

Report to Shareholders

Q1 2017

Sienna Senior Living Inc.

Sienna SENIOR LIVING

Management's Discussion and Analysis

(in thousands of Canadian Dollars)

Q1 2017

Sienna Senior Living Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basis of Presentation

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

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

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

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

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

Additional Information

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

Review and Approval by the Board of Directors

This MD&A is dated as of May 9, 2017, the date on which this report was approved by the Board of Directors of the Company, and is based on information available to management as of that date.

Company Profile

The Company and its predecessors have been operating since 1972. The Company is one of Canada's leading seniors' living providers serving the continuum of independent living ("**IL**"), independent supportive living, assisted living ("**AL**"), memory care ("**MC**") and long-term care/ residential care ("**LTC**", "**Long-term Care**", "**RC**") through the ownership and operation of seniors' living residences in the Provinces of British Columbia and Ontario. The Company owns and operates a total of 56 seniors' living residences: 13 retirement residences ("**RR**" or "**Retirement Residences**"); 35 LTC residences; and eight seniors' living residences providing both private-pay IL and AL and funded LTC/ RC which include the Company's partial ownership in two newly built residences in British Columbia ("**Baltic Properties**").

Under its management services division, including the Company's 50% interest in its management platform in British Columbia ("**PSM**"), the Company provides management services to seniors' living residences in the Provinces of British Columbia and Ontario.

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

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

As of May 9, 2017, the Company had outstanding 46,217,972 common shares and $45,083 in aggregate principal amount of convertible unsecured subordinated debentures, which, in the aggregate, are convertible into 2,691,522 common shares (the "**Convertible Debentures**"). The Convertible Debentures have a maturity date of June 30, 2018.

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

NAME OF COMMUNITY	LOCATION	FUNDED	PRIVATE	TOTAL BEDS/ SUITES
Retirement				
Astoria Retirement Residence	Port Coquitlam, BC	—	135	135
Cedarvale Lodge Retirement & Care Community	Keswick, ON	—	130	130
Island Park Retirement Residence	Campbellford, ON	—	85	85
Lincoln Park Retirement Residence	Grimsby, ON	—	70	70
Mayfair Terrace Retirement Residence	Port Coquitlam, BC	—	86	86
Midland Gardens Seniors Apartments	Scarborough, ON	—	53	53
Pacifica Retirement Residence	Surrey, BC	—	130	130
Peninsula Retirement Residence	Surrey, BC	—	127	127
Red Oak Retirement Residence	Kanata, ON	—	158	158
Rideau Retirement Residence	Burnaby, BC	—	138	138
Royale Place Retirement Residence	Kingston, ON	—	136	136
Traditions of Durham Retirement Residence	Oshawa, ON	—	140	140
Trillium Retirement and Care Community	Kingston, ON	—	41	41
Total Retirement		**—**	**1,429**	**1,429**
Baltic Properties (private-pay and funded RC)				
Brookside Lodge	Surrey, BC	102	14	116
Lake Country Lodge	Lake Country, BC	45	45	90
Lakeview Lodge	West Kelowna, BC	100	14	114
Mariposa Gardens	Osoyoos, BC	114	31	145
Nicola Lodge (1)	Port Coquitlam, BC	238	18	256
Glenmore Lodge (1)	Kelowna, BC	100	18	118
Ridgeview Lodge	Kamloops, BC	106	23	129
The Cascades	Chilliwack, BC	140	27	167
Total Baltic Properties		**945**	**190**	**1,135**
Long-term Care				
Altamont Care Community	West Hill, ON	159	—	159
Barnswallow Place Care Community	Elmira, ON	96	—	96
Bloomington Cove Care Community	Stouffville, ON	112	—	112
Bradford Valley Care Community	Bradford, ON	246	—	246
Camilla Care Community	Mississauga, ON	237	—	237
Case Manor Care Community	Bobcaygeon, ON	96	—	96
Cedarvale Lodge Retirement & Care Community	Keswick, ON	60	—	60
Cheltenham Care Community	Toronto, ON	170	—	170
Creedan Valley Care Community	Creemore, ON	95	—	95
Deerwood Creek Care Community	Etobicoke, ON	160	—	160
Fieldstone Commons Care Community	Scarborough, ON	224	—	224
Fountain View Care Community	Toronto, ON	158	—	158
Fox Ridge Care Community	Brantford, ON	122	—	122
Granite Ridge Care Community	Stittsville, ON	224	—	224
Harmony Hills Care Community	Toronto, ON	160	—	160
Hawthorn Woods Care Community	Brampton, ON	160	—	160
Langstaff Square Care Community	Richmond Hill, ON	160	—	160
Madonna Care Community	Orleans, ON	160	—	160
Maple Grove Care Community	Brampton, ON	160	—	160
Midland Gardens Care Community	Scarborough, ON	299	—	299
Muskoka Shores Care Community	Gravenhurst, ON	206	—	206

NAME OF COMMUNITY	LOCATION	FUNDED	PRIVATE	TOTAL BEDS/ SUITES
Norfinch Care Community	North York, ON	160	—	160
Orillia (2)	Orillia, ON	160	—	160
Owen Hill Care Community	Barrie, ON	57	—	57
Rockcliffe Care Community	Scarborough, ON	204	—	204
Secord Trails Care Community	Ingersoll, ON	80	—	80
Silverthorn Care Community	Mississauga, ON	160	—	160
St. George Care Community	Toronto, ON	238	—	238
Streetsville Care Community	Mississauga, ON	118	—	118
Trillium Retirement and Care Community	Kingston, ON	190	—	190
Tullamore Care Community	Brampton, ON	159	—	159
Waters Edge Care Community	North Bay, ON	148	—	148
Weston Terrace Care Community	Toronto, ON	224	—	224
Woodbridge Vista Care Community	Woodbridge, ON	224	—	224
Woodhall Park Care Community	Brampton, ON	147	—	147
Total Long-term Care		**5,733**	**—**	**5,733**
Total Retirement, Baltic and Long-term Care		**6,678**	**1,619**	**8,297**

Notes:

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

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

Company Strategy & Objectives

Our Vision

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

Our Mission

To help you live fully, every day.

Our Values

Respect

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

Passion

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

Teamwork

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

Responsibility

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

Growth

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

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

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

Strengthening our Operating Platform:

- Providing a consistent and high-quality resident experience; continuously enhancing our services and program offerings
- Building a culture of high-performing and engaged teams

Progress:

- Received a 3-year third party accreditation award for all LTC communities
- Implemented programs to improve the culinary and leisure experience in RRs
- All publicly reported quality and compliance indicators outperformed the provincial average
- Enhanced talent management and leadership development
- Recipient of the Ontario Long-term Care Association Resident Centered Home of the Year Award

Building our Brand Recognition:

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

Progress:

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

Strong Balance Sheet and Liquidity:

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

Progress:

- ○ Raised $138,347 in a public offering of subscription receipts in August 2016, the proceeds of which were used for acquisitions and for general company purposes
- ○ Successful refinancing of approximately $32,700 of property-level mortgages in the past two quarters
- ○ Merged two floating-rate credit facilities backed by three RRs to increase the Company's combined credit facility from $79,500 to $105,000, providing liquidity to drive growth through acquisitions, development and redevelopment
- ○ In March 2017, Dominion Bond Rating Service ("**DBRS**") confirmed the A (low) rating for the Series B Debentures
- ○ Decreased year-over-year Debt to Adjusted EBITDA ratio by 0.4x to 7.4x
- ○ Increased year-over-year liquidity by approximately $44,952 and 76.9%

Growing the Company:

Our growth plan is based on three key components:

Organic Growth:

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

Development:

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

Acquisitions:

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

Progress:

- Completed the acquisition of a portfolio of properties in British Columbia in August 2016
- Planning for development of additional capacity on excess land and redevelopment of 2,200 class C LTC beds, subject to regulatory approvals and financial feasibility
- Proceeding with the retrofit of one older class C LTC seniors living community, expected to be completed in 2017
- Acquired 61% interest in Glenmore Lodge, a 118-bed newly built state of the art seniors living residence located in Kelowna, British Columbia in March 2017
- Strong year-over-year results in Retirement, an increase of 10.2% in same property Net Operating Income ("**NOI**")
- Overall same property NOI increased by 4.0% year-over-year

Industry Overview

Please refer to the Company's MD&A for the year ended December 31, 2016, as well as the AIF, for a discussion of the Industry Overview.

Business of the Company

Please refer to the Company's AIF, for a discussion of the Business Overview.

2017 Outlook

Please refer to the Company's MD&A for the year ended December 31, 2016 for a discussion of the 2017 Outlook. Please also refer to the "Significant Events" section below for recent developments.

