EXTENDICARE®

... helping people live better

# CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

## Year Ended December 31, 2016

Dated: February 28, 2017

THE RIGHT CARE

THE RIGHT PLACE

THE RIGHT TIME

# Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Extendicare Inc. ("Extendicare" or the "Company") and other financial information contained in this Annual Report are the responsibility of management. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards, using management's best estimates and judgements, where appropriate. In the opinion of management, these consolidated financial statements reflect fairly the financial position, results of operations and cash flows of Extendicare within reasonable limits of materiality. The financial information contained elsewhere in this Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

A system of internal accounting and administrative controls is maintained by management to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are properly maintained to provide accurate and reliable financial statements.

The board of directors of Extendicare (the "Board of Directors") is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors carries out this responsibility principally through its independent Audit Committee comprised of unrelated and outside directors. The Audit Committee meets regularly during the year to review significant accounting and auditing matters with management and the independent auditors and to review and approve the interim and annual consolidated financial statements of Extendicare.

The consolidated financial statements have been audited by KPMG LLP, Chartered Professional Accountants, which has full and unrestricted access to the Audit Committee. KPMG's report on the consolidated financial statements follows.

/s/ Timothy L. Lukenda

**TIMOTHY L. LUKENDA**
President and Chief Executive Officer

/s/ Elaine E. Everson

**ELAINE E. EVERSON**
Vice President and
Chief Financial Officer

February 28, 2017

# Independent Auditors’ Report

## To the Shareholders of Extendicare Inc.

We have audited the accompanying consolidated financial statements of Extendicare Inc. (“Extendicare” or the “Company”), which comprise the consolidated statements of financial position as at December 31, 2016, and December 31, 2015, and the consolidated statements of earnings, comprehensive income, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinion

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

(signed KPMG LLP)

Chartered Professional Accountants,
Licensed Public Accountants

Toronto, Canada
February 28, 2017

# Extendicare Inc.

## Consolidated Statements of Financial Position

As at December 31

| *(in thousands of Canadian dollars)* | ***notes*** | **2016** | 2015 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and short-term investments | | **101,582** | 103,622 |
| Restricted cash | | **2,227** | 2,509 |
| Accounts receivable | *6* | **52,234** | 52,678 |
| Income taxes recoverable | | **3,058** | 77 |
| Other assets | *9* | **25,251** | 52,485 |
| Total current assets | | **184,352** | 211,371 |
| Non-current assets | | | |
| Property and equipment | *7* | **465,433** | 426,191 |
| Goodwill and other intangible assets | *8* | **89,770** | 96,354 |
| Other assets | *9* | **233,715** | 283,044 |
| Deferred tax assets | *22* | **15,347** | 9,987 |
| Total non-current assets | | **804,265** | 815,576 |
| **Total Assets** | *28* | **988,617** | 1,026,947 |
| **Liabilities and Equity** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | **121,830** | 139,807 |
| Income taxes payable | | **430** | 11,679 |
| Long-term debt | *11* | **54,826** | 25,395 |
| Provisions | *10* | **31,419** | 41,139 |
| Total current liabilities | | **208,505** | 218,020 |
| Non-current liabilities | | | |
| Long-term debt | *11* | **448,742** | 428,679 |
| Provisions | *10* | **100,006** | 146,975 |
| Other long-term liabilities | *12* | **36,039** | 47,983 |
| Deferred tax liabilities | *22* | **20,566** | 13,161 |
| Total non-current liabilities | | **605,353** | 636,798 |
| **Total liabilities** | *28* | **813,858** | 854,818 |
| Share capital | *14* | **489,656** | 483,385 |
| Equity portion of convertible debentures | *11* | **5,573** | 5,573 |
| Contributed surplus | *13* | **941** | - |
| Accumulated deficit | | **(322,025)** | (315,051) |
| Accumulated other comprehensive income (loss) | | **614** | (1,778) |
| **Shareholders' Equity** | | **174,759** | 172,129 |
| **Total Liabilities and Equity** | *28* | **988,617** | 1,026,947 |

*See accompanying notes to consolidated financial statements.*

*Commitments and contingencies (note 23).*

*Subsequent events (notes 9 and 11).*

**Approved by the Board**

/s/ Benjamin J. Hutzel

**Benjamin J. Hutzel**
Chairman

/s/ Timothy L. Lukenda

**Timothy L. Lukenda**
President and Chief Executive Officer

# Extendicare Inc.

## Consolidated Statements of Earnings

Years ended December 31

| *(in thousands of Canadian dollars except for per share amounts)* | *notes* | **2016** | 2015 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| **Revenue** | | | |
| Long-term care | | **608,618** | 594,198 |
| Retirement living | | **15,474** | 1,238 |
| Home health care | | **414,406** | 326,964 |
| Management, consulting and other | | **22,260** | 20,879 |
| **Total revenue** | *16, 28* | **1,060,758** | 943,279 |
| Operating expenses | | **930,622** | 823,489 |
| Administrative costs | | **30,551** | 30,144 |
| Lease costs | | **6,650** | 5,955 |
| **Total expenses** | *17* | **967,823** | 859,588 |
| **Earnings before depreciation, amortization, and other expense** | | **92,935** | 83,691 |
| Depreciation and amortization | | **31,179** | 23,668 |
| Other expense | *18* | **4,013** | 6,705 |
| **Earnings before net finance costs and income taxes** | | **57,743** | 53,318 |
| Interest expense | | **27,039** | 31,089 |
| Accretion of decommissioning provisions | | **349** | 349 |
| Other accretion | | **2,152** | 2,128 |
| Loss (gain) on foreign exchange and financial instruments | *19* | **1,198** | (9,741) |
| Interest revenue | | **(10,838)** | (8,057) |
| Fair value adjustments | *19* | **(985)** | - |
| Net finance costs | | **18,915** | 15,768 |
| **Earnings before income taxes** | | **38,828** | 37,550 |
| **Income tax expense** | | | |
| Current | | **5,801** | 12,831 |
| Deferred | | **1,610** | 1,009 |
| Total income tax expense | *22* | **7,411** | 13,840 |
| **Earnings from continuing operations** | | **31,417** | 23,710 |
| | | | |
| **DISCONTINUED OPERATIONS** | | | |
| Gain (loss) on sale of U.S. operations, net of income taxes | *21* | **(8,458)** | 205,418 |
| Earnings from discontinued operations, net of income taxes | *21* | **12,493** | 2,950 |
| **Net earnings** | | **35,452** | 232,078 |
| | | | |
| **Basic Earnings per Share** | | | |
| Earnings from continuing operations | *20* | **0.36** | 0.27 |
| Net earnings | *20* | **0.40** | 2.64 |
| | | | |
| **Diluted Earnings per Share** | | | |
| Earnings from continuing operations | *20* | **0.36** | 0.27 |
| Net earnings | *20* | **0.40** | 2.41 |

*See accompanying notes to consolidated financial statements.*

# Extendicare Inc.

## Consolidated Statements of Comprehensive Income

Years ended December 31

| *(in thousands of Canadian dollars)* | ***notes*** | **2016** | 2015 |
|---|---|---|---|
| **Net earnings** | | **35,452** | 232,078 |
| **Other comprehensive income (loss), net of income taxes** | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Defined benefit plan actuarial gains (losses), net of tax expense of $834 and tax recovery of $764, respectively, for 2016 and 2015 | *24* | **2,313** | (2,119) |
| Total items that will not be reclassified to profit or loss | | **2,313** | (2,119) |
| Items that are or may be reclassified subsequently to profit or loss: | | | |
| Unrealized gain (loss) on available-for-sale securities, net of tax of nil for 2016 and 2015 | *15* | **5,574** | (684) |
| Reclassification of realized gains on available-for-sale securities to earnings, net of tax of nil for 2016 and 2015 | *15* | **(2,532)** | (2,968) |
| Foreign currency translation adjustment reclassified to gain on sale of U. S. operations, net of nil tax for both years | *15* | **(1,431)** | (21,979) |
| Other net change in foreign currency translation adjustment | *15* | **(1,532)** | 13,904 |
| Total items that are or may be reclassified subsequently to profit or loss | | **79** | (11,727) |
| Other comprehensive income (loss), net of tax | | **2,392** | (13,846) |
| **Total comprehensive income** | | **37,844** | 218,232 |

*See accompanying notes to consolidated financial statements.*

# Extendicare Inc.

## Consolidated Statements of Changes in Equity

Years ended December 31

| *(in thousands of Canadian dollars)* | | **2016** | | 2015 |
|---|---|---|---|---|
| | ***Number of Shares*** | ***Amount*** | *Number of Shares* | *Amount* |
| **Share capital** | | | | |
| Balance at January 1 | ***87,953,291*** | **483,385** | *88,195,076* | 482,950 |
| DRIP | ***731,194*** | **6,271** | *870,004* | 6,526 |
| Purchase of shares for cancellation | - | **-** | *(1,111,789)* | (6,091) |
| Balance at end of year | ***88,684,485*** | **489,656** | *87,953,291* | 483,385 |
| **Equity portion of convertible debentures** | | | | |
| Balance at January 1 | | **5,573** | | 5,573 |
| Balance at end of year | | **5,573** | | 5,573 |
| **Contributed surplus** | | | | |
| Balance at January 1 | | **-** | | 48 |
| Purchase of shares for cancellation in excess of book value | | **-** | | (48) |
| Share-based compensation | | **941** | | - |
| Balance at end of year | | **941** | | - |
| **Accumulated deficit** | | | | |
| Balance at January 1 | | **(315,051)** | | (503,143) |
| Net earnings | | **35,452** | | 232,078 |
| Dividends declared | | **(42,422)** | | (42,125) |
| Purchase of shares for cancellation in excess of book value | | **-** | | (1,861) |
| Other | | **(4)** | | - |
| Balance at end of year | | **(322,025)** | | (315,051) |
| **Accumulated other comprehensive income (loss)** | | | | |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation differences for foreign operations | | | | |
| Balance at January 1 | | **6,738** | | 14,813 |
| Foreign currency translation adjustment reclassified to gain on sale of U.S. operations *(note 21)* | | **(1,431)** | | (21,979) |
| Other change in the year | | **(1,532)** | | 13,904 |
| Balance at end of year | | **3,775** | | 6,738 |
| Net change in fair value of available-for-sale financial assets, net of tax | | | | |
| Balance at January 1 | | **3,349** | | 7,001 |
| Unrealized change in the year | | **5,574** | | (684) |
| Net change reclassified to profit or loss | | **(2,532)** | | (2,968) |
| Balance at end of year | | **6,391** | | 3,349 |
| Defined benefit plan actuarial losses, net of tax | | | | |
| Balance at January 1 | | **(11,865)** | | (9,746) |
| Change in the year | | **2,313** | | (2,119) |
| Balance at end of year | | **(9,552)** | | (11,865) |
| Accumulated other comprehensive income (loss) | | **614** | | (1,778) |
| **Shareholders' equity** | | **174,759** | | 172,129 |

*See accompanying notes to consolidated financial statements.*

# Extendicare Inc.

## Consolidated Statements of Cash Flows

Years ended December 31

| *(in thousands of Canadian dollars)* | **2016** | 2015 |
|---|---|---|
| **Operating Activities** | | |
| Net earnings | **35,452** | 232,078 |
| Adjustments for: | | |
| Depreciation and amortization | **32,364** | 27,281 |
| Expense for U.S. self-insured liabilities | **-** | 29,313 |
| Share-based compensation | **941** | - |
| Deferred taxes | **963** | (11,880) |
| Current taxes | **14,319** | 60,247 |
| Gain from the U.S. Sale Transaction *(note 21)* | **-** | (246,759) |
| Loss from sale of U.S. IT Hosting operations *(note 21)* | **8,458** | - |
| Net finance costs | **18,718** | 45,738 |
| Other expense (income) | **(18,456)** | 23,915 |
| Gains (loss) on foreign exchange and financial instruments | **213** | (9,418) |
| | **92,972** | 150,515 |
| Net change in operating assets and liabilities | | |
| Accounts receivable | **(8,319)** | 30,739 |
| Other assets | **13,974** | (1,921) |
| Accounts payable and accrued liabilities | **(33,590)** | (30,588) |
| | **65,037** | 148,745 |
| Payments for U.S. self-insured liabilities | **(32,976)** | (42,105) |
| Interest paid | **(26,540)** | (45,888) |
| Interest received | **10,835** | 8,166 |
| Income taxes paid | **(16,637)** | (16,120) |
| **Net cash from operating activities** | **(281)** | 52,798 |
| **Investing Activities** | | |
| Purchase of property, equipment and other intangible assets | **(38,837)** | (35,478) |
| Acquisitions *(note 5)* | **(40,500)** | (182,967) |
| Net proceeds from (tax payments related to) the U.S. Sale Transaction | **(10,808)** | 150,318 |
| Net proceeds from dispositions *(note 21)* | **9,534** | 21,066 |
| Decrease in investments held for self-insured liabilities | **37,956** | 2,968 |
| Decrease (increase) in other assets | **25,213** | (15,616) |
| **Net cash from investing activities** | **(17,442)** | (59,709) |
| **Financing Activities** | | |
| Issue of long-term debt, excluding line of credit | **68,855** | 163,341 |
| Repayment of long-term debt, excluding line of credit | **(21,006)** | (108,402) |
| Decrease (increase) in restricted cash | **4,783** | (1,084) |
| Purchase of securities for cancellation | **-** | (7,999) |
| Dividends paid | **(36,122)** | (35,608) |
| Financing costs | **(702)** | (2,953) |
| **Net cash from financing activities** | **15,808** | 7,295 |
| Increase (decrease) in cash and short-term investments | **(1,915)** | 384 |
| Cash and short-term investments at beginning of year | **103,622** | 98,799 |
| Foreign exchange gain (loss) on cash held in foreign currency | **(125)** | 4,439 |
| **Cash and short-term investments at end of year** | **101,582** | 103,622 |

*See accompanying notes to consolidated financial statements.*

# Notes to Consolidated Financial Statements

YEARS ENDED DECEMBER 31, 2016 AND 2015

# Notes to Consolidated Financial Statements

YEARS ENDED DECEMBER 31, 2016 AND 2015
(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

## 1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

Extendicare Inc. (“Extendicare” or the “Company”) is a Canadian public company whose common shares (the “Common Shares”) trade on the Toronto Stock Exchange (TSX) under the symbol “EXE”. Extendicare and its predecessors have been operating since 1968, providing care and services to seniors in North America. The Company completed the sale of substantially all of its U.S. business, the operations of which were conducted through its wholly owned subsidiary, Extendicare Health Services, Inc. (EHSI), effective July 1, 2015, (the “U.S. Sale Transaction”) (*note 21*). This transaction was part of the Company’s strategic objective to be a leading provider of care and services for seniors focused solely in Canada. In addition, the Company completed the acquisition of a Canadian home health business on April 30, 2015, and six retirement communities since October 2015 (*note 5*).

On December 22, 2016, the Company completed the sale of its non-strategic U.S. information technology hosting and professional services (U.S. IT Hosting) business, which had been retained following the 2015 U.S. Sale Transaction. As a result, the Company has reclassified those operations as discontinued, and has restated the consolidated statement of earnings on a comparative basis. (*note 21*).

As part of its continuing operations, Extendicare retained its wholly owned Bermuda-based captive insurance company, Laurier Indemnity Company, Ltd. (the “Captive”), which, along with third-party insurers, insured Extendicare’s U.S. general and professional liability risks up to the date of the U.S. Sale Transaction.

References to “Extendicare”, the “Company”, “we”, “us” and “our” or similar terms refer to Extendicare Inc., either alone, or together with its subsidiaries. The registered office of Extendicare is located at 3000 Steeles Avenue East, Markham, Ontario, Canada, L3R 9W2.

## 2. BASIS OF PREPARATION

### a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements were approved by the board of directors of Extendicare Inc. (the “Board”) on February 28, 2017.

### b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial assets and liabilities classified or designated at fair value through profit or loss (FVTPL) or designated as available for sale (AFS) that have been measured at fair value. Refer to *note 3* for the classification of financial assets and liabilities.

Extendicare’s consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency. All financial information presented in dollars has been rounded to the nearest thousand, unless otherwise noted.

### c) Use of Estimates and Judgement

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The more subjective of such estimates are:

- valuation of purchase price components for acquisitions (*note 5*);
- valuation of deferred consideration (*notes 9 and 25(a)*);
- determination of the recoverable amount of cash generating units (CGUs) subject to an impairment test (*notes 18 and 21*);
- valuation of indemnification provisions (*notes 10 and 21*);

- valuation of self-insured liabilities (*note 10 and 21*);
- valuation of interest rate swaps (*notes 9, 11, and 19*);
- valuation of financial assets and liabilities (*note 25(b)*);
- valuation of share-based compensation (*note 13*); and
- accounting for tax uncertainties and the tax rates used for valuation of deferred taxes (*note 22*).

In addition, the assessment of contingencies (*note 23*) is subject to judgements.

The recorded amounts for such items are based on management's best available information and are subject to assumptions and judgement, which may change as time progresses; accordingly, actual results could differ from estimates.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### a) Basis of Consolidation

The consolidated financial statements include the accounts of Extendicare and its wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated. The financial statements of Extendicare's subsidiaries are included within the Company's consolidated financial statements from the date that control commences until the date that control ceases, and are prepared for the same reporting period as Extendicare, using consistent accounting policies.

The acquisition method of accounting is used to account for the acquisition of businesses. Consideration transferred on the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed on the date of the acquisition and transaction costs are expensed as incurred. Identified assets acquired and liabilities assumed are measured at their fair value on the acquisition date. In determining the fair value of identifiable intangible assets acquired, values are assigned to in-place leases as described in *note 3(d)*. The excess of fair value of consideration given over the fair value of the identifiable net assets acquired is recorded as goodwill, with any gain on a bargain purchase being recognized in net earnings on the acquisition date.

