construction funding received in the amount of \$3,270.
- Partly offset by increase in restricted cash of \$1,477 resulting from contributions to the Series B Debentures principal reserve fund in the amount of \$1,282, and the purchase of equipment of \$502.

### ***Financing Activities***

Financing activities in Q2 2015 used \$16,058 of cash. This was primarily related to:

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

For Q2 2014, financing activities used \$9,885 of cash primarily as a result of:

- Dividends paid in the quarter of \$8,159.
- Repayment of long-term debt of \$1,712.

### ***For the Year to Date***

#### ***Operating Activities***

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

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled \$32,028.
- Change in net government funding balances provided \$6,795 of cash due to timing of receipts.
- Partly offset by interest paid on long-term debt of \$12,001.
- Decrease in accounts payable and accrued liabilities of \$3,242 primarily related to the timing of wage and benefit accruals.
- Increase in prepaid expenses and deposits of \$2,202 due to timing of payments.

For the six months ended of the comparable period last year, operating activities used \$9,058 of cash primarily as a result of:

- Redemption premium on the settlement of the Series A Debentures which used \$18,392 of cash.
- Interest paid on long-term debt of \$9,844.
- Net settlement payment on bond forward contracts of \$6,234.

- Decrease in accounts payable and accrued liabilities of \$5,744, primarily related to the timing of trade payables and accruals.
- This was partly offset by increase in cash from operating activities before non-cash changes in working capital, interest and taxes of \$30,938.

### ***Investing Activities***

Investing activities for the first six months of 2015 provided \$4 of cash primarily due to:

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

For the comparable period in 2014, investing activities provided \$3,626 of cash, primarily as a result of:

- Construction funding received in the amount of \$6,540.
- Partly offset by increase in restricted cash of \$2,334 resulting from contributions to the Series B Debentures principal reserve fund.
- Purchase of equipment of \$831.

### ***Financing Activities***

Financing activities used \$25,714 of cash for the six months ended June 30, 2015 which comprised of:

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

For the comparable period last year, financing activities provided \$4,330 of cash primarily as a result of:

- Proceeds of \$322,000 from the issuance of the Series B Debentures, which was offset by the repayment of long-term debt of \$297,743, principally related to the Series A Debentures.
- Dividends paid of \$16,315.
- Payment of deferred financing costs of \$3,612 related to the issuance of the Series B Debentures.

## Capital Resources

The Company's total debt as at June 30, 2015 was \$602,960 (December 31, 2014 - \$616,081), net of the Series B Debentures principal reserve fund of \$7,691 (December 31, 2014 - \$4,751). The decrease of \$13,121 was primarily related to the voluntary repayments towards the Company's revolving credit facilities of \$6,500, monthly payments to the Series B Debentures principal reserve fund and to mortgage liabilities. During Q1 2015, the Company extended the maturities of Red Oak and Royale Place's ("**Ontario Portfolio**") credit facility and Astoria's credit facility to two years later to April 26, 2017 and May 22, 2017, respectively. As at June 30, 2015, the Company had drawn \$37,000 under the Ontario Portfolio's credit facility and \$22,500 under Astoria's credit facility. During the current quarter, the Company increased the amount available under one of its credit facilities from \$10,000 to \$20,000. No amount had been drawn from this credit facility as at quarter end. As at June 30, 2015, the Company had total committed and undrawn facilities of \$41,500. Subsequent to June 30, 2015, the Company made a voluntary payment of \$3,000 towards one of its revolving credit facilities.

As of June 30, 2015, the Company had a working capital deficiency of \$20,727 arising from the timing of wage and benefit accruals and the current portion of long-term debt of \$8,050, primarily relating to the portion of mortgage liabilities within a 12-month period. To support Sienna Senior Living Inc.'s working capital deficiency, the Company plans to use its operating cash flows and, if necessary, undrawn credit facilities, which management believes will be sufficient to address this deficit.

## Liquidity and Capital Commitments

### Liquidity

The Company's primary source of liquidity is cash flow generated from operating activities. The Company expects to meet its operating cash requirements through fiscal 2015, including required working capital, capital expenditures, and currently scheduled interest payments on debt, from cash on hand, cash flow from operations and its committed, but unutilized borrowing capacity.

### Capital Commitments

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

### Debt Strategy

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

Commencing in fiscal 2014, management started to build a debt maturity schedule (for fixed term debt) spread evenly over a 10-year period in order to manage interest rate and financial risks. This is a multi-year strategy which will take considerable time to execute. In fiscal 2015 and beyond, the Company plans to capitalize on external growth opportunities and management intends to build the 10-year debt maturity ladder around the Series B Debentures so as to reduce risk when this debenture matures. Part of this debt strategy involves building a pool of unencumbered assets to be able to finance acquisition opportunities as they arise.

The Company has adopted interest coverage guidelines which are consistent with the coverage covenants contained in its bank credit facility agreements. Interest coverage ratios provide an indication of the ability to

service or pay interest charges relating to the underlying debt. Some interest coverage ratios, as defined in certain debt instruments, may be defined differently and there may be unique calculations depending on the lender.

### *Interest Coverage Ratio*

Interest coverage ratio is a common measure used by debt rating agencies 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 three and six months ended June 30, 2015 and 2014:

Thousands of Dollars, except ratio	Three Months Ended		Six Months Ended	
	2015	2014	2015	2014
Net finance charges	4,998	5,513	10,375	34,906
Add (deduct):				
Net accretion of fair value adjustments on long-term debt	163	207	320	(3,588)
Amortization of deferred financing charges	(300)	(280)	(593)	(1,081)
Amortization of loss on bond forward contracts	(204)	(196)	(403)	(318)
Redemption premium on long-term debt	—	—	—	(18,392)
Interest income on construction funding receivable	937	1,040	1,886	2,086
Other interest income	56	11	62	251
Gain (loss) on interest rate swap contracts	314	48	270	(512)
<b>Net finance charges, adjusted</b>	<b>5,964</b>	<b>6,343</b>	<b>11,917</b>	<b>13,352</b>
<b>EBITDA</b>	<b>19,866</b>	<b>19,928</b>	<b>38,707</b>	<b>38,502</b>
<b>Interest coverage ratio</b>	<b>3.3</b>	<b>3.1</b>	<b>3.2</b>	<b>2.9</b>

