EXTENDICARE®
... helping people live better

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

Year Ended December 31, 2017

Dated: February 28, 2018

The Right Care – The Right Time – The Right Place

Management’s Responsibility for Consolidated 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 consolidated 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, which has full and unrestricted access to the Audit Committee. KPMG’s report on the consolidated financial statements follows.

/s/ Timothy L. Lukenda

TIMOTHY L. LUKENDA
President and Chief Executive Officer

/s/ Elaine E. Everson

ELAINE E. EVERSON
Vice President and
Chief Financial Officer

February 28, 2018

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, 2017, and December 31, 2016, and the consolidated statements of earnings, comprehensive income (loss), 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 Consolidated 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 consolidated 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 consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial position of Extendicare Inc. as at December 31, 2017, and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards.

(signed KPMG LLP)

Chartered Professional Accountants,
Licensed Public Accountants

Toronto, Canada
February 28, 2018

Extendicare Inc.

Consolidated Statements of Financial Position

As at December 31

(in thousands of Canadian dollars)	*notes*	**2017**	2016
Assets			
Current assets			
Cash and short-term investments		**128,156**	101,582
Restricted cash		**2,300**	2,227
Accounts receivable	*7*	**42,491**	52,234
Income taxes recoverable		**7,194**	3,058
Other assets	*10*	**20,634**	25,251
Total current assets		**200,775**	184,352
Non-current assets			
Property and equipment	*8*	**479,968**	465,433
Goodwill and other intangible assets	*9*	**95,901**	89,770
Other assets	*10*	**143,746**	233,715
Deferred tax assets	*23*	**13,891**	15,347
Total non-current assets		**733,506**	804,265
Total assets		**934,281**	988,617
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		**123,420**	121,830
Income taxes payable		**3,500**	430
Long-term debt	*12*	**59,664**	54,826
Provisions	*11*	**29,937**	31,419
Total current liabilities		**216,521**	208,505
Non-current liabilities			
Long-term debt	*12*	**476,404**	448,742
Provisions	*11*	**63,062**	100,006
Other long-term liabilities	*13*	**35,022**	36,039
Deferred tax liabilities	*23*	**14,316**	20,566
Total non-current liabilities		**588,804**	605,353
Total liabilities		**805,325**	813,858
Share capital	*15*	**490,881**	489,656
Equity portion of convertible debentures	*12*	**5,573**	5,573
Contributed surplus	*14*	**2,437**	941
Accumulated deficit		**(365,084)**	(322,025)
Accumulated other comprehensive income (loss)		**(4,851)**	614
Shareholders' equity		**128,956**	174,759
Total liabilities and equity		**934,281**	988,617

See accompanying notes to consolidated financial statements.

Commitments and contingencies (note 24).

Subsequent events (notes 15 and 31).

Approved by the Board

/s/ Alan D. Torrie	/s/ Timothy L. Lukenda
Alan D. Torrie	**Timothy L. Lukenda**
Chairman	President and Chief Executive Officer

Extendicare Inc.

Consolidated Statements of Earnings

Years ended December 31

(in thousands of Canadian dollars except for per share amounts)	***notes***	**2017**	2016
CONTINUING OPERATIONS			
Revenue			
Long-term care		**616,887**	608,618
Retirement living		**20,673**	15,474
Home health care		**435,718**	414,406
Management, consulting and other		**24,053**	22,260
Total revenue	*17, 29*	**1,097,331**	1,060,758
Operating expenses		**961,509**	930,622
Administrative costs		**31,467**	30,551
Lease costs		**6,758**	6,650
Total expenses	*18*	**999,734**	967,823
Earnings before depreciation, amortization, and other expense		**97,597**	92,935
Depreciation and amortization		**31,379**	31,179
Other expense	*19*	**-**	4,013
Earnings before net finance costs and income taxes		**66,218**	57,743
Interest expense		**28,082**	27,039
Accretion of decommissioning provisions		**349**	349
Other accretion		**2,463**	2,152
Loss (gain) on foreign exchange	*20*	**(864)**	1,198
Interest revenue		**(3,902)**	(10,838)
Fair value adjustments	*20*	**(2,474)**	(985)
Net finance costs		**23,654**	18,915
Earnings before income taxes		**42,564**	38,828
Income tax expense			
Current		**10,149**	5,801
Deferred		**703**	1,610
Total income tax expense	*23*	**10,852**	7,411
Earnings from continuing operations		**31,712**	31,417
DISCONTINUED OPERATIONS			
Loss on sale of U.S. operations, net of income taxes	*22*	**-**	(8,458)
Earnings (loss) from discontinued operations, net of income taxes	*22*	**(29,580)**	12,493
Net earnings		**2,132**	35,452
Basic and Diluted Earnings per Share			
Earnings from continuing operations	*21*	**0.36**	0.36
Net earnings	*21*	**0.02**	0.40

See accompanying notes to consolidated financial statements.

Extendicare Inc.

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31

(in thousands of Canadian dollars)	***notes***	**2017**	2016
Net earnings		**2,132**	35,452
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	***23, 25***	**(311)**	2,313
Items that are or may be reclassified subsequently to profit or loss:			
Unrealized gain on available-for-sale securities, net of tax		**4,955**	5,574
Reclassification of realized gains on available-for-sale securities to earnings, net of tax		**(7,012)**	(2,532)
Foreign currency translation adjustment reclassified to gain on sale of U. S. operations, net of tax		**-**	(1,431)
Other net change in foreign currency translation adjustment		**(3,097)**	(1,532)
Total items that are or may be reclassified subsequently to profit or loss	***16, 23***	**(5,154)**	79
Other comprehensive income (loss), net of tax		**(5,465)**	2,392
Total comprehensive income (loss)		**(3,333)**	37,844

See accompanying notes to consolidated financial statements.

Extendicare Inc.

Consolidated Statements of Changes in Equity

Years ended December 31

(in thousands of Canadian dollars)	**2017**		2016	
	Number of Shares	***Amount***	*Number of Shares*	*Amount*
Share Capital *(note 15)*				
Balance at January 1	***88,684,485***	**489,656**	*87,953,291*	483,385
DRIP	***535,025***	**5,081**	*731,194*	6,271
Purchase of shares for cancellation	***(696,220)***	**(3,856)**	-	-
Balance at end of year	***88,523,290***	**490,881**	*88,684,485*	489,656
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		**941**		-
Share-based compensation		**1,496**		941
Balance at end of year		**2,437**		941
Accumulated Deficit				
Balance at January 1		**(322,025)**		(315,051)
Net earnings		**2,132**		35,452
Dividends declared		**(42,583)**		(42,422)
Purchase of shares for cancellation in excess of book value		**(2,599)**		-
Other		**(9)**		(4)
Balance at end of year		**(365,084)**		(322,025)
Accumulated Other Comprehensive Income				
Foreign currency translation differences for foreign operations				
Balance at January 1		**3,775**		6,738
Foreign currency translation adjustment reclassified to gain on sale of U.S. operations *(note 22)*		**-**		(1,431)
Change in the year		**(3,097)**		(1,532)
Balance at end of year		**678**		3,775
Net change in fair value of available-for-sale financial assets, net of tax				
Balance at January 1		**6,391**		3,349
Unrealized change in the year		**4,955**		5,574
Net change reclassified to profit or loss		**(7,012)**		(2,532)
Balance at end of year		**4,334**		6,391
Defined benefit plan actuarial losses, net of tax				
Balance at January 1		**(9,552)**		(11,865)
Change in the year		**(311)**		2,313
Balance at end of year		**(9,863)**		(9,552)
Accumulated other comprehensive income (loss)		**(4,851)**		614
Shareholders' equity		**128,956**		174,759

See accompanying notes to consolidated financial statements.

Extendicare Inc.

