EXTENDICARE®

... helping people live better

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2016

Dated: February 28, 2017

THE RIGHT CARE

THE RIGHT TIME

THE RIGHT PLACE

Management’s Discussion and Analysis

February 28, 2017

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BASIS OF PRESENTATION

This Management’s Discussion and Analysis (MD&A) provides information on Extendicare Inc. and its subsidiaries, and unless the context otherwise requires, references to “Extendicare”, the “Company”, “we”, “us” and “our” or similar terms refer to Extendicare Inc., either alone or together with its subsidiaries. Extendicare is a Canadian public company whose common shares (the “Common Shares”) trade on the Toronto Stock Exchange (TSX) under the symbol “EXE”. The registered office of Extendicare is located at 3000 Steeles Avenue East, Markham, Ontario, Canada, L3R 9W2.

Extendicare and its predecessors have been in operation since 1968, providing care and services to seniors throughout Canada. On July 1, 2015, Extendicare completed the sale of substantially all of its U.S. business and senior care operations (the “U.S. Sale Transaction”), the operations of which were conducted through its wholly owned U.S. subsidiary, Extendicare Health Services, Inc. and its subsidiaries (collectively “EHSI”). 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. As a result of the sale of the U.S. Sale Transaction, EHSI’s operations to the date of sale were classified as discontinued operations. For further information, refer to the discussion under the heading “Other Significant Developments – 2015 U.S. Sale Transaction” and to *note 21* of the audited consolidated financial statements.

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 (loss) on a comparative basis. For further information, refer to the discussion under the heading “Significant 2016 Events and Developments – 2016 Sale of U.S. IT Hosting Business” and to *note 21* of the audited consolidated financial statements.

Extendicare has prepared this MD&A to provide information to assist its current and prospective investors’ understanding of Extendicare’s financial results for the year ended December 31, 2016. This MD&A should be read in conjunction with Extendicare’s audited consolidated financial statements for the years ended 2016 and 2015, and the notes thereto. This material is available on Extendicare’s website at www.extendicare.com. The accompanying audited consolidated financial statements for the years ended 2016 and 2015, including the notes thereto, have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements and notes are available on Extendicare’s website at www.extendicare.com. All currencies are in Canadian dollars unless otherwise indicated. Except as otherwise specified, references to years indicate the fiscal year ended December 31, 2016, or December 31 of the year referenced.

The discussion and analysis in this MD&A are based upon information available to management as of February 28, 2017. This MD&A should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur, which could affect the Company in the future.

ADDITIONAL INFORMATION

Additional information about Extendicare, including its latest Annual Information Form, may be found on the SEDAR website at www.sedar.com under Extendicare's issuer profile and on Extendicare's website at www.extendicare.com. A copy of this and other public documents of Extendicare are available upon request to the Corporate Secretary of Extendicare.

FORWARD-LOOKING STATEMENTS

Information provided by Extendicare from time to time, including in this Annual Report, contains or may contain forward-looking statements concerning anticipated future events, results, circumstances, economic performance or expectations with respect to Extendicare and its subsidiaries, including, without limitation, statements regarding Extendicare's business operations, business strategy, growth strategy, results of operations and financial condition; statements relating to indemnification provisions and deferred consideration in respect of the U.S. Sale Transaction; and the acquisition and development of retirement communities, including statements related to the expected annual revenue, net operating income, stabilized net operating income yield, and adjusted funds from operations to be derived from acquisitions and development projects. Forward-looking statements can be identified by the expressions "anticipate", "believe", "estimate", "expect", "intend", "objective", "plan", "project", "will" or other similar expressions or the negative thereof. These forward-looking statements reflect the Company's current expectations regarding future results, performance or achievements and are based upon information currently available to the Company and on assumptions that the Company believes are reasonable.

Although forward-looking statements are based upon estimates and assumptions that the Company believes are reasonable based upon information currently available, these statements are not representations or guarantees of future results, performance or achievements of the Company and are inherently subject to significant business, economic and competitive uncertainties and contingencies. In addition to the assumptions and other factors referred to specifically in connection with these forward-looking statements, the risks, uncertainties and other factors that could cause the actual results, performance or achievements of Extendicare to differ materially from those expressed or implied by the forward-looking statements, include, without limitation, the following: changes in the overall health of the economy and government; the ability of the Company to attract and retain qualified personnel; changes in the health care industry in general and the long-term care industry in particular because of political and economic influences; changes in applicable accounting policies; changes in regulations governing the health care and long-term care industries and the compliance by Extendicare with such regulations; changes in government funding levels for health care services; changes in tax laws; resident care and class action litigation, including the Company's exposure to punitive damage claims, increased insurance costs and other claims; the ability of Extendicare to maintain and increase resident occupancy levels and home health care volumes; changes in competition; changes in demographics and local environment economies; changes in foreign exchange and interest rates; changes in the financial markets, which may affect the ability of Extendicare to refinance debt; and the availability and terms of capital to Extendicare to fund capital expenditures and acquisitions; changes in the anticipated outcome and benefits of dispositions, acquisitions and development projects, including risks relating to completion; and those other risks, uncertainties and other factors identified in the Company's other public filings with the Canadian securities regulators available on SEDAR at www.sedar.com under Extendicare's issuer profile.

The forward-looking statements contained in this Annual Report are expressly qualified by this cautionary statement. Given these risks and uncertainties, readers are cautioned not to place undue reliance on the forward-looking statements of Extendicare. The forward-looking statements speak only as of the date of this Annual Report. Except as required by applicable securities laws, the Company assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

NON-GAAP MEASURES

Extendicare assesses and measures operating results and financial position based on performance measures referred to as "net operating income", "net operating income margin", "EBITDA", "Adjusted EBITDA", "Adjusted EBITDA margin", "earnings before depreciation, amortization, and other expense", "earnings (loss) from continuing operations before separately reported items, net of taxes", "Funds from Operations", and "Adjusted Funds from Operations". These measures are commonly used by Extendicare and its investors as a means of assessing the performance of the core operations in comparison to prior periods. They are presented by Extendicare on a consistent basis from period to period, thereby allowing for consistent comparability of its operating performance. These are not measures recognized under GAAP and do not have standardized meanings prescribed by GAAP. These non-GAAP measures are presented in this document because either: (i) management believes that they are a relevant measure of the ability of Extendicare to make cash distributions; or (ii) certain ongoing rights and obligations of Extendicare may be calculated using these measures. Such non-GAAP measures may differ from similar computations as reported by other issuers, and accordingly, may not be comparable to similarly titled measures as reported by such issuers. They are not intended to replace earnings (loss) from continuing operations, net earnings (loss), cash flow, or other measures of financial performance and liquidity reported in accordance with GAAP.

References to "net operating income", or "NOI", in this document are to revenue less operating expenses, and this value represents the underlying performance of our operating business segments. References to "net operating income margin" are to net operating income as a percentage of revenue.

References to "EBITDA" in this document are to earnings (loss) from continuing operations before net finance costs, income taxes, depreciation and amortization. References to "Adjusted EBITDA" in this document are to EBITDA adjusted to exclude the line item "other expense", and as a result, is equivalent to the line item "earnings before depreciation, amortization, and other expense" reported on the consolidated statements of earnings. References to "Adjusted EBITDA Margin" are to Adjusted EBITDA as a percentage of revenue. Management believes that certain lenders, investors and analysts use EBITDA and Adjusted EBITDA to measure a company's ability to service debt and meet other payment obligations, and as a common valuation measurement in the long-term care industry. For example, certain of our debt covenants use Adjusted EBITDA in their calculations.

References to "earnings (loss) from continuing operations before separately reported items, net of tax" in this document are to earnings (loss) from continuing operations, excluding the following separately reported line items: "fair value adjustments", "loss (gain) on foreign exchange and financial instruments", and "other expense". These line items are reported separately and excluded from certain performance measures, because they are transitional in nature and would otherwise distort historical trends. They relate to the change in the fair value of, or gains and losses on termination of, convertible debentures, and interest rate agreements, as well as gains or losses on the disposal or impairment of assets, and foreign exchange gains or losses on capital items. In addition, these line items may include acquisition related costs, restructuring charges, proxy contest costs, and the write-off of unamortized financing costs on early retirement of debt. The above separately reported line items are reported on a pre-tax and on an after-tax basis as a means of deriving earnings (loss) from operations and related earnings per share excluding such items.

"Funds from Operations", or "FFO", is defined as Adjusted EBITDA less depreciation for furniture, fixtures, equipment and computers, or "depreciation for FFEC", accretion costs, net interest expense, and current income taxes. Depreciation for FFEC is considered representative of the amount of maintenance (non-growth) capital expenditures, or "maintenance capex", to be used in determining "Funds from Operations", as the depreciation term is generally in line with the life of these assets.

"Adjusted Funds from Operations", or "AFFO", is defined as FFO plus: i) the reversal of non-cash financing and accretion costs; ii) the reversal of non-cash share-based compensation; iii) the principal portion of government capital funding; iv) amounts received from income support arrangements; and v) the reversal of income or loss of the captive insurance company that was included in the determination of FFO, as those operations are funded through investments held for U.S. self-insured liabilities, which are not included in the Company's reported cash and short-term investments. In addition, AFFO is further adjusted to account for the difference in total maintenance capex incurred from the amount deducted in the determination of FFO. Since our actual maintenance capex spending fluctuates on a quarterly basis with the timing of projects and seasonality, the adjustment to AFFO for these expenditures from the amount of depreciation for FFEC already deducted in determining FFO, may result in an increase to AFFO in the interim periods reported.

Both FFO and AFFO are subject to other adjustments, as determined by management in its discretion, that are not representative of Extendicare's operating performance.

References to "payout ratio" in this document are to the ratio of dividends declared per share to AFFO per basic share.

Reconciliations of "earnings (loss) from continuing operations before income taxes" to "Adjusted EBITDA" and "net operating income" are provided under the headings "2016 Selected Quarterly Information", "2016 Fourth Quarter Financial Review" and "2016 Financial Review".

Reconciliations of "Adjusted EBITDA" to "FFO" and "AFFO" are provided under the heading "Adjusted Funds from Operations".

Reconciliations of "AFFO" to "net cash from operating activities" are provided under the heading "Adjust Funds from Operations – Reconciliation of Net Cash from Operating Activities to AFFO".

BUSINESS STRATEGY

Our strategy is to be a leading provider of care and services to seniors in Canada. To do this, we strive to provide quality, person-centred care through compassionate caregivers across the continuum of care. We intend to complement our core long-term care services through growth of our home health care operations. In addition, we intend to expand our private-pay retirement business lines through acquisition and development, as well as supporting continued growth in our management services and group purchasing divisions. In doing so, we intend to diversify our revenue streams to achieve a balance of government and privately funded activities.

Our goal is to be well-positioned geographically, and from a service delivery standpoint, to be able to offer the right care, at the right time, in the right place for Canadian seniors as they age and their care and service needs change.

We will emphasize quality, transparency and communication with our customers and stakeholders in order to continue to be viewed as a leader in the Canadian senior care sector. To accomplish this strategy, we want to be a health care employer of choice in the communities in which we operate. We know that we are only as good as the care and customer service being provided by each of our employees on a daily basis.

By executing this strategy effectively, we believe we can provide an appropriate and consistent return to our shareholders who have demonstrated their belief in our mission by investing in Extendicare.

SIGNIFICANT 2016 EVENTS AND DEVELOPMENTS

This section provides an update on our current activities related to the expansion into the Canadian retirement sector and the disposal of our U.S. IT Hosting business. Refer to the discussion under the heading "Other Significant Developments" for a summary of other developments affecting the financial results or operations of Extendicare.

Expansion into Private-pay Retirement Sector

As part of the execution of our strategy to grow along the senior care and services continuum, we are expanding into the private-pay retirement sector through the acquisition and development of retirement communities. Expansion in the retirement sector will assist us in diversifying our revenue through additional non-government revenue streams.

The following table summarizes our acquisition and development activities with respect to the private-pay retirement sector.

Name/Location	Acquisition / Opening Date	# of Communities	# of Suites	Purchase Price / Development Cost *(millions)* (1)	Price per Suite	Expected Stabilized NOI Yield (2)
Acquired in Q4-2015						
Empire Crossing, Port Hope, ON	Oct. 1, 2015	1	63	$20.2	$315,600	6.9% to 7.1%
Harvest, Tillsonburg, ON	Dec. 1, 2015	1	100	$28.4	$284,500	6.7% to 6.9%
Stonebridge Crossing, Saskatoon, and Riverbend Crossing, Regina, SK	Dec. 1, 2015	2	183	$50.3	$273,300	7.2%
Acquired in Q1-2016						
West Park Crossing, Moose Jaw, and Yorkton Crossing, Yorkton, SK	Feb. 22, 2016	2	158	$40.5	$256,300	7.3% to 7.7%
Opened in Q4-2016						
Cedar Crossing, Simcoe, ON	Nov. 25, 2016	1	70	$15.8	$225,600	7.5%
In Progress at Period End						
Uxbridge / Bolton / Barrie, ON	Q4/2017 / Q1/2018 / Q4/2018	3	354	$106.8	$301,700	7.0%

(1) Non-GAAP: purchase price includes negotiated income support arrangements to bridge the cash flow from the time of acquisition to stabilized NOI; and in connection with the development projects, estimated development costs include lease-up amounts to achieve stabilized NOI, and an imputed cost of capital.

(2) Non-GAAP: defined as stabilized NOI divided by the purchase price/development cost, and where an agreement includes income support, a range is computed based on assuming a range of nil to 50% of the income support is released to the Company.

RETIREMENT ACQUISITIONS

During the 2015 fourth quarter, we completed the above noted acquisition of four retirement communities for an aggregate purchase price of approximately $98.6 million, inclusive of a $0.3 million reduction for net working capital adjustments on closing, and $2.3 million for income support during the lease-up period. During the 2016 first quarter, we closed on an additional two retirement communities, as noted above, for an aggregate purchase price of $40.5 million, inclusive of $4.5 million for income support during the lease-up period. As at December 31, 2016, $6.7 million of the aggregate income support had been released, with the balance to be released in the 2017 first quarter. The aggregate purchase price of $139.4 million for these acquisitions (the "Retirement Acquisitions"), prior to working capital adjustments of $0.3 million, was paid in cash with an intention to finance the communities once stabilized. Financing on three of the communities was secured in August 2016, and further details are provided below under the heading "Retirement Community Financings". Further details on these acquisitions are also provided in *note 5* of the audited consolidated financial statements.

Empire Crossing Retirement Community (Empire Crossing) was acquired on October 1, 2015, for a purchase price of $20.2 million, inclusive of income support. Empire Crossing, located in Port Hope, Ontario, is a newly built 63-suite community offering independent and enhanced care services that opened in May 2015. This property comes with excess land, providing us with the option to increase the size of the retirement community in the future. Income support of up to $1.3 million was held back from the $20.2 million purchase price and has been released to Extendicare during the lease-up period based on an agreed-upon formula.

Harvest Retirement Community (Harvest) was acquired on December 1, 2015, for a purchase price of $28.4 million, inclusive of income support. Harvest, located in Tillsonburg, Ontario, is a 100-suite independent/enhanced living community with 64 suites that opened in December 2011, and a newly constructed addition of 36 suites that opened in December 2015. Income support of up to $1.0 million was held back from the $28.4 million purchase price and has been released to Extendicare during the lease-up period based on an agreed-upon formula.

Stonebridge Crossing Retirement Community (Stonebridge) and ***Riverbend Crossing Memory Care Community*** (Riverbend) were acquired on December 1, 2015, for an aggregate purchase price of $50.3 million. Stonebridge, located in Saskatoon, SK, is a 116-suite independent/enhanced living community that opened in December 2012. Riverbend, located in Regina, SK, is a 67-suite community specializes in memory care services that opened in August 2013.

West Park Crossing Retirement Community (West Park) and ***Yorkton Crossing Retirement Community*** (Yorkton) were acquired on February 22, 2016, for an aggregate purchase price of $40.5 million, inclusive of income support. The properties, located in Moose Jaw and Yorkton, SK, respectively, are newly built 79-suite communities offering independent, enhanced and memory care services. The vendor provided Extendicare with income support of up to $2.25 million on each community, for an aggregate of up to $4.5 million. This amount was held back from the $40.5 million purchase price and has been released to Extendicare during the lease-up period based on an agreed-upon formula.

RETIREMENT DEVELOPMENT PROJECTS

In November 2016, we opened a newly developed retirement community, Cedar Crossing Retirement Community (70 suites), in Simcoe, Ontario, and currently have three other private-pay retirement communities in various stages of development in Uxbridge, Bolton, and Barrie, Ontario, with a total of 354 suites. We broke ground on the Uxbridge project in July 2016, with completion anticipated in the 2017 fourth quarter. The Bolton and Barrie communities are anticipated to be completed during 2018.

The anticipated costs to stabilization of these four development projects is approximately $122.6 million, or approximately $289,100 per suite, which amount includes an imputed cost of capital and an estimated lease-up amount to achieve stabilized NOI. The estimated average stabilized NOI yield for the four projects is 7.0%.

RETIREMENT COMMUNITY FINANCINGS

In May 2016, construction financing was secured on two of the retirement development projects, Simcoe (70 suites) and Bolton (124 suites), for up to $9.9 million and $20.8 million, respectively, representing 63% of the anticipated costs. In the 2016 fourth quarter, construction financing of up to $20.7 million was secured for the Uxbridge retirement development project. As at December 31, 2016, $12.6 million had been drawn on the construction loans. In addition, these construction financings provide for additional letter of credit facilities of $500,000 for the Simcoe project and $750,000 for each of the Bolton and Uxbridge projects, at a rate of 2.5% if utilized. Loan payments are interest-only, based on a floating rate of 30-day banker's acceptance rate plus 2.5%, with no standby fee. The construction loan for the Simcoe project is a demand loan that matures at the earlier of 42 months from closing or 24 months from the issuance of the occupancy permit. The construction loans for the Bolton and Uxbridge projects are demand loans that mature at the earlier of 54 months from closing or 36 months from the issuance of the occupancy permit. We anticipate securing construction financing under similar terms for the Barrie project. Permanent financing for each of the communities will be sought upon maturity of the construction financing.

In August 2016, the Company secured financing on three of the newly acquired retirement communities, Harvest, Stonebridge and Riverbend, representing non-revolving credit facilities aggregating $56.3 million (the "Retirement Mortgages"), or approximately 71% of the acquisition costs. These financings have seven-year terms, with a floating rate of prime plus 0.5% or 30-day banker's acceptance rate plus 1.9%. In conjunction with securing the Retirement Mortgages, the Company entered into interest rate swap contracts to lock in the interest rates at 3.11% for the full term. These interest rate swap contracts are designated at fair value through profit or loss, and hedge accounting has not been applied. As at December 31, 2016, the interest rate swaps were valued as an asset of $0.1 million.

Renovation of Alberta Long-term Care Centre

The Company has received approval from Alberta Health Services (AHS) for a 24-bed addition to its Extendicare Eaux Claires long-term care centre in Edmonton. This 180-bed centre was newly built in 2011 with a design allowing for future expansion. While AHS is not providing any capital funding support, they have agreed to the increase in beds under the existing funding model, and to review with the Company the potential for a specialized program within one of the areas of the centre. The project is anticipated to cost approximately $4.0 million, with construction expected to begin in the 2017 second quarter, for completion by the end of 2017. We estimate that the project will provide additional net operating income of approximately $0.7 million annually.

2016 Sale of U.S. IT Hosting Business

On December 22, 2016, the Company completed the sale of substantially all of the assets used in the operation of its U.S. IT Hosting business for 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). During 2016, an impairment assessment of the U.S. IT Hosting operations using the expected proceeds resulted in a pre-tax impairment loss of $9.2 million (US$7.1 million). This impairment loss was reclassified to the loss on sale following the final sale in the 2016 fourth quarter, resulting in a pre-tax loss on sale of $8.6 million (after-tax loss of $8.4 million). For further information, refer to *note 21* of the audited consolidated financial statements.

BUSINESS OVERVIEW

Extendicare, through its subsidiaries, is the largest private-sector operator of long-term care centres in Canada and we believe we are the largest private-sector provider of publicly funded home health care services in Canada. In 2016, approximately 58% of the revenue from our Canadian operations was derived from our long-term care operations, approximately 39% was from our home health care business, approximately 1% was from our retirement living operations, and the balance was from our management and group purchasing operations.

As at December 31, 2016, Extendicare operated 118 senior care and living centres in four provinces in Canada, with capacity for 15,022 residents, with a significant presence in Ontario and Alberta, where approximately 71% and 16% of its residents are served, respectively. Through ParaMed Home Health Care (ParaMed), Extendicare operates from 41 locations across six provinces providing approximately 11 million hours of service annually, with the Ontario market representing approximately 83% of its service volumes.