### b) Foreign Currency

#### FOREIGN OPERATIONS

The assets and liabilities of foreign operations are translated at exchange rates at the reporting date. The income and expenses of foreign operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income (AOCI) in shareholders' equity. When a foreign operation is disposed of, the relevant amount in the cumulative amount of foreign currency translation differences is transferred to net earnings as part of the profit or loss on disposal. Foreign exchange gains and losses related to intercompany loans that are, in substance, part of the net investment in a foreign operation are included in AOCI. Foreign exchange gains and losses on intercompany loans with planned or foreseeable settlement are included in net finance costs within net earnings.

#### FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in net earnings, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized in other comprehensive income (OCI). Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses are included in net finance costs within net earnings.

### c) Cash and Short-term Investments

Cash and cash equivalents include unrestricted cash and short-term investments less bank overdraft and outstanding cheques. Short-term investments, comprised of money market instruments, have a maturity of 90 days or less from their date of purchase.

## d) Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition or development of the asset. Property and equipment acquired as a result of a business combination are valued as outlined in *note 3(a)*. Centres that are constructed or that are in progress include all incurred expenditures for the development and other direct costs related to the acquisition of land, development and construction of the centres, including borrowing costs of assets meeting certain criteria that are capitalized until the centre is completed for its intended use.

Refer to *note 3(h)* for the accounting policy for the determination of impairment losses.

Property and equipment are classified into components when parts of an item have different useful lives. The cost of replacing a component of an item is recognized in the carrying amount of the item if there is a future economic benefit and its cost can be measured reliably. Any undepreciated carrying value of the assets being replaced will be derecognized and charged to net earnings upon replacement. The costs of the day-to-day maintenance of property and equipment are recognized in net earnings as incurred.

Depreciation and amortization are computed on a straight-line basis based on the useful lives of each component of property and equipment. Depreciation of nursing centres under construction commences in the month after the centre is available for its intended use based upon the useful life of the asset, as outlined in the following table. The depreciation methods, useful lives and residual values are reviewed at least annually, and adjusted if appropriate.

The Company acquires in-place leases in connection with the acquisitions of operating retirement communities. These assets are stated at the amounts determined upon acquisition and are amortized on a straight-line basis, based upon a review of the residents' average length of stay. In-place leases are a component of building, and are generally depreciated over a three-year period.

| | |
|---|---|
| Land improvements | 10 to 25 years |
| Buildings: | |
| Building components: | |
| Structure and sprinklers systems | 50 years |
| Roof, windows and elevators | 25 years |
| HVAC and building systems | 15 to 25 years |
| Flooring and interior upgrades | 5 to 15 years |
| In-place leases | 1 to 3 years |
| Building improvements and extensions | 5 to 30 years |
| Furniture and equipment: | |
| Furniture and equipment | 5 to 15 years |
| Computer equipment | 3 to 5 years |
| Leasehold improvements | Term of the lease and renewal that is reasonably certain to be exercised |

## e) Government Grants

Government grants are recognized depending on the purpose and form of the payment from the government.

Forgivable loans issued by the government are accounted for as government grants if there is reasonable assurance the Company will meet the terms for forgiveness of the loan. Forgivable loans granted by a provincial or health authority body for the construction of a senior care centre, where the grants are received throughout the duration of the construction project, are netted with the cost of property and equipment to which they relate when such payments are received.

Capital funding payments for the development of a senior care centre that are received from a provincial body subsequent to construction over extended periods of time are present valued and are recorded as notes, mortgages and amounts receivable included in other assets, with an offset to the cost of property and equipment upon inception; as these grants are received over time, the accretion of the receivable is recognized in interest revenue as part of net finance costs within net earnings.

## f) Leases

Leases are classified as either finance or operating leases. Leases that transfer substantially all of the benefits and risks of ownership of property to the lessee, or otherwise meet the criteria for capitalizing a lease under IFRS, are accounted for as a finance lease; all other leases are classified as operating leases.

**WHEN THE COMPANY IS THE LESSEE**

Leased assets that are classified as finance leases are presented according to their nature and are measured at amounts equal to the lower of their fair value and the present value of the minimum lease payments. The corresponding liability due to the lessor is presented as a finance lease obligation as part of the long-term debt. Property and equipment recognized as finance leases are depreciated on a consistent basis with owned property and equipment.

Rental payments under operating leases are expensed as incurred. Operating leases with defined scheduled rent increases are recognized on a straight-line basis over the lease term. Lease incentives received as an inducement to enter into operating leases are initially recognized as a liability, and are recorded as a reduction of rental expense on a straight-line basis over the term of the lease.

**WHEN THE COMPANY IS THE LESSOR**

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the leases. The interest element of the lease payment is recognized over the term of the lease based on the effective interest method and is included in financing costs. The Company is not currently the lessor under any finance leases.

## g) Goodwill and Other Intangible Assets

**GOODWILL**

Goodwill represents the excess amount of consideration given over the fair value of the underlying net assets acquired in a business combination, and is measured at cost less accumulated impairment losses. Goodwill is not amortized, but is tested for impairment on an annual basis or more frequently if there are indicators that goodwill may be impaired, see *note 3(h)*.

**OTHER INTANGIBLE ASSETS**

Other intangible assets that are acquired are recorded at fair value determined upon acquisition, and if the assets have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses (refer to *note 3(h)).* Intangible assets with finite lives are amortized based on cost. Subsequent expenditures are capitalized only if a future benefit exists. All other expenditures, including expenditures on internally generated goodwill, are recognized in net earnings as incurred.

Intangible assets with indefinite useful lives are measured at cost without amortization, and are subject to impairment tests (refer to *note 3(h)).*

Customer relationships acquired in connection with the purchase of a Canadian home health care business represent the intangible asset underlying the various contracts in the business. These assets are being amortized over the estimated useful lives over 15 years.

Non-compete agreements acquired through acquisitions are amortized on a straight-line basis over the period until the agreement expires.

Computer software is amortized over five to seven years and internally developed software over a three-year period.

Amortization methods and useful lives are reviewed at least annually, and are adjusted when appropriate.

## h) Impairment

Impairment of financial and non-financial assets is assessed on a regular basis. All impairment losses are charged to loss (gain) from asset impairment, disposals and other items as part of earnings before net finance costs and income taxes.

**NON-FINANCIAL ASSETS**

Non-financial assets consist of property and equipment, intangible assets with finite lives, intangible assets with indefinite lives and goodwill.

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or those that are not yet available for use, the recoverable amount is estimated annually at the same time or more frequently if warranted. An impairment loss is recognized in net earnings if the carrying amount of an asset or its related CGU, or group of assets on the same basis as evaluated by management, exceeds its estimated recoverable amount. A CGU is defined to be the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets. The Company has identified each individual centre as a CGU.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Goodwill and indefinite life intangible assets are allocated to their respective CGUs for the purpose of impairment testing. Indefinite life intangible assets and corporate assets that do not generate separate cash flows and are utilized by more than one CGU, are allocated to each CGU for the purpose of impairment testing and are not tested for impairment separately.

Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the assets in the CGU on a pro rata basis. Impairment losses on goodwill cannot be reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**FINANCIAL ASSETS**

A financial asset (*note 3(m)*) is any asset that consists of: cash; a contractual right to receive cash or another financial asset, or exchange financial assets or financial liabilities under potentially favourable conditions; an equity instrument of another entity; or certain contracts that will or may be settled in the Company’s own equity instruments.

Financial assets are reviewed at each reporting date and are deemed to be impaired when objective evidence resulting from one or more events subsequent to the initial recognition of the asset indicates the estimated future cash flows of the asset has been negatively impacted. For assets carried at amortized cost or cost and debt securities, the criteria of this assessment includes significant financial difficulty of the issuer or obligor, the disappearance of an active market for that financial asset because of financial difficulties, or observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets. For equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also objective evidence that the assets are impaired.

For assets carried at amortized cost or cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate, and will be recognized in net earnings. Impairment losses can be reversed to the extent it was previously recognized in net earnings.

For assets classified as available for sale, the cumulative impairment loss is the difference between the asset carrying amount and the fair value plus any losses accumulated in the OCI. Impairment losses on equity instruments cannot be reversed through net earnings, whereas impairment losses on debt instruments can be reversed to the extent they were previously recognized in net earnings.

## i) Employee Benefits

**DEFINED BENEFIT PLANS**

Defined benefit plans are post-employment plans with a defined obligation to employees in return for the services rendered during the term of their employment with the Company. The net obligation of these plans is calculated separately for each plan by estimating the present value of future benefit that employees have earned in return for their service in the current and prior periods. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate used in deriving the present value is the yield at the reporting date on AA credit-rated corporate bonds that have maturity dates approximating the Company’s obligations and are denominated in the same currency in which the benefits are expected to be paid.

The calculation of the future benefit of the plan is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the plan, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of reductions in future contributions to the plan.

All actuarial gains and losses arising from defined benefit plans are recognized in OCI during the period in which they are incurred.

**DEFINED CONTRIBUTION PLANS**

The Company has corporate specific and multi-employer defined benefit pension plans, as well as deferred compensation plans. Multi-employer defined benefit pension plans are accounted for as defined contribution plans as the liability per employer is not available. Deferred compensation plans are also accounted for as defined contribution plans. Defined contribution plans are post-employment plans where the costs are fixed and there are no legal or constructive obligations to pay further amounts. Obligations for such contributions are recognized as employee benefit expense in net earnings during the periods in which services are rendered by employees.

**SHORT-TERM EMPLOYEE BENEFITS**

The Company has vacation, paid sick leave and short-term disability plans along with other health, drug and welfare plans for its employees. These employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are rendered.

## j) Share-Based Compensation

**CASH-SETTLED SHARE APPRECIATION RIGHTS PLAN**

Awards under the Company's share appreciation rights plan (the "SARP") have a three-year vesting period. Until the liability is settled, the Company reports the liability on a pro rata basis at fair value at each reporting date. The fair value of the share appreciation right (SAR) is determined by using an option pricing model based on the remaining vesting term and the amount by which the "Fair Market Value" of a Common Share of Extendicare exceeds the grant price, plus "Accrued Distributions". "Fair Market Value" of a Common Share, on any particular date, means the volume-weighted average trading price of the Common Share on the TSX for the 10 trading days immediately preceding such date. "Accrued Distributions" means the product of the aggregate amount of cash distributions per Common Share declared payable to holders of record during the term of the SAR and the probability of the award being in the money at the end of the vesting period. Changes in fair value are recognized in net earnings in the period during which these are incurred.

**EQUITY-SETTLED LONG-TERM INCENTIVE PLAN**

Awards for deferred share units (DSUs) and performance share units (PSUs) are a share-based component of executive and director compensation, which are accounted for based on the intended form of settlement. Under a long-term incentive plan ( LTIP) (*note 13*), the Board has the discretion to settle the DSU and PSU awards in cash, market-purchased Common Shares, or Common Shares issued from treasury. Based on the Board's intention to settle the these awards in Common Shares issued from treasury, the PSU and DSU awards are accounted for as equity-settled awards. Settlement of the DSUs and PSUs will be net of any applicable taxes and other source deductions required to be withheld by the Company, which amounts are anticipated to approximate 50% of the fair value of the award on the redemption date. The compensation expense for these equity-settled awards is prorated over the vesting or performance period, with a corresponding increase to contributed surplus. The fair value of each award is measured at the grant date. Forfeitures are estimated at the grant date and are revised to reflect changes in expected or actual forfeitures. In addition, PSU and DSU participants will be credited with dividend equivalents in the form of additional units when dividends are paid on Common Shares in the ordinary course of business.

## k) Provisions

A provision is recognized when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and that obligation can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as accretion and recognized as part of net finance costs. Provisions are reviewed on a regular basis and adjusted to reflect management's best current estimates. Due to the judgemental nature of these items, future settlements may differ from amounts recognized. Provisions comprise estimated self-insured liabilities, decommissioning provisions and other legal claims and obligations.

**SELF-INSURED LIABILITIES**

Prior to the U.S. Sale Transaction, Extendicare self-insured certain risks related to general and professional liability. As a result of the U.S. Sale Transaction (*note 21*), the Company no longer self-insures, but retained the associated obligation relating to the self-insured liabilities. The accrual for self-insured liabilities includes the estimated costs of both reported claims and claims incurred but not yet reported. The provision for self-insured liabilities is based on estimates of loss based upon assumptions made by management supported by actuarial projections and the advice of external risk management and legal counsel. The accrual for self-insured liabilities is discounted based on the projected timing of future payment obligations.

**DECOMMISSIONING PROVISIONS**

Management has determined that future costs could be incurred for possible asbestos remediation of the Company's pre-1980 constructed centres. Although asbestos is currently not a health hazard in any of these centres, appropriate remediation procedures may be required to remove potential asbestos-containing materials, consisting primarily of floor and ceiling tiles, in connection with any major renovation or demolition.

The fair value of the decommissioning provision related to asbestos remediation is estimated by computing the present value of the estimated future costs of remediation based on estimated expected dates of remediation. The computation is based on a number of assumptions, which may vary in the future depending upon the availability of new information, changes in technology and in costs of remediation, and other factors.

The following assumptions were used in calculating the decommissioning provision: Canadian centres − discount rates of 6.75% over an estimated timing of the settlement of the provision of 10 years for an estimated undiscounted cash flow amount to settle the decommissioning provision of approximately $10 million.

**INDEMNIFICATION PROVISIONS**

Indemnification provisions include management's best estimate of amounts required to indemnify for obligations related to tax, a corporate integrity agreement, and other items, resulting from the U.S. Sale Transaction.

**OTHER PROVISIONS**

Other provisions include legal claims that meet the above definition of a provision, along with employee termination payments. Provisions are not recognized for future operating losses.

## l) Fair Value Measurement

Extendicare measures certain financial instruments at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: in the principal market for the asset or liability; or in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interests.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the following fair value hierarchy:

Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or

Level 3 – unobservable inputs such as inputs for the asset or liability that are not based on observable market data.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety, categorization of which is re-assessed at the end of each reporting period. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

## m) Financial Instruments

**FINANCIAL ASSETS AND LIABILITIES**

Extendicare classifies financial assets and liabilities according to their characteristics and the related management's intention for use on an ongoing basis. Financial assets and liabilities are classified into one of the following five classifications: held-to-maturity financial assets, loans and receivables, financial assets at FVTPL, AFS and financial liabilities that are designated as FVTPL and other financial liabilities. Below is a description of the valuation methodology.

***Held-to-maturity Financial Assets***

Held-to-maturity financial assets are those that the Company has the positive intent and ability to hold to maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale investments, and prevent the Company from classifying investment securities as held to maturity for the current and the following two financial years. We currently do not have any financial assets designated as held to maturity.

***Loans and Receivables***

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

***Financial Assets at Fair Value Through Profit and Loss (FVTPL)***

Assets classified as FVTPL are financial assets that are acquired for the purpose of selling in the short term. These assets are initially recognized and subsequently carried at fair value with changes recorded in net earnings and all transaction costs are expensed as incurred. We currently do not have any financial assets classified as FVTPL.

***Assets Held For Sale (AFS)***

AFS financial assets are assets that are not classified in any of the previous categories or are designated as such by management. These assets are initially recognized at fair value plus transaction costs, and subsequently carried at fair value with changes, except for impairment losses, recorded in OCI until the assets are derecognized through sale or impairment, at which time the cumulative gain or loss previously recognized in AOCI is recognized in net earnings. Interest calculated using the effective interest method on available-for-sale financial assets is recognized in net earnings. Dividends on available-for-sale equity instruments are recognized in net earnings when Extendicare’s right to receive payment is established.

***Financial Liabilities***

Financial liabilities include liabilities that are designated as FVTPL and other financial liabilities, both of which are liabilities incurred or assumed in the conduct of business or specific transactions. All financial liabilities are initially measured at fair value less cost for those at amortized cost. Financial liabilities that are designated as FVTPL are subsequently measured at fair value with changes recognized in net earnings as part of finance costs, whereas those that are designated as other financial liabilities are subsequently measured at amortized cost.

The Company previously had convertible debentures that could be converted to Common Shares at the option of the holder and the number of Common Shares to be issued did not vary with changes in fair value. Those convertible debentures that were issued prior to the Company being converted from an income trust effective July 1, 2012 (the “2012 Conversion”) were designated as financial liabilities valued at FVTPL, whereas those issued subsequent to the 2012 Conversion had the debt and equity components bifurcated with the debt component classified as other financial liabilities and the component attributable to the conversion option classified as equity. We currently do not have any financial liabilities valued at FVTPL.

***Summary of Financial Instruments and Classification***

All of the Company’s financial instruments are classified as loans and receivables, AFS, other financial liabilities or financial liabilities valued at FVTPL.

Below is a classification summary of the Company's financial instruments:

| | Classification | Measurement |
|---|---|---|
| Cash and short-term investments | Loans and receivables | Amortized cost |
| Total receivables | Loans and receivables | Amortized cost |
| Notes, mortgages and amounts receivable | Loans and receivables | Amortized cost |
| Investments held for self-insured liabilities | AFS | Fair value |
| Interest rate swaps | FVTPL | Fair value |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost |
| Long-term debt | Other financial liabilities | Amortized cost |

**DERIVATIVE FINANCIAL INSTRUMENTS**

Derivative financial instruments are used to manage risks from fluctuations in exchange rates and interest rates. All derivative instruments, including embedded derivatives that must be separately accounted for, are valued at their respective fair values in the consolidated financial statements unless they are effective cash-flow hedging instruments.

On the date a derivative contract is entered into, it must be assessed whether to designate the derivative (or non-derivative) as either a hedge of the fair value of a recognized asset or liability (a "fair-value hedge") or a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability or a forecasted transaction (a "cash-flow hedge") or as a hedge of a net investment in a foreign operation. At the inception of any hedge and on an ongoing basis, we assess whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items. We currently do not have any fair-value, cash-flow or net investment hedges.