Significant Events

Exercise of option to acquire 61% interest in Glenmore Lodge

On March 15, 2017, the Company completed the acquisition of an initial 61% interest in Glenmore Lodge for a purchase price of $19,937 (reflecting the negotiated discount to fair market value), before closing costs and subject to customary closing adjustments. The purchase price was partially satisfied by the assumption of 61% of the property-level mortgage (pro-rated to reflect the Company's interest) in the amount of $13,223 (with a fair value of $13,650), with a term maturing in June 2032 and bearing interest at a rate of 4.68%. The remainder of the purchase price was paid using the Company's available cash.

Royale Credit Facility

On January 18, 2017, the Company's subsidiary, The Royale LP, entered into an amended and restated credit agreement with a Canadian lender for a revolving credit facility of up to $105 million (the "**Royale Credit Facility**"), which amended and restated the Company's $57,000 revolving credit facility originally entered into on April 27, 2011 and incorporated the Company's $22,500 credit facility on the Astoria Retirement Residence (effectively terminating and replacing such facility). This amendment increased the borrowing capacity from a combined $79,500 up to $105,000. The Royale Credit Facility matures on January 18, 2020 and is intended to be used for general corporate purposes, including the short-term financing of future acquisitions. Borrowings under the Royale Credit Facility can take place by way of loans (at Canadian prime rate plus 75 basis points ("**bps**") per annum), bankers' acceptances ("**BA**") (at 175 bps per annum over the floating BA rate published by the Bank of Canada) and letters of credit (at prime rate plus 2.5 bps per annum). The Royale Credit Facility is secured by The Royale LP's 100% interest in three retirement residences and guaranteed by the Company, and is subject to certain customary financial and non-financial covenants, including restrictions on the pledging of assets and the maintenance of various financial covenants.

The Royale LP made a net repayment of $15,000 subsequent to March 31, 2017 under this Royale Credit Facility, bringing the total amount drawn to $35,000.

Acquisition of Rosewood Retirement Residence

On May 5, 2017, the Company entered into a purchase and sale agreement to acquire Rosewood Retirement Residence, a 68-suite private-pay residence located in Kingston, Ontario, which is currently managed by the Company. The purchase price of $9,800, subject to customary post-closing adjustments, is expected to be financed through the assumption of the existing mortgage of approximately $4,600, with an interest rate of 3.77% and a maturity of January 1, 2018, with the remaining proceeds expected to be financed through a vendor-take-back mortgage and cash. This acquisition is expected to be completed during the second quarter of 2017.

Non-IFRS Performance Measures

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

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

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

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

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

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

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

Key Performance Indicators

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

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

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

The following table represents the key performance indicators for the three months ended March 31, 2017:

Thousands of dollars, except occupancy, share and ratio data	Three Months Ended 2017	2016	Change
OCCUPANCY			
LTC - Average total occupancy	**98.1%**	98.6%	-0.5%
LTC - Average private occupancy	**98.9%**	99.7%	-0.8%
Retirement - Average occupancy	**94.3%**	92.0%	2.3%
Retirement - As at occupancy	**93.8%**	91.5%	2.3%
Baltic - Total occupancy	**96.2%**	n/a	n/a
FINANCIAL			
Net income (loss) from continuing operations	**4,679**	(101)	4,780
NOI [(1)]	**27,461**	21,440	6,021
OFFO [(1)]	**14,190**	10,815	3,375
AFFO [(1)]	**16,666**	13,189	3,477
PER SHARE INFORMATION			
OFFO per share, basic	**0.308**	0.296	0.012
OFFO per share, diluted	**0.299**	0.288	0.011
AFFO per share, basic	**0.361**	0.361	—
AFFO per share, diluted	**0.349**	0.348	0.001
Dividends per share	**0.225**	0.225	—
Payout ratio (basic AFFO)	**62.3%**	62.3%	— %
FINANCIAL RATIOS			
Debt service coverage ratio	**1.6**	1.8	(0.2)
Debt to gross book value as at period end	**52.4%**	55.2%	(2.8)%
Debt, excluding Convertible Debentures, to gross book value as at period end	**49.3%**	51.2%	(1.9)%
Weighted average cost of debt as at period end	**3.8%**	3.8%	—%
Debt to Adjusted EBITDA from continuing operations ratio as at period end	**7.4**	7.8	(0.4)
Interest coverage ratio	**3.5**	3.4	0.1
Weighted average term to maturity as at period end	**4.8**	4.2	0.6

SAME PROPERTY PERCENT CHANGE IN NOI	
Long-term Care	1.6%
Retirement	10.2%
Baltic [(2)]	n/a
Total	4.0%

Note:

1. These amounts include the Q1 2017 NOI of $nil (2016 - $416) from Preferred Health Care Services ("PHCS"), the ancillary home care ("Home Care") business of the Company, which was sold and discontinued in April 2016.
2. The Baltic Properties and PSM are referred to collectively as "**Baltic**", and comprise the Baltic segment.

Quarterly Financial Information

Thousands of dollars, except occupancy and per share data	2017	2016				2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue from continuing operations (1)	**133,966**	138,011	130,418	115,226	114,232	118,380	114,341	110,890
Income from continuing operations before net finance charges, transaction costs and provision for (recovery of) income taxes (1)	**13,392**	13,136	10,861	9,056	6,719	8,920	9,315	6,753
Net income (loss) from continuing operations (1)	**4,679**	4,044	(364)	(642)	(101)	1,873	2,915	988
Per share basic and diluted (1)	**0.10**	0.10	(0.01)	(0.02)	0.00	0.05	0.09	0.02
Net income (loss) from discontinued operations (2)	**—**	—	(7)	(10)	305	541	419	402
Per share basic and diluted (2)	**0.00**	0.00	0.00	0.00	0.01	0.01	0.01	0.01
OFFO	**14,190**	15,106	15,474	11,385	10,815	11,453	11,497	10,448
Per share basic	**0.31**	0.33	0.36	0.31	0.30	0.31	0.32	0.29
Per share diluted	**0.30**	0.32	0.35	0.30	0.29	0.30	0.31	0.28
AFFO	**16,666**	15,241	17,220	13,466	13,189	12,180	13,256	12,179
Per share basic	**0.36**	0.33	0.40	0.37	0.36	0.33	0.36	0.34
Per share diluted	**0.35**	0.32	0.39	0.35	0.35	0.32	0.35	0.32
Dividends declared	**10,364**	10,367	9,652	8,232	8,217	8,205	8,196	8,188
Per share	**0.23**	0.23	0.23	0.23	0.23	0.23	0.23	0.23
Occupancy								
LTC - Average total occupancy	98.1 %	98.7 %	99.0 %	98.8 %	98.6 %	98.8 %	99.1 %	98.5 %
LTC - Average private occupancy	98.9 %	98.7 %	99.9 %	99.9 %	99.7 %	99.9 %	99.9 %	99.7 %
Retirement - Average occupancy	94.3 %	95.2 %	93.9 %	92.3 %	92.0 %	93.4 %	90.2 %	87.0 %
Retirement - As at occupancy	93.8 %	94.5 %	95.0 %	93.5 %	91.5 %	93.6 %	92.3 %	88.8 %
Baltic - Total occupancy	96.2 %	97.9 %	98.3 %	n/a	n/a	n/a	n/a	n/a
Total assets	**1,213,132**	1,204,218	1,212,546	1,066,969	939,477	951,469	912,933	924,919
Total debt (3)	**756,902**	734,459	746,570	605,344	623,513	629,068	593,633	602,960

Notes:

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

The Company's quarterly financial results are impacted by various factors including, but not limited to, the timing of acquisitions, seasonality of utility expenses, timing of resident co-payment 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.