The following reflects the change in operating capacity of our Canadian senior care and living centres during 2016 and 2015.

	2016		2015	
Senior Care Centres	**No. of Centres**	**Resident Capacity**	**No. of Centres**	**Resident Capacity**
As at beginning of year	**116**	**14,890**	104	13,586
Managed contracts added	**1**	**41**	8	956
Managed contracts ceased	**(2)**	**(135)**	–	–
Retirement communities acquired/developed	**3**	**226**	4	348
As at end of year	**118**	**15,022**	116	14,890

All of Extendicare's centres, excluding those managed for third parties, are either owned or leased under finance lease arrangements. Nine of our centres in Ontario operate under 25-year finance lease arrangements, with full ownership obtained at the end of the lease term. We believe that ownership of our centres provides financial and strategic advantages.

The following summarizes the senior care and living centres operated by Extendicare as at December 31, 2016, which consist of long-term care (LTC) centres, retirement communities, and a chronic care unit. For financial reporting purposes, a centre is categorized based on the predominant level of care provided, the type of licensing and the type of funding provided. For instance, two of our long-term care centres have retirement wings that are categorized as LTC centres, with their operations included in the LTC operating segment. In addition, government-funded supportive living suites have been categorized as LTC centres due to the nature of the regulatory oversight and fixed-fee structure determined by the government.

	Long-term Care		Retirement Living		Chronic Care Unit		Total	
By Province	**No. of Centres**	**Resident Capacity**	**No. of Centres**	**Resident Capacity**	**No. of Centres**	**Resident Capacity**	**No. of Centres**	**Resident Capacity**
Owned/Leased (1)								
Ontario	34	5,210	3	233	–	–	37	5,443
Alberta	14	1,495	–	–	–	–	14	1,495
Saskatchewan	5	649	4	341	–	–	9	990
Manitoba	5	762	–	–	–	–	5	762
	58	8,116	7	574	–	–	65	8,690
Managed								
Ontario	36	4,658	4	440	1	120	41	5,218
Alberta	4	526	6	420	–	–	10	946
Manitoba	2	168	–	–	–	–	2	168
	42	5,352	10	860	1	120	53	6,332
Total	**100**	**13,468**	**17**	**1,434**	**1**	**120**	**118**	**15,022**

(1) Extendicare operates nine long-term care centres (1,155 LTC beds and 76 retirement suites) in Ontario under 25-year finance lease arrangements maturing beginning in 2026 through to 2028, with full ownership obtained at the end of the respective lease terms.

Operating Segments

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 and U.S. IT Hosting business 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 Company continues to segment its U.S. operations as one segment, with the U.S. continuing operations consisting of 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.

The following describes the continuing businesses and operating segments of Extendicare.

LONG-TERM CARE (including government-funded supportive living)

Through its subsidiaries, Extendicare owns and operates for its own account 58 LTC centres with capacity for 8,116 residents, inclusive of a stand-alone designated supportive living centre (140 suites) and a designated supportive living wing (60 suites) in Alberta, and two retirement wings (76 suites) in Ontario. This reporting segment excludes the senior care centres that are managed by our management services group on behalf of third parties, as the revenue from those operations is earned on a fee-for-service basis (refer to the discussion below under the heading "Other Canadian Operations – Management Services"). Revenue from the long-term care operations represented 57.4% of consolidated revenue from continuing operations in 2016 (2015 – 63.0%). The change in the revenue mix as compared to 2015 primarily resulted from the impact of growth in revenue from outside of the long-term care segment due primarily to the acquisition of a home health business in April 2015 (the "Home Health Acquisition"), and to the Retirement Acquisitions.

In Canada, provincial legislation and regulations closely control all aspects of operation and funding of long-term care centres, including the fee structure, subsidies, the adequacy of physical centres, standards of care and accommodation, equipment and personnel. A substantial portion of the long-term care fees paid to providers of these services are funded by provincial programs, with a portion to be paid by the resident. Nobody is refused access to long-term care due to an inability to pay. A government subsidy, generally based on an income test, is available for residents who are unable to afford the resident co-payment. In Alberta, designated supportive living centres offer services similar to that of a retirement community, and were introduced by AHS as an alternative setting for residents not yet requiring the needs of a more expensive LTC centre. The designated supportive living operations are licensed, regulated and funded by AHS, in a similar manner to LTC centres, including a fixed-fee structure determined by the government.

In Ontario, operators have the opportunity to receive additional funding through higher accommodation rates charged to residents for private and semi-private accommodation, at maximum preferred accommodation rates that are fixed by the government. Operators are permitted to designate up to 60% of the resident capacity of a centre as preferred accommodation and charge higher accommodation rates that vary according to the structural classification of the LTC centre. In Ontario, Extendicare operates 13 "New" centres (1,847 beds), built since 1998 under the current design standards, and 21 "C" centres (3,287 beds), that were built prior to 1998 and which met older design standards.

The following summarizes the composition of the owned/leased LTC centres operated by Extendicare in Ontario, as at December 31, 2016, as well as the maximum preferred differential rates for each classification of bed.

		Composition of Beds				
Ontario Owned/Leased	**No. of Centres**	**Private $25.28 premium**	**Private $18.20 premium**	**Semi-private $8.09 premium**	**Basic/Other**	**Total**
"New"	13	1,099	–	–	748	1,847
"C"	21	–	476	1,400	1,411	3,287
	34	1,099	476	1,400	2,159	5,134

RETIREMENT LIVING

Through its subsidiaries, Extendicare owns and operates seven retirement communities with capacity for 574 residents under our Esprit Lifestyle Communities brand. Four of these retirement communities (341 suites) are located in Saskatchewan and three communities (233 suites) are located in Ontario. In addition, we have three (354 suites) in various stages of development in Ontario.

These retirement communities provide services to private-pay residents at rates set by Extendicare based on the services provided and market conditions. The monthly fees vary depending on the type of accommodation, level of care and services chosen by the resident, and the location of the retirement community. Residents are free to choose the living arrangements best suited to their personal preference and needs and, more importantly, change the level of care and support they receive as their needs evolve over time. Revenue from these operations represented 1.5% of consolidated revenue from continuing operations in 2016 (2015 – 0.1%).

HOME HEALTH CARE

Extendicare provides home health care services through ParaMed Home Health Care. ParaMed's professionals and staff members are skilled in providing complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate clients of all ages living at home. Revenue from these operations represented 39.1% of consolidated revenue from continuing operations in 2016 (2015 – 34.7%). The Home Health Acquisition contributed revenue of approximately $207.0 million in 2016, compared with $131.6 million for the eight months following the acquisition in 2015.

Provincial governments fund a wide range of home health care services, and contract these services to providers such as ParaMed. In 2016, ParaMed received approximately 97% of its revenue from contracts tendered by locally administered provincial agencies (2015 – 97%), with the remainder from private-pay clients. At the time of the Home Health Acquisition in April 2015, ParaMed's operations were solely in Ontario, where it provided approximately 5.1 million hours of service annually, making it the largest provider of publicly funded home health care in the province. Following the Home Health Acquisition, ParaMed's operations more than doubled and expanded to six provinces. In 2016, ParaMed provided 10.9 million hours of service, of which approximately 83% were provided in Ontario, 10% were provided in British Columbia, 4% in Alberta, and the balance provided in Manitoba, Quebec and Nova Scotia. In May 2016, ParaMed expanded its presence in British Columbia with the addition of a four-year contract with the Vancouver Coastal Health Authority that is anticipated to add approximately 330,000 hours of service annually.

OTHER CANADIAN OPERATIONS

Extendicare's other Canadian operations are composed of its management and group purchasing services. Revenue from these operations represented 1.7% of consolidated revenue from continuing operations in 2016 (2015 – 1.6%).

Management Services

Through its Extendicare Assist division, Extendicare has leveraged its expertise in operating senior care centres by providing a wide range of management and consulting services to third-party owners. Extendicare Assist partners with not-for-profit and for-profit organizations, hospitals and municipalities that seek to improve their management practices, levels of care and operating efficiencies. Most of these contracts include management, accounting and purchasing services, staff training, reimbursement assistance, and where applicable, the implementation of Extendicare's policies and procedures. As a skilled manager and operator of senior care centres for third parties, Extendicare Assist's managed portfolio consisted of 53 senior care centres with capacity for 6,332 residents as at December 31, 2016 (December 31, 2015 – 54 centres with capacity for 6,426 residents). Contracts to manage two centres (133 beds) ceased effective December 1, 2016, with the owners taking the operations in-house, and contracts for a further eight centres (751 beds) ceased effective January 1, 2017, following the sale of the centres to a new operator. Contracts to manage six new centres (606 beds), which take effect during the 2017 first quarter.

Group Purchasing Services

Through its SGP Purchasing Partner Network division (SGP), Extendicare offers cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies, and office products. SGP negotiates long-term contracts that insulate members from rising costs, thereby providing a cost-effective way to secure quality national brand-name products, along with a range of innovative services. As at December 31, 2016, SGP provided services to third-party clients with capacity for approximately 40,900 residents (December 31, 2015 – 29,600 residents).

U.S. CONTINUING OPERATIONS – CAPTIVE INSURANCE COMPANY

Prior to the U.S. Sale Transaction, Extendicare self-insured certain risks related to general and professional liability of its disposed U.S. operations through the Captive. With the classification of the U.S. senior care operations as discontinued, the expense for self-insured liabilities incurred by the Captive has also been reclassified to 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 through the Captive. The majority of the risks that Extendicare self-insured relating to the U.S. operations are long-term in nature, and accordingly, claim payments for any particular policy year can occur over a long period of time. In addition, through the Captive, the Company maintained third-party liability insurance on a "claims made" basis, as opposed to "occurrence based" coverage, meaning that some level of coverage may continue to be required. The costs to administer and manage the settlement of the claims have not been classified as discontinued and are included in the continuing administrative costs of the U.S. operations.

As at December 31, 2016, the accrual for U.S. self-insured general and professional liabilities was $94.8 million (US$70.6 million) compared to US$107.2 million at the beginning of the year, and the investments held for U.S. self-insured liabilities totalled $136.1 million (US$101.4 million) compared to US$127.7 million at the beginning of the year, with the decline in each reflecting the "run off" of these operations and the release of reserves. During 2016, the Company released US$11.5 million of reserves for self-insured liabilities following the completion of independent actuarial reviews, of which US$3.1 million released in the 2016 second quarter and US$8.4 million was released in the 2016 fourth quarter. During 2015, US$3.8 million of reserves were released in the 2015 fourth quarter. Following the release of reserves for self-insured liabilities, the Captive transferred US$5.0 million of its funds previously held for investment to the Company for general corporate use in August 2016. The provisions recorded for our professional liability risks are based upon management's best available information, including actuarial estimates. The Captive is currently appropriately capitalized, but there can be no assurance that it will remain appropriately capitalized in the future should claims incurred prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, increase significantly. For further information on our self-insured liabilities, refer to the discussion under the heading "Accrual for U.S. Self-insured Liabilities" found within the "Liquidity and Capital Resources" section of this MD&A.

KEY PERFORMANCE INDICATORS

In addition to those measures identified under the heading "Non-GAAP Measures", management uses certain key performance indicators in order to compare the financial performance of Extendicare's continuing operations between periods. In addition, we assess the operations on a same-store basis between the reported periods. Such performance indicators may not be comparable to similar indicators presented by other companies. Set forth below is an analysis of the key performance indicators and a discussion of significant trends when comparing Extendicare's financial results from continuing operations.

The following is a glossary of terms for some of our key performance indicators:

"Average daily revenue rate" means the aggregate revenue earned divided by the aggregate census in the corresponding period;

"Average monthly revenue per occupied suite" means the aggregate revenue earned divided by the aggregate occupied suites in the corresponding period;

"Census" is defined as the number of residents occupying beds (or the number of occupied suites in the case of a retirement community) over a period of time;

"CMI" means case mix index, which is a measure of the relative cost or resources needed to treat the mix of patients or residents;

"Mature community" is the classification by the Company of a retirement community after the earlier of reaching 90% occupancy or 36 months of operation in the case of newly built communities, or a lesser period in the case of acquired communities based on the status of its operations at the time of its acquisition;

"Non same-store" or "NSS", generally refers to those centres or business that were not continuously operated by us since the beginning of the previous fiscal year or have been classified as held for sale, such operations in respect of this report specifically refer to the Home Health Acquisition that was completed on April 30, 2015, and the retirement living operating segment;

"Occupancy" is measured as the percentage of census relative to the total available resident capacity. Total operational resident capacity is the number of beds (or suites in the case of a retirement community) available for occupancy multiplied by the number of days in the period; and

"Same-store" or "SS" generally refers to those centres or businesses that were continuously operated by us since the beginning of the previous fiscal year, and which are not classified as held for sale; such operations in respect of this report specifically refer to all continuing operations excluding the Home Health Acquisition and the retirement living operating segment.

Long-term Care

Funding received by Extendicare for its long-term care centres is regulated by provincial authorities (rather than federal authorities), who often set the rates following consultation with the providers and their industry associations. This type of system reduces the potential for a single change or event to significantly affect the reimbursement or regulatory environment for Extendicare. For more information on government funding in Canada, including recent developments and their impact or expected impact on Extendicare, refer to the discussion under the heading "Update of Regulatory and Funding Changes Affecting Results".

Revenue from provincial programs represents approximately 70% of Extendicare's long-term care centre revenue. In the 2016 fourth quarter, the average daily revenue rate of our LTC centres increased by 2.5% to $210.67 from $205.60 in the 2015 fourth quarter, and increased by 3.5% from $203.54 in the 2016 third quarter. Prior period funding settlements received during the 2016 fourth quarter from the Western provinces representing approximately $3.00 of the increase in the average daily rate this quarter. In 2016, our average daily revenue rate increased by 1.7% to $204.54 from $201.04. The majority of Extendicare's long-term care operations are in Ontario, which operates under a funding envelope system, wherein a substantial portion of the revenue is tied to flow-through funding that is only recognized in the periods in which the related costs for resident care are incurred. Many of our centres are in an "underspent" position at the start of the year, resulting in a deferral of flow-through funding until it is matched with increased spending throughout the year. As a result, absent the impact of funding changes throughout the year, Extendicare's average daily revenue rates are generally at their lowest in the first quarter, when funding has been deferred, and at their highest in the fourth quarter, when previously deferred funding has been recognized. For the 2015 year, Extendicare's average daily revenue rate increased by 1.5% to $201.04 from $198.03 in 2014.

The average occupancy at our LTC centres was 97.9% this quarter compared to 98.1% in the 2015 fourth quarter and for the 2016 year was 98.0% compared to 97.9% in 2015. In terms of the quarterly trends throughout the year, slightly lower occupancy levels are to be expected during the winter months as a result of flu outbreaks, which could lead to temporary freezes on admissions.

In Ontario, overall funding is occupancy-based, but once the average occupancy level of 97% or higher for the calendar year is achieved, operators receive funding based on 100% occupancy. In 2016, Extendicare's LTC centres in Ontario achieved an overall average occupancy of 98.5%, with all but one of the centres achieving the 97% occupancy threshold.

In addition, Extendicare's Ontario LTC centres receive premiums for preferred accommodation. The average occupancy of the private beds in our "New" centres improved to 97.2% this quarter from 95.4% in the 2015 fourth quarter, and for the 2016 year improved to 96.8% from 93.8% in 2015. This improvement was primarily due to the continued improvement in occupancy mix at our new northern Ontario centres that opened in 2013. The average occupancy of the private beds at our "C" centres declined to 97.9% this quarter from 98.8% in the same 2015 period, and for the 2016 year improved to 98.7% from 98.2%.

The following table provides the average daily revenue rates and occupancy levels of our LTC operations for the past eight quarters.

					2016					**2015**
Long-term Care Centres	**Q1**	**Q2**	**Q3**	**Q4**	**Year**	**Q1**	**Q2**	**Q3**	**Q4**	**Year**
Average Daily Revenue Rate *($)*	**201.71**	**202.80**	**203.54**	**210.67**	**204.54**	198.31	199.40	200.76	205.60	201.04
Average Occupancy *(%)*										
Total LTC	**98.0%**	**97.9%**	**98.1%**	**97.9%**	**98.0%**	97.4%	98.0%	98.2%	98.1%	97.9%
Ontario LTC										
Total operations	**98.5%**	**98.5%**	**98.6%**	**98.2%**	**98.5%**	97.4%	98.3%	98.5%	98.5%	98.2%
Preferred Accommodation (1)										
"New" centres – private	**96.4%**	**96.8%**	**96.9%**	**97.2%**	**96.8%**	91.3%	93.5%	94.8%	95.4%	93.8%
"C" centres – private	**99.1%**	**99.2%**	**98.7%**	**97.9%**	**98.7%**	97.4%	97.7%	98.7%	98.8%	98.2%
"C" centres – semi-private	**63.5%**	**64.3%**	**64.8%**	**65.0%**	**64.4%**	60.6%	60.6%	62.5%	63.6%	61.8%

(1) Average occupancy reported for the available private and semi-private rooms reflects the percentage of residents occupying those beds and paying the respective premium rates.

Retirement Living

Our retirement living operating segment is classified as non-same store, with four of the communities acquired in October 2015, two newly developed communities acquired in February 2016, and one newly developed community that opened at the end of November 2016. All of the communities were in lease-up during 2016, with two of the communities acquired in 2015, Empire Crossing and Stonebridge, classified as mature communities by the end of 2016, having sustained occupancy levels of 90% by the end of 2016. The average occupancy of the mature communities grew to 95.0% at the end of 2016 from 72.2% at the beginning of the year. The average occupancy of the lease-up communities was 49.6% at the end of the year, down from 68.5% at the beginning of the year, with the addition of the three newly opened communities during the year contributing to the decline in average occupancy in the 2016 second quarter.

The average monthly revenue per occupied suite improved to $4,485 in the 2016 fourth quarter, from $4,440 in the 2016 third quarter, and for the 2016 year, improved by 5.5% to $4,480 from $4,245 in 2015, primarily as a result of increased rents upon turnover and higher revenue from increased care and services.

The following table provides the average occupancy of our mature and lease-up retirement communities as at the beginning and end of the year.

Retirement Communities Average Occupancy as at:	**January 1, 2016**	**December 31, 2016**
Mature communities (Empire/Stonebridge)	**72.2%**	**95.0%**
Lease-up communities	**68.5%**	**49.6%**

The following table provides the average occupancy and monthly revenue per occupied suite rates of the retirement communities.

					2016		**2015**
Retirement Communities	**Q1**	**Q2**	**Q3**	**Q4**	**Year**	**Q4**	**Year**
Average Monthly Revenue per Occupied Suite *($)*	**4,486**	**4,529**	**4,440**	**4,485**	**4,480**	4,245	4,245
Average Occupancy *(%)*							
Mature communities (Empire/Stonebridge)	**75.4%**	**75.2%**	**83.8%**	**87.8%**	**80.6%**	60.8%	60.8%
Lease-up communities	**50.3%**	**42.0%**	**48.4%**	**54.0%**	**47.7%**	70.2%	70.2%
Total retirement communities	**61.2%**	**53.8%**	**61.0%**	**63.0%**	**59.8%**	64.1%	64.1%

Home Health Care

Revenue from provincial programs represented approximately 97% of Extendicare's home health care revenue in 2016 (2015 year – 97%). On a same-store basis, ParaMed's average daily service volumes increased by 3.9% this quarter over the same 2015 period. ParaMed's total average daily hours of service this quarter increased by 5.8% to 30,932 from 29,230 in the same 2015 period, and by 2.7% from 30,130 in the 2016 third quarter. In 2016, ParaMed's same-store average daily service volumes increased by 3.5% over 2015, and with the Home Health Acquisition, the average daily hours of service increased by 1.7% to 29,807 in 2016 compared to 29,310 in 2015. For further information on the home health care operations, refer to the discussion under the heading "Update of Regulatory and Funding Changes Affecting Results – Ontario Home Health Care Legislation and Funding".

The following table provides the service volumes of our home health care operations for the past eight quarters.