Consolidated Statements of Cash Flows

Years ended December 31

(in thousands of Canadian dollars)	**2017**	2016
Operating Activities		
Net earnings	**2,132**	35,452
Adjustments for:		
Depreciation and amortization	**31,379**	32,364
Share-based compensation	**1,496**	941
Deferred taxes	**(5,063)**	963
Current taxes	**8,919**	14,319
Net finance costs	**26,992**	18,718
Other expense (gains)	**36,576**	(9,998)
Loss (gain) on foreign exchange and fair value adjustments	**(3,338)**	213
Other	**240**	-
	99,333	92,972
Net change in operating assets and liabilities		
Accounts receivable	**9,569**	(8,319)
Other assets	**4,283**	14,566
Accounts payable and accrued liabilities	**(6,144)**	(33,590)
	107,041	65,629
Payments for U.S. self-insured liabilities	**(24,160)**	(32,976)
Interest paid	**(29,560)**	(26,540)
Interest received	**3,932**	10,835
Income taxes paid	**(10,093)**	(16,637)
Net cash from operating activities	**47,160**	311
Investing Activities		
Purchase of property, equipment and other intangible assets	**(41,137)**	(38,837)
Acquisitions *(note 6)*	**-**	(40,500)
Tax payments related to the U.S. Sale Transaction	**-**	(10,808)
Net proceeds from dispositions *(note 22)*	**-**	9,534
Decrease in investments held for self-insured liabilities	**41,142**	37,956
Decrease in other assets	**5,591**	25,213
Net cash from investing activities	**5,596**	(17,442)
Financing Activities		
Issue of long-term debt, excluding line of credit	**43,654**	68,855
Repayment of long-term debt, excluding line of credit	**(22,029)**	(21,006)
Decrease (increase) in restricted cash	**(73)**	4,783
Purchase of securities for cancellation	**(6,455)**	-
Dividends paid	**(37,507)**	(36,122)
Other	**(1,202)**	(702)
Net cash from financing activities	**(23,612)**	15,808
Increase (decrease) in cash and short-term investments	**29,144**	(1,323)
Cash and short-term investments at beginning of year	**101,582**	103,622
Foreign exchange loss on cash held in foreign currency	**(2,570)**	(717)
Cash and short-term investments at end of year	**128,156**	101,582

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

YEARS ENDED DECEMBER 31, 2017 AND 2016

1. GENERAL INFORMATION AND NATURE OF THE BUSINESS ... 9
2. BASIS OF PREPARATION ... 9
3. SIGNIFICANT ACCOUNTING POLICIES ... 10
4. NEW ACCOUNTING POLICIES ADOPTED ... 18
5. FUTURE CHANGES IN ACCOUNTING POLICIES ... 18
6. ACQUISITIONS ... 19
7. ACCOUNTS RECEIVABLE ... 19
8. PROPERTY AND EQUIPMENT ... 20
9. GOODWILL AND OTHER INTANGIBLE ASSETS ... 21
10. OTHER ASSETS ... 21
11. PROVISIONS ... 22
12. LONG-TERM DEBT ... 23
13. OTHER LONG-TERM LIABILITIES ... 25
14. SHARE-BASED COMPENSATION ... 26
15. SHARE CAPITAL ... 27
16. EQUITY RESERVES ... 28
17. REVENUE ... 29
18. EXPENSES BY NATURE ... 29
19. OTHER EXPENSE ... 29
20. FOREIGN EXCHANGE (GAIN) LOSS AND FAIR VALUE ADJUSTMENTS ... 29
21. EARNINGS PER SHARE ... 30
22. DISCONTINUED OPERATIONS ... 30
23. INCOME TAXES ... 32
24. COMMITMENTS AND CONTINGENCIES ... 34
25. EMPLOYEE BENEFITS ... 35
26. MANAGEMENT OF RISKS AND FINANCIAL INSTRUMENTS ... 37
27. CAPITAL MANAGEMENT ... 42
28. RELATED PARTY TRANSACTIONS ... 43
29. SEGMENTED INFORMATION ... 44
30. SIGNIFICANT SUBSIDIARIES ... 45
31. SUBSEQUENT EVENT ... 45

1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

The common shares (the "Common Shares") of Extendicare Inc. ("Extendicare" or the "Company") are listed 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 throughout Canada. Following the sale of substantially all of its U.S. business in 2015 and the repositioning of the Company as a pure-play Canadian services provider to the expanding senior care sector, management has successfully deployed the sale proceeds to expand and grow the Company's operations across the continuum of seniors' care.

In July 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"). In December 2016, the Company disposed of its non-strategic U.S. information technology hosting and professional services (U.S. IT Hosting) business. The results of operations of the disposed U.S. operations are reported as discontinued operations (*note 22*).

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, Suite 700, 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, 2018.

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 as 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 consolidated 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 6*);
- valuation of deferred consideration (*notes 10 and 26(a)*);
- determination of the recoverable amount of cash generating units (CGUs) subject to an impairment test (*note 19*);
- valuation of indemnification provisions (*notes 11 and 22*);
- valuation of self-insured liabilities (*notes 11 and 22*);

- valuation of financial assets and liabilities (*note 26(b)*);
- valuation of share-based compensation (*note 14*); and
- accounting for tax uncertainties and the tax rates used for valuation of deferred taxes (*note 23*).

In addition, the assessment of contingencies (*note 24*) is subject to judgement.

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 short-term investments 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 14*), 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 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 22*), 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.

INDEMNIFICATION PROVISIONS

Indemnification provisions include management's best estimate of amounts required to indemnify for obligations related to tax, a corporate integrity agreement (CIA), 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 consolidated 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 fair value through profit and loss (FVTPL), assets held for sale (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

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 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. Convertible debentures that were issued prior to the Company being converted from an income trust effective July 1, 2012, were designated as financial liabilities valued at FVTPL, whereas those issued subsequently 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.

o) Finance Costs and Finance Income

Finance costs include: interest expense on long-term debt; accretion of the discount on provisions, decommissioning provisions and convertible debentures; 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 statements 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. NEW ACCOUNTING POLICIES ADOPTED

Effective January 1, 2017, Extendicare adopted two new accounting amendments issued by the IASB: IFRS 2 "Share-based Payment", and IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses", both of which are summarized below.

Classification and Measurement of Share-based Payment Transactions

Amendments to IFRS 2 "Share-based Payment" address three classification and measurement issues. The Company has adopted these amendments, which: (1) clarify measurement basis for cash-settled share-based payments such that the ultimate amount of expense recorded is equal to the cash settlement that is paid at vesting; (2) clarify the accounting for modifications that change an award from cash-settled to equity-settled; and (3) introduce a requirement that an equity-settled award, with a net settlement feature for withholding tax obligations, be treated as if it was wholly equity-settled. The adoption of these amendments did not have a material impact on the consolidated financial statements.

Recognition of Deferred Tax Assets for Unrealized Losses

Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses" clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. In particular, these requirements relate to the recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value. The adoption of the amendments to IAS 12 did not have any impact on the consolidated financial statements.

5. 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, 2017.

Revenue Recognition

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers". The new standard provides a single model and two approaches to recognizing revenue: at a point in time or over time. IFRS 15 also includes additional disclosure requirements for revenue accounted for under the standard. The standard applies to contracts with customers, excluding contracts within the scope of the standard on leases. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively.

The Company has substantially completed its assessment of the potential impact of IFRS 15 and does not expect it will have any material impact on the amount or timing of revenue recognized in the consolidated financial statements on an annual basis. Additional disclosure requirements may result in respect of revenue for service components of a lease versus the revenue earned under IFRS 16.

Financial Instruments

On July 24, 2014, an amendment to IFRS 9 “Financial Instruments” (IFRS 9) was issued, which addresses the classification, measurement (including impairment) and recognition of financial assets and financial liabilities. The standard is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows which effectively measures the asset at either fair value or amortized cost. IFRS 9 replaces the current “incurred loss” impairment model with a new “expected credit loss” model.

The standard largely retains the existing accounting requirements for financial liabilities and the accounting treatment of fair value changes attributable to changes in an entity’s own credit risk of financial liabilities that are designated as FVTPL. The Company does not currently have any financial liabilities classified as FVTPL. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Company does not currently apply hedge accounting in its consolidated financial statements.

The Company is completing its evaluation of the impact on its financial instruments of adoption of this standard. The key areas that are in scope of IFRS 9 include: accounts receivable, available-for-sale assets included in investments held for self-insured liabilities and related accumulated other comprehensive income in shareholders’ equity. The Company is still in the process of finalizing its assessment of the adoption of IFRS 9; however, it does not expect that there will be any material impact relating to the classification or measurement of these assets on its consolidated financial statements.

Leases

On January 13, 2016, the IASB published IFRS 16 “Leases”. The new standard requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, using a single model, thereby eliminating the distinction between operating and finance leases. As a lessee, the Company will recognize new assets and liabilities for its operating leases. In addition, the nature and timing of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. IFRS 16 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 does not plan to early adopt IFRS 16, and is in the process of performing its initial assessment of the potential impact of this standard on its consolidated financial statements. The Company expects to disclose additional detailed information, including its transition method, any practical expedients elected and estimated quantitative financial effects, prior to the adoption of IFRS 16.

