# Report to Shareholders

## Q2 2018

Sienna Senior Living Inc.

# Management's Discussion and Analysis

(in thousands of Canadian Dollars)

Q2 2018

Sienna Senior Living Inc.

Sienna
SENIOR LIVING

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Basis of Presentation

The following Management's Discussion and Analysis ("**MD&A**") for Sienna Senior Living Inc. (the "**Company**" or "**Sienna**") provides a summary of the financial results for the three and six months ended June 30, 2018. 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 and six months ended June 30, 2018. 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, 2017 can be found on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com.

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

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

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

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

## Additional Information

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

## Review and Approval by the Board of Directors

This MD&A is dated as of August 8, 2018, the date on which this report was approved by the Board of Directors of the Company, and is based on information available to management of the Company as of that date.

## Company Profile

The Company and its predecessors have been operating since 1972. The Company is one of Canada's leading seniors' living providers serving the continuum of independent living ("**IL**"), independent supportive living ("**ISL**"), assisted living ("**AL**"), memory care ("**MC**") and long-term care/residential care (“**LTC**” or “**Long-term Care**”/ “**RC**” or “**Residential Care**”) through the ownership and operation of seniors' living residences in the Provinces of British Columbia and Ontario. As at June 30, 2018, the Company owns and operates a total of 70 seniors' living residences: 27 retirement residences ("**RRs**" or "**Retirement Residences**"); 35 LTC residences; and eight seniors' living residences providing both private-pay IL/AL and funded RC (including the Company's joint ownership in two residences in British Columbia), previously referred to as the "**Baltic Properties**". Under its management services division, the Company provides management services to 15 seniors' living residences in British Columbia and Ontario.

The Company was incorporated under the Business Corporations Act (Ontario) on February 10, 2010 and was 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 and is traded on the Toronto Stock Exchange under the symbol "SIA".

The Company's business is carried on through its wholly owned subsidiaries in the form of limited partnerships formed under the laws of the Province of Ontario, except for two properties (referred to as the Option Properties and defined in the Appendix), which are owned through joint ventures between the Company and each of WVJ II General Partnership and WVJ Properties (Nicola) Ltd. (each an affiliate of Pacific Seniors Management Investments Ltd.).

As of August 8, 2018, the Company had outstanding 65,714,184 common shares.

## Non-IFRS Performance Measures

In this document, the Company uses certain supplemental measures of key performance that are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. These performance measures are net operating income ("**NOI**"), funds from operations ("**FFO**"), operating funds from operations ("**OFFO**"), adjusted funds from operations ("**AFFO**") and earnings before interest, taxes, depreciation and amortization ("**EBITDA**").

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

"**FFO**" is defined as NOI less certain adjustments including finance charges and current income taxes. 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 & Adjusted Funds From Operations for IFRS - February 2018). The use of FFO, combined with the required IFRS presentations, has been included for the purpose of improving the understanding of the Company's operating results. The IFRS measure most directly comparable to FFO is "net income". Please refer to the "Business Performance" section of this MD&A for a reconciliation of net income to FFO.

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

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

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

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

## Key Performance Indicators

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

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

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

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

The following table represents the Key Performance Indicators for the periods ended June 30:

| Thousands of dollars, except occupancy, share and ratio data | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | Change | **2018** | 2017 | Change |
| **OCCUPANCY** | | | | | | |
| Retirement same property - Average occupancy | **93.2%** | 94.2% | (1.0%) | **93.4%** | 94.2% | (0.8%) |
| Retirement same property - As at occupancy | **93.6%** | 94.7% | (1.1%) | **93.6%** | 94.7% | (1.1%) |
| Retirement acquisitions - Average occupancy | **90.3%** | N/A | N/A | **90.3%** | N/A | N/A |
| Retirement acquisitions - As at occupancy | **89.6%** | N/A | N/A | **89.6%** | N/A | N/A |
| Retirement - Average total occupancy[1] | **91.6%** | 94.2% | (2.6%) | **91.8%** | 94.2% | (2.4%) |
| Retirement - As at total occupancy[1] | **91.3%** | 94.7% | (3.4%) | **91.3%** | 94.7% | (3.4%) |
| LTC/RC - Average total occupancy | **98.3%** | 98.5% | (0.2%) | **98.1%** | 98.1% | —% |
| LTC/RC - Average private occupancy | **98.3%** | 98.9% | (0.6%) | **98.4%** | 98.7% | (0.3%) |
| **FINANCIAL** | | | | | | |
| Revenue | **162,124** | 137,527 | 24,597 | **307,481** | 271,493 | 35,988 |
| Net income[2] | **3,548** | 6,726 | (3,178) | **4,581** | 11,405 | (6,824) |
| EBITDA | **34,661** | 24,462 | 10,199 | **62,415** | 46,648 | 15,767 |
| NOI | **39,390** | 29,410 | 9,980 | **71,794** | 56,871 | 14,923 |
| OFFO | **24,199** | 15,754 | 8,445 | **42,670** | 29,944 | 12,726 |
| AFFO | **25,018** | 17,657 | 7,361 | **45,834** | 34,323 | 11,511 |
| **PER SHARE INFORMATION** | | | | | | |
| OFFO per share, basic[3] | **0.378** | 0.341 | 0.037 | **0.692** | 0.648 | 0.044 |
| OFFO per share, diluted[3] | **0.372** | 0.330 | 0.042 | **0.679** | 0.629 | 0.050 |
| AFFO per share, basic[3] | **0.389** | 0.382 | 0.007 | **0.743** | 0.743 | — |
| AFFO per share, diluted[3] | **0.384** | 0.369 | 0.015 | **0.729** | 0.718 | 0.011 |
| Dividends per share | **0.225** | 0.225 | — | **0.450** | 0.450 | — |
| Payout ratio (basic AFFO) | **57.8%** | 58.9% | (1.1)% | **60.6%** | 60.6% | — % |
| **FINANCIAL RATIOS** | | | | | | |
| Debt service coverage ratio | **2.1** | 2.0 | 0.1 | **2.1** | 1.8 | 0.3 |
| Debt to gross book value as at period end | **49.4%** | 51.5% | (2.1)% | **49.4%** | 51.5% | (2.1)% |
| Weighted average cost of debt as at period end | **3.9%** | 3.8% | 0.1% | **3.9%** | 3.8% | 0.1% |
| Debt to Adjusted EBITDA as at period end | **7.5** | 7.0 | 0.5 | **7.5** | 7.0 | 0.5 |
| Interest coverage ratio | **4.1** | 3.8 | 0.3 | **4.0** | 3.7 | 0.3 |
| Weighted average term to maturity as at period end | **5.0** | 5.2 | (0.2) | **5.0** | 5.2 | (0.2) |
| | | | | | | |
| **CHANGE IN SAME PROPERTY NOI** | | | | | | |
| Retirement | | | 6.2% | | | 5.8% |
| Long-term Care / Residential Care[4] | | | 2.8% | | | 0.8% |
| Total | | | 3.7% | | | 2.2% |

Notes:

1. Year-over-year decrease in total Retirement occupancy is due to a difficult 2018 flu season and the average occupancy levels of properties acquired since Q2 2017.
2. Quarter-over-quarter decrease in net income of $3,178 is primarily due to interest expense and depreciation expense incurred from the properties acquired since Q2 2017. Year-over-year decrease in net income of $6,824 is primarily due to higher transaction costs incurred for the Acquisition (as defined in the "Company Strategy and Objectives" section below). For additional information, please see the "Second Quarter 2018 Operating Results" and "Six Months Ended June 30, 2018 Operating Results" sections below.

Notes (continued):

3. The six months ended June 30, 2018 OFFO per share, basic and diluted, includes a prior year tax refund of $1,254 recorded in Q1 2018. Excluding this refund, OFFO per share, basic and diluted would be $0.359 and $0.353, respectively, and AFFO per share, basic and diluted would be $0.369 and $0.365, respectively, for the six months ended June 30, 2018.
4. Year-over-year change in same property NOI for LTC/RC includes the impact from timing of a statutory holiday, but excludes the prior year tax refund recorded in Q1 2018.

## 2018 Outlook

We believe that the Company is well positioned for both organic and external growth, supported by Sienna's strong operating platform, extensive expertise, depth of management, robust balance sheet, relationships with partners, balanced portfolio mix and strong industry fundamentals including: a growing seniors population, strong demand for seniors' services and the regulatory and operational barriers to the seniors' living sector.

### Retirement

In Sienna's Retirement segment, we expect moderate growth through continued strong occupancy and rate increases in accordance with market conditions. On a pro forma basis, after giving effect to the contribution from the Acquired Properties (as defined in the "Company Strategy and Objectives" section below) and the acquisition of two retirement residences in Q4 2017, the Retirement portfolio represents 44% of the Company's NOI as of Q2 2018, following the growth in the Retirement suite count by 1,245 suites, or 63%, since December 31, 2017.

### LTC / RC

Sienna's LTC/RC operating platform is consistently ranked high in quality of service provided among its peers. In 2018, we expect to continue to manage the complexities of our LTC/RC segment with our experienced team and sophisticated operating platform. We also expect that the LTC/RC segment will continue to achieve consistent performance, with continued conversion of the Class A private LTC beds to the new preferred accommodation rates, a focus on disciplined cost management and stable funding.

In Q1 2018, the Baltic segment was merged with the LTC segment to become the LTC/RC segment, as these businesses are similar and share a common operating platform.

### Development

We intend to develop a number of seniors' living campuses (comprised of AL and LTC) and anticipate leveraging the redevelopment of our 2,200 Class B and Class C LTC beds. During Phase 1 of this development program, we plan to re-develop 1,000 older Class B and Class C LTC beds, and add 280 new LTC beds and 500 retirement suites to create senior living campuses. We are actively engaged with regional and provincial authorities in seeking approvals for certain projects, as per the Ministry of Health and Long-term Care's ("**MOHLTC**") renewal strategy guidelines. We anticipate that the projects will be primarily greenfield projects. The feasibility of such projects is assessed against hurdle rates of return, which are in excess of the Company's cost of capital.

We are also planning to add additional suites at certain RR locations with high occupancy, market demand and excess land for expansion.

For additional discussion, please refer to the Company's MD&A for the year ended December 31, 2017 for a discussion of the 2018 Outlook. Please also refer to the "Significant Events" section below for recent developments.

## Significant Events

### Redemption of Extendible Convertible Unsecured Subordinated Debentures

As at May 23, 2018 (the "**Redemption Date**"), the Company exercised its right to redeem all of its outstanding 4.65% extendible convertible unsecured subordinated debentures due June 30, 2018 (the "**Convertible Debentures**"). The Convertible Debentures were redeemed at a redemption price equal to $1,000 per $1,000 principal amount of Convertible Debentures plus $18.22, representing accrued and unpaid interest up to but excluding the Redemption Date, for a total redemption amount of $1,018.22 per $1,000 principal amount of Convertible Debentures.

During Q2 2018, $31,509 of Convertible Debentures were converted into 1,881,129 common shares (at $16.75 per common share), and on the Redemption Date, $12,956 of Convertible Debentures were redeemed by the Company in cash.

### Acquisition of an Additional 16% Interest in Glenmore Lodge

On May 1, 2018, the Company acquired an additional 16% interest in Glenmore Lodge, increasing the Company's interest in Glenmore Lodge from 61% to 77%. This additional interest was purchased for $6,236, before closing costs and subject to customary closing adjustments. The purchase price is based on the 100% interest valued at $38,232. The purchase price was financed through the assumption of an additional 16% of the existing property-level mortgage in the aggregate principal amount of $3,497 and the Company's available cash.

### Dividend Increase

The Board of Directors has approved an increase in Sienna’s monthly dividend from $0.075 per share to $0.0765 per share ($0.918 per share annualized). The increase will commence on September 14, 2018, payable to shareholders of record on August 31, 2018.

## Our Vision, Mission and Values

#### 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 - co-workers, volunteers, physicians and healthcare providers, suppliers, communities, families, clients, and residents.

**Responsibility**

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

**Growth**

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

The Sienna team is dedicated to helping seniors live fully, every day with an aim to constantly improve the resident experience, and develop a high-performing team and workplace culture built on shared values and a commitment to innovation and quality, while focusing on priorities that translate into long-term accretive growth for the Company's shareholders.

## Company Strategy and Objectives

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

### Strengthening Operating Platform:

- Implementing a people strategy focused on finding, keeping and growing the most talented team in the seniors' living sector
- Providing a great resident experience by helping residents to live fully every day
- Adopting innovative technology and practices to support the operations team
- Advancing Sienna's brand in every community served

**Progress:**

- Sienna's Residential Care Communities in British Columbia were awarded Accreditation with Exemplary Standing - the highest distinction awarded by Accreditation Canada
- As at March 2018, Sienna's LTC segment continued to outperform the provincial average on quality and compliance indicators
- Awarded one of "Canada's Most Admired Corporate Cultures" for 2017 by Waterstone Human Capital
- Investing in technology and process improvements to residents' electronic health records
- Successful integration of retirement residences acquired in 2017 and Q1 2018
- Implementing enhancements to recruitment, on-boarding and leadership development

### Improving Balance Sheet and Liquidity:

- Funding of acquisitions/development for continued growth of the Company
- Creating a 10-year debt maturity ladder to reduce refinancing risk and enhance the ability to refinance at favourable rates
- Optimizing leverage (measured as Debt to Gross Book Value)

- Increasing liquidity (measured as available funds from existing credit facilities plus available cash on hand) to deliver on Sienna's growth objectives
- Maintaining an A (low) rating on the 3.474% Series B Senior Secured Debentures, with an aggregate principal amount of $322,000 and a maturity date of February 3, 2021 ("**Series B Debentures**")

**Progress:**

- Raised $184,017 in an offering of common shares in February 2018, the proceeds of which were used to acquire a portfolio of ten seniors' living residences in Ontario (the "**Acquisition Offering**")
- In March 2018, Dominion Bond Rating Service ("DBRS") confirmed the A (low) rating for the Series B Debentures
- In May 2018, the Company redeemed all of its outstanding Convertible Debentures on the Redemption Date (as defined in the "Significant Events" section below)
- Successfully financed/refinanced $346,138 of property-level mortgages and credit facilities year-to-date as of June 30, 2018
- Decreased year-over-year Debt to Gross Book Value by 210 basis points ("**bps**") to 49.4% as at June 30, 2018
- Increased year-over-year Debt Service Coverage ratio by 0.3x to 2.1x as at June 30, 2018
- Increased year-over-year Interest Coverage Ratio by 0.3x to 4.0x as at June 30, 2018

### Growing the Company:

Our growth plan is based on three key components:

***Organic Growth:***

- Leveraging Sienna's platform for organic growth through rates, stabilized occupancy, disciplined cost management and rate expanding services to meet resident needs
- Maintaining existing assets with preventative maintenance and ongoing capital improvements

***Development:***

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

***Acquisitions**:*

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

**Progress:**

- In March 2018, acquired a portfolio of ten seniors' living residences in Ontario ("the **Acquisition**"), consisting of 1,245 private-pay ISL and AL suites ( the "**Acquired Properties**")
- In May 2018, the Company acquired an additional 16% interest in Glenmore Lodge, increasing the Company's interest in Glenmore Lodge from 61% to 77%
- Strong year-over-year results in the Retirement segment, an increase of 5.8% in same property NOI
- In Q2 2018, completed the retrofit of one older Class C LTC seniors' living residence in Stouffville, Ontario
- In Q4 2017, the Company began expanding the Island Park Retirement Residence in Campbellford, Ontario, to add an additional 50 suites and amenity space, which is expected to be completed at the end of 2018
- Received preliminary approval on two development/redevelopment projects

## Corporate Social Responsibility

Sienna is strongly committed to its communities, and gives back in a number of profound ways. Corporate social responsibility plays an important role in ongoing activities involving team members, residents, families and members of the local communities where Sienna operates.