Home Health Care					**2016**					**2015**
Service Volumes	**Q1**	**Q2**	**Q3**	**Q4**	**Year**	**Q1**	**Q2**	**Q3**	**Q4**	**Year**
Total Operations										
Hours of service (000's)	**2,625.1**	**2,666.4**	**2,772.0**	**2,845.8**	**10,909.3**	1,238.2	2,252.4	2,692.9	2,689.2	8,872.6
Hours per day	**28,847**	**29,302**	**30,130**	**30,932**	**29,807**	13,758	29,951	29,271	29,230	29,310
Same-store Basis										
Hours of service (000's)	**1,294.0**	**1,317.5**	**1,345.8**	**1,383.5**	**5,340.9**	1,238.2	1,290.3	1,285.0	1,332.1	5,145.6
Hours per day	**14,220**	**14,478**	**14,628**	**15,038**	**14,593**	13,758	14,179	13,967	14,480	14,098

IMPACT OF U.S. DOLLAR AND FOREIGN CURRENCY TRANSLATION

Impact on Financial Statements

Our remaining U.S. net assets accounted for approximately: 23% of our consolidated assets as at December 31, 2016; and 16% of our consolidated liabilities as at December 31, 2016. The impact of a one-cent weakening (strengthening) of the Canadian dollar against the U.S. dollar would have increased (decreased) our total assets and total liabilities as at December 31, 2016, by approximately $1.7 million and $1.0 million, respectively, for a net increase (decrease) of $0.7 million, of which approximately $0.4 million would increase (decrease) net earnings, and approximately $0.3 million would increase (decrease) other comprehensive income. For further information on currency risk, refer to *note 25* of the audited consolidated financial statements.

The operating results of our U.S. operating segment in Canadian dollars were affected by fluctuations in foreign exchange rates. In 2016, our remaining U.S. continuing operations accounted for: less than 1% of our revenue from continuing operations; approximately 3% of net operating income (2015 – 4%); and approximately 12% of AFFO from continuing operations (2015 – less than 1%).

The exchange rates used in translating our U.S. operations were as follows:

	Q4			Year			Year		
U.S./Canadian Exchange Rates	**2016**	**2015**	**Increase/ (Decrease)**	**2016**	**2015**	**Increase/ (Decrease)**	**2015**	**2014**	**Increase/ (Decrease)**
Average exchange rate	**1.3337**	1.3342	**(0.0005)**	**1.3248**	1.2787	**0.0461**	1.2787	1.1045	0.1742
Year end exchange rate				**1.3427**		**(0.0413)**	1.3840		

The impact of the weaker Canadian dollar in 2016 compared to 2015 favourably impacted our revenue and net operating income from continuing operations by $0.1 million (2015 – $0.7 million), and our AFFO from continuing operations by $0.3 million (2015 – nil).

In addition, as a result of U.S. net proceeds and deferred consideration received in respect of the U.S. Sale Transaction, our net earnings from continuing operations are impacted by fluctuations in foreign exchange rates. We recognized a net foreign exchange gain of $2.3 million in the 2016 fourth quarter as a result of a weaker Canadian dollar as at December 31, 2016 compared to September 30, 2016, and a net foreign exchange loss of $1.2 million in 2016, as a result of the stronger Canadian dollar of 1.3427 as at December 31, 2016, compared to 1.3840 as at December 31, 2015.

DIVIDEND POLICY

The declaration and payment of dividends by Extendicare is at the discretion of the board of directors of the Company (the “Board”) as to the amount and timing of dividends to be declared and paid, after consideration of 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 the 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.

Dividends declared in 2016 totalled $42.4 million, or $0.48 per share, representing a payout ratio of approximately 65% of AFFO of $65.0 million, or $0.736 per basic share. In 2015, dividends declared totalled $42.1 million, or $0.48 per share, representing a payout ratio of approximately 83% of AFFO of $50.8 million, or $0.579 per basic share.

2016 SELECTED ANNUAL INFORMATION

The following is a summary of selected annual financial information for each of the past three years.

(thousands of dollars unless otherwise noted)	**2016**	**2015**	**2014**
Financial Results			
Revenue	**1,060,758**	943,279	783,954
Earnings before depreciation, amortization, and other expense (Adjusted EBITDA)	**92,935**	83,691	71,535
Earnings from continuing operations	**31,417**	23,710	11,183
per basic share *($)*	**0.36**	0.27	0.13
Gain (loss) on sale of U.S. operations, net of taxes	**(8,458)**	205,418	–
Earnings (loss) from discontinued operations	**12,493**	2,950	(29,936)
Net earnings (loss)	**35,452**	232,078	(18,753)
per basic share *($)*	**0.40**	2.64	(0.21)
per diluted share *($)*	**0.40**	2.41	(0.21)
AFFO (continuing operations)	**66,722**	43,587	33,619
per basic share *($)*	**0.755**	0.497	0.383
AFFO	**65,056**	50,828	73,692
per basic share *($)*	**0.736**	0.579	0.840
Cash dividends declared	**42,422**	42,125	42,131
per share *($)*	**0.480**	0.480	0.480
Financial Position *(at year end)*			
Total assets	**988,617**	1,026,947	1,915,286
Assets of disposal group held for sale	**–**	–	1,254,535
Liabilities of disposal group held for sale	**–**	–	1,137,774
Total non-current liabilities	**605,353**	636,798	622,256
Long-term debt	**448,742**	428,679	453,200
Long-term debt, including current portion	**503,568**	454,074	472,028
U.S./Canadian dollar average exchange rate for the year	**1.3248**	1.2787	1.1045
U.S./Canadian dollar closing exchange rate at year end	**1.3427**	1.3840	1.1601

Financial Results – The selected information provided for each of the years under the heading “Financial Results”, reflects the classification of the operations in connection with the U.S. Sale Transaction and the U.S. IT Hosting business identified as held for sale in 2014 and 2016, respectively, as discontinued. The U.S. senior care operations were sold in 2015 and the U.S. IT Hosting business was sold in 2016. A comparison between the 2016 and 2015 results is provided under the heading “2016 Financial Review”. The financial results for 2015, in comparison to 2014, reflect growth from continuing operations largely due to the Home Health Acquisition that doubled the size of our home health care operations, the Retirement Acquisitions that added four retirement communities to our portfolio, and increased clients served by our management services and group purchasing operations. The loss from discontinued operations of $29.9 million recorded in 2014 included a provision for U.S. government investigations of pre-tax $42.2 million, partially offset by a reduction in the expense for self-insured liabilities of pre-tax $10.5 million.

Financial Position – The selected information provided for each of the years under the heading “Financial Position”, reflects only those operations identified as held for sale at the end of each of the respective periods, in accordance with IFRS. The assets held for sale of $1,254.5 million, as at December 31, 2014, related to the operations in connection with the U.S. Sale Transaction and 10 U.S. skilled nursing centres, all of which were sold by July 1, 2015.

The closing rates used to translate the assets and liabilities of our U.S. operations were 1.3427 at December 31, 2016, 1.3840 at December 31, 2015, and 1.1601 at December 31, 2014. Total assets at the end of 2015 of $1,026.9 million, declined by $888.3 million from the end of 2014, primarily as a result of the sale of substantially all of our U.S. operations, with a total asset balance of $1,254.5 million at the end of 2014, net of the related proceeds received. Total assets at the end of 2016 of $988.6 million, declined by $38.3 million from the end of 2015, primarily due to a $40.7 million (US$26.3 million) reduction in our investments held for U.S. self-insured liabilities to settle claim payments, reflecting the run off of the Captive. The accrual for U.S. self-insured liabilities declined by $53.6 million (US$36.6 million), contributing to the $31.4 million decline in total non-current liabilities from the end of 2014. The reduction in long-term debt, including current portion, from the end of 2014 to the end of 2015, reflected scheduled debt repayments, while the increase in long-term debt during 2016, included the issuance of $68.9 million of debt in connection with our retirement communities recently acquired and under development.

A comparison between the 2016 and 2015 results is provided in the discussion under the headings “2016 Financial Review” and “Liquidity and Capital Resources”.

2016 SELECTED QUARTERLY INFORMATION

The following is a summary of selected quarterly financial information for the past eight quarters.

				2016				2015
(thousands of dollars unless otherwise noted)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue	**276,854**	**268,096**	**261,425**	**254,383**	262,590	253,556	234,358	192,775
Net operating income	**33,754**	**35,040**	**34,747**	**26,595**	32,830	32,456	31,139	23,365
Net operating income margin	***12.2%***	***13.1%***	***13.3%***	***10.5%***	*12.5%*	*12.8%*	*13.3%*	*12.1%*
Adjusted EBITDA	**24,246**	**25,525**	**26,647**	**16,517**	23,012	22,938	22,384	15,357
Adjusted EBITDA margin	***8.8%***	***9.5%***	***10.2%***	***6.5%***	*8.8%*	*9.0%*	*9.6%*	*8.0%*
Earnings (loss) from continuing operations	**13,250**	**9,955**	**9,695**	**(1,483)**	7,266	11,209	3,978	1,257
Gain (loss) on sale of U.S. operations, net of taxes	**(8,458)**	**–**	**–**	**–**	749	204,669	–	–
Earnings (loss) from discontinued operations	**19,848**	**(643)**	**(4,947)**	**(1,765)**	2,530	418	(5,496)	5,498
Net earnings (loss)	**24,640**	**9,312**	**4,748**	**(3,248)**	10,545	216,296	(1,518)	6,755
AFFO (continuing operations)	**13,534**	**20,832**	**20,012**	**12,344**	10,420	15,027	11,840	6,300
per basic share *($)*	**0.152**	**0.236**	**0.227**	**0.140**	0.119	0.171	0.135	0.072
AFFO	**13,366**	**20,300**	**19,155**	**12,235**	9,611	13,540	5,834	21,843
per basic share *($)*	**0.150**	**0.230**	**0.217**	**0.139**	0.109	0.155	0.067	0.248
Maintenance Capex								
Continuing operations	**5,419**	**2,825**	**2,835**	**1,040**	6,713	3,423	2,295	815
Discontinued operations	**112**	**280**	**232**	**110**	780	763	5,345	2,544
Cash dividends declared	**10,637**	**10,619**	**10,595**	**10,571**	10,547	10,522	10,510	10,546
per share *($)*	**0.120**	**0.120**	**0.120**	**0.120**	0.120	0.120	0.120	0.120
Weighted Average Number of Shares								
Basic	**88,663**	**88,495**	**88,269**	**88,057**	87,852	87,663	87,557	88,003
Diluted	**99,918**	**99,739**	**99,513**	**99,302**	99,097	98,907	98,802	99,247
U.S./Canadian dollar average exchange rate for the period	**1.3337**	**1.3052**	**1.2873**	**1.3731**	1.3342	1.3084	1.2297	1.2412

The following is a reconciliation of “earnings (loss) from continuing operations before income taxes” to “Adjusted EBITDA” and “net operating income”.

				2016				2015
(thousands of dollars)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Earnings (loss) from continuing operations before income taxes	**13,618**	**13,169**	**13,597**	**(1,556)**	10,819	18,222	6,062	2,447
Add (Deduct):								
Depreciation and amortization	**8,496**	**7,783**	**7,753**	**7,147**	6,835	6,103	5,830	4,900
Net finance costs (income)	**460**	**4,573**	**5,092**	**8,790**	1,944	(2,189)	8,902	7,111
Other expense	**1,672**	**–**	**205**	**2,136**	3,414	802	1,590	899
Adjusted EBITDA	**24,246**	**25,525**	**26,647**	**16,517**	23,012	22,938	22,384	15,357
Add (Deduct):								
Administrative costs	**7,843**	**7,843**	**6,458**	**8,407**	8,136	7,891	7,247	6,870
Lease costs	**1,665**	**1,672**	**1,642**	**1,671**	1,682	1,627	1,508	1,138
Net operating income	**33,754**	**35,040**	**34,747**	**26,595**	32,830	32,456	31,139	23,365

There are a number of factors affecting the trend of our quarterly results from continuing operations.

With respect to our core operations, while year-over-year quarterly comparisons will generally remain appropriate, sequential quarters can vary materially for seasonal and other trends. The significant factors that impact the results from period to period are as follows:

- Ontario long-term care funding tied to flow-through envelopes requires revenue be deferred until it is matched with the related costs for resident care in the periods in which the costs are incurred, resulting in a fluctuation in revenue and operating expenses by quarter, and they are generally at their lowest in the first quarter and at their highest in the fourth quarter;
- Ontario long-term care providers generally receive annual flow-through funding increases and CMI adjustments effective April 1st and accommodation funding increases effective July 1st, and Alberta long-term care providers generally receive annual inflationary rate increases and acuity-based funding adjustments on April 1st, and accommodation funding increases effective July 1st;
- maintenance capex spending, which impacts our AFFO, fluctuates on a quarterly basis with the timing of projects and seasonality, and is generally at its lowest in the first quarter and its highest in the fourth quarter; and
- utility costs are generally at their highest in the first quarter and their lowest in the second and third quarters, and can vary by as much as $1.5 million to $2.0 million.

In addition, we report as separate line items, “other expense”, “fair value adjustments”, and “loss (gain) on foreign exchange and financial instruments”, as these are transitional in nature and would otherwise distort historical trends. Those items impacting our results are as follows:

- transaction and integration costs in connection with acquisitions, asset impairment charges, gains or losses on disposals, proxy contest costs and other costs considered transitional in nature are reported as “other expense”; as a result of acquisitions, a proxy contest, and asset impairment charges, the 2016 results from continuing operations included “other expense” of $4.0 million ($2.1 million, $0.2 million, nil, $1.7 million in each of the quarters, respectively), compared to $6.7 million in 2015 ($0.9 million, $1.6 million, $0.8 million and $3.4 million, in each of the quarters, respectively);
- valuation of interest rate swaps entered into during the 2016 third quarter, which are designated at fair value through profit or loss each period, resulted in a loss of $0.8 million in the 2016 third quarter and a gain of $1.8 million in the 2016 fourth quarter, reflected as a “fair value adjustment”; and
- foreign currency exchange rate fluctuations between the U.S. and Canadian dollars impact translation of our remaining U.S. net assets from U.S. dollars to Canadian dollars; as a result of U.S. net proceeds and deferred consideration received in respect of the disposal or our U.S. operations in July 2015, our 2016 earnings from continuing operations included the following in “loss (gain) on foreign exchange and financial instruments”: net foreign exchange losses of $3.9 million and $0.8 million in the 2016 first and second quarters, respectively, and net foreign exchange gains of $1.3 million and $2.3 million in the 2016 third and fourth quarters, respectively; while the 2015 results included net foreign exchange gains of $6.5 million and $3.3 million in the 2015 third and fourth quarters, respectively.

Further details on the above can be found under the sections “Significant 2016 Events and Developments”, “Key Performance Indicators”, “Impact of U.S. Dollar and Foreign Currency Translation”, “Other Significant Developments” and “Update of Regulatory and Funding Changes Affecting Results”.

2016 FOURTH QUARTER FINANCIAL REVIEW

The following provides a breakdown of our consolidated statement of earnings between our Canadian and U.S. operations.

	Three months ended December 31						
			2016			2015	Total
(thousands of dollars)	Canada	U.S.	Total	Canada	U.S.	Total	Change
Revenue	**275,305**	**1,549**	**276,854**	259,138	3,452	262,590	14,264
Operating expenses	**243,100**	**–**	**243,100**	229,760	–	229,760	13,340
Net operating income	**32,205**	**1,549**	**33,754**	29,378	3,452	32,830	924
Administrative costs	**7,835**	**8**	**7,843**	6,459	1,677	8,136	(293)
Lease costs	**1,665**	**–**	**1,665**	1,682	–	1,682	(17)
Adjusted EBITDA	**22,705**	**1,541**	**24,246**	21,237	1,775	23,012	1,234
Depreciation and amortization	**8,496**	**–**	**8,496**	6,835	–	6,835	1,661
Other expense	**1,672**	**–**	**1,672**	3,414	–	3,414	(1,742)
Earnings before net finance costs and income taxes	**12,537**	**1,541**	**14,078**	10,988	1,775	12,763	1,315
Interest expense (net of capitalized interest)	**6,691**	**–**	**6,691**	7,964	–	7,964	(1,273)
Interest revenue	**(851)**	**(1,896)**	**(2,747)**	(1,550)	(1,855)	(3,405)	658
Accretion	**294**	**334**	**628**	286	353	639	(11)
Fair value adjustments	**(1,832)**	**–**	**(1,832)**	–	–	–	(1,832)
Loss (gain) on foreign exchange and financial instruments	**(592)**	**(1,688)**	**(2,280)**	691	(3,945)	(3,254)	974
Net finance costs (income)	**3,710**	**(3,250)**	**460**	7,391	(5,447)	1,944	(1,484)
Earnings from continuing operations before income taxes	**8,827**	**4,791**	**13,618**	3,597	7,222	10,819	2,799
Income tax expense (recovery)							
Current	**(603)**	**(1)**	**(604)**	718	498	1,216	(1,820)
Deferred	**(220)**	**1,192**	**972**	850	1,487	2,337	(1,365)
Total income tax expense (recovery)	**(823)**	**1,191**	**368**	1,568	1,985	3,553	(3,185)
Earnings from continuing operations	**9,650**	**3,600**	**13,250**	2,029	5,237	7,266	5,984
Gain (loss) on sale of U.S. operations, net of taxes	**–**	**(8,458)**	**(8,458)**	**–**	749	749	(9,207)
Earnings from discontinued operations	**–**	**19,848**	**19,848**	–	2,530	2,530	17,318
Net earnings	**9,650**	**14,990**	**24,640**	2,029	8,516	10,545	14,095
Earnings from continuing operations	**9,650**	**3,600**	**13,250**	2,029	5,237	7,266	5,984
Add (Deduct) [(1)]**:**							
Fair value adjustments	**(1,344)**	**–**	**(1,344)**	–	–	–	(1,344)
Loss (gain) on foreign exchange and financial instruments	**(526)**	**(1,427)**	**(1,953)**	829	(2,900)	(2,071)	118
Other expense	**(1,917)**	**–**	**(1,917)**	2,530	–	2,530	(4,447)
Earnings from continuing operations before separately reported items, net of taxes	**5,863**	**2,173**	**8,036**	5,388	2,337	7,725	311

(1) The separately reported items being added to or deducted from earnings (loss) from continuing operations are net of income taxes, and are non-GAAP measures. Refer to the discussion of non-GAAP measures.

The following provides a reconciliation of “earnings from continuing operations before income taxes” to “Adjusted EBITDA” and “net operating income”.

	Three months ended December 31						
			2016			2015	Total
(thousands of dollars)	Canada	U.S.	Total	Canada	U.S.	Total	Change
Earnings from continuing operations before income taxes	**8,827**	**4,791**	**13,618**	3,597	7,222	10,819	2,799
Add (Deduct):							
Depreciation and amortization	**8,496**	**–**	**8,496**	6,835	–	6,835	1,661
Net finance costs	**3,710**	**(3,250)**	**460**	7,391	(5,447)	1,944	(1,484)
Other expense	**1,672**	**–**	**1,672**	3,414	–	3,414	(1,742)
Adjusted EBITDA	**22,705**	**1,541**	**24,246**	21,237	1,775	23,012	1,234
Add (Deduct):							
Administrative costs	**7,835**	**8**	**7,843**	6,459	1,677	8,136	(293)
Lease costs	**1,665**	**–**	**1,665**	1,682	–	1,682	(17)
Net operating income	**32,205**	**1,549**	**33,754**	29,378	3,452	32,830	924

The following is an analysis of the consolidated results from operations for the 2016 fourth quarter. Refer to the discussion that follows under the heading “Summary of Results of Operations by Segment” for an analysis of the revenue and net operating income by operating segment, including the components of non-same store revenue and net operating income.

Consolidated Revenue

Consolidated revenue from continuing operations grew by $14.2 million or 5.4% to $276.8 million in the 2016 fourth quarter, driven by overall growth from the Canadian operations, partially offset by lower investment income of $1.9 million from the Captive.

Revenue from the Canadian operations improved by $16.1 million and included favourable prior period settlement adjustments of approximately $2.2 million with respect to the LTC operations. Non-same store operations contributed approximately $8.9 million to the increase in revenue this quarter, with growth from same-store operations of $7.2 million or 3.5% attributable to funding enhancements, higher preferred accommodation revenue, and increased business volumes in our home health care, management services and group purchasing operations.

Consolidated Operating Expenses

Consolidated operating expenses from continuing operations increased by $13.3 million or 5.8% to $243.1 million in the 2016 fourth quarter, and included unfavourable prior period accrual adjustments aggregating approximately $0.6 million with respect to our home health care operations. The majority of our operating expenses are labour related, which increased by $13.4 million over the 2015 fourth quarter, and represented 85.9% and 85.1% of operating expenses in the fourth quarters of 2016 and 2015, respectively, and as a percentage of revenue were 75.4% and 74.4%, respectively. Non-same store operations contributed approximately $10.6 million to the increase in operating expenses this quarter, and reflected a full quarter impact of the Retirement Acquisitions, in addition to unfavourable accrual adjustments from the home health care operations. Same-store operating expenses increased by $2.7 million or 1.5% primarily due to higher labour costs.

Consolidated Net Operating Income

Consolidated net operating income from continuing operations improved by $0.9 million or 2.8% to $33.7 million in the 2016 fourth quarter compared to $32.8 million in the same 2015 period, representing 12.2% and 12.5% of revenue, respectively. Growth in net operating income from the Canadian operations was partially offset by a $1.9 million decline in investment income from the Captive.

