Management's Discussion and Analysis

(in thousands of Canadian Dollars)

2018

Sienna Senior Living Inc.

Sienna SENIOR LIVING

Management's Discussion and Analysis

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Basis of Presentation

The following Management's Discussion and Analysis ("**MD&A**") for Sienna Senior Living Inc. (the "**Company**" or "**Sienna**") provides a summary of the financial results for the three months and year ended December 31, 2018. This MD&A should be read in conjunction with the Company's annual audited consolidated financial statements ("**consolidated financial statements**") for the year ended December 31, 2018. This material is available on the Company's website at www.siennaliving.ca. Additional information about the Company, including its Annual Information Form ("**AIF**") for the year ended December 31, 2017, can be found on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com.

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

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

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

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

Additional Information

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

Review and Approval by the Board of Directors

This MD&A is dated as of February 19, 2019, the date on which this report was approved by the Board of Directors of the Company, and is based on information available to management of the Company as of that date.

Company Profile

The Company and its predecessors have been operating since 1972. The Company is one of Canada's leading seniors' living providers serving the continuum of independent living ("**IL**"), independent supportive living ("**ISL**"), assisted living ("**AL**"), memory care ("**MC**") and long-term care ("**LTC**" or "**Long-term Care**") 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 70 seniors' living residences: 27 retirement residences ("**RRs**" or "**Retirement Residences**"); 35 LTC residences; and eight seniors' living residences providing both private-pay IL/AL and funded LTC (including the Company's joint ownership in two residences in British Columbia). Under its management services division, the Company provides management services to 17 seniors' living residences in British Columbia and Ontario.

The table below presents a breakdown of the number of suites or beds by business segment, owned and operated by the Company.

		Retirement (Suites)	Long-term Care (Beds)		Total
Business Segment	**Residences[1]**	**Private**	**Private**	**Funded**	**Beds / Suites**
Retirement	27	3,223	—	—	3,223
Long-term Care[2]	43	—	180	6,688	6,868
Total	**70**	**3,223**	**180**	**6,688**	**10,091**

Notes:

1. 82.6% and 17.4% of total beds and suites are located in Ontario and British Columbia, respectively.
2. 3.7% of total LTC beds and suites are partially owned. Nicola Lodge and Glenmore Lodge are referred to collectively as the "**Option Properties**", of which the Company owns 40% of Nicola Lodge and 77% of Glenmore Lodge as at December 31, 2018.

The Company was incorporated under the Business Corporations Act (Ontario) on February 10, 2010 and was subsequently continued under the Business Corporations Act (British Columbia) on March 18, 2010. The Company closed the initial public offering of its common shares on March 23, 2010 and is traded on the Toronto Stock Exchange under the symbol "SIA".

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

As at February 19, 2019, the Company had 66,200,881 common shares outstanding.

Non-IFRS Performance Measures

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

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

"**FFO**" is defined as NOI less certain adjustments including finance charges and current income taxes. FFO is a recognized earnings measure that is widely used by public real estate entities, particularly by those entities that own and/or operate income-producing properties. The Company presents FFO in accordance with the Real Property Association of Canada ("**REALpac**") White Paper on Funds From Operations for IFRS (Source: White Paper on Funds From Operations & Adjusted Funds From Operations for IFRS - February 2018). The use of FFO, combined with the required IFRS presentations, has been included for the purpose of improving the understanding of the Company's operating results. The IFRS measure most directly comparable to FFO is "net income". Please refer to the "Business Performance" section of this MD&A for a reconciliation of net income to FFO.

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

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

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

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

Key Performance Indicators

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

- **Occupancy**: Occupancy is a key driver of the Company's revenues.
- **NOI**: This value represents the underlying performance of the operating business segments. Please refer to the "Non-IFRS Performance Measures" section of this MD&A.
- **OFFO and OFFO per Share**: Management of the Company uses OFFO as an operating performance measure. Please refer to the "Non-IFRS Performance Measures" section of this MD&A.
- **AFFO and AFFO per Share**: Management of the Company uses AFFO as a cash flow measure to assess the Company's ability to earn cash and pay dividends. Please refer to the "Non-IFRS Performance Measures" section of this MD&A.
- **Payout Ratio**: Management of the Company monitors the ratio of dividends per share to basic AFFO per share to ensure the Company adheres to its dividend policy, in line with the Company's objectives.
- **Debt Service Coverage Ratio**: This ratio is useful for management of the Company to ensure it is in compliance with its financial covenants.
- **Debt to Gross Book Value**: In conjunction with the debt service coverage ratio, management of the Company monitors this to ensure compliance with certain financial covenants.
- **Weighted Average Cost of Debt**: This is a point in time calculation which is useful in comparing interest rates, either period over period, or to market rates.
- **Debt to Adjusted EBITDA Ratio**: This ratio measures the number of years required for current cash flows to repay all indebtedness.
- **Interest Coverage Ratio**: Interest coverage ratio is a common measure used to assess an entity's ability to service its debt obligations.
- **Weighted Average Term to Maturity**: This indicator is used by management of the Company to monitor its debt maturities.
- **Same Property**: Measures with "same property" are similar to "same-store" measures used in the retail business and are intended to measure the period over period performance of the same asset base. The same property portfolio excludes acquired properties owned for less than a year and assets undergoing new development, redevelopment or demolition. Properties undergoing new development or redevelopment are considered "same property" once they are operating at stabilized occupancy levels.
- **Acquisitions**: The acquisitions portfolio includes acquired properties that are owned for less than a year. Properties undergoing new development or redevelopment are considered "acquisitions" until they are operating at stabilized occupancy levels.

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

The following table represents the Key Performance Indicators for the periods ended December 31:

Thousands of Canadian dollars, except occupancy, share and ratio data	Three Months Ended			Year Ended		
	2018	2017	Change	**2018**	2017	Change
OCCUPANCY						
Retirement same property - Average occupancy[1]	**93.2%**	93.2%	—%	**92.9%**	93.9%	(1.0%)
Retirement same property - As at occupancy	**93.0%**	92.4%	0.6%	**93.0%**	92.4%	0.6%
Retirement acquisitions - Average occupancy	**90.3%**	N/A	N/A	**90.3%**	N/A	N/A
Retirement acquisitions - As at occupancy	**89.2%**	N/A	N/A	**89.2%**	N/A	N/A
Retirement - Average total occupancy[2]	**91.8%**	93.2%	(1.4%)	**91.7%**	93.8%	(2.1%)
Retirement - As at total occupancy[2]	**91.6%**	92.3%	(0.7%)	**91.6%**	92.3%	(0.7%)
LTC - Average total occupancy	**98.5%**	98.5%	—%	**98.4%**	98.5%	(0.1%)
LTC - Average private occupancy	**98.6%**	98.5%	0.1%	**98.3%**	98.7%	(0.4%)
FINANCIAL						
Revenue	**169,455**	146,330	23,125	**641,984**	557,690	84,294
Operating Expenses	**130,556**	115,831	14,725	**490,772**	439,562	51,210
Same Property NOI	**31,284**	30,499	785	**122,470**	118,063	4,407
Acquisitions NOI	**7,615**	—	7,615	**28,742**	65	28,677
Total NOI	**38,899**	30,499	8,400	**151,212**	118,128	33,084
EBITDA	**33,436**	25,309	8,127	**130,930**	97,643	33,287
Net income[3]	**302**	4,196	(3,894)	**9,883**	21,815	(11,932)
OFFO	**23,402**	17,834	5,568	**89,897**	64,343	25,554
AFFO[4]	**21,590**	16,948	4,642	**92,485**	68,487	23,998
Total Assets[5]	**1,753,200**	1,394,858	358,342	**1,753,200**	1,394,858	358,342
PER SHARE INFORMATION						
Net income per share, basic[3]	**0.006**	0.078	(0.072)	**0.155**	0.452	(0.297)
Net income per share, diluted[3]	**0.006**	0.078	(0.072)	**0.155**	0.452	(0.297)
OFFO per share, basic[6]	**0.355**	0.353	0.002	**1.409**	1.359	0.050
OFFO per share, diluted[6]	**0.355**	0.343	0.012	**1.397**	1.318	0.079
AFFO per share, basic[4][6]	**0.326**	0.331	(0.005)	**1.450**	1.446	0.004
AFFO per share, diluted[4][6]	**0.326**	0.323	0.003	**1.436**	1.401	0.035
Dividends per share	**0.230**	0.225	0.005	**0.908**	0.900	0.008
Payout ratio (basic AFFO)	**70.6%**	68.0%	2.6 %	**62.6%**	62.2%	0.4 %
FINANCIAL RATIOS						
Debt service coverage ratio	**1.8**	1.6	0.2	**2.0**	1.8	0.2
Debt to gross book value as at period end	**47.7%**	49.6%	(1.9)%	**47.7%**	49.6%	(1.9)%
Weighted average cost of debt as at period end	**3.8%**	3.8%	—%	**3.9%**	3.8%	0.1%
Debt to Adjusted EBITDA as at period end	**6.9**	7.4	(0.5)	**6.9**	7.4	(0.5)
Interest coverage ratio	**3.8**	3.7	0.1	**3.9**	3.7	0.2
Weighted average term to maturity as at period end	**4.7**	4.8	(0.1)	**4.7**	4.8	(0.1)
CHANGE IN SAME PROPERTY NOI						
Retirement			5.6%			5.4%
Long-term Care[7]			1.3%			1.6%
Total			2.6%			2.7%

Notes:

1. Year-over-year decrease in Retirement same property average occupancy is due to increased resident turnover.
2. Quarter-over-quarter and year-over-year decreases in total Retirement occupancy are due to acquisitions with lower levels of occupancy, higher levels of short-term stays, and increased resident turnover.
3. Quarter-over-quarter decrease in net income of $3,894 is primarily due to interest, depreciation and amortization expenses incurred from the properties acquired since December 2017 and a fair value loss on interest rate swap contracts in Q4 2018. Year-over-year decrease in net income of $11,932 is primarily due to interest, depreciation and amortization expenses incurred on the properties acquired in December 2017 and Q1 2018, and higher transaction costs incurred for the Acquisition (as defined in the "Company Strategy and Objectives" section). For additional information, please see the "Fourth Quarter 2018 Operating Results" and "Year Ended December 31, 2018 Operating Results" sections.
4. Effective as of Q3 2018, deferred share unit compensation earned is not added back to calculate AFFO. The prior quarters have been restated to reflect this change.
5. Property and equipment included in total assets are measured at cost less accumulated depreciation, amortization and impairment losses.
6. Basic and diluted OFFO and AFFO per share, for the year ended December 31, 2018, include a prior year tax refund of $1,254 recorded in Q1 2018. Excluding this refund, basic and diluted OFFO per share would be $1.390 and $1.377, respectively, and basic and diluted AFFO per share would be $1.430 and $1.417, respectively, for the year ended December 31, 2018.
7. Year-over-year change in same property NOI for LTC excludes the prior year tax refund recorded in Q1 2018.

Fourth Quarter 2018 Summary

Sienna's Q4 2018 results were in line with its expectations. Slightly lower overall occupancy rates were offset by strong same property NOI growth in both its Retirement and LTC segments, in addition to growth from accretive acquisitions.

