Consolidated Financial Statements

(in thousands of Canadian Dollars)

2016

Sienna Senior Living Inc.

Sienna SENIOR LIVING

Consolidated Financial Statements

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Management’s Responsibility for Financial Reporting

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

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

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

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

"Lois Cormack"

Lois Cormack
President and Chief Executive Officer

"Nitin Jain"

Nitin Jain
Executive Vice President and Chief Financial Officer

Markham, Canada
February 16, 2017

February 16, 2017

Independent Auditor's Report

To the Shareholders of Sienna Senior Living Inc.

We have audited the accompanying consolidated financial statements of Sienna Senior Living Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of changes in shareholders' equity, operations, comprehensive income and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sienna Senior Living Inc. and its subsidiaries as at December 31, 2016 and December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

	Notes	**December 31, 2016**	December 31, 2015
ASSETS			
Current assets			
Cash		**27,200**	26,345
Accounts receivable and other assets	6, 24	**8,380**	7,227
Income support	4	**—**	550
Prepaid expenses and deposits		**1,693**	1,664
Government funding receivable		**3,221**	3,124
Construction funding receivable	6, 22	**10,138**	9,680
		50,632	48,590
Government funding receivable		**1,030**	1,570
Interest rate swap contract	6	**1,172**	1,393
Restricted cash	8	**20,375**	12,793
Construction funding receivable	6, 22	**64,637**	74,886
Property and equipment	9	**756,986**	588,332
Intangible assets	10	**202,160**	125,101
Goodwill	11	**107,226**	98,804
Total assets		**1,204,218**	951,469
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	17	**73,752**	62,195
Government funding payable		**1,917**	2,720
Current portion of long-term debt	6, 12	**93,196**	18,838
Income taxes payable		**3,400**	2,484
Interest rate swap contract	6	**810**	233
		173,075	86,470
Long-term debt	6, 12	**614,027**	576,173
Convertible debentures	6, 13	**44,352**	44,782
Deferred income taxes	15	**60,856**	59,973
Government funding payable		**1,816**	1,475
Share-based compensation liability	18	**5,078**	3,685
Obligation to purchase interest in PSM	29	**2,100**	—
Interest rate swap contract	6	**2,707**	2,032
Total liabilities		**904,011**	774,590
EQUITY			
Shareholders' equity		**300,176**	176,879
Non-controlling interest	29	**31**	—
Total equity		**300,207**	176,879
Total liabilities and equity		**1,204,218**	951,469
Commitments and contingencies	21		

See accompanying notes.

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

"Dino Chiesa"
Dino Chiesa
Chairman and Director

"Janet Graham"
Janet Graham
Director

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

	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, 2015		372,373	515	59	(169,713)	(4,055)	199,179	—	199,179
Issuance of shares	16	2,544	—	—	—	—	2,544	—	2,544
Net income		—	—	—	7,237	—	7,237	—	7,237
Other comprehensive income		—	—	—	—	603	603	—	603
Long-term incentive plan	16, 18	28	—	30	—	—	58	—	58
Share purchase loan	16	22	—	—	—	—	22	—	22
Dividends	17	—	—	—	(32,764)	—	(32,764)	—	(32,764)
Balance, December 31, 2015		374,967	515	89	(195,240)	(3,452)	176,879	—	176,879

See accompanying notes.

	Notes	Year ended December 31, 2016	2015
Revenue	25	**497,887**	452,621
Expenses			
Operating		**400,447**	369,257
Administrative		**18,022**	18,233
	26	**418,469**	387,490
Income from continuing operations before depreciation and amortization, net finance charges, transaction costs and provision for (recovery of) income taxes		**79,418**	65,131
Depreciation and amortization		**39,646**	34,588
Net finance charges	14	**26,240**	21,102
Transaction costs		**8,007**	922
Total other expenses		**73,893**	56,612
Income from continuing operations before provision for (recovery of) income taxes		**5,525**	8,519
Provision for (recovery of) income taxes from continuing operations			
Current		**4,572**	1,719
Deferred		**(1,984)**	1,064
	15	**2,588**	2,783
Net income from continuing operations		**2,937**	5,736
Net income from discontinued operations, net of taxes	5	**8,546**	1,501
Net income		**11,483**	7,237
Net income attributable to:			
Shareholders of the Company		**11,307**	7,237
Non-controlling interest	29	**176**	—
		11,483	7,237
Net income attributable to shareholders of the Company			
Basic and diluted net income from continuing operations per share	16	**$0.07**	$0.16
Basic net income from discontinued operations per share	16	**$0.21**	$0.04
Diluted net income from discontinued operations per share	16	**$0.20**	$0.04
Weighted average number of common shares outstanding - basic	16	**40,498,775**	36,398,297
Weighted average number of common shares outstanding - diluted	16	**43,218,219**	39,144,566

See accompanying notes.

	Notes	Year ended December 31, 2016	2015
Net income		**11,483**	7,237
Other comprehensive income			
Items that may be subsequently reclassified to the consolidated statements of operations:			
Loss on bond forward contracts, net of tax	15	627	603
Total comprehensive income		**12,110**	7,840

See accompanying notes.