The following is the reconciliation of net income (loss) to EBITDA for the three and six months ended June 30, 2015 and 2014:

Thousands of Dollars	Three Months Ended		Six Months Ended	
	2015	2014	2015	2014
Net income (loss)	1,282	376	1,632	(17,688)
Net finance charges	4,998	5,513	10,375	34,906
Provision for (recovery of) income taxes	641	(511)	963	(6,913)
Depreciation and amortization	8,907	10,215	18,416	20,042
Transaction costs	232	109	270	659
MOHLTC reconciliation adjustments	536	956	511	956
Proceeds from construction funding	3,270	3,270	6,540	6,540
<b>EBITDA</b>	<b>19,866</b>	<b>19,928</b>	<b>38,707</b>	<b>38,502</b>

### *Debt Service Coverage Ratio*

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

covenant calculations. The following is the calculation for the three and six months ended June 30, 2015 and 2014:

Thousands of Dollars, except ratio	Three Months Ended		Six Months Ended	
	2015	2014	2015	2014
Net finance charges	4,998	5,513	10,375	34,906
Add (deduct):				
Net accretion of fair value adjustments on long-term debt	163	207	320	(3,588)
Amortization of deferred financing charges	(300)	(280)	(593)	(1,081)
Amortization of loss on bond forward contracts	(204)	(196)	(403)	(318)
Redemption premium on long-term debt	—	—	—	(18,392)
Interest income on construction funding receivable	937	1,040	1,886	2,086
Other interest income	56	11	62	251
Gain (loss) on interest rate swap contracts	314	48	270	(512)
<b>Net finance charges, adjusted</b>	<b>5,964</b>	<b>6,343</b>	<b>11,917</b>	<b>13,352</b>
Principal repayments <sup>(1)</sup>	1,872	1,712	3,742	3,417
Principal reserve fund	1,517	1,282	2,940	2,139
<b>Total debt service</b>	<b>9,353</b>	<b>9,337</b>	<b>18,599</b>	<b>18,908</b>
<b>EBITDA</b>	<b>19,866</b>	<b>19,928</b>	<b>38,707</b>	<b>38,502</b>
Deduct:				
Maintenance capex	(866)	(502)	(1,208)	(831)
Cash income taxes	—	(459)	—	(917)
<b>EBITDA, adjusted</b>	<b>19,000</b>	<b>18,967</b>	<b>37,499</b>	<b>36,754</b>
<b>Debt service coverage ratio</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>1.9</b>

Note:

1. During the three and six months ended June 30, 2015, the Company made voluntary payments of \$6,500 towards its credit facilities, which has been excluded for the debt service coverage ratio calculation.

### *Debt to EBITDA Ratio*

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

Thousands of Dollars, except ratio	June 30,	
	2015	2014
Total indebtedness		
Series B Senior Secured Debentures	322,000	322,000
Series B Senior Secured Debentures - Principal reserve fund	(7,691)	(2,139)
Credit facilities	59,500	73,000
Mortgages	187,394	173,812
Construction loan	—	13,351
Convertible debentures	46,000	46,000
	<b>607,203</b>	<b>626,024</b>
EBITDA (quarterly annualized)	<b>77,414</b>	<b>77,004</b>
<b>Debt to EBITDA</b>	<b>7.8</b>	<b>8.1</b>

### Debt Profile

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

	Weighted Average Debt							
	Three Months Ended				Six Months Ended			
	2015	Rate (%)	2014	Rate (%)	2015	Rate (%)	2014	Rate (%)
<b>Fixed Rate</b>								
Debentures	322,000	3.47%	322,000	3.47%	322,000	3.47%	352,729	3.81%
Mortgages	188,188	4.56%	173,812	4.67%	189,118	4.56%	173,812	4.67%
Convertible Debentures	46,000	4.65%	46,000	4.65%	46,000	4.65%	46,000	4.65%
<b>Total Fixed</b>	<b>556,188</b>	<b>3.94%</b>	<b>541,812</b>	<b>3.96%</b>	<b>557,118</b>	<b>3.94%</b>	<b>572,541</b>	<b>3.96%</b>
<b>Floating Rate</b>								
Credit Facilities	60,918	2.79%	73,000	3.03%	63,445	2.81%	73,000	3.03%
Construction Loan	—	—%	13,351	4.25%	—	—%	13,351	4.25%
<b>Total Floating</b>	<b>60,918</b>	<b>2.79%</b>	<b>86,351</b>	<b>3.22%</b>	<b>63,445</b>	<b>2.81%</b>	<b>86,351</b>	<b>3.22%</b>
<b>Total Debt</b>	<b>617,106</b>	<b>3.83%</b>	<b>628,163</b>	<b>3.86%</b>	<b>620,563</b>	<b>3.82%</b>	<b>658,892</b>	<b>4.02%</b>

### 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	June 30,	
	2015	2014
Total indebtedness		
Series B Senior Secured Debentures	322,000	322,000
Series B Senior Secured Debentures - Principal reserve fund	(7,691)	(2,139)
Credit facilities	59,500	73,000
Mortgages	187,394	173,812
Construction loan	—	13,351
Convertible debentures	46,000	46,000
	<b>607,203</b>	<b>626,024</b>
Total assets	924,919	956,746
Accumulated depreciation on property and equipment	106,201	81,717
Accumulated amortization on intangible assets	64,701	51,300
Gross book value	<b>1,095,821</b>	<b>1,089,763</b>
<b>Debt to Gross Book Value</b>	<b>55.4%</b>	<b>57.4%</b>



## Capital Disclosure

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

The Company's objectives when managing capital are to:

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

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

The Board of Directors reviews and approves monthly dividends on a quarterly basis.

Details on the terms and conditions of long-term debt are provided in the Company's audited consolidated financial statements for the year ended December 31, 2014, as well as in Note 6 and 7 of the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2015. The Company is in compliance with all financial covenants on its borrowings. However, there can be no assurance that covenant requirements will be met at all times in the future. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be affected.