6. 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 purchase price allocations for all these acquisitions were finalized in 2016. These six retirement communities contributed revenue and net operating income of $19.1 million, and $3.0 million, respectively, for the year ended December 31, 2017, and revenue and net operating income of $15.5 million, and $1.0 million, respectively, for the year ended December 31, 2016.

7. ACCOUNTS RECEIVABLE

	2017	2016
Trade receivables	**33,466**	40,832
Retroactive rate accruals	**-**	585
Other receivables	**9,025**	10,817
Accounts receivable - net of allowance (*note 26(a)*)	**42,491**	52,234

8. PROPERTY AND EQUIPMENT

	Land & Land Improvements	Buildings	Furniture & Equipment	Leasehold Improvements	Construction in Progress	Total
Cost or Deemed Cost						
January 1, 2016	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 6)*	2,000	32,500	1,500	-	-	36,000
Government funding subsidy *(note 10)*	-	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)
Transfers	1,305	13,416	1,112	437	(16,177)	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
Additions	**185**	**3,228**	**3,654**	**108**	**34,634**	**41,809**
Write-off of fully-depreciated assets	**(180)**	**(4,487)**	**(4,834)**	**(124)**	**-**	**(9,625)**
Transfers	**2,548**	**26,797**	**2,637**	**(42)**	**(32,176)**	**(236)**
December 31, 2017	**51,128**	**544,510**	**65,088**	**2,337**	**31,794**	**694,857**

	Land & Land Improvements	Buildings	Furniture & Equipment	Leasehold Improvements	Construction in Progress	Total
Accumulated Depreciation						
January 1, 2016	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
Additions	**543**	**19,890**	**6,102**	**485**	**-**	**27,020**
Write-off of fully-depreciated assets	**(180)**	**(4,487)**	**(4,834)**	**(124)**	**-**	**(9,625)**
Transfers	**-**	**(54)**	**17**	**55**	**-**	**18**
December 31, 2017	**4,096**	**177,928**	**31,013**	**1,852**	**-**	**214,889**
Carrying amounts						
At December 31, 2016	44,842	356,393	33,903	959	29,336	465,433
At December 31, 2017	**47,032**	**366,582**	**34,075**	**485**	**31,794**	**479,968**

The cost of assets included in property and equipment under finance leases was $81.5 million (2016 – $82.7 million) with accumulated depreciation of $30.3 million (2016 – $28.9 million) (*note 12)*.

During 2017, the Company capitalized $1.2 million of borrowing costs related to development projects under construction at an average capitalization rate of 5.3% (2016 - $1.0 million at 6.0%). Building additions included $0.7 million related to a change in the decommissioning provisions (*note 11*).

9. GOODWILL AND OTHER INTANGIBLE ASSETS

	2017	2016
Goodwill		
Balance at beginning of year	**51,675**	53,381
Impairment (*note 19*)	**-**	(1,672)
Disposal	**-**	(33)
Effect of movements in exchange rates	**-**	(1)
Balance at end of year	**51,675**	51,675
Other Intangible Assets		
Gross carrying value at beginning of year	**46,000**	48,724
Additions	**10,490**	194
Write-off of fully amortized assets	**(35)**	(98)
Disposals	**-**	(2,752)
Effect of movements in exchange rates	**-**	(68)
Gross carrying value at end of year	**56,455**	46,000
Accumulated amortization at beginning of year	**7,905**	5,751
Amortization	**4,359**	4,482
Write-off of fully amortized assets	**(35)**	(98)
Disposal	**-**	(2,179)
Effect of movements in exchange rates	**-**	(51)
Accumulated amortization at end of year	**12,229**	7,905
Net carrying value	**44,226**	38,095
Goodwill and other intangible assets	**95,901**	89,770

10. OTHER ASSETS

	2017	2016
Investments held for self-insured liabilities	**86,296**	136,109
Amounts receivable and other assets	**74,625**	84,443
Deferred consideration	**-**	37,429
Interest rate swaps *(note 12)*	**3,459**	985
	164,380	258,966
less: current portion	**20,634**	25,251
	143,746	233,715

Investments Held for Self-insured Liabilities

Extendicare holds investments within the Captive for self-insured liabilities that are subject to insurance regulatory requirements (*note 11*).

The investment portfolio comprises U.S. dollar-denominated cash and money market funds of $75.1 million (2016 – $112.4 million), and investment-grade corporate and government securities of $11.2 million (2016 – $23.7 million). Certain of these investments in the amount of $45.4 million (US$36.1 million) (2016 – $83.8 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. The decline in the investment portfolio included the transfer of US$16.0 million in 2017 to the Company for general corporate use. As at December 31, 2017, all investments were categorized as available for sale and carried at fair value.

Amounts Receivable and Other Assets

Amounts receivable and other assets include discounted amounts receivable due from the government of Ontario with respect to construction funding subsidies for long-term care centres, totalling $58.5 million (2016 – $63.5 million) of which $5.2 million (2016 – $4.9 million) is current. These subsidies represent funding for a portion of long-term care centre construction costs over a 20-year or 25-year period. The weighted average remaining term of this funding is 15 years.

In the 2016 first quarter, the Company received an additional subsidy in connection with two centres 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 amounts receivable and other assets is a $2.8 million receivable as at December 31, 2017 (2016 – $8.3 million), resulting from the U.S. Sale Transaction (*note 22*), as well as prepaid expenses and deposits.

Deferred Consideration

As part of the proceeds from the U.S. Sale Transaction, the Company was 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 "Leased Centres"). The present value ascribed to these proceeds was reflected as deferred consideration, and was recorded at amortized cost using the effective interest method. Subsequent to the 2017 second quarter, the Company received notice that the operator of the Leased Centres had failed to make its required minimum lease payments. As a result of this event and related discussions, the Company does not expect to receive any further amounts and has written off the balance of the deferred consideration of US$27.9 million, resulting in a charge of $37.5 million in the second quarter (*note 22*).

11. PROVISIONS

	Accrual for Self-insured Liabilities	Indemnification Provisions	Decommissioning Provisions	Total
January 1, 2016	148,429	31,879	7,806	188,114
Provisions recorded (released)	(16,818)	2,661	(18)	(14,175)
Provisions used	(32,976)	(5,030)	-	(38,006)
Accretion	1,325	-	349	1,674
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
January 1, 2017	**94,841**	**28,447**	**8,137**	**131,425**
Provisions recorded (released)	**(5,718)**	**4,885**	**699**	**(134)**
Provisions used	**(24,160)**	**(8,817)**	**-**	**(32,977)**
Accretion	**1,283**	**-**	**349**	**1,632**
Effect of movements in exchange rates	**(5,111)**	**(1,836)**	**-**	**(6,947)**
December 31, 2017	**61,135**	**22,679**	**9,185**	**92,999**
Less: current portion	**22,659**	**7,278**	**-**	**29,937**
	38,476	**15,401**	**9,185**	**63,062**

Accrual for Self-insured Liabilities

The obligation to settle any U.S. self-insured general and professional liability claims relating to the period prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extendicare, which it intends to fund through the Captive. Consequently, the balance of the accrual for self-insured liabilities and the related investments held for self-insured liabilities (*note 10*) remain on the consolidated statement of financial position. However, any expense incurred or release of reserves for U.S. self-insured liabilities are presented as discontinued operations; while the Captive's costs to administer and manage the settlement of the remaining claims are reported as continuing operations within the U.S. segment.

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, 2017, the accrual for self-insured general and professional liabilities was $61.1 million (US$48.6 million) compared to $94.8 million (US$70.6 million) at the beginning of the year. The decline of $33.7 million represented claim payments of $24.2 million (US$18.6 million), the release of reserves of $5.7 million (US$4.4 million), reflected as other expense (income) in discontinued operations, and foreign exchange of $5.1 million, partially offset by accretion of $1.3 million (US$1.0 million).

Indemnification Provisions

As a result of the U.S. Sale Transaction (*note 22*), the Company has agreed to indemnify certain obligations of the U.S. operations related to tax, a corporate integrity agreement (the “CIA”), and other items. Any revisions to these estimates are reflected as part of other expense in discontinued operations (*note 22*). As at December 31, 2017, the remaining provisions totalled $22.7 million (US$18.0 million) (2016 – $28.4 million or US$21.2 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)*). An estimated undiscounted cash flow amount of approximately $11 million was discounted using a rate of 1.98% over an estimated time to settle of 8 years. This represents management’s best estimate and actual amounts may differ.