	Notes	Year ended December 31, 2016	2015
OPERATING ACTIVITIES			
Net income		**11,483**	7,237
Add (deduct) items not affecting cash			
Depreciation of property and equipment		**28,335**	24,219
Amortization of intangible assets		**11,311**	10,369
Current income taxes		**4,572**	1,719
Deferred income taxes		**(1,984)**	1,064
Share-based compensation	18	**1,240**	1,175
Net finance charges	14	**26,240**	21,102
		81,197	66,885
Non-cash changes in working capital			
Accounts receivable and other assets		**335**	(1,709)
Prepaid expenses and deposits		**(2,332)**	(208)
Accounts payable and accrued liabilities		**6,410**	3,910
Income support		**600**	228
Government funding, net		**(1)**	1,618
		5,012	3,839
Interest paid on long-term debt and convertible debentures		**(25,320)**	(23,535)
Net settlement payment on interest rate swap contracts		**(428)**	(321)
Income taxes (paid) refunded		**(5,400)**	1,807
Cash used in operating activities of discontinued operations	5	**(8,182)**	(442)
Cash provided by operating activities		**46,879**	48,233
INVESTING ACTIVITIES			
Purchase of property and equipment	9	**(5,654)**	(5,734)
Purchase of intangible assets	10	**(2,612)**	(2,608)
Amounts received from construction funding	22	**13,080**	13,080
Interest received from cash		**234**	155
Acquisition of Traditions of Durham property		—	(14,151)
Acquisition of the BC Portfolio	4	**(103,570)**	—
Acquisition of Nicola Lodge	4	**(9,242)**	—
Change in restricted cash	8	**(1,191)**	(870)
Cash provided by discontinued operations	5	**16,409**	—
Cash used in investing activities		**(92,546)**	(10,128)
FINANCING ACTIVITIES			
Net proceeds from issuance of common shares and Subscription Receipts	16	**132,777**	—
Dividend equivalents paid on Subscription Receipts		**(1,964)**	—
Interest received from Subscription Receipts funds		**155**	
Share issuance costs		**(21)**	(27)
Repayment of long-term debt		**(75,672)**	(24,052)
Proceeds from long-term debt		**31,500**	20,000
Deferred financing costs		**(930)**	(390)
Change in Series B Debentures principal reserve fund	8	**(6,391)**	(5,974)
Distributions to non-controlling interest		**(145)**	—
Dividends paid	17	**(32,787)**	(30,350)
Cash provided by (used in) financing activities		**46,522**	(40,793)
Increase (decrease) in cash during the period		**855**	(2,688)
Cash, beginning of period		**26,345**	29,033
Cash, end of period		**27,200**	26,345

See accompanying notes.

1 Organization

Sienna Senior Living Inc. was incorporated as "Leisureworld Senior Care Corporation" under the Business Corporations Act (Ontario) on February 10, 2010, and subsequently continued under the Business Corporations Act (British Columbia) on March 18, 2010. The Company closed the initial public offering of its common shares on March 23, 2010. Effective May 1, 2015, the Company changed its name to Sienna Senior Living Inc. pursuant to a Notice of Alteration filed with the British Columbia Registry Services on April 23, 2015, as further described below. The Company and its predecessors have been operating since 1972. The Company's business is carried on through a number of wholly-owned limited partnerships formed under the laws of the Province of Ontario.

The Company is listed on the Toronto Stock Exchange (the **"TSX"**) under the trading symbol **SIA** (formerly LW). As at December 31, 2016, the following securities of the Company were outstanding: 46,101,757 common shares; $45,083 in aggregate principal amount of convertible unsecured subordinated debentures (TSX symbol: **SIA.DB**) (formerly LW.DB) which, in aggregate, are convertible into 2,691,523 common shares.

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

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 (referred to collectively as **"LTC"**) through the operation of its 35 LTC homes (representing 5,733 beds), 13 retirement residences (**"RR"**) (representing 1,429 suites), six seniors living residences providing both private-pay and funded residential care ("**Baltic Properties**"), the Company's current 40% interest in Nicola Lodge ("**Nicola Lodge**") (together with the Baltic Properties, representing 1,017 beds), and the Company's current 50% interest in Pacific Seniors Management General Partnership ("**PSM**"), the manager and operator of the Baltic Properties and Nicola Lodge. The Baltic Properties, Nicola Lodge and PSM are referred to collectively as "**Baltic**".

On April 28, 2016, the Company completed the sale of its Preferred Health Care Services (**"PHCS"**), its ancillary home care business of the Company (**"Home Care"**).

2 Basis of preparation

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

The consolidated financial statements were approved by the Board of Directors for issuance on February 16, 2017.

3 Summary of significant accounting policies, judgments and estimation uncertainty

Basis of measurement

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

Basis of preparation

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

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

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

Basis of consolidation and business combinations

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

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

Subsidiaries are 100% owned and controlled by the Company, with the exception of PSM which is only 50% owned by the Company but is controlled by the Company. Subsidiaries are consolidated in these consolidated financial statements from the date of acquisition where control is transferred to the Company and continue to be consolidated until the date when the Company no longer controls the subsidiary. Non-controlling interest represents the 50% interest in PSM that is not held by the Company.

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

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

Revenue recognition

Revenue includes amounts earned from the operation of LTC homes, retirement residences and the independent living facility, PHCS, and management fees associated with the operation of managed LTC and retirement homes. A significant portion of the LTC homes' revenue is earned from funding authorities.

Long-term care revenue

Ontario's LTC sector is regulated by the Ministry of Health and Long-Term Care (**"MOHLTC"**), which provides funding to LTC homes for care. Operational funding is received monthly and is recognized to the extent that an eligible expense has been incurred. Funding that is not spent in accordance with the MOHLTC guidelines in the current year is recorded as government funding payable. The exception to this is the Other Accommodation funding, which is recognized on a monthly basis as the services are rendered. Approximately 68% (2015 - 68%) of revenue from the Company's LTC homes is received from the MOHLTC, which primarily relates to flow-through envelopes. The Company also receives funding for structural compliance premiums, capital cost, accreditation and pay equity obligations, and reimbursement for up to 85% of property tax costs.

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

Baltic revenue

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

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

Retirement residence and independent living residence revenue

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

PHCS revenue

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

Management services revenue

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

Spencer House Inc. revenue

Spencer House Inc. is a charitable organization that owns a licence to operate a LTC home in Orillia, Ontario. A subsidiary of the Company owns the land, building and equipment used by the home and has been contracted to manage the operations of Spencer House Inc. The Company earns rental income from leasing the land, building and equipment to Spencer House Inc. as well as a management fee based on a percentage of gross revenues of the operation for managing the home. Rental revenue is recognized on a straight-line basis, and management fee revenue is recognized when the services are rendered.

Construction funding receivable

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

Property and equipment

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

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

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

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

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

Intangible assets

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

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

Goodwill

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

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

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

Impairment of non-financial assets

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

Financial instruments

In accordance with International Accounting Standard (**"IAS"**) 39 – Financial Instruments – Recognition and Measurement ("IAS 39"), financial assets and financial liabilities are initially recognized on the date they are originated at fair value, and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company’s designation of such instruments.

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

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

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

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

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

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

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

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

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

Accounts payable and accrued liabilities

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

Government funding receivable/payable

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

Long-term debt

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

Convertible debentures

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

Obligation to purchase interest in PSM

Obligation to purchase interest in PSM is classified as other financial liabilities. Obligation to purchase interest in PSM is initially recorded at fair value and subsequently measured at amortized cost.

Derivatives for which hedge accounting has not been applied

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

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

Impairment of financial assets

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

Transaction costs

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

amortized into interest expense using the effective interest method over the life of the related debt instrument. Transaction costs directly attributable to the issuance of shares are recognized as a reduction of share capital.

