Consolidated Financial Statements

(in thousands of Canadian Dollars)

Q1 2017

Sienna Senior Living Inc.

Sienna SENIOR LIVING

Condensed Interim Consolidated Financial Statements

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

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

See accompanying notes.

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

"Dino Chiesa"
Dino Chiesa
Chairman and Director

"Janet Graham"
Janet Graham
Director

Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)

Thousands of dollars

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

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

See accompanying notes.

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

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

See accompanying notes.

Condensed Interim Consolidated Statements of Comprehensive Income (Unaudited)

Thousands of dollars, except share and per share data

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

See accompanying notes.

Thousands of dollars

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

See accompanying notes.

1 Organization

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

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

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

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

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

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

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

2 Basis of preparation

These unaudited condensed interim consolidated financial statements (**"interim consolidated financial statements"**) have been prepared in accordance with International Accounting Standard (**"IAS"**) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board. The interim consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards.

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

3 Summary of significant accounting policies, judgments and estimation uncertainty

In preparing these interim consolidated financial statements, the accounting policies utilized are consistent with those utilized in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2016.

4 Acquisition

Glenmore Lodge

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

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

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

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

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

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

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

5 Discontinued operations

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

The following table summarizes the net income from discontinued operations:

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

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6 Financial instruments

Fair value of financial instruments

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

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

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

Liquidity risk

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

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

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

7 Restricted cash

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

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

8 Long-term debt

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

Credit facilities

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

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

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

Mortgages assumed from acquisition

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

9 Convertible debentures

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

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

10 Net finance charges

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

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

11 Income taxes

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

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

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

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

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

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

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

12 Share capital

Authorized

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

Issued and outstanding

Common shares

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

Dividend reinvestment plan

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

Earnings per share

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

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

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

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

13 Dividends

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

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

14 Share-based compensation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

15 Key management compensation

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

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

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

16 Related party transactions

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

17 Economic dependence

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

18 Expenses by nature

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

19 Segmented information

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

The Company is comprised of the following main business segments:

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

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

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

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

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

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

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

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

20 Non-controlling interest

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

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

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

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

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

21 Joint arrangements

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

Nicola Lodge and Glenmore Lodge

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

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

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

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

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

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

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

22 Comparative figures

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

23 Subsequent events

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