Net operating income from the Canadian operations improved by $2.8 million to $32.2 million representing 11.7% of revenue compared to 11.3% in 2015. Non-same store net operating income from the Home Care Acquisition and retirement living operating segment, declined by $1.7 million in the 2016 fourth quarter compared to the same 2015 period, and included unfavourable prior period operating expense adjustments of approximately $1.1 million, in addition to the impact of lease-up losses of retirement communities that opened during 2016. On a same-store basis, net operating income improved by $4.5 million or 18.8% to $28.6 million this quarter from $24.1 million in the same 2015 period, representing 13.2% and 11.5% of revenue, respectively. Same-store net operating income included favourable prior period revenue and operating expense adjustments of approximately $2.7 million recorded this quarter and would have otherwise been $25.9 million, representing 12.1% of revenue. The balance of the improvement of $1.8 million was due to funding enhancements in our long-term care operations, higher preferred accommodation revenue, and increased business volumes in our home health care, management services and group purchasing operations, partially offset by the timing of recognition of funding to match costs under the Ontario envelope system and unfunded cost increases in our home health care operations. Management initiatives are under way with a specific focus to improve efficiency and reduce costs in our core home health care operations over time.

Administrative and Lease Costs

Administrative and lease costs from continuing operations decreased by $0.3 million to $9.5 million in the 2016 fourth quarter, reflecting an increase of $1.4 million from our Canadian operations, offset by a $1.7 million reduction in the administrative costs of the Captive due to the run off of the U.S. self-insured liabilities. The administrative costs of our Canadian operations increased by $1.4 million to $7.8 million, representing 2.8% of revenue in the 2016 fourth quarter compared to 2.5% of revenue in the same 2015 period, largely due to higher professional fees in support of services related to acquisitions and developments, and growth in operations over the past year, and a process improvement initiative of our home health care operations.

Consolidated Adjusted EBITDA

Consolidated Adjusted EBITDA from continuing operations improved by $1.2 million to $24.2 million this quarter from $23.0 million in the same 2015 period, representing 8.8% of revenue in both periods. Adjusted EBITDA from the U.S. operations declined by $0.2 million due to lower investment income, partially offset by a reduction in administrative costs, as previously discussed. Adjusted EBITDA from the Canadian operations improved by $1.4 million to $22.7 million, representing 8.2% of revenue, reflecting growth in net operating income of $2.8 million, partially offset by the increase in administrative and lease costs, as previously discussed.

Depreciation and Amortization

Depreciation and amortization costs increased by $1.7 million to $8.5 million this quarter, largely due to the new acquisitions and developments.

Other Expense

The Company recorded a pre-tax charge of $1.7 million in the 2016 fourth quarter in connection with the impairment of goodwill for certain properties. In comparison, the Company recorded a pre-tax charge of $3.4 million in the 2015 fourth quarter related to integration costs of $0.8 million in connection with the Home Health Acquisition, acquisition costs of $1.3 million related to the Retirement Acquisitions, and proxy contest costs of $1.3 million.

Net Finance Costs (Income)

Net finance costs decreased by $1.5 million to $0.5 million this quarter, and included a favourable fair value adjustment of $1.8 million related to interest rate swaps, partially offset by a reduction in the net gain on foreign exchange and financial instruments of $1.0 million.

Income Taxes

The income tax provision this quarter was $0.4 million on pre-tax earnings of $13.6 million, representing an effective tax rate of 2.7%, compared to a provision of $3.6 million on pre-tax earnings of $10.8 million in the 2015 fourth quarter, representing an effective tax rate of 32.8%. The income tax provision this quarter included the release of a $3.6 million provision booked in the 2015 third quarter in respect of a prior period tax reassessment (refer to the discussion under the heading “Other Significant Developments – Tax Rules and Regulations”). In addition to the impact of the tax reassessment, the effective tax rates for each period were distorted by, among other things, fair value adjustments, gains and losses on foreign exchange and financial instruments, and other expense items that have been separately reported. The effective tax rate on earnings from continuing operations before separately reported items was 28.1% this quarter and 29.6% in the 2015 fourth quarter.

Discontinued Operations

The earnings (loss) from discontinued operations reported this quarter included the after-tax loss on sale of the U.S. IT Hosting operations of $8.4 million, that included the reclassification of the impairment loss of $9.2 million recorded earlier this year, compared to the after-tax gain reported in the 2015 fourth quarter of $0.7 million related to the U.S. Sale Transaction.

Excluding the above noted loss and gain on sale, the earnings from discontinued operations, net of tax, were $19.8 million this quarter compared to $2.5 million in the 2015 fourth quarter. This quarter’s net after-tax earnings included a reduction in our reserves for U.S. self-insured liabilities of $12.8 million, and the reclassification of the $9.2 million impairment loss, partially offset by a net after-tax increase in indemnification provisions and other items in respect of the U.S. Sale Transaction. The 2015 fourth quarter net after-tax earnings related to the operations disposed of in the U.S. Sale Transaction and those of the U.S. IT Hosting business.

For further information on the discontinued operations, refer to *note 21* of the audited consolidated financial statements, and the discussions under the headings “Significant 2016 Events and Developments – 2016 Sale of U.S. IT Hosting Business”, and “Other Significant Developments – 2015 U.S. Sale Transaction”.

Summary of Results of Operations by Segment

The following table summarizes our segmented "revenue", "operating expenses" and "net operating income", followed by an analysis of the operating performance of each of our operating segments.

Three months ended December 31 *(thousands of dollars)*	**Long-term Care**	**Retirement Living**	**Home Health Care**	**Other Canadian Operations**	**Corporate Canada**	**Total Canada**	**Total U.S.**	**Total**
2016 – Same-store								
Revenue	**157,425**	−	**53,915**	**4,765**	**3**	**216,108**	**1,549**	**217,657**
Operating expenses	**137,809**	−	**47,438**	**2,293**	−	**187,540**	−	**187,540**
Net operating income	**19,616**	−	**6,477**	**2,472**	**3**	**28,568**	**1,549**	**30,117**
Net operating income margin (%)	***12.5%***	−	***12.0%***	***51.9%***	***100.0%***	***13.2%***	***100.0%***	***13.8%***
2016 – Non Same-store								
Revenue	−	**4,440**	**54,757**	−	−	**59,197**	−	**59,197**
Operating expenses	−	**4,310**	**51,250**	−	−	**55,560**	−	**55,560**
Net operating income	−	**130**	**3,507**	−	−	**3,637**	−	**3,637**
Net operating income margin (%)	−	***2.9%***	***6.4%***	−	−	***6.1%***	−	***6.1%***
2016 – Total								
Revenue	**157,425**	**4,440**	**108,672**	**4,765**	**3**	**275,305**	**1,549**	**276,854**
Operating expenses	**137,809**	**4,310**	**98,688**	**2,293**	−	**243,100**	−	**243,100**
Net operating income	**19,616**	**130**	**9,984**	**2,472**	**3**	**32,205**	**1,549**	**33,754**
Net operating income margin (%)	***12.5%***	***2.9%***	***9.2%***	***51.9%***	***100.0%***	***11.7%***	***100.0%***	***12.2%***
2015 – Same-store								
Revenue	154,188	−	50,943	3,725	6	208,862	3,452	212,314
Operating expenses	137,587	−	45,316	1,909	−	184,812	−	184,812
Net operating income	16,601	−	5,627	1,816	6	24,050	3,452	27,502
Net operating income margin (%)	*10.8%*	−	*11.0%*	*48.8%*	*100.0%*	*11.5%*	*100.0%*	*13.0%*
2015 – Non Same-store								
Revenue	−	1,238	49,038	−	−	50,276	−	50,276
Operating expenses	−	987	43,961	−	−	44,948	−	44,948
Net operating income	−	251	5,077	−	−	5,328	−	5,328
Net operating income margin (%)	−	*20.3%*	*10.4%*	−	−	*10.6%*	−	*10.6%*
2015 – Total								
Revenue	154,188	1,238	99,981	3,725	6	259,138	3,452	262,590
Operating expenses	137,587	987	89,277	1,909	−	229,760	−	229,760
Net operating income	16,601	251	10,704	1,816	6	29,378	3,452	32,830
Net operating income margin (%)	*10.8%*	*20.3%*	*10.7%*	*48.8%*	*100.0%*	*11.3%*	*100.0%*	*12.5%*
Change in Total								
Revenue	3,237	3,202	8,691	1,040	(3)	16,167	(1,903)	14,264
Operating expenses	222	3,323	9,411	384	−	13,340	−	13,340
Net operating income	3,015	(121)	(720)	656	(3)	2,827	(1,903)	924

LONG-TERM CARE OPERATIONS

Net operating income from our long-term care operations improved by $3.0 million or 18.2% to $19.6 million, and represented 12.5% of revenue compared to 10.8% in the 2015 fourth quarter. Operations benefitted this quarter from funding enhancements, higher preferred accommodation revenue, and favourable prior period revenue settlement adjustments of approximately $2.2 million. Excluding the favourable prior period adjustments, net operating income would have been $17.4 million, representing 11.2% of revenue. Our average occupancy was unchanged at 97.9% this quarter compared to 98.1% in the same 2015 period. Our average daily revenue rate increased by 2.5% to $210.67 in the 2016 fourth quarter from $205.60 in the same 2015 period, of which approximately $3.00, or 1.5%, was due to the prior period settlement adjustments.

RETIREMENT LIVING OPERATIONS

Net operating income from our retirement living operations was $0.1 million this quarter compared to $0.2 million in the same 2015 period. Retirement communities that opened this year are still in fill-up and incurring losses, which are offsetting the improved net operating income from the more mature communities acquired in 2015.

HOME HEALTH CARE OPERATIONS

Net operating income from our home health care operations decreased by $0.7 million or 6.7% to $10.0 million, representing 9.2% of revenue this quarter compared to 10.7% in the 2015 fourth quarter. Despite the increase in daily hours of service provided to 30,932 in the 2016 fourth quarter from 29,230 in the same 2015 period, the NOI margin has declined to due unfavourable prior period accrual adjustments aggregating $0.6 million and as a result of unfunded cost increases, as funding enhancements from the Ontario government have been limited to a level to compensate operators to cover mandatory PSW wage increases. Labour costs of the home health care operations represented 92.5% of its operating expenses in 2016. Management initiatives are under way with a specific focus to improve efficiency and reduce costs in our core home health care operations.

With respect to the non-same-store home health care operations, net operating income declined by $1.6 million to $3.5 million and represented 6.4% of revenue compared to 10.4% of revenue in the 2015 fourth quarter. Net operating income this quarter was impacted by unfavourable prior period accrual adjustments of approximately $1.1 million, and would have otherwise been $4.6 million, or 8.4% of revenue. The remaining decline in net operating income of approximately $0.5 million reflected growth in service volumes offset by higher operating expenses.

With respect to the same-store home health care operations, net operating income improved by $0.9 million to $6.5 million and represented 12.0% of revenue compared to 11.0% of revenue in the 2015 fourth quarter. Net operating income was impacted by favourable prior period accrual adjustments of approximately $0.5 million this quarter, and would have otherwise been $6.0 million, or 11.1% of revenue. The remaining improvement of approximately $0.4 million reflected a 3.9% growth in daily hours of service.

OTHER CANADIAN OPERATIONS

Net operating income from our management and group purchasing operations grew by $0.6 million or 36.1% to $2.5 million, representing 51.9% of revenue compared to 48.8% in the 2015 fourth quarter. This improvement was driven by growth in the number of clients served, with revenue increasing by $1.0 million or 27.9%, partially offset by higher operating expenses of $0.4 million.

U.S. OPERATIONS

Net operating income of the Captive declined by $1.9 million in 2016, due to lower investment income.

2016 FINANCIAL REVIEW

The following provides a breakdown of our consolidated statement of earnings (loss) between our Canadian and U.S. operations.

	Years ended December 31						
			2016			**2015**	**Total**
(thousands of dollars)	**Canada**	**U.S.**	**Total**	**Canada**	**U.S.**	**Total**	**Change**
Revenue	**1,057,063**	**3,695**	**1,060,758**	937,983	5,296	943,279	117,479
Operating expenses	**930,622**	**–**	**930,622**	823,489	–	823,489	107,133
Net operating income	**126,441**	**3,695**	**130,136**	114,494	5,296	119,790	10,346
Administrative costs	**28,662**	**1,889**	**30,551**	23,246	6,898	30,144	407
Lease costs	**6,650**	**–**	**6,650**	5,955	–	5,955	695
Adjusted EBITDA	**91,129**	**1,806**	**92,935**	85,293	(1,602)	83,691	9,244
Depreciation and amortization	**31,179**	**–**	**31,179**	23,668	–	23,668	7,511
Other expense	**4,013**	**–**	**4,013**	6,705	–	6,705	(2,692)
Earnings (loss) before net finance costs and income taxes	**55,937**	**1,806**	**57,743**	54,920	(1,602)	53,318	4,425
Interest expense (net of capitalized interest)	**27,039**	**–**	**27,039**	31,089	–	31,089	(4,050)
Interest revenue	**(3,276)**	**(7,562)**	**(10,838)**	(4,407)	(3,650)	(8,057)	(2,781)
Accretion	**1,176**	**1,325**	**2,501**	1,122	1,355	2,477	24
Fair value adjustments	**(985)**	**–**	**(985)**	–	–	–	(985)
Loss (gain) on foreign exchange and financial instruments	**753**	**445**	**1,198**	(5,796)	(3,945)	(9,741)	10,939
Net finance costs	**24,707**	**(5,792)**	**18,915**	22,008	(6,240)	15,768	3,147
Earnings from continuing operations before income taxes	**31,230**	**7,598**	**38,828**	32,912	4,638	37,550	1,278
Income tax expense (recovery)							
Current	**6,818**	**(1,017)**	**5,801**	11,973	858	12,831	(7,030)
Deferred	**(2,094)**	**3,704**	**1,610**	(740)	1,749	1,009	601
Total income tax expense (recovery)	**4,724**	**2,687**	**7,411**	11,233	2,607	13,840	(6,429)
Earnings from continuing operations	**26,506**	**4,911**	**31,417**	21,679	2,031	23,710	7,707
Gain (loss) on sale of U.S. operations, net of taxes	**–**	**(8,458)**	**(8,458)**	–	205,418	205,418	(213,876)
Earnings from discontinued operations	**–**	**12,493**	**12,493**	–	2,950	2,950	9,543
Net earnings	**26,506**	**8,946**	**35,452**	21,679	210,399	232,078	(196,626)
Earnings from continuing operations	**26,506**	**4,911**	**31,417**	21,679	2,031	23,710	7,707
Add (Deduct) (1):							
Fair value adjustments	**(722)**	**–**	**(722)**	–	–	–	(722)
Loss (gain) on foreign exchange and financial instruments	**267**	**141**	**408**	(4,949)	(2,900)	(7,849)	8,257
Other expense	**(196)**	**–**	**(196)**	8,656	–	8,656	(8,852)
Earnings (loss) from continuing operations before separately reported items, net of taxes	**25,855**	**5,052**	**30,907**	25,386	(869)	24,517	6,390

(1) The separately reported items being added to or deducted from earnings (loss) from continuing operations are net of income taxes, and are non-GAAP measures. Refer to the discussion of non-GAAP measures.

The following provides a reconciliation of "earnings from continuing operations before income taxes" to "Adjusted EBITDA" and "net operating income".

	Years ended December 31						
			2016			**2015**	**Total**
(thousands of dollars)	**Canada**	**U.S.**	**Total**	**Canada**	**U.S.**	**Total**	**Change**
Earnings from continuing operations before income taxes	**31,230**	**7,598**	**38,828**	32,912	4,638	37,550	1,278
Add (Deduct):							
Depreciation and amortization	**31,179**	**–**	**31,179**	23,668	–	23,668	7,511
Net finance costs	**24,707**	**(5,792)**	**18,915**	22,008	(6,240)	15,768	3,147
Other expense	**4,013**	**–**	**4,013**	6,705	–	6,705	(2,692)
Adjusted EBITDA	**91,129**	**1,806**	**92,935**	85,293	(1,602)	83,691	9,244
Add (Deduct):							
Administrative costs	**28,662**	**1,889**	**30,551**	23,246	6,898	30,144	407
Lease costs	**6,650**	**–**	**6,650**	5,955	–	5,955	695
Net operating income	**126,441**	**3,695**	**130,136**	114,494	5,296	119,790	10,346

The following is an analysis of the consolidated results from operations. Refer to the discussion that follows under the heading “Summary of Results of Operations by Segment” for an analysis of the revenue and net operating income by operating segment, including the components of non-same store revenue and net operating income.

Consolidated Revenue

Consolidated revenue from continuing operations grew by $117.5 million or 12.5% to $1,060.8 million in 2016, driven by overall growth from the Canadian operations, partially offset by lower investment income of $1.6 million from the Captive.

Revenue from the Canadian operations improved by $119.1 million and included favourable prior year settlement adjustments of approximately $1.2 million with respect to the LTC operations. Non-same store operations contributed approximately $89.7 million to the increase in revenue this year, with growth from same-store operations of $29.4 million or 3.7% attributable to funding enhancements, higher preferred accommodation revenue, increased business volumes in our home health care, management services and group purchasing operations, and the impact of the leap day this year.

Consolidated Operating Expenses

Consolidated operating expenses from continuing operations increased by $107.2 million or 13.0% to $930.7 million this year, and included favourable prior year accrual adjustments aggregating approximately $1.0 million with respect to our LTC operations. The majority of our operating expenses are labour related, which increased by $100.0 million over 2015, and represented 86.6% and 85.8% of operating expenses in 2016 and 2015, respectively, and as a percentage of revenue were 76.0% and 74.9%, respectively. Non-same store operations contributed approximately $85.1 million to the increase in operating expenses this year, reflecting the full year impact of the Home Health Acquisition and the impact of the new retirement communities acquired and developed. Same-store operating expenses increased by $22.1 million or 3.1% primarily due to higher labour costs, which were impacted by the leap day this year, partially offset by favourable prior year accrual adjustments of approximately $1.0 million.

Consolidated Net Operating Income

Consolidated net operating income from continuing operations improved by $10.3 million or 8.6% to $130.1 million in 2016 compared to $119.8 million in 2015, representing 12.3% and 12.7% of revenue, respectively. Growth in net operating income from the Canadian operations was partially offset by a $1.6 million decline in investment income from the Captive.

Net operating income from the Canadian operations improved by $11.9 million to $126.4 million representing 12.0% of revenue compared to 12.2% in 2015. Non-same store net operating income from the Home Care Acquisition and retirement living operating segment increased by $4.6 million in 2016 from 2015. On a same-store basis, net operating income improved by $7.3 million or 7.3% to $108.3 million this year from $101.0 million in 2015, representing 13.0% and 12.5% of revenue, respectively. Same-store net operating income included favourable prior year revenue and operating expense adjustments of approximately $2.2 million recorded this year and would have otherwise been $106.1 million, representing 12.7% of revenue. The balance of the improvement of $5.1 million was due to funding enhancements in our long-term care operations, higher preferred accommodation revenue, and increased business volumes in our management services and group purchasing operations, partially offset by unfunded cost increases in our home health care operations, as previously discussed under the review of the fourth quarter results by operating segment. Management initiatives are under way with a specific focus to improve efficiency and reduce costs in our core home health care operations over time.

Administrative and Lease Costs

Administrative and lease costs from continuing operations increased by $1.1 million to $37.2 million in 2016, related to an increase of $6.1 million from our Canadian operations, partially offset by a $5.0 million reduction from the U.S. operations, as those operations wind down. The administrative costs of our Canadian operations increased by $5.4 million to $28.7 million, representing 2.7% of revenue in 2016 compared to 2.5% of revenue in 2015. Approximately $1.7 million was due to an increase in labour costs primarily in connection with new acquisitions and developments, and the balance was largely due to higher professional fees in support of services related to the sold operations, acquisitions and developments, a process improvement initiative of our home health care operations, an executive compensation review and the implementation of a new long-term incentive plan. The $0.7 million increase in our lease costs was primarily due to the Home Health Acquisition.

Consolidated Adjusted EBITDA

Consolidated Adjusted EBITDA from continuing operations improved by $9.2 million to $92.9 million in 2016 from $83.7 million in 2015, representing 8.8% and 8.9% of revenue, respectively. The U.S. operations contributed $3.4 million to the improvement in Adjusted EBITDA due to a reduction in administrative costs, partially offset by lower investment income, as those operations wind down. Adjusted EBITDA from the Canadian operations improved by $5.8 million to $91.1 million, representing 8.6% of revenue, reflecting growth in net operating income of $11.9 million, partially offset by the increase in administrative and lease costs, as previously discussed.