Interest bearing debt obligations

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

Operating lease payments

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

Share capital

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

Dividends

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

Earnings per share

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

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

Share-based compensation

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

Employee benefits

Short-term benefits

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

Long-term benefits

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

Income taxes

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

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

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

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

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

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

Segmented reporting

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

Accounting standards issued but not yet applied

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of International Accounting Standard ("**IAS**") 39, Financial Instruments: Recognition and Measurement, that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at the time of initial recognition. The classification depends on the Company's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main difference is that, in cases where the fair value option is chosen for financial

liabilities, the portion of fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than net income, unless this creates an accounting mismatch. In July 2014, IFRS 9 was amended to establish a mandatory effective date of January 1, 2018 with early adoption permitted. The Company has not adopted this standard, and expects to report more detailed information, including estimated quantitative financial effects in our 2017 consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued the new revenue standard that requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. In September 2015, the IASB deferred the effective date for the new standard for annual periods beginning on January 1, 2018 with early adoption permitted. The Company has not yet adopted this standard, and expects to report more detailed information, including estimated quantitative financial effects in our 2017 consolidated financial statements.

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 has been determined to record the majority of the Company's operating leases in the consolidated statements of financial position.

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

Significant judgments and estimates

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

Property and equipment and intangible assets

(i) Fair values

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

(ii) Indefinite-lived intangible assets

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

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

Goodwill and indefinite lived intangible asset impairment analysis

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

Deferred taxes

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

Income taxes

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

4 Acquisitions

*British Columbia Portfolio ("**BC Portfolio**")*

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

- two IL RR communities (**"IL Properties**") and the Baltic Properties (Baltic Properties together with the IL Properties, the "**Acquired Properties**")
- options to acquire up to a 100% interest, with the purchase price for the initial 50% interest being at a discount to fair market value, in two additional newly built seniors living assets ("**Options**"), Nicola Lodge and Glenmore Lodge ("**Option Properties**"); and
- a 50% interest in PSM, the manager and operator of the Baltic Properties.

The acquisition of the BC Portfolio comprises in total 761 LTC beds and 223 retirement suites.

The total net purchase price of $115,228 was allocated to the assets and liabilities as follows:

Assets	
Cash	780
Accounts receivable and other assets	2,971
Prepaid expenses	488
Property and equipment	171,124
Intangible assets	75,992
Goodwill	14,530
Total assets	265,885
Liabilities	
Accounts payable and accrued liabilities	5,493
Long-term debt	138,950
Deferred income taxes	4,114
Obligation to purchase interest in PSM	2,100
Total liabilities	150,657
Net assets acquired	115,228
Cash consideration	104,350
Share consideration	10,928
Income support	(50)
Total consideration	115,228

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

Transaction costs expensed related to the BC Acquisition for the year ended December 31, 2016 were $5,906.

Nicola Lodge

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

The total net purchase price of $11,789 was allocated to the assets and liabilities as follows:

Assets	
Cash	694
Accounts receivable and other assets	43
Prepaid expenses	29
Property and equipment	20,216
Intangible assets	9,766
Goodwill	413
Deferred income taxes	77
Total assets	31,238
Liabilities	
Accounts payable and accrued liabilities	407
Long-term debt	19,042
Total liabilities	19,449
Net assets acquired	11,789

Transaction costs expensed related to the Nicola Lodge acquisition for the year ended December 31, 2016 were $106.

The net assets were acquired at a discount to fair market value due to the partial exercise of the Option acquired from the BC Acquisition, resulting in a cash consideration of $9,936.

BC Acquisition and Nicola Lodge

If the acquisitions of the BC Portfolio and the 40% interest in Nicola Lodge had taken place on January 1, 2016, the consolidated revenue from continuing operations and consolidated net income from continuing operations for the Company for the year ended December 31, 2016 would have been estimated to be approximately $538,410 and $7,589, respectively.

Glenmore Lodge

On September 15, 2016, the Company also exercised its first option to acquire an initial 40% interest in Glenmore Lodge, a 118-bed seniors living residence currently under construction in British Columbia. The operations at Glenmore Lodge are expected to commence in the first quarter of 2017. Sienna expects to complete the acquisition of its initial 40% interest in Glenmore Lodge within 90 days following commencement of operations. The purchase price to be paid by Sienna for its 40% interest will be $12,600, which reflects the negotiated discount to fair market value, before closing costs and subject to customary closing adjustments.

5 Discontinued operations

On April 28, 2016, the Company completed the sale of its Home Care business, PHCS, for cash proceeds of $16,409. The Company recorded a gain on sale of $7,719, net of taxes of $2,142.

The following table summarizes the net income from discontinued operations:

	Year ended December 31,	
	2016	2015
Revenue	**5,278**	17,483
Expenses	**4,896**	15,445
Income before depreciation, net finance income and provision for (recovery of) income taxes	**382**	2,038
Depreciation	**—**	(1)
Net finance income	**3**	6
Gain on sale	**9,861**	—
Total other income	**9,864**	5
Income before provision for (recovery of) income taxes	**10,246**	2,043
Provision for (recovery of) income taxes		
Current	**1,722**	538
Deferred	**(22)**	4
	1,700	542
Net income from discontinued operations	**8,546**	1,501

6 Financial instruments

Fair value of financial instruments

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

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

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

The fair value of construction funding receivable is estimated by discounting the expected future cash flows using current applicable rates for Government of Ontario bonds of comparable maturity plus a risk premium. As at December 31, 2016, the construction funding receivable was discounted using rates between 2.36% (December 31, 2015 - 1.45%) and 3.34% (December 31, 2015 - 3.58%).

The fair values of floating-rate debt approximate their carrying values. The fair values of fixed-rate debt are estimated by discounting the expected future cash flows using the rates currently prevailing for similar instruments of similar maturities. As at December 31, 2016, the fixed-rate debt was discounted using rates between 2.52% (December 31, 2015 - 2.29%) and 4.61% (December 31, 2015 - 4.01%).