## n) Revenue

In Canada, fees charged by Extendicare for its nursing centres and home health care services are regulated by provincial authorities, and provincial programs fund a substantial portion of these fees. Revenue is recorded in the period in which services and products are provided.

Retirement living revenue in Canada is primarily derived from private-pay residents and is recognized in the period in which the services are provided and at rates established by the Company based upon the services provided and market conditions in the area of operation.

Extendicare also offers management, consulting, group purchasing, accounting and administrative services to third parties in Canada. Revenue is recorded in the period in which services are provided.

In the United States, Extendicare offered information technology services to smaller long-term and post-acute health care providers through its U.S. IT Hosting business prior to its sale at the end of 2016. This revenue source was primarily derived from application hosting, customer support, telecommunications, equipment sales and consulting services, and was recognized as these services were provided and equipment was delivered to our customers.

Revenue from our discontinued skilled nursing centre operations in the U.S. was derived from various federal and state medical assistance programs, Managed Care providers, as well as privately from the residents. Outpatient therapy revenue was derived from providing rehabilitation therapy services to outside third parties at clinics. This revenue source was primarily from Managed Care, workers' compensation, self-pay clients and partly from Medicare and Medicaid.

## o) Finance Costs and Finance Income

Finance costs include: interest expense on long-term debt; accretion of the discount on provisions, decommissioning provisions and the convertible debentures issued subsequent to the 2012 Conversion; losses on the change in fair value of financial liabilities designated as FVTPL (refer to *note 3(m)*); and losses in foreign exchange on non-Canadian based financial assets. Finance income includes interest income on funds invested, gains on the change in fair value of financial liabilities designated as FVTPL, accretion on deferred consideration and gains/losses in foreign exchange on non-Canadian based financial assets.

## p) Income Taxes

Extendicare and its subsidiaries are subject to income taxes as imposed by the jurisdictions in which they operate, in accordance with the relevant tax laws of such jurisdictions. The provision for income taxes for the period comprises current and deferred income tax.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the jurisdictions in which we operate. Deferred income tax is calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

The income tax rates used to measure deferred tax assets and liabilities are those rates enacted or substantially enacted at the reporting date, and are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. For the convertible debentures that were designated as financial liabilities valued at FVTPL (*note 3(o)*), a deferred tax asset was not recorded should the fair value of the convertible debentures be in excess of the principal balance of the convertible debentures.

Current and deferred income tax assets and liabilities are offset when there is a legally enforceable right of offset; and the income taxes are levied by the same taxation authority on either the same taxable entity or different taxable entities, which intend either to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously, for each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

In assessing whether the deferred tax assets are realizable, management considers whether it is probable (which the Company has defined as “more likely than not”) that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Tax uncertainties are evaluated on the basis of whether it is more likely than not that a tax position will ultimately be sustained upon examination by the relevant taxing authorities. Tax uncertainties are measured using a probability adjusted or expected value model whereby amounts are recorded if there is any uncertainty about a filing position, determined by multiplying the amount of the exposure by the probability that the entity’s filing position will not be sustained. The assessment of tax uncertainties relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

### q) Discontinued Operations

A discontinued operation is a component of the Company’s business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or earlier, if the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statement of earnings and cash flow information is re-presented as if the operation had been discontinued from the start of the comparative period. The U.S. business and senior care operations that were sold on July 1, 2015, as well as the U.S. IT Hosting operations that were sold on December 22, 2016, were classified as discontinued operations.

## 4. FUTURE CHANGES IN ACCOUNTING POLICIES

The following new standards, amendments to standards and interpretations are effective for future annual periods, and have not been applied in preparing the financial results for the period ended December 31, 2016.

### Classification and Measurement of Share-based Payment Transactions

On June 20, 2016, the IASB issued amendments to IFRS 2 “Share-based Payment”, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2017. The adoption of the amendments to IFRS 2 is not expected to have a material impact on the consolidated financial statements.

### Recognition of Deferred Tax Assets for Unrealized Losses

On January 19, 2016, the IASB issued amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses” to provide clarification on the requirements relating to the recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. The Company intends to adopt the amendments to IAS 12 in its consolidated financial statements for the annual period beginning January 1, 2017. The adoption of the amendments to IAS 12 is not expected to have a material impact on the consolidated financial statements.

## Leases

On January 13, 2016, the International Accounting Standards Board (IASB) published IFRS 16 “Leases”. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 “Leases” and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 “Revenue from Contracts with Customers” has also been applied. The Company is currently assessing the potential impact of this standard on its consolidated financial statements.

## Financial Instruments

On July 24, 2014, IFRS 9 “Financial Instruments” was issued (IFRS 9 (2014)), which addresses the classification, measurement and recognition of financial assets and financial liabilities.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new “expected credit loss” model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgement to assess the effectiveness of a hedging relationship. The standard will be effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exemptions. Early adoption is permitted, and restatement of prior periods is not required. The Company is currently assessing the potential impact of this standard on its consolidated financial statements.

## Revenue Recognition

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers”. The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the potential impact of the new standard on its consolidated financial statements.

# 5. ACQUISITIONS

During the 2015 fourth quarter and 2016 first quarter, the Company completed acquisitions of six retirement communities, all of which are accounted for as business combinations. The Company does not have the financial information for the period prior to the acquisitions in order to report the pro forma results from January 1 in the respective period of the acquisitions. These six retirement communities contributed revenue and net operating income of $15.5 million, and $1.0 million, respectively, for the year ended December 31, 2016. For the period of ownership ending December 31, 2015, the acquired retirement communities contributed combined revenue of $1.2 million and net operating income of $0.3 million.

## 2016 Acquisition of Retirement Communities

### WEST PARK CROSSING AND YORKTON CROSSING RETIREMENT COMMUNITIES

During the 2016 first quarter, the Company completed the acquisition of two retirement communities. West Park Crossing Retirement Community (West Park) and Yorkton Crossing Retirement Community (Yorkton) were acquired on February 22, 2016, at a purchase price of $20.25 million per community for an aggregate purchase price of $40.5 million, inclusive of income support. The properties, located in Moose Jaw and Yorkton, Saskatchewan, respectively, are newly built 79-suite communities offering independent, enhanced and memory care services. The vendor has provided Extendicare with income support over 27 months of up to $2.25 million on each community, for an aggregate of up to $4.5 million in income support. This amount was held back from the $40.5 million purchase price on closing, and is being released to Extendicare during the lease-up period based on an agreed-upon formula. Cash paid on this acquisition was $35.0 million, net of liabilities assumed of $1.0 million. The final purchase price is allocated equally among the two communities, and is based on management's estimate of fair values.

## 2015 Acquisition of Retirement Communities

During the 2015 fourth quarter, the Company completed the acquisition of four retirement communities.

The final purchase price allocation for each acquisition outlined below is based on management's estimate of fair values.

| Date of acquisition in 2015 | October 1 | December 1 | December 1 | December 1 | Total |
|---|---|---|---|---|---|
| Location | Empire Crossing Ontario | Harvest Ontario | Stonebridge Crossing Saskatchewan | Riverbend Crossing Saskatchewan | |
| *(in millions of Canadian dollars)* | (63 suites) | (100 suites) | (116 suites) | (67 suites) | (346 suites) |
| **Net assets acquired:** | | | | | |
| Property and equipment | 18.9 | 27.4 | 34.3 | 16.0 | 96.6 |
| Trade payables and accrued liabilities | (0.1) | – | (0.1) | (0.1) | (0.3) |
| Total net assets acquired | $ 18.8 | $ 27.4 | $ 34.2 | $ 15.9 | $ 96.3 |
| **Consideration:** | | | | | |
| Consideration | 20.2 | 28.4 | 34.3 | 16.0 | 98.9 |
| Income support | (1.3) | (1.0) | – | – | (2.3) |
| Working capital adjustment | (0.1) | – | (0.1) | (0.1) | (0.3) |
| Cash paid | $ 18.8 | $ 27.4 | $ 34.2 | $ 15.9 | $ 96.3 |

### EMPIRE CROSSING RETIREMENT COMMUNITY

On October 1, 2015, the Company acquired Empire Crossing Retirement Community (Empire Crossing) for $20.2 million in cash. Empire Crossing, located in Port Hope, Ontario, is a newly built 63-suite independent/enhanced living community that opened in May 2015. The vendor has provided Extendicare with income support of up to $1.3 million over 24 months, which was held back from the $20.2 million purchase price, and is being released to Extendicare during the lease-up period based on an agreed upon formula.

### HARVEST RETIREMENT COMMUNITY

On December 1, 2015, the Company acquired Harvest Retirement Community (Harvest) for $28.4 million. Harvest, located in Tillsonburg, Ontario, is a 64-suite independent/enhanced living community that opened in December 2011, and a newly constructed addition for a further 36 suites completed in December 2015. The vendor has provided Extendicare with income support over 24 months of up to $1.0 million. This amount was held back from the $28.4 million purchase price, and is being released to Extendicare during the lease-up period based on an agreed upon formula.

### STONEBRIDGE CROSSING RETIREMENT COMMUNITY AND RIVERBEND CROSSING MEMORY CARE COMMUNITY

On December 1, 2015, the Company acquired two retirement communities in Saskatchewan for an aggregate purchase price of $50.3 million. Stonebridge Crossing, located in Saskatoon, is a newly built 116-suite independent/enhanced living community that opened in December 2012. Riverbend Crossing, located in Regina, is a newly built 67-suite senior care facility specializing in memory care that opened in August 2013.

## Home Health Acquisition

On April 30, 2015, the Company completed the acquisition of a Canadian home health business (the "Home Health Acquisition"), pursuant to the terms of an acquisition agreement dated January 14, 2015, as amended, for $84.3 million in cash, which included an adjustment for working capital and settlement of amounts held in escrow.

The Home Health Acquisition was financed with a bridge loan of $80 million (the "Bridge Loan") and cash on hand. The Bridge Loan was repaid in full on July 2, 2015, from a portion of the proceeds from the U.S. Sale Transaction (*note 21*), and bore interest at an average interest rate of 5.93% per annum. Financing fees incurred of $1.4 million were recorded as part of the carrying value of the Bridge Loan and amortized using the effective interest method during the 2015 second quarter.

The final purchase price allocation outlined below is based on management's best estimate of fair values.

| *(in millions of Canadian dollars)* | |
|---|---|
| **Net assets acquired:** | |
| Receivables | $ 14.2 |
| Prepaids and other current assets | 0.2 |
| Property and equipment | 2.7 |
| Intangible assets | 42.8 |
| Trade payables and accrued liabilities | (13.2) |
| Deferred tax liability | (2.7) |
| Total identifiable net assets acquired | 44.0 |
| Goodwill | 40.3 |
| Total net assets acquired | $ 84.3 |
| **Consideration:** | |
| Cash paid | $ 4.3 |
| Bridge Loan | 80.0 |
| Total purchase price (including working capital adjustment) | $ 84.3 |

The fair value estimate of $2.7 million allocated to property and equipment, primarily consisted of furniture and equipment, leasehold improvements and computer hardware, was estimated based on the carrying value approximating the fair value as at the acquisition date based on the nature and the age of these assets.

The fair value estimate of $42.8 million allocated to identifiable intangible assets acquired, primarily consisted of customer relationships, a non-competition agreement and computer software. The Company has estimated the fair value of customer relationships and the non-competition agreement based upon expected discounted cash flows generated from those assets; the estimated useful lives for these assets are 15 years and 5 years, respectively.

The remaining value inherent in this acquisition is recorded as goodwill and comes from the expanded platform, being a national provider of home health care services, future growth opportunities of both government and private-pay businesses, and access to further opportunities in additional provinces.

With respect to the remaining assets acquired and liabilities assumed, the Company has assessed their carrying value to approximate their fair value, based on the nature of those assets and liabilities.

The Company does not have the financial information for the period prior to the acquisition in order to report the pro forma results from January 1, 2015. For the year ended December 31, 2016, the Home Health Acquisition contributed revenue of $207.0 million, net operating income of $17.4 million and additional lease costs of $2.0 million. For the eight months of ownership ending December 31, 2015, the Home Health Acquisition contributed revenue of $131.6 million, net operating income of $13.2 million, and lease costs of $1.4 million.

## 6. ACCOUNTS RECEIVABLE

| | **2016** | 2015 |
|---|---|---|
| Trade receivables | **40,832** | 38,708 |
| Retroactive rate accruals | **585** | 2,507 |
| Other receivables | **10,817** | 11,463 |
| **Accounts receivables - net of allowance** (*note 25(a)*) | **52,234** | 52,678 |

## 7. PROPERTY AND EQUIPMENT

| | Land & Land Improvements | Buildings | Furniture & Equipment | Leasehold Improvements | Construction in Progress | Total |
|---|---|---|---|---|---|---|
| **Cost or Deemed Cost** | | | | | | |
| January 1, 2015 | 36,201 | 401,394 | 72,052 | 883 | 2,784 | 513,314 |
| Additions | 272 | 2,832 | 6,764 | 91 | 17,325 | 27,284 |
| Acquisitions *(note 5)* | 8,625 | 86,252 | 3,528 | 943 | - | 99,348 |
| Government funding subsidy *(note 9)* | - | (9,769) | - | - | - | (9,769) |
| Write-off of fully-depreciated assets | (92) | (7,218) | (2,942) | 254 | - | (9,998) |
| Transfer from construction-in-progress | 86 | 3,772 | 345 | - | (4,203) | - |
| Reclass and other | 232 | (263) | - | - | - | (31) |
| Effect of movements in exchange rates | 21 | 1,238 | 2,952 | 15 | - | 4,226 |
| **December 31, 2015** | 45,345 | 478,238 | 82,699 | 2,186 | 15,906 | 624,374 |
| Additions | **309** | **3,254** | **6,339** | **113** | **29,607** | **39,622** |
| Acquisitions *(note 5)* | **2,000** | **32,500** | **1,500** | **-** | **-** | **36,000** |
| Government funding subsidy *(note 9)* | **-** | **3,105** | **-** | **-** | **-** | **3,105** |
| Disposals | **(279)** | **(7,314)** | **(20,172)** | **(187)** | **-** | **(27,952)** |
| Write-off of fully-depreciated assets | **(98)** | **(4,037)** | **(7,380)** | **(152)** | **-** | **(11,667)** |
| Transfer from construction-in-progress | **1,305** | **13,416** | **1,037** | **437** | **(16,195)** | **-** |
| Reclass and other | **-** | **-** | **75** | **-** | **18** | **93** |
| Effect of movements in exchange rates | **(7)** | **(190)** | **(467)** | **(2)** | **-** | **(666)** |
| **December 31, 2016** | **48,575** | **518,972** | **63,631** | **2,395** | **29,336** | **662,909** |
| | | | | | | |
| **Accumulated Depreciation** | | | | | | |
| January 1, 2015 | 2,909 | 141,677 | 36,949 | 645 | - | 182,180 |
| Additions | 490 | 14,434 | 8,551 | 268 | - | 23,743 |
| Write-off of fully-depreciated assets | (92) | (7,218) | (2,942) | 254 | - | (9,998) |
| Effect of movements in exchange rates | - | 354 | 1,899 | 5 | - | 2,258 |
| **December 31, 2015** | 3,307 | 149,247 | 44,457 | 1,172 | - | 198,183 |
| Additions | **524** | **19,759** | **7,145** | **454** | **-** | **27,882** |
| Disposals | **-** | **(2,337)** | **(14,200)** | **(37)** | **-** | **(16,574)** |
| Write-off of fully-depreciated assets | **(98)** | **(4,037)** | **(7,380)** | **(152)** | **-** | **(11,667)** |
| Effect of movements in exchange rates | **-** | **(53)** | **(294)** | **(1)** | **-** | **(348)** |
| **December 31, 2016** | **3,733** | **162,579** | **29,728** | **1,436** | **-** | **197,476** |
| **Carrying amounts** | | | | | | |
| At December 31, 2015 | 42,038 | 328,991 | 38,242 | 1,014 | 15,906 | 426,191 |
| **At December 31, 2016** | **44,842** | **356,393** | **33,903** | **959** | **29,336** | **465,433** |

The cost of assets included in property and equipment under finance leases was $82.7 million (2015 – $84.7 million) with accumulated depreciation of $28.9 million (2015 – $29.2 million) (*note 11)*.

Extendicare is under way with the development of three private-pay retirement communities in Bolton, Uxbridge and Barrie, all in Ontario, with 354 suites in total. We broke ground on the Bolton and Uxbridge projects in June and July of 2016, and anticipate breaking ground on the Barrie project in 2017 (*note 23*).

During 2016, the Company capitalized $1.0 million of borrowing costs related to development projects under construction at an average capitalization rate of 6.0%. Interest capitalized in connection with the construction of a centre is amortized over its estimated useful life.