In 2017, the Company launched Sienna for Seniors, a charitable giving program designed to support marginalized seniors in need in our local communities across Canada. The program is closely aligned with Sienna's core business, and is a direct response to statistics that show a startling number of seniors are facing profound economic and social challenges. Sienna for Seniors partnered with United Way and various charities in local communities served by Sienna to support seniors through organization-wide fundraising events and voluntary payroll deductions. To celebrate Seniors month in June, Sienna launched the 2018 fundraising program with many events involving residents, team members and partners. The Company has raised approximately $100,000 year-to-date June 30, 2018.

The funds are used by local seniors' charities to address a variety of seniors' needs, including but not limited to providing meals, transportation, visitation and housing to marginalized seniors living in communities that Sienna residences serve.

## Industry Overview

Please refer to the Company's MD&A and the AIF for the year ended December 31, 2017 for a discussion of the Industry Overview.

## Business of the Company

Please refer to the Company's AIF for the year ended December 31, 2017 for a discussion of the Business Overview.

## Quarterly Financial Information

| Thousands of dollars, except occupancy and per share data | 2018 Q2 | 2018 Q1 | 2017 Q4 | 2017 Q3 | 2017 Q2 | 2017 Q1 | 2016 Q4 | 2016 Q3 |
|---|---|---|---|---|---|---|---|---|
| Revenue from continuing operations [1] | 162,124 | 145,357 | 146,330 | 139,867 | 137,527 | 133,966 | 138,011 | 130,418 |
| Income before net finance charges, transaction costs and provision for (recovery of) income taxes [1] | 15,292 | 14,757 | 15,508 | 15,659 | 15,464 | 13,392 | 13,136 | 10,861 |
| Net income (loss) [1] from continuing operations | 3,548 | 1,033 | 4,195 | 6,214 | 6,726 | 4,679 | 4,044 | (364) |
| Per share basic [1] | 0.055 | 0.018 | 0.083 | 0.131 | 0.144 | 0.099 | 0.088 | (0.009) |
| Per share diluted [1] | 0.054 | 0.017 | 0.077 | 0.127 | 0.136 | 0.096 | 0.083 | (0.009) |
| Net loss from discontinued operations [2] | — | — | — | — | — | — | — | (7) |
| OFFO | 24,199 | 18,471 | 17,834 | 16,565 | 15,754 | 14,190 | 15,106 | 15,474 |
| Per share basic | 0.378 | 0.314 | 0.353 | 0.357 | 0.341 | 0.308 | 0.328 | 0.362 |
| Per share diluted | 0.372 | 0.307 | 0.343 | 0.346 | 0.330 | 0.299 | 0.318 | 0.349 |
| AFFO | 25,018 | 20,816 | 17,290 | 18,537 | 17,657 | 16,666 | 15,241 | 17,220 |
| Per share basic | 0.389 | 0.354 | 0.339 | 0.400 | 0.382 | 0.361 | 0.331 | 0.403 |
| Per share diluted | 0.384 | 0.345 | 0.330 | 0.386 | 0.369 | 0.349 | 0.321 | 0.387 |
| Dividends declared | 14,620 | 13,523 | 11,437 | 10,430 | 10,429 | 10,364 | 10,367 | 9,652 |
| Per share | 0.225 | 0.225 | 0.225 | 0.225 | 0.225 | 0.225 | 0.225 | 0.225 |
| Occupancy | | | | | | | | |
| Retirement same property - Average occupancy[3] | 93.2% | 93.5% | 94.3% | 94.2% | 94.2% | 94.3% | 95.2% | 93.9% |
| Retirement same property - As at occupancy[3] | 93.6% | 93.4% | 94.3% | 94.6% | 94.7% | 93.8% | 94.5% | 95.0% |
| Retirement acquisitions - Average occupancy[3] | 90.3% | 91.8% | 87.1% | 92.9% | N/A | N/A | N/A | N/A |
| Retirement acquisitions - As at occupancy[3] | 89.6% | 91.9% | 87.2% | 92.5% | N/A | N/A | N/A | N/A |
| Retirement - Average total occupancy | 91.6% | 92.6% | 93.2% | 94.1% | 94.2% | 94.3% | 95.2% | 93.9% |
| Retirement - As at total occupancy | 91.3% | 92.6% | 92.3% | 94.1% | 94.7% | 93.8% | 94.5% | 95.0% |
| LTC/RC - Average total occupancy | 98.3% | 97.9% | 98.5% | 98.6% | 98.5% | 97.9% | 98.6% | 98.9% |
| LTC/RC - Average private occupancy | 98.3% | 98.4% | 99.0% | 99.1% | 98.9% | 98.7% | 99.3% | 99.8% |
| Total assets | 1,800,952 | 1,759,189 | 1,394,858 | 1,221,813 | 1,210,433 | 1,213,132 | 1,204,218 | 1,212,546 |
| Total debt [4] | 1,025,857 | 1,022,128 | 818,951 | 762,044 | 746,583 | 756,902 | 734,459 | 746,570 |
| Debt to gross book value as at period end [5] | 49.4% | 50.3% | 49.6% | 51.8% | 51.5% | 51.5% | 51.5% | 52.2% |

Notes:

1. These amounts exclude the results of Preferred Health Care Services, the ancillary home care business of the Company, which was sold and discontinued in April 2016.
2. A non-recurring tax recovery of $547 has been excluded from Q4 2016.
3. The split between Retirement same property and acquisitions is consistent with the current classification of properties acquired in the prior quarters.
4. Total debt includes the Convertible Debentures up to the Redemption Date and is net of amounts paid into the principal reserve fund on the Series B Debentures.
5. Refer to the Debt to Gross Book Value calculation in the "Liquidity and Capital Resources" section below.

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

A discussion of the operating results for the three and six months ended June 30, 2018 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 June 30:

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of dollars | **2018** | 2017 | Change | **2018** | 2017 | Change |
| **Revenue** | **162,124** | 137,527 | 24,597 | **307,481** | 271,493 | 35,988 |
| **Expenses** | | | | | | |
| Operating | **122,734** | 108,117 | 14,617 | **235,687** | 214,622 | 21,065 |
| Depreciation and amortization | **19,369** | 8,998 | 10,371 | **32,366** | 17,792 | 14,574 |
| Administrative | **4,729** | 4,948 | (219) | **9,379** | 10,223 | (844) |
| | **146,832** | 122,063 | 24,769 | **277,432** | 242,637 | 34,795 |
| **Income before net finance charges, transaction costs and provision for (recovery of) income taxes** | **15,292** | 15,464 | (172) | **30,049** | 28,856 | 1,193 |
| Net finance charges | **9,096** | 5,672 | 3,424 | **15,562** | 12,238 | 3,324 |
| Transaction costs | **1,470** | 695 | 775 | **8,345** | 1,213 | 7,132 |
| **Total other expenses** | **10,566** | 6,367 | 4,199 | **23,907** | 13,451 | 10,456 |
| **Income before provision for (recovery of) income taxes** | **4,726** | 9,097 | (4,371) | **6,142** | 15,405 | (9,263) |
| **Provision for (recovery of) income taxes** | | | | | | |
| Current | **1,985** | 2,179 | (194) | **4,240** | 3,705 | 535 |
| Deferred | **(807)** | 192 | (999) | **(2,679)** | 295 | (2,974) |
| | **1,178** | 2,371 | (1,193) | **1,561** | 4,000 | (2,439) |
| **Net income** | **3,548** | 6,726 | (3,178) | **4,581** | 11,405 | (6,824) |
| **Net income attributable to:** | | | | | | |
| Shareholders of the Company | **3,548** | 6,641 | (3,093) | **4,581** | 11,217 | (6,636) |
| Non-controlling interest | **—** | 85 | (85) | **—** | 188 | (188) |
| | **3,548** | 6,726 | (3,178) | **4,581** | 11,405 | (6,824) |
| **Total assets** | **1,800,952** | 1,210,433 | 590,519 | **1,800,952** | 1,210,433 | 590,519 |
| **Total debt (net of principal reserve fund)** | **1,025,857** | 746,583 | 279,274 | **1,025,857** | 746,583 | 279,274 |

## Revenue Breakdown

The following table represents the revenue breakdown for the periods ended June 30:

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of dollars | **2018** | 2017 | Change | **2018** | 2017 | Change |
| **Retirement** | | | | | | |
| Same property[(1)] | **17,351** | 16,666 | 685 | **34,165** | 32,663 | 1,502 |
| Acquisitions[(1)] | **20,908** | — | 20,908 | **28,001** | — | 28,001 |
| **Total Retirement Revenue** | **38,259** | 16,666 | 21,593 | **62,166** | 32,663 | 29,503 |
| **Long-term Care / Residential Care** | | | | | | |
| Same property[(2)] | **123,865** | 120,861 | 3,004 | **243,971** | 238,633 | 5,338 |
| Acquisitions[(2)] | **—** | — | — | **1,344** | 197 | 1,147 |
| **Total Long-term Care / Residential Care Revenue** | **123,865** | 120,861 | 3,004 | **245,315** | 238,830 | 6,485 |
| | | | | | | |
| **Total Revenue** | | | | | | |
| Same property | **141,216** | 137,527 | 3,689 | **278,136** | 271,296 | 6,840 |
| Acquisitions | **20,908** | — | 20,908 | **29,345** | 197 | 29,148 |
| **Total Revenue** | **162,124** | 137,527 | 24,597 | **307,481** | 271,493 | 35,988 |

Notes:

1. In June 2018, the results of Rosewood Retirement Residence ("**Rosewood**") were re-classified from Acquisitions to Same property. The results of Kawartha Lakes Retirement Residence, Waterford Barrie Retirement Residence, Waterford Kingston Retirement Residence and the Acquired Properties (collectively referred to as the "**RR Properties**"), are included in Acquisitions for the applicable periods.
2. In Q2 2018, the results of Glenmore Lodge were re-classified from Acquisitions to Same property.

## Operating Expense Breakdown

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

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of dollars | **2018** | 2017 | Change | **2018** | 2017 | Change |
| **Retirement** | | | | | | |
| Same property(1) | **9,095** | 8,889 | 206 | **18,086** | 17,471 | 615 |
| Acquisitions(1) | **12,020** | — | 12,020 | **15,913** | — | 15,913 |
| **Total Retirement Expenses** | **21,115** | 8,889 | 12,226 | **33,999** | 17,471 | 16,528 |
| **Long-term Care / Residential Care** | | | | | | |
| Same property(2) | **101,619** | 99,228 | 2,391 | **202,018** | 197,019 | 4,999 |
| Same property - prior year tax refund | **—** | — | — | **(1,254)** | — | (1,254) |
| Acquisitions(2) | **—** | — | — | **924** | 132 | 792 |
| **Total Long-term Care / Residential Care Expenses** | **101,619** | 99,228 | 2,391 | **201,688** | 197,151 | 4,537 |
| | | | | | | |
| **Total Operating Expenses** | | | | | | |
| Same property | **110,714** | 108,117 | 2,597 | **218,850** | 214,490 | 4,360 |
| Acquisitions | **12,020** | — | 12,020 | **16,837** | 132 | 16,705 |
| **Total Operating Expenses** | **122,734** | 108,117 | 14,617 | **235,687** | 214,622 | 21,065 |

Notes:

1. In June 2018, the results of Rosewood were re-classified from Acquisitions to Same property. The results of the RR Properties are included in Acquisitions for the applicable periods.
2. In Q2 2018, the results of Glenmore Lodge were re-classified from Acquisitions to Same property.

## Net Operating Income Breakdown

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

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of dollars | **2018** | 2017 | Change | **2018** | 2017 | Change |
| **Retirement** | | | | | | |
| Same property(1) | **8,256** | 7,777 | 479 | **16,079** | 15,192 | 887 |
| Acquisitions(1) | **8,888** | — | 8,888 | **12,088** | — | 12,088 |
| **Total Retirement NOI** | **17,144** | 7,777 | 9,367 | **28,167** | 15,192 | 12,975 |
| **Long-term Care / Residential Care** | | | | | | |
| Same property(2) | **22,246** | 21,633 | 613 | **41,953** | 41,614 | 339 |
| Same property - prior year tax refund | **—** | — | — | **1,254** | — | 1,254 |
| Acquisitions(2) | **—** | — | — | **420** | 65 | 355 |
| **Total Long-term Care / Residential Care NOI** | **22,246** | 21,633 | 613 | **43,627** | 41,679 | 1,948 |
| | | | | | | |
| **Total NOI** | | | | | | |
| Same property | **30,502** | 29,410 | 1,092 | **59,286** | 56,806 | 2,480 |
| Acquisitions | **8,888** | — | 8,888 | **12,508** | 65 | 12,443 |
| **Total NOI** | **39,390** | 29,410 | 9,980 | **71,794** | 56,871 | 14,923 |

Notes:

1. In June 2018, the results of Rosewood were re-classified from Acquisitions to Same property. The results of the RR Properties are included in Acquisitions for the applicable periods.
2. In Q2 2018, the results of Glenmore Lodge were re-classified from Acquisitions to Same property.

## Second Quarter 2018 Operating Results

### Revenue

Same property revenues for Q2 2018 increased by $3,689 to $141,216, compared to Q2 2017. Retirement's same property revenues for Q2 2018 increased by $685 to $17,351, compared to Q2 2017, primarily attributable to market rate adjustments and annual rate increases. LTC/RC's same property revenues for Q2 2018 increased by $3,004 to $123,865, compared to Q2 2017, primarily attributable to increased annual funding and rate increases.