Occupancy - Average occupancy in Sienna's LTC portfolio remained high at 98.5% in Q4 2018, consistent with Q4 2017. Average occupancy in the Retirement portfolio was 91.8% in Q4 2018 compared to 93.2% in Q4 2017. The decline was largely a result of higher resident turnover in the Company's acquisition properties due to an above-average number of high acuity residents. Average occupancy in Retirement same property was 93.2% in Q4 2018, consistent with Q4 2017.

Revenue increased by 15.8% in Q4 2018, or $23,125, to $169,455 over the comparable prior year period. The increase was mainly a result of the revenues generated from acquisitions completed since Q4 2017, in addition to strong same property results driven by rent increases on suite turnover and in-place annual rent increases.

NOI increased by 27.5% in Q4 2018, or $8,400, to $38,899 over the comparable prior year period due to strong same property NOI growth and contributions from accretive acquisitions.

Net income was $302 for Q4 2018, representing a decrease of $3,894 over the comparable prior year period. The decrease was primarily related to incremental interest expense, depreciation and amortization incurred from the acquisitions completed since Q4 2017 and a fair value loss on interest rate swap contracts in Q4 2018, partially offset by income generated from the acquisitions and lower transaction costs.

OFFO increased by 31.2% in Q4 2018, or $5,568, to $23,402 over the comparable prior year period. The increase was primarily related to the income generated from the acquisitions completed since Q4 2017 and strong organic growth, partially offset by incremental interest expense on these acquired properties. On a per share basis, basic OFFO increased by 0.6%.

AFFO increased by 27.4% in Q4 2018, or $4,642, to $21,590 over the comparable prior year period. The increase was primarily related to the increase in OFFO noted above, partially offset by higher maintenance capital expenditures. On a per share basis, basic AFFO declined by 2.7% due to timing of maintenance capital expenditures.

2019 Outlook

Sienna made significant strides in executing its growth strategy with a more balanced portfolio of high-quality retirement residences and a very stable, long-term care portfolio. Industry fundamentals in Sienna's key markets remain strong, driven by an aging population and higher affluence among many seniors. With the growing demand for seniors' living, governments are increasingly looking for solutions to meet the fast-growing demand. New development and redevelopment of seniors' living residences are key components to meet this increasing demand. With strong industry fundamentals, the Company is well positioned for both organic and external growth in 2019 and beyond.

Retirement

With the addition of the high-quality properties in 2018, Sienna has achieved more of a balanced portfolio mix. Sienna's Retirement portfolio now represents 44% of the Company's total NOI in Q4 2018, with the goal to generate at least 50% of the overall NOI in this segment within the next few years. Going forward, the Company will continue to focus on integrating the acquired residences into its strong operating platform, and aligning its marketing strategy and services offerings to the needs of local markets.

For 2019, management expects to generate moderate organic growth through stabilized occupancy, rate increases in accordance with market conditions and disciplined cost management.

LTC

During 2018, the Company delivered strong results in its LTC segment, as reflected by the year-over-year same property NOI increase of 1.6%. In addition, Sienna's LTC operating platform is consistently ranked high among its peers in terms of quality of service provided.

For 2019, Sienna expects to continue to manage the complexities of its LTC segment with its experienced team and sophisticated operating platform. The Company also expects its LTC segment's performance to be consistent with previous years on a normalized basis.

Capital Structure Optimization

In Q4 2018, the Company further lowered its debt to gross book value to 47.7%, a 190 bps reduction year-over-year from 49.6%, and increased its interest coverage ratio to 3.9 times year-over-year from 3.7 times in Q4 2017.

In 2019, management expects to refinance approximately $98,492 of property-level debt at rates and on terms relatively consistent with its debt as at December 31, 2018, which has a weighted average rate of interest of 3.9% and weighted average term to maturity of 4.7 years. The Company continues to focus on optimizing leverage and managing refinancing risk by creating a balanced 10-year debt maturity ladder.

Development

Sienna intends to develop a number of seniors' living campuses (comprised of AL and LTC). During Phase 1 of this development program, the Company plans to redevelop 1,000 older Class B and Class C LTC beds, and add 280 new LTC beds and 500 retirement suites to create seniors' living campuses. Sienna is actively engaged with government authorities in seeking approvals for certain projects. The Company anticipates that the

development projects will be greenfield projects and plans to build campuses wherever feasible. The feasibility of such projects is assessed against hurdle rates of return, which are in excess of the Company's cost of capital.

Our Vision, Mission and Values

Our Vision

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

Our Mission

To help you live fully, every day.

Our Values

Respect

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

Passion

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

Teamwork

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

Responsibility

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

Growth

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

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

Company Strategy and Objectives

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

Strengthening Operating Platform:

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

Progress:

- Sienna's Long-term Care residences in British Columbia were awarded an Accreditation with Exemplary Standing in July 2018 - the highest distinction awarded by Accreditation Canada
- Sienna continues to outperform the provincial and national averages on the majority of publicly reported quality indicators
- Awarded one of "Canada's Most Admired Corporate Cultures" by Waterstone Human Capital
- Ongoing investments in technology and process improvements to residents' electronic health records
- Ongoing investments in people strategy, including enhancements to recruitment, on-boarding and leadership development

Maintaining Strong Balance Sheet and Liquidity:

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

Progress:

- Raised $184,017 in an offering of common shares in February 2018, the proceeds of which were used to acquire a portfolio of ten seniors' living residences in Ontario (the "**Acquisition Offering**")
- The Company's stock was added to the S&P/TSX Composite Index in March 2018
- A (low) rating was confirmed by Dominion Bond Rating Service ("**DBRS**") for the Series B Debentures in March 2018
- Redeemed all outstanding 4.65% extendible convertible unsecured debentures ("**Convertible Debentures**") as at May 23, 2018 (the "**Redemption Date**")
- Increased the monthly dividend payment to shareholders by 2% starting with the September payment, while maintaining a low payout ratio of 62.6% for the year ended December 31, 2018
- Financed/refinanced $409,047 of property-level mortgages and credit facilities in 2018 at a weighted average interest rate of 3.67%
- Decreased year-over-year debt to gross book value by 190 basis points ("**bps**") to 47.7% as at December 31, 2018
- Increased year-over-year debt service coverage ratio by 0.2x to 2.0x for the year ended December 31, 2018
- Increased year-over-year interest coverage ratio by 0.2x to 3.9x for the year ended December 31, 2018

Growing the Company:

Sienna's growth plan is based on three key components:

Organic Growth:

- Growing Sienna's portfolio organically through rate increases, stabilized occupancy and expanding services to meet resident needs
- Maintaining existing assets with preventative maintenance and ongoing capital improvements
- Continuing to invest in Sienna's team culture and operating platform to deliver a great resident experience and maintain disciplined cost management

Development:

- In key Ontario markets, developing seniors' living campuses that provide a wide range of care options and services, including IL, AL, MC and LTC
- Developing free standing RRs in certain markets with adequate demand
- Expanding seniors' living capacity in existing RRs with excess land
- Responding to requests for proposals, where feasible

***Acquisitions**:*

- Strategic and disciplined acquisitions of high-quality seniors' living residences in key markets in Canada
- Expanding Sienna's private-pay Retirement portfolio

Progress:

- Strong year-over-year organic growth in the Retirement segment, representing a 5.4% increase in same property NOI
- Acquired a portfolio of ten seniors' living residences in Ontario in March 2018 ("the **Acquisition**"), consisting of 1,245 private-pay ISL and AL suites (the "**Acquired Properties**")
- Acquired an additional 16% interest in Glenmore Lodge in May 2018, increasing the Company's interest in Glenmore Lodge from 61% to 77%
- Completed the retrofit of one older Class C LTC seniors' living residence in Stouffville, Ontario, in Q2 2018
- Expanding the Island Park Retirement Residence in Campbellford, Ontario, which is expected to be completed by mid-2019
- Received preliminary approval from the Ministry of Health and Long-term Care ("**MOHLTC**") for two development/ redevelopment projects

Corporate Social Responsibility

Sienna's commitment to corporate social responsibility is reflected in many initiatives and based upon the belief that each of the communities in which it operates is unique. Aware and connected to its communities, the Company strives to create a positive experience for residents, their families and Sienna employees, and to give back in a number of meaningful ways. Further, the Company is continuously looking for ways to make operations more sustainable and focus on updating infrastructure through key initiatives that include increased water conservation and decreased energy consumption. Sienna's commitment to corporate social responsibility include the following recent initiatives and results:

- Sienna is an active leader in the Canadian Association of Long Term Care, Ontario Long Term Care Association, Ontario Retirement Communities Association, BC Care Providers Association and BC Seniors Living Association.

- In July 2018, Sienna's British Columbia long-term care residences received a four-year Accreditation with Exemplary Standing - the highest distinction awarded by Accreditation Canada. This recognizes Sienna's long-term care residences in British Columbia for going beyond the requirements of the rigorous national accreditation program and demonstrating excellence in quality improvement.

- In 2017, Sienna was named one of Canada's Most Admired Corporate Cultures by Waterstone Human Capital, a leading executive search and professional recruitment firm. This award highlights the Company's commitment to cultivating and sustaining a culture that promotes social responsibility and is supportive of employees, which ultimately drives growth and performance.

- Sienna is currently among the top 5 companies listed on the TSX when it comes to gender diversity. As at December 31, 2018, half of the Company's Board of Directors is comprised of female leaders and 60% of the Company's executive team is female, a testament to Sienna's commitment to recruiting, promoting and retaining women in leadership roles in the organization.

- On June 1, 2017, the Company launched "Sienna for Seniors," an integrated, company-wide charitable giving program. The program supports marginalized seniors, facing economic and social challenges in the local communities that the Company serves. For the year ended December 31, 2018, approximately $216 has been raised, and all money remains in the community where it was raised, supporting charities with seniors-focused programs that include the United Way, regional Alzheimer Societies, and other local charities.

Industry Overview

The growing seniors' living sector in Canada continues to be fragmented and highly regulated, with significant barriers to entry. Demand is driven by an aging population with seniors over the age of 80 expected to more than double over the next 20 years to approximately 3.3 million. The sector is highly regulated by provincial governments and regional health authorities, with growing and varied obligations placed on operators, including with respect to day-to-day operations, financial management, reporting, and community and stakeholder engagement. Additionally, the sector requires an increasingly complex level of specialized expertise and a solid operating platform in order to succeed in meeting regulatory requirements and providing positive resident and family experiences. All LTC and RR residences require an approved licensed operator. All of these factors are contributing to the high barriers to entry in the sector.

