EXTENDICARE®

... helping people live better

LEAD TRANSFORM GROW

2016 Annual Report

Repositioned Extendicare as a pure-play Canadian provider to the expanding senior care and services sector

2015

ACHIEVEMENTS

Doubled size of home health care business via acquisition

Began development of three private-pay retirement communities in Ontario

Acquired four private-pay retirement communities in Ontario and Saskatchewan

2016

ACHIEVEMENTS

Formalized and launched long-term care redevelopment program

Opened first of four retirement community development projects

Acquired two private-pay retirement communities in Saskatchewan

Advanced integration of 2015 home health care acquisition

Grew management/consulting services and group purchasing services

In 2015, we embarked on a five-year strategic plan to grow across the continuum of care, leveraging on our nearly 50 years of experience with helping people live better.

2020

GOALS

Rebalance revenue across operating segments

Growth across the continuum of care

Increase proportion of revenue and operating profit from private-pay services

Demonstrate leadership in quality and innovation

Creation of shareholder value through growth across all segments, with a greater proportion of higher margin privately funded NOI

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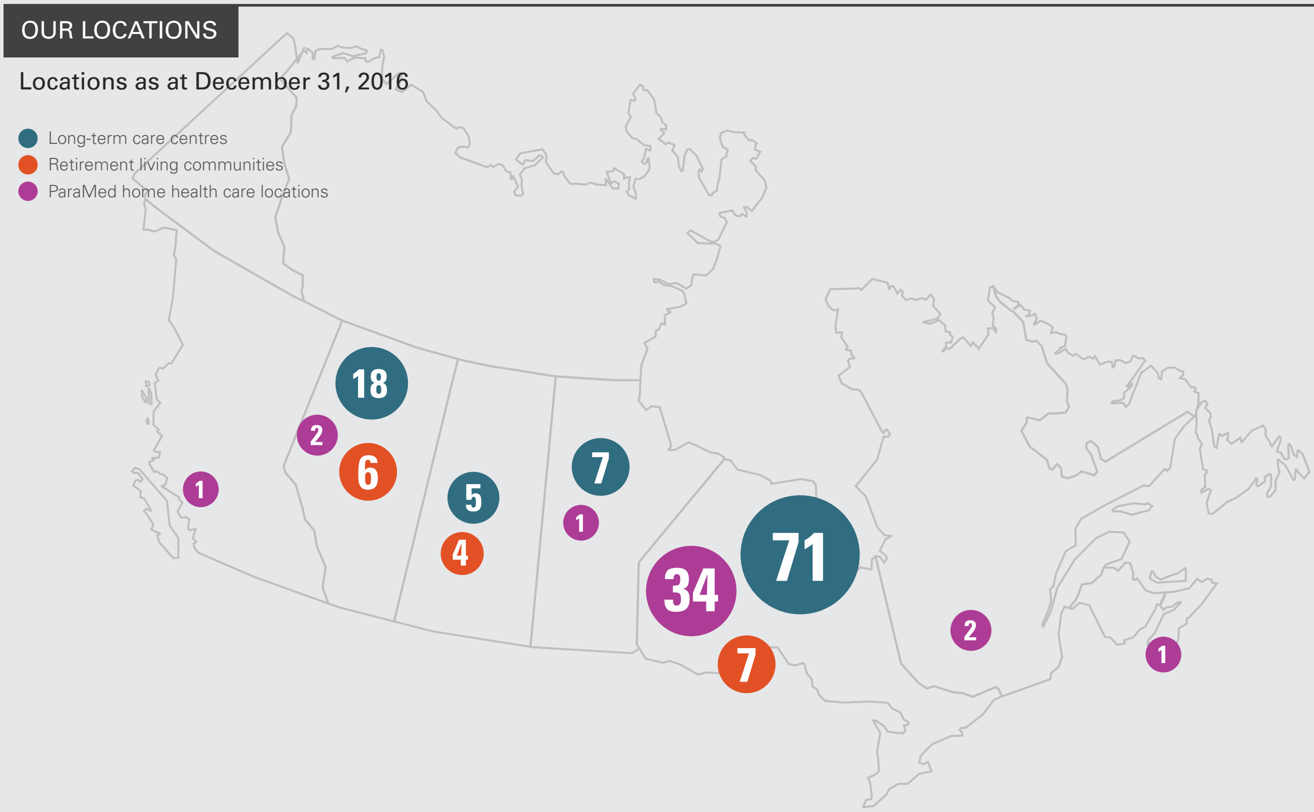
At a Glance

Extendicare is about helping people live better.

For nearly 50 years, Extendicare's dedicated and experienced team has been helping people live better through a commitment to quality care and service that includes nursing care, home health care, retirement living, and management, consulting and group purchasing services.

OUR LOCATIONS

Locations as at December 31, 2016

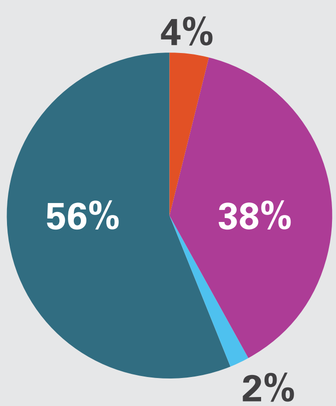


OUR SEGMENTS

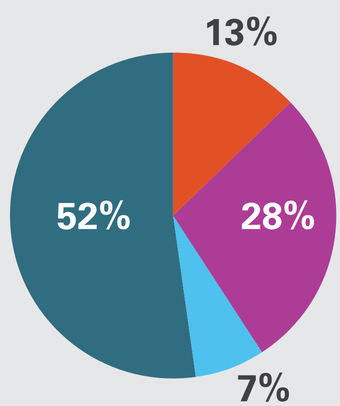
Pro forma 2016 revenue and net operating income from Canadian operations for estimated stabilized impact of completed/committed transactions.