The RR Properties contributed $20,908 to revenues from acquisitions for Q2 2018 (2017 - $nil), of which the Acquired Properties contributed $14,601 (2017 - $nil).

### Operating Expenses

Same property operating expenses for Q2 2018 increased by $2,597 to $110,714, compared to Q2 2017. Retirement's same property operating expenses for Q2 2018 increased by $206 to $9,095, compared to Q2 2017, due to inflationary increases. LTC/RC's same property operating expenses for Q2 2018 increased by $2,391 to $101,619, compared to Q2 2017, due to inflationary increases.

The RR Properties contributed $12,020 to operating expenses from acquisitions for Q2 2018 (2017 - $nil), of which the Acquired Properties contributed $8,284 (2017 - $nil).

### NOI

Same property NOI for Q2 2018 increased by $1,092 to $30,502, compared to Q2 2017. Retirement's same property NOI for Q2 2018 increased by $479 to $8,256, compared to Q2 2017, primarily attributable to market rate adjustments, annual rate increases and operating efficiencies. LTC/RC's NOI for Q2 2018 increased by $613 to $22,246 compared to Q2 2017, primarily attributable to increased funding in RC, timing of a statutory holiday and lower utilities expenses.

The RR Properties contributed $8,888 to NOI from acquisitions for Q2 2018 (2017 - $nil), of which the Acquired Properties contributed $6,317 (2017 - $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 Q2 2018 increased by $10,371 to $19,369, compared to Q2 2017, due to the RR Properties acquired since Q2 2017.

### Administrative Expenses

Administrative expenses for Q2 2018 decreased by $219 to $4,729, compared to Q2 2017, due to a decrease in mark-to market adjustments on share-based compensation, partially offset by increases in expenses reflecting the Company's growth.

### Net Finance Charges

Net finance charges for Q2 2018 increased by $3,424 to $9,096, compared to Q2 2017, primarily attributable to incremental interest expense due to the RR Properties acquired since Q2 2017, the Bridge Loan entered into in Q1 2018, as described in the "Capital Resources" section below, and a fair value loss on interest rate swap contracts in Q2 2018.

### Transaction Costs

Transaction costs for Q2 2018 increased by $775 to $1,470 compared to Q2 2017, primarily attributable to costs incurred related to the Acquired Properties.

### Income Taxes

Income tax expense for Q2 2018 decreased by $1,193 to $1,178, compared to Q2 2017. The current income tax expense for Q2 2018 decreased by $194 to $1,985 compared to Q2 2017, primarily attributable to tax depreciation and transaction costs associated with the RR Properties acquired since Q2 2017 and costs related to the Acquisition Offering, partially offset by an increase in NOI. The current income tax expense has been calculated at the weighted average combined corporate tax rate of 26.46% (2017 - 26.46%). Deferred income tax decreased by $999 to ($807) in Q2 2018 compared to Q2 2017, primarily attributable to the financing and transaction costs related to the RR Properties that are currently not deductible.

## Six Months Ended June 30, 2018 Operating Results

### Revenue

Same property revenues for the six months ended June 30, 2018 increased by $6,840 to $278,136 over the comparable prior year period. Retirement same property revenues for the six months ended June 30, 2018 increased by $1,502 to $34,165, primarily attributable to market rate adjustments and annual rate increases. LTC/RC's same property revenues for the six months ended June 30, 2018 increased by $5,338 to $243,971, primarily attributable to annual funding and rate increases.

Revenues from acquisitions for the six months ended June 30, 2018 increased by $29,148 to $29,345 over the comparable prior year period. The RR Properties contributed $28,001 to revenues for the six months ended June 30, 2018 (2017 - $nil), of which the Acquired Properties contributed $15,234 (2017 - $nil). LTC/RC's revenues from acquisitions for the six months ended June 30, 2018 increased by $1,147 to $1,344 due to Glenmore Lodge acquired in Q1 2017.

### Operating Expenses

Same property operating expenses for the six months ended June 30, 2018 increased by $4,360 to $218,850, over the comparable prior year period. Retirement same property operating expenses for the six months ended June 30, 2018 increased by $615 to $18,086, primarily due to inflationary increases. LTC/RC's operating expenses for the six months ended June 30, 2018 increased by $3,745 to $200,764, primarily attributable to inflationary increases in the flow-through envelopes and timing of expenses mainly due to a statutory holiday, partially offset by a prior year tax refund and lower utilities expenses.

Operating expenses from acquisitions for the six months ended June 30, 2018 increased by $16,705 to $16,837 over the comparable prior year period. The RR Properties contributed $15,913 of operating expenses for the six months ended June 30, 2018 (2017 - $nil), of which the Acquired Properties contributed $8,656 (2017 - $nil).

LTC/RC's operating expenses from acquisitions for the six months ended June 30, 2018 increased by $792 to $924 due to Glenmore Lodge, which was acquired in Q1 2017.

### NOI

Same property NOI for the six months ended June 30, 2018 increased by $2,480 to $59,286 over the comparable prior year period. Retirement's same property NOI increased by $887 to $16,079, primarily attributable to market rate adjustments, annual rate increases and operating efficiencies. LTC/RC's NOI for the six months ended June 30, 2018 increased by $1,593 to $43,207 for the six months ended June 30, 2018, primarily attributable to a prior year tax refund and lower utilities expenses.

NOI from acquisitions for the six months ended June 30, 2018 increased by $12,443 to $12,508 over the comparable prior year period. The RR Properties contributed NOI of $12,088 for the six months ended June 30, 2018 (2017 - $nil), of which the Acquired Properties contributed $6,578 (2017 - $nil). LTC/RC's NOI from acquisitions for the six months ended June 30, 2018 increased by $355 to $420 due to Glenmore Lodge, which was acquired in Q1 2017.

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

### Depreciation and Amortization

Depreciation and amortization for the six months ended June 30, 2018 increased by $14,574 to $32,366 over the comparable prior year period due to the RR Properties acquired since Q2 2017.

### Administrative Expenses

Administrative expenses for the six months ended June 30, 2018 decreased by $844 to $9,379 over the comparable prior year period, due to a decrease in mark-to market adjustments on share-based compensation, partially offset by increases in expenses reflecting the Company's growth.

### Net Finance Charges

Net finance charges for the six months ended June 30, 2018 increased by $3,324 to $15,562 over the comparable prior year period, primarily attributable to incremental interest expense from the RR Properties acquired since Q2 2017 and the Bridge Loan entered into in Q1 2018, as described in the "Capital Resources" section below.

### Transaction Costs

Transaction costs for the six months ended June 30, 2018 increased by $7,132 to $8,345 over the comparable prior year period, primarily attributable to the Acquired Properties in Q1 2018, including land transfer tax.

### Income Taxes

The income tax expense for the six months ended June 30, 2018 decreased by $2,439 to $1,561 over the comparable prior year period. The current income tax expense increased by $535 over the comparable prior year period to $4,240, primarily attributable to an increase in NOI, partially offset by an increase in tax depreciation and transaction costs associated with the RR Properties acquired since Q2 2017. The current income tax expense has been calculated at the weighted average combined corporate tax rate of 26.46% (2017 - 26.46%). Deferred income tax decreased by $2,974 to ($2,679) over the comparable prior year period, primarily attributable to temporary differences related to the RR properties that are currently not deductible.

## Business Performance

The IFRS measure most directly comparable to FFO and OFFO is "net income". The following table represents the reconciliation of "net income" to FFO and OFFO for the periods ended June 30. The reconciliation from FFO to AFFO is provided as supplementary information.

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of dollars, except share and per share data | **2018** | 2017 | Change | **2018** | 2017 | Change |
| **Net income** | **3,548** | 6,726 | (3,178) | **4,581** | 11,405 | (6,824) |
| Deferred income tax (recovery) expense | **(807)** | 192 | (999) | **(2,679)** | 295 | (2,974) |
| Depreciation and amortization | **18,946** | 8,567 | 10,379 | **31,529** | 17,023 | 14,506 |
| Transaction costs | **1,470** | 695 | 775 | **8,345** | 1,213 | 7,132 |
| Fair value loss (gain) on interest rate swap contracts | **249** | (787) | 1,036 | **(585)** | (721) | 136 |
| Gain on Glenmore Lodge option (net of taxes) | **—** | — | — | **—** | (62) | 62 |
| Non-controlling interest | **—** | (85) | 85 | **—** | (188) | 188 |
| **Funds from operations (FFO)** | **23,406** | 15,308 | 8,098 | **41,191** | 28,965 | 12,226 |
| Depreciation and amortization - corporate | **423** | 431 | (8) | **837** | 769 | 68 |
| Amortization of financing charges and fair value adjustments on acquired debt | **407** | 97 | 310 | **667** | 360 | 307 |
| Amortization of loss on bond forward contract | **228** | 220 | 8 | **451** | 435 | 16 |
| Net settlement payment on interest rate swap contracts | **(88)** | (302) | 214 | **(358)** | (585) | 227 |
| Tax shield due to the settlement of the bond-lock hedge | **(177)** | — | (177) | **(118)** | — | (118) |
| **Operating funds from operations (OFFO)** | **24,199** | 15,754 | 8,445 | **42,670** | 29,944 | 12,726 |
| Deferred share unit compensation earned(1) | **(975)** | 479 | (1,454) | **(795)** | 1,002 | (1,797) |
| Income support | **163** | — | 163 | **579** | — | 579 |
| Construction funding(2) | **2,665** | 2,530 | 135 | **5,278** | 5,039 | 239 |
| Maintenance capex | **(1,034)** | (1,106) | 72 | **(1,898)** | (1,662) | (236) |
| **Adjusted funds from operations (AFFO)** | **25,018** | 17,657 | 7,361 | **45,834** | 34,323 | 11,511 |
| | | | | | | |
| Adjusted funds from operations (AFFO) | **25,018** | 17,657 | 7,361 | **45,834** | 34,323 | 11,511 |
| Dividends declared | **(14,620)** | (10,429) | (4,191) | **(28,143)** | (20,793) | (7,350) |
| **AFFO retained** | **10,398** | 7,228 | 3,170 | **17,691** | 13,530 | 4,161 |
| | | | | | | |
| **Basic FFO per share** | **0.366** | 0.331 | 0.035 | **0.668** | 0.627 | 0.041 |
| **Basic OFFO per share** | **0.378** | 0.341 | 0.037 | **0.692** | 0.648 | 0.044 |
| **Basic AFFO per share** | **0.389** | 0.382 | 0.007 | **0.743** | 0.743 | — |
| **Weighted average common shares outstanding - Basic** | **64,529,917** | 46,237,594 | | **61,695,281** | 46,189,745 | |
| | | | | | | |
| **Diluted FFO per share** | **0.361** | 0.323 | 0.038 | **0.658** | 0.612 | 0.046 |
| **Diluted OFFO per share** | **0.372** | 0.330 | 0.042 | **0.679** | 0.629 | 0.050 |
| **Diluted AFFO per share** | **0.384** | 0.369 | 0.015 | **0.729** | 0.718 | 0.011 |
| **Weighted average common shares outstanding - Diluted** | **66,015,259** | 48,925,816 | | **63,762,715** | 48,879,609 | |

Notes:

1. Deferred share unit compensation earned includes a redemption upon the retirement of a Board member for the three and six months ended of $800 (2017- $nil).
2. The Company receives funding from the Ontario government for the construction costs of LTC homes constructed after April 1, 1988. The amounts are non-interest bearing, and are received for certain LTC homes, subject to the condition that the homes continue to operate as long-term care communities for the period for which the homes are entitled to the construction funding. As at June 30, 2018, the condition for the funding has been met.

**Reconciliation of diluted FFO, OFFO and AFFO**

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of Dollars | **2018** | 2017 | Change | **2018** | 2017 | Change |
| **FFO, Basic** | **23,406** | 15,308 | 8,098 | **41,191** | 28,965 | 12,226 |
| Net financing charges on convertible debt | **412** | 644 | (232) | **1,043** | 1,281 | (238) |
| Current income tax expense adjustment | **(95)** | (170) | 75 | **(276)** | (339) | 63 |
| **FFO, Diluted** | **23,723** | 15,782 | 7,941 | **41,958** | 29,907 | 12,051 |
| **OFFO, Basic** | **24,199** | 15,754 | 8,445 | **42,670** | 29,944 | 12,726 |
| Interest expense on convertible debentures | **313** | 543 | (230) | **844** | 1,080 | (236) |
| Current income tax expense adjustment | **(82)** | (144) | 62 | **(223)** | (286) | 63 |
| **OFFO, Diluted** | **24,430** | 16,153 | 8,277 | **43,291** | 30,738 | 12,553 |
| **AFFO, Basic** | **25,018** | 17,657 | 7,361 | **45,834** | 34,323 | 11,511 |
| Interest expense on convertible debentures | **313** | 543 | (230) | **844** | 1,080 | (236) |
| Current income tax expense adjustment | **(82)** | (144) | 62 | **(223)** | (286) | 63 |
| **AFFO, Diluted** | **25,249** | 18,056 | 7,193 | **46,455** | 35,117 | 11,338 |

## Second Quarter 2018 Performance

FFO increased by $8,098 to $23,406, compared to Q2 2017. The increase was primarily attributable to the RR Properties acquired since Q2 2017, partially offset by incremental interest expense and lower current income taxes.

OFFO increased by $8,445 to $24,199, compared to Q2 2017. The increase was primarily attributable to the increase in FFO noted above.

AFFO increased by $7,361 to $25,018, compared to Q2 2017. The increase in AFFO was principally related to the increase in OFFO noted above, partially offset by an adjustment on deferred share unit compensation earned.

## Six Months Ended June 30, 2018 Performance

FFO for the six months ended June 30, 2018 increased by $12,226 to $41,191 over the comparative prior year period. The increase was primarily attributable to the RR Properties acquired since Q2 2017 and a prior year tax refund, partially offset by incremental interest expense due to the RR Properties and an increase in current income taxes.

OFFO for the six months ended June 30, 2018 increased by $12,726 to $42,670 over the comparative prior year period. The increase was primarily attributable to the increase in FFO noted above.

AFFO for the six months ended June 30, 2018 increased by $11,511 to $45,834 over the comparative prior year period. The increase was principally related to the increase in OFFO noted above and income support received from Waterford Kingston Retirement Residence, partially offset by an adjustment on deferred share unit compensation earned and an increase in maintenance capital expenditures mainly due to the Company's growth.