12. LONG-TERM DEBT

	Interest rate	Year of Maturity	**2017**	2016
Canadian Operations				
Convertible unsecured subordinated debentures	6.0%	2019	**124,800**	123,912
CMHC mortgages	2.93% - 7.7%	2018 - 2037	**123,911**	138,305
Non-CMHC mortgages	3.11% - 5.637%	2020 - 2038	**172,844**	145,750
Construction loans	BA + 2.5%	on demand	**29,868**	12,605
Finance lease obligations	2.69% - 7.19%	2018 - 2028	**90,323**	89,738
			541,746	510,310
Financing costs			**(5,678)**	(6,742)
Total debt, net of financing costs			**536,068**	503,568
Less: current portion			**59,664**	54,826
Long-term debt, net of financing costs			**476,404**	448,742

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. 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 2.93% to 7.7% with maturity dates through to 2037.

During the 2017 first quarter, one of the mortgages in the amount of $5.8 million, which matured in October 2016, was renewed at 3.04% to mature in November 2026. In addition, two mortgages totalling $16.5 million, which matured in February 2017, were renewed under the existing CMHC certificate at a rate of 3.35% to mature in February 2032.

NON-CMHC MORTGAGES

The Canadian operations have a number of conventional mortgages on certain long-term care centres, at rates ranging from 3.27% to 5.637%. Some of these mortgages have a requirement to maintain a minimum debt service coverage ratio. In May 2017, the Company secured a $30.0 million term loan with the Canadian Imperial Bank of Commerce (the "CIBC Term Loan") upon maturity of $3.6 million of existing mortgages on nine Alberta long-term care centres. The CIBC Term Loan bears an interest rate based on a variable 30-day banker's acceptance rate plus 1.8% for a term of five years to May 2022, with principal and interest payable in monthly installments based on a 20-year amortization. The maximum borrowing base under the CIBC Term Loan will be determined annually based upon the aggregate of the updated lending value established for each property. The Company entered into an interest rate swap contract to lock in the rate at 3.27% for the full term.

In addition, in August 2016, the Company secured financing on three of the acquired retirement communities, 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.

All interest rate swap contracts are measured at fair value through profit or loss, and hedge accounting has not been applied. Changes in fair value are recorded in the statements of earnings (*note 20)*. As at December 31, 2017, the interest rate swaps were valued as an asset of $3.5 million, which is included as part of other assets (*note 10*).

CONSTRUCTION LOANS

Construction financings totalling $51.4 million for three retirement development projects in Simcoe, Bolton, and Uxbridge, were secured in 2016 and provide for additional letter of credit facilities of $500,000, $750,000, and $750,000, respectively, at a rate of 2.5% if utilized. In the 2017 fourth quarter, an additional $9.0 million of construction financing was secured for the Uxbridge expansion. Loan payments are interest-only based on a floating rate of 30-day banker's acceptance (BA) plus 2.5%, with no standby fee. The construction loans are repayable on demand by the lender and, in any event, are to be fully repaid as follows: Simcoe, in November 2018 (being 24 months from the issuance of the occupancy permit); Uxbridge, in October 2021 (being 60 months from close of the loan); and Bolton, by the earlier of April 2022 or 36 months from the issuance of the occupancy permit. All these financings have been reflected as current. Permanent financing for each of the communities will be sought upon maturity of the construction financing.

As at December 31, 2017, an aggregate of $29.9 million was drawn on the construction loans, and letters of credit totalling $0.5 million were issued under credit facilities.

FINANCE LEASE OBLIGATIONS

The finance lease obligations outstanding at December 31, 2017 represent finance leases on long-term care centres and the present value of a subscription to customized cloud-based software to be used in the home health care operations. The Company operates nine Ontario long-term care centres, which were built between 2001 and 2003, under 25-year finance lease arrangements. The software balance will be accreted through interest expense, and amortized over the contract term.

Finance lease obligations are payable as follows:

			2017			2016
	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	**14,256**	**5,741**	**8,515**	12,104	6,002	6,102
Between one and five years	**53,353**	**17,489**	**35,864**	48,416	19,335	29,081
More than five years	**53,488**	**7,544**	**45,944**	65,593	11,038	54,555
	121,097	**30,774**	**90,323**	126,113	36,375	89,738

Other

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 long-term care centres in Ontario and is guaranteed by certain Canadian subsidiaries of Extendicare. As at December 31, 2017, Extendicare had letters of credit totalling approximately $43.8 million issued under the RBC Credit Facility, of which $39.9 million secure our defined benefit pension plan obligations and the balance were issued in connection with obligations relating to recently acquired centres and those centres under development. The letter of credit to secure the pension plan obligations renews annually based on an actuarial valuation. The unutilized portion of the credit facility was $3.5 million as at December 31, 2017. 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.

In the fourth quarter of 2017, the Company arranged for a demand credit facility in the amount of $65.0 million (the "ParaMed Credit Facility") that is secured by the assets of our home health care business, and it is available for general corporate purposes of the Company. The ParaMed Credit Facility has no financial covenants, but it does contain normal and customary terms. The entire amount of the credit facility was unutilized as at December 31, 2017.

RESTRICTED CASH

In connection with certain financing, funds totalling $2.3 million as at December 31, 2017 (2016 – $2.2 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. The net decrease of $1.1 million in 2017 related to the amortization of finance costs, offset in part by incremental costs of $0.6 million related primarily to the refinancing of the CIBC Term Loan.

Below is a summary of the deferred financing costs:

	2017	2016
Canadian Operations		
Convertible unsecured subordinated debentures	**1,387**	2,180
CMHC mortgages	**2,465**	2,877
Non-CMHC mortgages	**1,595**	1,415
Finance lease obligations	**231**	270
Total financing costs	**5,678**	6,742
Less: current portion	**1,463**	1,636
	4,215	5,106

PRINCIPAL REPAYMENTS

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

Year	*Amount*
2018	52,612
2019	140,448
2020	58,463
2021	13,478
2022	55,781
2023 and beyond	132,341
	453,123

INTEREST RATES

The weighted average interest rate of all long-term debt at December 31, 2017, was approximately 5.0% (2016 – 5.2%). At December 31, 2017, 94.5% of the long-term debt, including interest rate swaps, was at fixed rates (2016 – 97.5%).

13. OTHER LONG-TERM LIABILITIES

	2017	2016
Accrued pension plan obligation *(note 25)*	**34,072**	34,784
Share appreciation rights *(note 14)*	**-**	846
Other	**950**	409
	35,022	36,039

14. SHARE-BASED COMPENSATION

The Company's share-based compensation, which includes SARs, DSUs and PSUs, was an expense of $2.0 million for each of 2017 and 2016.

The carrying amounts of the Company's share-based compensation arrangements are recorded in the consolidated statements of financial position as follows:

	2017	2016
Accounts payable and accrued liabilities – SARs	**1,146**	822
Other long-term liabilities – SARs	**-**	846
Contributed surplus – DSUs	**1,220**	552
Contributed surplus – PSUs	**1,217**	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 SARs plan, 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.

A summary of the Company's SARs activity is as follows:

		2017		2016
	Share Appreciation Rights	**Weighted Average Vesting Price**	Share Appreciation Rights	Weighted Average Vesting Price
Outstanding, beginning of year	**597,000**	**$7.05**	774,111	$6.93
Vested	**(216,000)**	**6.88**	(177,111)	6.52
Forfeited	**(9,000)**	**7.69**	-	-
Outstanding, end of year	**372,000**	**$7.14**	597,000	$7.05
Average remaining contractural life	**0.2 years**		0.9 years	

The SARs were fair valued using the Black-Scholes model based on the following inputs:

	2017	2016
Share price	**9.11**	9.96
Volatility	**14.00%**	20.00%
Risk-free interest rate	**1.00% - 1.21%**	0.56% - 0.69%
Strike price	**$6.55 - $7.69**	$6.52 - $7.69
Expected remaining life	**0.1 years - 0.4 years**	0.4 years - 1.4 years

Equity-settled Long-term Incentive Plan

The Board implemented a new long-term incentive plan (the "LTIP") in 2016 to provide for a new share-based component of executive and director compensation, which is designed to encourage a greater alignment of the interests of our executives and directors with 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. DSUs vest immediately upon grant and PSUs vest three years from the date of grant. None of the PSUs had vested as at December 31, 2017. An aggregate of 4,407,892 Common Shares are reserved and available for issuance pursuant to the LTIP.