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

## Contractual Obligations and Other Commitments

### Long-Term Debt

Year	Series B Debentures	Floating Rate Debt	Convertible Debentures	Amortizing Debt		Total	% of Total	Weighted Average Interest on Maturing Debt
				Regular Principal Payments	Principal Due at Maturity			
2015	—	—	—	3,816	—	<b>3,816</b>	0.6%	—%
2016	—	—	—	7,906	10,020	<b>17,926</b>	2.9%	4.2%
2017	—	59,500	—	6,801	32,506	<b>98,807</b>	16.1%	3.6%
2018	—	—	46,000	6,370	22,217	<b>74,587</b>	12.1%	5.0%
2019	—	—	—	5,253	37,860	<b>43,113</b>	7.0%	4.3%
2020	—	—	—	2,552	—	<b>2,552</b>	0.4%	—%
2021	322,000	—	—	2,661	—	<b>324,661</b>	52.8%	3.5%
2022	—	—	—	2,773	—	<b>2,773</b>	0.5%	—%
2023	—	—	—	2,505	12,407	<b>14,912</b>	2.4%	3.0%
2024	—	—	—	2,205	20,617	<b>22,822</b>	3.7%	4.2%
Thereafter	—	—	—	3,448	5,477	<b>8,925</b>	1.5%	5.2%
	<b>322,000</b>	<b>59,500</b>	<b>46,000</b>	<b>46,290</b>	<b>141,104</b>	<b>614,894</b>	100.0%	
						<b>1,528</b>		
						<b>(4,311)</b>		
						<b>(1,212)</b>		
						<b>(248)</b>		
						<b>610,651</b>		

### Convertible Debentures

On April 25, 2013, the Company issued \$46,000 aggregate principal amount of 4.65% Convertible Debentures due January 2, 2014, convertible at \$16.75 per common share, for net proceeds of \$44,160. The maturity date of the Convertible Debentures is June 30, 2018. The Convertible Debentures bear interest at 4.65% per annum, which is payable semi-annually in June and December.

### Operating Leases

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

### Related Party Transactions

A subsidiary of Sienna Senior Living Inc. has been contracted to manage the operations of Spencer House Inc., a charitable organization that owns a licence to operate a LTC home in Orillia, Ontario, which is related by virtue of management. The total revenue earned from Spencer House Inc. for the three months ended June 30, 2015 was \$475 (2014 - \$465) and for the six months ended June 30, 2015 was \$945 (2014 - \$938). Included in accounts receivable is \$185 owing from Spencer House Inc. as at June 30, 2015 (December 31, 2014 - \$102). These transactions are in the normal course of operations and have been valued at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties. These amounts are due on demand and are non-interest bearing.

As at June 30, 2015, the Company has amounts outstanding from certain key executives of \$441 (December 31, 2014 - \$287) in relation to the LTIP issuance, which have been recorded as a reduction to shareholders' equity.

During the year ended December 31, 2013, the Company loaned the Chief Executive Officer ("CEO") \$500 to effect the purchase of the Company's common shares. The outstanding loan balance as at June 30, 2015 was \$457 (December 31, 2014 - \$469), which has been recorded as a reduction to shareholders' equity. The loan bears interest at prime rate and is due on demand. The common shares have been pledged as security against the loan, which is personally guaranteed by the CEO.

### **Key Performance Drivers**

Please refer to the Company's MD&A for the year ended December 31, 2014 for a discussion of certain factors that drive the performance of the Company.

### **Critical Accounting Estimates and Accounting Policies**

The critical accounting estimates used by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2014. Please refer to those statements for further detail.

In preparing the unaudited condensed interim consolidated financial statements, the accounting policies utilized are consistent with those utilized in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2014 which are available on SEDAR or may be accessed on the Company's website.

### **Significant Judgments and Estimates**

The critical accounting estimates used by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2014 which are available on SEDAR or the Company's website. Please refer to those statements for further detail.

### **Risk and Uncertainties and Risks Relating to a Public Company and Common Shares**

The Company's AIF dated March 23, 2015 and the MD&A filed for the year ended December 31, 2014 which are available on SEDAR or may be accessed on the Company's website, contain detailed discussions of risks and uncertainties that could affect the Company, its properties and holders of its securities.

## **Controls and Procedures**

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

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

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

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

Q2 2015

*Sienna*  
SENIOR LIVING



Consolidated  
Financial Statements  
(in thousands of Canadian Dollars)

# Condensed Interim Consolidated Financial Statements

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

	Notes	June 30, 2015	December 31, 2014
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		23,992	29,033
Accounts receivable and other assets	14	5,966	5,163
Income support		—	228
Prepaid expenses and deposits		3,630	1,428
Government funding receivable		3,336	5,061
Construction funding receivable		9,483	9,355
Income taxes receivable		952	1,580
		<b>47,359</b>	<b>51,848</b>
Government funding receivable		492	1,630
Interest rate swap contract		1,087	704
Restricted cash	5	9,665	5,949
Construction funding receivable		79,781	84,563
Property and equipment		567,485	577,539
Intangible assets		120,246	125,726
Goodwill		98,804	98,804
<b>Total assets</b>		<b>924,919</b>	<b>946,763</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	11	55,482	59,153
Government funding payable		4,368	3,051
Current portion of long-term debt	6	8,050	74,039
Interest rate swap contract		186	169
		<b>68,086</b>	<b>136,412</b>
Long-term debt	6	558,061	502,490
Convertible debentures	7	44,540	44,303
Deferred income taxes	9	59,130	58,688
Government funding payable		4,138	1,523
Share-based compensation liability	12	3,163	2,574
Interest rate swap contract		1,690	1,594
<b>Total liabilities</b>		<b>738,808</b>	<b>747,584</b>
<b>SHAREHOLDERS' EQUITY</b>			
Total shareholders' equity		186,111	199,179
<b>Total liabilities and shareholders' equity</b>		<b>924,919</b>	<b>946,763</b>

See accompanying notes.