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

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

Maturities of financial instruments

For the years ending December 31, 2017 through 2021, and thereafter, the Company has estimated that the following undiscounted cash flows will arise from its government funding receivable/payable, interest rate swap contracts, construction funding receivable, long-term debt and convertible debentures at the consolidated statements of financial position date:

	As at December 31, 2016					
	2017	**2018**	**2019**	**2020**	**2021**	**Thereafter**
Government funding receivable/payable						
Cash inflows	3,221	1,030	—	—	—	—
Cash outflows	(1,917)	(517)	(1,299)	—	—	—
Net cash inflows (outflows)	1,304	513	(1,299)	—	—	—
Interest rate swap contracts						
Cash inflows	2,359	2,132	1,866	1,635	1,177	3,029
Cash outflows	(3,362)	(2,975)	(2,617)	(2,294)	(1,427)	(4,157)
Net cash outflows	(1,003)	(843)	(751)	(659)	(250)	(1,128)
Construction funding receivable						
Cash inflows	13,080	13,080	12,732	12,390	10,841	24,786
Long-term debt						
Cash outflows	(88,896)	(136,461)	(102,145)	(50,503)	(297,704)	(168,380)
Convertible debentures						
Cash outflows	(2,096)	(2,096)	(46,131)	—	—	—
Net cash outflows	**(77,611)**	**(125,807)**	**(137,594)**	**(38,772)**	**(287,113)**	**(144,722)**

Nature and extent of risks arising from financial instruments

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

Interest rate risk

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

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

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, accounts receivable and other assets, restricted cash, construction funding receivable, government funding

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

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

Balance, January 1, 2015	435
Provision for receivables during the year	177
Receivables written off during the year	(145)
Balance, December 31, 2015	467
Provision for receivables during the year	427
Receivables written off during the year	(186)
Balance, December 31, 2016	**708**

The Company has $2,494 in trade and other receivables (December 31, 2015 - $2,474) that is past due but not impaired. This amount has not been provided for as there has not been a significant change in the credit quality and the amount is still considered recoverable. The Company does not hold any collateral for the support of these balances.

The aging analysis of these receivables is as follows:

	2016	2015
0 - 30 days	**1,339**	1,382
31 - 60 days	**317**	412
61 - 90 days	**57**	287
Over 90 days	**781**	393
	2,494	2,474

The Company is also exposed to credit risk through the amounts receivable from the funding authorities. The Company has assessed the credit risk associated with the amounts owed by the funding authorities as low, as they are receivable from governments. During the year ended December 31, 2016, the Company wrote off $643 (2015 - $606) for amounts receivable from the MOHLTC primarily relating to 2008 through 2013 reconciliation years. Management has assessed the credit risk associated with the interest rate swap contracts, restricted cash and cash balances as low given the counterparties are major Canadian financial institutions that have been accorded investment grade ratings by a primary rating agency.

Liquidity risk

Liquidity risk is the risk the Company may encounter difficulties in meeting its obligations associated with financial liabilities and commitments. The Company has credit agreements in place related to the long-term debt. These credit agreements contain a number of standard financial and other covenants. The Company was in compliance with all covenants on its borrowings as at December 31, 2016. A failure by the Company to comply with the obligations in these credit agreements could result in a default, which, if not rectified or waived, could permit acceleration of the relevant indebtedness.

As at December 31, 2016, the Company had negative working capital (current liabilities less current assets) of $122,443 (December 31, 2015 - $37,880). The change in the negative working capital from December 31, 2015 primarily relates to the portion of mortgage liabilities and credit facilities due within a twelve-month period. To support the Company's working capital deficiency, the Company has available cash generated from its operations and, if necessary, undrawn credit facilities. Refer also to Note 12 in relation to the Company's refinancing of certain of its credit facilities subsequent to year end.

Sensitivity analysis

IFRS requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of the Company's financial position, performance and fair value of cash flows associated with the Company's financial instruments to changes in market variables. The sensitivity analysis provided discloses the effect on the consolidated statements of operations as at December 31, 2016 assuming that a reasonably possible change in the relevant risk variable has occurred as at December 31, 2016. The reasonably possible changes in market variables used in the sensitivity analysis were determined based on implied volatilities where available or historical data.

The sensitivity analysis has been prepared based on December 31, 2016 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and the derivatives as at December 31, 2016 are all constant. Excluded from this analysis are all non-financial assets and liabilities that are not classified as financial instruments.

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

		Interest rate risk	
		-1%	+1%
	Fair Value	Comprehensive Income	Comprehensive Income
Financial Assets:			
Restricted cash	20,375	(17)	163
Interest rate swap contract	1,172	851	(851)
Financial Liabilities:			
Debt at variable rates subject to interest rate risk	35,500	526	(526)
Interest rate swap contract	3,517	(3,711)	3,711

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

7 Capital management

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

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

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

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

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

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

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

8 Restricted cash

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

	December 31, 2016	December 31, 2015
Series B Debentures principal reserve fund	**17,116**	10,725
Capital maintenance reserve	**2,675**	1,488
Benefits reserve	**584**	580
Restricted cash	**20,375**	12,793

9 Property and equipment

	Land	**Buildings**	**Furniture and fixtures**	**Automobiles**	**Computer hardware**	**Circulating equipment**	**Total**
Cost							
At January 1, 2015	77,218	573,943	18,378	309	783	1,040	671,671
Acquisition of Traditions	2,800	26,037	357	85	—	—	29,279
Additions	—	3,485	1,420	—	829	—	5,734
Transfers	—	—	88	—	—	(88)	—
At December 31, 2015	80,018	603,465	20,243	394	1,612	952	706,684
Acquisition of BC Portfolio and Nicola Lodge	21,733	161,738	7,556	261	52	—	191,340
Additions	—	2,774	2,602	—	226	52	5,654
Dispositions	—	(8)	(207)	—	(131)	—	(346)
At December 31, 2016	**101,751**	**767,969**	**30,194**	**655**	**1,759**	**1,004**	**903,332**
Accumulated depreciation							
At January 1, 2015	—	83,965	9,531	122	514	—	94,132
Charges for the year	—	22,580	1,460	62	118	—	24,220
At December 31, 2015	—	106,545	10,991	184	632	—	118,352
Charges for the year	—	26,140	1,869	99	227	—	28,335
Dispositions	—	(4)	(206)	—	(131)	—	(341)
At December 31, 2016	**—**	**132,681**	**12,654**	**283**	**728**	**—**	**146,346**
Net book value							
At December 31, 2015	80,018	496,920	9,252	210	980	952	588,332
At December 31, 2016	**101,751**	**635,288**	**17,540**	**372**	**1,031**	**1,004**	**756,986**