Depreciation and Amortization

The $7.5 million increase in depreciation and amortization costs to $31.2 million in 2016, was largely due to the new acquisitions and developments.

Other Expense

The Company recorded a pre-tax charge of $4.0 million in 2016, of which $1.9 million related to proxy contest costs, $1.7 million related to impairment of goodwill for certain properties, and the balance to integration and acquisition costs. In comparison, a pre-tax charge of $6.7 million was incurred in 2015 related to acquisition and integration costs of $5.4 million, and proxy contest costs of $1.3 million.

Net Finance Costs (Income)

Net finance costs increased by $3.1 million to $18.9 million in 2016, primarily due to a $10.9 million unfavourable change in the loss (gain) on foreign exchange gains and financial instruments, partially offset by lower interest expense of $4.0 million, higher interest revenue of $2.8 million and a favourable fair value adjustment of $1.0 million related to the valuation of interest rate swaps. The decline in interest expense of $4.0 million included the favourable impact of $1.0 million of interest expense that was capitalized during 2016 in connection with construction projects, and the impact of the bridge loan used in 2015 at a cost of $2.2 million in connection with the Home Care Acquisition. The improvement in interest revenue related primarily to deferred consideration in connection with the U.S. Sale Transaction, resulting in interest revenue of $7.5 million (US$5.7 million) in 2016, compared to $3.6 million (US$2.8 million) in 2015. Subsequent to December 31, 2016, the Company entered into an agreement to defer receipt of substantially all of the deferred consideration 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.

The loss on foreign exchange and financial instruments of $1.2 million recorded in 2016, included a $0.7 million foreign exchange loss in respect of net cash proceeds from the U.S. Sale Transaction, most of which was unrealized, and a $0.4 million unrealized foreign exchange loss mainly in connection with deferred consideration from the U.S. Sale Transaction. In 2015, the foreign exchange gain of $9.7 million related primarily to the proceeds from the U.S. Sale Transaction.

Income Taxes

The income tax provision for 2016 was $7.4 million on pre-tax earnings of $38.8 million, representing an effective tax rate of 19.1%, compared to a provision of $13.8 million on pre-tax earnings of $37.6 million in 2015, representing an effective tax rate of 36.9%. The income tax provision this year included the release of a $3.6 million provision booked in 2015 in respect of a prior period tax reassessment (refer to the discussion under the heading "Other Significant Developments – Tax Rules and Regulations"). In addition to the impact of the provision and subsequent release of $3.6 million for the tax reassessment, the effective tax rates for each period were distorted by, among other things, fair value adjustments, gains and losses on foreign exchange and financial instruments, and other expense items that have been separately reported. The effective tax rate on earnings from continuing operations before separately reported items was 28.2% in 2016 and 29.0% in 2015.

Discontinued Operations

The earnings from discontinued operations reported this year included the after-tax loss on sale of the U.S. IT Hosting operations of $8.4 million, compared to the after-tax gain reported in 2015 on the sale of the U.S. operations of $205.4 million (US$146.9 million).

Excluding the above noted loss and gain on sale, the earnings from discontinued operations, net of tax, were $12.5 million in 2016, compared to $3.0 million in 2015. This year's net after-tax earnings included a reduction in our reserves for U.S. self-insured liabilities of $16.8 million, partially offset by a net after-tax increase in indemnification provisions and other items in respect of the U.S. Sale Transaction, and a net loss from the operations of the U.S. IT Hosting business of

$2.1 million, prior to its sale. The net earnings from discontinued operations of $3.0 million reported in 2015 included a net loss of $0.6 million from the U.S. IT Hosting operations offset by net earnings from the operations disposed of in the U.S. Sale Transaction.

For further information on the discontinued operations, refer to *note 21* of the audited consolidated financial statements, and the discussions under the headings “Significant 2016 Events and Developments – 2016 Sale of U.S. IT Hosting Business”, and “Other Significant Developments – 2015 U.S. Sale Transaction”.

Summary of Results of Operations by Segment

The following table summarizes our segmented “revenue”, “operating expenses” and “net operating income”, followed by an analysis of the operating performance of each of our operating segments.

Years ended December 31 *(thousands of dollars)*	**Long-term Care**	**Retirement Living**	**Home Health Care**	**Other Canadian Operations**	**Corporate Canada**	**Total Canada**	**Total U.S.**	**Total**
2016 – Same-store								
Revenue	**608,618**	−	**207,382**	**18,518**	**47**	**834,565**	**3,695**	**838,260**
Operating expenses	**532,999**	−	**184,608**	**8,605**	−	**726,212**	−	**726,212**
Net operating income	**75,619**	−	**22,774**	**9,913**	**47**	**108,353**	**3,695**	**112,048**
Net operating income margin (%)	***12.4%***	−	***11.0%***	***53.5%***	***100.0%***	***13.0%***	***100.0%***	***13.4%***
2016 – Non Same-store								
Revenue	−	**15,474**	**207,024**	−	−	**222,498**	−	**222,498**
Operating expenses	−	**14,827**	**189,583**	−	−	**204,410**	−	**204,410**
Net operating income	−	**647**	**17,441**	−	−	**18,088**	−	**18,088**
Net operating income margin (%)	−	***4.2%***	***8.4%***	−	−	***8.1%***	−	***8.1%***
2016 – 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**
Net operating income	**75,619**	**647**	**40,215**	**9,913**	**47**	**126,441**	**3,695**	**130,136**
Net operating income margin (%)	***12.4%***	***4.2%***	***9.7%***	***53.5%***	***100.0%***	***12.0%***	***100.0%***	***12.3%***
2015 – Same-store								
Revenue	594,198	−	195,385	15,543	40	805,166	5,296	810,462
Operating expenses	524,708	−	172,087	7,351	−	704,146	−	704,146
Net operating income	69,490	−	23,298	8,192	40	101,020	5,296	106,316
Net operating income margin (%)	*11.7%*	−	*11.9%*	*52.7%*	*100.0%*	*12.5%*	*100.0%*	*13.1%*
2015 – Non Same-store								
Revenue	−	1,238	131,579	−	−	132,817	−	132,817
Operating expenses	−	987	118,356	−	−	119,343	−	119,343
Net operating income	−	251	13,223	−	−	13,474	−	13,474
Net operating income margin (%)	−	*20.3%*	*10.0%*	−	−	*10.1%*	−	*10.1%*
2015 – 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
Net operating income	69,490	251	36,521	8,192	40	114,494	5,296	119,790
Net operating income margin (%)	*11.7%*	*20.3%*	*11.2%*	*52.7%*	*100.0%*	*12.2%*	*100.0%*	*12.7%*
Change in Total								
Revenue	14,420	14,236	87,442	2,975	7	119,080	(1,601)	117,479
Operating expenses	8,291	13,840	83,748	1,254	−	107,133	−	107,133
Net operating income	6,129	396	3,694	1,721	7	11,947	(1,601)	10,346

LONG-TERM CARE OPERATIONS

Net operating income from our long-term care operations improved by $6.1 million or 8.8% to $75.6 million, and represented 12.4% of revenue compared to 11.7% in 2015. Operations benefitted this year from funding enhancements, higher preferred accommodation revenue, and favourable prior year adjustments of approximately $2.2 million. Excluding the favourable prior year adjustments, net operating income would have been $73.4 million, representing 12.1% of revenue. Growth in revenue of $14.4 million, or 2.4%, included an estimated $1.4 million due to the leap day this year, and approximately $1.2 million of prior year settlement adjustments. Approximately $2.8 million of the increase in revenue related to our Ontario flow-through envelopes and was therefore directly offset by increased costs of resident care, and approximately $0.9 million was due to improvements in preferred accommodation. Our average occupancy was 98.0% in 2016 compared to 97.9% in 2015, and our average daily revenue rate increased by 1.7% to $204.54 in 2016 from $201.04 in 2015. The increase in operating expenses of $8.3 million, or 1.6%, was due primarily to a net increase in labour costs of approximately $6.6 million, or 1.5%, that included favourable accrual adjustments recorded this year of approximately $1.0 million. Labour costs of our LTC operations represented 83.3% of operating expenses in each of 2016 and 2015.

RETIREMENT LIVING OPERATIONS

Net operating income from our retirement living operations improved by $0.4 million to $0.6 million, and represented 4.2% of revenue this year. Revenue was $15.5 million this year, with average occupancy of 59.8% for all seven communities, and average monthly revenue per occupied suite of $4,480. Operating expenses were $14.8 million, of which approximately $10.0 million, or 67.5%, were labour costs.

All of the communities were in lease-up during 2016, with two of the communities acquired in October 2015 classified as mature by the end of 2016. However, they, along with the two others acquired in 2015, are not anticipated to achieve a stabilized monthly NOI until the 2017 fourth quarter, when the benefit of a lower more stabilized marketing spend, optimized expense models and additional revenue streams come to fruition. We expect stabilized net operating income from all seven retirement communities to approximate $11.0 million annually.

In accordance with the purchase agreements, the purchase price of four of the communities that had been open for less than a year when acquired in 2015 and 2016, included aggregate income support of $6.8 million to be released to Extendicare during the lease-up periods based on agreed-upon formulas. The realization of income support is not included in net operating income, or earnings reported in the consolidated statements of earnings, but it is included in the determination of AFFO. The Company realized $6.2 million of income support in determining AFFO in 2016, and $0.5 million in 2015, with the remainder to be released in the 2017 first quarter.

HOME HEALTH CARE OPERATIONS

Net operating income from our home health care operations increased by $3.7 million or 9.2% to $40.2 million, representing 9.7% of revenue compared to 11.2% in 2015. The Home Health Acquisition completed on April 30, 2015, contributed $4.2 million to the increase in net operating income, partially offset by a $0.5 million decline in same-store operations. Despite the increase in daily hours of service provided to 29,807 in 2016 from 29,310 in 2015, the NOI margin has declined largely due to unfunded cost increases, as funding enhancements from the Ontario government have been limited to a level to compensate operators to cover mandatory PSW wage increases. Labour costs of the home health care operations represented 92.5% of its operating expenses in 2016. Management initiatives are under way with a specific focus to improve efficiency and reduce costs in our core home health care operations.

With respect to the non-same-store home health care operations, net operating income grew by $4.2 million to $17.4 million and represented 8.4% of revenue this year compared to 10.0% in 2015. The acquisition was completed on April 30, 2015, and as a result those operations excluded the first four months of 2015 when the NOI margins are typically lower due to a higher number of statutory holidays.

With respect to the same-store home health care operations, net operating income declined by $0.5 million to $22.8 million and represented 11.0% of revenue this year compared to 11.9% in 2015. Growth in revenue of $12.0 million was attributable to enhanced funding to support an increase in government-funded wage increases for PSWs, estimated at approximately $5.4 million, a 3.5% increase in daily hours of service provided to 14,593 in 2016 from 14,098 in 2015, and the impact of the leap day this year. The average hourly service rate for our same-store operations was $38.83 in 2016 compared to $37.97 in 2015 period, and remained unchanged excluding the impact of the Ontario government funding for the PSW wage increases. Operating expenses grew by $12.5 million, and included approximately $5.4 million related to the government-funded wage increases, and the balance was largely due to higher labour costs to support the increase in volumes.

OTHER CANADIAN OPERATIONS

Net operating income from our management and group purchasing operations grew by $1.7 million or 21.0% to $9.9 million, representing 53.5% of revenue compared to 52.7% in 2015. This improvement was driven by growth in the number of clients served, with revenue increasing by $3.0 million or 19.1%, to $18.5 million, partially offset by higher operating expenses of $1.3 million.

U.S. OPERATIONS

Net operating income of the Captive declined by $1.6 million in 2016, due to lower investment income.

ADJUSTED FUNDS FROM OPERATIONS

The following table provides a reconciliation of our "Adjusted EBITDA" to "FFO" and "AFFO".

	Three months ended December 31			Years ended December 31		
(thousands of dollars unless otherwise noted)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Adjusted EBITDA	**24,246**	23,012	1,234	**92,935**	83,691	9,244
Depreciation for FFEC (maintenance capex) (1)	**(1,882)**	(1,776)	(106)	**(7,567)**	(6,685)	(882)
Accretion costs	**(628)**	(639)	11	**(2,501)**	(2,477)	(24)
Interest expense	**(6,691)**	(7,964)	1,273	**(27,039)**	(31,089)	4,050
Interest revenue	**2,747**	3,405	(658)	**10,838**	8,057	2,781
	17,792	16,038	1,754	**66,666**	51,497	15,169
Current income tax expense (2)	**2,984**	1,428	1,556	**10,049**	9,854	195
FFO (continuing operations)	**14,808**	14,610	198	**56,617**	41,643	14,974
Amortization of financing costs	**428**	358	70	**1,592**	2,890	(1,298)
Accretion costs	**628**	639	(11)	**2,501**	2,477	24
Non-cash share-based compensation	**292**	−	292	**941**	−	941
Principal portion of government capital funding	**1,180**	1,067	113	**5,648**	4,260	1,388
Income support (retirement acquisitions)	**1,358**	471	887	**6,263**	471	5,792
Amounts offset through investments held for self-insured liabilities (3)	**(1,623)**	(1,788)	165	**(2,288)**	(1,593)	(695)
Additional maintenance capex (1)	**(3,537)**	(4,937)	1,400	**(4,552)**	(6,561)	2,009
AFFO (continuing operations)	**13,534**	10,420	3,114	**66,722**	43,587	23,135
Discontinued operations	**(168)**	(809)	641	**(1,666)**	7,241	(8,907)
AFFO (4)	**13,366**	9,611	3,755	**65,056**	50,828	14,228
Per Basic Share *($)*						
FFO (continuing operations)	**0.167**	0.166	0.001	**0.641**	0.474	0.167
FFO	**0.167**	0.157	0.010	**0.618**	0.605	0.013
AFFO (continuing operations)	**0.152**	0.119	0.033	**0.755**	0.497	0.258
AFFO	**0.150**	0.109	0.041	**0.736**	0.579	0.157
Per Diluted Share *($)*						
FFO (continuing operations)	**0.165**	0.166	(0.001)	**0.638**	0.474	0.164
FFO	**0.167**	0.157	0.010	**0.618**	0.605	0.013
AFFO (continuing operations)	**0.149**	0.118	0.031	**0.724**	0.494	0.230
AFFO	**0.147**	0.111	0.036	**0.707**	0.568	0.139
Dividends *($)*						
Declared	**10,637**	10,547	90	**42,422**	42,125	297
Declared per share *($)*	**0.120**	0.120	−	**0.480**	0.480	−
Weighted Average Number of Shares *(thousands)*						
Basic	**88,663**	87,852		**88,372**	87,768	
Diluted	**99,918**	99,097		**99,624**	99,012	

(1) These two line items combined represent the total of our maintenance capex incurred in the period. An amount equivalent to our depreciation for FFEC, or furniture, fixtures, equipment and computers, is deducted in determining FFO, and the difference in total maintenance capex incurred is adjusted for in determining AFFO.

(2) Excludes current income tax with respect to items that are excluded from the computation of AFFO from continuing operations, such as fair value adjustments, gains or losses on foreign exchange, financial instruments, asset impairment, and disposals, other expense, and provisions for prior period tax reassessments.

(3) Represents AFFO of the Captive that decreases/(increases) the Captive's investments held for self-insured liabilities not impacting the Company's reported cash and short-term investments.

(4) Refer to the reconciliation of "AFFO" to "net cash from operating activities" provided within this section under the heading "Reconciliation of Net Cash from Operating Activities to AFFO".

AFFO 2016 Fourth Quarter Financial Review

The following provides a breakdown of AFFO and maintenance capex between our Canadian and U.S. operations.

	Three months ended December 31						
			2016			2015	Total
(thousands of dollars unless otherwise noted)	**Canada**	**U.S.**	**Total**	**Canada**	**U.S.**	**Total**	**Change**
AFFO (continuing operations)	**11,719**	**1,815**	**13,534**	9,076	1,344	10,420	3,114
Discontinued operations	**−**	**(168)**	**(168)**	−	(809)	(809)	641
AFFO	**11,719**	**1,647**	**13,366**	9,076	535	9,611	3,755
Maintenance capex (continuing operations)	**5,419**	**−**	**5,419**	6,713	−	6,713	(1,294)
Discontinued operations	**−**	**112**	**112**	−	780	780	(668)
Maintenance capex	**5,419**	**112**	**5,531**	6,713	780	7,493	(1,962)
Average U.S./Canadian dollar exchange rate			**1.3337**			1.3342	

AFFO was $13.4 million ($0.150 per basic share) in the 2016 fourth quarter compared to $9.6 million ($0.109 per basic share) in the 2015 fourth quarter, representing an increase of $3.8 million due to an improvement in AFFO from continuing operations of $3.1 million, and a reduction in losses from discontinued operations.

AFFO from continuing operations was $13.5 million ($0.152 per basic share) this quarter compared to $10.4 million ($0.119 per basic share) in the 2015 fourth quarter. The $3.1 million increase in AFFO from continuing operations included an improvement in Adjusted EBITDA of $1.2 million, lower net finance costs of $0.7 million, income support of $0.9 million on the Retirement Acquisitions, and reduced maintenance capex of $1.3 million, partially offset by higher current income taxes of $1.6 million. A discussion of the factors impacting Adjusted EBITDA from continuing operations and net finance costs can be found under the heading “2016 Fourth Quarter Financial Review”.

AFFO 2016 Financial Review

The following provides a breakdown of AFFO and maintenance capex between our Canadian and U.S. operations.

	Years ended December 31						
			2016			2015	Total
(thousands of dollars unless otherwise noted)	**Canada**	**U.S.**	**Total**	**Canada**	**U.S.**	**Total**	**Change**
AFFO (continuing operations)	**58,625**	**8,097**	**66,722**	43,990	(403)	43,587	23,135
Discontinued operations	**−**	**(1,666)**	**(1,666)**	−	7,241	7,241	(8,907)
AFFO	**58,625**	**6,431**	**65,056**	43,990	6,838	50,828	14,228
Maintenance capex (continuing operations)	**12,119**	**−**	**12,119**	13,246	−	13,246	(1,127)
Discontinued operations	**−**	**734**	**734**	−	9,432	9,432	(8,698)
Maintenance capex	**12,119**	**734**	**12,853**	13,246	9,432	22,678	(9,825)
Average U.S./Canadian dollar exchange rate			**1.3248**			1.2787	

AFFO was $65.0 million ($0.736 per basic share) in 2016 compared to $50.8 million ($0.579 per basic share) in 2015, representing an increase of $14.2 million due to a $23.1 million improvement in AFFO from continuing operations, partially offset by a reduction in AFFO from discontinued operations of $8.9 million as a result of the completion of the U.S. Sale Transaction.

AFFO from continuing operations was $66.7 million ($0.755 per basic share) this year compared to $43.6 million ($0.497 per basic share) in 2015. The $23.1 million improvement in AFFO from continuing operations included an improvement in Adjusted EBITDA of $9.2 million, income support on the Retirement Acquisitions of $5.8 million, lower net finance costs of $5.5 million, an increase in government capital funding of $1.4 million that included $1.0 million of retroactive funding on two redeveloped long-term care centres, and a reduction in maintenance capex of $1.1 million. A discussion of the factors impacting Adjusted EBITDA from continuing operations and net finance costs can be found under the heading “2016 Financial Review”.

Current income taxes impacting AFFO in 2016 were $10.0 million compared to $9.8 million in 2015, representing 15.1% and 19.1% of pre-tax FFO from continuing operations, respectively. Current income taxes in 2016 were favourably impacted by a $1.0 million book-to-file adjustment, and would have otherwise reflected an FFO effective tax rate of 16.6%. The remaining variance in effective rates between periods is primarily due to the impact of deferred timing difference and the proportion of earnings between taxable and non-taxable entities.

The determination of FFO includes a deduction for current income tax expense, and does not include deferred income tax expense. As a result, the effective tax rates on our FFO can be impacted by: adjustments to our estimates of annual deferred timing differences, particularly when dealing with cash-based tax items versus accounting accruals; changes in the proportion of earnings between taxable and non-taxable entities; book-to-file adjustments for prior year filings; cross-border dividends; and the ability to utilize loss carryforwards. We estimate that our effective tax rate on FFO will be in the range of 20% to 25% for 2017.

Maintenance capex from continuing operations was $12.1 million this year, compared to $13.2 million in 2015, representing 1.1% and 1.4% of revenue from continuing operations, respectively. These costs fluctuate on a quarterly basis with the timing of projects and seasonality. In 2017, we are expecting to spend in the range of $9 million to $11 million in maintenance capex, and in the range of $40 million to $45 million in growth capex, related primarily to the retirement development projects.