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

*"Dino Chiesa"*

Dino Chiesa  
Chairman and Director

*"Janet Graham"*

Janet Graham  
Director

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

Thousands of dollars

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, January 1, 2015		372,373	515	59	(169,713)	(4,055)	199,179
Issuance of shares	10	1,308	—	—	—	—	1,308
Net income		—	—	—	1,632	—	1,632
Other comprehensive income		—	—	—	—	296	296
Long-term incentive plan	12	17	—	30	—	—	47
Share purchase loan	14	12	—	—	—	—	12
Dividends	11	—	—	—	(16,363)	—	(16,363)
<b>Balance, June 30, 2015</b>		<b>373,710</b>	<b>515</b>	<b>89</b>	<b>(184,444)</b>	<b>(3,759)</b>	<b>186,111</b>

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, January 1, 2014		371,789	515	27	(121,231)	1,386	252,486
Issuance of shares	10	185	—	—	—	—	185
Net loss		—	—	—	(17,688)	—	(17,688)
Other comprehensive loss		—	—	—	—	(5,736)	(5,736)
Long-term incentive plan	12	12	—	32	—	—	44
Share purchase loan	14	10	—	—	—	—	10
Dividends	11	—	—	—	(16,317)	—	(16,317)
<b>Balance, June 30, 2014</b>		<b>371,996</b>	<b>515</b>	<b>59</b>	<b>(155,236)</b>	<b>(4,350)</b>	<b>212,984</b>

See accompanying notes.



Condensed Interim Consolidated Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

Thousands of dollars, except share and per share data

**Consolidated Statements of Operations**

	Notes	Three months ended June 30		Six months ended June 30	
		2015	2014	2015	2014
<b>Revenue</b>	14, 15	<b>115,186</b>	111,674	<b>228,398</b>	224,014
<b>Expenses</b>					
Operating		<b>94,236</b>	91,499	<b>187,450</b>	184,311
Administrative		<b>4,890</b>	4,473	<b>9,292</b>	8,697
	16	<b>99,126</b>	95,972	<b>196,742</b>	193,008
<b>Income before depreciation and amortization, net finance charges, transaction costs and the provision for (recovery of) income taxes</b>		<b>16,060</b>	15,702	<b>31,656</b>	31,006
Depreciation and amortization		<b>8,907</b>	10,215	<b>18,416</b>	20,042
Net finance charges	8	<b>4,998</b>	5,513	<b>10,375</b>	34,906
Transaction costs		<b>232</b>	109	<b>270</b>	659
<b>Total other expenses</b>		<b>14,137</b>	15,837	<b>29,061</b>	55,607
<b>Income (loss) before provision for (recovery of) income taxes</b>		<b>1,923</b>	(135)	<b>2,595</b>	(24,601)
<b>Provision for (recovery of) income taxes</b>					
Current		<b>343</b>	(471)	<b>628</b>	(2,178)
Deferred		<b>298</b>	(40)	<b>335</b>	(4,735)
	9	<b>641</b>	(511)	<b>963</b>	(6,913)
<b>Net income (loss)</b>		<b>1,282</b>	376	<b>1,632</b>	(17,688)
Basic and Diluted income (loss) per share		<b>\$0.04</b>	\$0.01	<b>\$0.04</b>	(\$0.49)
Weighted average number of common shares outstanding - Basic	10	<b>36,383,929</b>	36,264,976	<b>36,354,595</b>	36,257,968
Weighted average number of common shares outstanding - Diluted	10	<b>39,130,198</b>	39,011,245	<b>39,100,864</b>	39,004,237

**Consolidated Statements of Comprehensive Income (Loss)**

	Notes	Three months ended June 30		Six months ended June 30	
		2015	2014	2015	2014
Net income (loss)		<b>1,282</b>	376	<b>1,632</b>	(17,688)
<b>Items that may be subsequently reclassified to statement of operations:</b>					
Realized loss on bond forward contracts, net of tax	9	<b>149</b>	112	<b>296</b>	(5,736)
<b>Total comprehensive income (loss)</b>		<b>1,431</b>	488	<b>1,928</b>	(23,424)

See accompanying notes.

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

	Notes	Three months ended June 30		Six months ended June 30	
		2015	2014	2015	2014
<b>OPERATING ACTIVITIES</b>					
<b>Net income (loss)</b>		<b>1,282</b>	376	<b>1,632</b>	(17,688)
Add (deduct) items not affecting cash					
Depreciation of property and equipment		6,041	6,208	12,069	12,415
Amortization of intangible assets		2,866	4,007	6,347	7,627
Current income taxes		343	(471)	628	(2,178)
Deferred income taxes		298	(40)	335	(4,735)
Share-based compensation	12	220	343	642	591
Net finance charges	8	4,998	5,513	10,375	34,906
		<b>16,048</b>	15,936	<b>32,028</b>	30,938
<b>Non-cash changes in working capital</b>					
Accounts receivable and other assets		67	370	(774)	(225)
Prepaid expenses and deposits		(1,342)	(735)	(2,202)	(1,433)
Accounts payable and accrued liabilities		2,453	(6,649)	(3,242)	(5,744)
Income support		219	162	228	506
Government funding, net		3,131	476	6,795	2,473
		<b>4,528</b>	(6,376)	<b>805</b>	(4,423)
Net settlement payment on bond forward contracts		—	—	—	(6,234)
Redemption premium paid on long-term debt		—	—	—	(18,392)
Interest paid on long-term debt		(3,610)	(3,764)	(12,001)	(9,844)
Net settlement payment on interest rate swap contracts		(83)	(93)	(163)	(186)
Income taxes paid		—	(459)	—	(917)
<b>Cash provided by (used in) operating activities</b>		<b>16,883</b>	5,244	<b>20,669</b>	(9,058)
<b>INVESTING ACTIVITIES</b>					
Purchase of property and equipment		(1,067)	(502)	(2,015)	(831)
Purchase of intangible assets		(594)	—	(867)	—
Amounts received from construction funding		3,270	3,270	6,540	6,540
Interest received from cash		56	11	62	251
Change in restricted cash		(1,670)	(1,477)	(3,716)	(2,334)
<b>Cash provided by (used in) investing activities</b>		<b>(5)</b>	1,302	<b>4</b>	3,626
<b>FINANCING ACTIVITIES</b>					
Share issuance costs		—	—	(27)	—
Repayment of long-term debt		(8,372)	(1,712)	(10,242)	(297,743)
Proceeds from issuance of long-term debt		—	—	—	322,000
Deferred financing costs		(43)	(14)	(254)	(3,612)
Dividends paid	11	(7,643)	(8,159)	(15,191)	(16,315)
<b>Cash provided by (used in) financing activities</b>		<b>(16,058)</b>	(9,885)	<b>(25,714)</b>	4,330
<b>Increase (decrease) in cash during the period</b>		<b>820</b>	(3,339)	<b>(5,041)</b>	(1,102)
Cash, beginning of period		23,172	17,860	29,033	15,623
<b>Cash, end of period</b>		<b>23,992</b>	14,521	<b>23,992</b>	14,521

See accompanying notes.