## Construction funding

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

| Thousands of Dollars | Interest income on construction funding receivable | Adjustment to AFFO for construction funding | Total construction funding to be received |
|---|---|---|---|
| 2018[1] | 2,543 | 10,658 | 13,201 |
| 2019 | 2,105 | 10,770 | 12,875 |
| 2020 | 1,667 | 10,866 | 12,533 |
| 2021 | 1,227 | 9,757 | 10,984 |
| 2022 | 838 | 9,079 | 9,917 |
| 2023 | 505 | 6,212 | 6,717 |
| Thereafter | 976 | 9,456 | 10,432 |
| | **9,861** | **66,798** | **76,659** |

Notes:

1. For the three and six months ended June 30, 2018 , $655 and $1,312 of interest income on construction funding receivable was recognized, respectively, and $2,665 and $5,278 was the adjustment to AFFO for construction funding received, respectively.

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

The IFRS measure most directly comparable to AFFO is "cash flow from operating activities". The following table represents the reconciliation of cash provided by operating activities to AFFO for the periods ended June 30:

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of dollars | **2018** | 2017 | Change | **2018** | 2017 | Change |
| **Cash provided by operating activities** | **30,633** | 19,525 | 11,108 | **35,925** | 24,200 | 11,725 |
| Gain on Glenmore Lodge option (net of taxes) | — | — | — | — | (62) | 62 |
| Non-controlling interest | — | (85) | 85 | — | (188) | 188 |
| Construction funding principal | **2,665** | 2,530 | 135 | **5,278** | 5,039 | 239 |
| Transaction costs | **1,470** | 695 | 775 | **8,345** | 1,213 | 7,132 |
| Tax shield due to settlement of the bond-lock hedge | **(177)** | — | (177) | **(118)** | — | (118) |
| Maintenance capex | **(1,034)** | (1,106) | 72 | **(1,898)** | (1,662) | (236) |
| Net change in working capital, interest and taxes | **(8,492)** | (3,834) | (4,658) | **(1,554)** | 5,978 | (7,532) |
| Restricted share units and long-term incentive plan expense | **(47)** | (68) | 21 | **(144)** | (195) | 51 |
| **Adjusted funds from operations (AFFO)** | **25,018** | 17,657 | 7,361 | **45,834** | 34,323 | 11,511 |
| | | | | | | |
| Adjusted funds from operations (AFFO) | **25,018** | 17,657 | 7,361 | **45,834** | 34,323 | 11,511 |
| Dividends declared | **(14,620)** | (10,429) | (4,191) | **(28,143)** | (20,793) | (7,350) |
| **AFFO retained** | **10,398** | 7,228 | 3,170 | **17,691** | 13,530 | 4,161 |
| Dividend reinvestment | **2,564** | 1,425 | 1,139 | **4,331** | 2,578 | 1,753 |
| **AFFO retained after dividend reinvestment** | **12,962** | 8,653 | 4,309 | **22,022** | 16,108 | 5,914 |

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

The following table summarizes the dividends declared in relation to cash flows from operating activities for the periods ended June 30:

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of dollars | **2018** | 2017 | Change | **2018** | 2017 | Change |
| Dividends declared | **14,620** | 10,429 | 4,191 | **28,143** | 20,793 | 7,350 |
| Cash flows from operating activities | **30,633** | 19,525 | 11,108 | **35,925** | 24,200 | 11,725 |
| **Excess of cash flows from operating activities over dividends declared** | **16,013** | 9,096 | 6,917 | **7,782** | 3,407 | 4,375 |

# Liquidity and Capital Resources

## Financial Position Analysis

The following table represents the summary of cash flows for the periods ended June 30:

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| Thousands of dollars | **2018** | 2017 | Change | **2018** | 2017 | Change |
| Cash provided by (used in): | | | | | | |
| Operating activities | **30,633** | 19,525 | 11,108 | **35,925** | 24,200 | 11,725 |
| Investing activities | **(6,082)** | (2,188) | (3,894) | **(307,952)** | (6,261) | (301,691) |
| Financing activities | **18,721** | (26,563) | 45,284 | **309,958** | (27,469) | 337,427 |
| Increase (decrease) in cash during the period | **43,272** | (9,226) | 52,498 | **37,931** | (9,530) | 47,461 |
| Cash, end of period | **56,696** | 17,670 | 39,026 | **56,696** | 17,670 | 39,026 |

## Second Quarter 2018

### Operating Activities

Operating activities for Q2 2018 provided $30,633 of cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes of $33,063;
- Increase in accounts payable and accrued liabilities of $11,432;
- Partially offset by interest paid on long-term debt and Convertible Debentures of $7,640, increase in prepaid expenses and deposits $3,912 and income taxes paid of $1,800.

For Q2 2017, operating activities provided $19,525 of cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes of $24,314;
- Increase in accounts payable and accrued liabilities of $5,000;
- Partially offset by interest paid on long-term debt and Convertible Debentures of $4,659, increase in prepaid expenses and deposits of $2,709 and income taxes paid of $2,005.

### Investing Activities

Investing activities for Q2 2018 used $6,082 in cash, which was primarily attributable to the following:

- Purchase of property and equipment of $6,070 and intangible assets of $637;
- Acquisition of additional interest in Glenmore Lodge for $2,796;
- Partially offset by construction funding received in the amount of $3,320.

For Q2 2017, investing activities used $2,188 in cash, which was primarily attributable to the following:

- Purchase of property and equipment of $2,823 and intangible assets of $267;
- Acquisition of Rosewood for $2,038;
- Partially offset by construction funding received in the amount of $3,170.

### Financing Activities

Financing activities in Q2 2018 provided $18,721 of cash, which was primarily attributable to the following:

- Proceeds from long-term debt of $184,597;
- Partially offset by repayment of long-term debt of $130,208 relating to mortgage principal payments and voluntary repayments on the Company's revolving credit facilities, redemption of Convertible Debentures for $12,956, dividends paid in the quarter of $11,903, payment of deferred financing costs of $8,211, contributions to the Series B Debentures' principal reserve fund of $1,873 and share issuance costs of $725.

For Q2 2017, financing activities used $26,563 in cash, which was primarily attributable to the following:

- Repayment of long-term debt of $18,418 relating to mortgage principal payments and voluntary repayments on the Company's revolving credit facilities;
- Dividends paid in the quarter of $8,973;
- Contributions to the Series B Debentures' principal reserve fund of $1,653;
- Partially offset by proceeds from long-term debt of $2,600.

## Six Months Ended June 30, 2018

### Operating Activities

For the six months ended June 30, 2018, operating activities provided $35,925 of cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes of $54,219;
- Increase in accounts payable and accrued liabilities of $3,865;
- Increase in net government funding payables $3,405;
- Partially offset by interest paid on long-term debt and Convertible Debentures of $17,035, increase in prepaid expenses and deposits $4,733 and income taxes paid of $3,490.

For the six months ended June 30, 2017, operating activities provided $24,200 of cash, which was primarily attributable to the following:

- Cash from operating activities before non-cash changes in working capital, interest and taxes of $46,632;
- Increase in net government funding payables $2,952;
- Decrease in accounts receivable and other assets of $2,274;
- Partially offset by interest paid on long-term debt and Convertible Debentures of $14,070, decrease in accounts payable and accrued liabilities $3,504, increase in prepaid expenses and deposits of $3,194 and income taxes paid of $6,305.

### Investing Activities

For the six months ended June 30, 2018, investing activities used $307,952 in cash, which was primarily attributable to the following:

- Acquisition of the Acquired Properties for $297,708 and additional interest in Glenmore Lodge for $2,796;
- Purchase of property and equipment of $12,929 and intangible assets of $1,431;
- Partially offset by construction funding received in the amount of $6,590.

For the six months ended June 30, 2017 , investing activities used $6,261 in cash, which was primarily attributable to the following:

- Acquisition of Glenmore Lodge for $5,699 and Rosewood for $2,038;
- Purchase of property and equipment of $3,973 and intangible assets of $736;
- Partially offset by construction funding received in the amount of $6,540.

### Financing Activities

For the six months ended June 30, 2018, financing activities provided $309,958 of cash, which was primarily attributable to the following:

- Proceeds from long-term debt of $373,078;
- Gross proceeds from the issuance of common shares of $184,017;
- Partially offset by repayment of long-term debt of $189,346 relating to mortgage principal payments and voluntary repayments on the Company's revolving credit facilities, dividends paid of $22,864, redemption of Convertible Debentures for $12,956, payment of deferred financing costs of $9,346, share issuance costs of $8,984 and contributions to the Series B Debentures' principal reserve fund of $3,641.

For the six months ended June 30, 2017, financing activities used $27,469 in cash, which was primarily attributable to the following:

- Repayment of long-term debt of $22,033 relating to mortgage principal payments and voluntary repayments on the Company's revolving credit facilities;
- Dividends paid of $18,199;
- Contributions to the Series B Debentures' principal reserve fund of $3,345;
- Partially offset by proceeds from long-term debt of $17,100.

## Capital Resources

On March 28, 2018, the Company entered into a credit agreement with a Canadian lender for an acquisition term loan facility of $115,000 (the "**Bridge Loan**"). The Bridge Loan was due one year from the closing of the Acquisition, and was used to finance the Acquisition. Borrowings under the Bridge Loan were available by way of banker's acceptance ("**BA**") at the BA rate plus 200 bps and loans at an interest rate of prime plus a margin. The Bridge Loan was secured by a pool of properties, and was subject to certain customary financial and non-financial covenants. As at June 30, 2018, the Company had drawn $37,000 on the Bridge Loan, which was repaid fully subsequent to June 30, 2018.

On March 28, 2018, the Company entered into a credit agreement with a Canadian lender for a non-revolving facility of $29,000, of which $22,000 was assumed on the Acquisition and $7,000 represented an increase in the facility. This facility is due on March 27, 2020 and is available by way of banker's acceptances at the BA rate plus 175 bps or loans at an interest rate of prime plus 50 bps per annum. This facility is secured by the assets of one of the Acquired Properties. As at June 30, 2018, the Company has drawn $29,000 under this facility.

The Company’s total debt as at June 30, 2018 was $1,025,857 (December 31, 2017 - $818,951), net of the Series B Debentures' principal reserve fund of $27,565 (December 31, 2017 - $23,924). The increase of $206,906 was primarily related to the mortgages assumed from the Acquisition, the Company's Bridge Loan and drawdowns from its credit facilities, partially offset by monthly payments to the Series B Debentures' principal reserve fund, payments toward mortgage liabilities and redemption of the Convertible Debentures. The Company has credit facilities of $219,000, and as at June 30, 2018, had drawn $142,500 from these facilities. Subsequent to June 30, 2018, the Company has repaid $66,000 to these facilities, which includes the full repayment of $37,000 to the Bridge Loan.

As at June 30, 2018, the Company had a working capital deficiency (current liabilities less current assets) of $124,213, primarily attributable to the current portion of long-term debt of $117,219 relating to the Bridge Loan and the portion of mortgage liabilities that are due within a 12-month period. The balance in the current portion of long-term debt is consistent with the Company's strategy to build a 10-year debt maturity ladder, thereby refinancing approximately 10% of its debt annually, which is equivalent to $102,586 as at June 30, 2018. To support the Company's working capital deficiency, the Company plans to use its operating cash flows, proceeds from refinancing its debt and, if necessary, its undrawn credit facilities, all of which management of the Company believes will be sufficient to address this working capital deficiency.

## Liquidity and Capital Commitments

### Liquidity

The Company’s primary source of liquidity is cash flow generated from operating activities. The Company expects to meet its operating cash requirements through fiscal 2018, including required working capital, capital expenditures, and currently scheduled interest payments on debt, from cash on hand, cash flow from operations and its committed, but unutilized borrowing capacity.

### Capital Commitments

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

### Debt Strategy

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

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

Debentures to reduce risk when these debentures mature in 2021. In March 2018, DBRS confirmed the A (low) rating for the Series B Debentures.

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

### *Interest Coverage Ratio*

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| Thousands of dollars, except ratio | **2018** | 2017 | **2018** | 2017 |
| Net finance charges | **9,096** | 5,672 | **15,562** | 12,238 |
| Add (deduct): | | | | |
| Amortization of financing charges and fair value adjustments on acquired debt | **(407)** | (97) | **(667)** | (360) |
| Amortization of loss on bond forward contract | **(228)** | (220) | **(451)** | (435) |
| Interest income on construction funding receivable | **655** | 690 | **1,312** | 1,551 |
| Other interest income | **341** | 48 | **768** | 234 |
| (Loss) gain on interest rate swap contracts | **(161)** | 1,089 | **943** | 1,306 |
| **Net finance charges, adjusted** | **9,296** | 7,182 | **17,467** | 14,534 |
| **Adjusted EBITDA** | **37,981** | 27,632 | **69,005** | 53,188 |
| **Interest coverage ratio** | **4.1** | 3.8 | **4.0** | 3.7 |

The following table represents the reconciliation of net income to Adjusted EBITDA for the periods ended June 30:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| Thousands of dollars | **2018** | 2017 | **2018** | 2017 |
| Net income | **3,548** | 6,726 | **4,581** | 11,405 |
| Net finance charges | **9,096** | 5,672 | **15,562** | 12,238 |
| Provision for income taxes | **1,178** | 2,371 | **1,561** | 4,000 |
| Depreciation and amortization | **19,369** | 8,998 | **32,366** | 17,792 |
| Transaction costs | **1,470** | 695 | **8,345** | 1,213 |
| Proceeds from construction funding | **3,320** | 3,170 | **6,590** | 6,540 |
| **Adjusted EBITDA** | **37,981** | 27,632 | **69,005** | 53,188 |

### *Debt Service Coverage Ratio*

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| Thousands of dollars, except ratio | **2018** | 2017 | **2018** | 2017 |
| Net finance charges | **9,096** | 5,672 | **15,562** | 12,238 |
| Add (deduct): | | | | |
| Amortization of financing charges and fair value adjustments on acquired debt | **(407)** | (97) | **(667)** | (360) |
| Amortization of loss on bond forward contract | **(228)** | (220) | **(451)** | (435) |
| Interest income on construction funding receivable | **655** | 690 | **1,312** | 1,551 |
| Other interest income | **341** | 48 | **768** | 234 |
| (Loss) gain on interest rate swap contracts | **(161)** | 1,089 | **943** | 1,306 |
| **Net finance charges, adjusted** | **9,296** | 7,182 | **17,467** | 14,534 |
| Principal repayments [1] | **5,355** | 3,418 | **9,634** | 7,033 |
| Principal reserve fund | **1,873** | 1,653 | **3,641** | 3,345 |
| **Total debt service** | **16,524** | 12,253 | **30,742** | 24,912 |
| | | | | |
| **Adjusted EBITDA** | **37,981** | 27,632 | **69,005** | 53,188 |
| Deduct: | | | | |
| Maintenance capex | **(1,034)** | (1,106) | **(1,898)** | (1,662) |
| Cash income taxes | **(1,800)** | (2,005) | **(3,490)** | (6,305) |
| **Adjusted EBITDA (for covenant calculations)** | **35,147** | 24,521 | **63,617** | 45,221 |
| **Debt service coverage ratio** | **2.1** | 2.0 | **2.1** | 1.8 |

Notes:

1. During the three and six months ended June 30, 2018, the Company made voluntary payments of $122,000 and $172,000 (2017 - $15,000 and $15,000) towards its credit facilities and Bridge Loan, respectively, which have been excluded from the debt service coverage ratio calculation. Debt repayments on maturity have also been excluded from the debt service coverage ratio calculation.