- Long-term care
- Retirement living
- Home health care
- Management, consulting and group purchasing

Segmented Revenue



Segmented Net Operating Income



58
Long-term care centres owned

7
Retirement living communities owned

53
Extendicare Assist centres under management

11M
Home Health Care hours delivered

41K
SGP third-party residents served

CONTINUUM OF CARE

We offer a range of senior care services across the spectrum to ensure that Canadian seniors receive the care they need at any stage in their health care journey.

EXTENDICARE®
... helping people live better

LONG-TERM CARE

Extendicare's long-term care services are designed for those who require a higher level of specialized nursing and personal care services.

Esprit Lifestyle Communities

RETIREMENT LIVING

Our Esprit Lifestyle Communities allow residents to enjoy life to its fullest with the comfort of available care.

ParaMed™
Redefining Care

HOME HEALTH CARE

ParaMed Home Health Care helps our clients enjoy greater independence in the home with a high level of care and service that meets exceptional quality standards and exceeds expectations.

EXTENDICARE® assist
Management & Consulting Services

MANAGEMENT AND CONSULTING SERVICES

Extendicare Assist offers management and consulting services to other health care operators in the areas of clinical care, dietary services, information technology, financial and administrative services, operational reviews and more.

SGP | PURCHASING PARTNER NETWORK

GROUP PURCHASING SERVICES

SGP Purchasing Partner Network provides its partners with quality national products and services; everything from food, clinical supplies, furniture and equipment to maintenance contracts.

EXTENDICARE®
... helping people live better

I think the home supplies the seniors with a very homelike atmosphere, good food, kindness of heart, and a very safe environment...and my mind is at rest with my precious cargo of Mom on board with you.

Anita, family member of resident at Extendicare Van Daele

Long-term Care

We are building on our strong foundation in long-term care through the redevelopment of our older long-term care centres, and through providing an enhanced mix of preferred accommodations to improve this revenue stream.

Investing Capital for Long-term, Stable Returns

2016 PROGRESS

- Achieved a significant milestone with the formalization of a plan to redevelop 21 of our Ontario long-term care centres over a 10-year period with approvals requested of the Ontario Ministry of Health and Long-Term Care
- First phase of the plan is a combination of renovations of 12 buildings and new construction of six buildings over a five-year period, with remaining projects to take place in the latter five years
- Continued to deliver steady performance in operations

8,116
Resident capacity

98%
Average occupancy

$204
Average daily revenue rate

83%
Ontario preferred accommodation average occupancy

1.7%
Year-over-year increase in average daily rate

“

We create an environment where residents still have purpose; they make decisions and do things they love. We are all about fostering meaningful connections here at Riverbend.

Tracy, General Manager – Riverbend Crossing

”

Retirement Living

We will continue to grow in the private-pay retirement market under the Esprit Lifestyle Communities brand, through additional acquisitions and developments.

Delivering Diversification and Enhanced Margins

2016 PROGRESS

- Acquired West Park Crossing Retirement Community in Moose Jaw, SK and Yorkton Crossing Retirement Community in Yorkton, SK
- Opened Cedar Crossing (Simcoe, ON), the first of four new communities under development
- On schedule to open three additional communities currently under development in 2017/2018 (Uxbridge, Bolton, and Barrie, ON)

574
Suites

226
Year-over-year increase in number of suites

$4,480
Average monthly revenue per occupied suite

95%
Occupancy of mature communities as at year end

60%
Overall occupancy for 2016 (includes newly opened communities)

Having worked in the home care business, I appreciate how difficult our caregiver's job is; yet she was reliable, graceful and kind during our stressful times. What a wonderful representative for ParaMed.

Barbara, family member of ParaMed client

Home Health Care

We will continue to grow our home health care operations, while changing the mix by increasing revenue in the private-pay home health care market and expanding the volume of services we deliver.

Enhancing Our National Platform for Growth in Both Private and Government-funded Services

2016 PROGRESS

- Implemented an improvement initiative to increase efficiencies and enhance quality of care
- Significantly advanced integration of transformational 2015 acquisition, including successfully co-locating several locations
- Successfully attained new contract with Vancouver Coastal Health Authority, adding about 330,000 hours of service annually
- Refreshed brand to better reflect the value proposition to customers

11M
Hours

23%
Year-over-year increase in total hours (including acquisition)

11,800
Number of employees

3.5%
Year-over-year increase in same-store hours per day

29,807
Service volume hours per day

Management and Consulting Services

We continue to bring on new partners across the country who benefit from the implementation of our standardized services to ensure continual use of best practices. We leverage our expertise in owning and operating senior care and living centres to assist our diverse range of partners with challenges they may face.

6,332

Beds under management

19%

Year-over-year increase combined revenue

SGP PURCHASING PARTNER NETWORK

Group Purchasing Services

Our renewed focus on the important relationships we have with our members and suppliers has expanded our growth potential. We are truly better all together as we share the common purpose of providing the right combination of products and services that contribute to increased efficiencies and a higher quality of life for all residents.

21%

Year-over-year increase combined net operating income

40,900

Third-party residents served

Quality is Our Focus

We continuously measure quality to ensure that we keep our residents and clients happy, healthy and safe.