## 1 Organization

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

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

The Company and its predecessors have been operating since 1972. Through its subsidiaries, the Company owns and operates 35 long-term care ("**LTC**") homes (representing an aggregate of 5,733 beds), all of which are located in the Province of Ontario. The Company also owns and operates 10 retirement residences ("**RR**") (representing 1,066 suites and apartments) in the Provinces of Ontario and British Columbia. An ancillary business of the Company is Preferred Health Care Services ("**Home Care**" or "**PHCS**"), an accredited provider of professional nursing and personal support services for both community-based home healthcare and LTC homes. The Company also operates a management services business that is focused on the third party management in both the LTC and retirement sectors.

The Company is listed on the Toronto Stock Exchange (the "**TSX**") under the trading symbol **SIA** (formerly, **LW**). As of June 30, 2015, the following securities of the Company were outstanding: 36,400,879 common shares; \$46,000 in aggregate principal amount of extendible convertible unsecured subordinated debentures (TSX symbol: **SIA.DB** (formerly, **LW.DB**)) which, in aggregate, are convertible into 2,746,269 common shares (Note 7).

## 2 Basis of preparation

These unaudited condensed interim consolidated financial statements ("**interim consolidated financial statements**") have been prepared in accordance with International Accounting Standard ("**IAS**") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**"). The interim consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2014, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The interim consolidated financial statements were approved by the Board of Directors for issuance on August 11, 2015.

## 3 Summary of significant accounting policies, judgments and estimation uncertainty

In preparing these interim consolidated financial statements, the accounting policies utilized are consistent with those utilized in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2014.

Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited)

Three and Six Months Ended June 30, 2015

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

**Significant judgments and estimates**

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual audited consolidated financial statements for the year ended December 31, 2014.

**4 Financial instruments**

*Fair value of financial instruments*

The Company's use of unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), inputs that are observable for the assets or liabilities either directly or indirectly (Level 2) and inputs for assets or liabilities that are not based on observable market data (Level 3) in the valuation of financial instruments are as follows as at June 30, 2015 and December 31, 2014:

	As at June 30, 2015			
	Carrying value	Fair value		
		Level 1	Level 2	Level 3
<b>Financial Assets:</b>				
Construction funding receivable	89,264	—	—	96,585
Interest rate swap contract	1,087	—	1,087	—
<b>Financial Liabilities:</b>				
Long-term debt	566,111	—	591,134	—
Convertible debentures	44,540	47,035	—	—
Interest rate swap contract	1,876	—	1,876	—

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

*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 June 30, 2015. A failure by the Company to comply with the obligations in these credit agreements could result in a default, which, if not rectified or waived, could permit acceleration of the relevant indebtedness.

As at June 30, 2015, the Company had negative working capital of \$20,727 (December 31, 2014 - \$84,564). To support the Company's working capital deficiency, the Company will use its operating cash flows and, if necessary, undrawn credit facilities.

## 5 Restricted cash

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

	June 30, 2015	December 31, 2014
Benefits reserve	577	—
Capital maintenance reserve	1,397	1,198
Series B Debentures principal reserve fund	7,691	4,751
<b>Restricted cash</b>	<b>9,665</b>	<b>5,949</b>

## 6 Long-term debt

	Interest rate	Maturity date	June 30, 2015	December 31, 2014
Series B Senior Secured Debentures	3.474%	February 3, 2021	322,000	322,000
Credit facilities	Floating	April/May 2017	59,500	66,000
Mortgages at fixed rates	3.04% - 7.11%	2016 - 2024	172,905	176,422
Mortgage at variable rate	Floating	April 16, 2029	14,489	14,714
			<b>568,894</b>	<b>579,136</b>
Mark-to-market adjustments on acquisition			1,528	1,848
Financing costs			(4,311)	(4,455)
Total debt			<b>566,111</b>	<b>576,529</b>
Less: current portion			<b>8,050</b>	<b>74,039</b>
			<b>558,061</b>	<b>502,490</b>

### *Credit facilities*

The Red Oak Retirement Residence and Royale Place Retirement Residence (formerly the Royale Kingston and Royale Kanata retirement residences) ("**Ontario Portfolio**") have a \$57,000 revolving credit facility ("**Revolving Credit Facility**") that bears interest at 187.5 basis points ("**bps**") per annum over the floating 30-day Bankers' Acceptance ("**BA**") rate and is secured by the Ontario Portfolio assets of the Company's subsidiary, The Royale LP, guaranteed by the Company and is subject to certain customary financial and non-financial covenants. During the quarter, the Company repaid \$5,000 against this credit facility. As at June 30, 2015, the Company had drawn \$37,000 under this credit facility (December 31, 2014 - \$42,000).

The Astoria Retirement Residence has a \$22,500 credit facility ("**Credit Facility**") that bears a floating interest rate equal to the BA rate plus 187.5 bps. The credit facility is secured by Astoria's assets and guaranteed by the Company and is subject to certain customary financial and non-financial covenants. During the quarter, Sienna repaid \$1,500 against this credit facility and decreased the amount available to be borrowed to \$22,500. As at June 30, 2015, the Company had drawn \$22,500 under this credit facility (December 31, 2014 - \$24,000).

Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited)

Three and Six Months Ended June 30, 2015

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

## 7 Convertible debentures

On April 25, 2013, the Company issued \$46,000 aggregate principal amount of 4.65% extendible convertible unsecured subordinated debentures due January 2, 2014 ("**Convertible Debentures**"), convertible into common shares of the Company at \$16.75 per common share, for net proceeds of \$44,160. Upon closing of the acquisition of Specialty Care Inc. on December 2, 2013, the maturity date of the Convertible Debentures was automatically extended to June 30, 2018. The Convertible Debentures bear interest at 4.65% per annum, which is payable semi-annually in June and December.

On closing of the Convertible Debenture offering on April 25, 2013, the debt and equity components of the Convertible Debentures were bifurcated as the financial instrument is considered a compound instrument with \$45,593 classified as a liability and \$515 classified as equity attributable to the conversion option. The equity component included a deferred tax asset of \$108. The liability portion of the Convertible Debentures was initially recorded at fair value and is subsequently carried at amortized cost. The Company incurred financing costs of \$2,111 related to the Convertible Debentures, which are amortized over their term using the effective interest method and recognized as part of net finance charges. As at June 30, 2015, \$1,212 (December 31, 2014 - \$1,411) of financing costs remain to be amortized and \$248 (December 31, 2014 - \$286) of fair value adjustment remains to be accreted.

## 8 Net finance charges

	Three months ended		Six months ended	
	June 30		June 30	
	2015	2014	2015	2014
<b>Finance costs</b>				
Interest expense on long-term debt	5,281	5,665	10,576	12,017
Interest expense on convertible debentures	552	552	1,098	1,097
Fees on revolving credit facility	48	33	80	52
Net accretion of the fair value adjustments on long-term debt	(163)	(207)	(320)	3,588
Amortization of deferred financing charges	300	280	593	1,081
Amortization of loss on bond forward contract	204	196	403	318
Redemption premium on long-term debt	—	—	—	18,392
Net settlement payment on interest rate swap contracts	83	93	163	186
Loss (gain) on interest rate swap contracts	(314)	(48)	(270)	512
	5,991	6,564	12,323	37,243
<b>Finance income</b>				
Interest income on construction funding receivable	937	1,040	1,886	2,086
Other interest income	56	11	62	251
	993	1,051	1,948	2,337
<b>Net finance charges</b>	<b>4,998</b>	<b>5,513</b>	<b>10,375</b>	<b>34,906</b>

Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited)

Three and Six Months Ended June 30, 2015

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

## 9 Income taxes

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

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
<b>Net income (loss) before provision for (recovery of) income taxes</b>	<b>1,923</b>	<b>(135)</b>	<b>2,595</b>	<b>(24,601)</b>
Canadian combined income tax rate	<b>26.49%</b>	26.47%	<b>26.49%</b>	26.47%
Income tax expense (recovery)	<b>509</b>	(35)	<b>687</b>	(6,511)
Adjustments to income tax provision:				
Non-deductible items	<b>15</b>	53	<b>70</b>	81
Book to filing adjustment	<b>148</b>	(452)	<b>148</b>	(452)
Other items	<b>(31)</b>	(77)	<b>58</b>	(31)
<b>Income tax expense (recovery)</b>	<b>641</b>	<b>(511)</b>	<b>963</b>	<b>(6,913)</b>

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

	Accelerated tax depreciation	Intangible assets	Share issuance	Construction funding interest	Other	Total
As at December 31, 2014	(63,058)	(6,072)	1,164	5,712	3,566	(58,688)
Credit (charge) to net income	508	1,150	(309)	(499)	(956)	(106)
Book to filing adjustment	(252)	235	—	—	(212)	(229)
Charge to other comprehensive loss	—	—	—	—	(107)	(107)
<b>As at June 30, 2015</b>	<b>(62,802)</b>	<b>(4,687)</b>	<b>855</b>	<b>5,213</b>	<b>2,291</b>	<b>(59,130)</b>

The realized loss on bond forward contracts is net of tax of \$54 for the three months ended June 30, 2015 (2014 - \$40) and \$107 for the six months ended June 30, 2015 (2014 - \$2,065).

Notes to the Condensed Interim Consolidated Financial Statements  
(Unaudited)

Three and Six Months Ended June 30, 2015

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

## 10 Share capital

### Authorized

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

### Issued and outstanding

Common shares

	Common shares	Amount
Balance, January 1, 2014	36,239,653	371,789
Long-term incentive plan, net of loans receivable	10,396	19
Share-based compensation	—	20
Dividend reinvestment plan	32,892	350
Issued common shares	16,097	195
<b>Balance, December 31, 2014</b>	<b>36,299,038</b>	<b>372,373</b>
Long-term incentive plan, net of loans receivable (Note 12)	11,669	17
Share-based compensation (Note 14)	—	12
Dividend reinvestment plan	80,396	1,160
Issued common shares (Note 12)	9,776	148
<b>Balance, June 30, 2015</b>	<b>36,400,879</b>	<b>373,710</b>

### Dividend reinvestment plan

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

### Earnings per share

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

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

	Three months ended		Six months ended	
	June 30		June 30	
	2015	2014	2015	2014
<b>Numerator for Basic and Diluted income (loss) per share</b>				
Net income (loss) for basic income (loss) per share	1,282	376	1,632	(17,688)
Net finance charges on convertible debentures	653	652	1,298	1,296
Current income tax adjustment	(173)	(173)	(344)	(343)
Net income (loss) used to determine diluted income (loss) per share	1,762	855	2,586	(16,735)
<b>Denominator for Basic and Diluted income (loss) per share</b>				
Weighted average number of shares for basic income (loss) per share	36,383,929	36,264,976	36,354,595	36,257,968
Shares issued if all convertible debentures were converted	2,746,269	2,746,269	2,746,269	2,746,269
Total for diluted income (loss) per share	39,130,198	39,011,245	39,100,864	39,004,237



## 11 Dividends

The Company paid dividends at \$0.075 per month per common share totaling \$7,643 for the three months ended and \$15,191 for the six months ended June 30, 2015 (2014 - \$8,159 and \$16,315, respectively). Dividends payable of \$2,731 are included in accounts payable and accrued liabilities as at June 30, 2015 (December 31, 2014 - \$2,723). Subsequent to June 30, 2015, the Board of Directors declared dividends of \$0.075 per common share for July 2015 totaling \$2,731. These dividends have not been recorded in these interim consolidated financial statements.