Reconciliation of Net Cash from Operating Activities to AFFO

The following table provides a reconciliation of the "net cash from operating activities" to "AFFO".

	Three months ended December 31		**Years ended December 31**	
(thousands of dollars)	**2016**	**2015**	**2016**	**2015**
Net cash from operating activities	**17,696**	17,617	**(281)**	52,798
Add (Deduct):				
Net change in operating assets and liabilities, including interest, taxes and payments for U.S. self-insured liabilities	**3,643**	3,350	**64,309**	(1,061)
Expense for U.S. self-insured liabilities	–	–	–	(34,495)
Current income tax on items excluded from AFFO (1)	**(3,357)**	(3,662)	**4,258**	47,917
Depreciation for FFEC (maintenance capex) (2)	**(1,885)**	(2,627)	**(8,658)**	(10,091)
Additional maintenance capex (2)	**(3,646)**	(4,866)	**(4,195)**	(12,587)
Principal portion of government capital funding	**1,180**	1,067	**5,648**	4,260
Income support (retirement acquisitions)	**1,358**	471	**6,263**	471
Amounts offset through investments held for self-insured liabilities (3)	**(1,623)**	(1,788)	**(2,288)**	(1,593)
U.S. property taxes under IFRIC 21	–	–	–	5,209
Other	–	49	–	–
AFFO	**13,366**	9,611	**65,056**	50,828

(1) Represents current income tax with respect to items that are excluded from the computation of AFFO, such as the gain on sale of the U.S. operations, the provision for U.S. government investigations, property taxes accounted for under IFRIC 21, fair value adjustments, gains or losses on foreign exchange, financial instruments, asset impairment, and disposals, other expense, and provisions for prior period tax reassessments.

(2) These two line items combined represent the total of our maintenance capex incurred in the period. An amount equivalent to our depreciation for FFEC, or furniture, fixtures, equipment and computers, is deducted in determining FFO, and the difference in total maintenance capex incurred is adjusted for in determining AFFO.

(3) Represents AFFO of the Captive that decreases/(increases) its investments held for self-insured liabilities not impacting the Company's reported cash and short-term investments.

OTHER SIGNIFICANT DEVELOPMENTS

The discussion under the heading "Significant 2016 Events and Developments" summarizes our current activities to expand into the retirement sector. This section provides a summary of other developments that have impacted the financial results or operations of Extendicare for 2016 in comparison to 2015.

2015 U.S. Sale Transaction

As previously announced, effective July 1, 2015, the Company completed the sale of substantially all of its U.S. business and senior care operations by selling all of the issued and outstanding shares of a subsidiary to a group of private investors (the "Purchaser"). At the time of the sale, EHSI's senior care portfolio comprised 156 owned/leased centres (15,183 beds) located in 12 states. The U.S. Sale Transaction was completed for a value of US$870 million ($1.1 billion using the noon U.S./Canadian dollar exchange rate of 1.2474 on June 30, 2015), partially settled through the assumption by the Purchaser of mortgage loans and other third-party indebtedness relating to the U.S. business of approximately US$655 million, and working capital and other specified adjustments, resulting in gross proceeds of US$280.8 million representing US$193.4 million received on July 1, 2015, and an intercompany dividend of US$87.4 million received as part of a pre-closing reorganization on June 30, 2015 (the "Pre-closing Distribution"). The Company has agreed to indemnify the Purchaser for certain obligations of the U.S. operations related to tax, a corporate integrity agreement, and other items, and had recorded provisions totalling US$25.2 million and a potential receivable of approximately US$9.3 million, for a potential net liability of US$15.9 million. In connection with these items, as at December 31, 2016, the Company had provisions remaining totalling US$21.2 million and a receivable of US$6.2 million. Total estimated taxes of the U.S. Sale Transaction were US$33.1 million, resulting in net after-tax proceeds of approximately US$231.8 million, including the Pre-closing Distribution. The U.S. Sale Transaction resulted in an after-tax gain of $205.4 million (US$146.9 million), before transactions costs, and included the realization of a foreign currency translation adjustment of $22.0 million, previously recognized in accumulated other comprehensive income.

The U.S. Sale Transaction included non-cash proceeds of US$6.2 million, which represented the net present value ascribed to an ongoing cash stream of US$28.0 million that the Company is entitled to receive, recorded as deferred consideration, relating to certain U.S. skilled nursing centres that were leased prior to the closing, offset in part by obligations of US$21.8 million that were assumed related to these leases. On July 1, 2015, US$6.8 million of the US$21.8 million obligation was settled, and cash of US$14.0 million was placed in escrow to secure the majority of the balance of obligations that were settled during 2016. The estimated benefit of this cash stream, net of the obligations, is anticipated to average US$5 million per annum (pre-tax) over 15 years. Subsequent to December 31, 2016, the Company entered into an agreement to defer 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. There are significant credit risks associated with the realization of this cash stream attributable to factors outside of Extendicare's control that could materially negatively impact the amounts that are expected to be received by the Company (refer to *notes 9 and 12* of the audited consolidated financial statements).

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, which fully and finally resolved the DOJ and OIG investigations and ancillary claims that were pending since 2010. As is standard practice in settlements of OIG and DOJ investigations, EHSI entered into a corporate integrity agreement, or 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. Extendicare's annual cost sharing arrangement with the Purchaser is capped at US$4.5 million, on the basis that the first US$2.0 million aggregate annual amount of such costs will be borne by the Purchaser; the next US$2.0 million aggregate annual amount will be borne by Extendicare; with the next US$5.0 million aggregate annual amount to be shared equally between the Purchaser and Extendicare; and the balance of any excess costs incurred to be borne by the Purchaser. Extendicare estimates that its obligations to the Purchaser relating to the CIA will average approximately US$2.5 million per year to October 2019. 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, as discussed above. For further information refer to *note 10* of the audited consolidated financial statements.

Not included in the U.S. Sale Transaction were 10 U.S. skilled nursing centres disposed of separately, either prior to or on June 30, 2015, for proceeds, net of debt assumed, of $21.1 million, or approximately US$11.1 million after tax, that resulted in a pre-tax gain of approximately $3.8 million (US$3.1 million). All of the net after-tax cash proceeds related to these 10 centres were distributed to the Company by its U.S. subsidiary in the form of intercompany cash dividends prior to the closing of the U.S. Sale Transaction. In addition, net working capital of approximately $5.5 million (US$4.4 million) from these centres was retained by the Company, and included as part of the Pre-closing Distribution, discussed above.

On June 30, 2015, EHSI obtained a US$60.0 million non-recourse term loan from General Electric Capital Corporation. The proceeds of this loan, together with available cash, were used by EHSI to make a cash dividend payment totalling $103.5 million (US$83.0 million) on June 30, 2015, to its Canadian parent company as part of the Pre-closing Distribution discussed above. This debt was assumed by the Purchaser in connection with the U.S. Sale Transaction.

Further information relating to the U.S. Sale Transaction is available in the Company's related material change report dated November 17, 2014, filed on SEDAR at www.sedar.com under Extendicare's issuer profile.

2015 Home Health Acquisition

As previously announced, on April 30, 2015, the Company completed the Home Health Acquisition for $84.3 million in cash, which included final working capital adjustments and settlement of amounts that had been 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, and bore interest at an average rate of 5.93% per annum, incurring interest charges of approximately $0.8 million. In addition, financing fees of $1.4 million were incurred in connection with securing the Bridge Loan and were fully amortized in the 2015 second quarter.

In 2016, the Home Health Acquisition contributed revenue of approximately $207.0 million, net operating income of approximately $17.4 million, and AFFO of approximately $11.4 million, or $0.130 per basic share. For the eight months of ownership ending December 31, 2015, the Home Health Acquisition contributed revenue of approximately $131.6 million, net operating income of approximately $13.2 million, and AFFO of approximately $8.4 million, or $0.096 per basic share.

The Home Health Acquisition brought together two leading Canadian private-sector home health care providers focused on quality, person-centred care and employee satisfaction. Extendicare has rebranded these acquired operations under its ParaMed banner across six provinces (Ontario, British Columbia, Alberta, Manitoba, Quebec and Nova Scotia). Further information relating to the Home Health Acquisition is available in the Company's related material change report dated January 23, 2015, filed on SEDAR at www.sedar.com under Extendicare's issuer profile.

RBC Credit Facility

Extendicare has a demand credit facility in the amount of $47.3 million with the Royal Bank of Canada (the "RBC Credit Facility") that is secured by 13 class "C" LTC centres in Ontario and is guaranteed by certain Canadian subsidiaries of Extendicare. 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. 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.

Tax Rules and Regulations

In 2015, the Company 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, in the 2015 third quarter, Extendicare 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. In 2016, 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. Given the nature of this item, including the fact that it relates to prior periods, it has been excluded from the determination of AFFO and "earnings (loss) from continuing operations before separately reported items".

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 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.

UPDATE OF REGULATORY AND FUNDING CHANGES AFFECTING RESULTS

In Canada, provincial legislation and regulations closely control all aspects of operation and funding of long-term care centres and publicly funded home health care services, including the fee structure, subsidies, the adequacy of physical centres, standards of care and accommodation, equipment and personnel. A substantial portion of the fees paid to providers of these services are funded by provincial programs, with a portion to be paid by the residents or clients. Each province has a different system for managing the services provided. In some provinces, the government has delegated responsibility for the funding and administration of long-term care programs to regional health authorities. As a result, there can be significant variability in the regulations governing the provision of and reimbursement for care from location to location.

In most provinces, a license must be obtained from the applicable provincial ministry of health in order to operate either a long-term care centre or a retirement centre. In general, there has not been any issuance of new LTC licenses across the country because of the funding implications for governments. In addition to the license procedure, or in some provinces in place of, operators in Alberta, Manitoba, Ontario and Saskatchewan are required to sign service contracts that incorporate service expectations with the provincial government or regional health authority. In Ontario, the *Long-Term Care Homes Act, 2007* (the "LTC Act 2007"), that was proclaimed into force on July 1, 2010, provides for, among other things: new licensing procedures that include more rigorous standards for license review (including public hearings); fixed license terms of up to 30 years, after which a new license may or may not be issued; the revocation of a license for continued non-compliance; more onerous duties imposed on long-term care operators; unannounced annual inspections; and a more comprehensive enforcement regime. Long-term care operators will be given notification of whether or not a new license will be issued at least three years before the end of the license term.

In December 2015, the Ontario government released a discussion paper called *Patient's First: A Proposal to Strengthen Patient-Centered Health Care in Ontario*. In the discussion paper, the Ministry of Health and Long-Term Care (the "MOHLTC") envisions that the provinces 14 Local Health Integration Networks (LHINs) will have a greatly expanded role, making them responsible and accountable for all health service planning and performance across the Ontario health care continuum. On December 8, 2016, Bill 41, *Patients First Act, 2016,* received royal assent, setting the stage for the legislative change process required to achieve the vision introduced in 2015. Bill 41 amends the *Local Health System Integration Act, 2006*, and makes related amendments to more than twenty other pieces of legislation. The major elements of Bill 41 include the removal of the CCACs from the definition of "health services providers", and introduces rules governing the transfer of the CCACs' assets and staff to the LHINs, in addition to increasing the size and span of control of the LHIN boards. As a result, the accountability for home health care and the coordination of a person's placement in a LTC centre will be transferred from the CCAC's to the LHIN's during 2017. The government continues to stress its commitment to the expansion of the home health care sector and to smooth the transition of the CCAC workforce. Extendicare has strong relationships with all of the LHIN's and does not anticipate any adverse impact from the implementation of Bill 41.

Ontario Redevelopment Program

On February 27, 2015, the MOHLTC released updates to its plan to redevelop approximately 31,000 older long-term care beds by the end of 2025. The new per diem construction funding subsidy includes: an increase to the base rate from $13.30 to $16.65 per bed for large centres of 161 beds or more; an incremental per diem of $1.50 per bed for small centres with up to 96 beds; an incremental per diem of $0.75 per bed for medium centres with 97 to 160 beds; and a per diem of up to $0.38 per bed for those centres eligible for enhanced transition support. In addition, LTC centres are no longer required to meet Leadership in Energy and Environmental Design, or LEED, construction standards; however, those that achieve LEED Silver status will continue to receive a per diem premium of $1.00 per bed. Following their redevelopment, LTC centres meeting the enhanced design standards will be eligible to receive a 30-year license. In addition, the government amended the LTC Act 2007 to extend the maximum term of LTC centre licenses for "New" and "A" beds by five years (to a maximum of 30 years), effective January 1, 2015.

During 2016, we formalized a plan to redevelop our 21 LTC centres with 3,287 Class "C" beds in Ontario over a 10 year period under this enhanced program, and have requested approval from the MOHLTC to move ahead with seven of the projects, involving the construction of five new centres and renovation of two existing centres. While factors could arise that affect the timing or sequence of this plan, it is the result of extensive planning and represents our current intentions. Each project is unique and the overall plan involves a combination of renovations and new construction. We are working closely with the MOHLTC with a goal to accelerate our efforts to redevelop these centres. As these projects are completed, we expect to realize the benefit of improved performance and extended licence terms.

In 2013, Extendicare participated in phase one of the program and redeveloped two class "C" centres (436 beds) that qualified for a construction funding subsidy of $14.30 per bed per day over 25 years. In the 2015 third quarter, the MOHLTC confirmed that these two LTC centres were eligible to retroactively receive an additional $3.35 per bed per day of construction funding subsidy and, the Company recorded the present value of this anticipated additional funding in the amount of $9.8 million as an increase in government notes receivable, with an offset to the cost of the buildings. In the 2016 first quarter, the related MOHLTC agreements were finalized and funding of the additional subsidy commenced. Based on the finalized agreements, the number of redeveloped beds deemed eligible to receive the additional funding changed, resulting in a reassessment of the estimate of the present value of the additional funding to $6.4 million. In addition, the Company has 11 "New" centres that were built since 1998, and therefore in aggregate Extendicare receives annual construction funding subsidies of $7.7 million. Refer to *note 9* of the audited consolidated financial statements, for additional information.

Ontario Long-term Care Funding

Ontario is Extendicare's largest market for its senior care services. Funding for Ontario long-term care centres is based on reimbursement for the level of care assessed to be required by the residents, in accordance with scheduled rates. The MOHLTC allocates funds through "funding envelopes", specifically: nursing and personal care (NPC); programs and support services (PSS); and accommodation (which includes a sub-envelope for raw food). The funding for the NPC and PSS envelopes is generally adjusted annually based on the acuity of residents as determined by a classification assessment of resident care needs. The NPC, PSS and food envelopes are "flow-through" envelopes, whereby any deviation in actual costs from scheduled rates is either absorbed by the provider (if actual costs exceed funding allocations) or is returned to the MOHLTC (if actual costs are below funding allocations). With respect to the accommodation envelope, providers retain any excess funding received over costs incurred. The province sets the rates for standard accommodation, as well as the maximum amounts that a provider can charge for semi-private and private accommodation (preferred accommodation). The provider is allowed to bill and retain the premiums charged for preferred accommodation. The accommodation rates are substantially paid for by the resident; however, the province guarantees funding for standard accommodation through resident subsidies. Overall government funding is occupancy-based, but once the average occupancy level of 97% or higher is achieved, operators receive government funding based on 100% occupancy. In 2011, the MOHLTC implemented an occupancy protection program for occupancy levels between 90% and less than 97%, provided certain policy conditions are met. Under the occupancy protection program, providers with occupancy levels equal to 90% and less than 94% receive funding based on their actual occupancy plus 1%, and those with occupancy levels equal to 94% and less than 97% receive funding based on their actual occupancy plus 2%. In 2016, all but one of Extendicare's LTC centres in Ontario achieved the 97% occupancy threshold.

On April 1st each year, the MOHLTC generally provides flow-through funding adjustments on the government funded portion of the fees. Funding for the NPC and PSS flow-through envelopes increased by 2% on April 1, 2016. These enhancements, along with our CMI and re-indexing adjustments, are estimated to provide Extendicare with additional revenue of approximately $1.8 million to offset additional costs for resident care and services within the NPC and PSS flow-through envelopes (April 2015 – $1.3 million).

On July 1st each year, the MOHLTC generally implements annual accommodation funding increases to the per diem rates provided to long-term care providers. The July 1, 2016 funding enhancements increased the daily rates for the non flow-through component of the accommodation envelope by $0.59 (1.1%) and by $0.30 (3.74%) for the flow-through food component. Extendicare estimates that this enhanced funding represents additional annual revenue of approximately $1.7 million in total, of which approximately $0.6 million is flow-through funding (July 2015 – $1.8 million in total of which $0.3 million was flow-through).

In addition, LTC operators in Ontario are permitted to designate up to 60% of the resident capacity of a centre as preferred accommodation at higher fixed rates that vary according to the structural classification of the LTC centre. For beds that are not classified as "New" or "A" beds, the maximum preferred accommodation premiums increased effective July 1, 2016, by $0.09 to $8.09 per day for a semi-private room and by $0.20 to $18.20 per day for a private room. For beds that are classified as "New" and "A" beds, the maximum preferred accommodation premiums increased effective July 1, 2016, by $0.13 to $12.13 per day for a semi-private room and by $0.28 to $25.28 per day for a private room. As at December 31, 2016, Extendicare had 13 "New" LTC centres (1,847 beds) in Ontario, of which 1,099 beds offered preferred accommodation in the form of private rooms. We will benefit from this premium increase for preferred accommodation over time as new residents are admitted.

Alberta Long-term Care Legislation and Funding

Alberta is Extendicare's second largest market for its senior care services. Since April 2010, AHS has been using an activity-based funding system for continuing care centres that includes the measurement of a resident's acuity through the use of a resident assessment instrument – minimum data set, or RAI-MDS, to determine the resident's level of care and resources required. The Alberta Continuing Care Association is actively engaged in discussions with the Alberta Government and AHS to further enhance care funding to accommodate higher expenses within continuing care, and to revise the existing funding model used within continuing care. It was anticipated that a revised care funding model would be implemented for fiscal 2016/2017; however, following receipt of public input to inform new or revised legislation, the provincial government has yet to communicate any proposed changes to the current model and/or legislation related to long-term care.

With respect to the government funding changes for long-term care providers for fiscal 2016/2017 that took effect April 1, 2016, and incorporated changes to CMI, occupancy and an inflationary component, the Company estimates that they represent additional annual revenue of approximately $1.2 million (2015 – $1.4 million).

On July 1, 2016, the long-term care and designated supportive living accommodation fees (the portion paid directly by the residents) increased by 3%, as was the case in 2015 and 2014, to recognize the rising costs of delivering accommodation and related services. Extendicare estimates that the 3% increase received in July 2016 represents additional annual revenue of approximately $0.9 million. Beginning on July 1, 2017, annual accommodation charge adjustments will be based solely on inflation as reflected by Alberta's CPI.

Ontario Home Health Care Legislation and Funding

Extendicare's ParaMed Home Health Care division operates in six provinces across Canada, currently providing approximately 11 million hours of care annually, which we believe makes ParaMed the largest private-sector provider of publicly funded home health care in Canada, and the largest in Ontario. Based on the service volumes provided in 2016, the Ontario market represents approximately 83% of ParaMed's service volumes, of which approximately 97% is received from government-funded contracts at specified rates, and the remainder from private-pay clients.

At present, the government rates are pre-determined between the CCACs and the service providers, with varying rates for each contract awarded. The current service rates have remained static since they were last contracted under the competitive bidding model. Based upon a recommendation from the Auditor General's special report on the CCACs in September 2015, the MOHLTC has proposed an approach for the harmonization of billing rates for personal support services that is anticipated to be implemented on April 1, 2017. While this approach is still under review by the MOHLTC, based on information provided to date, management does not anticipate any significant overall impact on the Company's home health care revenues.

On July 19, 2016, the MOHLTC announced $100 million of funding to enhance support for home health care clients with high needs and their caregivers, by earmarking $80 million for enhanced home health care and $20 million for caregiver respite. The funding is expected to support 350,000 additional hours of nursing care, 1.3 million additional hours of personal support, 600,000 additional hours of respite services for caregivers and 100,000 additional hours of rehabilitation. This additional funding is part of the government's 2015 budget commitment to increase investments in home and community care by more than $750 million over three years. While we cannot predict how the funding is to be directed towards individual programs by the CCACs, or how many additional hours are expected to be implemented, ParaMed has experienced an increase in its CCAC volumes since the end of August.