Our team strives to be innovative in the development of new initiatives and provides leadership within our field that not only meets the needs of our residents and families but also improves the quality of their lives.

> **“Extendicare is committed to continuous quality improvement. Our success will be achieved through the training and development of our team of caregivers and the continuous engagement of our residents, clients and their families.”**

Tim Lukenda, President & CEO

LONG-TERM CARE

In order to open dialogue and work more closely with residents, Extendicare's long-term care division has formed REACH (Resident Experience Action Council for Homes).

Following our resident satisfaction survey in 2015/16, this is what our residents had to say…

90% I am treated with dignity by the staff

92% I feel safe when alone

88% I decide how to spend my time

ESPIRIT LIFESTYLE COMMUNITIES

According to our quality of life survey, below is the percentage of residents who recommend our communities for:

92.7% Privacy

90.4% Safety/Security

91.3% Respect

83.6% Responsive Staff

93.3% Care & Services

95.6% Courtesy

PARAMED HOME HEALTH CARE

- We harmonized all of our clinical policies and procedures and standardized our clinical documentation as part of the integration process.
- Daily management and use of quality indicators allows us to monitor quality and target areas for improvement.

EXTENDICARE ASSIST

- Rolled out bedrail reduction program to our managed centres.
- To enhance staff and resident safety – all of our managed centres adopted the Safety 24/7 safety management system.
- We are constantly researching emerging technology and assessing its value to further our ability to spend more time with our residents.

SGP PURCHASING PARTNER NETWORK

- Streamlining of diets offered to residents as per the SGP menu improved both quality and satisfaction.
- As part of our partnership, we offer clients a range of our care programs, which leads to enhanced care for their residents.
- Menu Stream Trial in progress will assist with meal delivery and satisfaction for residents, families and staff.

Letter to Shareholders

Mission Statement

Extendicare is about helping people live better.
We help our residents and clients live better by promoting quality of life.
We create remarkable moments through highly engaged and motivated team members.
Stakeholders know this because we continuously measure, improve and publicly share our performance.

Fellow Shareholders,

Extendicare's bold vision is to be the best senior care and services company in Canada. In 2016, we continued the transformation we set out in our five-year strategic plan to position Extendicare for growth across the continuum of seniors' care. By executing on key strategic growth initiatives and working diligently to further increase efficiencies, lower costs and improve performance, we have put the cornerstones in place to develop sustainable shareholder value over the long term.

Extendicare has strong roots in long-term care, with 58 owned and operated centres, which have delivered strong and consistent performance over the years. We also manage through Extendicare Assist another 42 long-term care centres on behalf of third-party partners, including non-profits, municipally owned, and small operators who benefit from our scale and expertise. We are enhancing our long-term care operations through our leadership role in advancing the redevelopment of our class "C" long term care centres in Ontario, with an investment of over $500 million over the next decade. This investment in stable, long-life assets will generate a strong and stable return on invested capital.

During the year, we were pleased to launch Esprit Lifestyle Communities as our new retirement living brand and we established a comprehensive sales and marketing effort to raise awareness of the quality and value of our retirement living communities. This effort is paying off, as two of our centres acquired in the previous year saw occupancy rates surge from 72% at the beginning of the year to 95%, and our new communities in lease-up are also seeing steady growth in occupancy resulting from our sales and marketing initiatives.

ParaMed, our home health care business, delivered strong volume increases over the year, particularly in British Columbia and Ontario, as governments continue to support the strong and growing public demand for community care options and increasingly recognize the importance of home health care as a vital and cost-efficient component of seniors' care. Seniors and their families are turning more and more to home health care alternatives themselves, enabling mom and dad to stay in their home as long as possible and to maintain connections with their communities.

SGP Purchasing Partner Network, our group purchasing services business, continues to leverage its collective national volume and superior distribution platform to provide value driven pricing, quality products and innovative services to its members. During 2016, SGP grew its third-party residents served by 38% to 40,900.

As leaders in the senior care sector in Canada, with brands that have earned the trust of seniors and their families through our commitment to quality care and services, we are well positioned to meet the growing needs resulting from the massive demographic transition under way in our country. For the first time in the country's history, there are more citizens over the age of 65 than under 15. And this wave will only accelerate as the baby-boomer generation advances into their 70s with life expectancies reaching new highs.

> **“At the heart of everything that we do is an unwavering commitment to delivering quality customer-centred senior care and services.”**

Strong Results in 2016
Extendicare’s revenue for 2016 grew to $1.06 billion, up 12% over what was already a solid 2015 revenue base. Acquisitions accounted for $89.7 million of our revenue growth, with same-store growth of 3.4%, or $27.8 million, contributing the remainder. This strong same-store revenue growth was driven by funding enhancements, higher preferred accommodation revenue, and increased business volumes across our home health care, management services and group purchasing operations.

Consolidated net operating income for the year, at $130.1 million, was up 9% over 2015, with an improvement in our same-store Canadian operations NOI margin as we continue to enhance efficiencies. AFFO from continuing operations grew 53% to $66.7 million, which represents $0.755 per basic share compared to $0.497 in 2015. After a transitional year involving the sale of our U.S. operations, we have restored our payout ratio to a more historical level of 65% in 2016. It is this prudent and sustainable payout ratio that will allow us to self-fund our growth with accretive returns.

On Our Way Forward
At the heart of everything that we do is an unwavering commitment to delivering quality customer-centred senior care and services. By doing this, we will live our mission of helping people live better, while keeping our promise to return sustainable value to our shareholders who have invested in this mission.