10 Intangible assets

	Licences	Resident relationships	Service contracts	Computer software	Total
Cost					
At January 1, 2015	106,020	66,259	10,968	833	184,080
Acquisition of Traditions	—	7,136	—	—	7,136
Additions	—	—	—	2,608	2,608
At December 31, 2015	106,020	73,395	10,968	3,441	193,824
Acquisition of BC Portfolio and Nicola Lodge	80,353	5,405	—	—	85,758
Additions	—	—	—	2,612	2,612
Dispositions	—	(4,453)	—	(49)	(4,502)
At December 31, 2016	**186,373**	**74,347**	**10,968**	**6,004**	**277,692**
Accumulated amortization					
At January 1, 2015	—	52,339	5,638	377	58,354
Charges for the year	—	8,694	1,636	39	10,369
At December 31, 2015	—	61,033	7,274	416	68,723
Charges for the year	—	8,949	1,754	608	11,311
Dispositions	—	(4,453)	—	(49)	(4,502)
At December 31, 2016	**—**	**65,529**	**9,028**	**975**	**75,532**
Net book value					
At December 31, 2015	106,020	12,362	3,694	3,025	125,101
At December 31, 2016	**186,373**	**8,818**	**1,940**	**5,029**	**202,160**

11 Goodwill

Cost and carrying value, at January 1 and December 31, 2015	98,804
Acquisition of BC Portfolio (Note 4)	14,530
Acquisition of Nicola Lodge (Note 4)	413
Less: Disposition of PHCS (Note 5)	(6,521)
Cost and carrying value, at December 31, 2016	**107,226**

For the 2016 goodwill impairment analysis, the Company used an average post-tax discount rate of approximately 6.99% (2015 - 6.93%) across the CGUs and an average growth rate of 1.39% (2015 - 2.10%) before considering expansion projects. The Company has not recognized any goodwill impairment losses.

12 Long-term debt

	Interest rate	Maturity date	December 31, 2016	December 31, 2015
Series B Debentures	3.474%	February 3, 2021	**322,000**	322,000
Credit facilities	Floating	April/May 2017	**35,500**	69,500
Mortgages at fixed rates	3.04% - 7.11%	2017 - 2041	**335,396**	192,028
Mortgage at variable rate	Floating	April 16, 2029	**13,784**	14,260
			706,680	597,788
Mark-to-market adjustments on acquisitions			**4,506**	1,252
Deferred financing costs			**(3,963)**	(4,029)
Total debt			**707,223**	595,011
Less: current portion			**93,196**	18,838
			614,027	576,173

Principal repayments on long-term debt are as follows:

2017	92,727
2018	37,670
2019	75,673
2020	26,929
2021	329,088
Thereafter	144,593
	706,680

Series B Senior Secured Debentures

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

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

Series B Debentures - Principal Reserve Fund

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

Required contributions to the principal reserve fund are as follows:

2017	6,618
2018	6,920
2019	7,112
2020	7,283
2021	610
Thereafter	—
	28,543

Offsetting of financial instruments

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

The following table presents the financial instruments that may be subject to enforceable master netting arrangements or other similar agreements but not offset as at December 31, 2016 and 2015 and shows in the 'Net amount' column what the net impact would be on the Company's consolidated statements of financial position if the set-off rights were exercised in the circumstance described above. As at December 31, 2016 and 2015, no recognized financial instruments are offset in the consolidated statements of financial position.

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

	As at December 31, 2015		
	Gross amount presented in the consolidated statements of financial position	Related accounts not set-off in the consolidated statements of financial position	Net amount
Financial Liabilities:			
Series B Debentures	322,000	(10,725)	311,275

Credit facilities

As at December 31, 2016, the Red Oak Retirement Residence and Royale Place Retirement Residence (**"Ontario Portfolio"**) had a $57,000 revolving credit facility (**"Revolving Credit Facility"**) that bore an interest rate of 187.5 basis points (**"bps"**) per annum over the floating 30-day Banker's Acceptance (**"BA"**) rate and was secured by the Ontario Portfolio assets of the Company's wholly-owned subsidiary, The Royale LP, guaranteed by the Company and is subject to certain customary financial and non-financial covenants. During the year ended December 31, 2016, the Company repaid $34,000, respectively, against this credit facility. The Revolving Credit Facility matures on April 26, 2017. As at December 31, 2016, the Company had drawn $13,000 under this credit facility (December 31, 2015 - $47,000).

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

Subsequent to year end, The Royale LP replaced the Revolving Credit Facility and the Astoria Credit Facility with a new revolving credit facility in the amount of $105,000 (the "**Royale Credit Facility**"). Furthermore, subsequent to year end, The Royale LP drew an additional $2,000 under this Royale Credit Facility, bringing the total amount drawn to $37,500, leaving $67,500 available to be drawn. The Royale Credit Facility is guaranteed by the Company and is subject to certain customary financial and non-financial covenants. The Royale Credit Facility matures on January 18, 2020.

LSCLP has a $20,000 revolving credit facility which can be accessed for working capital purposes. This facility is collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships. It bears interest on cash advances at 150 bps per annum over the floating BA rate (30, 60 or 90 days), or at 50 bps per annum over the prime rate and bears interest on letters of credit at 150 bps per annum. As at December 31, 2016, the Company had no amounts drawn on this facility (December 31, 2015 - $nil) and no letters of credit were outstanding (December 31, 2015 - $nil). During the year ended December 31, 2016, charges related to standby fees totalled $88 (2015 - $66).

Mortgages assumed from acquisitions

As part of the BC Acquisition, the Company assumed mortgages in the amount of $135,139 with a fair value of $138,950. The mortgages assumed bear fixed interest rates ranging from 2.31% to 5.61% with maturity dates through to 2028. The mortgages are secured by a first charge on all BC Portfolio assets owned by the Company and located at the respective properties, and are subject to certain customary financial and non-financial covenants.

As part of the Nicola Lodge acquisition, the Company assumed a mortgage in the amount of $18,098 with a fair value of $19,042 for its 40% interest in Nicola Lodge. The mortgage assumed bears a fixed interest rate of 5.00% and matures in 2041. The mortgage is secured by a first charge on all Nicola Lodge assets owned by the Company and located at the property, and is subject to certain customary financial and non-financial covenants.