## 8. GOODWILL AND OTHER INTANGIBLE ASSETS

| | 2016 | 2015 |
|---|---|---|
| **Goodwill** | | |
| Balance at beginning of year | **53,381** | 13,056 |
| Impairment *(note 18)* | **(1,672)** | - |
| Acquisitions *(note 5)* | **-** | 40,320 |
| Disposal | **(33)** | - |
| Effect of movements in exchange rates | **(1)** | 5 |
| Balance at end of year | **51,675** | 53,381 |
| **Other Intangible Assets** | | |
| Gross carrying value at beginning of year | **48,724** | 5,151 |
| Additions | **194** | 437 |
| Acquisitions *(note 5)* | **-** | 42,798 |
| Write-off of fully amortized assets | **(98)** | (78) |
| Disposals | **(2,752)** | - |
| Effect of movements in exchange rates | **(68)** | 416 |
| Gross carrying value at end of year | **46,000** | 48,724 |
| Accumulated amortization at beginning of year | **(5,751)** | (1,980) |
| Amortization | **(4,482)** | (3,538) |
| Write-off of fully amortized assets | **98** | 78 |
| Disposal | **2,179** | - |
| Effect of movements in exchange rates | **51** | (311) |
| Accumulated amortization at end of year | **(7,905)** | (5,751) |
| Net carrying value | **38,095** | 42,973 |
| **Goodwill and other intangible assets** | **89,770** | 96,354 |

## 9. OTHER ASSETS

| | 2016 | 2015 |
|---|---|---|
| Investments held for self-insured liabilities: available-for-sale securities, at fair value | **136,109** | 176,770 |
| Notes, mortgages and amounts receivable | **84,443** | 100,393 |
| Deferred consideration | **37,429** | 38,990 |
| Interest rate swaps *(note 11)* | **985** | - |
| Funds held in escrow | **-** | 19,376 |
| | **258,966** | 335,529 |
| less: current portion | **25,251** | 52,485 |
| | **233,715** | 283,044 |

### Investments Held for Self-insured Liabilities

Extendicare holds investments within the Captive for self-insured liabilities that are subject to insurance regulatory requirements *(note 10)*.

The investment portfolio comprises U.S. dollar-denominated cash and money market funds of $112.4 million (2015 – $131.7 million), and investment-grade corporate and government securities of $23.7 million (2015 – $45.1 million). Certain of these investments in the amount of $83.8 million (US$62.4 million) (2015 – $86.4 million or US$62.4 million), have been pledged as collateral for letters of credit issued by the banker of the Captive in favour of ceding companies. As at December 31, 2016, all investments were categorized as available for sale.

### Notes, Mortgages and Amounts Receivable

Notes, mortgages and amounts receivable were primarily related to discounted amounts receivable due from government agencies, which represents the Ontario construction funding subsidy for newly constructed nursing centres, totalling $63.5 million (2015 – $72.4 million) of which $4.9 million (2015 – $6.2 million) is current. In 2013, the Company participated in the first phase of the Ontario Ministry of Health and Long-Term Care redevelopment program and redeveloped two of its class "C" centres that qualified for a construction funding subsidy of $14.30 per bed per day over 25 years, plus an additional $3.35 per bed per day on a retroactive basis. Commencing in the 2016 first quarter, the Company received the additional subsidy and recorded the present value of the additional funding totalling $6.4 million.

The construction funding subsidies have been discounted at rates ranging from 3.27% to 6.5%, with the values being recorded as a reduction in the cost of the property and equipment related to the centres. The accretion of the note receivable is recognized in interest revenue as part of net finance costs.

Also included in notes, mortgages and amounts receivable is an $8.3 million receivable as at December 31, 2016 (2015 – $12.0 million), resulting from the U.S. Sale Transaction (*note 21*).

## Deferred Consideration

As part of the proceeds from the U.S. Sale Transaction, the Company is entitled to receive an ongoing cash stream for a period of 15 years relating to certain U.S. skilled nursing centres that were leased prior to the closing. The present value ascribed to these proceeds is reflected as deferred consideration, and it is recorded at amortized cost, accreted using the effective interest method. At December 31, 2016, the balance was $37.4 million (US$27.9 million). The foreign exchange impact on this asset is recognized in net earnings (*note 19*). Subsequent to December 31, 2016, the Company entered into an agreement to defer the receipt of substantially all of the payments for 2017, and approximately half of the amounts for 2018. Payments are to be restored in 2019, with recovery of the deferred amounts anticipated over the remaining term. As a result, the full balance of the deferred consideration has been presented as long term.

## Funds Held in Escrow

As part of the U.S. Sale Transaction, the Company assumed an obligation of EHSI in connection with certain leased centres. As at December 31, 2015, $19.4 million or US$14.0 million was held in escrow, to secure the obligation. During 2016, the Company released all the funds held in escrow to settle the related liability (*note 12*).

# 10. PROVISIONS

| | Accrual for Self-insured Liabilities | Indemnification Provisions | Decommissioning Provisions | Total |
|---|---|---|---|---|
| January 1, 2015 | 133,443 | - | 7,536 | 140,979 |
| Provisions recorded | 29,312 | 34,753 | 350 | 64,415 |
| Provisions used | (42,105) | (5,945) | - | (48,050) |
| Accretion | 1,355 | - | (80) | 1,275 |
| Effect of movements in exchange rates | 26,424 | 3,071 | - | 29,495 |
| **December 31, 2015** | 148,429 | 31,879 | 7,806 | 188,114 |
| Less: current portion | 41,139 | - | - | 41,139 |
| | 107,290 | 31,879 | 7,806 | 146,975 |
| January 1, 2016 | **148,429** | **31,879** | **7,806** | **188,114** |
| Provisions recorded (released) | **(16,818)** | **2,661** | **349** | **(13,808)** |
| Provisions used | **(32,976)** | **(5,030)** | **-** | **(38,006)** |
| Accretion | **1,325** | **-** | **(18)** | **1,307** |
| Effect of movements in exchange rates | **(5,119)** | **(1,063)** | **-** | **(6,182)** |
| **December 31, 2016** | **94,841** | **28,447** | **8,137** | **131,425** |
| Less: current portion | **31,419** | **-** | **-** | **31,419** |
| | **63,422** | **28,447** | **8,137** | **100,006** |

## Accrual for Self-insured Liabilities

As a result of the U.S. Sale Transaction, the expense for self-insured liabilities is reflected in discontinued operations; however, the obligation to settle any claims incurred prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extendicare within the Captive. Consequently, neither the accrual for self-insured liabilities nor the investments held for self-insured liabilities (*note 9*) were classified as net assets of discontinued operations sold.

Within the U.S. long-term care industry, operators including the Company are periodically subject to lawsuits alleging negligence, malpractice, or other related claims. The Company retains a portion of the risk within the Captive at a level that the Company believes to be adequate based upon the nature and risks of its business, historical experience and industry standards, along with the type of insurance coverage commercially available in the marketplace.

The accrual for self-insured liabilities is based on management's best estimate of the ultimate cost to resolve general and professional liability claims, including both known claims and claims that have been incurred but not yet reported by the end of the reporting period. Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

As at December 31, 2016, the accrual for self-insured general and professional liabilities was $94.8 million (US$70.6 million) compared to $148.4 million (US$107.2 million) at the beginning of the year. The decline of US$36.6 million represented claim payments of $33.0 million (US$24.9 million) and the release of reserves of $16.8 million (US$12.7 million) reflected as other expense (income) in discontinued operations (*note 21*), offset by accretion of $1.3 million (US$1.0 million) (2015 – $1.4 million or US$1.1 million).

In connection with these provisions, Extendicare holds investments within the Captive for self-insured liabilities that are subject to insurance regulatory requirements (*note 9*).

## Indemnification Provisions

As a result of the U.S. Sale Transaction (*note 21*), the Company has agreed to indemnify certain obligations of the U.S. operations related to tax and other items. The estimates of these items are assessed every period and any required revisions are reflected as part of other expense in discontinued operations. As at December 31, 2016, the remaining obligations totalled $28.4 million (US$21.2 million) (2015 – $31.9 million (US$23.0 million)). Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

## Decommissioning Provisions

The decommissioning provisions relate to possible asbestos remediation of Extendicare's pre-1980 constructed centres (*note 3(k)*). This represents management's best estimate and actual amounts may differ.

# 11. LONG-TERM DEBT

| | Interest rate | Year of Maturity | **2016** | 2015 |
|---|---|---|---|---|
| **Canadian Operations** | | | | |
| Convertible unsecured subordinated debentures | 6.0% | 2019 | **123,912** | 123,085 |
| CMHC mortgages | 2.22% - 7.7% | 2017 - 2037 | **138,305** | 151,191 |
| Non-CMHC mortgages | 3.11% - 5.637% | 2020 - 2038 | **145,750** | 91,668 |
| Construction loans | BA + 2.5% | on demand | **12,605** | - |
| Finance lease obligations | 6.41% - 7.19% | 2026 - 2028 | **89,738** | 95,433 |
| | | | **510,310** | 461,377 |
| Financing costs | | | **(6,742)** | (7,571) |
| | | | **503,568** | 453,806 |
| **U.S. Operations** | | | | |
| Finance lease obligations | | | **-** | 268 |
| Total debt, net of financing costs | | | **503,568** | 454,074 |
| Less: current portion | | | **54,826** | 25,395 |
| Long-term debt, net of financing costs | | | **448,742** | 428,679 |

## Canadian Operations

### CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

In 2012, Extendicare issued $126.5 million of aggregate principal amount of 6.00% convertible unsecured subordinated debentures due September 30, 2019, convertible at $11.25 per Common Share (the "2019 Debentures").
Interest on the 2019 Debentures is payable semi-annually in March and September. On or after October 1, 2015, but prior to October 1, 2017, these debentures may be redeemed by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days prior, provided that the volume-weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day immediately preceding the date on which notice of redemption is given is not less than 125% of the conversion price. On and after October 1, 2017, these debentures may be redeemed by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days prior.

Upon the occurrence of a change of control, whereby more than 66.67% of the Common Shares are acquired by any person, or group of persons acting jointly, each holder of the 2019 Debentures may require the Company to purchase their debentures at 101% of the principal. If 90% or more of the debentureholders do so, the Company has the right, but not the obligation, to redeem all the remaining outstanding 2019 Debentures.

The debt and equity components of the 2019 Debentures were bifurcated as the financial instrument is considered a compound instrument with $120.7 million classified as a liability and the residual $5.8 million classified as equity attributable to the conversion option. The liability portion of the 2019 Debentures is recorded at amortized cost. The fees and transaction costs allocated to the debt component are amortized over the term of the 2019 Debentures using the effective interest method and recognized as part of net finance costs.

**CMHC MORTGAGES**

Extendicare's Canadian subsidiaries have various mortgages insured through the Canada Mortgage and Housing Corporation (CMHC) program. The CMHC mortgages are secured by several Canadian financial institutions at rates ranging from 2.22% to 7.7% with maturity dates through to 2037.

In October 2016, one of the mortgages in the amount of $6.1 million, which matured in October 2016, was extended to April 2017, and in January 2017, an additional mortgage of $4.9 million was extended to March 2017.

Two mortgages totalling $16.5 million, maturing in February 2017, were renewed under existing CMHC certificate at a rate of 3.35% to mature in February 2032. These are presented as current as at December 31, 2016.

**NON-CMHC MORTGAGES**

The Canadian operations have a number of conventional mortgages on certain long-term care centres, at rates ranging from 4.1% to 5.637%. Some of these mortgages have a requirement to maintain a minimum debt service coverage ratio. In addition, in August 2016, the Company secured financing on three of the newly acquired retirement communities, Harvest, Stonebridge Crossing and Riverbend Crossing, representing non-revolving credit facilities aggregating $56.3 million. These financings have seven-year terms, with a floating rate of prime plus 0.5% or banker's acceptance (BA) plus 1.9%. In conjunction with securing these credit facilities, the Company entered into interest rate swap contracts to lock in the interest rates at 3.11% for the full terms of these credit facilities. These interest rate swap contracts are designated at fair value through profit or loss, and hedge accounting has not been applied. These interest rate swap contracts are carried at fair value, reflected on the statement of financial position as either an asset or a liability. Changes in fair value are recorded in the statements of earnings (*note 19)*. As at December 31, 2016, the interest rate swaps were valued as an asset of $1.0 million, which is included as part of other assets (*note 9*).

**CONSTRUCTION LOANS**

In May 2016, construction financing was secured on two retirement development projects, in Simcoe (70 suites) and Bolton (124 suites), for up to $9.9 million and $20.8 million, respectively. These two financings are cross-collateralized and provide for additional letter of credit facilities of $500,000 and $750,000, respectively, at a rate of 2.5% if utilized. Loan payments are interest-only based on a floating rate of 30-day BA plus 2.5%, with no standby fee. The construction loan for the Simcoe project is a demand facility that matures at the earlier of 42 months from closing or 24 months from the issuance of an occupancy permit and as a result, has been reflected as current. The construction loan for the Bolton project is a demand facility that matures at the earlier of 54 months from closing or 36 months from the issuance of the occupancy permit. Permanent financing for each of the communities will be sought upon maturity of the construction financing.

Construction financing of $20.7 million was secured for the Uxbridge retirement development project (106 suites) and the first draw was made in October 2016. This financing provides for an additional letter of credit facility of $750,000, at a rate of 2.5% if utilized. Loan payments are interest-only, based on a floating rate of 30-day BA plus 2.5%, with no standby fee. The construction loan for the Uxbridge project is a demand facility that matures at the earlier of 54 months from closing or 36 months from the issuance of the occupancy permit.

As at December 31, 2016, $12.6 million has been drawn on the Simcoe and Uxbridge construction loans.

### FINANCE LEASE OBLIGATIONS

Extendicare obtained financing totalling $139.8 million in 2001 to 2003 to build nine Ontario nursing centres. Extendicare is operating the centres under 25-year finance lease arrangements at an average effective rate of 6.99%.

Finance lease obligations are payable as follows:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Future Minimum Lease Payments** | **Interest** | **Present Value of Minimum Lease Payments** | Future Minimum Lease Payments | Interest | Present Value of Minimum Lease Payments |
| Less than one year | **12,104** | **6,002** | **6,102** | 12,104 | 6,409 | 5,695 |
| Between one and five years | **48,416** | **19,335** | **29,081** | 48,416 | 21,272 | 27,144 |
| More than five years | **65,593** | **11,038** | **54,555** | 92,300 | 29,706 | 62,594 |
| | **126,113** | **36,375** | **89,738** | 152,820 | 57,387 | 95,433 |

## Other

### CREDIT FACILITY

Extendicare has a demand credit facility with the Royal Bank of Canada (the "RBC Credit Facility") that is secured by 13 class "C" nursing centres in Ontario and is guaranteed by certain Canadian subsidiaries of Extendicare. During the 2016 third quarter, the amount of the RBC Credit Facility increased from $46.8 million to $47.3 million, and is available for operating purposes, including letters of credit. The RBC Credit Facility has no financial covenants, but does contain normal and customary terms including annual re-appraisals of the centres that could limit the maximum amount available. The unutilized portion of the credit facility was $4.1 million as at December 31, 2016.

### LETTERS OF CREDIT

As at December 31, 2016, Extendicare had letters of credit totalling approximately $43.2 million issued under the RBC Credit Facility, of which $40.4 million secure our defined benefit pension plan obligations and the balance was in connection with the recently acquired centres and those under development. The letter of credit to secure the pension plan obligations renews annually based on an actuarial valuation, and decreased in May 2016 from $42.8 million to $40.4 million.

### RESTRICTED CASH

In connection with certain financing, funds totalling $1.0 million as at December 31, 2016 (2015 – $0.7 million), included in restricted cash are designated for future capital expenditures.

### DEFERRED FINANCING COSTS

Deferred financing costs are deducted against long-term debt and are amortized using the effective interest rate method over the term of the debt. Deferred financing costs included as part of long-term debt amounted to $6.7 million as at December 31, 2016 (2015 – $7.6 million). The net decrease of $0.9 million in 2016 related to the amortization of finance costs, offset in part by incremental costs of $0.7 million related to securing the financing of the newly acquired retirement communities.

Below is a summary of the deferred financing costs:

| | 2016 | 2015 |
|---|---|---|
| **Canadian Operations** | | |
| Convertible unsecured subordinated debentures | **2,180** | 2,969 |
| CMHC mortgages | **2,877** | 3,388 |
| Non-CMHC mortgages | **1,415** | 893 |
| Finance lease obligations | **270** | 321 |
| Total financing costs | **6,742** | 7,571 |
| Less: current portion | **1,636** | 1,469 |
| | **5,106** | 6,102 |

**PRINCIPAL REPAYMENTS**

Principal repayments on long-term debt, exclusive of finance lease obligations, are as follows:

| *Year* | *Amount* |
|---|---|
| 2017 | 50,360 |
| 2018 | 20,223 |
| 2019 | 137,848 |
| 2020 | 55,857 |
| 2121 | 10,701 |
| 2022 and beyond | 148,171 |
| | 423,160 |

**INTEREST RATES**

The weighted average interest rate of all long-term debt at December 31, 2016, was approximately 5.2% (2015 – 5.5%). At December 31, 2016, 97.5% of the long-term debt, including interest rate swaps, was at fixed rates.

## 12. OTHER LONG-TERM LIABILITIES

| | **2016** | 2015 |
|---|---|---|
| Accrued pension plan obligation *(note 24)* | **34,784** | 38,577 |
| Obligations assumed on disposition of U.S. operations | **-** | 8,304 |
| Share appreciation rights *(note 13)* | **846** | 682 |
| Other | **409** | 420 |
| | **36,039** | 47,983 |

### Obligations Assumed on Disposition of U.S. Operations

On closing of the U.S. Sale Transaction, the Company assumed an obligation of US$15.0 million, all of which was paid during 2016. Funds of US$14.0 million in escrow to secure this obligation were released during 2016 (*note 9*).

## 13. SHARE-BASED COMPENSATION

The Company's share-based compensation expense, which includes SARs, DSUs and PSUs, was an expense of $2.0 million for 2016 (2015 – expense of $0.9 million). The share-based compensation expense is reflected as part of administrative costs.

The carrying amounts of the Company's share-based compensation arrangements, consisting of SARs, DSUs and PSUs, are recorded in the consolidated statements of financial position as follows:

| | **2016** | 2015 |
|---|---|---|
| Accounts payable and accrued liabilities – SARs | **822** | 550 |
| Other long-term liabilities – SARs | **846** | 682 |
| Contributed surplus – DSUs | **552** | - |
| Contributed surplus – PSUs | **389** | - |

### Cash-settled Share Appreciation Rights Plan

Prior to the implementation of a new long-term incentive plan in 2016, SARs were granted at the discretion of the Board to directors and eligible employees of Extendicare. As of January 1, 2016, no further awards will be granted under the SARP, and those awards that are granted and outstanding will continue to vest pursuant to the SARs plan. SARs issued by the Company are accounted for as cash-settled awards.