Going forward, while we are proud of our progress to date we are far from content – we are going to continually strive to build upon our accomplishments and navigate the changing landscape of Canadian senior care. We are going to grow and rebalance revenue across the continuum of care, and shift our mix to include a greater portion of higher margin privately paid services.

Most importantly, we are going to build on our leadership position at the vanguard of senior care across Canada with a continued and resolute focus on quality and innovation. During the past two years, we have made a fundamental transformation of our business into a pure-play Canadian care and services provider to the ever growing senior care sector. We are now poised for further growth both organically and via strategic acquisitions across the continuum of care.

By consistently and diligently executing on all of these fronts, we will continue to deliver steady, sustainable, and appropriate returns to our shareholders. We appreciate your support and thank you for the trust you have vested in us. Our path forward is clear, and I look forward to updating you on the next stage of Extendicare’s evolution and ongoing success for the benefit of all of our stakeholders.

Sincerely,

Timothy L. Lukenda
President and Chief Executive Officer

Corporate Profile

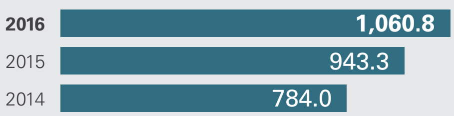
Extendicare is a leading provider of care and services for seniors throughout Canada. Through our network of 118 operated senior care and living centres (65 owned/53 managed), as well as our home health care operations, we are committed to delivering care and services throughout the health care continuum to meet the needs of a growing seniors' population in Canada. Our qualified and highly trained workforce of 23,800 individuals is dedicated to helping people live better through a commitment to quality service and a passion for what we do.

Extendicare's common shares trade on the TSX under the symbol "EXE", and pay monthly cash dividends at the discretion of its board of directors. More information is available at www.extendicare.com.

Financial Highlights

(millions of dollars unless otherwise noted)

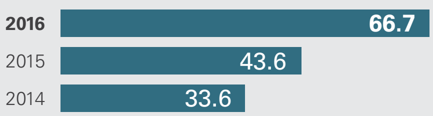
Revenue from Continuing Operations



Net Operating Income from Continuing Operations (1)

Adjusted EBITDA from Continuing Operations (1)

Adjusted Funds from Continuing Operations (1)



	2016	2015	2014
Balance Sheet			
Cash and short-term investments	**101.6**	103.6	35.5
Total assets	**988.6**	1,026.9	1,915.3
Long-term debt, including current portion	**503.6**	454.1	472.0
Disposal group held for sale:			
Assets held for sale	**–**	–	1,254.5
Liabilities held for sale	**–**	–	1,137.8
Financial Results (1)			
Revenue from continuing operations	**1,060.8**	943.3	784.0
Net operating income from continuing operations	**130.1**	119.8	100.3
Adjusted EBITDA from continuing operations	**92.9**	83.7	71.5
Adjusted funds from continuing operations	**66.7**	43.6	33.6
Adjusted funds from operations (AFFO)	**65.0**	50.8	73.7
AFFO ($ per basic share)	**0.74**	0.58	0.84
Dividends declared	**42.4**	42.1	42.1
Dividends declared ($ per basic share)	**0.48**	0.48	0.48
Dividend payout ratio (% of AFFO)	**65**	83	57
Weighed average shares:			
Basic (thousands)	**88,372**	87,768	87,736
Diluted (thousands)	**99,624**	99,012	98,980

(1) Refer to non-GAAP measures on page 18.

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 its business operations, business strategy and financial condition. Please refer to page 18 for a caution to the reader on the reliance of such statements.

Management's Discussion and Analysis

Year ended December 31, 2016
Dated: 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 specializing 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) 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 was 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 represented 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 Service Volumes					**2016**					2015
	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 benefited 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 due to 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 benefited 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 $80.0 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 CCACs to the LHINs 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 LHINs 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 license 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.

Consolidated Financial Statements

Year ended December 31, 2016
Dated: February 28, 2017

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Management's Responsibility for Financial Statements

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

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

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

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

Timothy L. Lukenda
President and Chief Executive Officer

Elaine E. Everson
Vice President and Chief Financial Officer

February 28, 2017

Independent Auditors' Report

To the Shareholders of Extendicare Inc.

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

KPMG LLP

Chartered Professional Accountants,
Licensed Public Accountants

Toronto, Canada
February 28, 2017

Consolidated Statements of Financial Position

As at December 31

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

See accompanying notes to consolidated financial statements.

Commitments and contingencies *(note 23)*.

Subsequent events *(notes 9 and 11)*.

Approved by the Board

Benjamin J. Hutzel
Chairman

Timothy L. Lukenda
President and Chief Executive Officer

Consolidated Statements of Earnings

Years ended December 31

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

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Years ended December 31

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

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Years ended December 31

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

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31

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

See accompanying notes to consolidated financial statements.

Years ended December 31, 2016 and 2015

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Years ended December 31, 2016 and 2015
(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

1. General Information and Nature of the Business

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

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

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

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

2. Basis of Preparation

a) Statement of Compliance

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

b) Basis of Measurement

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

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

c) Use of Estimates and Judgement

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

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

The more subjective of such estimates are:

- valuation of purchase price components for acquisitions *(note 5)*;
- valuation of deferred consideration *(notes 9 and 25(a))*;
- determination of the recoverable amount of cash generating units (CGUs) subject to an impairment test *(notes 18 and 21)*;
- valuation of indemnification provisions *(notes 10 and 21)*;
- valuation of self-insured liabilities *(notes 10 and 21)*;
- valuation of interest rate swaps *(notes 9, 11, and 19)*;

- valuation of financial assets and liabilities *(note 25(b))*;
- valuation of share-based compensation *(note 13)*; and
- accounting for tax uncertainties and the tax rates used for valuation of deferred taxes *(note 22)*.