## 12 Share-based compensation

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

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

On February 25, 2015, incentive award amounts entitling eligible participants to acquire 11,669 common shares were granted pursuant to the LTIP. On the grant date, the participants paid \$9 towards the acquisition of common shares. This payment was recorded as an increase in share capital. Related to the LTIP in the six months ended June 30, 2015, the Company recorded an increase of \$17 in share capital (2014 - \$12) and \$30 in contributed surplus (2014 - \$32). Included as a reduction to shareholders' equity is an outstanding loan balance of \$441 (December 31, 2014 - \$287). Total expense related to the LTIP for the three and six months ended June 30, 2015 were \$nil and \$30 (2014 - \$nil and \$32, respectively).

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

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

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

During the six months ended June 30, 2015, 17,007 restricted share units ("RSUs") (2014 - 23,730) were granted pursuant to the RSUP. Total expenses related to the RSUP for the three and six months ended June 30, 2015 were negative \$34 and \$127, respectively (2014 - \$78 and \$208, respectively). During the three and six months ended June 30, 2015, 2,567 RSUs were forfeited causing a decrease of \$3 to the share-based compensation liability. During the six months ended June 30, 2015, 11,426 RSUs vested and were settled in cash and shares, resulting in a decrease of \$168 to the share-based compensation liability. The total liability recorded as part of the share-based compensation liability as at June 30, 2015 was \$194 (December 31, 2014 - \$235).

RSU awards vest on the third anniversary of the grant date upon which the RSUs are granted (formerly vesting equally at the end of years one, two and three from the grant date).

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

	Number of RSUs
Outstanding, January 1, 2014	26,027
Granted	23,730
Forfeited	(3,664)
Dividends reinvested	2,126
Settled in cash	(2,791)
Settled in shares	(16,097)
Outstanding, December 31, 2014	29,331
Granted	17,007
Forfeited	(2,567)
Dividends reinvested	1,020
Settled in cash	(1,650)
Settled in shares	(9,776)
Outstanding, June 30, 2015	<b>33,365</b>

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

Total expenses related to the DSUP for the three and six months ended June 30, 2015 were \$232 and \$459, respectively (2014 - \$265 and \$439, respectively), which was recognized in administrative expenses. The total liability recorded related to the DSUP as a part of the share-based compensation liability as at June 30, 2015 was \$2,798 (December 31, 2014 - \$2,339). The value of each DSU is measured at each reporting date and is equivalent to the fair market value of a common share of the Company at the reporting date.

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

During Q2 2015, the Board approved the adoption of its amended and restated EDSUP for executive officers and such other officers or employees ("**EDSUP Member**") as the Board of Directors may determine from time to time. Each EDSUP Member, at his or her discretion, is entitled to elect to have up to 100% of his or her annual base incentive awards contributed to the EDSUP. The Company will match all EDSUs so credited in respect of long-term incentive awards up to a maximum of 25% of the long-term incentive awards (up to 35% in the case of the Chief Executive Officer), or such other amount as the Board of Directors may determine. In satisfaction of such contribution, the EDSUP Member is credited that number of EDSUs equal to the quotient obtained by dividing the amount of the contribution by the volume weighted average closing price of the common shares on the TSX for the five trading days immediately preceding the date of payment. Dividends earned on such EDSUs will be credited to the EDSUP Member's account in the form of additional EDSUs, which are calculated using the same methodology as the original grant.

EDSUs vest on the third anniversary of the date upon which the EDSUs are granted (except for EDSUs credited in respect of short-term incentive awards, which vest immediately upon grant), 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 market value of a common share of the Company at the reporting date. One award issued during the six months ended June 30, 2015 under the EDSUP vested immediately upon grant with a value of \$146. Total expenses related to the EDSUP for the three and six months ended June 30, 2015 were \$22 and \$26, respectively (2014 - \$nil and \$nil), which was recognized in administrative expenses. The total liability recorded as a part of the share-based compensation liability as at June 30, 2015 was \$171 (December 31, 2014 - \$nil).

### 13 Key management compensation

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

	Three months ended		Six months ended	
	June 30		June 30	
	2015	2014	2015	2014
Salaries and short-term employee benefits	630	598	1,091	1,286
Termination benefits	259	—	259	232
Share-based compensation	215	337	634	580
	<b>1,104</b>	935	<b>1,984</b>	2,098

### 14 Related party transactions

A subsidiary of the Company has been contracted to manage the operations of Spencer House Inc., a charitable organization that owns a licence to operate a LTC home in Orillia, Ontario, and is related by virtue of the management relationship. The total revenue earned from Spencer House Inc. for the three months ended June 30, 2015 was \$475 (2014 - \$465) and six months ended June 30, 2015 was \$945 (2014 - \$938). Included in accounts receivable is \$185 owing from Spencer House Inc. as at June 30, 2015 (December 31, 2014 - \$102). These transactions are in the normal course of operations and have been valued in these interim consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the management of the related parties pursuant to the management agreement. These amounts are due on demand and are non-interest bearing.

As at June 30, 2015, the Company has amounts outstanding from certain key executives of \$441 (December 31, 2014 - \$287) (Note 12) in relation to the LTIP issuance, which have been recorded as a reduction to shareholders' equity.

During the year ended December 31, 2013, the Company loaned the Chief Executive Officer ("CEO") \$500 to effect the purchase of the Company's common shares. The outstanding loan balance as at June 30, 2015 was \$457 (December 31, 2014 - \$469), which has been recorded as a reduction to shareholders' equity. The loan bears interest at the prime rate and is due on demand. The common shares have been pledged as security against the loan, which is personally guaranteed by the CEO.

## 15 Economic dependence

The Company holds licences related to each of its LTC homes and receives funding from the Ministry of Health and Long-Term Care ("MOHLTC") related to those licences. Funding is received on or about the 22<sup>nd</sup> of each month. During the three and six months ended June 30, 2015, the Company received approximately \$72,940 and \$143,335, respectively (2014 - \$70,347 and \$141,649, respectively) in respect of these licences for flow-through envelope revenues and other MOHLTC funded initiatives.