A summary of the Company's DSU and PSU activity is as follows:

	Deferred Share Units		Performance Share Units	
	2017	2016	**2017**	2016
Units outstanding, beginning of period	**61,124**	-	**173,550**	-
Granted	**72,742**	59,967	**173,329**	167,343
Reinvested dividend equivalents	**4,137**	1,157	**10,616**	6,207
Forfeited	**-**	-	**(14,551)**	-
Settled	**(3,634)**	-	**-**	-
Units outstanding, end of period	**134,369**	61,124	**342,944**	173,550
Weighted average fair value of units granted during the period at grant date	**$9.68**	$9.21	**$11.63**	$9.81

The grant date values of PSUs awarded were based on the fair values of one award with two equal components being the adjusted funds from operations (AFFO) and total shareholder return (TSR). The fair values of the AFFO component were measured using the previous day's closing trading price of the Common Shares. The fair values of the TSR component were measured using the Monte Carlo simulation method.

A summary of PSUs granted and the assumptions used to determine the grant date values are as follows:

	Twelve months ended December 31, 2017		Twelve months ended December 31, 2016
Grant date	**March 15, 2017**	**May 25, 2017**	April 7, 2016
Vesting date	**March 15, 2020**	**May 25, 2020**	April 7, 2019
PSUs granted	**160,689**	**12,640**	167,343
Fair value of AFFO component	**$5.24**	**$5.11**	$4.80
Fair value of TSR component	**6.42**	**6.12**	5.01
Grant date fair value	**$11.66**	**$11.23**	$9.81
Expected volatility of Extendicare's Common Shares	**23.09%**	**24.90%**	23.19%
Expected volatility of the Index	**13.41%**	**13.60%**	12.89%
Risk-free rate	**0.92%**	**0.75%**	0.52%
Dividend yield	**nil**	**nil**	nil

15. SHARE CAPITAL

	2017		2016	
	Shares	**Amount**	*Shares*	Amount
Balance at beginning of year	***88,684,485***	**$ 489,656**	*87,953,291*	$ 483,385
Transactions with shareholders				
DRIP	***535,025***	**5,081**	*731,194*	6,271
Purchase of shares for cancellation in excess of book value	***(696,220)***	**(3,856)**	-	-
Balance at end of year	***88,523,290***	**$ 490,881**	*88,684,485*	$ 489,656

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 2017 and 2016, 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 2017, the Company issued 0.5 million Common Shares at a value of $5.1 million in connection with the DRIP (2016 – $0.7 million Common Shares at a value of $6.3 million).

Normal Course Issuer Bid

During 2017, under a normal course issuer bid that commenced on January 13, 2017 and ended on January 12, 2018, the Company purchased and cancelled 696,220 Common Shares at a weighted average price of $9.27 per share, for a total cost of $6.5 million. During 2016, the Company did not acquire any Common Shares for cancellation.

On January 10, 2018, Extendicare received the approval of the TSX to renew its normal course issuer bid (the "Bid") to purchase for cancellation up to 8,770,000 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 15, 2018, and provides Extendicare with flexibility to purchase Common Shares for cancellation until January 14, 2019, 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 39,219 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, 2018, the Company has acquired and cancelled 352,233 Common Shares under the Bid at an average price of $8.94 per share, for a total cost of $3.1 million, all of which were acquired in January 2018.

16. 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, 2016	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
Recognized during the year	**4,955**	**(7,012)**	**(2,057)**	**(3,097)**	**(5,154)**
Balance, December 31, 2017	**18,449**	**(14,115)**	**4,334**	**678**	**5,012**

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, the 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 (*note 22*).

17. REVENUE

	2017	2016
Long-term care	**616,887**	608,618
Retirement living	**20,673**	15,474
Home health care	**435,718**	414,406
Management, consulting and other	**24,053**	22,260
Total revenue	**1,097,331**	1,060,758

Funding received by Extendicare for its long-term care 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 (2016 – 70%), and approximately 98% of Extendicare's home health care revenue for 2017 (2016 – 97%).

18. EXPENSES BY NATURE

	2017	2016
Employee wages and benefits	**851,318**	822,416
Food, drugs, supplies and other variable costs	**48,566**	44,739
Property based and other costs	**93,092**	94,018
Total operating expenses and administrative costs	**992,976**	961,173
Lease costs	**6,758**	6,650
Total expenses	**999,734**	967,823

19. OTHER EXPENSE

	2017	2016
Proxy contest costs	**-**	1,862
Acquisition costs and integration costs	**-**	479
Asset impairment	**-**	1,672
Other expense	**-**	4,013

In 2016, the Company incurred proxy contest costs, including advisory and professional fees, of $1.9 million. In connection with acquisitions, the Company incurred advisory fees aggregating $0.5 million in 2016.

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 2017.

Property and equipment must be assessed for impairment when indicators of impairment exist. There was no triggering event in 2017 and 2016; therefore, there was no impairment on property and equipment for these 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 26(b)*).

20. FOREIGN EXCHANGE (GAIN) LOSS AND FAIR VALUE ADJUSTMENTS

Foreign Exchange Gain and Loss

Loss (gain) on foreign exchange include: (1) a $0.1 million unrealized foreign exchange loss related to the deferred consideration in connection with the U.S. Sale Transaction (*note 10*) (2016 – loss of $1.1 million); (2) foreign exchange losses of $0.7 million on balances remaining related to the U.S. Sale Transaction that are denominated in U.S. dollars, $1.3 million of which were unrealized (2016 – losses of $0.8 million, most of which were unrealized) (*note 22*); and (3) a foreign exchange gain of $1.6 million on funds repatriated from the Captive (2016 – gain of $0.7 million) (*note 10*).

Fair Value Adjustment on Interest Rate Swaps

The Company entered into interest rate swap contracts in August 2016 and May 2017 to lock in the interest rates for certain mortgages. The fair value of these contracts as at December 31, 2017, resulted in a gain of $2.5 million for 2017 (2016 – gain of $1.0 million) (*notes 10 and 12*).

21. EARNINGS PER SHARE

Basic earnings (loss) per share (EPS) is calculated by dividing the net earnings (loss) for the period by the weighted average number of shares outstanding during the period, including vested DSUs awarded that have not settled. Diluted EPS is calculated by adjusting the net earnings (loss) and the weighted average number of shares outstanding for the effects of all dilutive instruments. The Company's potentially dilutive instruments include the convertible debentures and equity-settled compensation arrangements. The number of shares included with respect to the PSUs is computed using the treasury stock method.

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

	2017	2016
Numerator for Basic and Diluted Earnings per Share		
Earnings from continuing operations		
Net earnings for basic earnings per share	**2,132**	35,452
Less: Earnings (loss) from discontinued operations, net of tax	**(29,580)**	4,035
Earnings from continuing operations for basic earnings per share	**31,712**	31,417
Add: after-tax interest on convertible debt	**7,342**	7,086
Earnings from continuing operations for diluted earnings per share	**39,054**	38,503
Net earnings		
Net earnings for basic earnings per share	**2,132**	35,452
Add: after-tax interest on convertible debt	**7,342**	7,086
Net earnings for diluted earnings per share	**9,474**	42,538

	2017	2016
Denominator for Basic and Diluted Earnings per Share		
Actual weighted average number of shares	**88,720,572**	88,349,331
Vested equity-settled compensation	**84,786**	22,712
Weighted average number of shares for basic earnings per share	**88,805,358**	88,372,043
Shares issued if all convertible debt was converted	**11,244,444**	11,244,444
Dilutive effect of equity-settled compensation	**38,121**	7,646
Total for diluted earnings per share	**100,087,923**	99,624,133
Basic and Diluted Earnings (Loss) per Share *(in dollars)*		
Earnings from continuing operations	**0.36**	0.36
Earnings (loss) from discontinued operations	**(0.34)**	0.04
Net earnings	**0.02**	0.40

22. DISCONTINUED OPERATIONS

U.S. IT Hosting operations

The Company's former U.S. IT Hosting operations were reclassified as discontinued in the 2016 second quarter following the 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 those operations 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 proceeds from the U.S. Sale Transaction included an element of deferred consideration. At June 30, 2017, the remaining balance was written off resulting in a charge of $37.5 million in the 2017 second quarter (*note 10*). In addition, the Company agreed to indemnify certain obligations of the U.S. operations related to tax, a CIA, and other items. In connection with these items, as at December 31, 2017, the Company had remaining provisions totalling $22.7 million (US$18.0 million) (*note 11*), and a receivable of $2.8 million (US$2.2 million) (*note 10*) (2016 – provisions of $28.4 million and receivable of $8.3 million). Changes in the estimates of indemnification provisions and receivables are reflected as other expense (income) in the results of discontinued operations outlined below. The unfavourable changes in 2017, were primarily related to a $5.1 million increase of estimated cost of the CIA in the second quarter. Favourable changes were $2.7 million for 2016. Other expense (income) in 2017 also includes the release of accrual for self-insured liabilities of $5.7 million or US$4.4 million (2016 – $16.8 million or US$12.7 million) (*note 11*).