### *Debt to Adjusted EBITDA Ratio*

The Debt to Adjusted EBITDA ratio is an indicator of the approximate number of years required for current cash flows to repay all indebtedness. The Adjusted EBITDA below is annualized using the Adjusted EBITDA for the six months ended June 30, 2018.

| | June 30 | |
|---|---|---|
| Thousands of dollars, except ratio | **2018** | 2017 |
| Total indebtedness | | |
| Series B Debentures | **322,000** | 322,000 |
| Series B Debentures - Principal reserve fund | **(27,565)** | (20,461) |
| Credit facilities and loans | **142,500** | 35,000 |
| Mortgages | **597,288** | 365,482 |
| Convertible Debentures | **—** | 44,584 |
| | **1,034,223** | 746,605 |
| Adjusted EBITDA | **138,010** | 106,376 |
| **Debt to Adjusted EBITDA** | **7.5** | 7.0 |

### *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 June 30 | | | | Six Months Ended June 30 | | | |
| | **2018** | **Rate (%)** | 2017 | Rate (%) | **2018** | **Rate (%)** | 2017 | Rate (%) |
| **Fixed Rate** | | | | | | | | |
| Debentures | **322,000** | **3.47%** | 322,000 | 3.47% | **322,000** | **3.47%** | 322,000 | 3.47% |
| Mortgages [1] | **488,592** | **4.24%** | 339,399 | 4.11% | **448,173** | **4.21%** | 375,574 | 4.09% |
| Convertible Debentures | **—** | **—%** | 44,584 | 4.65% | **—** | **—%** | 44,584 | 4.65% |
| **Total Fixed** | **810,592** | **3.93%** | 705,983 | 3.86% | **770,173** | **3.90%** | 742,158 | 3.83% |
| **Floating Rate** | | | | | | | | |
| Credit facilities and loans [2] | **184,390** | **3.51%** | 36,011 | 2.57% | **114,699** | **3.55%** | 41,282 | 2.57% |
| Mortgages | **—** | **—%** | 10,413 | 3.21% | **20** | **4.45%** | 5,297 | 3.22% |
| **Total Floating** | **184,390** | **3.51%** | 46,424 | 2.71% | **114,719** | **3.55%** | 46,579 | 2.64% |
| **Total Debt** | **994,982** | **3.86%** | 752,407 | 3.79% | **884,892** | **3.85%** | 788,737 | 3.78% |

Notes:

1. For the three and six months ended June 30, 2018, includes floating rate mortgages of $161,867 and $133,577 (2017 - $64,645 and $103,935) respectively, that have been fixed through interest rate swaps.
2. For the three and six months ended June 30, 2018, the increase in the weighted average credit facilities and loans over the comparative prior year periods is due to drawdowns from the Bridge Loan.

*Debt to Gross Book Value*

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

| Thousands of dollars, except ratio | June 30 2018 | June 30 2017 |
|---|---|---|
| Total indebtedness | | |
| Series B Debentures | **322,000** | 322,000 |
| Series B Debentures - Principal reserve fund | **(27,565)** | (20,461) |
| Credit facilities and loans | **142,500** | 35,000 |
| Mortgages | **597,288** | 365,482 |
| Convertible Debentures | **—** | 44,584 |
| | **1,034,223** | 746,605 |
| Total assets | **1,800,952** | 1,210,433 |
| Accumulated depreciation on property and equipment | **195,719** | 161,176 |
| Accumulated amortization on intangible assets | **96,145** | 78,494 |
| Gross book value | **2,092,816** | 1,450,103 |
| **Debt to gross book value** | **49.4%** | 51.5% |
| **Debt, excluding Convertible Debentures, to gross book value** | **n/a** | 48.4% |

## Capital Disclosure

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

The Company's objectives when managing capital are to:

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

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

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

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

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

The Company has property-level mortgages that are secured by each of the underlying properties' assets, guaranteed by the Company and are subject to certain customary financial and non-financial covenants. The

Company is in compliance with all financial covenants on its borrowings as at June 30, 2018. However, there can be no assurance that covenant requirements will be met at all times. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be adversely affected.

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

## Contractual Obligations and Other Commitments

### Long-term Debt

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

| | | | Amortizing Debt | | | | |
|---|---|---|---|---|---|---|---|
| Year | Series B Debentures | Floating Rate Debt | Regular Principal Payments | Principal Due at Maturity | **Total** | % of Total | Weighted Average Interest on Maturing Debt |
| 2018 | — | — | 11,099 | 22,219 | **33,318** | 3.1% | 5.8% |
| 2019 | — | 55,500 | 21,516 | 65,340 | **142,356** | 13.4% | 3.9% |
| 2020 | — | 87,000 | 18,549 | 19,992 | **125,541** | 11.8% | 3.3% |
| 2021 | 322,000 | — | 18,611 | 13,426 | **354,037** | 33.4% | 3.5% |
| 2022 | — | — | 17,116 | 33,199 | **50,315** | 4.7% | 3.9% |
| 2023 | — | — | 15,084 | 60,883 | **75,967** | 7.2% | 3.4% |
| 2024 | — | — | 13,343 | 25,893 | **39,236** | 3.7% | 4.1% |
| 2025 | — | — | 10,518 | 41,065 | **51,583** | 4.9% | 3.8% |
| 2026 | — | — | 10,497 | — | **10,497** | 1.0% | —% |
| 2027 | — | — | 9,678 | 35,115 | **44,793** | 4.2% | 2.6% |
| Thereafter | — | — | 23,792 | 110,353 | **134,145** | 12.6% | 3.7% |
| | **322,000** | **142,500** | **169,803** | **427,485** | **1,061,788** | 100.0% | |
| Mark-to-market adjustment arising from acquisitions | | | | | **4,589** | | |
| Less: Deferred financing costs | | | | | **(12,955)** | | |
| | | | | | **1,053,422** | | |

### Operating Leases

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

## Related Party Transactions

As at June 30, 2018, the Company had amounts outstanding from certain key management of $1,367 (December 31, 2017 - $1,171) in relation to grants under the Company's Long-term Incentive Plan ("**LTIP**") and related share purchase loans, which have been recorded as a reduction to shareholders' equity. The LTIP's terms provide for the loans to bear interest at the Canadian prime rate prevailing at the Company's bank at the time of grant. The underlying common shares have been pledged as security against the respective loans. The Board of Directors has determined that, effective as of the end of fiscal 2017, no further grants will be awarded or issued under the LTIP and the LTIP will be terminated.

## Critical Accounting Estimates and Accounting Policies

The accounting policies and estimates that are critical to the understanding of the Company's business operations and results of operations are identified in Note 3 of the Company's annual audited consolidated financial statements for the year ended December 31, 2017. 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, 2017, other than those new accounting policies specifically disclosed in the interim consolidated financial statements for the six months ended June 30, 2018. The annual audited consolidated financial statements 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, 2017, 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.

On May 2, 2018, the Company was served with a proposed class action alleging negligence, breach of fiduciary duty and breach of contract and claiming damages in the amount of $150,000. The Company does not believe that the claim has merit. In addition, the Company believes that any potential liability pursuant to the claim will be covered by insurance and that the outcome will not have a material adverse impact on the business, operating results or financial condition of the Company. The Company is vigorously defending the claim through the appropriate court process.

## 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 of the Company and that management currently believes are based on reasonable assumptions. However, neither the Company nor management of the Company can ensure actual results will be consistent with these forward-looking statements. These forward-looking statements are as of the date of this MD&A, and the Company and its management assume no obligation to update or revise them to reflect new events or circumstances except as required by securities laws. Readers are cautioned not to place undue reliance on any forward-looking statements.

## Appendix: Property List

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 |
| Bearbrook Retirement Residence | Ottawa, ON | — | 101 | 101 |
| Carolina Retirement Residence | Perth, ON | — | 140 | 140 |
| Cedarvale Lodge Retirement & Care Community | Keswick, ON | — | 130 | 130 |
| Doon Village Retirement Residence | Kitchener, ON | — | 97 | 97 |
| Heatherwood Retirement Residence | St. Catharines, ON | — | 167 | 167 |
| Island Park Retirement Residence | Campbellford, ON | — | 83 | 83 |
| Island View Retirement Residence | Arnprior, ON | — | 107 | 107 |
| Kawartha Lakes Retirement Residence | Bobcaygeon, ON | — | 93 | 93 |
| Kensington Place Retirement Residence | Toronto, ON | — | 101 | 101 |
| Kingsmere Retirement Residence | Alliston, ON | — | 98 | 98 |
| Lincoln Park Retirement Residence | Grimsby, ON | — | 70 | 70 |
| Martindale Gardens Retirement Residence | Milton, ON | — | 75 | 75 |
| Mayfair Terrace Retirement Residence | Port Coquitlam, BC | — | 89 | 89 |
| Midland Gardens Seniors Apartments | Scarborough, ON | — | 53 | 53 |
| Pacifica Retirement Residence | Surrey, BC | — | 131 | 131 |
| Peninsula Retirement Residence | Surrey, BC | — | 127 | 127 |
| Quinte Gardens Retirement Residence | Belleville, ON | — | 235 | 235 |
| Red Oak Retirement Residence | Kanata, ON | — | 158 | 158 |
| Rideau Retirement Residence | Burnaby, BC | — | 138 | 138 |
| Rosewood Retirement Residence | Kingston, ON | — | 68 | 68 |
| Royale Place Retirement Residence | Kingston, ON | — | 136 | 136 |
| Traditions of Durham Retirement Residence | Oshawa, ON | — | 141 | 141 |
| Trillium Retirement and Care Community | Kingston, ON | — | 41 | 41 |
| Villa Da Vinci Retirement Residence | Woodbridge, ON | — | 124 | 124 |
| Waterford Barrie Retirement Residence | Barrie, ON | — | 202 | 202 |
| Waterford Kingston Retirement Residence | Kingston, ON | — | 182 | 182 |
| **Total Retirement** | | **—** | **3,222** | **3,222** |
| | | | | |
| **Residential Care** | | | | |
| Brookside Lodge | Surrey, BC | 102 | 14 | 116 |
| Glenmore Lodge (1) | Kelowna, BC | 100 | 18 | 118 |
| 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 |
| Ridgeview Lodge | Kamloops, BC | 106 | 23 | 129 |
| The Cascades | Chilliwack, BC | 140 | 27 | 167 |
| **Total Residential Care** | | **945** | **190** | **1,135** |

| NAME OF COMMUNITY | LOCATION | FUNDED | PRIVATE | TOTAL BEDS/ SUITES |
|---|---|---|---|---|
| **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 |
| Norfinch Care Community | North York, 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 |
| Spencer House, Orillia (2) | Orillia, 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 Long-term Care / Residential Care** | | **6,678** | **190** | **6,868** |
| | | | | |
| **Total Retirement and Long-term Care / Residential Care** | | **6,678** | **3,412** | **10,090** |

Notes:

1. Nicola Lodge and Glenmore Lodge are referred to collectively as the "**Option Properties**", of which the Company owns 40% of Nicola Lodge (acquired in Q3 2016) and 77% of Glenmore Lodge (61% acquired in Q1 2017 and 16% acquired in Q2 2018) as at June 30, 2018. 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 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 Spencer House, Orillia, and is the owner of the land, buildings, furniture, fixtures and equipment used to operate and manage Spencer House, Orillia (which land, buildings, furniture, fixtures and equipment are leased to Spencer House Inc.).

# Consolidated Financial Statements

(in thousands of Canadian Dollars)

## Q2 2018

Sienna Senior Living Inc.