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

Operating Results

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

	Three Months Ended		
Thousands of dollars	**2017**	2016	Change
Revenue	**133,966**	114,232	19,734
Expenses			
Operating	**106,505**	93,208	13,297
Depreciation and amortization	**8,794**	9,921	(1,127)
Administrative	**5,275**	4,384	891
	120,574	107,513	13,061
Income from continuing operations before net finance charges, transaction costs and provision for (recovery of) income taxes	**13,392**	6,719	6,673
Other expenses			
Net finance charges	**6,566**	5,566	1,000
Transaction costs	**518**	1,183	(665)
Total other expenses	**7,084**	6,749	335
Income (loss) from continuing operations before provision for (recovery of) income taxes	**6,308**	(30)	6,338
Provision for (recovery of) income taxes from continuing operations			
Current	**1,526**	1,190	336
Deferred	**103**	(1,119)	1,222
	1,629	71	1,558
Net income (loss) from continuing operations	**4,679**	(101)	4,780
Net income from discontinued operations, net of taxes	**—**	305	(305)
Net income	**4,679**	204	4,475
Net income attributable to:			
Shareholders of the Company	**4,576**	204	4,372
Non-controlling interest	**103**	—	103
	4,679	204	4,475
Total assets	**1,213,132**	939,477	273,655
Total debt (net of principal reserve fund)	**756,902**	623,513	133,389

Revenue Breakdown

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

	Three Months Ended		
Thousands of dollars	**2017**	2016	Change
Long-term Care			
Same property	**103,022**	101,406	1,616
Total Long-term Care Revenue	**103,022**	**101,406**	**1,616**
Retirement			
Same property (1)	**13,803**	12,962	841
Transaction (1)	**2,194**	—	2,194
Total Retirement Revenue	**15,997**	**12,962**	**3,035**
Baltic			
Transaction	**14,947**	—	14,947
Total Baltic Revenue	**14,947**	**—**	**14,947**
Home Care (Discontinued Operations)			
Same property	—	4,038	(4,038)
Total Home Care (Discontinued Operations) Revenue	**—**	**4,038**	**(4,038)**
Total Revenue			
Same property from continuing operations	**116,825**	114,368	2,457
Discontinued operations	—	4,038	(4,038)
Transaction	**17,141**	—	17,141
MOHLTC reconciliation adjustments	—	(132)	132
Intersegment eliminations	—	(4)	4
Total Revenue	**133,966**	**118,270**	**15,696**

Note:

1. Beginning in Q1 2017, the results of Traditions of Durham, which was acquired on December 31, 2015, have been re-classified from Transaction to Same property. The Transaction amount represents the results of the two RR communities, Mayfair Terrace Retirement Residence and Rideau Retirement Residence, which were acquired on August 2, 2016 (the "**RR Properties**").

Operating Expense Breakdown

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

	Three Months Ended		
Thousands of dollars	**2017**	2016	Change
Long-term Care			
Same property	**87,542**	86,171	1,371
Total Long-term Care Expenses	**87,542**	86,171	1,371
Retirement			
Same property [1]	**7,278**	7,041	237
Transaction [1]	**1,304**	—	1,304
Total Retirement Expenses	**8,582**	7,041	1,541
Baltic			
Transaction	**10,381**	—	10,381
Total Baltic Expenses	**10,381**	—	10,381
Home Care (Discontinued Operations)			
Same property	**—**	3,622	(3,622)
Total Home Care (Discontinued Operations) Expenses	**—**	3,622	(3,622)
Total Operating Expenses			
Same property from continuing operations	**94,820**	93,212	1,608
Discontinued operations	**—**	3,622	(3,622)
Transaction	**11,685**	—	11,685
Intersegment eliminations	**—**	(4)	4
Total Operating Expenses	**106,505**	96,830	9,675

Note:

1. Beginning in Q1 2017, the results of Traditions of Durham, which was acquired on December 31, 2015, have been re-classified from Transaction to Same property. The Transaction amount represents the results of the two RR Properties which were acquired on August 2, 2016.

Net Operating Income Breakdown

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

	Three Months Ended		
Thousands of dollars	**2017**	2016	Change
Long-term Care			
Same property	**15,480**	15,235	245
Total Long-term Care NOI	**15,480**	15,235	245
Retirement			
Same property [(1)]	**6,525**	5,921	604
Transaction [(1)]	**890**	—	890
Total Retirement NOI	**7,415**	5,921	1,494
Baltic			
Transaction	**4,566**	—	4,566
Total Baltic NOI	**4,566**	—	4,566
Home Care (Discontinued Operations)			
Same property	**—**	416	(416)
Total Home Care (Discontinued Operations) NOI	**—**	416	(416)
Total NOI			
Same property from continuing operations	**22,005**	21,156	849
Discontinued operations	**—**	416	(416)
Transaction	**5,456**	—	5,456
MOHLTC reconciliation adjustments	**—**	(132)	132
Total NOI	**27,461**	21,440	6,021

Note:

1. Beginning in Q1 2017, the results of Traditions of Durham, which was acquired on December 31, 2015, have been re-classified from Transaction to Same property. The transaction amount represents the results of the two RR Properties which were acquired on August 2, 2016.

For the Quarter

Revenue

Same property revenues from continuing operations for Q1 2017 increased by $2,457 to $116,825, compared to Q1 2016. LTC revenues increased by $1,616 to $103,022, compared to Q1 2016, primarily attributable to increased funding in the flow-through envelopes, along with higher preferred accommodation rates. RR same property revenues for Q1 2017 increased by $841 to $13,803, compared to Q1 2016, primarily attributable to increases in occupancy and year-over-year rent increases. Baltic contributed $14,947 of revenues for Q1 2017 (2016 - $nil).

Operating Expenses

Same property operating expenses from continuing operations for Q1 2017 increased by $1,608 to $94,820, compared to Q1 2016. LTC operating expenses increased by $1,371 to $87,542, compared to Q1 2016, due to inflationary increases. RR same property operating expenses for Q1 2017 increased by $237 to $7,278, compared to Q1 2016, primarily attributable to higher variable expenses resulting from increased occupancy. Baltic contributed $10,381 of operating expenses for Q1 2017 (2016 - $nil).

NOI

Same property NOI from continuing operations for Q1 2017 increased by $849 to $22,005, compared to Q1 2016. LTC same property NOI increased by $245 to $15,480, compared to Q1 2016. RR same property NOI for Q1 2017 increased by $604 to $6,525, compared to Q1 2016, primarily attributable to increases in occupancy. Baltic contributed $4,566 to NOI for Q1 2017 (2016 - $nil).

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

Depreciation and Amortization

Depreciation and amortization for Q1 2017 decreased by $1,127 to $8,794, compared to Q1 2016. The decrease was primarily attributable to lower amortization on intangible assets, partially offset by incremental depreciation and amortization from the Baltic Properties and the RR Properties acquired in 2016 and 2017.

Administrative Expenses

Administrative expenses for Q1 2017 increased by $891 to $5,275, compared to Q1 2016, primarily attributable to an increase in mark-to-market adjustments on share-based compensation and increased costs to support the Company's growth.

Net Finance Charges

Net finance charges from continuing operations for Q1 2017 increased by $1,000 to $6,566, compared to Q1 2016, primarily attributable to incremental mortgage interest expenses from the Baltic Properties and the RR Properties acquired in 2016 and 2017.

Transaction Costs

Transaction costs for Q1 2017 decreased by $665 to $518 compared to Q1 2016.

Income Taxes

Income tax expense from continuing operations for Q1 2017 increased by $1,558 to $1,629, compared to Q1 2016. The current income tax expense from continuing operations increased by $336 to $1,526 for Q1 2017, compared to Q1 2016, primarily attributable to an increase in NOI net of interest expense and tax depreciation associated with the Baltic Properties and the RR Properties acquired in 2016 and 2017. The current income tax expense has been calculated at the weighted average combined corporate tax rate of 26.46% (2016 - 26.49%). The deferred income tax expense for continuing operations of $103 in Q1 2017 represents an increase in deferred income tax expense of $1,222 over the comparable prior year period, primarily as a result of deferred tax items associated with the Baltic Properties and the RR Properties.

Business Performance

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

Thousands of dollars, except share and per share data	Three Months Ended 2017	2016	Change
Net income (loss) from continuing operations	**4,679**	(101)	4,780
Deferred income tax expense (recovery)	**103**	(1,119)	1,222
Depreciation and amortization	**8,456**	9,891	(1,435)
Transaction costs	**518**	1,183	(665)
Net settlement payment on interest rate swap contracts	**283**	68	215
Net income from discontinued operations[1]	**—**	312	(312)
Gain on Glenmore Lodge option (net of taxes)	**(62)**	—	(62)
Non-controlling interest	**(103)**	—	(103)
(Gain) loss on interest rate swap contracts	**(217)**	201	(418)
Funds from operations (FFO)	**13,657**	10,435	3,222
Depreciation and amortization - corporate	**338**	30	308
Net accretion of fair value adjustments on long-term debt	**(197)**	(184)	(13)
Amortization of deferred financing charges	**460**	296	164
Amortization of loss on bond forward contract	**215**	209	6
Net settlement payment on interest rate swap contracts	**(283)**	(68)	(215)
MOHLTC reconciliation adjustment, net of taxes	**—**	97	(97)
Operating funds from operations (OFFO)	**14,190**	10,815	3,375
Deferred share unit compensation earned	**523**	278	245
Income support	**—**	63	(63)
Construction funding principal	**2,509**	2,412	97
Maintenance capex	**(556)**	(379)	(177)
Adjusted funds from operations (AFFO)	**16,666**	13,189	3,477
Adjusted funds from operations (AFFO)	**16,666**	13,189	3,477
Dividends declared	**(10,364)**	(8,217)	(2,147)
Operating cash flow retained	**6,302**	4,972	1,330
Basic FFO per share	**0.296**	0.286	0.010
Basic OFFO per share	**0.308**	0.296	0.012
Basic AFFO per share	**0.361**	0.361	—
Weighted average common shares outstanding - Basic	**46,141,364**	36,508,453	
Diluted FFO per share	**0.289**	0.278	0.011
Diluted OFFO per share	**0.299**	0.288	0.011
Diluted AFFO per share	**0.349**	0.348	0.001
Weighted average common shares outstanding - Diluted	**48,832,889**	39,254,722	

Note 1: Net of current income tax expense of $nil (2016 - $104).