2014 ONTARIO BUDGET – HOME HEALTH CARE PSW WAGE INCREASE

As part of its July 2014 budget, the Ontario government announced a government-funded increase in the minimum wage for personal support workers, or PSWs, in the publicly funded home and community care sector by $4.00 per hour over three years (2014 – $1.50, 2015 – $1.50 and 2016 – $1.00) to a minimum of $16.50 per hour. In June 2015, the government announced revisions to years two and three of the PSW wage enhancement initiative, which included establishing a new minimum base rate of $15.50 per hour as of April 1, 2015, and $16.50 per hour as of April 1, 2016, and limiting the eligibility for the April 1, 2015, wage increase to a maximum of $19.00 per hour. For example, a qualifying PSW earning $18.00 per hour would receive a $1.00 per hour increase effective April 1, 2015, rather than the full $1.50. In addition, the government is funding an additional 22.7% of the wage increase to cover incremental benefit costs. We estimate that the April 1, 2014, funding increase of $1.50 in base wages and associated benefit costs increased our revenue and labour costs by approximately $5.7 million for the nine months ended December 31, 2014, and by approximately $7.5 million for the twelve months ended March 31, 2015. We estimate that the April 1, 2015, funded wage enhancement has further increased our revenue and labour costs by approximately $12.1 million for the twelve months ended March 31, 2016, of which approximately $4.4 million related to the operations of the Home Health Acquisition. The final funding increase of up to $1.00 in base wages and associated benefit cost took effect on April 1, 2016, and is estimated to have increased our revenue and labour costs by approximately $5.2 million for the nine months ended December 31, 2016.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the sources and uses of cash between our continuing and discontinued operations for each of 2016 and 2015.

			2016			2015
(thousands of dollars unless otherwise noted)	**Continuing**	**Discontinued**	**Total**	**Continuing**	**Discontinued**	**Total**
Cash provided by operating activities, before working capital changes and interest and income taxes	**93,876**	**(904)**	**92,972**	83,691	66,824	150,515
Net change in operating assets and liabilities						
Accounts receivable	**(9,150)**	**831**	**(8,319)**	6,442	24,297	30,739
Other assets	**13,516**	**458**	**13,974**	(3,027)	1,106	(1,921)
Accounts payable and accrued liabilities	**(33,807)**	**217**	**(33,590)**	(8,793)	(21,795)	(30,588)
	(29,441)	**1,506**	**(27,935)**	(5,378)	3,608	(1,770)
Interest and taxes paid						
Interest paid	**(26,524)**	**(16)**	**(26,540)**	(28,188)	(17,700)	(45,888)
Interest received	**10,835**	**–**	**10,835**	8,038	128	8,166
Income taxes paid	**(16,627)**	**(10)**	**(16,637)**	(7,301)	(8,819)	(16,120)
Payments for U.S. self-insured liabilities	**–**	**(32,976)**	**(32,976)**	–	(42,105)	(42,105)
	(32,316)	**(33,002)**	**(65,318)**	(27,451)	(68,496)	(95,947)
Net cash from operating activities	**32,119**	**(32,400)**	**(281)**	50,862	1,936	52,798
Net cash from investing activities	**(58,514)**	**41,072**	**(17,442)**	(221,301)	161,592	(59,709)
Net cash from financing activities	**16,065**	**(257)**	**15,808**	(65,423)	72,718	7,295
Net cash from discontinued operations	**8,415**	**(8,415)**	**–**	303,658	(303,658)	–
Foreign exchange gain (loss) on U.S. cash held	**(125)**	**–**	**(125)**	331	4,108	4,439
Increase (decrease) in cash and short-term investments	**(2,040)**	**–**	**(2,040)**	68,127	(63,304)	4,823
Cash and short-term investments at beginning of year	**103,622**	**–**	**103,622**	35,495	63,304	98,799
Cash and short-term investments at end of year	**101,582**	**–**	**101,582**	103,622	–	103,622
Average U.S./Canadian dollar exchange rate			**1.3248**			1.2787

As at December 31, 2016, Extendicare had cash and short-term investments of $101.6 million compared with $103.6 million at the beginning of the year. The reduction in cash of $2.0 million included the unleveraged acquisition completed in February 2016 for $40.5 million, $13.1 million related to the timing of income taxes paid of $27.4 million in excess of this year's current income tax expense of $14.3 million, including those related to the U.S. Sale Transaction, principal debt repayments of $21.0 million, and growth capital expenditures of $26.0 million, partially offset by the issuance of $68.9 million of debt, net proceeds from the sale of our U.S. IT Hosting business of $9.5 million, the transfer of $6.6 million (US$5.0 million) of cash from the Captive's investments to the Company, and earnings in excess of cash distributions, maintenance capex and other items of $13.6 million.

Discontinued operations for 2016 reflects the operations of our U.S. IT Hosting business, including the net proceeds from sale of the business of $9.5 million that are included in net cash from investing activities, and the payment of claims for self-insured liabilities of $33.0 million (US$24.9 million) that were funded by the Captive's investments held for self-insured liabilities, which are also included in net cash from investing activities as those investments are not included in cash and short-term investments.

Net cash from operating activities of the continuing operations was $32.1 million in 2016 compared to $50.9 million in 2015. The decline in cash from continuing operating activities of $18.8 million was primarily due to improvements in earnings offset by an unfavourable net change in operating assets and liabilities of $24.1 million and a net increase in interest and income taxes paid of $4.9 million, largely due to the timing of payments of prior year's income taxes. The net change in accounts payable and accrued liabilities included payments of $19.4 million made this year that were funded by cash held in escrow that was recognized as a source of cash from investing activities, as described below.

Net cash from investing activities of the continuing operations was a use of cash of $58.5 million in 2016 compared to a use of cash of $221.3 million in 2015. The 2016 activity included the acquisition of two retirement communities for $40.5 million in February 2016, taxes paid of $10.8 million in connection with the U.S. Sale Transaction, and purchases of property, equipment and other intangible assets of $37.4 million, partially offset by a release of funds held in escrow of $19.4 million (US$14.0 million) to support obligations assumed in respect of the former U.S. operations, the transfer of $6.6 million from the Captive's investments held for self-insured liabilities, and the collection of other assets. The 2015 activity primarily related to the Retirement Acquisitions of $98.6 million, the Home Health Acquisition of $84.3 million, funds held in escrow of $19.4 million (US$14.0 million) to support obligations from the U.S. Sale Transaction, and purchases of property, equipment and other intangible assets of $25.4 million, partially offset by the collection of other assets.

The following table summarizes the components of our property, equipment and other intangible asset expenditures between our continuing and discontinued operations for each of 2016 and 2015. The increase in growth capex relates primarily to the retirement communities currently under development in Ontario. In 2017, we are projecting to spend in the range of $9 million to $11 million in maintenance capex, and in the range of $40 million to $45 million in growth capex related primarily to the retirement development projects.

			2016			2015
(thousands of dollars)	**Continuing**	**Discontinued**	**Total**	**Continuing**	**Discontinued**	**Total**
Growth capex						
Canadian operations	**26,259**		26,259	12,208	–	12,208
U.S. operations	**–**	**704**	704	–	592	592
Deduct: capitalized interest	**(979)**		(979)	–	–	–
Growth capex	**25,280**	**704**	25,984	12,208	592	12,800
Maintenance capex						
Canadian operations	**12,119**		12,119	13,246	–	13,246
U.S. operations	**–**	**734**	734	–	9,432	9,432
Maintenance capex	**12,119**	**734**	12,853	13,246	9,432	22,678
	37,399	**1,438**	38,837	25,454	10,024	35,478

Net cash from financing activities of the continuing operations was a source of cash of $16.1 million in 2016 compared to a use of cash of $65.4 million in 2015. The 2016 activity included the issuance of the Retirement Mortgages of $56.3 million, a draw on our construction financing of $12.6 million and the release of restricted cash of $4.8 million, partially offset by scheduled debt repayments of $21.0 million and cash dividends paid of $36.1 million. The 2015 activity included the issuance and repayment of the $80.0 million Bridge Loan to finance the Home Health Acquisition, partially offset by scheduled debt repayments of $19.9 million, cash dividends paid of $35.6 million, and Common Shares acquired for cancellation under a normal course issuer bid at a cost of $8.0 million. For information on the change in long-term debt, refer to "Liquidity and Capital Resources – Long-term Debt".

Net cash from discontinued operations impacting the cash from continuing operations reflects the intercompany movements of cash between the discontinued and continuing operations. The 2016 activity of $8.4 million related to the net proceeds from the sale of our U.S. IT Hosting business of $9.5 million, partially offset by the net change in cash of those operations during 2016. The $303.7 million of cash received in 2015, related primarily to the net proceeds from the U.S. Sale Transaction and cross-border dividends received during the period.

Capital Structure

The following table summarizes our shareholders' equity for 2016 and 2015.

(thousands of dollars unless otherwise noted)	**2016**	**2015**
Shareholders' Equity		
Common Shares	**489,656**	483,385
Equity portion of convertible debentures	**5,573**	5,573
Contributed surplus	**941**	–
	496,170	488,958
Accumulated deficit at beginning of year	**(315,051)**	(503,143)
Net earnings for the year	**35,452**	232,078
Dividends declared	**(42,422)**	(42,125)
Purchase of Common Shares in excess of book value and other	**(4)**	(1,861)
Accumulated deficit at end of year	**(322,025)**	(315,051)
Accumulated other comprehensive income (loss)	**614**	(1,778)
Shareholders' equity	**174,759**	172,129
U.S./Canadian dollar exchange rate at end of year	**1.3427**	1.3840

Share Information *(thousands)*	**February 27, 2017**	**December 31, 2016**	December 31, 2015
Common Shares (TSX symbol: EXE) (1)	**88,765.8**	**88,684.5**	87,953.3

(1) Closing market value per the TSX on February 27, 2017, was $10.24.

The closing rates used to translate assets and liabilities of the U.S. operations were 1.3427 at December 31, 2016, and 1.3840 at December 31, 2015. As a result of the sale of our U.S. IT Hosting business, we realized $1.4 million of the foreign currency translation adjustment amount as part of the gain on sale that had previously been recognized in accumulated other comprehensive income. In addition, as a result of the stronger Canadian dollar as at December 31, 2016, compared to December 31, 2015, the foreign currency translation adjustment account declined by $1.5 million, due to the devaluation in net assets of our continuing self-sustaining U.S. operations, representing an increase (decrease) in net assets of approximately $0.3 million for every one-cent weakening (strengthening) of the Canadian dollar against the U.S. dollar.

DISTRIBUTIONS

In 2016, we generated AFFO of $65.0 million and declared monthly dividends of $0.04 per share, totalling $42.4 million, which were paid out from February 16, 2016 to January 16, 2017. The portion distributed in cash was $36.3 million, and $6.1 million was by way of shares issued under a dividend reinvestment plan. A total of 731,194 Common Shares were issued in 2016 through the dividend reinvestment plan.

In 2015, we generated AFFO of $50.8 million and declared monthly dividends of $0.04 per share, totalling $42.1 million, which were paid out from February 17, 2015 to January 15, 2016. The portion distributed in cash was $35.6 million, and $6.5 million was by way of shares issued under a dividend reinvestment plan. A total of 870,004 Common Shares were issued in 2015 through the dividend reinvestment plan.

There are a number of factors that affect the quarterly funds generated for distribution that our Board takes into consideration in determining the monthly distributions for the year. Factors affecting quarterly trends in earnings are discussed under the headings "2016 Selected Quarterly Information", "Adjusted Funds from Operations", "2016 Fourth Quarter Financial Review", and "2016 Financial Review".

The declaration and payment of future distributions is at the discretion of our Board as to the amount and timing of dividends to be declared and paid, after consideration of 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.

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 systems. 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.

ACCRUAL FOR U.S. SELF-INSURED LIABILITIES

As a result of the sale of our U.S. senior care operations, our expense for self-insured liabilities was reclassified to 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, the balance of the accrual for self-insured liabilities and the related investments held for self-insured liabilities remain on the consolidated statement of financial position as part of the Company's continuing operations.

Management regularly evaluates and periodically engages an independent third-party actuary to provide a report to determine the appropriateness of the carrying value of this liability. Our last independent actuarial review was conducted at the end of 2016, which confirmed the adequacy of our reserves.

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 reflected claim payments of US$24.9 million, a release of reserves of US$11.5 million, and a reduction of US$1.2 million due to an adjustment in the discount rate applied to the liability, partially offset by US$1.0 million in accretion of the discounted liability. The release of reserves followed the completion of independent actuarial reviews, and are reflected in discontinued operations, together with the adjustment for the discount rate, totalling $16.8 million (US$12.7 million)

During 2015, payments for self-insured liabilities were $42.1 million (US$32.9 million), and the expense for potential general and professional liability claims was $29.3 million (US$24.1 million), and included a release of reserves of $5.2 million (US$3.8 million) recorded in the 2015 fourth quarter.

Most of the risks that Extendicare self-insures are long-term in nature, and accordingly, claim payments for any particular policy year occur over a long period of time. However, management estimates and allocates a current portion of the accrual for self-insured liabilities on the statement of financial position. As at December 31, 2016, management estimated that approximately $31.4 million of the accrual for self-insured general and professional liabilities will be paid within the next year. The timing of payments is not directly within management's control; therefore, estimates could change in the future.

Within our Bermuda-based captive insurance company, we hold investments sufficient to support the accrual for self-insured liabilities and to meet the required statutory solvency and liquidity ratios. These invested funds are reported in other assets and totalled $136.1 million (US$101.4 million) as at December 31, 2016, compared to $176.8 million (US$127.7 million) as at December 31, 2015. Following the release of reserves for self-insured liabilities, the Captive transferred US$5.0 million of its funds previously held for investment to the Company for general corporate use in August 2016. Management believes there are sufficient invested funds held to meet estimated current claims payment obligations.

LONG-TERM DEBT

Continuity of Long-term Debt

The following summarizes the changes in the carrying amounts of long-term debt for 2016 and 2015.

	2016			2015
(millions of dollars)	**Total**	**Continuing**	**Discontinued**	**Total**
Long-term debt at beginning of year, prior to financing costs	**461.6**	481.1	785.7	1,266.8
Issue of long-term debt				
Retirement Mortgages	**56.3**	–	–	–
Construction loans	**12.6**	–	–	–
Bridge Loan	**–**	80.0	–	80.0
Notes payable/other	**–**	–	83.3	83.3
Repayment of long-term debt	**(21.0)**	(20.3)	(8.1)	(28.4)
Repayment of Bridge Loan	**–**	(80.0)	–	(80.0)
Accretion of convertible debentures	**0.8**	0.8	–	0.8
Change due to year-end foreign exchange rate	**–**	–	61.0	61.0
U.S. Sale Transaction	**–**	–	(921.9)	(921.9)
	510.3	461.6	–	461.6
Financing costs at end of year	**(6.7)**	(7.5)	–	(7.5)
Long-term debt at end of year	**503.6**	454.1	–	454.1
Less: current portion	**(54.8)**	(25.4)	–	(25.4)
	448.8	428.7	–	428.7

Long-term debt totalled $503.6 million as at December 31, 2016, compared with $454.1 million as at December 31, 2015, representing an increase of $49.5 million primarily due to securing the Retirement Mortgages of $56.3 million and a $12.6 million draw on construction loans, partially offset by scheduled debt repayments.

Details of the components, terms and conditions of long-term debt are provided in *note 11* of the audited consolidated financial statements. Extendicare and its subsidiaries are in compliance with all of their respective financial covenants as at December 31, 2016.

Long-term Debt Maturities and Weighted Average Interest Rates

Management has limited the amount of debt that may be subject to changes in interest rates, with all of its debt at fixed rates, other than the construction loans of $12.6 million. The variable-rate Retirement Mortgages in the amount of $56.3 million have effectively been converted to fixed rate financing with interest rate swaps over the full term. The following table summarizes key metrics of our consolidated long-term debt as at December 31, 2016, and December 31, 2015.

	December 31, 2016	**December 31, 2015**
Weighted average interest rate of long-term debt outstanding	**5.2%**	5.5%
Weighted average term to maturity of long-term debt outstanding	**7.8 yrs**	9.0 yrs
Weighted average term to maturity of long-term debt outstanding, excluding finance lease obligations	**7.2 yrs**	8.4 yrs
Trailing twelve months consolidated interest coverage ratio (1)	**5.4 X**	3.6 X
Trailing twelve months consolidated interest coverage ratio, excluding Bridge Loan finance costs of $2.2 million (1)	**5.4 X**	4.0 X
Debt to Gross Book Value (GBV)		
Total assets (carrying value)	**988,617**	1,026,947
Accumulated depreciation on property and equipment	**197,476**	198,183
Accumulated amortization on other intangible assets	**7,905**	5,751
GBV	**1,193,998**	1,230,881
Debt (2)	**512,898**	465,060
Debt to GBV	**43.0%**	37.8%

(1) Interest coverage is defined as Adjusted EBITDA divided by net interest (interest expense before reduction of capitalized interest, net of interest revenue).
(2) Debt includes convertible debentures at face value of $126.5 million, and excludes finance costs.

The table below presents the principal, or notional, amounts and related weighted average interest rates by year of maturity, of the Company's long-term debt obligations as at December 31, 2016.

(millions of dollars unless otherwise noted)	2017	2018	2019	2020	2021	After 2021	Total	Fair Value
Convertible debentures (at face value)								
Fixed rate	–	–	126.5	–	–	–	**126.5**	135.3
Average interest rate	–	–	6.00%	–	–	–	**6.00%**	
Long-term debt								
Fixed rate (including fixed through swap)	37.8	20.2	11.3	55.9	10.7	148.2	**284.1**	295.8
Average interest rate	3.96%	4.31%	4.42%	4.22%	4.52%	4.64%	**4.35%**	
Variable rate	12.6	–	–	–	–	–	**12.6**	12.6
Average interest rate	3.39%	–	–	–	–	–	**3.39%**	
Finance lease obligations								
Fixed rate	6.1	6.5	7.0	7.5	8.0	54.6	**89.7**	105.2
Average interest rate	7.00%	7.00%	7.00%	7.00%	7.00%	6.99%	**6.99%**	

OTHER CONTRACTUAL OBLIGATIONS

The table below provides summary information relating to the contractual obligations, other than long-term debt, as at December 31, 2016. Due to the uncertainty as to the timing of payments to be made with respect to certain obligations, the table excludes our accrual for U.S. self-insured liabilities of $94.8 million and our decommissioning provisions of $8.1 million. In addition, the table excludes our defined benefit pension plan obligations, which are described more fully below.

(millions of dollars)	2017	2018	2019	2020	2021	After 2021	Total
Operating lease obligations	3.1	2.3	1.8	0.4	0.2	0.1	**7.9**
Purchase obligations	29.7	6.6	–	–	–	–	**36.3**
	32.8	8.9	1.8	0.4	0.2	0.1	**44.2**

Defined Benefit Pension Plan Obligations

The contractual obligations table excludes our defined benefit pension plan obligations. The accrued benefit liability on our statement of financial position as at December 31, 2016, was $37.0 million (2015 – $40.9 million). We currently have defined benefit registered and supplementary plans covering certain executives, both of which have been closed to new entrants since 2000. The registered defined benefit plan was in an actuarial deficit of $2.3 million with plan assets of $5.4 million and accrued benefit obligations of $7.7 million as at December 31, 2016 (2015 – an actuarial deficit of $2.4 million with plan assets of $5.4 million and accrued benefit obligations of $7.8 million). The accrued benefit obligations of the supplementary plan were $34.7 million as at December 31, 2016 (2015 – $38.4 million). We do not set aside assets in connection with the supplementary plan and the benefit payments will be paid from cash from operations. The benefit obligations under the supplementary plan are secured by a letter of credit totalling $40.4 million as at December 31, 2016 (2015 – $42.8 million). This letter of credit renews annually based on an actuarial valuation of the pension obligations, and declined to $40.4 million effective May 1, 2016. The annual benefit payments under the supplementary pension plan to be funded from cash from operations over the next five years are expected to be in the range of $2.1 million to $2.2 million, and the annual contributions to the registered pension plan over the next five years are expected to be less than $0.1 million. Since the majority of our accrued benefit obligations represent our obligation under our non-registered supplementary plan, which is not required to be funded, changes in future market conditions are not expected to have a material adverse effect on our cash flow requirements with respect to our pension obligations, or on our pension expense.

Future Liquidity and Capital Resources

As at December 31, 2016, Extendicare's consolidated cash on hand was $101.6 million, which excluded restricted cash of $2.2 million, and $136.1 million (US$101.4 million) of investments held by our Captive to support the accrual for U.S. self-insured liabilities of $94.8 million (US$70.6 million).

The Company has acquired six retirement communities since October 2015, for cash of approximately $139 million. In August 2016, the Company secured financing in the aggregate of $56.3 million on three of the retirement communities, representing approximately 71% of their acquisition costs. The Company intends to seek financing on the remaining three once stabilized. For further information refer to the discussion under the heading "Significant 2016 Events and Developments – Expansion into Private-pay Retirement Sector".