Seniors' Living Continuum

Seniors' living residences provide a range of services and programs based on an individual's needs and level of independence. Seniors who enjoy a high level of independence and require little assistance with the activities of daily living may choose to live in seniors' apartments or condominiums with minimal or no assistance or with the option of care and services on an as-needed basis (such residences are RRs that have IL, ISL or AL services and, in some cases, MC); while those who require extensive assistance with the activities of daily living, health care needs and access to 24-hour nursing care support are best suited to LTC. A general and broad description

of the services that can be provided in seniors' living residences is detailed below:

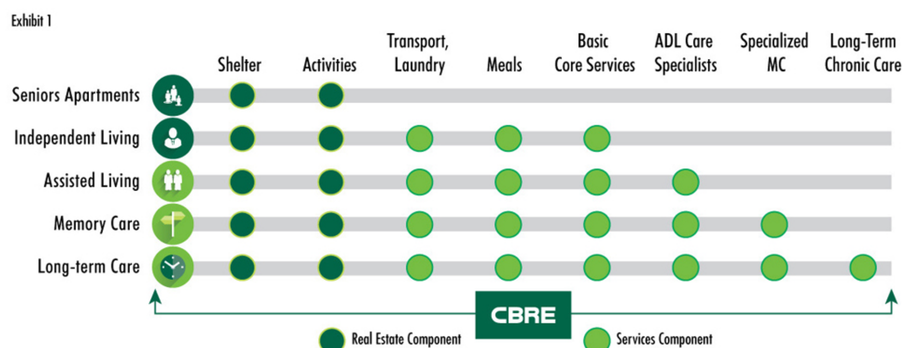
- **Independent Living ("IL")**: IL provides the privacy and freedom of home combined with the convenience and security of on-call assistance and a maintenance-free environment. Residents typically have the option of purchasing à la carte services including meal packages, housekeeping, transportation and laundry. It is typically apartment-style accommodation with a full kitchenette and is private-pay. Tenure may be rental or some form of ownership, such as condominium or life lease.

- **Independent Supportive Living ("ISL")**: ISL is designed for seniors who pay for services such as 24-hour response, housekeeping, laundry, meals, transportation and accommodation as part of a total monthly private-pay fee or rental rate. These residents require little or no assistance with daily living activities but benefit from the social setting and meal preparation. Some residences include a minimum amount of daily care but primarily this level of accommodation is for the senior who can live more independently with the option of additional care and services available on an as needed basis. Accommodation is studio, one or two bedroom units with kitchenettes.

- **Assisted Living ("AL"):** AL is intended for frail seniors who need assistance with daily living activities but do not require skilled nursing care. While most of AL is provided as private-pay, some residences deliver AL services through private-pay or government funded home care services.

- **Memory Care ("MC"):** MC serves seniors with memory impairment, Alzheimer's or other forms of dementia. Mild cases of dementia are typically suitably addressed within secure AL accommodation suites in a dedicated area within the residence, or more broadly throughout the residence. Moderate to severe cases require dedicated accommodation suites and specialized and more intensive care.

- **Long-term Care**: LTC is for those who are not able to live independently and require assistance with the activities of daily living and care, including skilled nursing care on a daily basis. Eligibility for access to a LTC home is based on a person's assessed care requirements and is determined and arranged through government agencies. The resident pays for the accommodation as set by the government and the government typically pays for care, programs and supplies. In most provinces, there is a waiting period for access to LTC accommodations. In certain provinces, there are also LTC homes providing entirely private-pay accommodations and are subject to the same regulatory oversight.



Source: CBRE Limited, Valuation & Advisory Services. (2017). Seniors Housing & Healthcare.

Retirement Residences

RRs focus on IL, ISL, AL, and in some cases MC, and generally provide studio, one-bedroom or two-bedroom accommodation suites and amenity space. Suites are rented to residents on a monthly basis, and provide for meals, snacks, leisure activities, transportation and AL services, which include some care and services based on resident needs and preferences (such as assistance with bathing, medication administration and other ADL). Accommodation and services are private-pay based on market rates.

The RR sector requires that a residence must be licensed to operate. Further, expansion of retirement residences or new development require feasibility studies, which support that there is adequate income qualified demand for any given community to accommodate additional retirement residence capacity. Feasibility studies and proven demand are required for financing. The regulations and operational nature of the business and licensing requirements pose increasing barriers of entry.

Long-term Care

The LTC sector in Ontario and British Columbia, Sienna's key markets, is comprised of a number of private operators, public sector operators and not-for-profit organizations offering a variety of services similar to those offered by the Company. The sector has experienced consolidation in recent years, which is expected to continue, although remains fragmented with small operators (including not-for-profit operators) providing most of the beds.

The LTC sector, which provides essential health services to its communities, can be distinguished from other segments of the seniors' living sector based on a number of factors, including the following:

- **Provision of an essential service**: LTC residences provide essential health services in the form of 24-hour registered nursing support, assistance with ADL and mobility, to individuals with complex physical and medical care needs who may otherwise require hospital care.

- **Significant barriers to entry**: Barriers to entry are both regulatory and operational. The LTC sector requires that a residence and operator must be licensed by the regulatory authority in order to operate. In addition to the regulatory barriers to entry, the successful operation of an LTC residence requires a broad range of specialized expertise, including systems and processes to comply with extensive regulation, expertise in gerontological care, chronic disease management, health care operations, financial management and reporting, asset management, community and stakeholder engagement, labour relations and government relations.

LTC Financial Model

All aspects of the operation of LTC are highly regulated by provincial government and/or regional health authorities. In British Columbia and Ontario, Sienna's key markets, access to LTC is controlled though a government agency based on eligibility. Provincial health programs provide funding for certain care services, with the residents contributing a co-payment (the rate is set by the regulatory body). Since each province establishes its own system for carrying out the oversight of LTC residences and administering programs, there are differences in the regulations governing care providers, as well as in the actual funding programs.

Ontario

Licensed operators of Ontario LTC residences are entitled to operational funding for care services to residents, as well as various other payments from the MOHLTC. Operational funding of LTC residences is used to fund certain eligible care services and is currently paid monthly in what is known as flow-through “envelopes.”

British Columbia

Funded LTC Beds

The funding contracts between LTC operators and the applicable health authorities in British Columbia are on a per diem basis, adjusted annually, for resident services provided and capital cost of the residences, and outline the hours of direct care required by a resident per day, minimum occupancy thresholds and minimum levels of professional staffing.

Private-Pay Long-term Care Beds

In British Columbia, operators may designate a number of beds for private-pay LTC whereby the operator provides the same level of care and services to the resident as in the funded beds. Rates paid by the resident are market driven and the beds are subject to the same regulations and inspection as funded LTC beds.

Quarterly Financial Information

Thousands of Canadian dollars, except occupancy and per share data	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	169,455	165,048	162,124	145,357	146,330	139,867	137,527	133,966
Operating Expenses	130,556	124,529	122,734	112,953	115,831	109,109	108,117	106,505
Income before net finance charges, transaction costs and provision for (recovery of) income taxes	13,970	15,737	15,292	14,757	15,508	15,659	15,464	13,392
Net income (loss)	302	5,000	3,548	1,033	4,195	6,214	6,726	4,679
Per share basic	0.006	0.076	0.055	0.018	0.078	0.131	0.144	0.099
Per share diluted	0.006	0.076	0.055	0.018	0.078	0.131	0.144	0.099
OFFO	23,402	23,825	24,199	18,471	17,834	16,565	15,754	14,190
Per share basic	0.355	0.362	0.378	0.314	0.353	0.357	0.341	0.308
Per share diluted	0.355	0.362	0.372	0.307	0.343	0.346	0.330	0.299
AFFO[1]	21,590	24,266	25,993	20,636	16,948	18,217	17,178	16,143
Per share basic[1]	0.326	0.370	0.403	0.351	0.331	0.394	0.371	0.350
Per share diluted[1]	0.326	0.370	0.398	0.342	0.323	0.380	0.359	0.339
Dividends declared	15,145	14,995	14,620	13,523	11,437	10,430	10,429	10,364
Per share	0.230	0.228	0.225	0.225	0.225	0.225	0.225	0.225
Occupancy								
Retirement - Average total	91.8%	91.4%	91.6%	92.6%	93.2%	94.1%	94.2%	94.3%
Retirement - As at total occupancy	91.6%	91.8%	91.3%	92.6%	92.3%	94.1%	94.7%	93.8%
LTC - Average total occupancy	98.5%	98.7%	98.3%	97.9%	98.5%	98.6%	98.5%	97.9%
LTC - Average private occupancy[2]	98.6%	98.6%	98.0%	97.9%	98.5%	98.5%	98.4%	98.6%
Total assets[3]	1,753,200	1,746,612	1,800,952	1,759,189	1,394,858	1,221,813	1,210,433	1,213,132
Total debt[4]	984,917	985,694	1,025,857	1,022,128	818,951	762,044	746,583	756,902
Debt to gross book value as at period end[5]	47.7%	48.3%	49.4%	50.3%	49.6%	51.8%	51.5%	49.6%

Notes:

1. Effective Q3 2018, deferred share unit compensation earned is not added back to calculate AFFO. The prior quarters have been restated to reflect this change.
2. The comparative periods have been restated to include both private independent living and assisted living.
3. Property and equipment included in total assets are measured at cost less accumulated depreciation, amortization and impairment losses.
4. Total debt includes the Convertible Debentures up to the Redemption Date and is net of amounts paid into the principal reserve fund on the Series B Debentures.
5. Refer to the debt to gross book value calculation in the "Liquidity and Capital Resources" section below.

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

A discussion of the operating results for the year ended December 31, 2018 compared to the same period in the prior year is provided below under the section "Operating Results."

Selected Annual Financial Information

The following table summarizes selected annual financial information for the years ended December 31, 2018, 2017 and 2016:

Thousands of Canadian dollars, except per share data	2018	2017	2016
Revenue from continuing operations [1]	**641,984**	557,690	497,887
Income from continuing operations before net finance charges, transaction costs and the provision for (recovery of) income taxes [1]	**59,756**	60,023	39,772
Net income from continuing operations [1]	**9,883**	21,815	2,937
Per share basic and diluted [1]	**0.155**	0.455	0.073
Net income from discontinued operations [2]	—	—	288
Per share basic and diluted[2]	—	—	0.007
OFFO	**89,897**	64,343	52,780
Per share basic	**1.409**	1.359	1.303
Per share diluted	**1.397**	1.318	1.259
AFFO [3]	**92,485**	70,151	59,116
Per share basic	**1.450**	1.446	1.438
Per share diluted	**1.436**	1.401	1.385
Dividends declared	**58,283**	42,660	36,468
Per share	**0.908**	0.900	0.900
Total assets	**1,753,200**	1,394,858	1,204,218
Total debt [4]	**984,917**	818,951	734,459

Notes:

1. These amounts exclude the results of Preferred Health Care Services ("**PHCS**"), a discontinued operation.
2. Net income for 2016 excludes the gain on sale of PHCS of $7,719, net of taxes of $2,142, and a non-recurring tax recovery of $539 in Q4 2016.
3. Effective Q3 2018, deferred share unit compensation earned is not added back to calculate AFFO. The comparative periods have been restated to reflect this change.
4. Total debt includes the Convertible Debentures and is net of amounts paid into the principal reserve fund on the Series B Debentures.

Operating Results

Retirement Residences

The Company's Retirement portfolio consists of 27 RRs, five of which are located in British Columbia and 22 of which are located in Ontario. The Company's RR portfolio, while still growing its revenue base, generated 21.8% of the Company's revenues and 41.5% of its NOI in 2018.

Long-term Care

The Company's LTC portfolio contributed 78.2% of the Company's revenues and generated 58.5% of its NOI in 2018. Approximately 55% of the Company's LTC beds are designated as preferred accommodation (private and semi-private rooms), which contributed approximately 3.9% of the Company's LTC segment revenues. Effective July 1, 2018, the MOHLTC announced that the regulated per diem premiums had increased to $26.04 per bed per day for new admissions to private accommodation in Class A homes, with existing residents in such preferred

accommodations being grandfathered at substantially historical rates. The rates for Class C homes are currently $18.74 and $8.33 per bed per day, respectively, for private and semi-private accommodation.