Reconciliation of diluted FFO, OFFO and AFFO

Thousands of Dollars	Three Months Ended 2017	2016	Change
FFO, Basic	**13,657**	10,435	3,222
Net financing charges on convertible debt	**637**	653	(16)
Current income tax expense adjustment	**(169)**	(173)	4
FFO, Diluted	**14,125**	10,915	3,210
OFFO, Basic	**14,190**	10,815	3,375
Interest expense on convertible debentures	**537**	553	(16)
Current income tax expense adjustment	**(142)**	(73)	(69)
OFFO, Diluted	**14,585**	11,295	3,290
AFFO, Basic	**16,666**	13,189	3,477
Interest expense on convertible debentures	**537**	553	(16)
Current income tax expense adjustment	**(142)**	(73)	(69)
AFFO, Diluted	**17,061**	13,669	3,392

For the Quarter

FFO increased by $3,222 to $13,657, compared to Q1 2016. The increase was primarily attributable to improved NOI contribution from same properties, the Baltic Properties and RR Properties acquired in 2016 and 2017, partially offset by incremental mortgage interest expense from the Baltic Properties and RR Properties. OFFO increased by $3,375 to $14,190, compared to Q1 2016. AFFO increased by $3,477 to $16,666, compared to Q1 2016. The increases in OFFO and AFFO were principally related to the increase in OFFO noted above.

Reconciliation of Cash from Operations to Adjusted Funds from Operations

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

Thousands of dollars	Three Months Ended 2017	2016	Change
Cash provided by operating activities	**4,675**	9,700	(5,025)
Gain on Glenmore Lodge option (net of taxes)	**(62)**	—	(62)
Non-controlling interest	**(103)**	—	(103)
Construction funding principal	**2,509**	2,412	97
Transaction costs	**518**	1,183	(665)
MOHLTC reconciliation adjustment, net of taxes	**—**	97	(97)
Maintenance capex	**(556)**	(379)	(177)
Net change in working capital, interest and taxes	**9,812**	264	9,548
Restricted share units and long-term incentive plan expense	**(127)**	(88)	(39)
Adjusted funds from operations (AFFO)	**16,666**	13,189	3,477
Adjusted funds from operations (AFFO)	**16,666**	13,189	3,477
Dividends declared	**(10,364)**	(8,217)	(2,147)
Operating cash flow retained	**6,302**	4,972	1,330
Dividend reinvestment	**1,153**	657	496
Cash retained after dividend reinvestment	**7,455**	5,629	1,826

Operating cash flow retained is equal to AFFO less dividends declared. Operating cash flow retained for the three months ended March 31, 2017 was $6,302 (2016 - $4,972).

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

Liquidity and Capital Resources

Financial Position Analysis

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

	Three Months Ended		
Thousands of dollars	**2017**	2016	Change
Cash flow from operations before non-cash working capital items	**22,318**	16,128	6,190
Non-cash changes in working capital	**(3,649)**	4,626	(8,275)
Interest and taxes paid, swap settlement, and discontinued operations	**(13,994)**	(10,615)	(3,379)
Cash flow used in operating activities of discontinued operations	**—**	(439)	439
Cash provided by (used in):			
Operating activities	**4,675**	9,700	(5,025)
Investing activities	**(4,072)**	2,163	(6,235)
Financing activities	**(907)**	(13,264)	12,357
Decrease in cash during the period	**(304)**	(1,401)	1,097
Cash, end of period	**26,896**	24,944	1,952

For the Quarter

Operating Activities

For Q1 2017, operating activities provided $4,675 in cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes of $22,318.
- Decrease in accounts receivable and other assets of $2,399.
- Decrease in net government funding balances of $2,941,
- Partially offset by interest paid on long-term debt of $9,411, decrease in accounts payable and accrued liabilities of $8,504, and income taxes paid of $4,300.

For Q1 2016, operating activities provided $9,700 of cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes totaled $16,128.
- Increase in accounts payable and accrued liabilities of $381 and decrease in accounts receivable and other assets of $240.
- Change in net government funding balances provided $3,830 of cash.

- Partially offset by interest paid on long-term debt of $8,147, lower income taxes paid of $2,400, and discontinued operations' use of cash in operating activities of $439.

Investing Activities

Investing activities for Q1 2017 used $4,072 in cash, which was primarily attributable to the following:

- Acquisition of Glenmore Lodge for $5,699.
- Purchase of property and equipment of $1,150 and intangibles of $469.
- Partially offset by the construction funding received in the amount of $3,370.

For Q1 2016, investing activities provided $2,163 in cash, which was primarily attributable to the following:

- Construction funding received in the amount of $3,270.
- Partially offset by purchase of equipment of $495 and intangible assets of $623.

Financing Activities

Financing activities in Q1 2017 used $907 in cash, which was primarily attributable to the following:

- Dividends paid in the quarter of $9,226.
- Repayment of long-term debt of $3,615 relating to mortgage principal payments.
- Contribution to Series B Debentures principal reserve fund of $1,693.
- Partially offset by proceeds from long-term debt of $14,500.

For Q1 2016, financing activities used $13,264 in cash, which was primarily attributable to the following:

- Dividends paid in the quarter of $7,555.
- Repayment of long-term debt of $4,100 relating to mortgage principal payments and voluntary repayments on the Company's revolving credit facilities.
- Contribution to Series B Debentures principal reserve fund of $1,575.

Capital Resources

The Company's total debt as at March 31, 2017 was $756,902 (December 31, 2016 - $734,459), net of the Series B Debentures' principal reserve fund of $18,809 (December 31, 2016 - $17,116). The increase of $22,443 was primarily related to the Company's drawdown of the Royale Credit Facility and the mortgage assumed on the acquisition of Glenmore Lodge, partially offset by monthly payments to the Series B Debentures' principal reserve fund and payments toward mortgage liabilities. The Company has credit facilities up to $126,500. As at March 31, 2017, the Company had drawn $50,000 from these facilities.

As at March 31, 2017, the Company had a working capital deficiency (current liabilities less current assets) of $73,675 arising primarily from the current portion of long-term debt of $54,358, relating to the portion of mortgage liabilities due within a twelve-month period. To support the Company's working capital deficiency, the Company plans to use its operating cash flows and, if necessary, undrawn credit facilities, which management believes will be sufficient to address this capital deficiency.

In Q1 2017, the Company refinanced two floating-rate credit lines by consolidating them and increasing the combined credit line from $79,500 up to $105,000. Refer to "Royale Credit Facility" in the "Significant Events" section of this MD&A above.

Liquidity and Capital Commitments

Liquidity

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

Capital Commitments

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

Debt Strategy

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

The Company's goal is to continue to optimize its debt maturity schedule over a 10-year period in order to manage interest rate and financial risks. In fiscal 2017 and beyond, the Company plans to capitalize on external growth opportunities and refinance mortgages to build the 10-year debt maturity ladder around the Series B Debentures so as to reduce risk when these debentures mature. In March 2017, DBRS confirmed the A (low) rating for the Series B Debentures.

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

Interest Coverage Ratio

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

	Three Months Ended	
Thousands of dollars, except ratio	**2017**	2016
Net finance charges from continuing operations	**6,566**	5,566
Add (deduct):		
Net accretion of fair value adjustments on long-term debt	**197**	184
Amortization of deferred financing charges	**(460)**	(296)
Amortization of loss on bond forward contracts	**(215)**	(209)
Interest income on construction funding receivable	**861**	858
Other interest income	**186**	61
Gain (loss) on interest rate swap contracts	**217**	(201)
Net finance charges, adjusted	**7,352**	5,963
Adjusted EBITDA from continuing operations	**25,556**	20,042
Interest coverage ratio	**3.5**	3.4

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

	Three Months Ended	
Thousands of dollars	**2017**	2016
Net income (loss) from continuing operations	**4,679**	(101)
Net finance charges	**6,566**	5,566
Provision for income taxes from continuing operations	**1,629**	71
Depreciation and amortization	**8,794**	9,921
Transaction costs	**518**	1,183
MOHLTC reconciliation adjustments	**—**	132
Proceeds from construction funding	**3,370**	3,270
Adjusted EBITDA from continuing operations	**25,556**	20,042

Debt Service Coverage Ratio

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

	Three Months Ended	
Thousands of dollars, except ratio	**2017**	2016
Net finance charges from continuing operations	**6,566**	5,566
Add (deduct):		
Net accretion of fair value adjustments on long-term debt	**197**	184
Amortization of deferred financing charges	**(460)**	(296)
Amortization of loss on bond forward contracts	**(215)**	(209)
Interest income on construction funding receivable	**861**	858
Other interest income	**186**	61
Gain (loss) on interest rate swap contracts	**217**	(201)
Net finance charges, adjusted	**7,352**	5,963
Principal repayments [(1)]	**3,615**	2,100
Principal reserve fund	**1,693**	1,555
Total debt service	**12,660**	9,618
Adjusted EBITDA from continuing operations	**25,556**	20,042
Deduct:		
Maintenance capex	**(556)**	(379)
Cash income taxes	**(4,300)**	(2,400)
Adjusted EBITDA from continuing operations (for covenant calculations)	**20,700**	17,263
Debt service coverage ratio	**1.6**	1.8

Note:

1. During the three months ended March 31, 2017, the Company made voluntary payments of $nil (2016 - $2,000) toward its credit facilities, which have been excluded from the debt service coverage ratio calculation.