# Condensed Interim Consolidated Financial Statements

Thousands of dollars

| | Notes | **June 30, 2018** | December 31, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | **56,696** | 18,765 |
| Accounts receivable and other assets | 17 | **8,747** | 7,833 |
| Income support | | **286** | 865 |
| Prepaid expenses and deposits | | **6,734** | 9,530 |
| Government funding receivable | | **3,757** | 3,751 |
| Construction funding receivable | 5 | **10,889** | 10,589 |
| Income taxes receivable | | **184** | 934 |
| | | **87,293** | 52,267 |
| Government funding receivable | | **448** | 639 |
| Interest rate swap contracts | 5 | **2,996** | 1,881 |
| Restricted cash | 6 | **32,062** | 27,975 |
| Construction funding receivable | 5 | **50,632** | 54,025 |
| Property and equipment | 7 | **1,176,680** | 906,610 |
| Intangible assets | 8 | **283,175** | 229,810 |
| Goodwill | | **167,666** | 121,651 |
| **Total assets** | | **1,800,952** | 1,394,858 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | **89,139** | 81,858 |
| Government funding payable | | **4,729** | 3,128 |
| Current portion of long-term debt | 5, 9 | **117,219** | 47,185 |
| Convertible debentures | 5, 10 | **—** | 44,267 |
| Interest rate swap contracts | 5 | **419** | 380 |
| | | **211,506** | 176,818 |
| Long-term debt | 5, 9 | **936,203** | 751,423 |
| Deferred income taxes | 12 | **55,528** | 59,662 |
| Government funding payable | | **3,830** | 2,211 |
| Share-based compensation liability | 15 | **6,439** | 7,186 |
| Interest rate swap contracts | 5 | **1,491** | 1,358 |
| **Total liabilities** | | **1,214,997** | 998,658 |
| **EQUITY** | | | |
| Shareholders' equity | | **585,955** | 396,200 |
| **Total equity** | | **585,955** | 396,200 |
| **Total liabilities and equity** | | **1,800,952** | 1,394,858 |

*See accompanying notes.*

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

*"Dino Chiesa"*
Dino Chiesa
Chair and Director

*"Janet Graham"*
Janet Graham
Director

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, 2018** | | **639,361** | **515** | **157** | **(241,659)** | **(2,174)** | **396,200** | **—** | **396,200** |
| **Issuance of shares** | 13 | **213,411** | **(515)** | **—** | **—** | **—** | **212,896** | **—** | **212,896** |
| **Net income** | | **—** | **—** | **—** | **4,581** | **—** | **4,581** | **—** | **4,581** |
| **Other comprehensive income** | | **—** | **—** | **—** | **—** | **332** | **332** | **—** | **332** |
| **Long-term incentive plan** | 13, 15 | **31** | **—** | **46** | **—** | **—** | **77** | **—** | **77** |
| **Share purchase loan** | 13 | **12** | **—** | **—** | **—** | **—** | **12** | **—** | **12** |
| **Dividends** | 13, 14 | **—** | **—** | **—** | **(28,143)** | **—** | **(28,143)** | **—** | **(28,143)** |
| **Balance, June 30, 2018** | | **852,815** | **—** | **203** | **(265,221)** | **(1,842)** | **585,955** | **—** | **585,955** |

| | 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 | 13 | 3,056 | — | — | — | — | 3,056 | — | 3,056 |
| Net income | 21 | — | — | — | 11,217 | — | 11,217 | 188 | 11,405 |
| Other comprehensive income | | — | — | — | — | 320 | 320 | — | 320 |
| Long-term incentive plan | 13, 15 | 27 | — | 36 | — | — | 63 | — | 63 |
| Share purchase loan | 13 | 11 | — | — | — | — | 11 | — | 11 |
| Dividends | 14 | — | — | — | (20,793) | — | (20,793) | — | (20,793) |
| Distributions | | — | — | — | — | — | — | (183) | (183) |
| Balance, June 30, 2017 | | 525,860 | 515 | 157 | (229,977) | (2,505) | 294,050 | 36 | 294,086 |

*See accompanying notes.*

# Condensed Interim Consolidated Statements of Operations
# (Unaudited)
Thousands of dollars, except share and per share data

| | | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | Notes | **2018** | 2017 | **2018** | 2017 |
| **Revenue** | 18 | **162,124** | 137,527 | **307,481** | 271,493 |
| **Expenses** | | | | | |
| Operating | | **122,734** | 108,117 | **235,687** | 214,622 |
| Depreciation and amortization | | **19,369** | 8,998 | **32,366** | 17,792 |
| Administrative | | **4,729** | 4,948 | **9,379** | 10,223 |
| | 19 | **146,832** | 122,063 | **277,432** | 242,637 |
| **Income before net finance charges, transaction costs and provision for (recovery of) income taxes** | | **15,292** | 15,464 | **30,049** | 28,856 |
| Net finance charges | 11 | **9,096** | 5,672 | **15,562** | 12,238 |
| Transaction costs | | **1,470** | 695 | **8,345** | 1,213 |
| **Total other expenses** | | **10,566** | 6,367 | **23,907** | 13,451 |
| **Income before provision for (recovery of) income taxes** | | **4,726** | 9,097 | **6,142** | 15,405 |
| **Provision for (recovery of) income taxes** | | | | | |
| Current | | **1,985** | 2,179 | **4,240** | 3,705 |
| Deferred | | **(807)** | 192 | **(2,679)** | 295 |
| | 12 | **1,178** | 2,371 | **1,561** | 4,000 |
| **Net income** | | **3,548** | 6,726 | **4,581** | 11,405 |
| **Net income attributable to:** | | | | | |
| Shareholders of the Company | | **3,548** | 6,641 | **4,581** | 11,217 |
| Non-controlling interest | 21 | **—** | 85 | **—** | 188 |
| | | **3,548** | 6,726 | **4,581** | 11,405 |
| **Net income attributable to shareholders of the Company** | | | | | |
| Basic net income per share | 13 | **$0.05** | $0.14 | **$0.07** | $0.24 |
| Diluted net income per share | 13 | **$0.05** | $0.14 | **$0.07** | $0.23 |
| Weighted average number of common shares outstanding - basic | 13 | **64,529,917** | 46,237,594 | **61,695,281** | 46,189,745 |
| Weighted average number of common shares outstanding - diluted | 13 | **66,015,259** | 48,925,816 | **63,762,715** | 48,879,609 |

*See accompanying notes.*

Thousands of dollars, except share and per share data

| | | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | Notes | **2018** | 2017 | **2018** | 2017 |
| **Net income** | | **3,548** | 6,726 | **4,581** | 11,405 |
| **Other comprehensive income** | | | | | |
| **Items that may be subsequently reclassified to the consolidated statements of operations:** | | | | | |
| Loss on bond forward contracts, net of tax | 12 | 168 | 162 | 332 | 320 |
| **Total comprehensive income** | | **3,716** | 6,888 | **4,913** | 11,725 |

*See accompanying notes.*

Thousands of dollars

| | Notes | Three months ended June 30, 2018 | 2017 | Six months ended June 30, 2018 | 2017 |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| **Net income** | | **3,548** | 6,726 | **4,581** | 11,405 |
| Add (deduct) items not affecting cash | | | | | |
| Depreciation of property and equipment | | **10,000** | 7,457 | **18,464** | 14,830 |
| Amortization of intangible assets | | **9,369** | 1,541 | **13,902** | 2,962 |
| Current income taxes | | **1,985** | 2,179 | **4,240** | 3,705 |
| Deferred income taxes | | **(807)** | 192 | **(2,679)** | 295 |
| Share-based compensation | 15 | **(128)** | 547 | **149** | 1,197 |
| Net finance charges | 11 | **9,096** | 5,672 | **15,562** | 12,238 |
| | | **33,063** | 24,314 | **54,219** | 46,632 |
| **Non-cash changes in working capital** | | | | | |
| Accounts receivable and other assets | | **(797)** | (125) | **(527)** | 2,274 |
| Prepaid expenses and deposits | | **(3,912)** | (2,709) | **(4,733)** | (3,194) |
| Accounts payable and accrued liabilities | | **11,432** | 5,000 | **3,865** | (3,504) |
| Income support | | **163** | — | **579** | — |
| Government funding, net | | **212** | 11 | **3,405** | 2,952 |
| | | **7,098** | 2,177 | **2,589** | (1,472) |
| Interest paid on long-term debt and convertible debentures | | **(7,640)** | (4,659) | **(17,035)** | (14,070) |
| Net settlement payment on interest rate swap contracts | | **(88)** | (302) | **(358)** | (585) |
| Income taxes paid | | **(1,800)** | (2,005) | **(3,490)** | (6,305) |
| **Cash provided by operating activities** | | **30,633** | 19,525 | **35,925** | 24,200 |
| **INVESTING ACTIVITIES** | | | | | |
| Purchase of property and equipment, net of disposals | 7 | **(6,070)** | (2,823) | **(12,929)** | (3,973) |
| Purchase of intangible assets | 8 | **(637)** | (267) | **(1,431)** | (736) |
| Amounts received from construction funding | | **3,320** | 3,170 | **6,590** | 6,540 |
| Interest received from cash | | **341** | 48 | **768** | 152 |
| Acquisition of Glenmore Lodge | 4 | **(2,796)** | — | **(2,796)** | (5,699) |
| Acquisition of the Acquired Properties | 4 | **—** | — | **(297,708)** | — |
| Acquisition of Rosewood Retirement Residence | | **—** | (2,038) | **—** | (2,038) |
| Change in restricted cash | 6 | **(240)** | (278) | **(446)** | (507) |
| **Cash used in investing activities** | | **(6,082)** | (2,188) | **(307,952)** | (6,261) |
| **FINANCING ACTIVITIES** | | | | | |
| Gross proceeds from issuance of common shares | 13 | **—** | — | **184,017** | — |
| Share issuance costs | | **(725)** | — | **(8,984)** | — |
| Redemption of convertible debentures | 10 | **(12,956)** | — | **(12,956)** | — |
| Repayment of long-term debt | | **(130,208)** | (18,418) | **(189,346)** | (22,033) |
| Proceeds from long-term debt | | **184,597** | 2,600 | **373,078** | 17,100 |
| Deferred financing costs | | **(8,211)** | (28) | **(9,346)** | (809) |
| Change in Series B Debenture principal reserve fund | 6 | **(1,873)** | (1,653) | **(3,641)** | (3,345) |
| Distributions to non-controlling interest | | **—** | (91) | **—** | (183) |
| Dividends paid | 14 | **(11,903)** | (8,973) | **(22,864)** | (18,199) |
| **Cash provided by (used in) financing activities** | | **18,721** | (26,563) | **309,958** | (27,469) |
| **Increase (decrease) in cash during the period** | | **43,272** | (9,226) | **37,931** | (9,530) |
| Cash, beginning of period | | **13,424** | 26,896 | **18,765** | 27,200 |
| **Cash, end of period** | | **56,696** | 17,670 | **56,696** | 17,670 |

*See accompanying notes.*

# 1 Organization

Sienna Senior Living Inc. (the "**Company**") and its predecessors have been operating since 1972. The Company is one of Canada's leading seniors' living providers serving the continuum of independent living ("**IL**"), independent supportive living ("**ISL**"), assisted living ("**AL**"), memory care ("**MC**") and long-term care/ residential care ("**LTC**"or "**Long-term Care**"/ "**RC**" or "**Residential Care**") through the ownership and operation of seniors' living residences in the Provinces of British Columbia and Ontario. As at June 30, 2018, the Company owns and operates a total of 70 seniors' living residences: 27 retirement residences ("**RRs**" or "**Retirement Residences**"); 35 LTC residences; and eight seniors' living residences providing both private-pay IL and AL and funded RC (including the Company's joint ownership in two residences in British Columbia), previously referred to as the "**Baltic Properties**". Under its management services division, the Company provides management services to 15 seniors' living residences in British Columbia and Ontario.

The Company was incorporated under the Business Corporations Act (Ontario) on February 10, 2010 and was 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 and is traded on the Toronto Stock Exchange ("**TSX**") under the symbol "SIA".

The Company's business is carried on through its wholly owned subsidiaries in the form of 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 22), which are owned through a joint venture between the Company and each of WVJ II General Partnership and WVJ Properties (Nicola) Ltd. (each an affiliate of Pacific Seniors Management Investments Ltd.).

As at June 30, 2018 , the Company had outstanding 65,650,054 common shares (TSX symbol: SIA.DB) (formerly LW.DB).

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

## 2 Basis of preparation

These unaudited condensed interim consolidated financial statements ("**interim consolidated financial statements**") have been prepared in accordance with International Accounting Standard ("**IAS**") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**"). The interim consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The interim consolidated financial statements were approved by the Board of Directors for issuance on August 8, 2018.

## 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, 2017, except as described in the "Changes in accounting policies" section below.

### Changes in accounting policies

*IFRS 9, Financial Instruments*
IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at the time of initial recognition. The classification depends on the Company's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the requirements from IAS 39, Financial Instruments: Recognition and Measurement. The main difference is that, in cases where the fair value option is chosen for financial liabilities, the portion of fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than net income, unless this creates an accounting mismatch. The Company has adopted and applied this standard effective January 1, 2018.

Due to the adoption of IFRS 9, the Company was required to revise its impairment methodology for each of its financial assets subject to a new expected credit loss model. The Company applied the simplified approach permitted by IFRS 9, which uses a lifetime expected loss allowance for all applicable financial assets. Accounts receivable, government funding receivable and construction funding receivable are subject to the impairment requirements of IFRS 9; however, the identified impairment loss was immaterial. To measure the expected credit losses, the financial assets are grouped based on the shared credit risk characteristics and the days past due.

With respect to debt modifications going forward, IFRS 9 requires the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate to be calculated for any losses to be recognized during the period. This had no impact on transition.

*IFRS 15, Revenue from Contracts with Customers*
IFRS 15, Revenue from Contracts with Customers, requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The Company has adopted and applied this standard effective January 1, 2018. Due to the adoption of IFRS 15, the Company has disclosed in the notes to the interim consolidated financial statements the revenue earned from its Retirement business segment under IFRS 15 for services provided to retirement residents separately from revenue earned under IAS 17, Leases, for accommodations paid

by the retirement residents. There was no restatement of prior year consolidated financial statements as a result of the changes in the Company's accounting policies.

LTC/RC revenue is recognized in the period in which the services are rendered. The performance obligation of providing accommodation and care to LTC/RC residents are met through passage of time and when the bundled services are rendered. Revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur, such that funding from the applicable health authorities is recognized to the extent that the funding requirements are met. In addition, resident co-payments are recognized based on the number of resident days in the period multiplied by the per diem amounts legislated by the applicable health authorities to the extent that the amounts are deemed to be collectible.

Retirement revenue for accommodations falls under IAS 17, Leases. Retirement revenues for other services falls under IFRS 15 and are received on a monthly basis and the performance obligation of providing the other services are met over time as the services are rendered.

## Accounting standards issued but not yet applied

*IFRS 16, Leases*

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

*IFRIC 23, Uncertainty over Income Tax Treatments*

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

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

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

# 4 Acquisitions

*Portfolio of Ten Seniors' Living Residences*

On March 28, 2018, the Company completed the acquisition of a portfolio of ten seniors' living residences in Ontario (the "**Acquisition**"), consisting of private-pay ISL and AL retirement residences (the "**Acquired Properties**"). The Acquired Properties consist of 1,245 private-pay suites, and are located in the Greater Toronto Area and the Greater Ottawa Area.

The total net purchase price of $305,438 was allocated to the assets and liabilities on a preliminary basis as follows:

| | |
|---|---|
| **Assets** | |
| Accounts receivable | 287 |
| Prepaid expenses | 201 |
| Property and equipment | 273,500 |
| Intangible assets | 64,070 |
| Goodwill | 45,930 |
| Total assets | 383,988 |
| **Liabilities** | |
| Accounts payable and accrued liabilities | 1,990 |
| Long-term debt | 76,560 |
| Total liabilities | 78,550 |
| Net assets acquired | 305,438 |
| Cash consideration | 297,708 |
| Acquisition deposit | 7,730 |
| Total consideration | 305,438 |

Transaction costs expensed related to the Acquisition for the six months ended June 30, 2018 were $6,747.

As part of the Acquisition, the Company assumed existing property-level mortgages in the amount of $53,060 with a fair value of $54,560, bearing interest at a rate ranging from 3.42% to 5.80% and maturing from September 30, 2022 to June 1, 2040. The Company also assumed a non-revolving credit facility of $22,000 (Note 9).