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 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 11*).

Results of Discontinued Operations

The following is a summary of results of the discontinued operations.

	2017			2016
	U.S. Sale Total	U.S. IT Hosting	U.S. Sale	Total
Nursing and assisted living centres revenue	-	-	-	-
Health technology services revenue	-	28,751	-	28,751
Outpatient therapy revenue	-	-	-	-
Management, consulting and other	-	-	-	-
Total revenue	-	28,751	-	28,751
Operating expenses	-	23,979	-	23,979
Administrative costs	-	5,055	-	5,055
Lease costs	-	621	-	621
Total expenses	-	29,655	-	29,655
Loss before depreciation, amortization, and other expense	-	(904)	-	(904)
Depreciation and amortization	-	1,185	-	1,185
Other expense (income)	**36,576**	-	(22,651)	(22,651)
Earnings (loss) before net finance costs and income taxes	**(36,576)**	(2,089)	22,651	20,562
Net finance costs	-	16	-	16
Earnings (loss) before income taxes	**(36,576)**	(2,105)	22,651	20,546
Income tax expense (recovery)	**(6,996)**	(50)	8,103	8,053
Earnings (loss) from discontinued operations, before loss on sale of U.S. operations	**(29,580)**	(2,055)	14,548	12,493
Loss on sale of U.S. operations, net of income taxes	-	(8,458)	-	(8,458)
Earnings (loss) from discontinued operations	**(29,580)**	(10,513)	14,548	4,035

	2017			2016
	U.S. Sale Total	U.S. IT Hosting	U.S. Sale	Total
Cash Flows from Discontinued Operations				
Net cash from operating activities	**(24,160)**	575	(32,976)	(32,401)
Net cash from investing activities	**24,160**	8,096	32,976	41,072
Net cash from financing activities	-	(8,671)	-	(8,671)
Effect on cash flows	-	-	-	-

23. INCOME TAXES

Tax Recognized in Net Earnings

	2017	2016
Current Tax Expense		
Current year	**10,191**	**11,304**
Items related to sale of U.S. operations	**(1,230)**	**8,521**
Utilization of losses	**(87)**	**(18)**
Other prior year adjustments	**45**	**(5,488)**
	8,919	**14,319**
Deferred Tax Expense (Recovery)		
Origination and reversal of temporary difference	**(4,236)**	946
Items related to sale of U.S. operations	**(451)**	(648)
Utilization of losses	**-**	-
Other prior year adjustments	**(376)**	665
	(5,063)	963
Total tax expense	**3,856**	15,282
Tax expense from continuing operations	**10,852**	7,411
Tax expense (recovery) from discontinued operations	**(6,996)**	7,871
Total tax expense	**3,856**	15,282

Following a successful notice of objection to appeal a 2015 reassessment by the Canada Revenue Agency (CRA), the Company reversed a $3.6 million tax provision, reflected as a current income tax recovery in the 2016 fourth quarter.

Tax Recognized in Other Comprehensive Income

		2017			2016	
	Before Tax	**Tax Expense**	**Net of Tax**	Before Tax	Tax Expense	Net of Tax
Foreign currency translation differences for foreign operations	**(3,097)**	**-**	**(3,097)**	(2,963)	-	(2,963)
Available-for-sale financial assets	**(2,057)**	**-**	**(2,057)**	3,042	-	3,042
Deferred benefit plan actuarial gains (losses)	**(423)**	**112**	**(311)**	3,147	(834)	2,313
	(5,577)	**112**	**(5,465)**	3,226	(834)	2,392

Effective Tax Rate

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

	2017	2016
Earnings from continuing operations before income taxes	**42,564**	38,828
Income taxes at statutory rates of 26.5%	**11,279**	10,289
Income tax effect relating to the following items:		
Tax rate variance of foreign subsidiaries	**(1,173)**	650
Non-deductible items	**1,033**	983
Non-taxable income	**(17)**	49
Prior year adjustment	**(331)**	(4,823)
Current year U.S. losses for which no deferred tax asset was recognized	**-**	311
Other items	**61**	(48)
	10,852	7,411

Summary of Operating and Capital Loss Carryforwards

Extendicare’s Canadian corporate subsidiaries had $7.2 million of benefited net operating loss carryforwards as at December 31, 2017 (2016 – $7.3 million), which expire in the years 2035 through 2037, and capital loss carryforwards of $16.5 million (2016 – $13.8 million) which have not been tax benefited and are available indefinitely to apply against future capital gains.

Deferred tax assets recognized as at December 31, 2017, were $13.9 million (2016 – $15.3 million). Net deferred tax liabilities decreased in 2017 to $0.4 million from $5.2 million at December 31, 2016.

Recognized Deferred Tax Assets and Liabilities

Net deferred tax liabilities comprise the following:

			2017			2016
	Assets	**Liabilities**	**Net**	Assets	Liabilities	Net
Property and equipment	**981**	**30,654**	**29,673**	411	31,807	31,396
Intangible assets	**4,408**	**217**	**(4,191)**	7,808	-	(7,808)
Other assets	**-**	**963**	**963**	-	8,271	8,271
Deferred financing costs	**1,833**	**1,553**	**(280)**	-	1,840	1,840
Accounts receivable reserves	**-**	**-**	**-**	-	520	520
Financial assets at fair value	**-**	**908**	**908**	-	264	264
Self-insurance reserves	**276**	**-**	**(276)**	256	-	(256)
Indemnification provisions	**7,939**	**-**	**(7,939)**	9,957	-	(9,957)
Employee benefit accruals	**10,013**	**-**	**(10,013)**	10,405	-	(10,405)
Operating loss carryforwards	**1,922**	**-**	**(1,922)**	1,964	-	(1,964)
Deferred revenue	**4,380**	**42**	**(4,338)**	4,564	127	(4,437)
Decommissioning provision	**2,248**	**-**	**(2,248)**	2,157	-	(2,157)
Other	**248**	**336**	**88**	281	193	(88)
Set-off of tax	**(20,357)**	**(20,357)**	**-**	(22,456)	(22,456)	-
	13,891	**14,316**	**425**	15,347	20,566	5,219

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. Management believes it is more likely than not that Extendicare's corporate subsidiaries will realize the benefits of these deductible differences.

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 2017	**Recognized in Net Earnings**	**Recognized in Other Comprehensive Income/Other**	**Recognized in Discontinued Operations**	**Change in Foreign Exchange**	**Balance December 31 2017**
Property and equipment	**31,396**	**(1,723)**	**-**	**-**	**-**	**29,673**
Other assets	**8,271**	**95**	**-**	**(7,120)**	**(283)**	**963**
Deferred financing costs	**1,840**	**(2,120)**	**280**	**-**	**-**	**-**
Accounts receivable reserves	**520**	**(520)**	**-**	**-**	**-**	**-**
Financial assets at fair value	**264**	**644**	**-**	**-**	**-**	**908**
Self-insurance reserves	**(256)**	**(20)**	**-**	**-**	**-**	**(276)**
Indemnification provisions	**(9,957)**	**-**	**-**	**1,354**	**664**	**(7,939)**
Intangible assets	**(7,808)**	**3,617**				**(4,191)**
Employee benefit accruals	**(10,405)**	**504**	**(112)**	**-**	**-**	**(10,013)**
Operating loss carryforwards	**(1,964)**	**42**	**-**	**-**	**-**	**(1,922)**
Deferred revenue	**(4,437)**	**99**	**-**	**-**	**-**	**(4,338)**
Accounts receivable reserves	**-**	**-**	**(280)**	**-**	**-**	**(280)**
Decommissioning provision	**(2,157)**	**(91)**	**-**	**-**	**-**	**(2,248)**
Other	**(88)**	**176**	**-**			**88**
Deferred tax liabilities, net	**5,219**	**703**	**(112)**	**(5,766)**	**381**	**425**