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

	Three Months Ended			Year Ended		
Thousands of Canadian dollars	**2018**	2017	Change	**2018**	2017	Change
Revenue	**169,455**	146,330	23,125	**641,984**	557,690	84,294
Expenses						
Operating	**130,556**	115,831	14,725	**490,772**	439,562	51,210
Depreciation and amortization	**19,466**	9,801	9,665	**71,174**	37,620	33,554
Administrative	**5,463**	5,190	273	**20,282**	20,485	(203)
	155,485	130,822	24,663	**582,228**	497,667	84,561
Income before net finance charges, transaction costs and provision for (recovery of) income taxes	**13,970**	15,508	(1,538)	**59,756**	60,023	(267)
Net finance charges	**12,925**	6,655	6,270	**36,457**	25,421	11,036
Transaction costs	**1,088**	4,039	(2,951)	**10,390**	6,008	4,382
Total other expenses	**14,013**	10,694	3,319	**46,847**	31,429	15,418
Income (loss) before provision for (recovery of) income taxes	**(43)**	4,814	(4,857)	**12,909**	28,594	(15,685)
Provision for (recovery of) income taxes						
Current	**1,159**	1,131	28	**7,632**	7,285	347
Deferred	**(1,504)**	(513)	(991)	**(4,606)**	(506)	(4,100)
	(345)	618	(963)	**3,026**	6,779	(3,753)
Net income	**302**	4,196	(3,894)	**9,883**	21,815	(11,932)
Net income attributable to:						
Shareholders of the Company	**302**	4,105	(3,803)	**9,883**	21,402	(11,519)
Non-controlling interest	**—**	91	(91)	**—**	413	(413)
	302	4,196	(3,894)	**9,883**	21,815	(11,932)
Total assets	**1,753,200**	1,394,858	358,342	**1,753,200**	1,394,858	358,342
Total debt (net of principal reserve fund)	**984,917**	818,951	165,966	**984,917**	818,951	165,966

Revenue Breakdown

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

	Three Months Ended			Year Ended		
Thousands of Canadian dollars	**2018**	2017	Change	**2018**	2017	Change
Retirement						
Same property[1]	**20,902**	20,035	867	**73,947**	71,057	2,890
Acquisitions[1]	**18,088**	—	18,088	**66,012**	—	66,012
Total Retirement Revenue	**38,990**	20,035	18,955	**139,959**	71,057	68,902
Long-term Care						
Same property[2]	**130,465**	126,295	4,170	**500,681**	486,436	14,245
Acquisitions[2]	**—**	—	—	**1,344**	197	1,147
Total Long-term Care Revenue	**130,465**	126,295	4,170	**502,025**	486,633	15,392
Total Revenue						
Same property	**151,367**	146,330	5,037	**574,628**	557,493	17,135
Acquisitions	**18,088**	—	18,088	**67,356**	197	67,159
Total Revenue	**169,455**	146,330	23,125	**641,984**	557,690	84,294

Notes:

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

Operating Expense Breakdown

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

	Three Months Ended			Year Ended		
Thousands of Canadian dollars	**2018**	2017	Change	**2018**	2017	Change
Retirement						
Same property[1]	**11,417**	11,056	361	**39,446**	38,311	1,135
Acquisitions[1]	**10,473**	—	10,473	**37,690**	—	37,690
Total Retirement Expenses	**21,890**	11,056	10,834	**77,136**	38,311	38,825
Long-term Care						
Same property[2]	**108,666**	104,775	3,891	**413,966**	401,119	12,847
Same property - prior year tax refund	**—**	—	—	**(1,254)**	—	(1,254)
Acquisitions[2]	**—**	—	—	**924**	132	792
Total Long-term Care Expenses	**108,666**	104,775	3,891	**413,636**	401,251	12,385
Total Operating Expenses						
Same property	**120,083**	115,831	4,252	**452,158**	439,430	12,728
Acquisitions	**10,473**	—	10,473	**38,614**	132	38,482
Total Operating Expenses	**130,556**	115,831	14,725	**490,772**	439,562	51,210

Notes:

1. In June 2018 and July 2018, the results of Rosewood and Kawartha were respectively reclassified from Acquisitions to Same property. In December 2018, Waterford Barrie and Waterford Kingston were reclassified from Acquisitions to Same property. The results of the RR Properties are included in Acquisitions for the applicable periods.
2. In Q2 2018, the results of Glenmore Lodge were reclassified from Acquisitions to Same property.

Net Operating Income Breakdown

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

	Three Months Ended			Year Ended		
Thousands of Canadian dollars	**2018**	2017	Change	**2018**	2017	Change
Retirement						
Same property[1]	**9,485**	8,979	506	**34,501**	32,746	1,755
Acquisitions[1]	**7,615**	—	7,615	**28,322**	—	28,322
Total Retirement NOI	**17,100**	8,979	8,121	**62,823**	32,746	30,077
Long-term Care						
Same property[2]	**21,799**	21,520	279	**86,715**	85,317	1,398
Same property - prior year tax refund	**—**	—	—	**1,254**	—	1,254
Acquisitions[2]	**—**	—	—	**420**	65	355
Total Long-term Care NOI	**21,799**	21,520	279	**88,389**	85,382	3,007
Total NOI						
Same property	**31,284**	30,499	785	**122,470**	118,063	4,407
Acquisitions	**7,615**	—	7,615	**28,742**	65	28,677
Total NOI	**38,899**	30,499	8,400	**151,212**	118,128	33,084

Notes:

1. In June 2018 and July 2018, the results of Rosewood and Kawartha were respectively reclassified from Acquisitions to Same property. In December 2018, Waterford Barrie and Waterford Kingston were reclassified from Acquisitions to Same property. The results of the RR Properties are included in Acquisitions for the applicable periods.
2. In Q2 2018, the results of Glenmore Lodge were reclassified from Acquisitions to Same property.

Fourth Quarter 2018 Operating Results

Revenue

Same property revenues for Q4 2018 increased by $5,037 to $151,367, compared to Q4 2017. Retirement's same property revenues for Q4 2018 increased by $867 to $20,902, compared to Q4 2017, primarily attributable to market rate adjustments and annual rate increases. LTC's same property revenues for Q4 2018 increased by $4,170 to $130,465, compared to Q4 2017, primarily attributable to additional funding revenues as well as inflationary funding increases.

The RR Properties contributed $18,088 to revenues from acquisitions for Q4 2018 (2017 - $nil), of which the Acquired Properties contributed $14,548 (2017 - $nil).

Operating Expenses

Same property operating expenses for Q4 2018 increased by $4,252 to $120,083, compared to Q4 2017. Retirement's same property operating expenses for Q4 2018 increased by $361 to $11,417, compared to Q4 2017, due to inflationary increases. LTC's same property operating expenses for Q4 2018 increased by $3,891 to $108,666, compared to Q4 2017, due to additional expenses associated with new funding revenues and inflationary increases, partially offset by a one-time reduction of $105 in British Columbia's Medical Service Plan ("**MSP**") premiums in Q4 2018.

The RR Properties contributed $10,473 to operating expenses from acquisitions for Q4 2018 (2017 - $nil), of which the Acquired Properties contributed $8,571 (2017 - $nil).

NOI

Same property NOI for Q4 2018 increased by $785 to $31,284, compared to Q4 2017. Retirement's same property NOI for Q4 2018 increased by $506 to $9,485, compared to Q4 2017, primarily attributable to market rate adjustments, annual rate increases and operating efficiencies. LTC's same property NOI for Q4 2018 increased by $279 to $21,799 compared to Q4 2017, primarily attributable to inflationary funding increases and a one-time reduction in MSP premiums in British Columbia in Q4 2018.

The RR Properties contributed $7,615 to NOI from acquisitions for Q4 2018 (2017 - $nil), of which the Acquired Properties contributed $5,977 (2017 - $nil).

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

Depreciation and Amortization

Depreciation and amortization for Q4 2018 increased by $9,665 to $19,466, compared to Q4 2017, due to the RR Properties acquired since Q4 2017.

Administrative Expenses

Administrative expenses for Q4 2018 increased by $273 to $5,463, compared to Q4 2017, due to increases in employee costs commensurate with the Company's growth, partially offset by a decrease in mark-to-market adjustments on share-based compensation.

Net Finance Charges

Net finance charges for Q4 2018 increased by $6,270 to $12,925, compared to Q4 2017, primarily attributable to incremental interest expense due to the RR Properties acquired since Q4 2017 and a fair value loss on interest rate swap contracts in Q4 2018. This increase was partially offset by lower interest expense on the Convertible Debentures, which were fully redeemed in May 2018.

Transaction Costs

Transaction costs for Q4 2018 decreased by $2,951 to $1,088 compared to Q4 2017, primarily attributable to acquisition costs incurred in Q4 2017.

Income Taxes

Income tax expense for Q4 2018 decreased by $963 resulting in a recovery of $345, compared to Q4 2017. The current income tax expense for Q4 2018 increased by $28 to $1,159 compared to Q4 2017, primarily attributable to an increase in NOI, partially offset by tax depreciation associated with the acquisitions since Q4 2017 and adjustments in 2017 to prior years' temporary differences. The current income tax expense in Q4 2018 has been calculated at the weighted average combined corporate tax rate of 26.57% (2017 - 26.46%). The deferred income tax recovery increased by $991 to $1,504 in Q4 2018 compared to Q4 2017, primarily attributable to a fair value loss on interest rate swap contracts in Q4 2018 and temporary differences related to the acquisitions since Q4 2017 that are not currently deductible.

Year Ended December 31, 2018 Operating Results

Revenue

Same property revenues for the year ended December 31, 2018 increased by $17,135 to $574,628 over the comparable prior year period. Retirement same property revenues for the year ended December 31, 2018 increased by $2,890 to $73,947, primarily attributable to market rate adjustments and annual rate increases. LTC's same property revenues for the year ended December 31, 2018 increased by $14,245 to $500,681, primarily attributable to annual funding and rate increases and additional funding revenues.

Revenues from acquisitions for the year ended December 31, 2018 increased by $67,159 to $67,356 over the comparable prior year period. The RR Properties contributed $66,012 to revenues for the year ended December 31, 2018 (2017 - $nil), of which the Acquired Properties contributed $44,501 (2017 - $nil). LTC's revenues from acquisitions for the year ended December 31, 2018 increased by $1,147 to $1,344 due to the additional interest in Glenmore Lodge acquired in Q1 2017.

Operating Expenses

Same property operating expenses for the year ended December 31, 2018 increased by $12,728 to $452,158, over the comparable prior year period. Retirement same property operating expenses for the year ended December 31, 2018 increased by $1,135 to $39,446, primarily due to inflationary increases. LTC's same property operating expenses for the year ended December 31, 2018 increased by $11,593 to $412,712, primarily attributable to inflationary increases in the flow-through envelopes, partially offset by a prior year tax refund, lower utilities expenses and a one-time reduction of $398 in MSP premiums in British Columbia. The MSP premiums will be phased out in 2019, and a new Employer Health Tax has been introduced in British Columbia effective January 2019.

Operating expenses from acquisitions for the year ended December 31, 2018 increased by $38,482 to $38,614 over the comparable prior year period. The RR Properties contributed $37,690 of operating expenses for the year ended December 31, 2018 (2017 - $nil), of which the Acquired Properties contributed $25,589 (2017 - $nil). LTC's operating expenses from acquisitions for the year ended December 31, 2018 increased by $792 to $924 due to the acquisition at the end of Q1 2017.