Debt to Adjusted EBITDA Ratio

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

	March 31	
Thousands of dollars, except ratio	**2017**	2016
Total indebtedness		
Series B Debentures	**322,000**	322,000
Series B Debentures - Principal reserve fund	**(18,809)**	(12,300)
Credit facilities	**50,000**	67,500
Mortgages	**358,790**	204,188
Convertible Debentures	**45,083**	46,000
	757,064	627,388
Adjusted EBITDA from continuing operations	**102,224**	80,168
Debt to Adjusted EBITDA from continuing operations	**7.4**	7.8

Debt Profile

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

	Weighted Average Debt Three Months Ended March 31			
	2017	**Rate (%)**	2016	Rate (%)
Fixed Rate				
Debentures	**322,000**	**3.47%**	322,000	3.47%
Mortgages (1)	**345,748**	**4.15%**	200,772	4.45%
Convertible Debentures	**45,083**	**4.65%**	46,000	4.65%
Total Fixed	**712,831**	**3.89%**	568,772	3.92%
Floating Rate				
Credit facilities	**43,317**	**2.61%**	68,247	2.73%
Mortgages	**382**	**4.00%**	—	—%
Total Floating	**43,699**	**2.62%**	68,247	2.73%
Total Debt	**756,530**	**3.80%**	637,019	3.79%

(1) Includes floating rate mortgages of $79,522 (2016 -$14,204) that have been fixed through interest rate swaps.

Debt to Gross Book Value

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

	March 31	
Thousands of dollars, except ratio	**2017**	2016
Total indebtedness		
Series B Debentures	**322,000**	322,000
Series B Debentures - Principal reserve fund	**(18,809)**	(12,300)
Credit facilities	**50,000**	67,500
Mortgages	**358,790**	204,188
Convertible Debentures	**45,083**	46,000
	757,064	627,388
Total assets	**1,213,132**	939,477
Accumulated depreciation on property and equipment	**153,719**	124,815
Accumulated amortization on intangible assets	**76,953**	72,181
Gross book value	**1,443,804**	1,136,473
Debt to gross book value	**52.4%**	55.2%
Debt, excluding Convertible Debentures, to gross book value	**49.3%**	51.2%

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 financial needs and the market and economic conditions at the time of the transaction.

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

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

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

Contractual Obligations and Other Commitments

Long-term Debt

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

				Amortizing Debt				
Year	Series B Debentures	Floating Rate Debt	Convertible Debentures	Regular Principal Payments	Principal Due at Maturity	**Total**	% of Total	Weighted Average Interest on Maturing Debt
2017	—	—	—	9,792	41,263	**51,055**	6.6%	4.2%
2018	—	—	45,083	12,552	25,430	**83,065**	10.7%	5.0%
2019	—	—	—	10,856	65,142	**75,998**	9.7%	4.5%
2020	—	50,000	—	7,275	19,992	**77,267**	10.0%	2.9%
2021	322,000	—	—	7,440	—	**329,440**	42.5%	3.5%
2022	—	—	—	7,293	5,988	**13,281**	1.7%	3.3%
2023	—	—	—	6,666	51,152	**57,818**	7.5%	3.1%
2024	—	—	—	5,228	20,617	**25,845**	3.3%	4.2%
2025	—	—	—	3,897	—	**3,897**	0.5%	—%
2026	—	—	—	4,053	—	**4,053**	0.5%	—%
Thereafter	—	—	—	19,291	34,863	**54,154**	7.0%	4.4%
	322,000	**50,000**	**45,083**	**94,343**	**264,447**	**775,873**	100.0%	
Mark-to-market adjustment arising from acquisitions						**4,734**		
Less: Deferred financing costs						**(4,284)**		
Less: Deferred financing costs on convertible debentures						**(505)**		
Less: Equity component of convertible debentures						**(107)**		
						775,711		

Convertible Debentures

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

Operating Leases

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

Related Party Transactions

As at March 31, 2017, the Company had amounts outstanding from certain key management of $1,215 (December 31, 2016 - $1,026) in relation to the long-term incentive plan issuances and share purchase loans, which have been recorded as a reduction to shareholders’ equity. The loans bear interest at 3% per annum and are due on demand. The underlying common shares have been pledged as security against the respective loans.

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 annual audited consolidated financial statements for the year ended December 31, 2016. Please refer to those statements for further detail.

In preparing the 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, 2016 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 annual audited consolidated financial statements for the year ended December 31, 2016 which are available on SEDAR or the Company's website. Please refer to those consolidated financial statements for further detail.

Risk Factors

Please refer to the Company's AIF, for a discussion of the Risk Factors applicable to the Company.

Controls and Procedures

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

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

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

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

Forward-Looking Statements

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

Consolidated Financial Statements

(in thousands of Canadian Dollars)

Q1 2017

Sienna Senior Living Inc.

Sienna SENIOR LIVING

Condensed Interim Consolidated Financial Statements

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

Thousands of dollars

	Notes	**March 31, 2017**	December 31, 2016
ASSETS			
Current assets			
Cash		**26,896**	27,200
Accounts receivable and other assets	16	**5,553**	8,380
Prepaid expenses and deposits		**1,964**	1,693
Government funding receivable		**3,241**	3,221
Construction funding receivable		**10,265**	10,138
		47,919	50,632
Government funding receivable		**128**	1,030
Interest rate swap contract	6	**1,161**	1,172
Restricted cash	7	**22,296**	20,375
Construction funding receivable		**62,001**	64,637
Property and equipment		**767,353**	756,986
Intangible assets		**204,488**	202,160
Goodwill		**107,786**	107,226
Total assets		**1,213,132**	1,204,218
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**62,943**	73,752
Government funding payable		**2,969**	1,917
Current portion of long-term debt	6, 8	**54,358**	93,196
Income taxes payable		**627**	3,400
Interest rate swap contract	6	**697**	810
		121,594	173,075
Long-term debt	6, 8	**676,882**	614,027
Convertible debentures	6, 9	**44,471**	44,352
Deferred income taxes	11	**60,962**	60,856
Government funding payable		**2,823**	1,816
Share-based compensation liability	14	**5,848**	5,078
Obligation to purchase interest in PSM	20	**2,100**	2,100
Interest rate swap contract	6	**2,593**	2,707
Total liabilities		**917,273**	904,011
EQUITY			
Shareholders' equity		**295,817**	300,176
Non-controlling interest	20	**42**	31
Total equity		**295,859**	300,207
Total liabilities and equity		**1,213,132**	1,204,218

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 Equity
(Unaudited)
Thousands of dollars

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Shareholders' deficit	Accumulated other comprehensive income (loss)	Total Shareholders' equity	Non-controlling interest	Total equity
Balance, January 1, 2017		**522,766**	**515**	**121**	**(220,401)**	**(2,825)**	**300,176**	**31**	**300,207**
Issuance of shares	12	**1,213**	**—**	**—**	**—**	**—**	**1,213**	**—**	**1,213**
Net income	20	**—**	**—**	**—**	**4,576**	**—**	**4,576**	**103**	**4,679**
Other comprehensive income		**—**	**—**	**—**	**—**	**158**	**158**	**—**	**158**
Long-term incentive plan	12, 14	**18**	**—**	**34**	**—**	**—**	**52**	**—**	**52**
Share purchase loan	12	**6**	**—**	**—**	**—**	**—**	**6**	**—**	**6**
Dividends	13	**—**	**—**	**—**	**(10,364)**	**—**	**(10,364)**	**—**	**(10,364)**
Distributions		**—**	**—**	**—**	**—**	**—**	**—**	**(92)**	**(92)**
Balance, March 31, 2017		**524,003**	**515**	**155**	**(226,189)**	**(2,667)**	**295,817**	**42**	**295,859**

	Notes	Share capital	Equity portion of convertible debentures	Contributed surplus	Shareholders' deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity	Non-controlling interest	Total equity
Balance, January 1, 2016		374,967	515	89	(195,240)	(3,452)	176,879	—	176,879
Issuance of shares	12	810	—	—	—	—	810	—	810
Net income		—	—	—	204	—	204	—	204
Other comprehensive income		—	—	—	—	154	154	—	154
Long-term incentive plan	12, 14	16	—	32	—	—	48	—	48
Share purchase loan	12	5	—	—	—	—	5	—	5
Dividends	13	—	—	—	(8,217)	—	(8,217)	—	(8,217)
Balance, March 31, 2016		375,798	515	121	(203,253)	(3,298)	169,883	—	169,883

See accompanying notes.