The vesting price represents the price at which the respective SARs were granted, and equates to the minimum Common Share price at which they can be vested. As at December 31, 2016, 597,000 SARs were outstanding (2015 – 774,111), with an average remaining contractual life of 0.9 years (2015 – 1.6 years). During 2015, at the discretion of the Board and under the terms of the SARs, the vesting of 420,000 rights was accelerated in connection with the U.S. Sale Transaction.

A summary of the SARs that have been granted to date by the Board to senior management and the directors in each of 2016 and 2015 is as follows:

| | **2016** | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Share Appreciation Rights** | | **Weighted Average Vesting Price** | Share Appreciation Rights | | Weighted Average Vesting Price |
| Outstanding, beginning of year | **774,111** | **$** | **6.93** | 1,312,555 | $ | 7.18 |
| Granted | **-** | | **-** | 396,000 | | 7.17 |
| Vested | **(177,111)** | | **6.52** | (439,444) | | 8.11 |
| Vested, U.S. Sale Transaction | **-** | | **-** | (420,000) | | 6.71 |
| Forfeited | **-** | | **-** | (75,000) | | 6.90 |
| Outstanding, end of year | **597,000** | **$** | **7.05** | 774,111 | $ | 6.93 |

The fair value of SARs was measured based on the Black-Scholes model. The inputs used in the fair value measurement for 2016 and 2015 were as follows:

| | **2016** | 2015 |
|---|---|---|
| Share price | **9.96** | 9.33 |
| Volatility | **20.00%** | 26.00% |
| Risk-free interest rate | **0.56% - 0.69%** | 0.49% - 0.50% |
| Strike price | **$6.52 - $7.69** | $6.52 - $7.69 |
| Expected remaining life | **0.4 years - 1.4 years** | 0.6 years - 2.3 years |

## Equity-settled Long-term Incentive Plan

Effective April 7, 2016, the Board approved the implementation of a new long-term incentive plan the (LTIP) to provide for a new share-based component of executive and director compensation, which was approved by the shareholders in May 2016. The LTIP is designed to encourage a greater alignment of interests between executives and directors and our shareholders, in the form of PSUs for our employees and DSUs for our non-employee directors. PSUs and DSUs granted under the LTIP will not carry any voting rights.

During 2016, 59,967 DSU's were granted at a weighted average fair value of $9.21 per DSU at the grant date.On April 7, 2016, the Board granted 167,343 PSUs to executives that vest on April 7, 2019.
The grant date value of each PSU was $9.81 based on the fair value of one award with two equal components being the adjusted funds from operations (AFFO) and total shareholder return (TSR). The fair value of the AFFO component was measured using the previous day's closing trading price of the Common Shares of $9.59, for an AFFO component value of $4.80. The fair value of the TSR component was measured using the Monte Carlo simulation method, for a TSR component value of $5.01. The following assumptions were used in the Monte Carlo simulation model:

| | |
|---|---|
| Expected volatility of Extendicare's Common Shares | 23.19% |
| Expected volatility of the Index | 12.89% |
| Risk-free rate | 0.52% |
| Dividend yield | nil |

An aggregate of 4,407,892 Common Shares are reserved and available for issuance pursuant to the LTIP.

The DSUs vest immediately upon grant. None of the PSUs have vested as at December 31, 2016. The following is a summary of the Company's DSU and PSU activity:

| | **Deferred Share Units** | | **Performance Share Units** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Units outstanding, beginning of year | **-** | - | **-** | - |
| Granted | **59,967** | - | **167,343** | - |
| Reinvested dividend equivalents | **1,157** | - | **6,207** | - |
| Units outstanding, end of year | **61,124** | - | **173,550** | - |

## 14. SHARE CAPITAL

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | ***Shares*** | **Amount** | *Shares* | Amount |
| Balance at beginning of year | ***87,953,291*** | **$ 483,385** | *88,195,076* | $ 482,950 |
| Transactions with shareholders | | | | |
| DRIP | ***731,194*** | **6,271** | *870,004* | 6,526 |
| Purchase of shares for cancellation in excess of book value | - | **-** | *(1,111,789)* | (6,091) |
| Balance at end of year | ***88,684,485*** | **$ 489,656** | *87,953,291* | $ 483,385 |

## Authorized Capital

Extendicare is authorized to issue an unlimited number of Common Shares and that number of preferred shares of Extendicare (the "Preferred Shares"), issuable in series, equal to 50% of the number of Common Shares that are issued and outstanding at the time of the issuance of any series of Preferred Shares, for consideration and on terms and conditions that the Board may determine without the approval of shareholders.

### COMMON SHARES

Each Common Share is transferable and represents an equal and undivided beneficial interest in the assets of the Company. Each Common Share entitles the holder to one vote at all meetings of shareholders of the Company. Shareholders are entitled to receive dividends from the Company if, as and when declared by the Board. During 2016 and 2015, the Company declared cash dividends of $0.48 per share.

### PREFERRED SHARES

Preferred Shares may at any time and from time to time be issued in one or more series. There are currently no Preferred Shares issued.

## Distribution Reinvestment Plan

The Company has a Distribution Reinvestment Plan (DRIP) pursuant to which shareholders who are residents in Canada may elect to reinvest their cash distributions in additional Common Shares on the date of the distribution, at a price equal to 97% of the volume-weighted average trading price of the Common Shares on the TSX for the five trading days immediately preceding the corresponding date of distribution. During 2016, the Company issued 0.7 million Common Shares at a value of $6.3 million in connection with the DRIP (2015 – $0.9 million Common Shares at a value of $6.5 million).

## Normal Course Issuer Bid

On January 10, 2017, Extendicare received the approval of the TSX to renew its normal course issuer bid (the "Bid") to purchase for cancellation up to 8,800,000 Common Shares (approximately 10% of the public float) through the facilities of the TSX, and on alternative Canadian trading platforms. The Bid commenced on January 13, 2017, and provides Extendicare with flexibility to repurchase Common Shares for cancellation until January 12, 2018, or on such earlier date as the Bid is complete. Subject to the TSX's block purchase exception, on any trading day, purchases under the Bid will not exceed 70,940 Common Shares. The price that Extendicare will pay for any Common Shares purchased under the Bid will be the prevailing market price at the time of purchase and any Common Shares purchased will be cancelled. As at February 28, 2017, the Company has not acquired any Common Shares for cancellation under the Bid.

During 2016, the Company did not acquire any Common Shares for cancellation under a similar normal course issuer bid that commenced on January 5, 2016, and expired on January 4, 2017.

## 15. EQUITY RESERVES

Equity reserves are included in AOCI and comprise fair value, and translation reserves, as follows:

| | Unrealized Gains/Losses on AFS Securities | Realized Gains/Losses on AFS Securities transferred to net earnings | Total Fair Value Reserve | Translation Reserve | Total Equity Reserves |
|---|---|---|---|---|---|
| Balance, January 1, 2015 | 8,604 | (1,603) | 7,001 | 14,813 | 21,814 |
| Reclassed to gain on U.S. Sale Transaction | - | - | - | (21,979) | (21,979) |
| Recognized during the year | (684) | (2,968) | (3,652) | 13,904 | 10,252 |
| **Balance, December 31, 2015** | 7,920 | (4,571) | 3,349 | 6,738 | 10,087 |
| Reclassed to gain on sale of U.S. IT Hosting operations | - | - | - | **(1,431)** | **(1,431)** |
| Recognized during the year | **5,574** | **(2,532)** | **3,042** | **(1,532)** | **1,510** |
| **Balance, December 31, 2016** | **13,494** | **(7,103)** | **6,391** | **3,775** | **10,166** |

### Fair Value Reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized, at which time, the cumulative change in fair value is recognized in net earnings.

### Translation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations until the operations are derecognized, at which time, cumulative change in foreign currency differences are recognized in net earnings. During 2016, $1.4 million was reclassified to the gain on the sale of the U.S. IT Hosting operations (2015 – $22.0 million to the gain on the U.S. Sale Transaction) (*note 21*).

## 16. REVENUE

| | **2016** | 2015 |
|---|---|---|
| Long-term care | **608,618** | 594,198 |
| Retirement living | **15,474** | 1,238 |
| Home health care | **414,406** | 326,964 |
| Management, consulting and other | **22,260** | 20,879 |
| **Total revenue** | **1,060,758** | 943,279 |

Funding received by Extendicare for its long-term centres and home health care services is regulated by provincial authorities. Revenue from provincial programs represented approximately 70% of Extendicare’s long-term care revenue, and approximately 97% of Extendicare’s home health care revenue for both 2016 and 2015.

## 17. EXPENSES BY NATURE

| | **2016** | 2015 |
|---|---|---|
| Employee wages and benefits | **822,416** | 721,088 |
| Food, drugs, supplies and other variable costs | **44,739** | 46,691 |
| Property based and other costs | **94,018** | 85,854 |
| Total operating expenses and administrative costs | **961,173** | 853,633 |
| Lease costs | **6,650** | 5,955 |
| **Total expenses** | **967,823** | 859,588 |

## 18. OTHER EXPENSE

| | **2016** | 2015 |
|---|---|---|
| Acquisition costs | **286** | 3,005 |
| Integration costs | **193** | 2,351 |
| Proxy contest costs | **1,862** | 1,349 |
| Asset impairment | **1,672** | - |
| **Other expense** | **4,013** | 6,705 |

During the 2015 fourth quarter, the Company incurred proxy contest costs of $1.3 million, including advisory, professional and legal fees, and a further $1.9 million was incurred in the 2016 first quarter.

The Company acquired four retirement communities in the 2015 fourth quarter, and an additional two retirement communities in the 2016 first quarter (*note 5*), and in connection thereto incurred transfer tax and advisor fees of $1.2 million in 2015 and $0.3 million in 2016.

In the 2015 second quarter, the Company completed the Home Health Acquisition (*note 5*). In 2015, the Company incurred advisor fees of $1.8 million in connection with this transaction, and a further $2.3 million in 2015 and $0.2 million in 2016 in connection with the integration of the new business.

### Impairment

Goodwill of the Company arises from acquisitions, and must be assessed for impairment on an annual basis. Based upon the impairment assessment performed in 2016, the Company recognized a net pre-tax impairment loss of $1.7 million on goodwill for certain properties. There was no impairment of goodwill in 2015.

Property and equipment must be assessed for impairment when indicators of impairment exist. There was no triggering event in 2016 and 2015; therefore, there was no impairment on property and equipment for both years.

The determination of recoverable amounts can be significantly impacted by estimates related to current market valuations, current and future economic conditions in the geographical markets of each CGU, and management’s strategic plans within each of its markets. Estimates and assumptions used in the determination of the impairment loss were based upon information that was known at the time, along with the future outlook. The Company completes the assessment of fair value using financial performance and current capitalization rates. The fair value is a Level 3 valuation (*note 25(b)*).

## 19. FINANCE COSTS AND FINANCE INCOME

### Foreign Exchange on U.S. Sale

In 2016, the Company recognized foreign exchange losses of $0.8 million on net proceeds from the U.S. Sale Transaction that are denominated in U.S. dollars (*note 21*), of which gains of $0.2 million for the year were realized. Foreign exchange gains of $5.8 million were recognized in 2015, of which $1.9 million was realized.

### Foreign Exchange on Deferred Consideration

As part of the proceeds from the U.S. Sale Transaction, the Company receives an ongoing cash stream, reflected as deferred consideration (*note 9*). The foreign exchange impact on this asset is recognized in net earnings. An unrealized foreign exchange loss of $1.1 million was recorded for 2016 (2015 – gain of $3.9 million).

### Funds Repatriated from the Captive

In 2016, the Company recognized a foreign exchange gain of $0.7 million (2015 – nil) upon repatriation of funds from the Captive.

### Fair Value Adjustment on Interest Rate Swaps

In August 2016, the Company entered into interest rate swap contracts to lock in the interest rates for certain non-CMHC mortgages. The fair value of these contracts as at December 31, 2016, resulted in a gain of $1.0 million (*notes 9 and 11*).

## 20. EARNINGS PER SHARE

Basic earnings (loss) per share are calculated using the weighted average number of shares outstanding during the period. The calculation of diluted earnings (loss) per share, using the “if-converted” method and to the extent the conversion is dilutive, assumes all convertible securities have been converted at the beginning of the period, or at the time of issuance, if later, and any charges or returns on the convertible securities, on an after-tax basis, are removed from net earnings. The after-tax interest on convertible debentures have been removed from net earnings and the weighted average number of shares has been increased by the number of shares, which would be issued on conversion of the convertible debentures, pro-rated for the number of days in the period the convertible debentures were outstanding.

The following table reconciles the numerator and denominator of the basic and diluted earnings per share computation.

| | **2016** | 2015 |
|---|---|---|
| **Numerator for Basic and Diluted Earnings per Share** | | |
| ***Earnings from continuing operations*** | | |
| Net earnings for basic earnings per share | **35,452** | 232,078 |
| Less: Earnings from discontinued operations, net of tax | **4,035** | 208,368 |
| Earnings from continuing operations for basic earnings per share | **31,417** | 23,710 |
| Add: after-tax interest on convertible debt | **7,086** | 7,028 |
| Earnings from continuing operations for diluted earnings per share | **38,503** | 30,738 |
| ***Net earnings*** | | |
| Net earnings for basic earnings per share | **35,452** | 232,078 |
| Add: after-tax interest on convertible debt | **7,086** | 7,028 |
| Net earnings for diluted earnings per share | **42,538** | 239,106 |
| **Denominator for Basic and Diluted Earnings per Share** | | |
| Weighted average number of shares for basic earnings per share | **88,372,043** | 87,768,030 |
| Shares issued if all convertible debt was converted | **11,252,090** | 11,244,444 |
| Total for diluted earnings per share | **99,624,133** | 99,012,474 |
| **Basic Earnings per Share** *(in dollars)* | | |
| Earnings from continuing operations | **0.36** | 0.27 |
| Earnings from discontinued operations | **0.04** | 2.37 |
| Net earnings | **0.40** | 2.64 |
| **Diluted Earnings per Share** *(in dollars)* | | |
| Earnings from continuing operations | **0.36** | 0.27 |
| Earnings from discontinued operations | **0.04** | 2.14 |
| Net earnings | **0.40** | 2.41 |

# 21. DISCONTINUED OPERATIONS

## U.S. IT Hosting operations

The U.S. IT Hosting operations were reclassified as discontinued in the 2016 second quarter following the Company's decision to actively market the sale of the operations.

On December 22, 2016, the Company completed the sale of substantially all of the assets used in the operations of its U.S. IT Hosting business for gross cash proceeds of $11.5 million (US$8.5 million), prior to working capital adjustments and transaction costs. Net proceeds from the sale, after working capital adjustments and transaction costs, were $9.5 million (US$7.1 million). The sale resulted in a pre-tax loss of $8.6 million (after-tax loss of $8.4 million), and included a working capital adjustment of $0.3 million and the realization of a foreign currency translation adjustment of $1.4 million that was previously included in AOCI.

## U.S. Sale Transaction

The Company completed the U.S. Sale Transaction, effective July 1, 2015, by selling the shares of a subsidiary to a group of private investors (the "Purchaser").

### INDEMNIFICATIONS

The proceeds from the U.S. Sale Transaction included a non-cash amount which represented the net present value ascribed to an ongoing cash stream, relating to certain U.S. skilled nursing centres that were leased prior to the closing (*note 9*). In addition, the Company agreed to indemnify certain obligations of the U.S. operations related to tax, a corporate integrity agreement, and other items. In connection with these items, as at December 31, 2016, the Company had remaining provisions totalling $28.4 million (US$21.2 million) (*note 10*), and a receivable of $8.3 million (US$6.2 million) (*note 9*). Favourable changes to indemnification provisions and receivables totalled $6.5 million for 2016 (2015 – unfavourable changes of $4.4 million), and are reflected as other expense (income) in the results of discontinued operations outlined below.

In October 2014, EHSI completed and executed a settlement agreement with the U.S. Department of Justice (DOJ), the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services and multiple states. As is standard practice in settlements of OIG and DOJ investigations, EHSI entered into a corporate integrity agreement (the "CIA"), with the OIG for a five-year period effective October 3, 2014. Under the terms of the U.S. Sale Transaction, Extendicare has agreed to share in the costs incurred in order to implement and comply with the requirements of the CIA. Though the actual costs for the Purchaser to comply with the CIA are difficult to estimate, the Company has included a provision for such costs in its provision for indemnification obligations (*note 10*).