NOI

Same property NOI for the year ended December 31, 2018 increased by $4,407 to $122,470 over the comparable prior year period. Retirement's same property NOI increased by $1,755 to $34,501, primarily attributable to market rate adjustments, annual rate increases and operating efficiencies. LTC's same property NOI for the year ended December 31, 2018 increased by $2,652 to $87,969 for the year ended December 31, 2018, primarily attributable to a prior year tax refund, increased funding, rate increases, lower utilities expenses and a one-time reduction in MSP premiums in British Columbia.

NOI from acquisitions for the year ended December 31, 2018 increased by $28,677 to $28,742 over the comparable prior year period. The RR Properties contributed NOI of $28,322 for the year ended December 31, 2018 (2017 - $nil), of which the Acquired Properties contributed $18,912 (2017 - $nil). LTC's NOI from acquisitions for the year ended December 31, 2018 increased by $355 to $420 due to the acquisition at the end of Q1 2017.

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

Depreciation and Amortization

Depreciation and amortization for the year ended December 31, 2018 increased by $33,554 to $71,174 over the comparable prior year period primarily due to the amortization of resident relationships and the depreciation of buildings on the RR Properties acquired since Q4 2017.

Administrative Expenses

Administrative expenses for the year ended December 31, 2018 decreased by $203 to $20,282 over the comparable prior year period, due to a decrease in mark-to-market adjustments on share-based compensation, partially offset by increases in employee costs commensurate with the Company's growth.

Net Finance Charges

Net finance charges for the year ended December 31, 2018 increased by $11,036 to $36,457 over the comparable prior year period, primarily attributable to incremental interest expense from the RR Properties acquired during 2017, a fair value loss on interest rate swap contracts for the year ended December 31, 2018 and interest expense on the Bridge Loan entered into in Q1 2018, as described in the "Capital Resources" section below. This increase was partially offset by lower interest expense on the Convertible Debentures, which were fully redeemed in May 2018.

Transaction Costs

Transaction costs for the year ended December 31, 2018 increased by $4,382 to $10,390 over the comparable prior year period, primarily attributable to the Acquired Properties in Q1 2018, including land transfer tax.

Income Taxes

The income tax expense for the year ended December 31, 2018 decreased by $3,753 to $3,026 over the comparable prior year period. The current income tax expense increased by $347 over the comparable prior year period to $7,632, primarily attributable to an increase in NOI, partially offset by an increase in interest expense, transaction costs and tax depreciation associated with the acquisitions completed since Q2 2017. The current income tax expense has been calculated at the year-to-date weighted average combined corporate tax rate of 26.57% (2017 - 26.46%). The deferred income tax recovery increased by $4,100 to $4,606 over the comparable prior year period, primarily attributable to temporary differences related to the acquisitions completed since Q2 2017 that are currently not deductible.

Business Performance

Adjusted Funds from Operations

The IFRS measure most directly comparable to FFO and OFFO is "net income." The following table represents the reconciliation of "net income" to FFO and OFFO for the periods ended December 31. The reconciliation from FFO to AFFO is provided as supplementary information.

	Three Months Ended			Year Ended		
Thousands of Canadian dollars, except share and per share data	**2018**	2017	Change	**2018**	2017	Change
Net income	**302**	4,196	(3,894)	**9,883**	21,815	(11,932)
Deferred income tax recovery	**(1,504)**	(513)	(991)	**(4,606)**	(506)	(4,100)
Depreciation and amortization	**18,879**	9,405	9,474	**69,281**	36,094	33,187
Transaction costs	**1,088**	4,039	(2,951)	**10,390**	6,008	4,382
Fair value loss (gain) on interest rate swap contracts	**3,530**	(667)	4,197	**1,056**	(1,581)	2,637
Gain on Glenmore Lodge option (net of taxes)	**—**	—	—	**—**	(62)	62
Non-controlling interest	**—**	(91)	91	**—**	(413)	413
Funds from operations (FFO)	**22,295**	16,369	5,926	**86,004**	61,355	24,649
Depreciation and amortization - corporate	**587**	396	191	**1,893**	1,526	367
Amortization of financing charges and fair value adjustments on acquired debt	**482**	288	194	**2,046**	755	1,291
Amortization of loss on bond forward contract	**235**	226	9	**919**	885	34
Net settlement payment on interest rate swap contracts	**(138)**	(174)	36	**(729)**	(907)	178
Tax shield due to the settlement of the bond-lock hedge	**(59)**	729	(788)	**(236)**	729	(965)
Operating funds from operations (OFFO)	**23,402**	17,834	5,568	**89,897**	64,343	25,554
Income support	**57**	135	(78)	**766**	135	631
Construction funding[1]	**2,713**	2,574	139	**10,675**	10,162	513
Maintenance capex	**(4,582)**	(3,595)	(987)	**(8,853)**	(6,153)	(2,700)
Adjusted funds from operations (AFFO)[2]	**21,590**	16,948	4,642	**92,485**	68,487	23,998
Adjusted funds from operations (AFFO)[2]	**21,590**	16,948	4,642	**92,485**	68,487	23,998
Dividends declared	**(15,145)**	(11,437)	(3,708)	**(58,283)**	(42,660)	(15,623)
AFFO retained	**6,445**	5,511	934	**34,202**	25,827	8,375
Basic FFO per share	**0.338**	0.323	0.015	**1.348**	1.296	0.052
Basic OFFO per share	**0.355**	0.353	0.002	**1.409**	1.359	0.050
Basic AFFO per share[2]	**0.326**	0.331	(0.005)	**1.450**	1.446	0.004
Weighted average common shares outstanding - Basic	**65,957,631**	50,635,054		**63,792,328**	47,349,605	
Diluted FFO per share	**0.338**	0.316	0.022	**1.339**	1.264	0.075
Diluted OFFO per share	**0.355**	0.343	0.012	**1.397**	1.318	0.079
Diluted AFFO per share[2]	**0.326**	0.323	0.003	**1.436**	1.401	0.035
Weighted average common shares outstanding - Diluted	**65,957,631**	53,294,259		**64,817,549**	50,024,573	

Notes:

1. The Company receives funding from the Ontario government for the construction costs of LTC residences constructed after April 1, 1988. The amounts are non-interest bearing, and are received for certain LTC residences, subject to the condition that they continue to operate as long-term care residences for the period for which they are entitled to the construction funding. As at December 31, 2018, the condition for the funding has been met.
2. Effective Q3 2018, deferred share unit compensation earned is not added back to calculate AFFO. The comparative periods have been restated to reflect this change.

Reconciliation of diluted FFO, OFFO and AFFO

Thousands of Canadian dollars	Three Months Ended 2018	2017	Change	Year Ended 2018	2017	Change
FFO, Basic	**22,295**	16,369	5,926	**86,004**	61,355	24,649
Net financing charges on convertible debt	—	644	(644)	**1,043**	2,572	(1,529)
Current income tax expense adjustment	—	(171)	171	**(276)**	(681)	405
FFO, Diluted	**22,295**	16,842	5,453	**86,771**	63,246	23,525
OFFO, Basic	**23,402**	17,834	5,568	**89,897**	64,343	25,554
Interest expense on convertible debentures	—	544	(544)	**844**	2,167	(1,323)
Current income tax expense adjustment	—	(144)	144	**(223)**	(573)	350
OFFO, Diluted	**23,402**	18,234	5,168	**90,518**	65,937	24,581
AFFO, Basic	**21,590**	16,948	4,642	**92,485**	68,487	23,998
Interest expense on convertible debentures	—	544	(544)	**844**	2,167	(1,323)
Current income tax expense adjustment	—	(144)	144	**(223)**	(573)	350
AFFO, Diluted	**21,590**	17,348	4,242	**93,106**	70,081	23,025

Fourth Quarter 2018 Performance

FFO increased by $5,926 to $22,295, compared to Q4 2017. The increase was primarily attributable to the RR Properties acquired since Q4 2017 and same property growth, partially offset by incremental interest expense.

OFFO increased by $5,568 to $23,402, compared to Q4 2017. The increase was primarily attributable to the increase in FFO noted above.

AFFO increased by $4,642 to $21,590, compared to Q4 2017. The increase in AFFO was principally related to the increase in OFFO noted above, partially offset by an increase in maintenance capital expenditures mainly due to the Company's growth from acquisitions and the timing of these expenditures.

Year Ended December 31, 2018 Performance

FFO for the year ended December 31, 2018 increased by $24,649 to $86,004 over the comparative prior year period. The increase was primarily attributable to the RR Properties acquired since 2017, same property growth and a prior year tax refund, partially offset by incremental interest expense due to the RR Properties acquired.

OFFO for the year ended December 31, 2018 increased by $25,554 to $89,897 over the comparative prior year period. The increase was primarily attributable to the increase in FFO noted above.

AFFO for the year ended December 31, 2018 increased by $23,998 to $92,485 over the comparative prior year period. The increase was principally related to the increase in OFFO noted above and income support received, partially offset by an increase in maintenance capital expenditures mainly due to the Company's growth from acquisitions.

Construction Funding

The construction funding amount to reconcile from OFFO to AFFO represents the change in the construction funding receivable balance, which consists of the cash to be received, offset by the interest income on the construction funding receivable recognized in "net income." For the years ending December 31, 2019 through 2023, and thereafter, the Company estimates that the construction funding amount will be as follows:

Thousands of Canadian dollars	Construction funding interest income	Construction funding principal[1]	Total construction funding to be received
2019	2,133	10,807	12,940
2020	1,693	10,906	12,599
2021	1,252	9,797	11,049
2022	861	9,118	9,979
2023	528	6,261	6,789
Thereafter	1,145	10,227	11,372
	7,612	**57,116**	**64,728**

Note:
1. The construction funding principal received is an adjustment to reconcile from OFFO to AFFO.

For the three months and year ended December 31, 2018, $608 and $2,553 of interest income on construction funding receivable was recognized, respectively, and $2,713 and $10,675 was the adjustment to AFFO for construction funding principal received, respectively.

Reconciliation of Cash Flow from Operations to Adjusted Funds from Operations

The IFRS measure most directly comparable to AFFO is "cash flow from operating activities." The following table represents the reconciliation of cash provided by operating activities to AFFO for the periods ended December 31:

	Three Months Ended			Year Ended		
Thousands of Canadian dollars	**2018**	2017	Change	**2018**	2017	Change
Cash provided by operating activities	**36,904**	24,578	12,326	**87,383**	61,049	26,334
Gain on Glenmore Lodge option (net of taxes)	**—**	—	—	**—**	(62)	62
Non-controlling interest	**—**	(91)	91	**—**	(413)	413
Construction funding principal	**2,713**	2,574	139	**10,675**	10,162	513
Transaction costs	**1,088**	4,039	(2,951)	**10,390**	6,008	4,382
Income support adjustment[1]	**(99)**	—	(99)	**(99)**	—	(99)
Tax shield due to settlement of the bond-lock hedge	**(59)**	729	(788)	**(236)**	729	(965)
Maintenance capex	**(4,582)**	(3,595)	(987)	**(8,853)**	(6,153)	(2,700)
Net change in working capital, interest and taxes[2]	**(14,340)**	(11,219)	(3,121)	**(6,515)**	(2,507)	(4,008)
Restricted share units and long-term incentive plan expense	**(35)**	(67)	32	**(260)**	(326)	66
Adjusted funds from operations (AFFO)[2]	**21,590**	16,948	4,642	**92,485**	68,487	23,998
Adjusted funds from operations (AFFO)[2]	**21,590**	16,948	4,642	**92,485**	68,487	23,998
Dividends declared	**(15,145)**	(11,437)	(3,708)	**(58,283)**	(42,660)	(15,623)
AFFO retained[2]	**6,445**	5,511	934	**34,202**	25,827	8,375
Dividend reinvestment	**3,302**	1,338	1,964	**10,962**	5,276	5,686
AFFO retained after dividend reinvestment[2]	**9,747**	6,849	2,898	**45,164**	31,103	14,061

Notes:

1. Included with this reconciliation is an income support adjustment which was recorded as transaction costs in Q4 2018.
2. Effective Q3 2018, deferred share unit compensation earned is not added back to calculate AFFO. The comparative periods have been restated to reflect this change.