In addition, construction financings of up to $51.4 million have been secured on three of the retirement development projects, of which $12.6 million was drawn as at December 31, 2016. These financings represent 63% of the estimated costs, and similar financing arrangements are anticipated for the fourth project. The Company has spent approximately $32.4 million of the anticipated $122.6 million cost to develop these four retirement communities, which cost includes all amounts through the lease-up period until stabilized NOI is achieved, as well as an implied cost of capital.

Management is confident that cash from operating activities and future debt financings, will be available and sufficient to support Extendicare's ongoing business operations, maintenance capex, debt repayment obligations, growth capex and to fund strategic acquisitions.

RELATED PARTY TRANSACTIONS

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.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in securities and activities of Extendicare, which investors should carefully consider before investing in Extendicare.

General Business Risks

Extendicare is subject to general business risks inherent in the senior care industry, including: increased government regulation and oversight; changing consumer preferences; fluctuations in occupancy levels and business volumes; the inability to achieve adequate government funding increases; increases in labour costs and other operating costs; possible future changes in labour relations; competition from or the oversupply of other similar properties; changes in neighbourhood or location conditions and general economic conditions; health related risks; disease outbreaks and control risks; changes in accounting principles and policies; the imposition of increased taxes or new taxes; capital expenditure requirements; changes in interest rates; and changes in the availability and cost of long-term financing, which may render refinancing of long-term debt difficult or unattractive. Any one of, or a combination of, these factors may adversely affect the business, results of operations and financial condition of the Company.

In addition, there are inherent legal, reputational and other risks involved in providing housing and health care services to seniors. The vulnerability and limited mobility of some seniors enhances such risks. Such risks include fires or other catastrophic events at a property which may result in injury or death, negligent or inappropriate acts by employees or others who come into contact with our residents, and unforeseen events at Extendicare's centres that result in damage to Extendicare's brand or reputation or to the industry as a whole.

Risks Related to Growth Activities

The Company expects that it will continue to have opportunities to acquire businesses or properties, develop properties, or expand existing centres that may be accretive, but there can be no assurance that this will be the case. The ability of the Company to fund growth will be dependent, in part, on external sources of funding. Lack of availability of such funding could limit the future growth of the Company.

The provinces restrict the number of licensed LTC beds and any new licenses are awarded through a request for proposal process. If regulatory approvals are required in order to expand operations of the Company, the failure of the Company or inability to obtain the necessary approvals, changes in standards applicable to such approvals and possible delays and expenses associated with obtaining such approvals could adversely affect the ability of the Company to expand, and accordingly, to increase its revenue and earnings.

The success of the business acquisition and development activities of the Company, including the expansion into the private-pay retirement sector, will be determined by numerous factors, including the ability of the Company to identify suitable acquisition targets, competition for acquisition opportunities, purchase price, ability to obtain adequate financing on reasonable terms, financial performance of the businesses or centres after acquisition, and the ability of the Company to effectively integrate and operate the acquired businesses or centres. Acquired businesses or centres, or development projects, may not meet financial or operational expectations due to the possibility that we have insufficient management expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, unexpected costs associated with their acquisition, as well as the general investment risks inherent in any real estate investment or business acquisition. Moreover, new acquisitions may require significant management attention, place additional demands on the Company's resources, systems, procedures and controls, and capital expenditures that would otherwise be allocated by the Company in a different manner to existing businesses. Any failure by the Company to identify suitable candidates for acquisition or operate the acquired businesses effectively may have an adverse effect on the business, results of operations and financial condition of the Company.

Risks Related to Government Funding and Regulatory Changes

Extendicare's earnings are highly reliant on government funding and reimbursement programs, and the effective management of staffing and other costs of operations, which are strictly monitored by government regulatory authorities. Given that we operate in a labour-intensive industry, where labour costs account for a significant portion of our operating costs (approximately 87% in 2016), government funding constraints could have a significant adverse effect on our results from operations and cash flows. Management is unable to predict whether governments will adopt changes in their funding and reimbursement programs, and if adopted and implemented, what effect such changes will have on the Company.

Further information on funding and legislative changes affecting the industry can be found under "Update of Regulatory and Funding Changes Affecting Results".

All long-term care providers are subject to surveys, inspections, audits and investigations by government authorities to ensure compliance with applicable laws and licensure requirements of the various government funding programs. Long-term care centres must comply with applicable regulations that, depending on the jurisdiction in which they operate, may relate to such things as staffing levels, resident care standards, occupational health and safety, resident confidentiality, billing and reimbursement, along with environmental and other standards. The government review process is intended to determine compliance with survey and certification requirements, and other applicable laws. Remedies for survey deficiencies can be levied based upon the scope and severity of the cited deficiencies. Remedies range from the assessment of fines to the withdrawal of payments under the government funding programs. Should a deficiency not be addressed through a plan of correction, a centre can be decertified from the funding program. Extendicare makes every effort to avoid and mitigate notices of deficiencies through quality assurance strategies. As well, all efforts are undertaken to correct all legitimate problem areas that have been identified through regulatory inspections.

The revocation of a license by authorities or cancellation of a service contract due to inadequate performance by the operator has been historically infrequent and is usually preceded by a series of warnings, notices and other sanctions. Extendicare has never had such a license or service contract revoked in Canada.

Non-compliance with applicable laws and licensure requirements governing long-term care could result in adverse consequences, including severe penalties, which may include criminal sanctions and fines, civil monetary penalties and fines, administrative and other sanctions, including exclusion from participation in government funded programs, or one or more third-party payor networks. We may be required to refund amounts that have been paid to us by government funding programs. These penalties could have a material adverse effect on the business, results of operations or financial condition of the Company.

Risks Related to Liability and Insurance

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

Prior to the U.S. Sale Transaction, Extendicare self-insured certain risks related to general and professional liability of its disposed U.S. operations through the Captive, its Bermuda-based captive insurance structure. 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 through the Captive. The majority of the risks that Extendicare self-insured are long-term in nature, and accordingly, claim payments for any particular policy year can occur over a long period of time.

There can be no assurance, however, that claims in excess of the insurance coverage, or in excess of the Company's reserves, or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available in acceptable terms. Furthermore, there are certain types of risks, generally of a catastrophic nature, such as war, non-certified acts of terrorism, or environmental contamination, which are either uninsurable or are not insurable on an economically viable basis. A successful claim against the Company not covered by, or in excess of, such insurance, or in excess of the Company's reserves for self-insured retention levels, could have a material adverse effect on the business, results of operations and financial condition of the Company. Claims against the Company, regardless of their merit or eventual outcome, may also have a material adverse effect on the ability of the Company to attract residents, expand the business of the Company or maintain favourable standings with regulatory authorities.

Risks Related to Tax Rules and Regulations

Extendicare is subject to audits from federal, state and provincial tax jurisdictions and is therefore subject to risk in the interpretation of tax legislation and regulations. Tax regulations are complex and require careful review by the Company's tax management and its external tax consultants. Differences in interpretation of those tax rules and regulations could result in tax assessments and penalties for the untimely payment of the determined tax liability, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

During the 2015 third quarter, Extendicare recorded a provision of $3.6 million for the full amount of taxes in dispute, including interest, in respect of a CRA reassessment. In 2016, 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. For further information refer to *note 22* of the audited consolidated financial statements.

Risks Related to Financing

DEBT FINANCING

Due to the level of real property ownership by the Company, a significant portion of the consolidated cash flow of the Company is devoted to servicing debt, and there can be no assurance that the Company will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If the Company were unable to meet its required interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing.

Extendicare's RBC Credit Facility is a demand facility in the amount of $47.3 million that is secured by 13 class "C" graded LTC centres in Ontario and is guaranteed by certain Canadian subsidiaries of the Company. As at December 31, 2016, Extendicare had letters of credit totalling $43.2 million issued under the RBC Credit Facility, of which $40.4 million secured our defined benefit pension plan obligations. The RBC Credit Facility has no financial covenants but contains normal and customary terms including annual re-appraisals of the centres that could limit the maximum level of the line of credit and other restrictions on the Canadian entities making certain payments, investments, loans and guarantees. A demand for repayment of amounts drawn on the line of credit could inhibit the flow of cash dividends by Extendicare on a temporary or more permanent basis until alternative financing is obtained.

The Company cannot predict whether future financing will be available, what the terms of such future financing will be (including, whether it will result in a higher cost of borrowing) or whether its existing debt agreements will allow for the timely arrangement and implementation of such future financing. If the Company were unable to obtain additional financing or refinancing when needed or on satisfactory terms, it could have a material adverse effect on the business, operating results and financial condition of the Company.

DEBT COVENANTS

The Company is in compliance with all of its financial covenants as at December 31, 2016. However, there can be no assurance that future covenant requirements will be met. The Company's bank lines and other debt may be affected by its ability to remain in compliance. If the Company does not remain in compliance with its financial covenants, its ability to amend the covenants or refinance its debt may be affected.

CREDIT AND INTEREST RATES

The Company has limited the amount of debt that may be subject to changes in interest rates. All of the Company's long-term debt is at fixed rates, other than its constructions loans that had a balance of $12.6 million drawn as at December 31, 2016. The Company primarily finances its senior care and living centres through fixed-rate mortgages and considers securing interest rate swap agreements for any variable-rate debt. The variable-rate Retirement Mortgages in the amount of $56.3 million have effectively been converted to fixed rate financing with interest rate swaps over the full term. The Company maintains risk management control systems to monitor interest rate risk attributable to its outstanding or forecasted debt obligations as well as any offsetting hedge positions. The Company does not enter into financial instruments for trading or speculative purposes.

Risks Related to Foreign Currency Rate Fluctuations

The revenue and expenses of our remaining self-sustaining U.S. operations are translated at average rates of exchange in effect during the period. Assets and liabilities are translated at the exchange rates in effect at the balance sheet date. As part of the proceeds from the U.S. Sale Transaction, the Company is entitled to receive an ongoing cash stream, reflected as deferred consideration, and the foreign exchange impact of this asset is recognized in net earnings. As a result, the Company's consolidated financial position is subject to foreign currency fluctuation risk, which could adversely impact its operating results and its cash flows. Management may enter into hedging arrangements to mitigate a portion of this risk; however, there can be no assurance that such hedging arrangements, if any, would be sufficient to protect the Company against currency exchange rate losses.

The impact of a one-cent change in the Canadian dollar against the U.S. dollar would impact on our financial results from continuing operations by approximately $0.4 million, and would impact our total assets and total liabilities as at December 31, 2016, by approximately $1.7 million and $1.0 million, respectively.

Risks of Property Ownership

REAL PROPERTY OWNERSHIP

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

Extendicare owns, or operates under finance lease arrangements whereby ownership transfers at the end of the lease term, 100% of its senior care and living centres, excluding those centres operated under management contracts. Senior care and living centres are limited in terms of alternative uses; therefore, their values are directly driven by the cash flow from operations. All but seven of the sixty-five properties owned by Extendicare at December 31, 2016, are government-funded senior care centres. Therefore, the value of the real property depends, in part, on government funding and reimbursement programs. The Company's income and funds available for distribution would be adversely affected if governments reduced their funding or reimbursement programs. In addition, overbuilding in any of the market areas in which the Company operates could cause its properties and centres to experience decreased occupancy or depressed margins, which could have a material adverse effect on the business, results of operations and financial condition of the Company. Moreover, certain significant expenditures involved in real property investments, such as real estate taxes, maintenance costs and mortgage payments, represent liabilities that must be met regardless of whether the property is producing any income.

Real property investments are relatively illiquid, thereby limiting the ability of the Company to vary its portfolio in a timely manner in response to changed economic or investment conditions. By specializing in long-term care and retirement living centres, the Company is exposed to adverse effects on these segments of the real estate market. There is a risk that the Company would not be able to sell its real property investments or that it may realize sale proceeds below their current carrying value.

CAPITAL INTENSIVE INDUSTRY

The Company must commit a substantial portion of its funds to maintain and enhance its senior care and living centres and equipment to meet regulatory standards, operate efficiently and remain competitive in its markets. During 2016, the company spent $12.1 million in maintenance capex from continuing operations, and intends to spend in the range of $9 million to $11 million in 2017 to sustain and upgrade its existing centres. In addition, the Company invests in enhancements at existing centres aimed at earnings growth. In Ontario, Extendicare owns 21 LTC centres with 3,287 class "C" beds, which are eligible for redevelopment under the government's program to redevelop older LTC beds in the province (see "Ontario Redevelopment Program" under the heading "Update of Regulatory and Funding Changes Affecting Results"). These, as well as other future capital requirements could have a material adverse effect on the business, operating results and financial condition of the Company.

ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Policies and Estimates

A full discussion of Extendicare's critical accounting policies and estimates is provided in *note 3* of the audited consolidated financial statements for the year ended December 31, 2016, and under the heading "Future Changes in Accounting Policies" that follows this section.

Management considers an understanding of Extendicare's accounting policies to be essential to an understanding of its financial statements because their application requires significant judgement and reliance on estimations of matters that are inherently uncertain. The following are subject to judgements and key sources of estimation uncertainty that the Company believes could have the most significant impact on the amounts recognized in the consolidated financial statements: the valuation of purchase price components for acquisitions; the valuation of deferred consideration; the determination of the recoverable amount of cash generating units subject to an impairment test; the valuation of indemnification provisions; the valuation of the U.S. self-insured liabilities; the assessment of contingencies; the valuation of interest rate swaps; the valuation of financial assets and liabilities; the valuation of share-based compensation; and the accounting for tax uncertainties and the tax rates used for valuation of deferred tax assets. 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 those estimated.

VALUATION OF PURCHASE PRICE COMPONENTS FOR ACQUISITIONS

Upon the acquisition of businesses, we estimate the fair value of the acquired tangible assets (land, building and furniture, fixtures and equipment) and identifiable intangible assets and liabilities (including in-place leases and customer relationships) and the value of the differential between stated and market interest rates on long-term liabilities assumed at acquisition. The excess fair value of consideration given over the fair value of the identifiable net assets acquired is recorded as goodwill, with any negative goodwill being recognized in net earnings on the acquisition 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. The techniques used to estimate future cash flows will vary from one situation to another depending on the circumstances surrounding the asset or liability in question. Management assesses fair value based on estimated discounted cash flow projections and available market information (including the historical operating results and anticipated trends, local markets and economic conditions).

As discussed below under the heading "Valuation of Cash Generating Units and Impairment", an impairment loss is recognized when the carrying amount of an asset is not recoverable. The impairment loss is determined as the excess of the carrying value over its estimated recoverable amount.

Intangible assets with indefinite lives are also required to be assessed at a minimum annually, comparing the estimated recoverable amount to the carrying value to determine if an impairment loss is required to be recognized.

VALUATION OF DEFERRED CONSIDERATION

As part of the proceeds from the U.S. Sale Transaction, the Company is entitled to receive an ongoing cash stream over a period of 15 years beginning in 2015, 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 of $37.4 million (US$27.9 million), and it is recorded at amortized cost, accreted using effective interest method. Subsequent to December 31, 2016, the Company entered into an agreement to defer receipt of substantially all of the deferred consideration 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. There are significant credit risks associated with the realization of this cash stream 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.

VALUATION OF CASH GENERATING UNITS AND IMPAIRMENT

Non-financial assets consist of property and equipment, intangible assets with finite lives, intangible assets with indefinite lives and goodwill. Property plant and equipment represents approximately 47% of our total assets as at December 31, 2016, and goodwill and other intangibles represent approximately 9%. 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.

Goodwill and indefinite-life intangibles are tested annually, except in the year of acquisition, and other assets are assessed for impairment when indicators of impairment exist. If any such indication exists, then the asset's recoverable amount is reassessed. For goodwill, and intangible assets that have indefinite useful lives or 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. 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.

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 any impairment loss are based upon information that is known at the time, along with future outlook. When impairment tests are performed, the estimated useful lives of the assets are reassessed, with any change accounted for prospectively. Actual results can differ from these estimates, and can have either a positive or negative impact on the estimate, and impact whether an impairment situation exists.

In 2016, we performed the impairment assessment of our Canadian operations and recognized a net pre-tax impairment loss of $1.7 million on goodwill for certain properties (2015 – nil). The carrying value of the assets of the discontinued U.S. IT Hosting business was assessed for impairment during 2016 based on the expected proceeds, resulting in a pre-tax impairment loss of $9.2 million. There was no impairment of the property and equipment of our continuing operations in 2016 and 2015.

VALUATION OF INDEMNIFICATION PROVISIONS

As a result of the U.S. Sale Transaction, the Company has indemnified certain obligations of its former U.S. operations related to tax, a corporate integrity agreement, and other items. As at December 31, 2016, the remaining indemnification provisions totalled $28.4 million (US$21.2 million). In addition, the Company had an indemnification receivable of $8.3 million (US$6.2 million) as at December 31, 2016. The estimates of these items are assessed every reporting period based on management's best estimate of the ultimate costs or recovery of such items, and any changes to the estimates are reflected as part of other expense in the results of discontinued operations. During 2016, favourable changes to the indemnifications totalled $6.5 million (2015 – unfavourable changes of $4.4 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.

SELF-INSURED LIABILITIES OF DISCONTINUED OPERATIONS

The accrual for U.S. self-insured liabilities of our former U.S. operations 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. The U.S. general and professional liability claims are the most volatile and significant of the risks for which Extendicare self-insures. The Company estimates the value of losses that may occur within its self-insured retention levels, based upon individual assessment of the settlement, using historical information and industry data, supported by actuarial projections, advice from legal counsel, consultants and external risk management. 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.

Management regularly evaluates and periodically engages an independent third-party actuary to provide a report to determine the appropriateness of the carrying value of this liability. Assumptions underlying the determination of the liability are limited by the uncertainty of predicting future events and assessments regarding expectations of several factors. Such factors include, but are not limited to: the frequency and severity of claims, which can differ materially by jurisdiction; trends in claims along with unique and identifiable settlements; coverage limits of third-party reinsurance; the effectiveness of the claims management process; and the outcome of litigation. Therefore, management's estimate of the accrual for general and professional liability claims is significantly influenced by assumptions that are subject to judgement by management and the actuary, which may cause the expense to fluctuate significantly from one reporting period to another. Differences between the ultimate claims costs and our historical expense for loss and actuarial assumptions and estimates could have a material adverse effect on our business, operating results and financial condition.

At December 31, 2016, the accrual for self-insured general and professional liabilities was $94.8 million (US$70.6 million). Changes in the level of retained risk and other significant assumptions that underlie management's estimates could have a material effect on the future carrying value of the self-insured liabilities. For example a 1% variance in the accrual for U.S. self-insured liabilities at December 31, 2016, would have impacted our net earnings from discontinued operations by approximately $1.0 million (US$0.7 million). For further information refer to the discussion under the heading "Liquidity and Capital Resources – Accrual for U.S. Self-Insured Liabilities".

TAX UNCERTAINTIES

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.

DEFERRED TAX ASSETS AND LIABILITIES

The Company uses the asset and liability method of accounting for deferred income taxes, which takes into account the differences between financial statement treatment and tax treatment of certain transactions, assets and liabilities. Deferred tax assets and liabilities are recognized to reflect the expected future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. 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. As at December 31, 2016, the Company had recognized deferred tax assets totalling $15.3 million. Management believes that it is more likely than not that the Company will realize the benefits of these deductible differences. In addition, as at December 31, 2016, there were capital losses available for Canadian income tax purposes of $13.8 million that have not been tax benefited.

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 year ended December 31, 2016. These accounting standards are summarized below, and are more fully described in *note 4* of the audited consolidated financial statements.

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, with earlier application permitted. The Company intends to adopt the amendments to IFRS 2 beginning January 1, 2017, with no anticipated material impact on the consolidated financial statements.

RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALIZED LOSSES

In January 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, with earlier application permitted. The Company intends to adopt the amendments to IAS 12 beginning January 1, 2017, with no anticipated material impact on the consolidated financial statements.

LEASES

In January 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

In July 2014, the IASB issued IFRS 9 "Financial Instruments" (IFRS 9 (2014)), which introduces new requirements for the classification and measurement of financial assets, and changes to financial liabilities, amends the impairment model for "expected credit loss", and introduces a new general hedge accounting standard that aligns hedge accounting more closely with risk management. This 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.

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures (DC&P) to provide reasonable assurance that all material information relating to the Company is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the DC&P was conducted as at December 31, 2016, by management under the supervision of the Company's CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2016, our disclosure controls and procedures, as defined by National Instrument 52-109, *Certification of Disclosures in Issuers' Annual and Interim Filings*, are effective.

Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting (ICFR) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS.

Management, under the supervision of the Company's CEO and CFO, has evaluated the effectiveness of our ICFR using the 2013 Integrated Control framework as published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that our ICFR was effective and that there were no material weaknesses in our ICFR as at December 31, 2016.

In designing such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is required to use judgement in evaluating controls and procedures.