## Results of Discontinued Operations

The following is a summary of the results of the discontinued operations with prior periods reclassified accordingly.

| | **2016** | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **U.S. IT Hosting** | **U.S. Sale** | **Total** | U.S. IT Hosting | U.S. Sale | Total |
| Nursing and assisted living centres revenue | **-** | **-** | **-** | - | 633,133 | 633,133 |
| Health technology services revenue | **28,751** | **-** | **28,751** | 36,330 | - | 36,330 |
| Outpatient therapy revenue | **-** | **-** | **-** | - | 6,735 | 6,735 |
| Management, consulting and other | **-** | **-** | **-** | - | 15,775 | 15,775 |
| Total revenue | **28,751** | **-** | **28,751** | 36,330 | 655,643 | 691,973 |
| Operating expenses | **23,979** | **-** | **23,979** | 27,861 | 598,857 | 626,718 |
| Administrative costs | **5,055** | **-** | **5,055** | 4,924 | 24,039 | 28,963 |
| Lease costs | **621** | **-** | **621** | 791 | 3,173 | 3,964 |
| Total expenses | **29,655** | **-** | **29,655** | 33,576 | 626,069 | 659,645 |
| Earnings (loss) before depreciation, amortization, and other expense | **(904)** | **-** | **(904)** | 2,754 | 29,574 | 32,328 |
| Depreciation and amortization | **1,185** | **-** | **1,185** | 3,613 | - | 3,613 |
| Other expense (income) | **-** | **(22,651)** | **(22,651)** | - | 12,028 | 12,028 |
| Earnings (loss) before net finance costs and income taxes | **(2,089)** | **22,651** | **20,562** | (859) | 17,546 | 16,687 |
| Net finance costs | **16** | **-** | **16** | 43 | 20,508 | 20,551 |
| Earnings (loss) before income taxes | **(2,105)** | **22,651** | **20,546** | (902) | (2,962) | (3,864) |
| Income tax expense (recovery) | **(50)** | **8,103** | **8,053** | (316) | (6,498) | (6,814) |
| Earnings (loss) from discontinued operations, before gain (loss) on sale of U.S. operations | **(2,055)** | **14,548** | **12,493** | (586) | 3,536 | 2,950 |
| Gain (loss) on sale of U.S. operations, net of income taxes | **(8,458)** | **-** | **(8,458)** | - | 205,418 | 205,418 |
| Earnings (loss) from discontinued operations | **(10,513)** | **14,548** | **4,035** | (586) | 208,954 | 208,368 |

| | **2016** | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **U.S. IT Hosting** | **U.S. Sale** | **Total** | U.S. IT Hosting | U.S. Sale | Total |
| **Cash Flows from Discontinued Operations** | | | | | | |
| Net cash from operating activities | **575** | **(32,976)** | **(32,401)** | (1,311) | 3,247 | 1,936 |
| Net cash from investing activities | **8,096** | **32,976** | **41,072** | (2,268) | 163,860 | 161,592 |
| Net cash from financing activities | **(8,671)** | **-** | **(8,671)** | 3,579 | (234,519) | (230,940) |
| Foreign exchange gain on cash | **-** | **-** | **-** | - | 4,108 | 4,108 |
| Effect on cash flows | **-** | **-** | **-** | - | (63,304) | (63,304) |

# 22. INCOME TAXES

## Tax Recognized in Net Earnings

| | **2016** | 2015 |
|---|---|---|
| **Current Tax Expense** | | |
| Current year | **11,304** | 11,849 |
| Sale of U.S. operations | **8,521** | 46,300 |
| Utilization of losses | **(18)** | (1,474) |
| Other prior year adjustments | **(5,488)** | 3,572 |
| | **14,319** | 60,247 |

| | **2016** | 2015 |
|---|---|---|
| **Deferred Tax Expense (Recovery)** | | |
| Origination and reversal of temporary difference | **946** | (5,101) |
| Sale of U.S. operations | **(648)** | (5,989) |
| Utilization of losses | - | (807) |
| Other prior year adjustments | **665** | 17 |
| | **963** | (11,880) |
| **Total tax expense** | **15,282** | 48,367 |
| Tax expense from continuing operations | **7,411** | 13,840 |
| Tax expense from discontinued operations | **7,871** | 34,527 |
| **Total tax expense** | **15,282** | 48,367 |

In 2015, the Company has received a notice of assessment from the Canada Revenue Agency (CRA) for the 2012 taxation year with regards to the deductibility of interest on intercompany debt between wholly owned subsidiaries of Extendicare. As the CRA was likely to issue reassessments for the 2013 and 2014 taxation years on the same or similar basis, Extendicare had recorded a provision of $3.6 million for the full amount of the taxes in dispute for those periods, reflected as part of current income tax expense. The Company's notice of objection to appeal the reassessment was accepted by the CRA, resulting in the reversal of the $3.6 million provision in the 2016 fourth quarter, reflected as a current income tax recovery.

## Tax Recognized in Other Comprehensive Income

| | **2016** | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Before Tax** | **Tax Expense** | **Net of Tax** | Before Tax | Tax Recovery | Net of Tax |
| Foreign currency translation differences for foreign operations | **(2,963)** | **-** | **(2,963)** | (8,075) | - | (8,075) |
| Available-for-sale financial assets | **3,042** | **-** | **3,042** | (3,652) | - | (3,652) |
| Deferred benefit plan actuarial gains (losses) | **3,147** | **(834)** | **2,313** | (2,883) | 764 | (2,119) |
| | **3,226** | **(834)** | **2,392** | (14,610) | 764 | (13,846) |

## Effective Tax Rate

The major factors that caused variations from the expected combined Canadian federal and provincial statutory income tax rates were as follows**:**

| | **2016** | 2015 |
|---|---|---|
| Earnings from continuing operations before income taxes | **38,828** | 37,550 |
| Income taxes at statutory rates of 26.5% | **10,289** | 9,951 |
| Income tax effect relating to the following items: | | |
| Tax rate variance of foreign subsidiaries | **650** | 1,195 |
| Non-deductible items | **983** | 71 |
| Non-taxable income | **49** | (694) |
| Prior year adjustment | **(4,823)** | 3,589 |
| Current year U.S. losses for which no deferred tax asset was recognized | **311** | - |
| Other items | **(48)** | (272) |
| | **7,411** | 13,840 |

## Summary of Operating and Capital Loss Carryforwards

Extendicare's Canadian corporate subsidiaries had $7.3 million of benefited net operating loss carryforwards as at December 31, 2016 (2015 – $0.5 million), which expire in the years 2035 through 2036, and capital loss carryforwards of $13.8 million (2015 – $13.7 million) which have not been tax benefited and are available indefinitely to apply against future capital gains.

Deferred tax assets recognized during 2016 were $15.3 million (2015 – $10.0 million). Net deferred tax liabilities decreased in 2016 to $5.2 million from $3.2 million at December 31, 2015. Management believes it is more likely than not that Extendicare's corporate subsidiaries will realize the benefits of these deductible differences.

## Recognized Deferred Tax Assets and Liabilities

Net deferred tax liabilities comprise the following:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Net** | Assets | Liabilities | Net |
| Property and equipment | **411** | **31,807** | **31,396** | - | 24,472 | 24,472 |
| Intangible assets | **7,808** | **-** | **(7,808)** | 2,097 | 2,982 | 885 |
| Other assets | **-** | **8,271** | **8,271** | - | 6,165 | 6,165 |
| Deferred financing costs | | **1,840** | **1,840** | - | 1,525 | 1,525 |
| Accounts receivable reserves | **-** | **520** | **520** | 165 | - | (165) |
| Financial assets at fair value | **-** | **264** | **264** | - | - | - |
| Self-insurance reserves | **256** | **-** | **(256)** | 203 | - | (203) |
| Indemnification provisions | **9,957** | **-** | **(9,957)** | 11,158 | - | (11,158) |
| Employee benefit accruals | **10,405** | **-** | **(10,405)** | 10,573 | 96 | (10,477) |
| Operating loss carryforwards | **1,964** | **-** | **(1,964)** | 1,401 | - | (1,401) |
| Deferred revenue | **4,564** | **127** | **(4,437)** | 5,307 | 45 | (5,262) |
| Decommissioning provision | **2,157** | **-** | **(2,157)** | 1,971 | - | (1,971) |
| Other | **281** | **193** | **(88)** | 665 | 1,429 | 764 |
| Set-off of tax | **(22,456)** | **(22,456)** | **-** | (23,553) | (23,553) | - |
| Deferred tax liabilities, net | **15,347** | **20,566** | **5,219** | 9,987 | 13,161 | 3,174 |

Deferred income taxes are provided for temporary differences between the carrying values of assets and liabilities and their respective tax values as well as available tax loss carryforwards. The significant components of deferred income tax assets and liabilities and the movement in these balances during the year were as follows:

| | **Balance January 1 2016** | **Recognized in Net Earnings** | **Acquisitions** | **Recognized in Other Comprehensive Income/Other** | **Recognized in Discontinued Operations** | **Balance December 31 2016** |
|---|---|---|---|---|---|---|
| **Deferred tax liabilities** | | | | | | |
| **Property and equipment** | **24,472** | **7,565** | **-** | **(28)** | **(613)** | **31,396** |
| **Intangible assets** | **885** | **(8,693)** | **-** | **-** | **-** | **(7,808)** |
| **Other assets** | **6,165** | **3,650** | **-** | **(381)** | **(1,163)** | **8,271** |
| **Deferred financing costs** | **1,525** | **315** | **-** | **-** | **-** | **1,840** |
| **Accounts receivable reserves** | **-** | **520** | **-** | **-** | **-** | **520** |
| **Financial assets at fair value** | **-** | **264** | **-** | **-** | **-** | **264** |
| **Other** | **764** | **(7)** | **-** | **(32)** | **(725)** | **-** |
| | **33,811** | **3,614** | **-** | **(441)** | **(2,501)** | **34,483** |
| **Deferred tax assets** | | | | | | |
| **Self-insurance reserves** | **203** | **53** | **-** | **-** | **-** | **256** |
| **Indemnification provisions** | **11,158** | **-** | **-** | **(624)** | **(577)** | **9,957** |
| **Employee benefit accruals** | **10,477** | **665** | **-** | **(828)** | **91** | **10,405** |
| **Operating loss carryforwards** | **1,401** | **1,837** | **-** | **(54)** | **(1,220)** | **1,964** |
| **Deferred revenue** | **5,262** | **(825)** | **-** | **-** | **-** | **4,437** |
| **Accounts receivable reserves** | **165** | **-** | **-** | **(7)** | **(158)** | **-** |
| **Decommissioning provision** | **1,971** | **186** | **-** | **-** | **-** | **2,157** |
| **Other** | **-** | **88** | **-** | **(11)** | **11** | **88** |
| | **30,637** | **2,004** | **-** | **(1,524)** | **(1,853)** | **29,264** |
| **Deferred tax liabilities, net** | **3,174** | **1,610** | **-** | **1,083** | **(648)** | **5,219** |

| | Balance January 1 2015 | Recognized in Net Earnings | Acquisitions | Recognized in Other Comprehensive Income/Other | Recognized in Discontinued Operations | Balance December 31 2015 |
|---|---|---|---|---|---|---|
| Deferred tax liabilities | | | | | | |
| Property and equipment | 26,283 | (2,010) | - | 105 | 94 | 24,472 |
| Intangible assets | - | 885 | - | - | - | 885 |
| Other assets | - | 2,986 | - | (584) | 3,763 | 6,165 |
| Deferred financing costs | 1,398 | 127 | - | - | - | 1,525 |
| Other | 174 | (102) | - | 86 | 606 | 764 |
| | 27,855 | 1,886 | - | (393) | 4,463 | 33,811 |
| Deferred tax assets | | | | | | |
| Self-insurance reserves | 241 | (38) | - | - | - | 203 |
| Indemnification provisions | - | 276 | - | 1,443 | 9,439 | 11,158 |
| Intangible assets | 2,955 | (221) | (2,734) | - | - | - |
| Employee benefit accruals | 10,591 | (611) | - | 774 | (277) | 10,477 |
| Operating loss carryforwards | - | 30 | - | 97 | 1,274 | 1,401 |
| Deferred revenue | 3,632 | 1,630 | - | - | - | 5,262 |
| Accounts receivable reserves | 149 | (28) | - | 28 | 16 | 165 |
| Decommissioning provision | 2,040 | (69) | - | - | - | 1,971 |
| Other | 135 | (92) | - | (43) | - | - |
| | 19,743 | 877 | (2,734) | 2,299 | 10,452 | 30,637 |
| Deferred tax liabilities, net | 8,112 | 1,009 | 2,734 | (2,692) | (5,989) | 3,174 |

# 23. COMMITMENTS AND CONTINGENCIES

## Operating Lease Commitments

At December 31, 2016, the Company was committed under non-cancellable leases requiring future minimum rentals in its continuing operations as follows:

| | Operating Leases |
|---|---|
| 2017 | 3,045 |
| 2018 | 2,248 |
| 2019 | 1,771 |
| 2020 | 441 |
| 2021 | 230 |
| 2022 and beyond | 131 |
| Total minimum payments | 7,866 |

## Property and Equipment Commitments

Extendicare has outstanding commitments of $36.3 million at December 31, 2016, in connection with private-pay retirement communities under development in Ontario, which will be substantially financed with external financing.

## Legal Proceedings and Regulatory Actions

The provision of health care services is subject to complex government regulations. Extendicare and its consolidated subsidiaries are defendants in various actions and proceedings that are brought against them from time to time in connection with their operations. Extendicare cooperates in responding to any information requests and takes the necessary corrective actions. Every effort is made by the Company to avoid or mitigate deficiencies in the quality of patient care through quality assurance strategies and to remedy any such deficiencies cited by the government inspections within any applicable prescribed time period. Extendicare accrues for costs that may result from investigations (or any possible related litigation) to the extent that an outflow of funds is probable and a reliable estimate of the amount of the associated costs can be made.

## 24. EMPLOYEE BENEFITS

Retirement compensation arrangements are maintained for certain employee groups as described below.

### Defined Benefit Plans

Extendicare has pension arrangements for certain of its executives, which include a registered defined benefit pension plan, as well as a supplementary plan that provide pension benefits in excess of statutory limits. Both of these plans have been closed to new entrants for several years. The plans are exposed to various risks, including longevity risk, currency risk, interest rate risk and market risks.

The different types of defined benefit plans of the Company are listed below.

| | Funded Defined Benefit Plan | | Unfunded Supplementary Defined Benefit Plan | | Total | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| Fair value of plan assets | **5,416** | 5,406 | - | - | **5,416** | 5,406 |
| Present value of obligations | **7,716** | 7,846 | **34,714** | 38,431 | **42,430** | 46,277 |
| **Deficit** | **(2,300)** | (2,440) | **(34,714)** | (38,431) | **(37,014)** | (40,871) |

**FUNDING**

As required by law, the registered defined benefit pension plan benefits are funded through a trust, and the Company is responsible for meeting the statutory obligations for funding this plan. The funding requirement for past service is determined based on separate actuarial valuations for funding purposes, which are completed every three years. The most recent actuarial review was performed effective October 1, 2015, and was completed in early 2016.

The supplementary plan is unfunded and pension benefits are secured through a letter of credit that is renewed annually. We do not set aside assets for this plan and the benefit payments are funded from our cash from operations.

**DEFINED BENEFIT OBLIGATIONS**

| | **2016** | 2015 |
|---|---|---|
| **Present Value of Defined Benefit Obligations** | | |
| Accrued benefit obligations | | |
| Balance at beginning of year | **46,277** | 44,480 |
| Current service cost | **206** | 182 |
| Benefits paid | **(2,719)** | (2,775) |
| Interest costs | **1,689** | 1,624 |
| Actuarial losses (gains) | **(3,023)** | 2,766 |
| Balance at end of year | **42,430** | 46,277 |
| Plan assets | | |
| Fair value at beginning of year | **5,406** | 5,653 |
| Employer contributions | **124** | 77 |
| Expected loss (return) on assets | **124** | (114) |
| Actual return on plan assets | **197** | 206 |
| Benefits paid | **(435)** | (416) |
| Fair value at end of year | **5,416** | 5,406 |
| Defined benefit obligations | **37,014** | 40,871 |

The expected contribution for the coming year is approximately $2.2 million.

| | **2016** | 2015 |
|---|---|---|
| **Reported in Extendicare's Statements of Financial Position** | | |
| Current accrued liabilities | **2,230** | 2,294 |
| Other long-term liabilities *(note 12)* | **34,784** | 38,577 |
| Accrued benefit liability at end of year | **37,014** | 40,871 |

## EFFECT OF CHANGES TO DEFINED BENEFIT OBLIGATIONS

| | 2016 | 2015 |
|---|---|---|
| **Expense Recognized in Net Earnings (Loss)** | | |
| Annual benefit plan expense | | |
| Current service costs | **206** | 182 |
| Interest cost | **1,492** | 1,418 |
| Plan benefit expense recognized in the year – included in operating expenses and administrative costs | **1,698** | 1,600 |
| | | |
| **Actuarial Losses Recognized in Other Comprehensive Income** | | |
| Amount accumulated in accumulated deficit at January 1 | **(11,865)** | (9,746) |
| Actuarial loss arising from changes in: | | |
| Discount rate | **-** | - |
| Mortality assumption | **-** | - |
| Other experience | **3,023** | (2,769) |
| Return on assets | **124** | (114) |
| Income tax recovery (expense) on actuarial losses | **(834)** | 764 |
| Amount recognized in accumulated deficit at December 31 | **(9,552)** | (11,865) |

## PLAN ASSETS

| | 2016 | 2015 |
|---|---|---|
| Equities | **47%** | 46% |
| Fixed income securities | **34%** | 35% |
| Real estate / commercial mortgage | **19%** | 19% |
| | **100%** | 100% |

## ACTUARIAL ASSUMPTIONS

| | 2016 | 2015 |
|---|---|---|
| Discount rate for year-end accrued obligation | **3.50%** | 3.75% |
| Discount rate for period expense | **3.75%** | 3.75% |
| Rate of compensation increase | **2.0%** | 2.0% |
| Income Tax Act limit increase | **3.0%** | 3.0% |
| Average remaining service years of active employees | **2** | 2 |

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

Extendicare determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and those that have terms to maturity approximating the terms of the related pension liability.

Changes to the following actuarial assumptions, while holding the other assumptions constant, would have affected the defined benefit obligation and related expense for 2016 by the amounts shown below.

| | Increase (Decrease) in Benefit Obligation | Increase (Decrease) in Net Earnings |
|---|---|---|
| Discount rate: | | |
| 1% increase | (4,080) | (147) |
| 1% decrease | 4,860 | 205 |
| Rate of compensation increase | | |
| 1% increase | 6 | - |
| 1% decrease | (6) | - |
| Income Tax Act limit increase | | |
| 1% increase | - | - |
| 1% decrease | - | - |
| Mortality rate | | |
| 10% increase | (901) | 36 |
| 10% decrease | 989 | (38) |

## Defined Contribution Plans

Canada maintains registered savings and defined contribution plans and matches up to 120% of the employees' contributions according to seniority, subject to a maximum based on the salary of the plan participants. Contributions expensed by Canada in 2016 and 2015 were $15.4 million and $14.4 million, respectively.