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

The following table summarizes the dividends declared in relation to cash flows from operating activities for the periods ended December 31:

	Three Months Ended			Year Ended		
Thousands of Canadian dollars	**2018**	2017	Change	**2018**	2017	Change
Cash flows from operating activities	**36,904**	24,578	12,326	**87,383**	61,049	26,334
Dividends declared	**15,145**	11,437	3,708	**58,283**	42,660	15,623
Excess of cash flows from operating activities over dividends declared	**21,759**	13,141	8,618	**29,100**	18,389	10,711

Liquidity and Capital Resources

Financial Position Analysis

Balance Sheet Analysis

The following table summarizes the significant changes in assets, liabilities and equity for December 31, 2018 compared to December 31, 2017.

Thousands of Canadian dollars	**2018**	2017	Change
Total assets	**1,753,200**	1,394,858	358,342
Total liabilities	**1,185,549**	998,658	186,891
Total equity	**567,651**	396,200	171,451

Total assets increased by $358,342 to $1,753,200 primarily due to assets of $383,988 acquired from the Acquisition in Q1 2018, mainly consisting of property and equipment and intangible assets.

Total liabilities increased by $186,891 to $1,185,549 primarily due to $76,560 of mortgages assumed from the Acquisition in Q1 2018, and net proceeds of $440,987 from the financing/refinancing of long-term debt, and net drawdowns of $8,000 from the Company's credit facilities. This was partially offset by the repayment of long-term debt of $301,926, and redemption of the Convertible Debentures of $44,267.

Total equity increased by $171,451 to $567,651 primarily due to the Acquisition Offering of $184,017, conversion of the Convertible Debentures of $31,553, and net income of $9,883 for the year ended December 31, 2018, partially offset by the payment of dividends.

Cash Flow Analysis

The following table represents the summary of cash flows for the periods ended December 31, 2018:

	Three Months Ended			Year Ended		
Thousands of Canadian dollars	**2018**	2017	Change	**2018**	2017	Change
Cash provided by (used in):						
Operating activities	**36,904**	24,578	12,326	**87,383**	61,049	26,334
Investing activities	**(10,032)**	(116,522)	106,490	**(327,583)**	(143,830)	(183,753)
Financing activities	**(13,086)**	95,640	(108,726)	**244,303**	74,346	169,957
Increase (decrease) in cash during the period	**13,786**	3,696	10,090	**4,103**	(8,435)	12,538
Cash, end of period	**22,868**	18,765		**22,868**	18,765	

Fourth Quarter 2018

Cash flows provided by operating activities for the three months ended December 31, 2018 increased by $12,326 to $36,904 primarily due to NOI generated from the RR Properties and lower transaction costs, partially offset by increased interest payments.

Cash flows used in investing activities for the three months ended December 31, 2018 decreased by $106,490 to $10,032 primarily due to the acquisition of Waterford Barrie and Waterford Kingston in Q4 2017 (the "**Waterford Acquisition**").

Cash flows provided by financing activities for the three months ended December 31, 2018 decreased by $108,726 to $13,086 primarily due to the Company's offering of common shares in Q4 2017 to finance the Waterford Acquisition.

Year Ended December 31, 2018

Cash flows provided by operating activities for the year ended December 31, 2018 increased by $26,334 to $87,383 primarily due to NOI generated from the RR Properties, partially offset by higher transaction costs and increased interest payments.

Cash flows used in investing activities for the year ended December 31, 2018 increased by $183,753 to $327,583 primarily due to the acquisition of the Acquired Properties in Q1 2018, partially offset by the Waterford Acquisition in Q4 2017.

Cash flows provided by financing activities for the year ended December 31, 2018 increased by $169,957 to $244,303 primarily due to an increase in net proceeds from the financing/refinancing of long-term debt, the Company's net drawdowns on its credit facilities and share issuance costs.

Capital Resources

On March 28, 2018, the Company entered into a credit agreement with a Canadian lender for an acquisition term loan facility of $115,000 (the "**Bridge Loan**"). The Bridge Loan was due one year from the closing of the Acquisition, and was used to finance the Acquisition. Borrowings under the Bridge Loan were available by way of banker's acceptances ("**BAs**") at the BA rate plus 200 bps and loans at an interest rate of prime plus 100 bps per annum. The Bridge Loan was secured by a pool of properties, and was subject to certain customary financial and non-financial covenants. The Bridge Loan was fully repaid during Q3 2018.

On March 28, 2018, the Company assumed a non-revolving facility in the amount of $22,000 and negotiated a $7,000 increase. This facility is due on March 27, 2020 and is available by way of BAs at the BA rate plus 175 bps or loans at an interest rate of prime plus 50 bps per annum. This facility is secured by the assets of one of the Acquired Properties. As at December 31, 2018, the Company has drawn $29,000 under this facility.

The Company's total debt as at December 31, 2018 was $984,917 (December 31, 2017 - $818,951), net of the Series B Debentures' principal reserve fund of $31,209 (December 31, 2017 - $23,924). The increase of $165,966 was primarily related to the mortgages assumed from the Acquisition and drawdowns from its credit facilities, partially offset by monthly payments to the Series B Debentures' principal reserve fund, payments toward mortgage liabilities and redemption of the Convertible Debentures. The Company has credit facilities of $178,457, and has drawn $76,500 from the facilities, as at December 31, 2018.

As at December 31, 2018, the Company had a working capital deficiency (current liabilities less current assets) of $163,634, primarily attributable to the current portion of long-term debt of $113,888 relating to the portion of mortgage liabilities that are due within a 12-month period. The balance in the current portion of long-term debt is consistent with the Company's strategy to build a 10-year debt maturity ladder, thereby refinancing approximately 10% of its debt annually, which is equivalent to $98,492 as at December 31, 2018. To support the Company's working capital deficiency, the Company plans to use its operating cash flows, proceeds from

refinancing its debt and, if necessary, its undrawn credit facilities, all of which management of the Company believes will be sufficient to address this working capital deficiency.

Liquidity and Capital Commitments

Liquidity

The Company's primary source of liquidity is cash flow generated from operating activities. The Company expects to meet its operating cash requirements through fiscal 2019 and beyond, including required working capital, capital expenditures, and currently scheduled interest payments on debt, from cash on hand, cash flow from operations and its committed, but unutilized borrowing capacity.

Capital Commitments

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

Debt Strategy

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

The Company's goal is to continue to optimize its debt maturity schedule over a 10-year period in order to manage interest rate and financial risks. The Company plans to capitalize on external growth opportunities and refinance mortgages to build the 10-year debt maturity ladder around the Series B Debentures to reduce risk when these debentures mature in 2021. In March 2018, DBRS confirmed the A (low) rating for the Series B Debentures.

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

Interest Coverage Ratio

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

	Three Months Ended		Year Ended	
Thousands of Canadian dollars, except ratio	**2018**	2017	**2018**	2017
Net finance charges	**12,925**	6,655	**36,457**	25,421
Add (deduct):				
Amortization of financing charges and fair value adjustments on acquired debt	**(482)**	(288)	**(2,046)**	(755)
Amortization of loss on bond forward contract	**(235)**	(226)	**(919)**	(885)
Interest income on construction funding receivable	**608**	696	**2,553**	2,918
Other interest income	**176**	(51)	**1,053**	413
(Loss)/gain on interest rate swap contracts	**(3,392)**	841	**(327)**	2,488
Net finance charges, adjusted	**9,600**	7,627	**36,771**	29,600
Adjusted EBITDA	**36,757**	28,579	**144,158**	110,722
Interest coverage ratio	**3.8**	3.7	**3.9**	3.7

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

	Three Months Ended		Year Ended	
Thousands of Canadian dollars	**2018**	2017	**2018**	2017
Net income	**302**	4,196	**9,883**	21,815
Net finance charges	**12,925**	6,655	**36,457**	25,421
Provision for income taxes	**(345)**	618	**3,026**	6,779
Depreciation and amortization	**19,466**	9,801	**71,174**	37,620
Transaction costs	**1,088**	4,039	**10,390**	6,008
Proceeds from construction funding	**3,321**	3,270	**13,228**	13,079
Adjusted EBITDA	**36,757**	28,579	**144,158**	110,722

Debt Service Coverage Ratio

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

	Three Months Ended		Year Ended	
Thousands of Canadian dollars, except ratio	**2018**	2017	**2018**	2017
Net finance charges	**12,925**	6,655	**36,457**	25,421
Add (deduct):				
Amortization of financing charges and fair value adjustments on acquired debt	**(482)**	(288)	**(2,046)**	(755)
Amortization of loss on bond forward contract	**(235)**	(226)	**(919)**	(885)
Interest income on construction funding receivable	**608**	696	**2,553**	2,918
Other interest income	**176**	(51)	**1,053**	413
(Loss)/gain on interest rate swap contracts	**(3,392)**	841	**(327)**	2,488
Net finance charges, adjusted	**9,600**	7,627	**36,771**	29,600
Principal repayments [(1)]	**5,770**	3,983	**21,034**	14,867
Principal reserve fund	**1,823**	1,705	**7,285**	6,808
Total debt service	**17,193**	13,315	**65,090**	51,275
Adjusted EBITDA	**36,757**	28,579	**144,158**	110,722
Deduct:				
Maintenance capex	**(4,582)**	(3,595)	**(8,853)**	(6,153)
Cash income taxes	**(1,800)**	(3,310)	**(7,090)**	(11,820)
Adjusted EBITDA (for covenant calculations)	**30,375**	21,674	**128,215**	92,749
Debt service coverage ratio	**1.8**	1.6	**2.0**	1.8

Note:

1. During the three months and year ended December 31, 2018, the Company made voluntary payments of $13,000 and $251,000 (2017 - $61,500 and $91,500) toward its credit facilities and the Bridge Loan, respectively, which have been excluded from the debt service coverage ratio calculation. Debt repayments on maturity have also been excluded from the debt service coverage ratio calculation.

Debt to Adjusted EBITDA Ratio

The Debt to Adjusted EBITDA ratio is an indicator of the approximate number of years required for current cash flows to repay all indebtedness. The Adjusted EBITDA below is annualized using the Adjusted EBITDA for the year ended December 31, 2018.