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

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

3. Significant Accounting Policies

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

a) Basis of Consolidation

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

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

b) Foreign Currency

Foreign Operations

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

Foreign Currency Transactions

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

c) Cash and Short-term Investments

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

d) Property and Equipment

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

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

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

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

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

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

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

e) Government Grants

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

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

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

f) Leases

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

When the Company is the Lessee

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

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

When the Company is the Lessor

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

g) Goodwill and Other Intangible Assets

Goodwill

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

Other Intangible Assets

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

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

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

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

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

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

h) Impairment

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

Non-Financial Assets

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

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

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

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

Financial Assets

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

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

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

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

i) Employee Benefits

Defined Benefit Plans

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

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

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

Defined Contribution Plans

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

Short-term Employee Benefits

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

j) Share-based Compensation

Cash-settled Share Appreciation Rights Plan

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

Equity-settled Long-term Incentive Plan

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

k) Provisions

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

Self-insured Liabilities

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

Decommissioning Provisions

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

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

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

Indemnification Provisions

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

Other Provisions

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

l) Fair Value Measurement

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

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

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

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

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

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

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

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

m) Financial Instruments

Financial Assets and Liabilities

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

Held-to-maturity Financial Assets

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

Loans and Receivables

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

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

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

Assets Held for Sale (AFS)

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

Financial Liabilities

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

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

Summary of Financial Instruments and Classification

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

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

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

Derivative Financial Instruments

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

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

n) Revenue

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

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

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

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

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

o) Finance Costs and Finance Income

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

p) Income Taxes

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

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

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

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

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

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

q) Discontinued Operations

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

4. Future Changes in Accounting Policies

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

Classification and Measurement of Share-based Payment Transactions

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

Recognition of Deferred Tax Assets for Unrealized Losses

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

Leases

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

Financial Instruments

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

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

Revenue Recognition

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

5. Acquisitions

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

2016 Acquisition of Retirement Communities

West Park Crossing and Yorkton Crossing Retirement Communities

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

2015 Acquisition of Retirement Communities

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

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

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

Empire Crossing Retirement Community

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

Harvest Retirement Community

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

Stonebridge Crossing Retirement Community and Riverbend Crossing Memory Care Community

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

Home Health Acquisition

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

The Home Health Acquisition was financed with a bridge loan of $80.0 million (the "Bridge Loan") and cash on hand. The Bridge Loan was repaid in full on July 2, 2015, from a portion of the proceeds from the U.S. Sale Transaction *(note 21)*, and bore interest at an average interest rate of 5.93% per annum. Financing fees incurred of $1.4 million were recorded as part of the carrying value of the Bridge Loan and amortized using the effective interest method during the 2015 second quarter.

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

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

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

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

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

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

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

6. Accounts Receivable

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

7. Property and Equipment

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

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

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

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

8. Goodwill and Other Intangible Assets

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

9. Other Assets

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

Investments Held for Self-insured Liabilities

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

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

Notes, Mortgages and Amounts Receivable

Notes, mortgages and amounts receivable were primarily related to discounted amounts receivable due from government agencies, which represents the Ontario construction funding subsidy for newly constructed nursing centres, totalling $63.5 million (2015 – $72.4 million) of which $4.9 million (2015 – $6.2 million) is current. In 2013, the Company participated in the first phase of the Ontario Ministry of Health and Long-Term Care redevelopment program and redeveloped two of its class "C" centres that qualified for a construction funding subsidy of $14.30 per bed per day over 25 years, plus an additional $3.35 per bed per day on a retroactive basis. Commencing in the 2016 first quarter, the Company received the additional subsidy and recorded the present value of the additional funding totalling $6.4 million. The construction funding subsidies have been discounted at rates ranging from 3.27% to 6.5%, with the values being recorded as a reduction in the cost of the property and equipment related to the centres. The accretion of the note receivable is recognized in interest revenue as part of net finance costs.

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

Deferred Consideration

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

Funds Held in Escrow

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

10. Provisions

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

Accrual for Self-insured Liabilities

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

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

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

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

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

Indemnification Provisions

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

Decommissioning Provisions

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

11. Long-term Debt

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

Canadian Operations

Convertible Unsecured Subordinated Debentures

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

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

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

CMHC Mortgages

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

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

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

Non-CMHC Mortgages

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

Construction Loans

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

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

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

Finance Lease Obligations

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

Finance lease obligations are payable as follows:

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

Other

Credit Facility

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

Letters of Credit

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

Restricted Cash

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

Deferred Financing Costs

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

Below is a summary of the deferred financing costs:

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

Principal Repayments

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

Year	Amount
2017	50,360
2018	20,223
2019	137,848
2020	55,857
2021	10,701
2022 and beyond	148,171
	423,160

Interest Rates

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

12. Other Long-term Liabilities

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

Obligations Assumed on Disposition of U.S. Operations

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

13. Share-based Compensation

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

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

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

Cash-settled Share Appreciation Rights Plan

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

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

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

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

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

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

Equity-settled Long-term Incentive Plan

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

During 2016, 59,967 DSUs were granted at a weighted average fair value of $9.21 per DSU at the grant date.On April 7, 2016, the Board granted 167,343 PSUs to executives that vest on April 7, 2019.