Thousands of dollars, except share and per share data

	Notes	Three months ended March 31, 2017	2016
Revenue	17	**133,966**	114,232
Expenses			
Operating		**106,505**	93,208
Depreciation and amortization		**8,794**	9,921
Administrative		**5,275**	4,384
	18	**120,574**	107,513
Income from continuing operations before net finance charges, transaction costs and provision for (recovery of) income taxes		**13,392**	6,719
Net finance charges	10	**6,566**	5,566
Transaction costs		**518**	1,183
Total other expenses		**7,084**	6,749
Income (loss) from continuing operations before provision for (recovery of) income taxes		**6,308**	(30)
Provision for (recovery of) income taxes from continuing operations			
Current		**1,526**	1,190
Deferred		**103**	(1,119)
	11	**1,629**	71
Net income (loss) from continuing operations		**4,679**	(101)
Net income from discontinued operations, net of taxes	5	**—**	305
Net income		**4,679**	204
Net income attributable to:			
Shareholders of the Company		**4,576**	204
Non-controlling interest	20	**103**	—
		4,679	204
Net income attributable to shareholders of the Company			
Basic and diluted net income from continuing operations per share	12	**$0.10**	$0.00
Basic and diluted net income from discontinued operations per share	12	**$0.00**	$0.01
Weighted average number of common shares outstanding - basic	12	**46,141,364**	36,508,453
Weighted average number of common shares outstanding - diluted	12	**48,832,889**	39,254,722

See accompanying notes.

Thousands of dollars, except share and per share data

		Three months ended March 31,	
	Notes	**2017**	2016
Net income		**4,679**	204
Other comprehensive income			
Items that may be subsequently reclassified to the consolidated statements of operations:			
Loss on bond forward contracts, net of tax	11	158	154
Total comprehensive income		**4,837**	358

See accompanying notes.

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

	Notes	Three months ended March 31, 2017	2016
OPERATING ACTIVITIES			
Net income		**4,679**	204
Add (deduct) items not affecting cash			
Depreciation of property and equipment		**7,373**	6,463
Amortization of intangible assets		**1,421**	3,458
Current income taxes		**1,526**	1,190
Deferred income taxes		**103**	(1,119)
Share-based compensation	14	**650**	366
Net finance charges	10	**6,566**	5,566
		22,318	16,128
Non-cash changes in working capital			
Accounts receivable and other assets		**2,399**	240
Prepaid expenses and deposits		**(485)**	112
Accounts payable and other liabilities		**(8,504)**	381
Income support		**—**	63
Government funding, net		**2,941**	3,830
		(3,649)	4,626
Interest paid on long-term debt and convertible debentures		**(9,411)**	(8,147)
Net settlement payment on interest rate swap contracts		**(283)**	(68)
Income taxes paid		**(4,300)**	(2,400)
Cash used in operating activities of discontinued operations	5	**—**	(439)
Cash provided by operating activities		**4,675**	9,700
INVESTING ACTIVITIES			
Purchase of property and equipment		**(1,150)**	(495)
Purchase of intangible assets		**(469)**	(623)
Amounts received from construction funding		**3,370**	3,270
Interest received from cash		**104**	58
Acquisition of Glenmore Lodge	4	**(5,699)**	—
Change in restricted cash	7	**(228)**	(47)
Cash (used in) provided by investing activities		**(4,072)**	2,163
FINANCING ACTIVITIES			
Share issuance costs		**—**	(21)
Repayment of long-term debt		**(3,615)**	(4,100)
Proceeds from long-term debt		**14,500**	—
Deferred financing costs		**(781)**	(13)
Change in Series B Debentures principal reserve fund	7	**(1,693)**	(1,575)
Distributions to non-controlling interest		**(92)**	—
Dividends paid	13	**(9,226)**	(7,555)
Cash used in financing activities		**(907)**	(13,264)
Decrease in cash during the period		**(304)**	(1,401)
Cash, beginning of period		**27,200**	26,345
Cash, end of period		**26,896**	24,944

See accompanying notes.

1 Organization

The Company and its predecessors have been operating since 1972. The Company is one of Canada's leading seniors' living providers serving the continuum of independent living ("**IL**"), independent supportive living, assisted living ("**AL**"), memory care and long-term care/ residential care ("**LTC**", "**Long-term Care**", "**RC**") through the ownership and operation of seniors' living residences in the Provinces of British Columbia and Ontario. The Company owns and operates a total of 56 seniors' living residences: 13 IL retirement residences ("**RR**" or "**Retirement Residences**"); 35 LTC residences; and eight seniors' living residences providing both private-pay IL and AL and funded LTC/ RC which include the Company's partial ownership in two newly built communities in British Columbia ("**Baltic Properties**").

Under its management services division, including the Company's 50% interest in its management platform in British Columbia ("**PSM**"), the Company provides management services to seniors' living communities in the Provinces of British Columbia and Ontario.

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

The Company's business is carried on through a number of wholly-owned limited partnerships formed under the laws of the Province of Ontario, except for two properties (referred to as the Option Properties and defined in Note 21), which are owned through a joint venture between Sienna and WVJ II General Partnership (an affiliate of Pacific Seniors Management Investments Ltd.).

As at March 31, 2017, the Company had outstanding 46,190,715 common shares and $45,083 in aggregate principal amount of convertible unsecured subordinated debentures (TSX symbol: **SIA.DB**) (formerly LW.DB) which, in aggregate, are convertible into 2,691,525 common shares.

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

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

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. 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, 2016, which have been prepared in accordance with International Financial Reporting Standards.

The interim consolidated financial statements were approved by the Board of Directors for issuance on May 9, 2017.

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, 2016.

4 Acquisition

Glenmore Lodge

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

The total net purchase price of $6,927 was allocated to the assets and liabilities on a preliminary basis as follows:

Assets	
Cash	428
Accounts receivable and other assets	3
Prepaid expenses	36
Property and equipment	16,590
Intangible assets	3,280
Goodwill	560
Deferred income taxes	136
Total assets	21,033
Liabilities	
Accounts payable and accrued liabilities	456
Long-term debt	13,650
Total liabilities	14,106
Net assets acquired	6,927

Transaction costs expensed related to the Glenmore Lodge acquisition for the three months ended March 31, 2017 were $96.

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

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

If the acquisition of the 61% interest in Glenmore Lodge had taken place on January 1, 2017, the consolidated revenue from continuing operations and consolidated net income from continuing operations for the Company for the three months ended March 31, 2017 are estimated to be approximately $134,950 and $4,529 respectively.

5 Discontinued operations

On April 28, 2016, the Company completed the sale of Preferred Health Care Services ("PHCS"), the ancillary home care ("Home Care") business of the Company, for cash proceeds of $16,409, and discontinued its Home Care business. The Company recorded a gain on sale of $7,719, net of taxes of $2,142 for the three months ended June 30, 2016.

The following table summarizes the net income from discontinued operations:

	Three months ended March 31,	
	2017	2016
Revenue	—	4,038
Expenses	—	3,622
Income before provision for income taxes	—	416
Provision for income taxes		
Current	—	104
Deferred	—	7
	—	111
Net income from discontinued operations	—	305

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

6 Financial instruments

Fair value of financial instruments

The Company's use of unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), inputs that are observable for the assets or liabilities either directly or indirectly (Level 2) and inputs for assets or liabilities that are not based on observable market data (Level 3) in the valuation of financial instruments are as follows as at March 31, 2017 and December 31, 2016:

	As at March 31, 2017			
		Fair value		
	Carrying value	**Level 1**	**Level 2**	**Level 3**
Financial Assets				
Construction funding receivable	**72,266**	**—**	**—**	**77,329**
Interest rate swap contract	**1,161**	**—**	**1,161**	**—**
Financial Liabilities				
Long-term debt	**731,240**	**—**	**726,143**	**—**
Convertible debentures	**44,471**	**47,653**	**—**	**—**
Interest rate swap contract	**3,290**	**—**	**3,290**	**—**

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

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 March 31, 2017. A failure by the Company to comply with the obligations in these credit agreements could result in a default, which, if not rectified or waived, could permit acceleration of the relevant indebtedness.