## 16 Expenses by nature

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Salaries, benefits and people costs	73,925	72,504	147,362	144,218
Food	4,811	4,527	9,407	8,835
Property taxes	3,224	3,278	6,546	6,729
Utilities	2,591	2,731	6,556	6,614
Purchased services and non-medical supplies	4,024	3,895	7,810	7,771
Other	10,551	9,037	19,061	18,841
<b>Total expenses</b>	<b>99,126</b>	<b>95,972</b>	<b>196,742</b>	<b>193,008</b>

## 17 Segmented information

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

The Company is comprised of the following main business segments:

- LTC business - LTC is the core business of the Company;
- Retirement - Retirement includes 10 retirement residences;
- Home Care - Home Care is an accredited provider of professional nursing, personal support and education services for both community-based home care and LTC homes;
- Management Services - Management Services is a division that is focused on the third party management business in both the LTC and retirement sectors; and
- Corporate, Eliminations and Other - This segment represents the results of head office, intercompany eliminations and other items that are not allocable to the segments.

The significant accounting policies of the reportable operating segments are the same as those disclosed in the annual audited consolidated financial statements for the year ended December 31, 2014.

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	Three months ended June 30, 2015					
	Long-Term Care	Retirement	Home Care	Management Services	Corporate, Eliminations and Other	Total
Gross revenue	101,041	10,693	4,296	614	8,188	124,832
Less: Internal revenue	1,317	—	—	—	8,329	9,646
Net revenue	99,724	10,693	4,296	614	(141)	115,186
Income (loss) before depreciation and amortization, net finance charges, transaction costs and the provision for income taxes	15,443	4,693	401	413	(4,890)	16,060
Transaction costs	—	—	—	—	232	232
Depreciation of property and equipment	4,255	1,760	1	—	25	6,041
Amortization of intangible assets	536	1,912	—	418	—	2,866
Finance costs	4,031	1,306	—	1	653	5,991
Finance income	(982)	(1)	(2)	—	(8)	(993)
Income tax expense	—	—	—	—	641	641
Net income (loss)	7,603	(284)	402	(6)	(6,433)	1,282
Purchase of property and equipment	498	368	—	—	201	1,067
Purchase of intangible assets	2	—	—	—	592	594

	Three months ended June 30, 2014					
	Long-Term Care	Retirement	Home Care	Management Services	Corporate, Eliminations and Other	Total
Gross revenue	98,210	10,187	4,297	591	8,160	121,445
Less: Internal revenue	1,359	—	—	—	8,412	9,771
Net revenue	96,851	10,187	4,297	591	(252)	111,674
Income (loss) before depreciation and amortization, net finance charges, transaction costs and the recovery of income taxes	14,843	4,386	613	333	(4,473)	15,702
Transaction costs	—	—	—	—	109	109
Depreciation of property and equipment	4,464	1,743	1	—	—	6,208
Amortization of intangible assets	552	2,599	1	855	—	4,007
Finance costs	4,496	1,416	—	—	652	6,564
Finance income	(1,044)	—	(1)	—	(6)	(1,051)
Income tax recovery	—	—	—	—	(511)	(511)
Net income (loss)	6,375	(1,372)	612	(522)	(4,717)	376
Purchase of property and equipment	374	128	—	—	—	502
Purchase of intangible assets	—	—	—	—	—	—

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	Six months ended June 30, 2015					
	Long-Term Care	Retirement	Home Care	Management Services	Corporate, Eliminations and Other	Total
Gross revenue	200,345	21,233	8,498	1,249	16,363	247,688
Less: Internal revenue	2,649	—	—	—	16,641	19,290
Net revenue	197,696	21,233	8,498	1,249	(278)	228,398
Income (loss) before depreciation and amortization, net finance charges, transaction costs and the provision for income taxes	29,724	9,408	930	886	(9,292)	31,656
Transaction costs	—	—	—	—	270	270
Depreciation of property and equipment	8,498	3,518	1	—	52	12,069
Amortization of intangible assets	1,072	4,408	—	864	3	6,347
Finance costs	8,362	2,662	—	1	1,298	12,323
Finance income	(1,931)	(1)	(3)	—	(13)	(1,948)
Income tax expense	—	—	—	—	963	963
Net income (loss)	13,723	(1,179)	932	21	(11,865)	1,632
Purchase of property and equipment	515	693	—	—	807	2,015
Purchase of intangible assets	6	—	—	—	861	867

	Six months ended June 30, 2014					
	Long-Term Care	Retirement	Home Care	Management Services	Corporate, Eliminations and Other	Total
Gross revenue	197,175	20,178	8,688	1,212	16,317	243,570
Less: Internal revenue	2,667	—	—	—	16,889	19,556
Net revenue	194,508	20,178	8,688	1,212	(572)	224,014
Income (loss) before depreciation and amortization, net finance charges, transaction costs and the recovery of income taxes	28,922	8,640	1,304	837	(8,697)	31,006
Transaction costs	—	—	—	—	659	659
Depreciation of property and equipment	8,926	3,488	1	—	—	12,415
Amortization of intangible assets	1,102	5,493	3	1,029	—	7,627
Finance costs	33,151	2,796	—	—	1,296	37,243
Finance income	(2,323)	—	(1)	—	(13)	(2,337)
Income tax recovery	—	—	—	—	(6,913)	(6,913)
Net income (loss)	(11,934)	(3,137)	1,301	(192)	(3,726)	(17,688)
Purchase of property and equipment	637	194	—	—	—	831
Purchase of intangible assets	—	—	—	—	—	—

	As at June 30, 2015					
	Long-Term Care	Retirement	Home Care	Management Services	Corporate, Eliminations and Other	Total
Total assets	671,221	236,576	8,798	5,362	2,962	924,919
Goodwill	89,322	2,511	6,521	450	—	98,804
Intangible assets	108,830	6,356	—	3,756	1,304	120,246

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As at December 31, 2014

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

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