# 25. MANAGEMENT OF RISKS AND FINANCIAL INSTRUMENTS

## a) Management of Risks

### MANAGEMENT OF LIQUIDITY RISK

Liquidity risk is the risk that the Company will encounter difficulty in meeting its contractual obligations. We manage our liquidity risk through the use of budgets and forecasts. Cash requirements are monitored regularly based on actual financial results and actual cash flows to ensure that there are sufficient resources to meet operational requirements. We ensure that there are sufficient funds for declared and payable distributions and any other future commitments at any point in time. In addition, since there is a risk that current borrowings and long-term debt may not be refinanced or may not be refinanced on as favourable terms or with interest rates as favourable as those of the existing debt, we attempt to appropriately structure the timing of contractual long-term debt renewal obligations and exposures (*note 11*).

The following are the contractual maturities of financial liabilities, including estimated interest payments:

| **As at December 31, 2016** | Carrying Amount | Contractual Cash Flows | Less than 1 Year | 1-2 Years | 2-5 Years | More than 5 Years |
|---|---|---|---|---|---|---|
| Convertible debentures | **123,912** | **149,270** | 7,590 | 7,590 | 134,090 | - |
| CMHC mortgages | **138,305** | **169,323** | 40,344 | 20,559 | 54,103 | 54,317 |
| Non-CMHC mortgages | **145,750** | **208,744** | 8,663 | 10,289 | 50,026 | 139,766 |
| Construction loans | **12,605** | **12,925** | 12,925 | | | |
| Finance lease obligations | **89,738** | **126,119** | 12,105 | 12,103 | 36,312 | 65,599 |
| Accounts payable and accrued liabilities | **122,272** | **122,272** | 122,272 | - | - | - |
| Operating lease obligations | **-** | **7,866** | 3,045 | 2,248 | 2,442 | 131 |
| | **632,582** | **796,519** | 206,944 | 52,789 | 276,973 | 259,813 |

The gross outflows presented above represent the contractual undiscounted cash flows.

### MANAGEMENT OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the Company by failing to discharge its obligation. The nature and maximum exposure to credit risk as at December 31 was:

| | Carrying Amount | |
|---|---|---|
| | **2016** | 015 |
| Cash and short-term investments | **101,582** | 103,622 |
| Restricted cash | **2,227** | 2,509 |
| Total receivables, net of allowance *(note 6)* | **52,234** | 52,678 |
| Investments held for self-insured liabilities *(notes 9 and 21)* | **136,109** | 176,770 |
| Notes, mortgages and amounts receivable *(note 9)* | **64,120** | 73,027 |
| Deferred consideration *(note 9)* | **37,429** | 38,990 |
| | **393,701** | 447,596 |

***Cash and Short-term Investments***

The majority of our cash and short-term investments are held with highly rated financial institutions in Canada.

***Restricted Cash***

The restricted cash is cash held mainly on account of lender capital reserves and for income support (*note 5*) with no credit risk.

***Total Receivables, Net of Allowance***

Extendicare periodically evaluates the adequacy of its provision for receivable impairment by conducting a specific account review of amounts in excess of predefined target amounts and aging thresholds. Allowances for uncollectibility are considered based upon the evaluation of the circumstances for each of these specific accounts. In addition, the Company has established percentages for provision for receivable impairment that are based upon historical collection trends for each payor type and age of the receivables. Accounts receivable that are specifically estimated to be uncollectible, based upon the above process, are fully reserved for in the provision for receivable impairment until they are written off or collected.

Receivables from government agencies represent the only concentrated group of accounts receivable for Extendicare. In Canada, Extendicare has receivables primarily from provincial government agencies. Management does not believe there is any credit risk associated with these government agencies other than possible funding delays. Accounts receivable other than from government agencies consist of private individuals that are subject to different economic conditions, none of which represents any concentrated credit risk to the Company.

The maximum exposure to credit risk for accounts receivable at the reporting date is the carrying value of each class of receivable, denominated in the following currencies.

| | | | **2016** | | | 2015 |
|---|---|---|---|---|---|---|
| | | | **Carrying Amount** | | | Carrying Amount |
| | **U.S. Dollar** | **Canadian Dollar** | **Total** | U.S. Dollar | Canadian Dollar | Total |
| Trade receivables | **-** | **40,832** | **40,832** | 8,031 | 30,677 | 38,708 |
| Retroactive rate receivables | **-** | **585** | **585** | - | 2,507 | 2,507 |
| Other receivables | **3,352** | **7,465** | **10,817** | 4,545 | 6,918 | 11,463 |
| | **3,352** | **48,882** | **52,234** | 12,576 | 40,102 | 52,678 |

Receivables from Canadian government agencies, which are included in accounts receivable, notes, mortgages and amounts receivable, represented the only concentrated group of credit risks for the Company. As at December 31, 2016, receivables from government agencies represented approximately 83% of the total receivables (2015 – 74%). Management does not believe that there is significant credit risk associated with these government agencies other than possible funding delays. Management continuously monitors reports from trade associations or notes from provincial or federal agencies that announce possible delays that are rare to occur and usually associated with changes of fiscal intermediaries or changes in information technology or forms.

Receivables, other than those from government agencies, consist of receivables from various payors and do not represent any concentrated credit risks to the Company. There is no significant exposure to any single party.

As at December 31, 2016, the Canadian operations had trade receivables of $40.8 million (2015 – $30.7 million), and the U.S. IT Hosting operations had trade receivables of $8.0 million in 2015. All the receivables were fully performing and collectible in the amounts outlined above. The Canadian operations continuously monitor the collection of all trade receivables and assess the collectability and aging of accounts by payor type and on an individual basis.

The Canadian operations incurred a provision for receivable impairment of $1.3 million and $1.6 million for 2016 and 2015, respectively, while the U.S. IT Hosting operations incurred a provision for receivable impairment of $0.2 million for 2015.

The aging analysis of these trade receivables is as follows:

| | 2016 | 2015 |
|---|---|---|
| Current | **31,895** | 28,655 |
| Between 30 and 90 days | **6,985** | 6,875 |
| Between 90 and 365 days | **3,058** | 4,496 |
| Over 365 days | **712** | 815 |
| Less: provision for receivable impairment | **(1,818)** | (2,133) |
| | **40,832** | 38,708 |

Movements on the Company's provision for receivable impairment are as follows:

| | 2016 | 2015 |
|---|---|---|
| At January 1 | **2,133** | 1,321 |
| Increase in provision for receivable impairment | **1,823** | 1,774 |
| Receivables written off as uncollectible | **(2,118)** | (1,038) |
| Other | **(20)** | 76 |
| **At December 31** | **1,818** | 2,133 |

The increase in provision for receivables impairment has been included in operating expenses in net earnings. In general, amounts charged to the provision for impairment of trade receivables are written off when there is no expectation of recovering additional cash.

***Investments Held for Self-insured Liabilities***

The Company's investments held for self-insured liabilities include investments in corporate or government fixed-rate bonds with ratings above a rating of AAA- along with U.S. treasuries. The majority of these investments are investment grade. Cash held for self-insured liabilities are with high-quality financial institutions. The Company limits the amount of exposure to any one institution.

***Notes, Mortgages and Amounts Receivable***

Included in notes, mortgages and amounts receivable were $63.5 million (2015 – $72.4 million) of discounted amounts receivable due from government agencies. These represent non-current amounts funded by the Ontario government for a portion of nursing centre construction costs over a 20-year or 25-year period *(note 9)*. The Company does not believe there is any credit exposure for these amounts due from government agencies.

***Deferred Consideration***

There are significant credit risks associated with the deferred consideration recognized in connection with the U.S. Sale Transaction *(note 9)*. The realization of the cash stream (*note 9*) is attributable to factors outside of Extendicare's control that could materially impact the amounts that are expected to be received by the Company. Collection is contingent on the operating performance of the U.S. skilled nursing centres, which can be impacted by U.S. funding, and the U.S. regulatory environment.

**MANAGEMENT OF CURRENCY RISK**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Cross-border transactions are subject to exchange rate fluctuations that may result in realized gains or losses as and when payments are made.

As a result of the U.S. Sale Transaction, our exposure to foreign currency risk as at December 31, 2016, has been significantly reduced. The following table outlines the net asset exposure to both the U.S. continuing operations and other items retained from the U.S. Sale Transaction (*note 21*).

| *(in thousands of US$)* | **2016** |
|---|---|
| Assets | |
| Current assets | **42,103** |
| Investments held for self-insured liabilities | **101,370** |
| Property and equipment, goodwill and other intangibles, and other assets | **27,877** |
| Liabilities | |
| Current liabilities | **25,128** |
| Indemnification provisions | **21,185** |
| Other long-term liabilities | **50,379** |
| Net asset exposure | **74,658** |

***Net Earnings Sensitivity Analysis***

Prior to the U.S. Sale Transaction, the majority of the Company's operations were conducted in the United States. As at December 31, 2016, U.S. operations accounted for less than 1% of its revenue from continuing operations (2015 – less than 1%).

Every one cent strengthening of the Canadian dollar against the U.S. dollar in 2016 would favourably impact net earnings by $0.4 million and OCI by $0.3 million. This analysis assumes that all other variables, in particular the interest rates, remain constant.

**MANAGEMENT OF INTEREST RATE RISK**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

To mitigate interest rate risk, the Company's long-term care debt portfolio includes fixed-rate debt and variable-rate debt with interest rate swaps in place. At December 31, 2016, construction loans of $12.6 million are variable-rate debt, which do not have interest rate swaps in place. The Company's credit facility, and future borrowings, may be at variable rates which would expose the Company to the risk of interest rate volatility (*note 11*).

Although the majority of the Company's long-term debt is at fixed rates, there can be no assurance that as debt matures, renewal rates will not significantly impact future income and cash flow.

The interest rate profile of our interest-bearing financial instruments was as follows.

| | Carrying Amount | |
|---|---|---|
| | **2016** | 2015 |
| Fixed-rate instruments: | | |
| Long-term debt[1] | **497,705** | 461,645 |
| Less: investments held for self-insured liabilities | **-** | (13,916) |
| Net liability in fixed-rate instruments | **497,705** | 447,729 |
| Variable-rate instruments: | | |
| Long-term debt[1] | **12,605** | - |
| Total liability in variable-rate instruments | **12,605** | - |

[1] Includes current portion and excludes netting of financing costs.

***Fair Value Sensitivity Analysis for Variable-rate Instruments***

All long-term debt with variable rates are classified as other financial liabilities, which are measured at amortized cost using the effective interest method of amortization; therefore, changes in interest rates would not affect OCI with respect to variable-rate debt. As at December 31, 2016, long-term debt with variable rates represented 2.5% of total debt.

***Cash Flow Sensitivity Analysis for Variable-rate Instruments***

An increase of 100 basis points in interest rates would have decreased net earnings by $0.1 million and a decrease of 100 basis points in interest rates would have increased net earnings by $0.1 million. This analysis assumes that all other variables, in particular foreign currency rates, remains constant, and excludes variable interest rate debt that is locked in through interest rate swaps.

## b) Fair Values of Financial Instruments

| **As at December 31, 2016** | Loans and Receivables | Available for Sale | Fair Value through Profit and Loss | Other Financial Liabilities | Total Carrying Amount | Fair Value |
|---|---|---|---|---|---|---|
| Financial assets: | | | | | | |
| Cash and short-term investments | **101,582** | **-** | **-** | **-** | **101,582** | **101,595** |
| Restricted cash | **2,227** | **-** | **-** | **-** | **2,227** | **2,227** |
| Invested assets(1) | **442** | **-** | **-** | **-** | **442** | **442** |
| Accounts receivable | **52,234** | **-** | **-** | **-** | **52,234** | **52,234** |
| Interest rate swaps | **-** | **-** | **985** | **-** | **985** | **985** |
| Notes, mortgages and amounts receivable(2) (3) | **64,120** | **-** | **-** | **-** | **64,120** | **67,620** |
| Deferred consideration(3) | **37,429** | **-** | **-** | **-** | **37,429** | **37,430** |
| Investments held for self-insured liabilities | **-** | **136,109** | **-** | **-** | **136,109** | **136,109** |
| | **258,034** | **136,109** | **985** | **-** | **395,128** | **398,642** |
| Financial liabilities: | | | | | | |
| Accounts payable | **-** | **-** | **-** | **6,738** | **6,738** | **6,738** |
| Long-term debt excluding convertible debentures(3)(4) | **-** | **-** | **-** | **386,398** | **386,398** | **413,582** |
| Convertible debentures | **-** | **-** | **-** | **123,912** | **123,912** | **135,342** |
| | **-** | **-** | **-** | **517,048** | **517,048** | **555,662** |

| As at December 31, 2015 | Loans and Receivables | Available for Sale | Other Financial Liabilities | Total Carrying Amount | Fair Value |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Cash and short-term investments | 103,622 | - | - | 103,622 | 103,633 |
| Restricted cash | 2,509 | - | - | 2,509 | 2,509 |
| Invested assets(1) | 442 | - | - | 442 | 442 |
| Accounts receivable | 52,678 | - | - | 52,678 | 52,678 |
| Notes, mortgages and amounts receivable(2) (3) | 73,027 | - | - | 73,027 | 76,496 |
| Deferred consideration(3) | 38,990 | - | - | 38,990 | 38,979 |
| Investments held for self-insured liabilities | - | 176,770 | - | 176,770 | 176,770 |
| | 271,268 | 176,770 | - | 448,038 | 451,507 |
| Financial liabilities: | | | | | |
| Accounts payable | - | - | 11,497 | 11,497 | 11,497 |
| Long-term debt excluding convertible debentures(3)(4) | - | - | 338,560 | 338,560 | 374,173 |
| Convertible debentures | - | - | 123,085 | 123,085 | 131,876 |
| | - | - | 473,142 | 473,142 | 517,546 |

(1) Included in other assets.
(2) Includes primarily amounts receivable from government.
(3) Includes current portion.
(4) Excludes netting of financing costs.

### BASIS FOR DETERMINING FAIR VALUES

The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the previous table.

Fair values for investments designated as available for sale are based on quoted market prices.

Items designated as loans and receivables include cash, accounts receivable as well as notes, mortgages and amounts receivable. Accounts receivable, including other long-term receivables, are recorded at amortized cost. The carrying values of accounts receivable approximate fair values due to their short-term maturities, with the exception of certain settlement receivables from third-party payors that are anticipated to be collected beyond one year. The fair values of these settlement receivables are estimated based on discounted cash flows at current borrowing rates. Notes, mortgages and amounts receivable primarily consist of notes and amounts receivable from government agencies, and other third-party notes. The fair values for these instruments are based on the amount of future cash flows associated with each instrument, discounted using current applicable rates for similar instruments of comparable maturity and credit quality. The fair values of convertible debentures are based on the closing price of the publicly traded convertible debentures on each reporting date, and the fair values of mortgages and other debt are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

**FAIR VALUE HIERARCHY**

We use a fair value hierarchy to categorize the type of valuation techniques from which fair values are derived: Level 1 – use of quoted market prices; Level 2 – internal models using observable market information as inputs; Level 3 – internal models without observable market information as inputs.

The Company uses interest rate swap contracts to effectively fix the interest rate on certain mortgages. As hedge accounting is not applied, the contracts are carried at fair value and reported as assets or liabilities depending on the fair value on the reporting date, with the change in fair value recognized in net earnings. The fair value of the interest rate swap contracts are calculated through discounting future expected cash flows using the BA based swap curve. Since the BA based swap curve is an observable input, these financial instruments are considered Level 2.

The fair values of financial instruments presented above were as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **As at December 31, 2016:** | | | | |
| Investments held for self-insured liabilities | **136,109** | **-** | **-** | **136,109** |
| Notes, mortgages and amounts receivable | **-** | **67,620** | **-** | **67,620** |
| Deferred consideration | **-** | **-** | **37,430** | **37,430** |
| Interest rate swaps | **-** | **985** | | **985** |
| Convertible debentures | **135,342** | **-** | **-** | **135,342** |
| As at December 31, 2015: | | | | |
| Investments held for self-insured liabilities | 176,770 | - | - | 176,770 |
| Notes, mortgages and amounts receivable | - | 76,496 | - | 76,496 |
| Deferred consideration | - | - | 38,979 | 38,979 |
| Convertible debentures | 131,876 | - | - | 131,876 |

## 26. CAPITAL MANAGEMENT

The completion of the U.S. Sale Transaction facilitated the repositioning of Extendicare as a pure-play Canadian senior care and services company. The Company’s objective is to further expand and grow our Canadian operations including growing our long-term care revenue through redevelopment, and exploring opportunities in the private-pay retirement space.

The Company accesses the capital markets periodically to fund acquisitions, growth capital expenditures and certain other expenditures. We monitor the capital markets to assess the conditions for raising capital and the cost of such capital relative to the return on any acquisitions or growth capital projects. Funds raised in the capital markets that are not deployed in acquisitions or growth projects are held in high-quality investments with surplus cash held in secure institutions. We manage our cash position and prepare monthly cash flow projections over the remaining and future fiscal periods, and we continuously monitor the level, nature and maturity dates of debt and level of leverage and interest coverage ratios to ensure our compliance with debt covenants. We provide information to the Board on a regular basis in order to carefully evaluate any significant cash flow decisions.

### Normal Course Issuer Bid

On January 10, 2017, Extendicare received the approval of the TSX for the Bid (*note 14*). As at February 28, 2017, the Company has not acquired any Common Shares for cancellation under the Bid. During 2016, the Company did not acquire any Common Shares for cancellation under a similar normal course issuer bid that commenced on January 5, 2016, and expired on January 4, 2017.