	December 31	
Thousands of Canadian dollars, except ratio	**2018**	2017
Total indebtedness		
Series B Debentures	**322,000**	322,000
Series B Debentures - Principal reserve fund	**(31,209)**	(23,924)
Credit facilities and loans	**76,500**	68,500
Mortgages	**626,617**	408,999
Convertible Debentures	**—**	44,509
	993,908	820,084
Adjusted EBITDA	**144,158**	110,722
Debt to Adjusted EBITDA	**6.9**	7.4

Debt Profile

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

	Weighted Average Debt							
	Three Months Ended December 31				Year Ended December 31			
	2018	**Rate (%)**	2017	Rate (%)	**2018**	**Rate (%)**	2017	Rate (%)
Fixed Rate								
Debentures	**322,000**	**3.47%**	322,000	3.47%	**322,000**	**3.47%**	322,000	3.47%
Mortgages [1]	**606,388**	**3.99%**	378,318	4.00%	**529,766**	**4.10%**	355,351	4.06%
Convertible Debentures	**—**	**—%**	44,509	4.65%	**17,299**	**4.65%**	44,509	4.65%
Total Fixed	**928,388**	**3.81%**	744,827	3.82%	**869,065**	**3.88%**	721,860	3.80%
Variable Rate								
Credit facilities and loans	**89,946**	**4.14%**	48,380	3.17%	**100,418**	**4.17%**	48,323	3.07%
Mortgages	**2,652**	**3.72%**	119	4.00%	**686**	**3.74%**	4,424	3.71%
Total Variable	**92,598**	**4.13%**	48,499	3.17%	**101,104**	**4.17%**	52,747	3.13%
Total Debt	**1,020,986**	**3.84%**	793,326	3.77%	**970,169**	**3.91%**	774,607	3.79%

Notes:

1. For the three months and year ended December 31, 2018, includes variable rate mortgages of $182,161 and $158,423 (2017 - $79,754 and $71,481) respectively, that have been fixed through interest rate swaps.

Debt to Gross Book Value

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

Thousands of Canadian dollars, except ratio	December 31 2018	2017
Total indebtedness		
Series B Debentures	**322,000**	322,000
Series B Debentures - Principal reserve fund	**(31,209)**	(23,924)
Credit facilities and loans	**76,500**	68,500
Mortgages	**626,617**	408,999
Convertible Debentures	**—**	44,509
	993,908	820,084
Total assets	**1,753,200**	1,394,858
Accumulated depreciation on property and equipment	**216,020**	177,255
Accumulated amortization on intangible assets	**114,603**	82,243
Gross book value	**2,083,823**	1,654,356
Debt to gross book value	**47.7%**	49.6%
Debt, excluding Convertible Debentures, to gross book value	**n/a**	46.9%

Capital Disclosure

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

The Company's objectives when managing capital are to:

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

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

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

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

Company is in compliance with all financial covenants on its borrowings as at December 31, 2018. However, there can be no assurance that covenant requirements will be met at all times. If the Company does not remain in compliance, its ability to amend the covenants or refinance its debt could be adversely affected.

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

Contractual Obligations and Other Commitments

Long-term Debt

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

			Amortizing Debt				
Year	Series B Debentures	Credit Facilities	Regular Principal Payments	Principal Due at Maturity	**Total**	% of Total	Weighted Average Interest on Maturing Debt
2019	—	18,500	22,845	73,627	**114,972**	11.2%	4.5%
2020	—	58,000	19,767	19,992	**97,759**	9.5%	3.8%
2021	322,000	—	19,873	13,426	**355,299**	34.7%	3.5%
2022	—	—	18,425	33,199	**51,624**	5.1%	4.5%
2023	—	—	16,503	60,824	**77,327**	7.5%	4.2%
2024	—	—	14,680	50,104	**64,784**	6.3%	4.1%
2025	—	—	11,107	41,065	**52,172**	5.1%	4.8%
2026	—	—	11,104	—	**11,104**	1.1%	—%
2027	—	—	10,367	35,115	**45,482**	4.4%	3.3%
2028	—	—	5,161	110,320	**115,481**	11.3%	3.3%
Thereafter	—	—	15,797	23,316	**39,113**	3.8%	4.9%
	322,000	**76,500**	**165,629**	**460,988**	**1,025,117**	100.0%	
Mark-to-market adjustment arising from acquisitions					**4,243**		
Less: Deferred financing costs					**(13,234)**		
					1,016,126		

Operating Leases

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

Critical Accounting Estimates and Accounting Policies

The accounting policies and estimates that are critical to the understanding of the Company's business operations and results of operations are identified in Note 3 of the Company's annual audited consolidated financial statements for the year ended December 31, 2018. Please refer to those statements for further details.

Significant Judgments and Estimates

The preparation of 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 these 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 residences which will result in licence terms for the Company's residences ranging from 15 years for Class B and C residences to 30 years for Class A residences. 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 of the Company 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 costs 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 year 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.

Accounting Standards Issued But Not Yet Applied

IFRS 16, Leases

In October 2015, the International Accounting Standards Board ("**IASB**") issued a 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 assessed the impact of this new standard, which is not expected to be material to the Company's consolidated statements of financial position and consolidated statements of operations. A retrospective adjustment to opening retained earnings is not expected. Based on the in-place operating leases as at January 1, 2019, the Company will recognize approximately $3,000 as a right-of-use asset and a lease liability using a simplified approach where the asset and liability would be identical.

IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB issued International Financial Reporting Interpretations Committee ("**IFRIC**") Interpretation 23, Uncertainty over Income Tax Treatments, which clarifies the application of recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Company has determined there will be no material impact on the Company's consolidated financial statements on adoption as of January 1, 2019 as there are no known material uncertain tax positions.

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

Risk Factors

There are certain risks inherent in the activities of the Company, including those described below.

Business risks

The Company is subject to general business risks inherent in the seniors' housing sector. These risks include fluctuations in levels of occupancy and the inability to achieve adequate other accommodation or preferred accommodation revenue or annual increases (including anticipated increases) in resident rates. The inability to achieve such rate increases could occur as a result of, among other factors, new supply in a given catchment area, regulations controlling LTC funding or regulations controlling rents for RRs. Additional risks include possible future changes in labour relations; increases in labour costs, other personnel costs, and other operating costs; competition from or oversupply of other similar properties; changes in conditions of the Company's properties or general economic conditions; the imposition of increased or new taxes; capital expenditure requirements; health-related risks, natural disasters and disease outbreaks. Moreover, there is no assurance that future occupancy rates at the Company's residences will be consistent with historical occupancy rates achieved. Any one of, or a combination of, these factors may have a material adverse impact on the business, operating results and financial condition of the Company.

Government regulation

Both LTC residences and RRs are subject to extensive regulation and the potential for regulatory change. There

can be no assurance that future regulatory changes affecting the seniors' housing industry would not have a material adverse impact on the business, operating results and financial condition of the Company.

All LTC residences and RRs are required to adhere to quality control, public health, infection control and other care-related operating standards. Accordingly, all LTC residences and RRs are subject to regulatory inspections to ensure compliance with applicable regulations and to investigate complaints, including complaints related to resident injury or death. It is not unusual for the stringent inspection procedures to identify deficiencies in operations. Every effort is made by the Company to correct legitimate problem areas that have been identified. It is possible that the Company may not be able to remedy deficiencies or address complaints within the time frames allowed or in a manner satisfactory to the applicable regulatory authority, which could lead to periods of enhanced monitoring and the imposition of sanctions (such as limiting admissions in the case of an LTC residence), which, in turn, may have a material adverse impact on the business, operating results and financial condition of the Company. Further, once deficiencies have been corrected, it could nonetheless take a period of time before public records note the compliance.

All RRs are required to be licensed under the RHA to operate in Ontario and RRs in Ontario are regulated under this statute. In British Columbia, the CCALA provides consumer protection and regulation of independent living homes and assisted living facilities. All types of seniors' living residences providing personal support in British Columbia must be registered with the Assisted Living Registry. The Company has obtained all required licences and registrations. There can be no assurance that future regulatory changes affecting RRs would not have a material adverse impact on the business, operating results and financial condition of the Company.

LTC funding

The mandate of certain provincial health regulators includes the authorization to determine the co-payment fees that residents pay to LTC residences. Provincial regulators also provide funding for care and support programs in LTC residences and subsidize accommodation costs for qualifying residents. Risk exists that health regulators in Ontario may reduce the level of, or eliminate, such fees, payments or subsidies to residences in the future. There can be no assurance that the current level of such fees, payments and subsidies will be continued or that such fees, payments and subsidies will increase commensurate with expenses of LTC residences. A reduction of these fees, payments or subsidies may have a material adverse impact on the business, operating results and financial condition of the Company.

Licence terms

In Ontario, the LTCHA establishes a licence term regime for all LTC residences which results in licence terms for the Company's residences ranging from 15 years for Class B and C residences to 30 years for Class A residences. 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 of the Company is of the view that licences will continue to be renewed. In British Columbia, the CCALA establishes a licence term regime for all LTC residences. A failure of the Company's LTC licences to be renewed or conditionally renewed may have a material adverse impact on the business, operating results and financial condition of the Company.

Acquisitions

The success of the Company's business acquisition activities will be determined by numerous factors, including the ability of the Company to identify suitable acquisition targets, competition for acquisition opportunities, purchase price, ability to obtain adequate financing on reasonable terms, financial performance of the businesses after acquisition, and the ability of the Company to effectively integrate and operate the acquired businesses. Acquired businesses may not meet financial or operational expectations due to unexpected costs associated with the acquisition, as well as the general investment risks inherent in any real estate investment or business acquisition, including the existence of unexpected or undisclosed liabilities and the risk that the Company's recourse against third parties may not be adequate to mitigate such liabilities entirely. Moreover, new acquisitions may require significant attention from management of the Company or capital expenditures that would otherwise be allocated to existing businesses. Any failure by the Company to identify suitable candidates for acquisition or operate the acquired businesses effectively may have a material adverse impact on the business, operating results and financial condition of the Company.

Capital intensive industry

The ability of the Company to maintain and enhance its properties in a suitable condition to meet regulatory standards, operate efficiently and remain competitive in its markets requires it to commit a portion of cash to its facilities and equipment. Significant future capital requirements may have a material adverse impact on the business, operating results and financial condition of the Company.

Financing risk

The Company expects its working capital needs and capital expenditure needs to increase in the future as it continues to expand and enhance its portfolio. The Company's ability to raise additional capital will depend on the financial success of its current business and the successful implementation of its key strategic initiatives, financial, economic and market conditions and other factors, some of which are beyond its control. No assurance can be given that it will be successful in raising the required capital at reasonable cost and at the required times, or at all. Further equity financings may have a dilutive effect on the Company's common shares. If the Company is unsuccessful in raising additional capital, it may not be able to continue its business operations and advance its growth initiatives, which may have a material adverse impact on the business, operating results and financial condition of the Company.

A portion of the Company's cash flow is devoted to servicing its debt and there can be no assurance that the Company will continue to generate sufficient cash flow from operations to meet the required interest and principal payments on its debt. If the Company were unable to meet such interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. If this were to occur, it may have a material adverse impact on the business, operating results and financial condition of the Company. The Company is subject to the risk that its existing indebtedness may not be able to be refinanced at maturity or that the terms of any refinancing may not be as favourable as the terms of its existing indebtedness. If the Company requires additional debt financing, its lenders may require it to agree to restrictive covenants that could limit its flexibility in conducting future business activities or that contain customary provisions that, upon an event of default, result in the acceleration of repayment of amounts owed and that restrict the amount of dividends, if any, that may be paid to its shareholders. Some of the Company's current debt instruments include such covenants.