The grant date value of each PSU was $9.81 based on the fair value of one award with two equal components being the adjusted funds from operations (AFFO) and total shareholder return (TSR). The fair value of the AFFO component was measured using the previous day's closing trading price of the Common Shares of $9.59, for an AFFO component value of $4.80. The fair value of the TSR component was measured using the Monte Carlo simulation method, for a TSR component value of $5.01. The following assumptions were used in the Monte Carlo simulation model:

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

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

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

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

14. Share Capital

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

Authorized Capital

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

Common Shares

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

Preferred Shares

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

Distribution Reinvestment Plan

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

Normal Course Issuer Bid

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

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

15. Equity Reserves

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

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

Fair Value Reserve

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

Translation Reserve

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

16. Revenue

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

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

17. Expenses by Nature

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

18. Other Expense

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

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

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

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

Impairment

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

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

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

19. Finance Costs and Finance Income

Foreign Exchange on U.S. Sale

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

Foreign Exchange on Deferred Consideration

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

Funds Repatriated from the Captive

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

Fair Value Adjustment on Interest Rate Swaps

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

20. Earnings per Share

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

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

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

21. Discontinued Operations

U.S. IT Hosting Operations

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

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

U.S. Sale Transaction

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

Indemnifications

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

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

Results of Discontinued Operations

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

			2016			2015
	U.S. IT Hosting	**U.S. Sale**	**Total**	U.S. IT Hosting	U.S. Sale	Total
Nursing and assisted living centres revenue	**–**	**–**	**–**	–	633,133	633,133
Health technology services revenue	**28,751**	**–**	**28,751**	36,330	–	36,330
Outpatient therapy revenue	**–**	**–**	**–**	–	6,735	6,735
Management, consulting and other	**–**	**–**	**–**	–	15,775	15,775
Total revenue	**28,751**	**–**	**28,751**	36,330	655,643	691,973
Operating expenses	**23,979**	**–**	**23,979**	27,861	598,857	626,718
Administrative costs	**5,055**	**–**	**5,055**	4,924	24,039	28,963
Lease costs	**621**	**–**	**621**	791	3,173	3,964
Total expenses	**29,655**	**–**	**29,655**	33,576	626,069	659,645
Earnings (loss) before depreciation, amortization, and other expense	**(904)**	**–**	**(904)**	2,754	29,574	32,328
Depreciation and amortization	**1,185**	**–**	**1,185**	3,613	–	3,613
Other expense (income)	**–**	**(22,651)**	**(22,651)**	–	12,028	12,028
Earnings (loss) before net finance costs and income taxes	**(2,089)**	**22,651**	**20,562**	(859)	17,546	16,687
Net finance costs	**16**	**–**	**16**	43	20,508	20,551
Earnings (loss) before income taxes	**(2,105)**	**22,651**	**20,546**	(902)	(2,962)	(3,864)
Income tax expense (recovery)	**(50)**	**8,103**	**8,053**	(316)	(6,498)	(6,814)
Earnings (loss) from discontinued operations, before gain (loss) on sale of U.S. operations	**(2,055)**	**14,548**	**12,493**	(586)	3,536	2,950
Gain (loss) on sale of U.S. operations, net of income taxes	**(8,458)**	**–**	**(8,458)**	–	205,418	205,418
Earnings (loss) from discontinued operations	**(10,513)**	**14,548**	**4,035**	(586)	208,954	208,368
Cash Flows from Discontinued Operations						
Net cash from operating activities	**575**	**(32,976)**	**(32,401)**	(1,311)	3,247	1,936
Net cash from investing activities	**8,096**	**32,976**	**41,072**	(2,268)	163,860	161,592
Net cash from financing activities	**(8,671)**	**–**	**(8,671)**	3,579	(234,519)	(230,940)
Foreign exchange gain on cash	**–**	**–**	**–**	–	4,108	4,108
Effect on cash flows	**–**	**–**	**–**	–	(63,304)	(63,304)

22. Income Taxes

Tax Recognized in Net Earnings

	2016	2015
Current Tax Expense		
Current year	**11,304**	11,849
Sale of U.S. operations	**8,521**	46,300
Utilization of losses	**(18)**	(1,474)
Other prior year adjustments	**(5,488)**	3,572
	14,319	60,247
Deferred Tax Expense (Recovery)		
Origination and reversal of temporary difference	**946**	(5,101)
Sale of U.S. operations	**(648)**	(5,989)
Utilization of losses	**–**	(807)
Other prior year adjustments	**665**	17
	963	(11,880)
Total tax expense	**15,282**	48,367
Tax expense from continuing operations	**7,411**	13,840
Tax expense from discontinued operations	**7,871**	34,527
Total tax expense	**15,282**	48,367

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

Tax Recognized in Other Comprehensive Income

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

Effective Tax Rate

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

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

Summary of Operating and Capital Loss Carryforwards

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

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

Recognized Deferred Tax Assets and Liabilities

Net deferred tax liabilities comprise the following:

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

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

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

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

23. Commitments and Contingencies

Operating Lease Commitments

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

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

Property and Equipment Commitments

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

Legal Proceedings and Regulatory Actions

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

24. Employee Benefits

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

Defined Benefit Plans

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

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

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

Funding

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

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

Defined Benefit Obligations

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

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

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

Effect of Changes to Defined Benefit Obligations

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

Plan Assets

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

Actuarial Assumptions

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

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

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

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

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

Defined Contribution Plans

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

25. Management of Risks and Financial Instruments

a) Management of Risks

Management of Liquidity Risk

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

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

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

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

Management of Credit Risk

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

	Carrying Amount	
	2016	2015
Cash and short-term investments	**101,582**	103,622
Restricted cash	**2,227**	2,509
Total receivables, net of allowance *(note 6)*	**52,234**	52,678
Investments held for self-insured liabilities *(notes 9 and 21)*	**136,109**	176,770
Notes, mortgages and amounts receivable *(note 9)*	**64,120**	73,027
Deferred consideration *(note 9)*	**37,429**	38,990
	393,701	447,596