	Balance January 1 2016	Recognized in Net Earnings	Recognized in Other Comprehensive Income/Other	Recognized in Discontinued Operations	Change in Foreign Exchange	Balance December 31 2016
Property and equipment	24,472	7,565	-	(613)	(28)	31,396
Other assets	6,165	3,650	-	(1,163)	(381)	8,271
Deferred financing costs	1,525	315	-	-	-	1,840
Accounts receivable reserves	-	520	-	-	-	520
Financial assets at fair value	-	264	-	-	-	264
Self-insurance reserves	(203)	(53)	-	-	-	(256)
Indemnification provisions	(11,158)	-	280	577	344	(9,957)
Intangible assets	885	(8,693)	-	-	-	(7,808)
Employee benefit accruals	(10,477)	(665)	834	(91)	(6)	(10,405)
Operating loss carryforwards	(1,401)	(1,837)	-	1,220	54	(1,964)
Deferred revenue	(5,262)	825	-	-	-	(4,437)
Accounts receivable reserves	(165)	-	-	158	7	-
Decommissioning provision	(1,971)	(186)	-	-	-	(2,157)
Other	764	(95)	10	(736)	(31)	(88)
Deferred tax liabilities, net	3,174	1,610	1,124	(648)	(41)	5,219

24. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

At December 31, 2017, the Company was committed under non-cancellable leases requiring future minimum rentals in its continuing operations as follows:

	Operating Leases
2018	3,274
2019	2,866
2020	1,183
2021	910
2022	501
2023 and beyond	131
Total minimum payments	8,865

Property and Equipment Commitments

Extendicare has outstanding commitments of $56.0 million at December 31, 2017, in connection with private-pay retirement communities under development in Ontario, which will be substantially financed with external financing. These are expected to be incurred over the next two years.

Legal Proceedings, Claims and Regulatory Actions

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. The Company is aware that a statement of claim was filed against it in Ontario in late November 2017, which seeks an order certifying the action as a class action. The statement of claim, which has not been served on Extendicare, alleges negligence by the Company in the operation of its long-term care facilities and its provision of care to residents, and is seeking $150 million in damages. Management is unable to assess whether the claim will be advanced but believes that the allegations, including the damages sought, are completely without merit. Should the claim be advanced, Extendicare intends to vigorously defend itself and does not believe the outcome will have a material adverse impact on its business, results of operations or financial condition and believes that any potential liability will be covered by insurance.

The provision of health care services is subject to complex government regulations. 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.

25. 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	
	2017	2016	**2017**	2016	**2017**	2016
Fair value of plan assets	**5,443**	5,416	**-**	-	**5,443**	5,416
Present value of obligations	**7,913**	7,716	**34,168**	34,714	**42,081**	42,430
Deficit	**(2,470)**	(2,300)	**(34,168)**	(34,714)	**(36,638)**	(37,014)

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

	2017	2016
Present Value of Defined Benefit Obligations		
Accrued benefit obligations		
Balance at beginning of year	**42,430**	46,277
Current service cost	**225**	206
Benefits paid	**(2,603)**	(2,719)
Interest costs	**1,447**	1,689
Actuarial losses (gains)	**582**	(3,023)
Balance at end of year	**42,081**	42,430
Plan assets		
Fair value at beginning of year	**5,416**	5,406
Employer contributions	**83**	124
Expected loss (return) on assets	**160**	124
Actual return on plan assets	**184**	197
Benefits paid	**(400)**	(435)
Fair value at end of year	**5,443**	5,416
Defined benefit obligations	**36,638**	37,014

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

	2017	2016
Reported in Extendicare's Statements of Financial Position		
Current accrued liabilities	**2,566**	2,230
Other long-term liabilities *(note 13)*	**34,072**	34,784
Accrued benefit liability at end of year	**36,638**	37,014

EFFECT OF CHANGES TO DEFINED BENEFIT OBLIGATIONS

	2017	2016
Expense Recognized in Net Earnings (Loss)		
Annual benefit plan expense		
Current service costs	**225**	206
Interest cost	**1,263**	1,492
Plan benefit expense recognized in the year – included in operating expenses and administrative costs	**1,488**	1,698
Actuarial Losses Recognized in Other Comprehensive Income		
Amount accumulated in accumulated deficit at January 1	**(9,552)**	(11,865)
Actuarial loss arising from changes in:		
Discount rate	**-**	-
Mortality assumption	**-**	-
Other experience	**(583)**	3,023
Return on assets	**160**	124
Income tax recovery (expense) on actuarial losses	**112**	(834)
Amount recognized in accumulated deficit at December 31	**(9,863)**	(9,552)

PLAN ASSETS

	2017	2016
Equities	**45%**	47%
Fixed income securities	**37%**	34%
Real estate / commercial mortgage	**18%**	19%
	100%	100%

ACTUARIAL ASSUMPTIONS

	2017	2016
Discount rate for year-end accrued obligation	**3.25%**	3.50%
Discount rate for period expense	**3.50%**	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 2017 by the amounts shown below.

	Increase (Decrease) in Benefit Obligation	Increase (Decrease) in Net Earnings
Discount rate:		
1% increase	(4,061)	(168)
1% decrease	4,837	231
Rate of compensation increase		
1% increase	7	(1)
1% decrease	(7)	1
Income Tax Act limit increase		
1% increase	-	-
1% decrease	-	-
Mortality rate		
10% increase	(960)	33
10% decrease	1,055	(35)

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 2017 and 2016 were $16.5 million and $15.4 million, respectively.

26. 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 12*).

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

As at December 31, 2017	Carrying Amount	Contractual Cash Flows	Less than 1 Year	1-2 Years	2-5 Years	More than 5 Years
Convertible debentures	**124,800**	**141,680**	7,590	134,090	-	-
CMHC mortgages	**123,911**	**155,149**	22,656	13,139	76,277	43,077
Non-CMHC mortgages	**172,844**	**234,286**	12,342	12,340	77,498	132,106
Construction loans	**29,868**	**30,735**	30,735	-	-	-
Finance lease obligations	**90,323**	**121,309**	14,553	13,719	39,544	53,493
Accounts payable and accrued liabilities	**126,920**	**126,920**	126,920	-	-	-
Operating lease obligations	**-**	**8,865**	3,274	2,866	2,594	131
	668,666	**818,944**	218,070	176,154	195,913	228,807

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	
	2017	2016
Cash and short-term investments	**128,156**	101,582
Restricted cash	**2,300**	2,227
Accounts receivables, net of allowance *(note 7)*	**42,491**	52,234
Investments held for self-insured liabilities *(notes 10 and 22)*	**86,296**	136,109
Amounts receivable and other assets *(note 10)*	**58,541**	63,470
Deferred consideration *(note 10)*	**-**	37,429
	317,784	393,051

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 with no credit risk.

Accounts 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.

			2017			2016
			Carrying Amount			Carrying Amount
	U.S. Dollar	**Canadian Dollar**	**Total**	U.S. Dollar	Canadian Dollar	Total
Trade receivables	**-**	**33,466**	**33,466**	-	40,832	40,832
Retroactive rate receivables	**-**	**-**	**-**	-	585	585
Other receivables	**1,544**	**7,481**	**9,025**	3,352	7,465	10,817
	1,544	**40,947**	**42,491**	3,352	48,882	52,234

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, 2017, receivables from government agencies represented approximately 91% of the total receivables (2016 – 83%). 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, 2017, the Canadian operations had trade receivables of $33.5 million (2016 – $40.8 million). 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 aging analysis of these trade receivables is as follows:

	2017	2016
Current	**22,800**	31,895
Between 30 and 90 days	**6,846**	6,985
Between 90 and 365 days	**1,779**	3,058
Over 365 days	**3,638**	712
Less: provision for receivable impairment	**(1,597)**	(1,818)
	33,466	40,832

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

	2017	2016
At January 1	**1,818**	2,133
Increase in provision for receivable impairment	**1,710**	1,823
Receivables written off as uncollectible	**(1,931)**	(2,118)
Other	**-**	(20)
At December 31	**1,597**	1,818

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 $58.5 million (2016 – $63.5 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 10)*. The Company does not believe there is any credit exposure for these amounts due from government agencies.

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 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 as at December 31, 2017 (*note 22*).

(in thousands of US$)	**2017**
Assets	
Current assets	**30,895**
Investments held for self-insured liabilities	**68,647**
Liabilities	
Current liabilities	**19,305**
Indemnification provisions	**18,040**
Other long-term liabilities	**30,074**
Net asset exposure	**32,123**

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, 2017, U.S. operations accounted for less than 1% of its revenue from continuing operations (2016 – less than 1%).

Every one cent strengthening of the Canadian dollar against the U.S. dollar in 2017 would favourably impact net earnings by $0.1 million and OCI by $0.2 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, 2017, construction loans of $29.9 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 12*).