13 Convertible debentures

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

Upon issuance, the debt and equity components of the Convertible Debentures were bifurcated with $45,593 classified as a liability and $515 classified as equity attributable to the conversion option. The equity component included a deferred tax asset of $108. The liability portion of the Convertible Debentures was initially recorded at fair value and is subsequently carried at amortized cost. The Company incurred financing costs of $2,111 related to the Convertible Debentures, which are amortized over their term using the effective interest method and recognized as part of net finance charges. During the year ended December 31, 2016, $917 worth of convertible debentures were converted into 54,744 common shares. As at December 31, 2016, $605 (December 31, 2015 - $1,009) of financing costs remain to be amortized and $127 (December 31, 2015 - $209) of fair value adjustment remains to be accreted.

14 Net finance charges

	Year ended December 31,	
	2016	2015
Finance costs		
Interest expense on long-term debt	**23,397**	20,998
Interest expense on convertible debentures	**2,205**	2,216
Fees on revolving credit facility	**227**	193
Net accretion of fair value adjustments on long-term debt	**(763)**	(596)
Amortization of deferred financing charges	**1,276**	1,214
Amortization of loss on bond forward contract	**852**	820
Net settlement payment on interest rate swap contracts	**428**	321
Dividend equivalents on Subscription Receipts	**1,964**	—
Loss (gain) on interest rate swap contracts	**606**	(187)
	30,192	24,979
Finance income		
Interest income on construction funding receivable	**3,307**	3,728
Other interest income	**490**	149
Interest income on Subscription Receipts funds	**155**	—
	3,952	3,877
Net finance charges from continuing operations	**26,240**	21,102

15 Income taxes

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

	Year ended December 31,	
	2016	2015
Income from continuing operations before provision for income taxes	**5,525**	8,519
Canadian combined income tax rate	**26.46%**	26.49%
Income tax expense	**1,462**	2,257
Adjustments to income tax provision:		
Non-deductible items	**723**	124
Book to filing adjustment	**488**	414
Other items	**(85)**	(12)
Income tax expense from continuing operations	**2,588**	2,783

The effective tax rate for discontinued operations for the year ended December 31, 2016 is 16.6% (2015 - 26.5%). The provision for income taxes for discontinued operations is disclosed in Note 5.

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

	Accelerated tax depreciation	**Intangible assets**	**Share issuance**	**Construction funding interest**	**Other**	**Total**
As at January 1, 2015	(63,058)	(6,072)	1,164	5,712	3,566	(58,688)
Credit (charge) to net income	3,535	(256)	(625)	(987)	(2,215)	(548)
Book to filing adjustment	(251)	224	—	(11)	(482)	(520)
Charge to other comprehensive income	—	—	—	—	(217)	(217)
As at December 31, 2015	(59,774)	(6,104)	539	4,714	652	(59,973)
Due to acquisitions of BC Portfolio and Nicola Lodge	(4,162)	(995)	—	—	1,119	(4,038)
Credit (charge) to net income	2,079	1,500	(660)	(875)	24	2,068
Book to filing adjustment	(46)	(236)	(5)	—	(34)	(321)
Charge to other comprehensive income	—	—	—	—	(225)	(225)
Credit to equity	—	—	1,633	—	—	1,633
As at December 31, 2016	**(61,903)**	**(5,835)**	**1,507**	**3,839**	**1,536**	**(60,856)**

The loss on bond forward contracts on the consolidated statements of comprehensive income is net of tax for the year ended December 31, 2016 of $225 (2015 - $217).

16 Share capital

Authorized

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

Issued and outstanding

Common shares

	Common shares	Amount
Balance, January 1, 2015	36,299,038	372,373
Long-term incentive plan, net of loans receivable (Note 18)	11,669	28
Share purchase loan	—	22
Dividend reinvestment plan	158,388	2,396
Issued common shares (Note 14)	9,776	148
Balance, December 31, 2015	36,478,871	374,967
Long-term incentive plan, net of loans receivable (Note 18)	13,288	37
Share purchase loan	—	22
Dividend reinvestment plan	185,416	2,960
Issued common shares (Note 18)	64,767	1,075
Common shares issued in exchange for Subscription Receipts, net of share issuance costs	8,728,500	132,777
Common shares issued to partial seller of BC Acquisition (Note 4)	630,915	10,928
Balance, December 31, 2016	**46,101,757**	**522,766**

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

Each Subscription Receipt represented the right to receive one common share in the capital of the Company, at no additional consideration on the closing of the BC Acquisition. While the Subscription Receipts remained outstanding, holders thereof were entitled to receive payments per Subscription Receipt equal to the per common share dividends, if any, actually paid or payable to holders of common shares of the Company in respect of all record dates for such dividends occurring from the closing date of the Offering to, but excluding, the last day on which the Subscription Receipts remain outstanding, to be paid to holders of Subscription Receipts concurrently with the payment date of each such dividend on the common shares.

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

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

During the year ended December 31, 2016, the Company incurred share issuance costs net of taxes of $5,570, which consisted of $4,482 in underwriters' fees and other issuance costs of $1,088.

Dividend reinvestment plan

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

Earnings per share

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

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

	Year ended December 31,	
	2016	2015
Reconciliation of net income used as the numerator		
Net income from continuing operations	**2,937**	5,736
Less: Net income attributable to non-controlling interest	**176**	—
Net income used in calculating basic income from continuing operations per share	**2,761**	5,736
Net finance charges on convertible debentures	**2,691**	2,618
Current income tax adjustment	**(712)**	(694)
Net income used in calculating diluted income from continuing operations per share	**4,740**	7,660
Weighted average number of common shares used as the denominator		
Weighted average number of common shares - basic	**40,498,775**	36,398,297
Shares issued if all convertible debentures were converted	**2,719,444**	2,746,269
Weighted average number of common shares - diluted	**43,218,219**	39,144,566

17 Dividends

The Company paid dividends at $0.075 per month per common share totaling $32,787 for the year ended December 31, 2016 (2015 - $30,350). Dividends payable of $3,458 are included in accounts payable and accrued liabilities as at December 31, 2016 (December 31, 2015 - $2,737). Subsequent to December 31, 2016, the Board of Directors declared dividends of $0.075 per common share for January and February 2017 totaling $6,917. These dividends have not been recorded in these consolidated financial statements.

18 Share-based compensation

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

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

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

On February 24, 2016, incentive award amounts entitling eligible senior executives (**"Participants"**) to acquire 13,288 common shares were granted pursuant to the LTIP. On the grant date, the Participants paid $11 towards the acquisition of common shares. This payment was recorded as an increase to share capital. Related to the LTIP in the year ended December 31, 2016, the Company recorded an increase of $37 to share capital (2015 - $28) and $32 to contributed surplus (2015 - $30). As at December 31, 2016, the outstanding loan balance was $603 (December 31, 2015 - $430). Total expense related to the LTIP for the year ended December 31, 2016 was $32 (2015 - $30).