As at March 31, 2017, the Company had negative working capital (current liabilities less current assets) of $73,675 (December 31, 2016 - $122,443). To support the Company's working capital deficiency, the Company has available cash generated from its operations and, if necessary, undrawn credit facilities.

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

7 Restricted cash

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

	March 31, 2017	December 31, 2016
Series B Debentures principal reserve fund	**18,809**	17,116
Capital maintenance reserve	**2,902**	2,675
Benefits reserve	**585**	584
Restricted cash	**22,296**	20,375

8 Long-term debt

	Interest rate	**Maturity date**	**March 31, 2017**	December 31, 2016
Series B Debentures	3.474%	February 3, 2021	**322,000**	322,000
Credit facilities	Floating	January 18, 2020	**50,000**	35,500
Mortgages	3.04% - 7.11%	2017 - 2041	**358,790**	349,180
			730,790	706,680
Mark-to-market adjustments on acquisitions			**4,734**	4,506
Financing costs			**(4,284)**	(3,963)
Total debt			**731,240**	707,223
Less: current portion			**54,358**	93,196
			676,882	614,027

Credit facilities

Prior to January 18, 2017, the Red Oak Retirement Residence and Royale Place Retirement Residence ("**Ontario Portfolio**") had a $57,000 revolving credit facility ("**Revolving Credit Facility**") that bore an interest rate of 187.5 basis points ("**bps**") per annum over the floating 30-day Banker's Acceptance ("**BA**") rate and was secured by the Ontario Portfolio assets of the Company's wholly-owned subsidiary, The Royale LP. The Astoria Retirement Residence ("**Astoria**") had a $22,500 credit facility ("**Astoria Credit Facility**") that bore an interest rate of 187.5 bps per annum over the floating 30-day BA rate and was secured by Astoria's assets. Both the Revolving Credit Facility and Astoria Credit Facility were guaranteed by the Company and were subject to certain customary financial and non-financial covenants.

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

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

Mortgages assumed from acquisition

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

9 Convertible debentures

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

Upon issuance, the debt and equity components of the Convertible Debentures were bifurcated with $45,593 classified as a liability and $515 classified as equity attributable to the conversion option. The equity component included a deferred tax asset of $108. The liability portion of the Convertible Debentures was initially recorded at fair value and is subsequently carried at amortized cost. The Company incurred financing costs of $2,111 related to the Convertible Debentures, which are amortized over their term using the effective interest method and recognized as part of net finance charges. During the three months ended March 31, 2017 and 2016, no convertible debentures were converted into common shares. As at March 31, 2017, $505 (December 31, 2016 - $605) of financing costs remain to be amortized and $107 (December 31, 2016 - $127) of fair value adjustment remains to be accreted.

10 Net finance charges

	Three months ended March 31,	
	2017	2016
Finance costs		
Interest expense on long-term debt	**6,207**	5,337
Interest expense on convertible debentures	**537**	553
Fees on revolving credit facility	**325**	5
Net accretion of fair value adjustments on long-term debt	**(197)**	(184)
Amortization of deferred financing charges	**460**	296
Amortization of loss on bond forward contract	**215**	209
Net settlement payment on interest rate swap contracts	**283**	68
(Gain) loss on interest rate swap contracts	**(217)**	201
	7,613	6,485
Finance income		
Interest income on construction funding receivable	**861**	858
Other interest income	**186**	61
	1,047	919
Net finance charges from continuing operations	**6,566**	5,566

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

11 Income taxes

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

	Three months ended March 31,	
	2017	2016
Income (loss) from continuing operations before provision for income taxes	**6,308**	(30)
Canadian combined income tax rate	**26.46%**	26.46%
Income tax expense (recovery)	**1,669**	(8)
Adjustments to income tax provision:		
Non-deductible items	**49**	38
Book to filing adjustment	**—**	41
Other items	**(89)**	—
Income tax expense from continuing operations	**1,629**	71

The effective tax rate for discontinued operations for the three months ended March 31, 2016 was 26.55%. The provision for income taxes for discontinued operations is disclosed in Note 5.

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

	Accelerated tax depreciation	Intangible assets	Share issuance	Construction funding interest	Other	Total
As at January 1, 2016	(59,774)	(6,104)	539	4,714	652	(59,973)
Due to acquisitions during the year	(4,162)	(995)	—	—	1,119	(4,038)
Credit (charge) to net income	2,079	1,500	(660)	(875)	24	2,068
Book to filing adjustment	(46)	(236)	(5)	—	(34)	(321)
Charge to other comprehensive income	—	—	—	—	(225)	(225)
Credit to equity	—	—	1,633	—	—	1,633
As at December 31, 2016	(61,903)	(5,835)	1,507	3,839	1,536	(60,856)
Change to net income (loss)	289	(244)	(130)	(228)	77	(236)
Due to acquisition of Glenmore Lodge in the period	(44)	73	—	—	91	119
Book to filing adjustment	—	—	—	—	68	68
Charge to other comprehensive income	—	—	—	—	(57)	(57)
As at March 31, 2017	**(61,658)**	**(6,006)**	**1,377**	**3,611**	**1,715**	**(60,962)**

The loss on bond forward contracts on the consolidated statements of comprehensive income is net of tax for the three months ended March 31, 2017 of $57 (2016 - $55).

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

12 Share capital

Authorized

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

Issued and outstanding

Common shares

	Common shares	Amount
Balance, January 1, 2016	36,478,871	374,967
Long-term incentive plan, net of loans receivable (Note 14)	13,288	37
Share-based compensation (Note 14)	—	22
Dividend reinvestment plan	185,416	2,960
Issued common shares, net of share issuance costs (Note 14)	64,767	1,075
Common shares issued in exchange for Subscription Receipts, net of share issuance costs	8,728,500	132,777
Common shares issued to partial seller of acquisitions	630,915	10,928
Balance, December 31, 2016	46,101,757	522,766
Long-term incentive plan, net of loans receivable (Note 14)	12,026	18
Share-based compensation (Note 14)	—	6
Dividend reinvestment plan	68,893	1,153
Issued common shares, net of share issuance costs (Note 14)	8,039	60
Balance, March 31, 2017	**46,190,715**	**524,003**

Dividend reinvestment plan

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

Earnings per share

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

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

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

	Three months ended March 31	
	2017	2016
Reconciliation of net (loss) income used as the numerator		
Net income (loss) from continuing operations	4,679	(101)
Less: Net income attributable to non-controlling interest	103	—
Net income (loss) used in calculating basic income from continuing operations per share	4,576	(101)
Net finance charges on convertible debentures	657	653
Current income tax adjustment	(174)	(173)
Net income used in calculating diluted income from continuing operations per share	5,059	379
Weighted average number of common shares used as the denominator		
Weighted average number of common shares - basic	46,141,364	36,508,453
Shares issued if all convertible debentures were converted	2,691,525	2,746,269
Weighted average number of common shares - diluted	48,832,889	39,254,722

13 Dividends

The Company paid dividends at $0.075 per month per common share totaling $9,226 for the three months ended March 31, 2017 (2016 - $7,555). Dividends payable of $3,464 are included in accounts payable and accrued liabilities as at March 31, 2017 (December 31, 2016 - $3,458). Subsequent to March 31, 2017, the Board of Directors declared dividends of $0.075 per common share for April 2017 totaling $3,466. These dividends have not been recorded in these interim consolidated financial statements.

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

14 Share-based compensation

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

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

On February 15, 2017, incentive award amounts entitling eligible senior executives (**"Participants"**) to acquire 12,026 common shares were granted pursuant to the LTIP. On the grant date, the Participants, in addition to the assumption of the loan, paid $11 towards the acquisition of common shares. This payment was recorded as an increase to share capital. Related to the LTIP in the three months ended March 31, 2017, the Company recorded an increase of $18 to share capital (2016 - $16) and $34 to contributed surplus (2016 - $32). As at March 31, 2017, the outstanding loan balance was $798 (December 31, 2016 - $603). Total expense related to the LTIP for the three months ended March 31, 2017 was $34 (2016 - $32).

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

Valuation date	February 15, 2017	February 24, 2016
Fair value at grant date	$17.75	$15.68
Volatility	16.55%	16.67%
Monthly discrete dividend	$0.075	$0.075
Risk-free rate	2.00%	1.37%
Annual interest rate on Participant's loan	3.00%	3.00%
Forfeiture rate	0.00%	0.00%

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

During the three months ended March 31, 2017, 2,382 restricted share units (**"RSUs"**) (2016 - 16,706) were granted pursuant to the RSUP. Total expenses related to the RSUP for the three months ended March 31, 2017 were $93 (2016 - $56), net of forfeitures. During the three months ended March 31, 2017, 3,891 RSUs vested and were settled in cash and shares, resulting in a decrease of $142 to share-based compensation liability. The total liability recorded as part of share-based compensation liability as at March 31, 2017 was $315 (December 31, 2016 - $364).