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

Below is the interest rate profile of our interest-bearing financial instruments, which reflects the impact of the interest rate swaps (*note 10*):

	Carrying Amount	
	2017	2016
Fixed-rate instruments:		
Long-term debt[(1)]	**512,218**	497,705
Total liability in fixed-rate instruments	**512,218**	497,705
Variable-rate instruments:		
Long-term debt[(1)]	**29,868**	12,605
Total liability in variable-rate instruments	**29,868**	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, 2017, long-term debt with variable rates represented 5.5% of total debt. The value of the interest rate swaps is subject to fluctuations in interest rates, changes in fair value of these swaps are recognized in net earnings (*notes 10 and 20*).

Cash Flow Sensitivity Analysis for Variable-rate Instruments

An increase of 100 basis points in interest rates would have decreased net earnings by $0.2 million and a decrease of 100 basis points in interest rates would have increased net earnings by $0.2 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, 2017	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	**128,156**	-	-	-	**128,156**	**128,166**
Restricted cash	**2,300**	-	-	-	**2,300**	**2,300**
Invested assets(1)	**442**	-	-	-	**442**	**442**
Accounts receivable	**42,491**	-	-	-	**42,491**	**42,491**
Interest rate swaps	-	-	**3,459**	-	**3,459**	**3,459**
Amounts receivable and other assets(2) (3)	**58,541**	-	-	-	**58,541**	**62,300**
Investments held for self-insured liabilities	-	**86,296**	-	-	**86,296**	**86,296**
	231,930	**86,296**	**3,459**	-	**321,685**	**325,454**
Financial liabilities:						
Accounts payable	-	-	-	**4,272**	**4,272**	**4,272**
Long-term debt excluding convertible debentures(3)(4)	-	-	-	**416,946**	**416,946**	**432,259**
Convertible debentures	-	-	-	**124,800**	**124,800**	**129,650**
	-	-	-	**546,018**	**546,018**	**566,181**

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
Amounts receivable and other assets(2) (3)	63,470	-	-	-	63,470	66,970
Deferred consideration(3)	37,429	-	-	-	37,429	37,430
Investments held for self-insured liabilities	-	136,109	-	-	136,109	136,109
	257,384	136,109	985	-	394,478	397,992
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) Primarily includes 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, 2017:				
Investments held for self-insured liabilities	**86,296**	**-**	**-**	**86,296**
Amounts receivable and other assets	**-**	**62,950**	**-**	**62,950**
Interest rate swaps	**-**	**3,459**	**-**	**3,459**
Convertible debentures	**129,650**	**-**	**-**	**129,650**
As at December 31, 2016:				
Investments held for self-insured liabilities	136,109	-	-	136,109
Amounts receivable and other assets	-	67,620	-	67,620
Deferred consideration *(note 10)*	-	-	37,430	37,430
Interest rate swaps	-	985	-	985
Convertible debentures	135,342	-	-	135,342

27. 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, 2018, Extendicare received the approval of the TSX for the Bid (*note 15*). As at February 28, 2018, the Company has acquired and cancelled 352,233 Common Shares under the Bid at an average price of $8.94 per share, for a total cost of $3.1 million, all of which were acquired in January 2018.

Capital Structure

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

	2017	2016
Current portion of long-term debt [1]	**59,664**	54,826
Long-term debt [1]	**476,404**	448,742
Total debt	**536,068**	503,568
Less: cash and short-term investments	**(128,156)**	(101,582)
Net debt	**407,912**	401,986
Share capital	**490,881**	489,656
	898,793	891,642

[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, 2017.

28. 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 ownership interest, and with which Extendicare has an ongoing relationship through the provision of management services to the long-term care 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, 2017 and 2016, was as follows:

	2017	2016
Short-term benefits	**4,555**	3,302
Post-employment benefits	**137**	134
Share-based compensation	**1,773**	1,331
	6,465	4,767

In 2017, contingent on his continued employment as of September 30, 2017, the CEO was paid $2.0 million, which amount is reflected above as part of short-term benefits.

29. SEGMENTED INFORMATION

The Company reports the following segments within its Canadian operations: i) long-term care; ii) retirement living; iii) home health care; iv) management, consulting 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.

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 six acquired retirement communities, and two communities that were newly constructed and opened in the fourth quarters of 2016 and 2017. The retirement communities provide services to private-pay residents at rates set by Extendicare based on the services provided and market conditions. Through our wholly owned subsidiary ParaMed Inc. (ParaMed), ParaMed's 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, consulting 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.

The Company continues to group its former and remaining U.S. operations as one segment. The Captive's expense incurred for self-insured liabilities related to the Company's U.S. general and professional liability risks up to the date of the U.S. Sale Transaction as well as the disposed U.S. businesses are presented as discontinued operations; while the Captive's costs to administer and manage the settlement of the remaining claims are reported as continuing operations within the U.S. segment.

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.

								2017
(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	616,887	-	-	-	-	616,887	-	616,887
Retirement living	-	20,673	-	-	-	20,673	-	20,673
Home health care	-	-	435,718	-	-	435,718	-	435,718
Management, consulting and other	-	-	-	18,789	15	18,804	5,249	24,053
Total revenue	616,887	20,673	435,718	18,789	15	1,092,082	5,249	1,097,331
Operating expenses	542,965	18,290	391,867	8,387	-	961,509	-	961,509
Administrative costs	-	-	-	-	30,333	30,333	1,134	31,467
Lease costs	-	-	4,778	-	1,980	6,758	-	6,758
Total expenses	542,965	18,290	396,645	8,387	32,313	998,600	1,134	999,734
Earnings (loss) before depreciation, amortization, and other expense	73,922	2,383	39,073	10,402	(32,298)	93,482	4,115	97,597
Depreciation and amortization	-	-	-	-	31,379	31,379	-	31,379
Earnings (loss) before net finance costs and income taxes	73,922	2,383	39,073	10,402	(63,677)	62,103	4,115	66,218
Interest expense	-	-	-	-	28,082	28,082	-	28,082
Accretion of decommissioning provisions	-	-	-	-	349	349	-	349
Other accretion	-	-	-	-	1,180	1,180	1,283	2,463
Loss (gains) on foreign exchange	-	-	-	-	666	666	(1,530)	(864)
Interest revenue	-	-	-	-	(3,695)	(3,695)	(207)	(3,902)
Fair value adjustments	-	-	-	-	(2,474)	(2,474)	-	(2,474)
Net finance costs (income)	-	-	-	-	24,108	24,108	(454)	23,654
Earnings (loss) before income taxes	73,922	2,383	39,073	10,402	(87,785)	37,995	4,569	42,564
Income tax expense								
Current	-	-	-	-	10,149	10,149	-	10,149
Deferred	-	-	-	-	603	603	100	703
Total income tax expense	-	-	-	-	10,752	10,752	100	10,852
Earnings (loss) from continuing operations	73,922	2,383	39,073	10,402	(98,537)	27,243	4,469	31,712
DISCONTINUED OPERATIONS								
Loss from discontinued operations, net of income taxes	-	-	-	-	-	-	(29,580)	(29,580)
Net earnings (loss)	73,922	2,383	39,073	10,402	(98,537)	27,243	(25,111)	2,132

								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	-	-	-	-	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

30. SIGNIFICANT SUBSIDIARIES

The following is a list of the significant subsidiaries as at December 31, 2017, all of which are 100% directly or indirectly owned by the Company.

	Jurisdiction of Incorportion
Extendicare (Canada) Inc.	Canada
ParaMed Inc.	Canada
Harvest Retirement Community Inc.	Canada
Stonebridge Crossing Retirement Community Inc.	Canada
Empire Crossing Retirement Community Inc.	Canada
Yorkton Crossing Retirement Community Inc.	Canada
West Park Crossing Retirement Community Inc.	Canada
9623094 Canada Inc.	Canada
Laurier Indemnity Company, Ltd.	Bermuda

31. SUBSEQUENT EVENT

On February 23, 2018, the Company entered into a definitive agreement to acquire the Lynde Creek Retirement Community, located in Whitby, Ontario, for a cash purchase price of $34.5 million, subject to normal closing adjustments. The acquired community consists of the Lynde Creek Manor Retirement Residence, offering 93 independent and assisted living suites; the Lynde Creek Life Lease Village, with 113 townhomes; and 3.7 acres of adjacent land for expansion. Closing, which is subject to customary conditions, is expected to occur in the second quarter of 2018.