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

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

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

Certain employees (**"Employees"**) may be awarded RSUs based on performance targets being achieved. Employees are awarded the number of notional shares equal to a portion of their compensation amount divided by the Average Closing Price on the grant date. Employees participating in the RSU plan are entitled to receive notional distributions equal to the amount of dividend per common share. Such distributions will be granted to the Employee in the form of additional RSUs equal to the dividend amount divided by the Average Closing Price as of the day such dividend was declared. RSU awards granted in 2015 and onward vest on the third anniversary of the grant date and the related compensation expense is recognized over the three-year vesting period. RSU awards granted in 2014 and prior vest equally at the end of years one, two and three from the grant date and the related compensation expense is recognized on a graded basis over the vesting periods. On vesting of the RSUs, the Employees have the option to redeem all or a portion of vested RSUs in cash or receive one common share of the Company for each RSU redeemed. Any lump sum payment in cash will be calculated by multiplying the number of RSUs to be redeemed for cash by the Average Closing Price as of the applicable vesting date. The value of each RSU is measured at each

reporting date and is equivalent to the market value of a common share of the Company at the reporting date.

During the year ended December 31, 2016, 16,706 restricted share units (**"RSUs"**) (2015 - 17,007) were granted pursuant to the RSUP. Total expenses related to the RSUP for the year ended December 31, 2016 were $222 (2015 - $245), net of forfeitures. During the year ended December 31, 2016, 10,985 RSUs vested and were settled in cash and shares, resulting in a decrease of $158 to share-based compensation liability. The total liability recorded as part of share-based compensation liability as at December 31, 2016 was $364 (December 31, 2015 - $300).

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

	Number of RSUs
Outstanding, January 1, 2015	29,331
Granted	17,007
Forfeited	(2,567)
Dividends reinvested	1,948
Settled in cash	(2,379)
Settled in shares	(9,776)
Outstanding, December 31, 2015	33,564
Granted	16,706
Dividends reinvested	2,160
Settled in cash	(962)
Settled in shares	(10,023)
Outstanding, December 31, 2016	**41,445**

Deferred share units plan ("DSUP")

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

Total expenses related to the DSUP for the year ended December 31, 2016 were $596 (2015 - $832), which was recognized in administrative expenses. The total liability recorded related to the DSUP as a part of the share-based compensation liability as at December 31, 2016 was $3,767 (December 31, 2015 - $3,171). The value of each deferred share unit is measured at each reporting date and is equivalent to the fair value of a common share of the Company at the reporting date.

Executive deferred share units plan ("EDSUP")

During the year ended December 31, 2015, the Board approved the adoption of its amended and restated EDSUP for executive officers and such other officers or employees (**"EDSUP Member"**) as the Board of Directors may determine from time to time. Each EDSUP Member, at his or her discretion, is entitled to elect to have up to 100% of his or her annual base incentive awards contributed to the EDSUP. The Company will match all EDSUs so credited in respect of long-term incentive awards up to a maximum of 25% of the long-term incentive awards (up to 35% in the case of the Chief Executive Officer), or such other amount as the Board of Directors may determine. In satisfaction of such contribution, the EDSUP Member is credited

that number of EDSUs equal to the quotient obtained by dividing the amount of the contribution by the volume weighted average closing price of the common shares on the TSX for the five trading days immediately preceding the date of payment. Dividends earned on such EDSUs will be credited to the EDSUP Member's account in the form of additional EDSUs, which are calculated using the same methodology as the original grant.

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

The value of each vested EDSU is measured at each reporting date and is equivalent to the fair value of a common share of the Company at the reporting date. During the year ended December 31, 2016, 35,543 (2015 - 21,922) executive deferred share units were granted. Total expenses related to the EDSUP for the year ended December 31, 2016 were $390 (2015 - $68), which was recognized in administrative expenses. The total liability recorded related to the EDSUP as a part of the share-based compensation liability as at December 31, 2016 was $947 (December 31, 2015 - $214).

19 Employee salaries and benefits

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

	2016	2015
Salaries and short-term employee benefits	**289,814**	270,057
Group retirement savings plan	**7,422**	7,110
Termination benefits	**1,153**	1,419
Share-based compensation	**1,240**	1,175
	299,629	279,761

20 Key management compensation

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

	Year ended December 31,	
	2016	2015
Salaries and short-term employee benefits	**2,936**	2,492
Termination benefits	**—**	288
Share-based compensation	**1,240**	1,170
	4,176	3,950

21 Commitments and contingencies

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

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

2017	906
2018	884
2019	820
2020	785
2021	778
Thereafter	2,198
	6,371

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

22 Construction funding receivable

As at December 31, 2016, the Company will receive gross funding from the Ontario government of approximately $86,909 (December 31, 2015 - $99,989) related to the construction costs of LTC homes. The amounts are non-interest bearing and will be received for certain LTC homes for various periods ending over the next 13 years, subject to the condition that the homes continue to operate as long-term care communities for the remaining period. As at December 31, 2016, the condition for the funding has been met.

The construction funding receivable is initially recorded at estimated fair value and subsequently measured at amortized cost using the effective interest method. The fair value will differ from the carrying value due to changes in interest rates. Included in net finance charges is interest income on the construction funding receivable of $3,307 for the year ended December 31, 2016 (2015 - $3,728).

23 Trust funds

The Company maintains separate trust accounts on behalf of its LTC home residents, which are not included in these consolidated financial statements. The total balance in the trust bank accounts as at December 31, 2016 was $1,116 (December 31, 2015 - $1,035).

24 Related party transactions

As at December 31, 2016, the Company has amounts outstanding from certain key management of $1,026 (December 31, 2015 - $887) in relation to the LTIP issuance and share purchase loans, which have been recorded as a reduction to shareholders' equity. The loans bear interest at the prime rate and are due on demand. The underlying common shares have been pledged as security against the respective loans.

As at December 31, 2016, the Company also has amounts outstanding from certain key management of $115 (December 31, 2015 - $nil) in relation to the purchase of Subscription Receipts. The loans have a term of one year and bear an interest rate of 3%. The common shares received upon exchange of the Subscription Receipts on August 2, 2016 are pledged as security against the respective loans.