Redevelopment of Class B and C residences

The redevelopment of the Company's Class B and Class C beds in Ontario require regulatory approvals and may include significant capital outlays. To the extent such redevelopment plans proceed on significantly different timing or terms, including with respect to the levels of expected funding, there may be a material adverse impact on the business, operating results and financial condition of the Company.

Real property ownership

All real property investments are subject to a degree of risk. They are affected by various factors, including changes in general economic conditions (such as the availability of long-term mortgage funds) and in local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to residents, competition from other available space and various other factors, including increasing property taxes. In addition, fluctuations in interest rates may have a material adverse impact on the business, operating results and financial condition of the Company.

Reconciliations of funding will result in current year adjustments made in respect of prior years

Reconciliations of funding versus actual expenses are performed annually, based on previous calendar years. From time to time, the reconciliations will result in current year adjustments made in respect of prior years. These ‘‘prior period adjustments'' can have either a favourable or unfavourable impact on NOI generally related to differences identified in the reconciliation attributable to occupancy days, special circumstances and differences between projected and actual property tax.

Labour relations

Employees working at the the Company's properties are unionized with approximately 80% of employees represented by union locals of either the Service Employees International Union, the Ontario Nurses Association, the BC Nurses' Association, the BC Government and Service Employees' Union, the Hospital Employees' Union, the Christian Labour Association of Canada, the Canadian Union of Public Employees or Unifor. While the Company has traditionally maintained positive labour relations, there can be no assurance the Company will not at any time, whether in connection with a renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees, which may have a material adverse impact on the business, operating results and financial condition of the Company. Notwithstanding the foregoing, all LTC residences in the Province of Ontario are governed by the *Hospital Labour Disputes Arbitration Act* (Ontario), which prohibits strikes and lockouts in the seniors' living industry. Collective bargaining disputes in Ontario are more likely to be resolved through compulsory third party arbitration.

The Company's business is labour intensive

The business of the Company is labour intensive, with labour related costs comprising a substantial portion of the Company's direct operating expenses. The Company's businesses compete with other providers with respect to attracting and retaining qualified personnel. Any shortage of qualified personnel and general inflationary pressures may require the Company to enhance its pay and benefits package to compete effectively for such personnel. LTC residences in British Columbia are subject to direct care hour requirements by the respective health authorities for funding eligibility. An increase in labour-related costs or a failure to attract, train and retain qualified and skilled personnel may have a material adverse impact on the business, operating results and financial condition of the Company.

Reliance on key personnel

The Company's success depends upon the retention of senior management. There can be no assurance that the Company would be able to find qualified replacements for the individuals who make up its senior management team if their services were no longer available. The loss of services of one or more members of such senior management team may have a material adverse impact on the business, operating results and financial condition of the Company. The Company does not currently carry any "key man" life insurance on its executives.

Information systems security threats

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("**IT**") services in connection with its operations. The Company's operations depend, in part, on how well the Company and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, terrorism, fire, power loss, hacking, computer viruses, malware, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation and may have a material adverse impact on the business, operating results and financial condition of the Company.

Although to date the Company has not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Damage to administrative operations or properties

The Company's ability to sustain or grow its business is heavily dependent on efficient, proper and uninterrupted operations at its properties. Power failures or disruptions, the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment and the destruction of buildings, equipment and other facilities due to natural disasters or other causes could severely affect its ability to continue operations. While the Company does maintain certain insurance policies covering losses due to fire, lightning and explosions, there can be no assurance its coverage would be adequate to compensate the Company for the actual cost of replacing such buildings, equipment and infrastructure nor can there be any assurance that such events would not have a material adverse impact on the business, operating results and financial condition of the Company.

Liability and insurance

The businesses, which are carried on, directly or indirectly, by the Company, entail an inherent risk of liability, including with respect to injury to or death of its residents. Management of the Company expects that from time to time the Company may be subject to lawsuits as a result of the nature of its businesses. The Company maintains business, cyber, and property insurance policies in amounts and with such coverage and deductibles as deemed appropriate, based on the nature and risks of the businesses, historical experience and industry

standards. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. There are certain types of risks, generally of a catastrophic nature, such as floods, earthquakes, power outages, war, terrorism or environmental contamination, which are either uninsurable or are not insurable on an economic basis. A successful claim against the Company not covered by, or in excess of, its insurance may have a material adverse impact on the business, operating results and financial condition of the Company. Claims against the Company, regardless of their merit or eventual outcome, also may have a material adverse impact on the ability to attract residents or expand the Company's business, and requires management of the Company to devote time to matters unrelated to the operation of the business.

On May 2, 2018, the Company was served with a proposed class action alleging, amongst other things, negligence, and claiming damages in the amount of $150,000. On October 25, 2018, the Ontario Superior Court of Justice issued an order discontinuing the action as a class action. The Company expects that the action will continue as an individual claim, and that any potential liability pursuant to such claim will be covered by insurance and should therefore not have a material adverse impact on the business, operating results or financial condition of the Company. The Company will continue to vigorously defend such claim through the appropriate court process.

Competition

Numerous other seniors' living residences, predominantly RRs, compete with the Company's RRs in seeking residents. The existence of competing owners and competition for the Company's residents may have a material adverse impact on the Company's ability to attract residents to its seniors' living residences and on the rents charged, and may have a material adverse impact on the business, operating results and financial condition of the Company.

Geographic concentration

A majority of the business and operations of the Company is conducted in Ontario, with a growing presence in British Columbia. The fair value of the Company's assets and the income generated therefrom may be adversely impacted by changes in local and regional economic conditions in either jurisdiction.

Changes in the Company's credit ratings may affect the Company's capital structure

The credit ratings assigned to the Senior B Debentures are an assessment of the Company's ability to pay its obligations. DBRS Limited has assigned a rating of A (low), with a Stable trend, to the Series B Debentures. Real or anticipated changes in the Company's credit ratings may affect its capital structure.

Environmental liabilities

The Company is subject to various environmental laws and regulations under which it could become liable for the costs of removing or remediating certain hazardous, toxic or regulated substances released on or in the properties it owns or manages, or disposed of at other locations, in some cases regardless of whether or not the Company knew of or was responsible for their presence. The failure to address such issues may adversely affect the Company's ability to sell properties or to borrow using properties as collateral and/or could potentially result in claims against the Company. Notwithstanding the above, management of the Company is not aware of any material non-compliance, liability or other claim in connection with any of the Company's owned properties or those it manages. It is the Company's operating policy to obtain a Phase I environmental site assessment, conducted by an independent and experienced environmental consultant, prior to acquiring

or financing any property, or to otherwise obtain applicable reliance letters in respect thereof. Where Phase I environmental site assessments identify sufficient environmental concerns or recommend further assessments, Phase II or Phase III environmental site assessments are conducted.

Environmental laws and regulations may change and the Company may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations may have a material adverse impact on the business, operating results and financial condition of the Company.

Risks Relating to a Public Company and Common Shares

Volatile market price for securities of the Company

The market price for securities of the Company, including the common shares, may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- changes in estimates of future results of operations by the Company or securities research analysts;
- changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;
- additions to or departures of, the Company's senior management and other key personnel;
- imposition or removal of re-sale restrictions on outstanding common shares;
- sales or perceived sales of additional securities, including common shares;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; and
- news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

Financial markets may experience price and volume fluctuations that affect the market prices of equity securities of companies and that are unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the securities of the Company may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the securities of the Company by those institutions, which may adversely affect the market price of the Company's securities, including the common shares. There can be no assurance that fluctuations in price and volume will not occur due to these and other factors.

Sienna Senior Living Inc. ("SSLI") is a holding company

SSLI is a holding company and a substantial portion of its assets consist of the partnership units of its subsidiaries. As a result, investors in SSLI are subject to the risks attributable to its subsidiaries. As a holding company, SSLI conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, the Company's cash flows and ability to complete existing or future opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to SSLI. The ability of these entities to pay distributions to SSLI depends on their operating results and may be subject to applicable laws and regulations and to contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of the Company's subsidiaries, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to SSLI.

Dividend policy

Commencing with the December 2012 dividend, the Board established a dividend policy authorizing the declaration and payment of an annual dividend of $0.90 per common share, to be paid to holders of common shares on a monthly basis. The annual dividend increased by 2% to $0.918 per common share starting with the September dividend for shareholders of record on August 31, 2018. Any determination to pay cash dividends is at the discretion of the Board after taking into account such factors as the Company's financial condition, results of operations, current and anticipated cash needs, regulatory capital requirements, the requirements of any future financing agreements and other factors that the Board may deem relevant.

The Company needs to comply with financial reporting and other requirements as a public company

The Company is subject to reporting and other obligations under applicable Canadian securities laws and Toronto Stock Exchange rules, including National Instrument 52-109. These reporting and other obligations place significant demands on the Company's management, administrative, operational and accounting resources. Moreover, any failure to maintain effective internal controls could cause the Company to fail to meet its reporting obligations or result in material misstatements in its consolidated financial statements. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially harmed, which could also cause investors to lose confidence in the Company's reported financial information, which could result in a lower trading price of its securities.

Management of the Company does not expect the Company's disclosure controls and procedures and internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that its objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within a company are detected. The inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people or by management of the Company's override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Future sales of the Company's securities by directors and executive officers

Subject to compliance with applicable securities laws, officers and directors and their affiliates may sell some or all of their securities in the Company in the future. No prediction can be made as to the effect, if any, such future sales will have on the market price of the Company's securities prevailing from time to time. However, the future sale of a substantial number of securities by the Company's officers and directors and their affiliates, or the perception that such sales could occur, may have a material adverse impact on prevailing market prices for the Company's securities.

Directors and officers may have conflicts of interest

Certain of the directors and officers of the Company may also serve as directors and/or officers of other companies and consequently there exists the possibility for such directors and officers to be in a position of conflict. Pursuant to applicable law, any decision made by any of such directors and officers involving the

Company must be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company.

Dilution and future sales of the Company's securities may occur

The Company's articles permit the issuance of an unlimited number of common shares and an unlimited number of preferred shares, and shareholders have no pre-emptive rights in connection with such further issuances. The directors of the Company have the discretion to determine the price and the terms of issue of further issuances of common shares and preferred shares.

Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management of the Company, including the President and Chief Executive Officer and the Chief Financial Officer and Chief Investment Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2018, an evaluation was carried out, under the supervision of and with the participation of management of the Company, including the President and Chief Executive Officer and the Chief Financial Officer and Chief Investment Officer, of the effectiveness of the Company's disclosure controls and procedures as defined under National Instrument 52-109. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer and Chief Investment Officer concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2018.

Management of the Company is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The President and Chief Executive Officer and the Chief Financial Officer and Chief Investment Officer assessed, or caused an assessment under their direct supervision of the design and operating effectiveness of the Company's internal controls over financial reporting as at December 31, 2018. Based on that assessment they determined that the Company's internal controls over financial reporting were appropriately designed and were operating effectively. This evaluation was performed using the 2013 Integrated Control framework as published by the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**"), which as of December 15, 2014 supersedes the COSO 1992 framework.

No changes were made in the Company's design of internal controls over financial reporting during the year ended December 31, 2018 which have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that

management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management's override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

Forward-Looking Statements

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