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

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

	Number of RSUs
Outstanding, January 1, 2016	33,564
Granted	16,706
Dividends reinvested	2,160
Settled in cash	(962)
Settled in shares	(10,023)
Outstanding, December 31, 2016	41,445
Granted	2,382
Dividends reinvested	535
Settled in shares	(3,891)
Outstanding, March 31, 2017	40,471

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

Total expenses related to the DSUP for the three months ended March 31, 2017 were $400 (2016 - $226), 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 March 31, 2017 was $4,167 (December 31, 2016 - $3,767). The value of each deferred share unit is measured at each reporting date and is equivalent to the fair value of a common share of the Company at the reporting date.

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

During the three months ended March 31, 2017, 44,159 (2016 - 35,543) executive deferred share units were granted. Total expenses related to the EDSUP for the three months ended March 31, 2017 were $123 (2016 - $52), which was recognized in administrative expenses. The total liability recorded related to the EDSUP as a part of the share-based compensation liability as at March 31, 2017 was $1,366 (December 31, 2016 - $947).

15 Key management compensation

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

	Three months ended March 31,	
	2017	2016
Salaries and short-term employee benefits	**773**	726
Share-based compensation	**650**	366
	1,423	1,092

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

16 Related party transactions

As at March 31, 2017, the Company had amounts outstanding from certain key management of $1,215 (December 31, 2016 - $1,026) in relation to the LTIP issuance and share purchase loans, which have been recorded as a reduction to shareholders' equity. The loans bear interest at 3% per annum and are due on demand. The underlying common shares have been pledged as security against the respective loans.

17 Economic dependence

The Company holds licences related to each of its LTC/ RC homes and receives funding from the funding authorities related to those licences. During the three months ended March 31, 2017, the Company received approximately $84,035 (2016 - $74,063) in respect of these licences.

18 Expenses by nature

	Three months ended March 31,	
	2017	2016
Salaries, benefits and other people costs	**82,725**	73,161
Depreciation and amortization	**8,794**	9,921
Food	**5,715**	4,785
Purchased services and non-medical supplies	**4,446**	3,938
Property taxes	**3,433**	3,326
Utilities	**4,456**	3,802
Other	**11,005**	8,580
Total expenses from continuing operations	**120,574**	107,513

19 Segmented information

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

The Company is comprised of the following main business segments:

- LTC - The Company's LTC segment consists of 35 LTC residences in the Province of Ontario and the LTC management services business.
- Retirement - The Company's Retirement segment consists of 13 Retirement Residences, five of which are located in the Province of British Columbia and eight of which are located in the Province of Ontario, and the RR management services business.
- Baltic - The Baltic segment consists of the eight Baltic Properties and 50% interest in PSM which are located in the Province of British Columbia.
- Corporate, Eliminations and Other - This segment represents the results of head office, intercompany eliminations and other items that are not allocable to the segments; and
- Discontinued operations - The Company's Home Care segment, operating as PHCS, was sold on April 28, 2016 (Note 5).

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

	Three months ended March 31, 2017						
	Long-term Care	**Retirement**	**Baltic**	**Corporate, Eliminations and Other**	**Total From Continuing Operations**	**Home Care - Discontinued Operations**	**Total**
Gross revenue	**106,115**	**15,997**	**15,471**	**10,615**	**148,198**	**—**	**148,198**
Less: Internal revenue	**3,093**	**—**	**524**	**10,615**	**14,232**	**—**	**14,232**
Net revenue	**103,022**	**15,997**	**14,947**	**—**	**133,966**	**—**	**133,966**
Income (loss) before net finance charges, transaction costs and provision for income taxes	**11,799**	**4,582**	**2,852**	**(5,841)**	**13,392**	**—**	**13,392**
Finance costs	**1,015**	**1,488**	**1,386**	**3,724**	**7,613**	**—**	**7,613**
Finance income	**(918)**	**—**	**(85)**	**(44)**	**(1,047)**	**—**	**(1,047)**
Transaction costs	**—**	**—**	**—**	**518**	**518**	**—**	**518**
Income tax expense	**—**	**—**	**—**	**1,629**	**1,629**	**—**	**1,629**
Net income (loss)	**11,702**	**3,094**	**1,551**	**(11,668)**	**4,679**	**—**	**4,679**
Purchase of property and equipment	**487**	**499**	**16,724**	**30**	**17,740**	**—**	**17,740**
Purchase of intangible assets	**—**	**—**	**3,281**	**468**	**3,749**	**—**	**3,749**

	Three months ended March 31, 2016						
	Long-term Care	Retirement	Baltic	Corporate, Eliminations and Other	Total From Continuing Operations	Home Care - Discontinued Operations	Total
Gross revenue	103,218	12,962	—	8,217	124,397	4,038	128,435
Less: Internal revenue	1,944	—	—	8,221	10,165	—	10,165
Net revenue	101,274	12,962	—	(4)	114,232	4,038	118,270
Income (loss) before net finance charges, transaction costs and provision for income taxes	9,134	2,112	—	(4,527)	6,719	416	7,135
Finance costs	4,402	1,430	—	653	6,485	—	6,485
Finance income	(901)	(3)	—	(15)	(919)	—	(919)
Transaction costs	—	—	—	1,183	1,183	—	1,183
Income tax expense	—	—	—	71	71	111	182
Net income (loss)	5,633	685	—	(6,419)	(101)	305	204
Purchase of property and equipment	222	156	—	117	495	—	495
Purchase of intangible assets	1	—	—	622	623	—	623

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

	As at March 31, 2017						
	Long-term Care	**Retirement**	**Baltic**	**Corporate, Eliminations and Other**	**Total From Continuing Operations**	**Home Care - Discontinued Operations**	**Total**
Total assets	**633,382**	**282,048**	**281,321**	**16,381**	**1,213,132**	**—**	**1,213,132**
Goodwill	**89,772**	**2,511**	**15,503**	**—**	**107,786**	**—**	**107,786**
Intangible assets	**107,160**	**5,608**	**86,466**	**5,254**	**204,488**	**—**	**204,488**

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

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

20 Non-controlling interest

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

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

	Three months ended March 31,
	2017
Net income and total comprehensive income from PSM	**205**
Non-controlling interest share of ownership	**50%**
Net income and total comprehensive income attributable to non-controlling interest	**103**

As the 50% interest in PSM was acquired on August 2, 2016, there was no non-controlling interest for the three months ended March 31, 2016.

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

21 Joint arrangements

The following tables outline the net assets and net income for Nicola Lodge and Glenmore Lodge (referred to collectively as the "Option Properties"), and the Company's share of Nicola Lodge and Glenmore Lodge that has been recognized in the interim consolidated financial statements.

Nicola Lodge and Glenmore Lodge

	March 31, 2017	December 31, 2016
Current assets	**4,467**	4,179
Long-term assets	**108,016**	68,197
Total assets	**112,483**	72,376
Current liabilities	**3,122**	3,309
Long-term liabilities	**69,130**	44,089
Total liabilities	**72,252**	47,398
Net assets	**40,231**	24,978
Share of net assets	**18,249**	9,991

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

As at March 31, 2017, the Company's share of net assets in Nicola Lodge and Glenmore Lodge were $11,972 and $6,277 (December 31, 2016 - $9,991 and $nil), respectively.

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

	Three months ended March 31, 2017	2016
Revenue	5,081	—
Expenses	4,076	—
Income before other expenses	1,005	—
Other expenses	597	—
Net income	408	—
Share of net income	150	—

For the three months ended March 31, 2017, the Company's share of net income (loss) in Nicola Lodge and Glenmore Lodge are $187 and $(37) (2016 - $nil), respectively.

As the 40% interest in Nicola Lodge and 61% interest in Glenmore Lodge were acquired on September 15, 2016 and March 15, 2017, respectively, there were no joint arrangements as at March 31, 2016.

22 Comparative figures

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

23 Subsequent events

On May 5, 2017, the Company entered into a purchase and sale agreement to acquire Rosewood Retirement Residence, a 68-suite private-pay residence located in Kingston, Ontario, which is currently managed by the Company. The purchase price of $9,800, subject to customary post-closing adjustments, is expected to be financed through the assumption of the existing mortgage of approximately $4,600, with an interest rate of 3.77% and a maturity of January 1, 2018, with the remaining proceeds expected to be financed through a vendor-take-back mortgage and cash. This acquisition is expected to be completed during the second quarter of 2017.