Cash and Short-term Investments

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

Restricted Cash

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

Total Receivables, Net of Allowance

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

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

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

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

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

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

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

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

The aging analysis of these trade receivables is as follows:

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

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

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

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

Investments Held for Self-insured Liabilities

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

Notes, Mortgages and Amounts Receivable

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

Deferred Consideration

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

Management of Currency Risk

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

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

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

Net Earnings Sensitivity Analysis

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

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

Management of Interest Rate Risk

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

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

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

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

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

(1) Includes current portion and excludes netting of financing costs.

Fair Value Sensitivity Analysis for Variable-rate Instruments

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

Cash Flow Sensitivity Analysis for Variable-rate Instruments

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

b) Fair Values of Financial Instruments

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

(1) Included in other assets.

(2) Includes primarily amounts receivable from government.

(3) Includes current portion.

(4) Excludes netting of financing costs.

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

(1) Included in other assets.

(2) Includes primarily amounts receivable from government.

(3) Includes current portion.

(4) Excludes netting of financing costs.

Basis for Determining Fair Values

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

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

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

Fair Value Hierarchy

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

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

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

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

26. Capital Management

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

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

Normal Course Issuer Bid

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

Capital Structure

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

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

(1) Net of financing costs.

Dividends

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

Financial Covenants

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

27. Related Party Transactions

a) Transactions with Key Management Personnel

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

b) Compensation of Key Management Personnel

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

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

28. Segmented Information

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

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

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

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

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

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

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

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

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

29. Significant Subsidiaries

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

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

Three-year Summary

(unaudited) (thousands of dollars unless otherwise noted)	**2016**	2015	2014
Financial Position			
Property and equipment	**465,433**	426,191	331,134
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
Long-term debt, including current portion	**503,568**	454,074	472,028
Shareholders' equity (deficiency)	**174,759**	172,129	(2,504)
Number of shares outstanding *(year end)*	**88,684,485**	87,953,291	88,195,076
Financial Results			
Revenue from continuing operations			
Long-term care	**608,618**	594,198	583,678
Retirement living	**15,474**	1,238	–
Home health care	**414,406**	326,964	185,491
Management, consulting and other	**18,565**	15,583	12,843
U.S. operations	**3,695**	5,296	1,942
	1,060,758	943,279	783,954
Net operating income from continuing operations [1]			
Long-term care	**75,619**	69,490	68,550
Retirement living	**647**	251	–
Home health care	**40,215**	36,521	23,741
Management, consulting and other	**9,960**	8,232	6,066
U.S. operations	**3,695**	5,296	1,942
	130,136	119,790	100,299
Adjusted EBITDA [1]	**92,935**	83,691	71,535
Earnings from continuing operations before separately reported items [1]	**30,907**	24,517	13,302
Gain (loss) on sale of U.S. operations	**(8,458)**	205,418	–
Net earnings (loss)	**35,452**	232,078	(18,753)
AFFO (continuing operations) [1]	**66,722**	43,587	33,619
AFFO (continuing operations) per basic share *($)*	**0.76**	0.50	0.38
AFFO [1]	**65,056**	50,828	73,692
AFFO per basic share *($)*	**0.74**	0.58	0.84
Dividends declared per share *($)*	**0.48**	0.48	0.48
Dividend payout ratio (% of AFFO)	**65**	83	57
Average U.S./Canadian dollar exchange rate	**1.3248**	1.2787	1.1045
Other Information			
Number of senior care centres operated *(year end)*			
Owned/leased [2]	**65**	62	58
Managed	**53**	54	46
	118	116	104
Operational resident capacity of senior care centres *(year end)*			
Owned/leased [2]	**8,690**	8,464	8,116
Managed	**6,332**	6,426	5,470
	15,022	14,890	13,586
Average occupancy of long-term care centres (owned/leased) *(%)*	**98.0**	97.9	97.9
Average occupancy of retirement living communities *(%)*			
Mature communities	**80.6**	60.8	–
Lease-up communities	**47.7**	70.2	–
Total communities	**59.8**	64.1	–
ParaMed home health care hours of service	**10,909,000**	8,873,000	5,082,000
Number of employees *(year end)*	**23,800**	23,000	16,800
Senior care and living operations	**12,000**	11,700	11,400
Home health care operations	**11,800**	11,300	5,400

(1) Refer to discussion of non-GAAP measures on page 18.

(2) Extendicare operates nine long-term care centres under finance lease arrangements, whereby ownership transfers to Extendicare at the end of the respective lease terms.

Corporate Information

Extendicare Inc. Board of Directors

Benjamin J. Hutzel [HR/GN]
Chairman of the Board

Frederic A. Waks [AQ]
Vice Chairman of the Board,
President and Chief Executive Officer
of Trinity Development Group Inc.

Timothy L. Lukenda
President and Chief Executive Officer

Margery O. Cunningham [A]
Corporate Director and Consultant

Sandra L. Hanington [A, QR]
President and Chief Executive Officer
of the Royal Canadian Mint

Alan R. Hibben [A, AQ]
Corporate Director and Advisor

Donna E. Kingelin [AQ, QR]
Principal of Kingswood Consulting

Gail Paech [HR/GN, QR]
President and Chief Executive Officer
of Associated Medical Services Inc.