To finance the Acquisition, the Company drew $115,000 under the Bridge Loan (Note 9), increased borrowings by $5,997 on a property-level mortgage and drew $7,000 under a non-revolving credit facility (Note 9), and completed the Acquisition Offering (Note 13).

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

*Acquisition of an additional 16% interest in Glenmore Lodge*

On May 1, 2018, the Company acquired an additional 16% interest in Glenmore Lodge, increasing the Company's interest in Glenmore Lodge from 61% to 77% ("**Step Up Acquisition of Glenmore**").

The Company has applied business combination accounting for the acquisition of the additional interest in Glenmore Lodge, which is considered to be a joint operation and the activities of Glenmore Lodge constitute a business.

The total net purchase price of $2,796 was allocated to the assets and liabilities on a preliminary basis as follows:

| | |
|---|---|
| **Assets** | |
| Accounts receivable | 57 |
| Property and equipment | 4,288 |
| Intangible assets | 1,766 |
| Goodwill | 85 |
| Total assets | 6,196 |
| **Liabilities** | |
| Long-term debt | 3,400 |
| Total liabilities | 3,400 |
| Net assets acquired | 2,796 |
| Cash consideration | 2,796 |
| Total consideration | 2,796 |

Transaction costs expensed related to the Step Up Acquisition of Glenmore for the six months ended June 30, 2018 were $77.

As part of the Step Up Acquisition of Glenmore, the Company assumed an additional 16% of the existing property-level mortgage in the amount of $3,497 with a fair value of $3,400, bearing interest at a rate of 4.68% and maturing on April 1, 2032.

If the Acquisition and Step Up Acquisition of Glenmore had taken place on January 1, 2018, it is estimated that the consolidated revenue and consolidated net income for the Company for the six months ended June 30, 2018 would have been approximately $322,713 and $4,270, respectively.

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

# 5 Financial instruments

*Fair value of financial instruments*

The Company uses a fair value hierarchy to categorize the type of valuation techniques from which fair values are derived. Financial instruments are valued using 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). The interest rate swap contracts are the only financial instruments carried at fair value through profit or loss and are considered to be Level 2 instruments.

The following financial instruments are at amortized cost and the fair value is disclosed as follows as at June 30, 2018 and December 31, 2017:

| | **As at June 30, 2018** | | As at December 31, 2017 | |
|---|---|---|---|---|
| | **Carrying value** | **Fair value** | Carrying value | Fair value |
| **Financial Assets** | | | | |
| Construction funding receivable | **61,521** | **63,756** | 64,614 | 67,925 |
| **Financial Liabilities** | | | | |
| Long-term debt | **1,053,422** | **1,046,031** | 798,608 | 799,619 |
| Convertible debentures | — | — | 44,267 | 48,515 |

*Liquidity risk*

Liquidity risk is the risk the Company may encounter difficulties in meeting its obligations associated with financial liabilities and commitments. The Company has credit agreements in place related to the long-term debt. These credit agreements contain a number of standard financial and other covenants. The Company was in compliance with all covenants on its borrowings as at June 30, 2018. A failure by the Company to comply with the obligations in these credit agreements could result in a default, which, if not rectified or waived, could permit acceleration of the relevant indebtedness.

As at June 30, 2018, the Company had negative working capital (current liabilities less current assets) of $124,213 (December 31, 2017 - $124,551). To support the Company's working capital deficiency, the Company has available cash generated from its operations and, if necessary, undrawn credit facilities. Subsequent to June 30, 2018, the Company has repaid $66,000 to these facilities, which includes the repayment on the Bridge Loan (Note 9) of $37,000.

# 6 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.

| | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| Series B Debentures principal reserve fund | **27,565** | 23,924 |
| Capital maintenance reserve | **3,908** | 3,462 |
| Benefits reserve | **589** | 589 |
| **Restricted cash** | **32,062** | 27,975 |

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

# 7 Property and equipment

| | Land | Buildings | Furniture and fixtures | Automobiles | Computer hardware | Circulating equipment | Construction -in-progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At January 1, 2018 | 109,404 | 928,703 | 36,825 | 779 | 2,498 | 1,119 | 4,488 | 1,083,816 |
| Acquisition of Acquired Properties | 20,546 | 230,194 | 22,356 | 404 | — | — | — | 273,500 |
| Acquisition of additional 16% interest in Glenmore | 459 | 3,434 | 395 | — | — | — | — | 4,288 |
| Additions[1] | 2,472 | 2,161 | 908 | 5 | 1,536 | (9) | 3,673 | 10,746 |
| At June 30, 2018 | 132,881 | 1,164,492 | 60,484 | 1,188 | 4,034 | 1,110 | 8,161 | 1,372,350 |
| | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | |
| At June 30, 2018 | — | 176,429 | 17,545 | 494 | 1,202 | — | — | 195,670 |
| | | | | | | | | |
| **Net book value at June 30, 2018** | **132,881** | **988,063** | **42,939** | **694** | **2,832** | **1,110** | **8,161** | **1,176,680** |

[1] Additions to construction-in-progress are net of construction funding from the health authority of $2,183

# 8 Intangible assets

| | Licences | Resident relationships | Service contracts | Computer software | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At January 1, 2018 | 189,282 | 103,399 | 10,968 | 8,404 | 312,053 |
| Acquisition of Acquired Properties | — | 64,070 | — | — | 64,070 |
| Acquisition of additional 16% interest in Glenmore | 1,663 | 103 | — | — | 1,766 |
| Additions | — | — | — | 1,431 | 1,431 |
| At June 30, 2018 | 190,945 | 167,572 | 10,968 | 9,835 | 379,320 |
| | | | | | |
| **Accumulated amortization** | | | | | |
| At June 30, 2018 | — | 83,764 | 9,620 | 2,761 | 96,145 |
| | | | | | |
| **Net book value at June 30, 2018** | **190,945** | **83,808** | **1,348** | **7,074** | **283,175** |

# 9 Long-term debt

| | Interest rate | Maturity date | June 30, 2018 | December 31, 2017 |
|---|---|---|---|---|
| Series B Debentures | 3.474% | February 3, 2021 | **322,000** | 322,000 |
| Credit facilities and loans | Floating | 2019-2020 | **142,500** | 68,500 |
| Mortgages at fixed rates | 2.77% - 7.11% | 2018-2041 | **413,063** | 305,896 |
| Mortgages at variable rates | Floating | 2019-2029 | **184,225** | 103,103 |
| | | | **1,061,788** | 799,499 |
| Mark-to-market adjustments on acquisitions | | | **4,589** | 3,638 |
| Financing costs | | | **(12,955)** | (4,529) |
| Total debt | | | **1,053,422** | 798,608 |
| Less: current portion | | | **117,219** | 47,185 |
| | | | **936,203** | 751,423 |

### *Credit facilities*

On March 28, 2018, the Company entered into a credit agreement with a Canadian lender for an acquisition term loan facility of $115,000 due one year from the closing of the Acquisition (the "**Bridge**

**Loan**"). Borrowings under the Bridge Loan were available by way of banker's acceptance ("**BA**") at the BA rate plus 200 basis points ("**bps**") and loans at an interest rate of prime plus a margin. The Bridge Loan was secured by a pool of properties, and was subject to certain customary financial and non-financial covenants. Subsequent to June 30, 2018, the Bridge Loan was fully repaid.

On March 28, 2018, the Company entered into a credit agreement with a Canadian lender for a non-revolving facility of $29,000, of which $22,000 was assumed on the Acquisition and $7,000 represented an increase in the facility. This facility is due on March 27, 2020 and is available by way of BA at the BA rate plus 175 bps or loans at an interest rate of prime plus 50 bps per annum. This loan is secured by the assets of one of the Acquired Properties.

*Mortgages assumed from acquisition*

As part of the Acquisition, the Company assumed existing property-level mortgages in the aggregate amount of $75,060 with a fair value of $76,560, bearing interest at rates ranging from 3.42% to 5.80% and maturing from September 30, 2022 to June 1, 2040. The Company also increased availability by $5,997 on an assumed property-level mortgage, available by way of BA at the BA rate plus 150 bps or loans at an interest rate of prime plus 25 bps per annum, which has been fixed at an interest rate of 3.62% through an interest rate swap, maturing on February 10, 2025. The mortgages are secured by the Acquired Properties, and are subject to certain customary financial and non-financial covenants.

## 10 Convertible debentures

As at May 23, 2018 (the "**Redemption Date**"), the Company has redeemed all of its outstanding convertible unsecured subordinated debentures ("**Convertible Debentures**") due on June 30, 2018. The Convertible Debentures have been redeemed at a redemption price equal to $1,000 per $1,000 principal amount of Convertible Debentures plus $18.22, representing accrued and unpaid interest up to but excluding the Redemption Date, for a total redemption amount of $1,018.22 per $1,000 principal amount of Convertible Debentures.

On issuance, the debt and equity components of the Convertible Debentures were bifurcated with $45,593 classified as a liability and $515 classified as equity attributable to the conversion option. The equity component included a deferred tax asset of $108. The liability portion of the Convertible Debentures was initially recorded at fair value and subsequently carried at amortized cost. The Company incurred financing costs of $2,111 related to the Convertible Debentures, which were amortized over their term using the effective interest method and are recognized as part of net finance charges. During the six months ended June 30, 2018, $31,553 (December 31, 2017 - $574) of Convertible Debentures were converted into 1,883,755 (December 31, 2017 - 34,270) common shares (at $16.75 per common share), and on the Redemption Date, $12,956 of Convertible Debentures were redeemed in cash by the Company.

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

# 11 Net finance charges

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Finance costs** | | | | |
| Interest expense on long-term debt | **8,803** | 6,253 | **16,141** | 12,754 |
| Interest expense on convertible debentures | **313** | 543 | **844** | 1,080 |
| Fees on revolving credit facilities | **92** | 84 | **124** | 115 |
| Amortization of financing charges and fair value adjustments on acquired debt | **407** | 97 | **667** | 360 |
| Amortization of loss on bond forward contract | **228** | 220 | **451** | 435 |
| Fair value loss (gain) on interest rate swap contracts | **249** | (787) | **(585)** | (721) |
| | **10,092** | 6,410 | **17,642** | 14,023 |
| **Finance income** | | | | |
| Interest income on construction funding receivable | **655** | 690 | **1,312** | 1,551 |
| Other interest income | **341** | 48 | **768** | 234 |
| | **996** | 738 | **2,080** | 1,785 |
| **Net finance charges** | **9,096** | 5,672 | **15,562** | 12,238 |

# 12 Income taxes

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Income before provision for income taxes** | **4,726** | 9,097 | **6,142** | 15,405 |
| Canadian combined income tax rate | **26.46%** | 26.46% | **26.46%** | 26.46% |
| Income tax expense | **1,250** | 2,407 | **1,625** | 4,076 |
| Adjustments to income tax provision: | | | | |
| Non-deductible items | **(112)** | 44 | **(8)** | 93 |
| Book to filing adjustment | **36** | 6 | **186** | 6 |
| Other items | **4** | (86) | **(242)** | (175) |
| **Provision for income taxes** | **1,178** | 2,371 | **1,561** | 4,000 |

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

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

| | Depreciable tangible and intangible assets | Share issuance | Construction funding interest | Other | Total |
|---|---|---|---|---|---|
| As at January 1, 2017 | (67,738) | 1,507 | 3,839 | 1,536 | (60,856) |
| Due to acquisitions during the year | 28 | — | — | 91 | 119 |
| Credit (charge) to net income | 623 | (185) | (772) | (591) | (925) |
| Book to filing adjustment | 592 | (51) | — | 907 | 1,448 |
| Charge to other comprehensive income | — | — | — | (234) | (234) |
| Credit to equity | — | 786 | — | — | 786 |
| As at December 31, 2017 | (66,495) | 2,057 | 3,067 | 1,709 | (59,662) |
| Due to acquisitions in the period | — | — | — | 397 | 397 |
| Credit (charge) to net income | 3,359 | 77 | (337) | (609) | 2,490 |
| Book to filing adjustment | — | — | — | (208) | (208) |
| Charge to other comprehensive income | — | — | — | (119) | (119) |
| Charge to equity | — | 1,682 | — | (108) | 1,574 |
| **As at June 30, 2018** | **(63,136)** | **3,816** | **2,730** | **1,062** | **(55,528)** |

The loss on bond forward contracts on the consolidated statements of comprehensive income is net of tax for the three and six months ended June 30, 2018 of $60 and $119, respectively (2017 - $58 and 115, respectively).

## 13 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, 2017 | 46,101,757 | 522,766 |
| Long-term incentive plan, net of loans receivable | 12,026 | 44 |
| Share-based compensation | — | 23 |
| Dividend reinvestment plan | 307,903 | 5,276 |
| Issued common shares, net of issuance costs | 6,632,956 | 111,252 |
| Balance, December 31, 2017 | 53,054,642 | 639,361 |
| Long-term incentive plan, net of loans receivable (Note 15) | 13,712 | 31 |
| Share-based compensation (Note 15) | — | 12 |
| Dividend reinvestment plan | 255,036 | 4,331 |
| Issued common shares, net of share issuance costs (Notes 10 and 15) | 12,326,664 | 209,080 |
| **Balance, June 30, 2018** | **65,650,054** | **852,815** |

On February 9, 2018, the Company completed an offering of 9,066,000 common shares at a price of $17.65 per common share, on a bought deal basis, for gross proceeds of $160,015. On February 22, 2018, the syndicate of underwriters elected, pursuant to the terms of the underwriting agreement in respect of the offering, to exercise its over-allotment option in full, resulting in the issuance of an additional 1,359,900 common shares for additional gross proceeds of $24,002. The aggregate gross proceeds raised pursuant to the offering, including upon the exercise of the over-allotment option, was $184,017 (the "**Acquisition Offering**").

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

*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.

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Reconciliation of net income used as the numerator** | | | | |
| Net income | **3,548** | 6,726 | **4,581** | 11,405 |
| Less: Net income attributable to non-controlling interest | **—** | 85 | **—** | 188 |
| Net income used in calculating basic income per share | **3,548** | 6,641 | **4,581** | 11,217 |
| Net finance charges on Convertible Debentures | **412** | 624 | **1,043** | 1,281 |
| Current income tax adjustment | **(109)** | (165) | **(276)** | (339) |
| Net income used in calculating diluted income per share | **3,851** | 7,100 | **5,348** | 12,159 |
| **Weighted average number of common shares used as the denominator** | | | | |
| Weighted average number of common shares - basic | **64,529,917** | 46,237,594 | **61,695,281** | 46,189,745 |
| Shares issued if all Convertible Debentures were converted | **1,485,342** | 2,688,222 | **2,067,434** | 2,689,864 |
| Weighted average number of common shares - diluted[1] | **66,015,259** | 48,925,816 | **63,762,715** | 48,879,609 |

[1]The weighted average number of diluted common shares calculation accounts for the Convertible Debentures that converted to common shares as of the Redemption Date.