25 Economic dependence

The Company holds licences related to each of its LTC homes and receives funding from the funding authorities related to those licences. During the year ended December 31, 2016, the Company received approximately $312,854 (2015 - $287,721) in respect of these licences.

26 Expenses by nature

	Year ended December 31,	
	2016	2015
Salaries, benefits and other people costs	**310,480**	284,792
Food	**21,487**	19,342
Purchased services and non-medical supplies	**17,166**	16,097
Property taxes	**13,367**	13,077
Utilities	**14,525**	12,490
Other	**41,444**	41,692
Total expenses from continuing operations	**418,469**	387,490

27 Subsidiaries

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

		Percentage of equity interest	
Name	**Country of incorporation**	**December 31, 2016**	December 31, 2015
Leisureworld Senior Care LP (Ontario)	Canada	100%	100%
2063412 Investment LP (Ontario)	Canada	100%	100%
2063414 Investment LP (Ontario)	Canada	100%	100%
2063415 Investment LP (Ontario)	Canada	100%	100%
2067474 Investment LP (Ontario)	Canada	100%	100%
2067475 Investment LP (Ontario)	Canada	100%	100%
Vigour Limited Partnership (Ontario)	Canada	100%	100%
The Royale LP (Ontario)	Canada	100%	100%
The Royale Development LP (Ontario)	Canada	100%	100%
The Royale West Coast LP (Ontario)	Canada	100%	100%
Sienna Baltic LP	Canada	100%	n/a
Sienna Baltic Development LP	Canada	100%	n/a
2371281 Investment LP (Ontario)	Canada	100%	100%
Sienna Management LP (Ontario)	Canada	100%	n/a

28 Segmented information

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

The Company is comprised of the following main business segments:

- LTC business - LTC includes 35 owned LTC homes and the management services business;
- Retirement - Retirement includes 13 owned RR communities;
- Baltic - Baltic includes 6 Baltic properties, the Company's current 40% interest in Nicola Lodge and PSM;
- Corporate, Eliminations and Other - This segment represents the results of head office, intercompany eliminations and other items that are not allocable to the segments; and
- Discontinued operations - Discontinued operations are comprised of the Home Care business that was divested on April 28, 2016 (Note 5).

The significant accounting policies of the reportable operating segments are the same as those disclosed in Note 3.

	Year ended December 31, 2016						
	Long-Term Care	**Retirement**	**Baltic**	**Corporate, Eliminations and Other**	**Total From Continuing Operations**	**Home Care - Discontinued Operations**	**Total**
Gross revenue	**426,122**	**57,109**	**24,487**	**36,719**	**544,437**	**5,278**	**549,715**
Less: Internal revenue	**9,184**	**—**	**647**	**36,719**	**46,550**	**—**	**46,550**
Net revenue	**416,938**	**57,109**	**23,840**	**—**	**497,887**	**5,278**	**503,165**
Income (loss) before depreciation and amortization, net finance charges, transaction costs and provision for income taxes	**64,217**	**26,078**	**7,145**	**(18,022)**	**79,418**	**382**	**79,800**
Depreciation of property and equipment	**17,220**	**8,693**	**2,135**	**287**	**28,335**	**—**	**28,335**
Amortization of intangible assets	**3,530**	**6,704**	**473**	**604**	**11,311**	**—**	**11,311**
Finance costs	**17,149**	**6,304**	**2,144**	**4,595**	**30,192**	**—**	**30,192**
Finance income	**(3,459)**	**(7)**	**(1)**	**(485)**	**(3,952)**	**(3)**	**(3,955)**
Transaction costs	**—**	**—**	**—**	**8,007**	**8,007**	**—**	**8,007**
Gain on sale	**—**	**—**	**—**	**—**	**—**	**(9,861)**	**(9,861)**
Income tax expense	**—**	**—**	**—**	**2,588**	**2,588**	**1,700**	**4,288**
Net income (loss)	**29,777**	**4,384**	**2,394**	**(33,618)**	**2,937**	**8,546**	**11,483**
Purchase (disposal) of property and equipment	**2,939**	**1,606**	**605**	**504**	**5,654**	**(346)**	**5,308**
Purchase (disposal) of intangible assets	**8**	**(15)**	**—**	**2,619**	**2,612**	**(4,502)**	**(1,890)**

	Year ended December 31, 2015						
	Long-Term Care	Retirement	Baltic	Corporate, Eliminations and Other	Total From Continuing Operations	Home Care - Discontinued Operations	Total
Gross revenue	414,387	44,105	—	32,764	491,256	17,483	508,739
Less: Internal revenue	5,343	—	—	33,292	38,635	—	38,635
Net revenue	409,044	44,105	—	(528)	452,621	17,483	470,104
Income (loss) before depreciation and amortization, net finance charges, transaction costs and provision for income taxes	63,689	19,675	—	(18,233)	65,131	2,038	67,169
Depreciation of property and equipment	17,044	7,054	—	121	24,219	1	24,220
Amortization of intangible assets	3,698	6,635	—	36	10,369	—	10,369
Finance costs	17,179	5,182	—	2,618	24,979	—	24,979
Finance income	(3,844)	(4)	—	(29)	(3,877)	(6)	(3,883)
Transaction costs	1	—	—	921	922	—	922
Income tax expense	—	—	—	2,783	2,783	542	3,325
Net income (loss)	29,611	808	—	(24,683)	5,736	1,501	7,237
Purchase of property and equipment	2,561	1,274	—	1,899	5,734	—	5,734
Purchase of intangible assets	8	—	—	2,600	2,608	—	2,608

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

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

29 Non-controlling interest

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

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

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

As the 50% interest in PSM was acquired on August 2, 2016, there was no non-controlling interest for the year ended December 31, 2015.

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

30 Joint arrangement

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

	December 31, 2016
Current assets	**4,179**
Long-term assets	**43,642**
Total assets	**47,821**
Current liabilities	**3,309**
Long-term liabilities	**44,089**
Total liabilities	**47,398**
Net assets	**423**
Percentage ownership	**40%**
Share of net assets	**169**

	Year ended December 31, 2016
Revenue	**5,540**
Expenses	**3,807**
Income before other expenses	**1,733**
Other expenses	**1,047**
Net income	**686**
Percentage ownership	**40%**
Share of net income	**274**

As the 40% interest in Nicola Lodge was acquired on September 15, 2016, there were no joint arrangements as at December 31, 2015 or for the year then ended.

31 Comparative figures

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