Alan D. Torrie [A, HR/GN]
President and Chief Executive Officer
of Morneau Shepell Inc.

Honorary Directors

George A. Fierheller
Dr. Seth. B. Goldsmith
Alvin G. Libin
J. Thomas MacQuarrie, QC

A	Audit Committee
AQ	Acquisitions Committee
HR/GN	Human Resources, Governance and Nominating Committee
QR	Quality and Risk Committee

Officers and Executives

Extendicare Inc.

3000 Steeles Ave. East, Suite 103, Markham, Ontario, L3R 4T9

Timothy L. Lukenda
President and Chief Executive Officer

Elaine E. Everson
Vice President and Chief Financial Officer

Jillian E. Fountain
Corporate Secretary

Extendicare (Canada) Inc.

3000 Steeles Ave. East, Suite 103, Markham, Ontario, L3R 4T9

Timothy L. Lukenda
Chairman and Chief Executive Officer

Elaine E. Everson
Vice President and Chief Financial Officer

Jillian E. Fountain
Corporate Secretary

Deborah Bakti
Vice President, Human Resources

Michael A. Harris
Vice President, LTC Operations

Gary M. Loder
Vice President, Extendicare Assist
and SGP Purchasing Partner Network

Mark A. Lugowski
Vice President,
Esprit Lifestyle Communities

Richard Luneburg
Vice President, ParaMed Home Health Care

Christina L. McKey
Vice President

A. Paula Neves
Vice President, Quality
and Healthcare Innovation

Securityholder Information

Extendicare Inc.

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Transfer Agent

Computershare Trust Company of Canada
Tel: (800) 564-6253
Fax: (866) 249-7775

Email: service@computershare.com
www.computershare.com

Exchange Listings/ Trading Profile

Toronto Stock Exchange Symbols
Common shares: EXE
Convertible debentures: EXE.DB.B

2016 EXE Common Share Activity
High: $10.23; Low: $7.62
Close: $9.88; Volume: 70,282,447

Shareholder Inquiries/ Investor Relations

Jillian Fountain
Corporate Secretary
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Fax: (905) 470-4003

Email: jfountain@extendicare.com

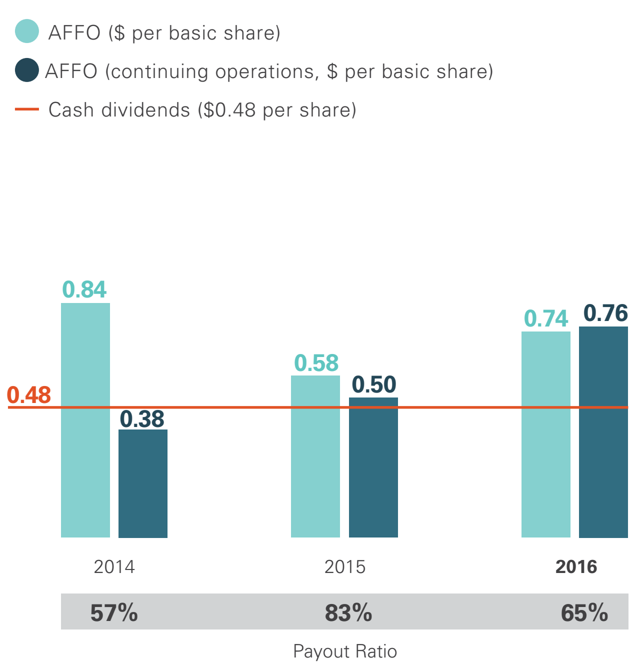
Annual Meeting

Shareholders are invited to attend the Annual General Meeting of Extendicare Inc. on May 25, 2017, at 10:30 a.m., at the TMX Broadcast Centre - the Gallery, 130 King Street West, Toronto, Ontario, Canada.

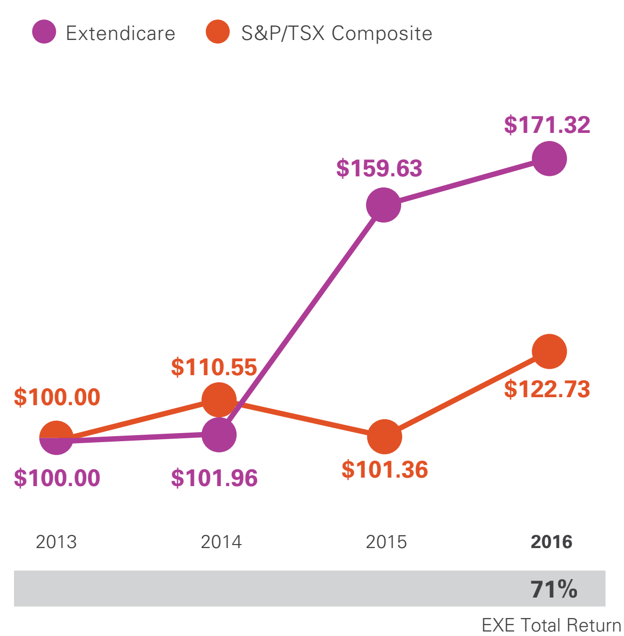
Published Information

Extendicare's 2016 Annual Report is available for viewing or printing on its website at www.extendicare.com, together with news releases, quarterly reports and other filings with the securities commissions. Printed copies of the annual report are available upon request to the Corporate Secretary.

Extendicare AFFO and Cash Dividends



Total Return Share Price Performance
(assuming $100 investment was made on December 31, 2013)



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