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

## 14 Dividends

The Company paid dividends at $0.075 per month per common share totaling $11,903 for the three months ended and $22,864 for the six months ended June 30, 2018 (2017 - $8,973 and 18,199, respectively). Dividends payable of $4,927 are included in accounts payable and accrued liabilities as at June 30, 2018 (December 31, 2017 - $3,979). Subsequent to June 30, 2018, the Board of Directors declared dividends of $0.075 per common share for July 2018 totaling $4,929.

## 15 Share-based compensation

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

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

On February 15, 2018, incentive award amounts entitling eligible senior executives ("**Participants**") to acquire 13,712 common shares were granted in connection with the year ended December 31, 2017, pursuant to the LTIP. On the grant date, the Company provided a loan to the Participants for the LTIP shares granted and the Participants paid $12 towards the acquisition of common shares. This payment was recorded as an increase to share capital. Related to the LTIP in the six months ended June 30, 2018, the Company recorded an increase of $31 to share capital (2017 - $27) and $46 to contributed surplus (2017 - $36). As at June 30, 2018, the outstanding loan balance was $979 (December 31, 2017 - $772). Total expense related to the LTIP for the three and six months ended June 30, 2018 was $nil and $46, respectively (2017 - $2 and $36, respectively).

The Board of Directors has determined that no further grants will be awarded or issued under the LTIP and the LTIP was terminated effective January 1, 2018.

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, 2018** | February 15, 2017 |
|---|---|---|
| Fair value at grant date | **$17.36** | $17.75 |
| Volatility | **17.96%** | 16.55% |
| Monthly discrete dividend | **$0.075** | $0.075 |
| Risk-free rate | **2.72%** | 2.00% |
| Annual interest rate on Participants' loan | **3.00%** | 2.70% |
| Forfeiture rate | **0.00%** | 0.00% |

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

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

During the six months ended June 30, 2018, 23,508 RSUs (2017 - 2,382) were granted pursuant to the RSUP. Total expenses related to the RSUP for the three and six months ended June 30, 2018 were $47 and $98, respectively (2017 - $66 and $159, respectively), including mark-to-market adjustments and net of forfeitures, which were recognized in administrative expenses. During the six months ended June 30, 2018, 17,009 RSUs vested and 8,787 were settled in shares, resulting in a decrease of $297 to the share-based compensation liability. The total liability recorded as part of the share-based compensation liability as at June 30, 2018 was $313 (December 31, 2017 - $512).

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

| | Number of RSUs |
|---|---|
| Outstanding, January 1, 2017 | 41,445 |
| Granted | 2,382 |
| Dividends reinvested | 1,984 |
| Settled in shares | (8,075) |
| Outstanding, December 31, 2017 | 37,736 |
| Granted | 23,508 |
| Dividends reinvested | 1,090 |
| Settled in cash | (8,222) |
| Settled in shares | (8,787) |
| Outstanding, June 30, 2018 | 45,325 |

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

Total expenses (recoveries) related to the DSUP for the three and six months ended June 30, 2018 were $(145) and $(45), respectively (2017 - $328 and $728, respectively), including mark-to-market adjustments, which were recognized in administrative expenses. During the three and six months ended June 30, 2018, $800 of DSUs were redeemed in cash. The total liability recorded related to the DSUP as a part of the share-based compensation liability as at June 30, 2018 was $4,080 (December 31, 2017 - $4,925). The value of each deferred share unit is measured at each reporting date and is equivalent to the fair value of a common share of the Company at the reporting date.

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

During the six months ended June 30, 2018, 33,481 (2017 - 44,924) executive deferred share units were granted. Total expenses related to the EDSUP for the three and six months ended June 30, 2018 were $(30) and $50, respectively (2017 - $151 and $274, respectively), including mark-to-market adjustments, which were recognized in administrative expenses. The total liability recorded related to the EDSUP as a part of the share-based compensation liability as at June 30, 2018 was $2,046 (December 31, 2017 - $1,749).

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

## 16 Key management compensation

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Salaries and short-term employee benefits | **1,103** | 851 | **2,013** | 1,624 |
| Share-based compensation | **(128)** | 547 | **149** | 1,197 |
| | **975** | 1,398 | **2,162** | 2,821 |

## 17 Related party transactions

As at June 30, 2018, the Company had amounts outstanding from certain key management of $1,367 (December 31, 2017 - $1,171) in relation to grants under the LTIP and related share purchase loans, which have been recorded as a reduction to shareholders' equity. The LTIP's terms provide for the loans to bear interest at the Canadian prime rate prevailing at the Company's bank at the time of grant. The underlying common shares have been pledged as security against the respective loans.

## 18 Economic dependence

The Company holds licences related to each of its LTC/RC residences and receives funding from the applicable health authorities related to those licences. During the three and six months ended June 30, 2018, the Company received approximately $85,872 and $173,133, respectively (2017 - $84,643 and $168,678, respectively) in respect of these licences.

## 19 Expenses by category

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Salaries, benefits and other people costs | **94,525** | 85,341 | **183,307** | 168,066 |
| Depreciation and amortization | **19,369** | 8,998 | **32,366** | 17,792 |
| Food | **7,277** | 5,960 | **13,819** | 11,675 |
| Purchased services and non-medical supplies | **5,530** | 4,492 | **9,065** | 8,938 |
| Property taxes | **3,901** | 3,073 | **7,174** | 6,506 |
| Utilities | **3,794** | 3,293 | **8,128** | 7,749 |
| Other | **12,436** | 10,906 | **23,573** | 21,911 |
| **Total expenses** | **146,832** | 122,063 | **277,432** | 242,637 |

## 20 Segmented information

Segmented information is presented in respect of the Company’s business segments. The business segments are 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:

- Retirement - The Company’s Retirement segment consists of 27 RRs, five of which are located in the Province of British Columbia and 22 of which are located in the Province of Ontario, and the RR management services business;
- LTC/RC - The Company’s LTC/RC segment consists of 35 LTC residences in the Province of Ontario, eight seniors' living residences located in the Province of British Columbia, and the LTC management services business; and
- Corporate, Eliminations and Other - This segment represents the results of head office, intercompany eliminations and other items that are not allocable to the segments.

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

| | Three months ended June 30, 2018 | | | |
|---|---|---|---|---|
| | **Retirement[1]** | **LTC/RC** | **Corporate, Eliminations and Other** | **Total** |
| Gross revenue | **38,259** | **127,764** | **15,334** | **181,357** |
| Less: Internal revenue | **—** | **3,899** | **15,334** | **19,233** |
| Net revenue | **38,259** | **123,865** | **—** | **162,124** |
| Income (loss) before net finance charges, transaction costs and the provision for income taxes | **4,066** | **16,560** | **(5,334)** | **15,292** |
| Finance costs | **3,575** | **5,366** | **1,151** | **10,092** |
| Finance income | **—** | **(922)** | **(74)** | **(996)** |
| Transaction costs | **—** | **—** | **1,470** | **1,470** |
| Income tax expense | **—** | **—** | **1,178** | **1,178** |
| Net income (loss) | **491** | **12,116** | **(9,059)** | **3,548** |
| Purchase of property and equipment, net of disposals | **2,411** | **5,102** | **662** | **8,175** |
| Purchase of intangible assets | **—** | **1,766** | **637** | **2,403** |

[1] For the three months ended June 30, 2018, the Retirement segment recognized accommodation revenues of $16,657 and service revenues of $21,602.

| | Three months ended June 30, 2017 | | | |
|---|---|---|---|---|
| | Retirement[1] | LTC/RC | Corporate, Eliminations and Other | Total |
| Gross revenue | 16,666 | 124,518 | 10,638 | 151,822 |
| Less: Internal revenue | — | 3,657 | 10,638 | 14,295 |
| Net revenue | 16,666 | 120,861 | — | 137,527 |
| Income (loss) before net finance charges, transaction costs and the provision for income taxes | 4,882 | 16,208 | (5,626) | 15,464 |
| Finance costs | 1,038 | 1,382 | 3,990 | 6,410 |
| Finance income | — | (779) | 41 | (738) |
| Transaction costs | — | — | 695 | 695 |
| Income tax expense | — | — | 2,371 | 2,371 |
| Net income (loss) | 3,844 | 15,605 | (12,723) | 6,726 |
| Purchase of property and equipment, net of disposals | 8,935 | 2,174 | 163 | 11,272 |
| Purchase of intangible assets | 1,333 | 2 | 265 | 1,600 |

[1] For the three months ended June 30, 2017, the Retirement segment recognized accommodation revenues of $7,353 and service revenues of $9,313.

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

| | **Six months ended June 30, 2018** | | | |
|---|---|---|---|---|
| | **Retirement[1]** | **LTC/RC** | **Corporate, Eliminations and Other** | **Total** |
| Gross revenue | **62,166** | **253,043** | **29,295** | **344,504** |
| Less: Internal revenue | **—** | **7,728** | **29,295** | **37,023** |
| Net revenue | **62,166** | **245,315** | **—** | **307,481** |
| Income (loss) before net finance charges, transaction costs and the provision for income taxes | **8,120** | **32,512** | **(10,583)** | **30,049** |
| Finance costs | **4,837** | **10,627** | **2,178** | **17,642** |
| Finance income | **—** | **(1,709)** | **(371)** | **(2,080)** |
| Transaction costs | **—** | **—** | **8,345** | **8,345** |
| Income tax expense | **—** | **—** | **1,561** | **1,561** |
| Net income (loss) | **3,283** | **23,594** | **(22,296)** | **4,581** |
| Purchase of property and equipment, net of disposals | **277,653** | **9,368** | **1,513** | **288,534** |
| Purchase of intangible assets | **64,070** | **1,766** | **1,431** | **67,267** |

[1] For the six months ended June 30, 2018, the Retirement segment recognized accommodation revenues of $27,387 and service revenues of $34,779.

| | Six months ended June 30, 2017 | | | |
|---|---|---|---|---|
| | Retirement[1] | LTC/RC | Corporate, Eliminations and Other | Total |
| Gross revenue | 32,663 | 246,104 | 21,253 | 300,020 |
| Less: Internal revenue | — | 7,274 | 21,253 | 28,527 |
| Net revenue | 32,663 | 238,830 | — | 271,493 |
| Income (loss) before net finance charges, transaction costs and the provision for income taxes | 9,464 | 30,859 | (11,467) | 28,856 |
| Finance costs | 2,526 | 3,783 | 7,714 | 14,023 |
| Finance income | — | (1,782) | (3) | (1,785) |
| Transaction costs | — | — | 1,213 | 1,213 |
| Income tax expense | — | — | 4,000 | 4,000 |
| Net income (loss) | 6,938 | 28,858 | (24,391) | 11,405 |
| Purchase of property and equipment, net of disposals | 9,434 | 19,385 | 193 | 29,012 |
| Purchase of intangible assets, net of disposals | 1,333 | 3,283 | 733 | 5,349 |

[1] For the six months ended June 30, 2017, the Retirement segment recognized accommodation revenues of $14,654 and service revenues of $18,009.

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

| | **As at June 30, 2018** | | | |
|---|---|---|---|---|
| | **Retirement** | **LTC/RC** | **Corporate, Eliminations and Other** | **Total** |
| Total assets | **849,024** | **901,584** | **50,344** | **1,800,952** |
| Goodwill | **62,305** | **105,361** | **—** | **167,666** |
| Intangible assets | **82,878** | **193,238** | **7,059** | **283,175** |

| | As at December 31, 2017 | | | |
|---|---|---|---|---|
| | Retirement | LTC/RC | Corporate, Eliminations and Other | Total |
| Total assets | 473,057 | 898,123 | 23,678 | 1,394,858 |
| Goodwill | 16,375 | 105,276 | — | 121,651 |
| Intangible assets | 31,153 | 192,392 | 6,265 | 229,810 |

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

## 21 Non-controlling interest

Non-controlling interest represents the 50% interest in Pacific Seniors Management ("**PSM**") that was not held by the Company during the year ended December 31, 2017. The movement in non-controlling interest is shown in the consolidated statement of changes in equity. On December 31, 2017, the Company acquired the remaining 50% interest in PSM for $2,227.

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

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Net income and total comprehensive income from PSM | — | 170 | — | 376 |
| Non-controlling interest share of ownership | —% | 50% | —% | 50% |
| **Net income and total comprehensive income attributable to non-controlling interest** | — | 85 | — | 188 |

## 22 Joint arrangements

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

| | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| Current assets | **3,190** | 3,129 |
| Long-term assets | **105,624** | 105,972 |
| **Total assets** | **108,814** | 109,101 |
| | | |
| Current liabilities | **3,656** | 3,608 |
| Long-term liabilities | **66,657** | 67,513 |
| **Total liabilities** | **70,313** | 71,121 |
| | | |
| Net assets | **38,501** | 37,980 |
| **Share of net assets** | **19,714** | 17,324 |

As at June 30, 2018, the Company's share of net assets in Nicola Lodge and Glenmore Lodge were $10,769 and $8,945 (December 31, 2017 - $11,119 and $6,205), respectively.

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Revenue** | **7,138** | 6,950 | **14,180** | 12,031 |
| **Expenses** | | | | |
| Operating | **4,763** | 4,625 | **9,606** | 8,106 |
| Depreciation and amortization | **1,004** | 700 | **1,629** | 1,295 |
| | **5,767** | 5,325 | **11,235** | 9,401 |
| **Income before net finance charges** | **1,371** | 1,625 | **2,945** | 2,630 |
| **Net finance charges** | **746** | 869 | **1,491** | 1,466 |
| **Net income** | **625** | 756 | **1,454** | 1,164 |
| **Share of net income** | **331** | 391 | **719** | 541 |

For the three months ended June 30, 2018, the Company's share of net income in Nicola Lodge and Glenmore Lodge were $166 and $165 (2017 - $134 and $257), respectively.

For the six months ended June 30, 2018, the Company's share of net income in Nicola Lodge and Glenmore Lodge were $388 and $331 (2017 - $321 and $220), respectively.

## 23 Comparative figures

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

## 24 Subsequent event

The Board of Directors has approved an increase in Sienna’s monthly dividend from $0.075 per share to $0.0765 per share ($0.918 per share annualized). The increase will commence on September 14, 2018, payable to shareholders of record on August 31, 2018.