## Capital Structure

The Company defines its capital structure to include long-term debt, net of cash and short-term investments, and share capital.

| | **2016** | 2015 |
|---|---|---|
| Current portion of long-term debt [(1)] | **54,826** | 25,395 |
| Long-term debt [(1)] | **448,742** | 428,679 |
| Total debt | **503,568** | 454,074 |
| Less: cash and short-term investments | **(101,582)** | (103,622) |
| Net debt | **401,986** | 350,452 |
| Share capital | **489,656** | 483,385 |
| | **891,642** | 833,837 |

[(1)] Net of financing costs.

## Dividends

The declaration and payment of future distributions is at the discretion of our Board and will be dependent upon a number of factors including results of operations, requirements for capital expenditures and working capital, future financial prospects of Extendicare, debt covenants and obligations, and any other factors deemed relevant by the Board. If our Board determines that it would be in Extendicare's best interests, it may reduce, for any period, the amount and frequency of dividends to be distributed to holders of Common Shares.

## Financial Covenants

Extendicare is subject to external requirements for certain of its loans on debt service coverage. Management and the Board monitor these covenant ratios on a monthly and quarterly basis, respectively. The Company was in compliance with all these covenants as at December 31, 2016.

# 27. RELATED PARTY TRANSACTIONS

## a) Transactions with Key Management Personnel

Tim Lukenda, Extendicare's President and Chief Executive Officer, and members of his family have a company that owns a long-term care centre and a retirement centre in Ontario, in which Mr. Lukenda has an approximate 7.1% direct and indirect interest, and with which Extendicare has an ongoing relationship through the provision of management services to the LTC centre and group purchasing services to the retirement centre. Mr. Lukenda's employment contract provides a mechanism and process that effectively removes him from the decision-making process in situations where a conflict of interest may arise on any matter between the two companies.

## b) Compensation of Key Management Personnel

The remuneration of directors and other key management personnel of the Company during the years ended December 31, 2016 and 2015, was as follows:

| | **2016** | 2015 |
|---|---|---|
| Short-term benefits | **3,302** | 5,427 |
| Post-employment benefits | **134** | 1,448 |
| Share-based compensation | **1,331** | 704 |
| | **4,767** | 7,579 |

# 28. SEGMENTED INFORMATION

Prior to the announcement of the U.S. Sale Transaction, the Company had two reportable operating segments that consisted of its U.S. operations and its Canadian operations. With the reclassification of the U.S. senior care and related operations, along with the U.S. IT Hosting operations, to discontinued operations, and the recent expansion into the private-pay retirement sector, the Company reports the following segments within its Canadian operations: i) long-term care; ii) retirement living; iii) home health care; iv) management and group purchasing as "other Canadian operations"; and v) the Canadian corporate functions and any intersegment eliminations as "corporate Canada". The continuing U.S. operations now consist of the Captive and the deferred consideration. Comparative statements of earnings have been restated to reflect these changes.

The long-term care segment represents the 58 long-term care centres that the Company owns and operates in Canada. The retirement living segment includes four retirement communities that were acquired during 2015, a further two acquired in the 2016 first quarter, and one community that was newly constructed and opened in the 2016 fourth quarter. The retirement communities provide services to private-pay residents at rates set by Extendicare based on the services provided and market conditions. Through the ParaMed Home Health Care segment, our home health care operations provide complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate those living at home.

The Company's other Canadian operations are composed of its management and group purchasing operations. Through our Extendicare Assist division, we provide management and consulting services to third-party owners; and through our SGP Purchasing Partner Network division, we offer cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies, and office products.

In the U.S., the Company self-insured certain risks related to general and professional liability of its U.S. operations that were sold on July 1, 2015, through the Captive. With the reclassification of the U.S. senior care business to discontinued operations, the expense for self-insured liabilities incurred by the Captive has also been reclassified to discontinued operations; however, the costs to administer and manage the settlement of the remaining claims are reported as continuing operations.

Intersegment adjustments in the following tables reflect the reversal of intercompany amounts that are eliminated prior to the preparation of the Company's consolidated financial statements.

| | | | | | | | | **2016** |
|---|---|---|---|---|---|---|---|---|
| *(in thousands of Canadian dollars)* | **Long-term Care** | **Retirement Living** | **Home Health Care** | **Other Canadian Operations** | **Corporate Canada** | **Total Canada** | **Total U.S.** | **Total** |
| **CONTINUING OPERATIONS** | | | | | | | | |
| **Revenue** | | | | | | | | |
| Long-term care | **608,618** | **-** | **-** | **-** | **-** | **608,618** | **-** | **608,618** |
| Retirement living | **-** | **15,474** | **-** | **-** | **-** | **15,474** | **-** | **15,474** |
| Home health care | **-** | **-** | **414,406** | **-** | **-** | **414,406** | **-** | **414,406** |
| Management, consulting and other | **-** | **-** | **-** | **18,518** | **47** | **18,565** | **3,695** | **22,260** |
| **Total revenue** | **608,618** | **15,474** | **414,406** | **18,518** | **47** | **1,057,063** | **3,695** | **1,060,758** |
| Operating expenses | **532,999** | **14,827** | **374,191** | **8,605** | **-** | **930,622** | **-** | **930,622** |
| Administrative costs | **-** | **-** | **-** | **-** | **28,662** | **28,662** | **1,889** | **30,551** |
| Lease costs | **-** | **-** | **4,892** | **-** | **1,758** | **6,650** | **-** | **6,650** |
| **Total expenses** | **532,999** | **14,827** | **379,083** | **8,605** | **30,420** | **965,934** | **1,889** | **967,823** |
| **Earnings (loss) before depreciation, amortization, and other expense** | **75,619** | **647** | **35,323** | **9,913** | **(30,373)** | **91,129** | **1,806** | **92,935** |
| Depreciation and amortization | **-** | **-** | **-** | **-** | **31,179** | **31,179** | **-** | **31,179** |
| Other expense | **-** | **-** | **-** | **-** | **4,013** | **4,013** | **-** | **4,013** |
| **Earnings (loss) before net finance costs and income taxes** | **75,619** | **647** | **35,323** | **9,913** | **(65,565)** | **55,937** | **1,806** | **57,743** |
| Interest expense | **-** | **-** | **-** | **-** | **27,039** | **27,039** | **-** | **27,039** |
| Accretion of decommissioning provisions | **-** | **-** | **-** | **-** | **349** | **349** | **-** | **349** |
| Other accretion | **-** | **-** | **-** | **-** | **827** | **827** | **1,325** | **2,152** |
| Loss on foreign exchange and financial instruments | **-** | **-** | **-** | **-** | **753** | **753** | **445** | **1,198** |
| Interest revenue | **-** | **-** | **-** | **-** | **(3,276)** | **(3,276)** | **(7,562)** | **(10,838)** |
| Fair value adjustments | **-** | **-** | **-** | **-** | **(985)** | **(985)** | **-** | **(985)** |
| Net finance costs (income) | **-** | **-** | **-** | **-** | **24,707** | **24,707** | **(5,792)** | **18,915** |
| **Earnings (loss) before income taxes** | **75,619** | **647** | **35,323** | **9,913** | **(90,272)** | **31,230** | **7,598** | **38,828** |
| **Income tax expense (recovery)** | | | | | | | | |
| Current | **-** | **-** | **-** | **-** | **6,818** | **6,818** | **(1,017)** | **5,801** |
| Deferred | **-** | **-** | **-** | **-** | **(2,094)** | **(2,094)** | **3,704** | **1,610** |
| Total income tax expense | **-** | **-** | **-** | **-** | **4,724** | **4,724** | **2,687** | **7,411** |
| **Earnings (loss) from continuing operations** | **75,619** | **647** | **35,323** | **9,913** | **(94,996)** | **26,506** | **4,911** | **31,417** |
| **DISCONTINUED OPERATIONS** | | | | | | | | |
| Loss on sale of U.S. operations, net of income taxes | **-** | **-** | **-** | **-** | **-** | **-** | **(8,458)** | **(8,458)** |
| Earnings from discontinued operations, net of income taxes | **-** | **-** | **-** | **-** | **-** | **-** | **12,493** | **12,493** |
| **Net earnings (loss)** | **75,619** | **647** | **35,323** | **9,913** | **(94,996)** | **26,506** | **8,946** | **35,452** |

| (in thousands of Canadian dollars) | Long-term Care | Retirement Living | Home Health Care | Other Canadian Operations | Corporate Canada | Total Canada | Total U.S. | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | 2015 |
| **CONTINUING OPERATIONS** | | | | | | | | |
| **Revenue** | | | | | | | | |
| Long-term care | 594,198 | - | - | - | - | 594,198 | - | 594,198 |
| Retirement living | - | 1,238 | - | - | - | 1,238 | - | 1,238 |
| Home health care | - | - | 326,964 | - | - | 326,964 | - | 326,964 |
| Management, consulting and other | - | - | - | 15,543 | 40 | 15,583 | 5,296 | 20,879 |
| **Total revenue** | 594,198 | 1,238 | 326,964 | 15,543 | 40 | 937,983 | 5,296 | 943,279 |
| Operating expenses | 524,708 | 987 | 290,443 | 7,351 | - | 823,489 | - | 823,489 |
| Administrative costs | - | - | - | - | 23,246 | 23,246 | 6,898 | 30,144 |
| Lease costs | - | - | 4,294 | - | 1,661 | 5,955 | - | 5,955 |
| **Total expenses** | 524,708 | 987 | 294,737 | 7,351 | 24,907 | 852,690 | 6,898 | 859,588 |
| **Earnings (loss) before depreciation, amortization, and other expense** | 69,490 | 251 | 32,227 | 8,192 | (24,867) | 85,293 | (1,602) | 83,691 |
| Depreciation and amortization | - | - | - | - | 23,668 | 23,668 | - | 23,668 |
| Other expense | - | - | - | - | 6,705 | 6,705 | - | 6,705 |
| **Earnings (loss) before net finance costs and income taxes** | 69,490 | 251 | 32,227 | 8,192 | (55,240) | 54,920 | (1,602) | 53,318 |
| Interest expense | - | - | - | - | 31,089 | 31,089 | - | 31,089 |
| Accretion of decommissioning provisions | - | - | - | - | 349 | 349 | - | 349 |
| Other accretion | - | - | - | - | 773 | 773 | 1,355 | 2,128 |
| Gain on foreign exchange and financial instruments | - | - | - | - | (5,796) | (5,796) | (3,945) | (9,741) |
| Interest revenue | - | - | - | - | (4,407) | (4,407) | (3,650) | (8,057) |
| Net finance costs (income) | - | - | - | - | 22,008 | 22,008 | (6,240) | 15,768 |
| **Earnings (loss) before income taxes** | 69,490 | 251 | 32,227 | 8,192 | (77,248) | 32,912 | 4,638 | 37,550 |
| **Income tax expense (recovery)** | | | | | | | | |
| Current | - | - | - | - | 11,973 | 11,973 | 858 | 12,831 |
| Deferred | - | - | - | - | (740) | (740) | 1,749 | 1,009 |
| Total income tax expense | - | - | - | - | 11,233 | 11,233 | 2,607 | 13,840 |
| **Earnings (loss) from continuing operations** | 69,490 | 251 | 32,227 | 8,192 | (88,481) | 21,679 | 2,031 | 23,710 |
| **DISCONTINUED OPERATIONS** | | | | | | | | |
| Gain on sale of U.S. operations, net of income taxes | - | - | - | - | - | - | 205,418 | 205,418 |
| Earnings from discontinued operations, net of income taxes | - | - | - | - | - | - | 2,950 | 2,950 |
| **Net earnings (loss)** | 69,490 | 251 | 32,227 | 8,192 | (88,481) | 21,679 | 210,399 | 232,078 |

| *(in thousands of Canadian dollars)* | Total Canada | Total U.S. | Eliminations | 2016 Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash and short-term investments | **92,647** | **8,935** | **-** | **101,582** |
| Restricted cash | **2,227** | **-** | **-** | **2,227** |
| Accounts receivable | **48,952** | **3,352** | **(70)** | **52,234** |
| Income taxes recoverable | **1,950** | **1,108** | **-** | **3,058** |
| Other assets | **25,074** | **177** | **-** | **25,251** |
| Total current assets | **170,850** | **13,572** | **(70)** | **184,352** |
| Non-current assets | | | | |
| Property and equipment | **465,433** | **-** | **-** | **465,433** |
| Goodwill and other intangible assets | **89,770** | **-** | **-** | **89,770** |
| Other assets | **60,177** | **173,538** | **-** | **233,715** |
| Deferred tax assets | **15,347** | **-** | **-** | **15,347** |
| Total non-current assets | **630,727** | **173,538** | **-** | **804,265** |
| **Total Assets** | **801,577** | **187,110** | **(70)** | **988,617** |
| **Liabilities and Equity** | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | **118,773** | **3,127** | **(70)** | **121,830** |
| Income taxes payable | **430** | **-** | **-** | **430** |
| Long-term debt | **54,826** | **-** | **-** | **54,826** |
| Provisions | **806** | **30,613** | **-** | **31,419** |
| Total current liabilities | **174,835** | **33,740** | **(70)** | **208,505** |
| Non-current liabilities | | | | |
| Long-term debt | **448,742** | **-** | **-** | **448,742** |
| Provisions | **37,065** | **62,941** | **-** | **100,006** |
| Other long-term liabilities | **36,039** | **-** | **-** | **36,039** |
| Deferred tax liabilities | **15,122** | **5,444** | **-** | **20,566** |
| Total non-current liabilities | **536,968** | **68,385** | **-** | **605,353** |
| **Total liabilities** | **711,803** | **102,125** | **(70)** | **813,858** |
| Share capital | **337,855** | **151,801** | **-** | **489,656** |
| Equity portion of convertible debentures | **5,573** | **-** | **-** | **5,573** |
| Contributed surplus | **941** | **-** | **-** | **941** |
| Accumulated deficit | **(244,818)** | **(77,207)** | **-** | **(322,025)** |
| Accumulated other comprehensive income (loss) | **(9,777)** | **10,391** | **-** | **614** |
| **Shareholders' equity** | **89,774** | **84,985** | **-** | **174,759** |
| **Total Liabilities and Equity** | **801,577** | **187,110** | **(70)** | **988,617** |
| | | | | |
| **Total Capital Expenditures** | | | | |
| Continuing operations | **38,378** | **-** | **-** | **38,378** |
| Discontinued operations | **-** | **1,438** | **-** | **1,438** |
| **Capital Expenditures** | **38,378** | **1,438** | **-** | **39,816** |

| | | | | 2015 |
|---|---|---|---|---|
| *(in thousands of Canadian dollars)* | Total Canada | Total U.S. | Eliminations | Total |
| **Assets** | | | | |
| Current assets | | | | |
| Cash and short-term investments | 94,621 | 9,001 | - | 103,622 |
| Restricted cash | 2,509 | - | - | 2,509 |
| Accounts receivable | 65,469 | 12,576 | (25,367) | 52,678 |
| Income taxes recoverable | - | 77 | - | 77 |
| Other assets | 42,492 | 9,993 | - | 52,485 |
| Total current assets | 205,091 | 31,647 | (25,367) | 211,371 |
| Non-current assets | | | | |
| Property and equipment | 414,779 | 11,412 | - | 426,191 |
| Goodwill and other intangible assets | 95,700 | 654 | - | 96,354 |
| Other assets | 75,593 | 207,451 | - | 283,044 |
| Deferred tax assets | 9,987 | - | - | 9,987 |
| Total non-current assets | 596,059 | 219,517 | - | 815,576 |
| **Total Assets** | 801,150 | 251,164 | (25,367) | 1,026,947 |
| **Liabilities and Equity** | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | 134,130 | 31,044 | (25,367) | 139,807 |
| Income taxes payable | 10,616 | 1,063 | - | 11,679 |
| Long-term debt | 25,240 | 155 | - | 25,395 |
| Provisions | 2,664 | 38,475 | - | 41,139 |
| Total current liabilities | 172,650 | 70,737 | (25,367) | 218,020 |
| Non-current liabilities | | | | |
| Long-term debt | 428,566 | 113 | - | 428,679 |
| Provisions | 39,622 | 107,353 | - | 146,975 |
| Other long-term liabilities | 47,983 | - | - | 47,983 |
| Deferred tax liabilities | 11,230 | 1,931 | - | 13,161 |
| Total non-current liabilities | 527,401 | 109,397 | - | 636,798 |
| **Total liabilities** | 700,051 | 180,134 | (25,367) | 854,818 |
| Share capital | 325,045 | 158,340 | - | 483,385 |
| Equity portion of convertible debentures | 5,573 | - | - | 5,573 |
| Accumulated deficit | (217,446) | (97,605) | - | (315,051) |
| Accumulated other comprehensive income (loss) | (12,073) | 10,295 | - | (1,778) |
| **Shareholders' equity** | 101,099 | 71,030 | - | 172,129 |
| **Total Liabilities and Equity** | 801,150 | 251,164 | (25,367) | 1,026,947 |
| | | | | |
| **Total Capital Expenditures** | | | | |
| Continuing operations | 25,454 | - | - | 25,454 |
| Discontinued operations | - | 10,024 | - | 10,024 |
| **Total operations** | 25,454 | 10,024 | - | 35,478 |

## 29. SIGNIFICANT SUBSIDIARIES

The following is a list of the significant subsidiaries as at December 31, 2016, all of which are 100% directly or indirectly owned by the Company.

| | Jurisdiction of Incorportion |
|---|---|
| Extendicare (Canada) Inc. | Canada |
| Extendicare Inc. | Canada |
| 9488642 Canada Inc. | Canada |
| 9488677 Canada Inc. | Canada |
| 9287540 Canada Inc. | Canada |
| 9488723 Canada Inc. | Canada |
| 9488707 Canada Inc. | Canada |
| Laurier Indemnity Company, Ltd. | Bermuda |